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Annual Report 2008

UK COAL PLC
Annual Report and Accounts 2008

MINING

HARWORTH ESTATES

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 15% 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

Income Statement	2008	2007
Total Group revenue	**392.5**	328.5
Average sales price per Gigajoule (£/GJ)	**1.92**	1.62
Operating profit before non-trading exceptional items and property revaluation uplift (£m)	**1.8**	5.3
Non-cash property revaluation uplift (£m)	—	66.8
Operating profit before non-trading exceptional items (£m)	**1.8**	72.1
Operating (loss)/profit (£m)	**(2.2)**	82.7
(Loss)/profit before tax (£m)	**(15.6)**	69.0
(Loss)/earnings per share (pence)	**(10.0)**	59.9
(Loss)/earnings per share excluding tax (pence)	**(10.0)**	44.0

Balance Sheet	2008	2007
Net assets (£m)	**300.4**	358.2
Net assets per share (£)	**1.91**	2.28
Year end gearing (%)	**46**	29

Contents

Highlights 1
Chairman's Statement 4
Operating and Financial Review (OFR) 8
Objectives 9
Review of Operations
MINING 10
Market overview 12
Deep mines 19
Surface mines 24
Review of Operations
HARWORTH ESTATES 26
Financial Review 40
Key Risks and Uncertainties 45
Corporate Social Responsibility 48
Board of Directors 52
Directors' Report 54
Statement of Directors' Responsibilities 59
Corporate Governance 60
Directors' Remuneration Report 65
Independent Auditor's Report 72
Consolidated Income Statement 74
Consolidated Statement of Recognised Income and Expense 75
Balance Sheets 76
Cash Flow Statements 77
Notes to the Financial Statements 78

PICTURED

Above:
One of the machines driving tunnels to open up new reserves in the Beeston seam at Kellingley colliery, West Yorkshire.

The Business
at a glance

Mining

DEEP MINING
The Group operates 4 deep mines, located in Central and Northern England. The Group has reserves and resources of over 100 million tonnes at these mines and further mineral potential in addition.

SURFACE MINING
The Group has 5 active surface mines and planning committee approvals or consents to mine a further 3 sites. We have applied for planning consents for a further 2 mines and expect to make applications for a further 3 sites during 2009. Total surface mining reserves and resources, subject to planning, are estimated at approximately 55 million tonnes.

Harworth Estates

UK COAL owns approximately 45,000 acres (18,200 hectares) of predominantly agricultural land. Within this, around 3,800 net acres on 77 sites have been identified as offering prime prospects for development into a mix of residential, business park, distribution and community developments over the medium term.

The Group's property interests, excluding the deep mine sites, at current open market value were valued at December 2008 at £422 million. We estimate, however, that, with the benefit of currently envisaged planning consents, at current market values, our land portfolio would have a worth of some £668 million by 2012, and some £886 million by 2014, in each case with the potential for further development phase profits.

KEY PERFORMANCE INDICATORS

Coal mined

6.2 million tonnes

Operating costs before depreciation and non-trading exceptional items

£284.8m

Operating loss before non-trading exceptional items

£(14.1)m

Coal mined

1.7 million tonnes

Operating costs before depreciation and non-trading exceptional items per gigajoule

£1.61/GJ

Operating profit before non-trading exceptional items

£10.4m

Total coal mined

7.9 million tonnes

Group realised coal sales price per gigajoule

£1.92/GJ

KEY PERFORMANCE INDICATORS

RICS valuation of property portfolio

£422.3m

Gross acreage held

45,000

Chairman's Statement
David Jones

A year ago, few predicted the scale of global economic downturn and its dramatic impacts on companies in all sectors. UK COAL was far from immune from these impacts and, in addition, we faced significant challenges of our own. Our financial results show this. What they do not show, until you dig beneath the surface, is the quality of management and operational performance, the underlying strengths of our business and the fact that our long-term growth platform remains absolutely in place. These are substantial achievements and I, and the whole Board, thank our executive team and all our employees.

OVERVIEW

For 2008, UK COAL is reporting an operating profit before exceptional items of £1.8 million, compared to £72.1 million in 2007, a loss before (and after) tax of £15.7 million, compared to a profit before tax of £69.0 million the year before and a drop in assets per share from 228p in 2007 to 191p. These are not figures I like reporting, but comparing 2008 with 2007 is like comparing apples with pears and, given the differences, I believe the results are in fact very creditable.

In terms of our reported financials the biggest difference between the two years is that, in 2007, our property portfolio delivered a valuation gain of £66.8 million, compared with only £23,000 in 2008.

These gains are non-cash items but go through the profit and loss account. In addition, in 2007, we benefited both from non-trading exceptional profits of £10.5 million, compared to exceptional costs of £4.1 million in 2008, and from a one-off £25.0 million tax credit in 2007. The decrease in

"Our long-term growth platform remains absolutely in place."

net assets is largely due to an increase in the deficit on retirement obligations, a direct reflection of the financial markets.

Throughout 2008, and since, the Group has continued to put safety at the heart of all aspects of our operations. Regrettably though I have to report on the loss of the life of a colleague during the year, strengthening our determination to strive towards Zero Incidents. Good progress has continued to be made in reinforcing the safety culture across the Group, and, although the overall reportable injury rate has not declined, the severity of the injuries has. I would like to thank the whole of our workforce for their commitment to the safety programme which is clearly demonstrating that safety and operational performance go hand-in-hand.

In mining, we start this year with a significant step forward in that we have successfully negotiated new, or amended old, long-term supply contracts with our core electricity generator customers, Drax, Eon and EDF Energy.

We are also pleased to be able to announce the addition of a new customer, Scottish and Southern Energy. We have agreed to provide Scottish and Southern Energy's Ferrybridge power station, recently fitted with flue gas desulphurisation equipment, with a total of 3.5 million tonnes of coal starting later this year with deliveries to 2015. These deliveries are at market prices, linked to international coal prices, but with caps and floor prices. They have also agreed to provide a loan, repayable over the period to 2014, to assist in funding our investment requirements.

These new contracts significantly increase both our long-term contracted coal prices and our short-term cash flows. These material benefits, compared to previous contractual arrangements, improve our economics and will facilitate the funding of our current investment in our deep mines.

The total benefit in cash flow terms of these arrangements will be of the order of £85 million in 2009, with a further £15 million in 2010. To the extent that some of the short-term cash flow benefits represent part pre-payment of the improved prices under the long-term successor contracts, they will be treated in our accounts as customer prepayments/loans rather than being reflected as improved profitability in the near term. I would like to thank our customers for engaging with us in implementing these strategic changes to, what it is clear will be, mutual benefit.

In property, self-evidently, market conditions have been very difficult. However, the RICS valuation of our Harworth Estates property portfolio has held up well, growing like-for-like from £411 million in 2007 to £422 million. Taking development expenditure and disposals into account there was no overall change in the market value of our estate. For us, planning consents and other progress on our portfolio, coupled with the significant increase in the value of agricultural land, have helped offset the deterioration in the general property market.

Our property portfolio remains relatively immature, and we remain confident that it will generate significant additional value over time. The impact of property market conditions is not so much to change the future estimates of the value of Project Worth, but more likely to move out the timing of crystallisation of this value. Because of the difficulty in judging the pace of the recovery from the current recession and its effect on the property market, we have looked, with our property advisers

PICTURED

Left:
Surface mining operations, like this at the Lodge House site in Derbyshire, increased output during the year by 13%.

Above:
One of the new buildings attracting tenants on the Advanced Manufacturing Park being developed on land adjacent to the M1 in South Yorkshire.

DTZ, at a range of scenarios for generating the improved worth of our portfolio with the central scenario indicating a portfolio worth doubling to approximately £886 million over the next 5 years to 2014.

MINING

The international market price of coal was extraordinarily volatile last year. It climbed to exceptional highs of *circa* £4.40/GJ during last summer, but closed the year at £2.34/GJ as market concerns over the world economy were brought to bear. Our average selling price was inevitably constrained by the effect of legacy contracts but, nevertheless, it was up 18.5% for the year to £1.92/GJ, a very satisfactory outcome.

Tonnage sold from all mines was 7.9 million tonnes, in line with 2007, excluding Maltby, which we sold in 2007. This tonnage was less than we had originally hoped for, though broadly in line with the guidance we gave during the year. Our Kellingley and Thoresby deep mines encountered very difficult geological conditions, but our largest mine, Daw Mill near Coventry, produced a European record for a single face mine. It produced 3.2 million tonnes in the year, even after the slower start following commencement of its new face. This was a superb effort, and I congratulate all those involved at Daw Mill and the specialist support teams elsewhere.

Our deep mine investment programme is focused on extending the lives of Kellingley and Thoresby, moving them from their current geologically difficult coal seams into new seams which will allow them to improve production rates to levels formerly achieved. This work is on or ahead of schedule. In addition, significant investment is being made at Daw Mill, as well as at Kellingley and Thoresby, aimed at increasing development rates and improving production efficiencies to underpin production reliability and out-turn in years to come.

Our surface mining business again grew stronger during the year with the production of 1.7 million tonnes, up 13% on 2007 (1.5 million tonnes). Planning applications and consents continued to programme, keeping us on track for our target of 2+ million tonnes a year sustainable surface mine production after 2010.

The strategic changes to our coal contracts, and the addition of Scottish and Southern Energy as a fourth major generator customer, reposition our mining business strongly for the medium and longer term. Against this backcloth, we decided to streamline our focus on supplying coal to the electricity supply industry and, in January 2009, we sold our 50% share in Coal4Energy to our partners, Hargreaves Services PLC. We now participate in the domestic and industrial coal markets through a long-term coal supply agreement with Hargreaves.

Overall, our mining businesses, now including the methane operations, produced an operating loss before non-trading exceptional items of £2.4 million (2007: £1.8 million) with a loss in the deep mines business of £14.1 million (2007: £14.6 million) being offset by profits in surface mines and methane businesses of £10.4 million and £1.3 million respectively (2007: £8.5 million and £4.3 million respectively).

In the final quarter of 2008, we completed our strategic collaboration agreement on wind power generation with Peel Energy. Over time, it is hoped that this collaboration will promote and maximise opportunities from this part of the business.

It is increasingly clear from Government statements, customer engagement and analyst research that coal

will play a major role in the UK energy mix for the next two decades and beyond. The formation in October 2008 of a new Government Department for Energy and Climate Change (DECC) is welcomed, as is the Secretary of State's commitment to a strategic energy policy with an acknowledgment of energy security and affordability at its heart. We are well placed to play the leading role in the production of indigenous coal for Britain, and Government clearly recognises this.

HARWORTH ESTATES

Harworth Estates has continued to make strong progress on Project Worth, the plan to mature in planning terms of 77 of our sites. Last year, further planning approvals were secured for over 1,200 homes and 140,000 sq m (1.5 million sq ft) of business space. Planning applications were additionally made for over 4,500 homes and 78,000 sq m (841,000 sq ft) of business space.

Overall, Harworth Estates produced an operating profit of £4.7 million (2007: £73.2 million). As expected, this was significantly lower than the previous year because of a reduction in revaluation gains on investment properties to £3.7 million from £70.5 million in 2007, of which £23,000 was unrealised (2007: £66.8 million). A further revaluation gain of £3.2 million (2007: £6.7 million) was taken directly to reserves, being the increase in value of former operating properties transferred to investment property status in the year on their ceasing to be operational sites.

Notwithstanding the unprecedented market conditions, particularly towards the end of 2008 which have clearly continued into 2009, our property portfolio has the potential to contribute very substantial shareholder value over the medium-term. We have clearly mapped out our strategy for realising this value and our focus on this remains undiminished.

GOING CONCERN

Your Board recognises that deep mining has a high operating risk compared to the majority of industries. Recent economic turmoil especially in relation to commodity prices, the banking market and the property market has increased further the risk environment in which the Group operates. These risks are set out in the Operating and Financial Review and I would also draw your attention to those matters which the Board has felt it appropriate to take into account in forming its conclusion on going concern set out in the Directors' Report and in the Financial Statements.

DIVIDEND

The Group continues to make significant investments in our mining business and in the planning phase of our property business to the clear benefit of shareholders. For this reason and to preserve financial flexibility the Board has decided not to recommend a dividend for 2008. Future dividend policy will be dependent both on our future performance and financial resources, market conditions and on our view on how best to drive total shareholder value.

OUTLOOK

The mining business has started this year in line with 2008 with first quarter production at 1.7 million tonnes (2008: 1.7 million tonnes). The new coal contracts, the planned impact of our investment programmes at Thoresby and Kellingley, the continued excellent performance at Daw Mill and the continued growing strength of surface mining combine to provide an increasingly positive outlook. Our property business, Harworth Estates, continues to out-perform the market and to look forward to substantial long-term value creation. We therefore face the future with confidence.

David Jones
Chairman
27 April 2009

PICTURED

Left:
Generating station at the former Stillingfleet mine in North Yorkshire produced electricity from methane extracted from old workings at an efficiency rate of over 95%.

Above:
Coal produced at Thoresby colliery bound for local power stations.

"The Group aims to be recognised as the safe and most secure provider of energy and a leader in community regeneration partnerships in the UK."

Operating and Financial Review (OFR)

Jon Lloyd

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 2008 we mined and sold 7.9 million tonnes of coal, which represented approximately 15% 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 2008 year end, the Group had 4 operational deep mines and 5 surface mines.

As a result of our heritage, we have a very large estate of around 45,000 acres (18,200 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.

As a result of our business and strategy, we make 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.

Objectives

STRATEGY

The Group's purpose 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 through identifying optimum development opportunities, securing planning permissions, developing the sites and actively managing our estate.

The Group aims to be recognised as the safe and most secure provider of energy and a leader in community regeneration partnerships in the UK.

Mining

Deep mining

- To continually improve safety in our operations
- To reduce risk and variability in operational performance
- To optimise operating cost per tonne of output
- To achieve over time an optimum balance of long-term sales contracts and access market prices for our coal

Surface mining

- To continually improve 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
- To maintain the high environmental standards of our mining schemes and maintain close working relationships with local communities

Harworth Estates

- To identify a long-term supply of development sites and to promote these sites through the planning process
- To participate in the development of these sites where this will optimise shareholder returns
- To manage actively and to develop rental investment properties and maximise returns from these through asset enhancement, rental growth and/or disposal

PICTURED

Top:
The Sharlston surface mine scheme in West Yorkshire involved extracting coal in shallow seams and recovering discarded mineral in the former colliery tip.

Above:
Jon Lloyd (centre, back row) with members of a team developing reserves in the new Deep Soft area at Thoresby colliery, north Nottinghamshire.

Right:
One of the recently occupied buildings on the Advanced Manufacturing Park which is attracting new tenants.

Review of Operations by Business

Mining

2008 saw an improved underlying performance from deep mining and strong results from our surface mining business, offset by a fall in profits from our power business.

Surface mining operating profits before non-trading exceptional items increased from £8.5 million in 2007 to £10.4 million. Overall, our mining operations improved their financial performance from an operating loss before non-trading exceptional items of £6.1 million in 2007 to £3.7 million in 2008. Our power business delivered a £1.3 million operating profit in 2008 compared to £4.3 million in 2007, due to lower gas volumes being produced from operating mine sites and the requirement to purchase EU Emissions Trading Credits for our Stillingfleet operation.

After a strong 2008 with record production, Daw Mill is now well set to continue to exploit the current panel during 2009. Daw Mill's production compensated for the geologically difficult conditions experienced at both Kellingley and Thoresby, which are both developing the final panels in their current seams before production is transferred into the new Beeston and Deep Soft seams towards the end of this year and early next year respectively.

Key Performance Indicators ("KPIs")

	2008	2007
Sales price per Gigajoule (£/GJ)	**1.92**	1.62
Tonnage sold excluding Maltby (million tonnes)	**7.9**	7.8
Tonnage produced excluding Maltby (million tonnes)	**7.9**	7.9

The new coal contracts that have been negotiated with our core electricity generator customers, and the gaining of a major new generator customer, will have a very positive future effect on our mining business, including cash flows generated this year and next. A summary of the new contracts and their impact is set our later in this Operating and Financial Review.

PICTURED

Left:
Record-breaking Daw Mill colliery was presented with the McCloskey Group 'Deep Mine of the Year' award for its achievements in 2008.

Mining

MARKET OVERVIEW

The UK burned an estimated total of 53 million tonnes of coal last year, the vast majority of this being used to generate electricity.

Indigenous production, including our own 7.9 million tonnes last year, can only meet a portion of this demand, making the UK a substantial importer of coal. Demand will continue substantially to exceed our supply capacity.

The mining business operates in a commodity market where the basic cost of production in a crowded and economically prosperous country and the cost of transporting a bulk product limits the geography of its economic market. In addition, we believe that the benefits to our customers of having a local supply helps them to mitigate the risks inherent from importing all their requirements from areas of potential political change, thousands of miles away. This is important in a global climate where demand for fuels and the availability and security of energy supply will become a strategic issue.

Given the nature of the UK electricity supply industry, our predominant market, we have a small number of significant customers. However, the retro-fitting of flue gas desulphurisation equipment onto more power stations, such as at Ferrybridge this year, continues to expand the number of sites able to burn coal mined in the UK, which typically has a higher sulphur content than coalfields generally around the world.

Also affecting the demand for, and economics of, coal burn for electricity is the increasing focus on reducing environmental impact. Two pieces of environmental legislation came into effect in January 2008: the revised Large Combustion Plant Directive ("LCPD") and the second phase of the EU Emissions Trading Scheme ("EUETS").

The LCPD controls emissions of sulphur dioxide, nitrogen oxides and dust (particulate matter) from large combustion plants. To meet this directive a number of flue gas desulphurisation schemes were completed at coal fired power stations in 2008.

The main instrument for the control of the CO_2 emissions for combustion installations, the EUETS, began its second trading phase in January 2008. The new five year EUETS phase introduced tighter CO_2 emission levels on UK generators who also received a reduced allocation of free allowances. Despite this, coal was still the fuel of choice for long periods of time throughout the year in response to high gas prices particularly in the winter months. The rules for the third phase of the EUETS, from 2013 to 2020, were agreed by the European Commission in December 2008.

PICTURED

Right:
One of the gate roads to a face containing over 4 million tonnes of coal at Daw Mill colliery in Warwickshire.

Mining

PICTURED

Below:
Operations getting under way on the Lodge House surface mine site in Derbyshire.

In the long-term, carbon capture and storage ("CCS") will be required for coal to have a meaningful role in a low carbon economy. 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 UK government is undertaking a CCS Demonstration Competition which will be one of the first of its kind in the world and aims to demonstrate the full chain of CCS by 2014. On 23 April, the Secretary of State made a major announcement to Parliament on the Government's strategy for CCS and the role of indigenous coal for the long-term, including the likelihood of 4 new coal fired power stations being built by 2020.

In the UK, 2008 saw the coal burn at power stations remain at 2007 levels, although the proportion of the electricity market fuelled by coal fell by 3% to 31% with relatively cheaper gas prices in the summer comparing favourably with the coal price at this time.

NW Europe Steam Coal Price

International energy prices saw unprecedented volatility in 2008, with coal being no exception. The last few months of 2008 saw a worldwide sharp economic downturn which saw energy prices and freight rates reduce sharply from the record highs in the summer.

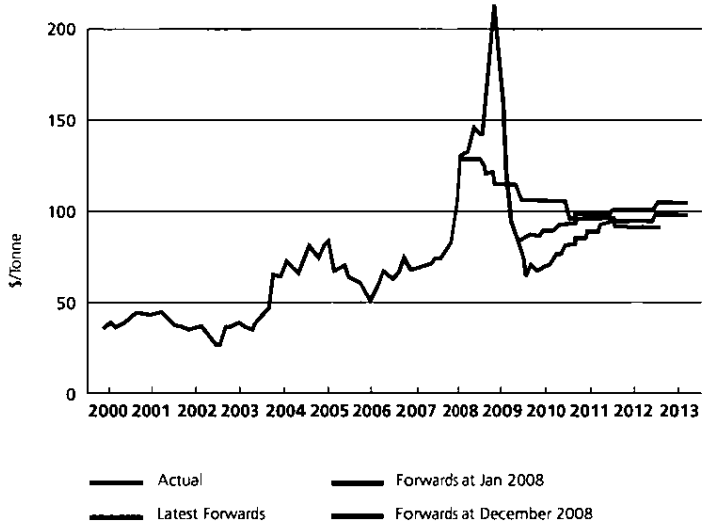
International coal prices rose from around $118 per tonne at the beginning of the year to reach $220 per tonne in July, before falling back to $80 per tonne in December. Since the year end, and markedly since the middle of February, coal prices, particulary for near term deliveries, fell further around the world and in NW Europe in particular.

Forward pricing for later deliveries, and the contract prices agreed recently with our customers, indicate that this is expected by the market to be a short-term reaction to the unexpectedly quick decline in economic activity and therefore demand for electricity. Prices have recovered somewhat, though they remain volatile, especially for near term deliveries.

The fall in international coal prices, which are priced in US$, has been partly cushioned in sterling terms by movements in the sterling/dollar exchange rate. Over the past 12 months sterling has depreciated by 25% against the US$.

Historic steam coal prices together with the latest forward market prices for coal delivered to Amsterdam/Rotterdam/Antwerp ("ARA") are shown to the right. 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 IN $/T



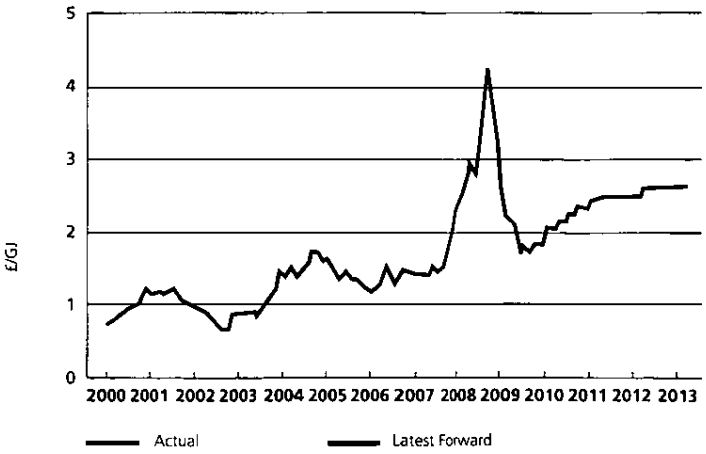
Source: API 2 — McCloskey Group/TFS Brokers
Basis: <1%S, CIF NW Europe, 6000 Kcal/Kg NAR (25.121 GJ/Tonne)
Forward Prices based on latest information as at 15 April 2009

UK Steam Coal Market

Coal delivered into the UK is priced off the ARA price shown to the right, converted into sterling, with the additional cost of delivery into the UK market added on. The average forward price for 2009 on the ARA market at 31 December 2008 was $84 per tonne. Converted into sterling at $1.44:£1 and into its calorific value by dividing the tonnes by 25.121, this equated to a forward sterling price of £2.34/GJ. The additional cost of delivery to the UK brought this to a UK delivered price of around £2.59/GJ at that time.

The table overleaf illustrates the UK Electricity Supply Industry together with UK COAL's share. The table also highlights the massive increase in Russian imports into the UK over recent years.

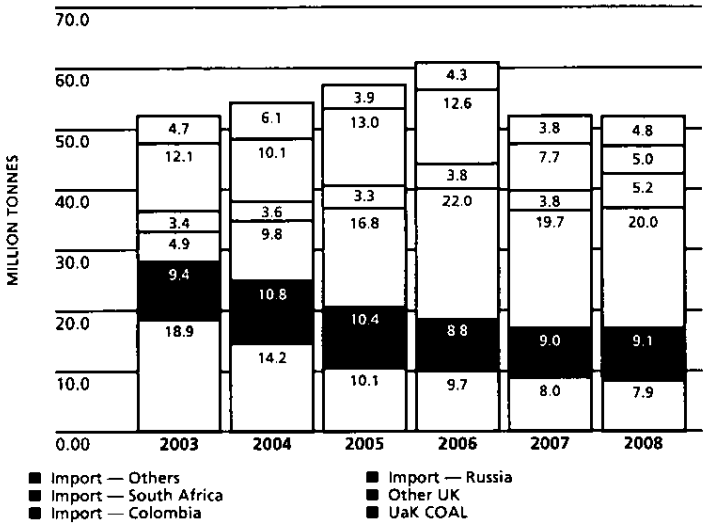
NW EUROPE SPOT STEAM COAL PRICE £/GJ



Source: API 2 — McCloskey Group/TFS Brokers
Actual exchange rates used to date
Assumed forward exchange rate of $1.48/£1
Basis: <1%S, CIF NW Europe, 6000 Kcal/Kg NAR (25.121 GJ/Tonne)
Forward Prices based on latest information as at 15 April 2009

Mining

UK ELECTRICITY SUPPLY INDUSTRY ("ESI")



Source: DECC
Digest of UK Energy Statistics/UK COAL (2008 based on provisional numbers).

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

Percentage of Electricity Generated by Fuel Type

	2008	2007	2006	2005
	%	%	%	%
Coal	**32**	35	38	34
Gas	**47**	43	37	40
Nuclear	**13**	15	18	20
Oil, hydro & renewables	**8**	7	7	6
Total	**100**	100	100	100

Source: DECC Energy Statistics (2008 numbers based on provisional numbers)

Coal Contracts

The Group has adopted the strategy of moving towards a more diverse mix of long-term contracts with customers, with shorter-term contracts or spot sales to balance security of supply contracts with the ability to take advantage of current coal prices where beneficial. Our contracts position now includes an element of sales negotiated at market rates, along with contracts priced at capped and collared or fixed prices, which may be fixed in nominal terms or subject to inflation adjustments.

Following the discussions held with customers after the year end, and referred to in the Chairman's Statement, contractual commitments have increased to 36.1 million tonnes as of the start of calendar year 2009 compared to 24.0 million tonnes at December 2007. The negotiation of certain contracts has resulted in increased cash flows into the business in 2009 and 2010. These benefits will be treated as customer prepayments/loans, which, together with implied interest, are to be repaid either out of later revenue or as separate repayments. Consequently, shown on the opposite page are summaries of both our outstanding contractual commitments in revenue terms and the incremental cash flow effects of these contractual changes and the prepayments/loans as of the start of the 2009 financial year.

In addition to the contractual commitments referred to above, options to purchase coal have been granted to customers at fully floating prices in respect of the tonnes outlined in the table below.

Total Commitments

Million tonnes	TOTAL	2009	2010	2011	2012	2013	2014	2015
Fully floating‡	5.3	0.9	1.3	1.4	1.4	0.1	0.1	0.1
Floating within caps and floors*	7.4	0.2	0.7	2.0	3.1	0.5	0.6	0.3
Fixed, subject to indexation†	13.5	6.2	4.8	1.8	0.1	0.2	0.2	0.2
Fixed, not subject to indexation	9.9	0.5	0.7	1.8	1.7	1.8	1.7	1.7
Total	36.1	7.8	7.5	7.0	6.3	2.6	2.6	2.3
Options to purchase coal granted at fully floating prices	3.0	—	—	0.5	0.5	1.0	1.0	—

* Caps and floor prices are subject to indexation.†

† Indexation will generally be based off RPI changes.

‡ Fully floating tonnage is priced based upon API2, 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). In all cases indexation on coal prices, where applicable, in line with Bank of England RPI targets of 2%, has been assumed on an annual basis. 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

API2 assumptions in £/GJ*	2009	2010	2011	2012	2013	2014	2015
£3.00	1.98	2.12	2.59	2.95	2.60	2.61	2.61
£2.75	1.96	2.07	2.53	2.85	2.58	2.60	2.59
£2.50	1.93	2.03	2.45	2.74	2.57	2.59	2.58
£2.25	1.90	1.97	2.33	2.57	2.52	2.53	2.53
£2.00	1.88	1.92	2.23	2.41	2.50	2.51	2.52
£1.75	1.85	1.87	2.17	2.32	2.48	2.49	2.50

* Each subject to 2% annual increase in line with RPI assumption.

Although the number of Gigajoules varies by customer and mine, as a guide, in 2008, the Group averaged 24.4 Gigajoules per tonne.

Actual revenues invoiced will differ from the above by the impact of customer loans/prepayments and repayments. The impact of these and other changes in contractual terms will increase or reduce cash flows by the following amounts.

£ million	2009	2010	2011	2012	2013	2014	2015
Increase/(decrease) in cash flow	85	15	(32)	(50)	(18)	(20)	(11)

These contracts contain, in some cases, security over relevant coal mines, conditionality regarding investment levels and restrictions on paying dividends whilst certain advances are outstanding.

PICTURED

Left:
Almost 95% of the Group's output is used to generate electricity at stations like this in Nottinghamshire.

Mining

PICTURED

Below:
Energy Minister Mike O'Brien (centre) with Chief Executive Jon Lloyd and Colliery Manager Glenn Robinson (kneeling) during a coal face visit to the record-breaking Daw Mill colliery in his constituency in Warwickshire.

Customers

Details of coal sold by UK COAL (including sales from Maltby colliery in 2007) by customer type are summarised below. This profile is unlikely to change in the foreseeable future.

	2008		2007	
	Million tonnes	**%**	Million tonnes	%
Electricity Supply Industry	**7.5**	**94.9**	7.4	92.5
Industrial	**0.2**	**2.5**	0.3	3.8
Domestic	**0.1**	**1.3**	0.2	2.5
Other	**0.1**	**1.3**	0.1	1.2
Total	**7.9**	**100.0**	8.0	100.0

Coal sales to the domestic and small industrial markets were carried out through sales to the Group's joint venture with Hargreaves Services PLC, Coal4Energy Limited.

This joint venture holding was sold to Hargreaves Services PLC in January 2009. An agreement to supply coal to Coal4Energy Limited until 31 May 2014 was also entered into at the same time and these contractual commitments are included in the customer commitments table on the previous page. Further details are provided in note 14 to the financial statements.

DEEP MINES

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

Key Performance Indicators ("KPIs")

	2008	2007
Coal mined (million tonnes)	**6.2**	6.6
Revenue (£m)	**304.5**	265.8
Operating cost* (£m)	**284.8**	246.2
Operating costs* (£/GJ)	**1.87**	1.54
Loss before non-trading exceptional items (£m)	**14.1**	14.6
Face gap times (weeks)	**33**	34
Development drivage metres	**17,149**	15,484

* Excluding non-trading exceptional items and depreciation.

Deep mining has a cost base largely fixed relative to production levels and therefore the KPIs for the business focus on the output tonnage achieved from this cost base, and the time spent in face gaps, when production is shifted between old and new coal panels. 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.

As expected, overall operating costs in the business have increased across all collieries reflecting the impact of above RPI inflation experienced earlier in the year, especially in steel and other material prices. In addition, increased working hours, particularly at Daw Mill, to maximise production hours have further contributed to the rise in costs. Operating costs per Gigajoule of production reflected these trends, but were compounded by the difficult coal conditions at Kellingley and Thoresby which reduced output.

Colliery Performance Summary

	Production		**Operating cost***	
	2008 (mt)	2007 (mt)	**2008 (£m)**	2007 (£m)
Ongoing mines				
Daw Mill	**3.2**	2.2	**93.6**	70.9
Kellingley	**1.2**	1.8	**71.2**	67.8
Thoresby	**0.9**	1.4	**63.2**	50.7
Welbeck	**0.9**	1.0	**56.8**	49.4
Ongoing deep mines	**6.2**	6.4	**284.8**	238.8
Closed or sold deep mines	**—**	0.2	**—**	7.4
Total deep mines	**6.2**	6.6	**284.8**	246.2

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

The primary objective for the collieries is to increase safely the reliability of production. This is being tackled with a set of initiatives:

Improved safety performance: This remains our primary concern and underpins all of our working practices.

Improved operating hours: Increased shift and overtime hours leverage off the largely fixed costs of operating a deep mine.

Increased operational reliability: Whilst operational reliability will always continue to be a focus in a hostile operating environment with a multitude of single points of failure, planned preventative maintenance and replacement of older components reduces downtime.

Increased development "bank": As each of our mines usually operates a single face, it is important to ensure that the replacement face is available in time to start when the old face is finishing. Investment is being made in increased development labour hours and new development equipment in order to build, over time, a "bank" of development work to mitigate any development delays should these occur.

Mining

Increased panel sizes: Longer facelines in particular improve operational performance, increasing the ratio of face cutting time to the turnaround times at either end. They also reduce the ratio of development work required to achieve the same output, helping the drive to build a development "bank". To this end the next panel (32's) for Daw Mill will, at 357 metres, be 62 metres longer than the last, after the investment in around £18 million of face equipment in 2009.

Daw Mill

Despite a slow ramp up on its new panel (302's) at the start of last year, Daw Mill produced a record breaking 3.2 million tonnes in 2008. Daw Mill continues to mine this same panel until the end of 2009, and will commence mining on its replacement (32's) panel in January 2010 which will last until March 2011.

The 2008 record production was achieved in spite of excessive downtime caused by the unreliability of one of the main drift belts that raise the coal to the surface, largely through belt breakage. Tackling this unreliability has been one of our main objectives and we have now completed the replacement of all 4.3 km of the belt on the worst affected section in the South Intake Drift 2 ("SID" 2), and have carried on to replace gradually all 3.6 km of the next oldest belt, on section SID 3.

Costs during the period were slightly higher than originally anticipated, partly the result of increased shifts and partly the result of the salvage costs for the last (31's) panel. This latter suffered a heating which has necessitated the pumping of nitrogen into the waste to control its effects, whilst the equipment was salvaged. This salvage is now complete and the panel was sealed in April 2009.

The priority for Daw Mill is to increase the amount of development work, which suffered following the extensive required reworking of sections of gates undertaken in 2007. We have carried out an extensive replan of the mine layout to reduce the pressure on developments and to increase the total mineable reserves in the current (300's) block of coal. In particular, work has now commenced on the 300's block laterals developments and work on panel 303's gates will commence Q4 2009. The 303's panel is scheduled to commence production in March 2011.

Kellingley

Kellingley is working its way through the last of the Silkstone coal and, although not entirely unexpected, this coal has proved to be particularly problematic in both physical and environmental terms. The last face in this seam will be finished at the end of 2009, with the new, and more favourable, Beeston seam being accessed thereafter.

Notwithstanding that the coal was always going to be difficult in this area, the outturn for the year was badly affected by the delay in the start of the 409's panel in August 2008. The development of this panel hit problems over the summer after the main gate progress was severely slowed by increased geological stresses which started to deform the walls and roof. This necessitated the use of steel supports for 500 metres, rather than the more usual, faster and less expensive bolting technique, and meant that the developments were not completed in time to coincide with the completion of the previous panel. As a result of the delays incurred, the mine suffered a 6 week face gap in the summer. This delay has reinforced our intention to increase development activity in order to ensure, over the long-term, an adequate bank of development in all of our mines in order to reduce the risk of face gaps. We have just started to drive 502's panel which is to be available for production in October 2010, and aim to have well over 6 months developments ahead of us at Kellingley by the end of 2009.

2009 will see 2 planned face changes during the course of the year, one completed in April and the second due at the end of May, with the first of the Beeston panels, 501's, starting at the end of the year upon completion of VW 412's panel. However, until the Beeston seam is accessed, Kellingley's output will continue to be lower than its historic norm of *circa* 2 million tonnes.

Thoresby

As with Kellingley, Thoresby is working the last of its existing Parkgate seam prior to starting in a

new seam, Deep Soft, at the start of 2010, and is suffering similarly from poor geology.

Thoresby's particular problem is the interference from previous workings some 120 metres above. The required panel layout has resulted in the concentration of stresses caused by pillars (unmined coal left between worked out panels) in the former workings. As more of the panels in the current series are being worked, these geological stresses appear to be increasing, in effect, causing increased problems on the later panels. Although a face gap had been expected in the first quarter of 2008, between the finish of 55's and the start of 56's panels, we believe that it was probably the increased pressure from these former workings which resulted in an unexpected significant amount of floor rise in the developments leading to a longer dinting (floor removal) programme and an increased face gap of 15 weeks. In September, as this panel was being mined, it encountered increased stresses that resulted in extensive delays as it progressed under the pillars of the former workings.
In 2009, we have encountered similar problems as a second pillar has been negotiated on this same panel, although increased preparatory work has helped reduce the impact. The final face in the Parkgate seam, 57's, which is due to start production in May 2009, will also have to navigate under 2 pillars. Given the presumed increasing impact of the previous workings, the layout of the gates has been altered to mitigate significantly the effects, and work replanned accordingly.

Development work for the Deep Soft seam is on target, with DS1 due to start in January 2010. As with Kellingley, we are progressing with the task of building the development bank, with lateral work for the DS2 panel (which is due for coaling in March 2011) starting now.

PICTURED

Above:
Cutting coal on one of the last Silkstone seam faces to be worked at Kellingley colliery in West Yorkshire.

Mining

Welbeck

Welbeck's output suffered at the start of 2008, when an 8 week face gap was incurred when 242's face installation was delayed. This followed the fatality in November 2007 on 244's panel, which delayed the salvage of the equipment needed for 242's face. It also suffered a further 4 week face gap prior to the start of 240's panel in October.

Welbeck will probably close at the end of 2009/ start of 2010 unless further economically viable coal reserves can be identified. Until then it will undergo two face changes in 2009, one successfully achieved in April and the change to probably Welbeck's last panel, in August.

Pending an ultimate decision on a possible reopening of Harworth colliery, we are seeking to retain as many of the experienced and motivated Welbeck workforce in our other mines, displacing work currently carried out by contractors. Identification of these opportunities and the selection and agreement of individuals is an ongoing process.

ELECTRICITY GENERATION FROM METHANE

From a safety standpoint we need to extract methane from operating mines. Its use as a fuel source both contributes to our operations providing an economic fuel source and reduces the impact on the environment of venting methane, a greenhouse gas with approximately 21 times the environmental impact of CO_2. Our methane based electricity generation operations are now treated as part of our deep mine operations.

In 2008, we generated 165,834 MWh of electricity (down 9% compared to 2007) from 29 MW of installed capacity from methane extracted at both operating mines and former mine workings effectively self supplying over 60% of our deep mine electricity requirements. Profitability in the year was reduced to £1.3 million (2007: £4.3 million) due to lower gas production from the operating mine sites and the requirement to purchase EU Emissions Trading Credits for our Stillingfleet operation. Generation from our two non-operating mine sites was better than expected with Stillingfleet utilisation being above 95%.

HARWORTH

We continue to explore the viability and funding of reopening our Harworth colliery at some time in the future. We estimate that Harworth has 54 million tonnes of resources and mineral potential. Exceptional costs of £3.5 million have been incurred during the year in the care and maintenance of the mine, together with preliminary geological and seismic work to assess the viability of reopening it.

PRODUCTIVITY AND FACE GAPS

There were 5 face changes in the year, incurring face gaps of 33 weeks (2007: 34 weeks). Face gaps consist of 15 weeks lost in the Thoresby face change, 6 weeks at Kellingley and 12 weeks at Welbeck.

In response to this, focused effort has been made during the year on development drivage, with overall development drivage metres showing an 11% increase on 2007 to 17,149 m.

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 105 million tonnes of reserves and resources at our ongoing mines, of which 45 million tonnes of coal is accessible under the existing 5 year mining and investment plans. The additional resources will become accessible beyond this time frame with investment required as necessary.

During 2008, reserves and resources have remained unchanged despite mined output as a result of mine layout replanning. Mineral potential has fallen, recognising that Welbeck mineral potential will probably prove to be uneconomic to recover.

Our estimates as at December 2008 of our deep mine coal reserves are set out in the table opposite.

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 — these 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 that makes production difficult.
- 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.
- Production requirements — the need to maintain continuous production can lead to early commencement of a new face, with coal consequently being left unmined.

(Million tonnes) Ongoing colliery	Reserves	Resources	Total reserves and resources	Mineral potential	Total
Daw Mill	21	3	24	41	65
Kellingley	12	46	58	5	63
Thoresby	11	11	22	4	26
Welbeck	1	—	1	—	1
Total 2008	**45**	**60**	**105**	**50**	**155**
2007	**45**	**60**	**105**	**64**	**169**

Reserve Reserves which are accessible using the broad infrastructure in place at the current time and which are in the current 5 year mining plan.

Resource Reserves, which may require substantial development and other costs to allow accessibility and are not currently in the 5 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.

PICTURED

Below:
The headstocks at Welbeck colliery, the north Nottinghamshire mine nearing the end of its life after producing coal for 95 years.

Mining

SURFACE MINES

Our surface mining business had a very successful year, despite a high fuel cost base for much of the year. Costs per Gigajoule had been expected to increase as the newer sites, having lower coal yield, were necessarily more expensive than older sites although this increase was exacerbated by the fuel costs.

Production increased 13% to 1.7 million tonnes from 1.5 million tonnes in 2007 reflecting the coal from the new sites opened in 2007 at Long Moor, Steadsburn and Sharlston. This increased tonnage, together with favourable sales prices, led to an increase in revenue of 44% to £76.5 million in 2008 from £52.9 million in 2007. Despite the higher cost base, this produced an increase in operating profit before non-trading exceptional items to £10.4 million (2007: £8.5 million).

At the half year we reviewed the level of surface mine restoration provisions in the light of energy price trends at that point. Given the subsequent change in long-term economic conditions and energy pricing in particular, no overall change has been considered necessary at the year end in provisioning levels for diesel costs.

Key Performance Indicators ("KPIs")

	2008	2007
Coal mined (million tonnes)	**1.7**	1.5
Revenue (£m)	**76.5**	52.9
Operating cost (£m)*	**63.1**	41.2
Operating cost per Gigajoule (£/GJ)*	**1.61**	1.11
Operating profit before non-trading exceptional items (£m)	**10.4**	8.5
Sites with consent (number)†	**8**	7
Reserves on sites with planning consent (million tonnes)	**6.8**	4.3

* Excluding non-trading exceptional items and depreciation.

† Including sites where planning committee approval only 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.

PLANNING AND RESERVES

We are now seeing a marked change in the success rate for surface mining consents with the various Local Authorities. Recognition is being given not only to the need for an indigenous supply of coal for both national and local requirements but also to the fact that the schemes are meeting high environmental standards both in design and operation. We have now been successful in 8 out of 8 of our last planning applications. The latest, for Huntington Lane in Telford, has gone to appeal on the grounds of non-determination following delays.

We currently have planning consents in place for 8 sites equivalent to 6.8 million tonnes, and applications already submitted for a further 2 sites equivalent to 1.4 million tonnes. We expect during 2009 to submit planning applications for a further 3 sites equivalent to 3.3 million tonnes.

We estimate that we have surface mine reserves where the Group controls the majority of a site through ownership and working rights agreements totalling 22.8 million tonnes of which 8.2 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 6.8 million tonnes of the 8.2 million tonnes.

In addition, using the same basis as above, resources of 32.6 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.

In total therefore we estimate that we have reserves and resources of *circa* 55 million tonnes. As a very substantial proportion of this is subject to planning consent, we continue to exercise caution in estimating how much will ultimately be recoverable. We continue to estimate that we should recover at least 2+ million tonnes per annum for 10+ years. We also estimate that we have the potential to

access a further 29.2 million tonnes. To be more certain about the ability of the Group 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.

A summary of estimated remaining reserves at December 2008 through the various stages of planning is set out in the table below:

Million tonnes	Sites with planning consent or committee approval	Applications submitted for planning, decision awaited*	Applications to be submitted in the following 12 months*
Cutacre	0.6	—	—
Steadsburn	0.9	—	—
Long Moor	0.3	—	—
Sharlston	0.1	—	—
Lodge House	0.9	—	—
Park Wall North	1.3	—	—
Blair House	0.7	—	—
Potland Burn	2.0	—	—
Bradley	—	0.5	—
Huntington Lane	—	0.9	—
Butterwell	—	—	1.0
Minorca	—	—	1.2
Chesterfield Canal	—	—	1.1
Total reserves in process 2008	**6.8**	**1.4**	**3.3**
Total reserves in process 2007	**4.3**	**4.7**	**5.1**

* Including tonnage not yet under the Group's control of 0.4 million tonnes.

PICTURED

Above:
Recovering coal from shallow laying seams on the Sharlston site in West Yorkshire.

"The principal objective of Harworth Estates is to maximise the value of the Group's property portfolio over the medium and long-term."

Review of Operations by Business continued

Harworth Estates

Our property division, Harworth Estates, produced an operating profit of £4.7 million in 2008 (2007: £73.2 million), including a gain on investment properties of £3.7 million (2007: £70.5 million), of which £23,000 was unrealised (2007: £66.8 million). A further revaluation gain of £3.2 million was taken directly to reserves (2007: £6.7 million). This gain arose in respect of former operating properties which were transferred to investment property status on their ceasing to be operational sites.

Key Performance Indicators ("KPIs")

	2008	2007
RICS valuations of the property portfolio (£m)	**422.3**	410.7
Number of sites in Project Worth	**77**	76
Estimates of Project Worth		
2012 (£m)	**668**	935
2013 (£m)	**—**	1,000
2014 (£m)	**886**	—

Harworth Estates manages approximately 18,200 hectares (45,000 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.

Harworth Estates has three key objectives:

- to maximise the value of the Group's property portfolio in the medium and long-term;
- to manage the Group's current income producing portfolio to maximise income and protect asset value; and
- to manage the Company's surface mine portfolio from an estates perspective.

PICTURED

Left:
The Castings Technology facility on the ever-maturing Advanced Manufacturing Park in South Yorkshire.

Harworth Estates

During the course of 2008 Harworth Estates secured planning committees' approval for over 1,200 homes and 140,000 sq m (1.5 million sq ft) of business space, and made planning applications for over 4,500 homes and 78,000 sq m (841,000 sq ft) of business space.

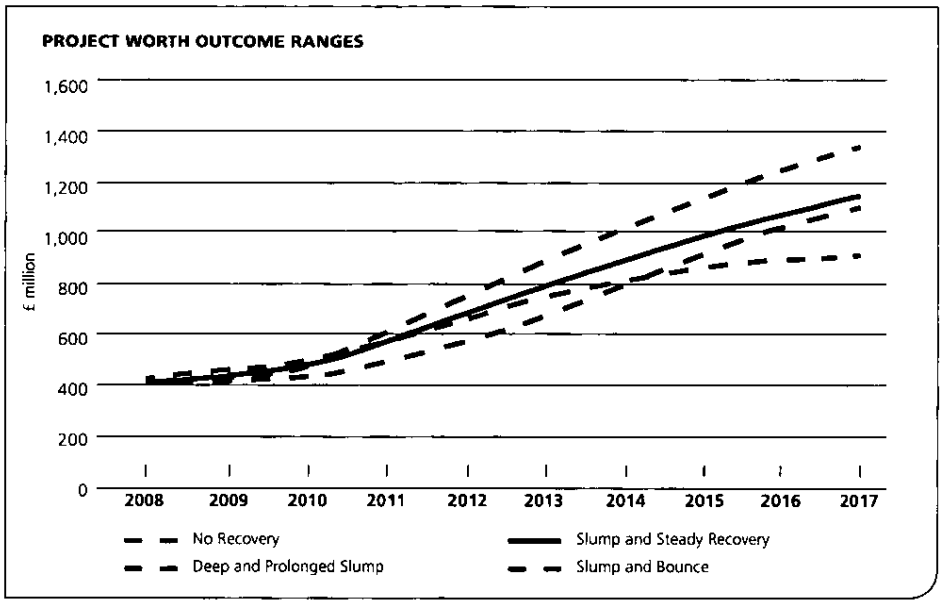
Notwithstanding the serious difficulties in the property market which became more manifest through the final quarter of 2008, Harworth Estates made a very satisfactory contribution to the Group's overall performance.

Project Worth is our programme to add value to the Estates portfolio over time. Estimates of Project Worth are therefore not reflected in the accounts. Project Worth has been reviewed and updated with our property advisers DTZ in light of both market conditions and progress on the individual projects concerned. Due to the wide ranging market uncertainty on timing of recovery, values and volumes, we have settled on a central estimate of Project Worth with a range of alternative outcomes. We believe that there is a general market assumption that crystallisation of planning gains will, due to the unprecedented market conditions recently experienced, have moved out by two years. We concur with this view.

The table below and graph opposite set out the central planning assumptions and ranges of Project Worth for both 2014 and 2012 (for comparison purposes). The central estimate is for an estimate of Project Worth of £886 million by 2014.

	2012 £m	2014 £m
No Recovery	652	798
Slump and Steady Recovery	**668**	**886**
Deep and Prolonged Slump	553	781
Slump and Bounce	725	1,013

PICTURED Below:
The Cutacre surface mine site adjacent to J4 of the M61 near Bolton is destined to become a major business park in line with this masterplan.



Price Scenarios	Description
Central scenario: "Slump and Steady Recovery"	Nominal price falls for two years (2008 and 2009) of *circa* 25% from peak. Flat or very modest growth 2010. Recovery picks up from 2011 but house price inflation modest by historic standards at 5% annual inflation 2011–17. Mortgage markets unfreeze — without return to cheap money and, with the confidence that the market has bottomed, stimulating demand. Continued difficult economic environment and more limited credit availability constrain house price inflation below historic rates. Rental values increase in line with RPI, bringing cost of renting closer to cost of buying, providing more of an incentive to buy rather than rent.
Upside scenario: "Slump and Bounce"	Nominal price falls for two years (2008 and 2009) of *circa* 25% from peak, turnaround starts in 2010. Bounce back with 10% annual house price inflation on average 2011–13. Settles back to 6% annual house price inflation 2014–17. Economy starts to recover in 2010, as does mortgage availability and confidence which lays foundation for return of strong demand in 2011. Shortage of supply underpins growth and encourages the return of investors to the market. Price growth from 2010 will improve revenues and sales rates.
"No Recovery"	Assumes December 2008 open market values and no market rebound. Growth comes purely from improved planning status over time.
Downside scenario: "Deep and Prolonged Slump with late Bounce"	Nominal price falls for three years (2008, 2009 and 2010) of *circa* 35% from peak. No growth for two further years 2011 and 2012. Global financial problems cause contagion in the world economy, and mean the downturn is more prolonged and deeper than anticipated. Economy only starts to emerge from slow growth in 2013 when confidence returns to financial, economic and housing markets. The absence of activity for 5 years produces a strong bounce back with house price growth of over 10% p.a. Lack of new supply in intervening years supports price growth.

Harworth Estates

PROPERTY VALUATIONS

A full independent valuation of all our properties has been undertaken as at December 2008 in accordance with appraisal and valuation standards published by the Royal Institution of Chartered Surveyors.

As previously, different valuation firms are engaged dependent on type and geographical location of the property being valued. Atisreal 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 last year end.

The commercial and residential land contained within this Atisreal 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 other declarations made throughout the country.

'Our valuation has been arrived at primarily after consideration of market evidence for similar property, although in the case of those properties where we consider market value will be informed by their ultimate redevelopment potential we have also undertaken development appraisals 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, we must state that the values we have reported (consistent with the guidance of the Red Book) are subject to material uncertainty.'

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

		Like-for-like*	
	Dec 08	Dec 07	Dec 07
	£000	£000	£000
Agricultural			
Mixed	**114,185**	101,624	93,906
Low grade	**5,045**	3,247	3,247
Undeveloped land			
With planning	**64,070**	67,965	33,145
Applications submitted	**65,310**	72,900	42,500
In development pipeline	**101,723**	100,602	165,822
Commercial land with rental income			
Part or fully developed	**32,600**	34,500	34,500
In development pipeline	**21,725**	11,171	11,171
Investment properties at valuation	**404,658**	392,009	384,291
Operational Sites			
With potential for development	**8,792**	8,007	8,007
Agricultural sites	**1,218**	2,183	9,901
Other operational sites	**7,600**	8,500	8,500
Operational properties at valuation	**17,610**	18,690	26,408
Total properties at valuation	**422,268**	410,699	410,699

* Like-for-like takes account of properties reclassified between segments during the year.

Active surface mine sites are included in the value above based on their restored land value of £17.6 million (2007: £26.4 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 2008 a total of £6.8 million of revaluation gains (2007: £11.1 million) has not been included in the balance sheet as a result. Operating deep mine sites are not included in the above valuation.

PRINCIPAL DEVELOPMENT ACTIVITIES DURING 2008

Waverley/Orgreave, Rotherham
This major regionally significant former operational site now consists of 3 principal development areas, each a major scheme in its own right.

Advanced Manufacturing Park ("AMP")
The AMP consists of a part built out serviced employment campus of 40 hectares (100 acres). One of the plots progressed during the year is Evolution Park, an 8,660 sq m (93,200 sq ft) hybrid industrial development undertaken in a joint venture with Strategic Sites Limited which completed in October 2008. Dormer Tools have taken occupation of the largest (1,750 sq m (18,800 sq ft)) unit in February 2009, two further units are under offer and 11 remain available.

Along with our principal partners on the scheme, Yorkshire Forward, we continue to market the remaining plots to a wide range of suitable occupiers.

Highfield Commercial Business Park
A revised planning application was submitted to Rotherham Council in October 2008 seeking outline consent for our proposed 60,000 sq m (645,000 sq ft) Government Office Campus being jointly promoted with Helical Governetz Ltd. Timing for determination of planning is dependent on whether it is "called in" by the Government, with the outcome likely Q2/Q3 2009. Infrastructure spend has been postponed in view of current market conditions and until the identification of first pre-let occupiers.

New Community
An outline planning application was submitted in August 2008 for 3,890 new homes and 17,100 sq m (184,200 sq ft) of associated leisure, retail and community uses. This application is subject to a Planning Performance Agreement with the Local Authority which targets a determination by May 2009. Delayed and complex responses from Statutory Consultees make it likely that this determination date will be extended, which was always anticipated might be the case. The announcement of a Housing Growth Point status for South Yorkshire which, including Rotherham, helps significantly and supports the case for large-scale residential development at Waverley.

Prince of Wales Mixed Use Scheme, Pontefract
Planning consent for 917 residential units and 24,250 sq m (261,000 sq ft) of office, retail and community uses was received in 2008, subject to completion of Section 106 Agreement. The development is likely to be phased over 8 years with the commencement of infrastructure to open up the site likely to be postponed until 2010 in light of current market conditions.

PICTURED
Above:
Part of the Evolution Park complex developed in a joint venture with Strategic Sites Limited on the Advanced Manufacturing Park in South Yorkshire.

Harworth Estates

G Park Distribution Development, Lounge, Ashby-de-la-Zouch
We continue to work closely with our joint venture partner, Gazeley Plc, to progress the planning application for this 79,000 sq m (850,000 sq ft) rail connected distribution hub. The planning application was submitted in August 2007. Once approved the site will reuse the existing high quality rail sidings formerly used for coal dispatch. The site is one of three options put forward by the local authority in its Core Strategy to accommodate strategic distribution uses. In parallel with the progression of the planning application the joint venture is fully supporting the promotion of the site, which is the only one with a live rail connection, in the Local Development Framework Core Strategy by providing detailed technical information. A decision on the application is expected in mid-2009.

Gascoigne Wood, Selby, Yorkshire
Our agents DTZ continue to market the 66 hectares (165 acres) rail connected site and have secured significant long and short-term interest in the site. Short-term agreements with DB Schenker (formerly EWS) and British Gypsum, which make use of the rail sidings and 20,500 sq m (220,000 sq ft) of covered storage yard, are in place. Detailed discussions are under way with a number of parties who wish to have a long-term interest in the site making use of the high quality rail access and power connectivity. An objector's challenge to the grant of planning consent was dismissed by the Court of Appeal during March 2009.

Rossington, Doncaster
During 2008 we continued to progress the Eco-town submission for 5,000 homes (3,500 on the Group's land) through the various stages of Government appraisal including substantial local and national consultation exercises on the sustainability and design principles for the scheme. During this process the number of competing sites reduced and we now await a Government decision over the coming months on which submissions, if any, are confirmed as Eco-town locations. The focus on the residential opportunities on this site means that in all likelihood, Eco-town or not, this will become a major residential led regeneration project as a major part of Doncaster's new Local Development Framework.

Industrial and Distribution Development, Ellistown, Leicestershire
Following Planning Committee approval, and a referral to Government Office, our planning application for 53,000 sq m (570,000 sq ft) of industrial/warehouse development has been returned to North West Leicestershire District Council to issue an Approval Notice following completion of a Section 106 Agreement anticipated in H1 2009. Infrastructure and site works will be deferred until 2010 unless identification of a pre-let prompts an early review.

PICTURED
Right:
The Group has struck a collaboration agreement with Peel Energy to progress wind farm projects on sites throughout the Midlands and the North.
Below:
The excellent rail-head facilities at the former Gascoigne Wood mine, now attracting new businesses.

Yorkshire Main, Edlington, Doncaster
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 14,000 sq m (150,000 sq ft) of employment space.

Residential Development Site, Coalville, Leicestershire
As part of our strategic planning work, we have been promoting residential development on approximately 40 hectares (100 acres) of land to the south-east of Coalville, near the Ellistown site mentioned above. North West Leicestershire Council have identified our land together with third party land as a potential, much needed, residential urban expansion for the town. Consultation is ongoing through 2009 and it is hoped that the land will be allocated by the Council as an urban extension within their new Development Plan.

North East Housing Growth Point, Newcastle/Gateshead
The Harworth Estates and surface mining team work closely together in areas where we own large tracts of land which have coaling and subsequent built development opportunities. We are currently preparing a strategy document that will outline regeneration opportunities on the Group's land within the Derwent Valley, an area close to the south-west of Newcastle/Gateshead. This will involve setting out a strategic vision to deliver a package of regeneration benefits including substantial new housing, job creation and energy production through surface mining.

Bleak House, Cannock
This site, close to the Birmingham Northern Relief Road, is a former surface mine site being promoted in response to the Regional Spatial Strategy (which sets out the need for substantial housing growth in the area) as suitable for a major residential development. 24 hectares (60 acres) of the restored site together with 36 hectares (90 acres) of adjoining land under third party ownership could provide up to 2,000 homes together with significant local infrastructure improvements.

Harworth Estates

A planning application for an initial phase of the development will be prepared for late 2009/early 2010. Our adjoining land at Bleak House is the subject of a wind farm application now being promoted through our wind farm collaboration agreement with Peel Energy.

Rufford, Nottinghamshire
In January 2009, Nottinghamshire County Council resolved to grant planning permission (subject to referral to Government Office) for a new Energy Recovery Facility at the former Rufford colliery. The application was submitted by Veolia who will build and operate the facility on a site leased from the Group.

In addition to this proposal, we have been preparing an outline planning application throughout 2008 for a new 24 hectares (60 acres) business park together with 16 hectares (40 acres) off-road motorcycle facility on the remainder of the former pit-head area. This application is expected to be submitted in summer 2009.

Housing Growth Point Opportunities
In summer 2008, the Government announced a number of Housing Growth Points within the Midlands and Northern England. We are currently promoting a number of development opportunities on land within these Growth Points.

The Growth Points provide additional public funding to help deliver new residential development, and also to provide for a significant increase in housing numbers required to be built over the current levels outlined in Regional Spatial Strategies.

We are working closely with various partners within the Housing Growth Point areas as a key stakeholder in the delivery of land suitable for sustainable residential and mixed use schemes over the coming decade.

The Growth Point areas cover land under our ownership in:

- South Yorkshire (Waverley, Rossington, Thorne, Kilnhurst and sites within Barnsley)
- Leeds City Region (Prince of Wales and other sites close to Wakefield)
- South East Northumberland (Ellington, Lynemouth, Bates Staithes)
- South East Durham (Eldon Deep)
- Gateshead (Marley Hill)

BUSINESS PARKS
The business parks on the former mine sites at Asfordby and Whitemoor are the longest established within the Group and currently continue to benefit from low voids and increasing rental levels. A new 2,500 sq m (27,000 sq ft) building has been constructed under a pre-let agreement at Asfordby. This is being occupied on a 20 year lease by Omnichem. The first year of operation of the Riccall business park has proved successful, demonstrating demand in the A19 York/Selby corridor. The site is now 60% let and it is envisaged that this will increase despite the difficult economic conditions in 2009. Planning consent has been secured for two plots within Bilsthorpe Park where negotiations for a long-term ground rent are under way with Nottinghamshire County Council (for a major highways depot) and Alkane who will generate electricity from mines gas.

PROPERTY DISPOSALS
Disposals during the year secured receipts of £5.5 million from the sale of 295 hectares (730 acres) of agricultural land (2007: £6.3 million of agricultural land and £7.1 million of commercial

land). All land sold had either been mined and was therefore surplus to operational requirements and/or had no prospect of short or medium-term development. Appropriate clawback or uplift arrangements were put in place on one site that was sold to a special purchaser. Due to current market conditions no development land or residential properties were sold, though a number of smaller lots were marketed throughout the year and that marketing continues, in difficult conditions.

We also sold 2.4 hectares (6 acres) of land at our Waverley Advanced Manufacturing Park into our 50/50 joint venture with Strategic Sites which generated proceeds of £1.3 million and now forms Evolution Park.

DEVELOPMENT AND MARKET CONDITIONS

Property market conditions worsened substantially throughout the second half of 2008. In line with many other major landowners and developers, Harworth Estates responded to these difficult conditions by significantly reducing planned expenditure on infrastructure and speculative construction but unlike some, we have maintained full-scale planning application activities. There is no doubt that in due course market conditions will improve, we intend to remain capable and flexible enough to respond rapidly to those improvements.

PROJECT WORTH

Notwithstanding the market difficulties referred to above, we believe that there remains a significant opportunity, over time, for shareholders to benefit from growth in the value of our property portfolio as it matures through the planning process and markets recover. Our planning and estates teams remain focused on maximising opportunities to contribute to an increase in the Project Worth portfolio over the coming years. We will continue to invest appropriately and to work with some of the UK's leading technical consultants to mature the Project Worth planning portfolio.

PICTURED

Left:
Harworth Estates Director of Operations Sue Anderson with officials from the Rotherham and Barnsley Chamber of Commerce inspecting plans for the development of the Waverley site in South Yorkshire.

Above:
The early stages of the development of the Evolution Park facilities in a joint venture with Strategic Sites Limited on the Advanced Manufacturing Park in South Yorkshire.

Harworth Estates

VALUATIONS

BUSINESS PARKS/RENTED PROPERTIES

Type and Location	Description of Property	Valuation Band
Asfordby, Melton Mowbray Leicestershire	28 hectare (69 acre) rail connected mixed use Business Park with 23,200 sq m (250,000 sq ft) of commercial space built. Masterplan in place for a further 37,100 sq m (400,000 sq ft). Current rent roll £1.02 million per annum plus service charge. 96% let.	£10m–£20m
Gascoigne Wood, Sherburn in Elmet, Selby, North Yorkshire	66 hectare (165 acre) regionally significant strategic rail connected former deep mine complex with surrounding agricultural land. Planning consent approved for rail related distribution covering 21,000 sq m (225,000 sq ft) on the Phase 1 site with potential for approximately 93,000 sq m (1,000,000 sq ft) employment space. Two leases granted. Rental income expected of £0.35 million per annum in 2009. Substantially greater potential in the medium term.	£10m–£20m
Bilsthorpe, North Nottinghamshire	29 hectare (71 acre) rail connected former colliery with outline planning consent for B2 and B8. First phase built out buildings, 4,000 sq m (44,000 sq ft), 47% let, generating approximately £0.05 million per annum plus service charge. Negotiations ongoing to let majority of remaining units, plus ground leases.	£5m–£7.5m
Whitemoor, Barlby, Selby, North Yorkshire	20 hectare (50 acre) former satellite mine, of which 9 hectares (22 acres) has been converted to mixed use Business Park with in excess of 6,700 sq m (70,000 sq ft). Annual income *circa* £0.24 million per annum plus service charge. 70% let.	£2m–£5m
Riccall, Selby, North Yorkshire	27 hectare (67 acre) former satellite mine. Mixed use business park with in excess of 7,400 sq m (80,000 sq ft). 60% let with further negotiations ongoing. Rental income of £0.14 million per annum plus service charge.	£2m–£5m

PICTURED

Right:
The purpose-built distribution centre, now the new HQ for chemical distribution company Omnichem, on the Asfordby Business Park on the former mine site in Leicestershire.

DEVELOPMENT PROPERTIES WITH PLANNING CONSENT

Type and Location	Description of Property	Valuation Band
Highfield Commercial, Waverley, Rotherham, South Yorkshire	Existing consent for 51,250 sq m (557,000 sq ft) of B1, B2-B8 office space, a hotel and ancillary retail. Revised application to accommodate Helical Governetz Ltd. Government Campus proposal comprising 60,000 sq m (645,900 sq ft) of B1, a hotel and 975 sq m (10,500 sq ft) of ancillary retail due for determination Q2 2009.	£10m–£20m
Mid Cannock, Staffordshire	12.14 hectare (30 acre) rail connected site, fully let on 50 year lease from April 2005.	£5m–£7.5m
Waverley Advanced Manufacturing Park (AMP) (off the Sheffield Parkway, J33 M1), Rotherham, South Yorkshire	Around 24 hectare (60 acre) of land remaining for development which could accommodate up to 73,000 sq m (785,800 sq ft) being marketed through UK Strategic Partnerships Limited, our joint venture with Strategic Sites Limited.	£5m–£7.5m
Tetron Point, Swadlincote, South Derbyshire	99 hectare (245 acre) fully restored surface mine site. Substantially developed out through plot sales to third parties. Small 11.74 hectare (29 acre) rail head parcel of development land still held with remaining land approved for leisure development. Further appraisals being undertaken to incorporate additional mixed uses. Tenant selected for golf course and associated leisure uses.	£2m–£5m
South Leicester Disposal Point, Ellistown, Leicestershire	Former 29 hectare (72 acre) operational site with planning consent for 53,000 sq m (570,500 sq ft) of B1, B2 and B8 accommodation. Promoted in a joint venture with Graftongate, Phase I development subject to securing pre-let.	£2m–£5m

Harworth Estates

OTHER PROJECTS IN THE PLANNING PIPELINE

Type and Location	Description of Property	Valuation Band
Waverley/Orgreave, (off the Sheffield Parkway, J33 M1), Rotherham, South Yorkshire	New housing led mixed use community comprising 3,890 residential units and around 17,000 sq m (184,000 sq ft) of retail, leisure and community uses. Planning determination anticipated Q3 2009.	£50m–£60m
Prince of Wales, Off J32, M62, Pontefract, West Yorkshire	Planning consent secured for Phase 1 Pit Yard redevelopment, 917 residential units and 24,250 sq m (261,000 sq ft) of office, retail and community uses. Phase II housing site of approximately 13 hectares (32 acres) provided as part of coal slurry extraction and reclamation scheme on adjoining spoil heap. Housing site being promoted through Wakefield's LDF with prospects significantly improved further following Growth Point announcement.	£20m–£50m
Cutacre, Off J4 M61, Bolton, Greater Manchester	Approximately 105 hectares (259 acres) of developable land at Cutacre identified within Bolton's Preferred Options — Core Strategy document. This includes 19 hectares (47 acres) of already allocated employment land. Bolton anticipate publishing their Core Strategy and issuing to the Secretary of State at the end of 2009.	£10m–£20m
Rossington Colliery, Doncaster, South Yorkshire	145 hectare (358 acre) former colliery submitted as potential Eco-town contender during 2008, announcement on successful bids anticipated April 2009. Regardless of outcome, 50 hectare (124 acre) Pit Yard site offers ability to accommodate up to 1,700 new residential units which is recognised in Doncaster's emerging LDF. Any form of large-scale redevelopment is dependent on construction of FARRRS motorway link road, which took a major step closer to realisation following the Regional Transport Board endorsement to allocate funding for White Rose Way, M18 improvement works and FARRRS itself. Doncaster will now progress a major scheme business case for submission to Department of Transport in 2009.	£10m–£20m
Harworth Colliery, Harworth, Nr Doncaster, South Yorkshire	Outline planning application being prepared on former deep mine site which will include around 20 hectares (49 acres) of employment land and 24 hectares (59 acres) of residential land for submission Q3 2009. Proposals consistent with Bassetlaw District Council's aspirations for Harworth which they consider as a settlement capable of expansion aimed to take advantage of the anticipated growth of the sub-region, particularly the expansion of Doncaster Airport and the Sheffield City Region. The application takes account of the potential to reopen this mine.	£10m–£20m
North Gawber, Barnsley, South Yorkshire	Brownfield 16 hectare (39 acre) former colliery. Planning application made 2008 for 500 houses. Withdrawn due to technical issues and to be resubmitted mid-2009.	£5m–£7.5m

Type and Location	Description of Property	Valuation Band
Lounge, A42, Ashby-de-la-Zouch, Leicestershire	42 hectare (104 acre) former coal disposal point with substantial rail infrastructure. Development agreement signed with Gazeley Plc to promote as a major B8 distribution hub. Planning Application submitted in 2007.	£5m–£7.5m
Bennerley, Broxtowe, Nottinghamshire	Rail connected former disposal point, substantially restored. Potential for 40 hectare (100 acre) mixed use regenerative development scheme with good access to J26 M1.	£5m–£7.5m
Ellington/Lynemouth, Northumberland	11 hectare (27 acre) residential led regeneration scheme in Northumberland Growth Point. Scheme for 500 houses prepared for submission February 2009. Initial scheme for workspace provision agreed with grant aid from Castle Morpeth Borough Council and Northumberland Strategic Partnership.	£5m–£7.5m
Bates Staithes, Northumberland	6 hectare (15 acre) former coal disposal point. Joint venture with Banks Development for 300 house residential scheme. Planning application submitted, decision expected H1 2009.	£0m–£2m
Chatterley Valley, Stoke-on-Trent, Staffordshire	Rail connected 10 hectare (25 acre) former coal disposal point in land owner joint venture. Development agreement signed with Prologis to promote substantial distribution development in association with adjoining land. Application to intensify existing consent approved 2008. 37,200 sq m (400,000 sq ft) on UK COAL land.	£2m–£5m
Yorkshire Main, Edlington, Doncaster, South Yorkshire	19 hectare (47 acre) restored tip washing facility. Consent granted for mixed residential and commercial development use. Up to 250 homes and 15,000 sq m (160,000 sq ft) for employment use. Being marketed by DTZ.	£7.5m–£10m
Additional Sites	54 additional properties are in the early stages of the planning process, each with current year-end values of not more than £5 million.	up to £5m
	Head office & workshops	£7.5m–£10m

Following internal reorganisation of subsidiary level activities within the Group, Harworth Estates now also manages the Group's wind farm portfolio as part of its objective to generate income and achieve asset growth over time. On 13 November 2008 the Group announced the signing of a collaboration agreement with Peel Energy, a wholly owned subsidiary of the Group's major shareholder, Peel Holdings. Under the Agreement, Peel Energy will undertake investigative work on 14 existing wind farm opportunities and where appropriate take forward, at their own cost, projects through the planning stages to ultimately identify joint venture wind farm development opportunities that can be entered into a site-by-site SPV structure. Dependent on the scale of the success of this initiative, shareholders will have the opportunity of approving co-investment with Peel Energy if this becomes the favoured route. Alternatively, the Agreement provides for Peel Energy potentially becoming a commercial tenant of relatively small areas of land forming each of the wind farms. Harworth Estates will additionally work closely with Peel Energy, initially over the next two years, to identify further wind farm opportunities from within the portfolio.

Financial Review
David Brocksom

Group revenues have increased substantially during the year to £392.5 million from £328.5 million in 2007 reflecting the increase in realised sales prices in the year.

Overall, Group profit before tax has fallen to a loss before tax of £15.6 million from a profit of £69.0 million in 2007. Operating profit before non-trading exceptional items totalled £1.8 million (2007: £72.1 million). Of this, the property revaluation gain was £23,000 for the year (2007: £66.8 million).

Non-trading exceptional items constituted a charge of £4.1 million in the period (2007: net credit of £10.5 million). The charges in the current year included £3.5 million of costs associated with Harworth colliery. The prior year included an £8.5 million profit on the disposal of Maltby colliery.

As a result of the above, operating profit fell from £82.7 million in 2007 to an operating loss of £2.2 million in 2008.

Loss per share for the period was 10.0 pence, both before and after tax (2007: earnings 59.9 pence after a deferred tax credit of £25 million or 44.0 pence excluding tax).

FINANCING EXPENSES AND FUNDING

Net finance expenses have increased by 5% to £14.9 million (2007: £14.2 million).

During the year, where possible, we started to apply hedge accounting on our interest rate swaps. As a result, £7.3 million of mark to market adjustments have been charged to a hedging reserve, along with an associated deferred tax credit of £2.4 million. However, as the banking market changed towards the end of 2008 and the LIBOR and Base Rates moved apart, the Group took advantage of its rights on certain facilities to pay interest on a Base Rate basis and so to lower its interest costs. This has had the accounting effect of rendering the hedges ineligible for hedge accounting from the dates involved. Mark to market credit on interest rate swaps in the income statement was £0.7 million (2007: charge £1.9 million).

Excluding the change in fair value of interest rate swaps, finance expenses have increased by 20% to £18.6 million reflecting the higher level of drawn debt throughout the year. Included in Group financing expenses is a charge for the unwinding of discounts in relation to the provisions in the balance sheet of £4.3 million (2007: £3.9 million).

The Group currently has *circa* £180 million of borrowing facilities and a further £8 million outstanding on finance leases. The borrowing facilities include a revolving credit facility of £52 million, *circa* £140 million secured on property, and £5 million secured on surface mining and other plant. The average maturity of the facilities was 2 years (2007: 2.9 years).

As referred to in the Operating and Financial Review, the Group has entered into new or amended contractual arrangements with its customers. These have had the benefit of increasing cash flows to the Group in 2009 and 2010 by *circa* £85 million and £15 million respectively.

The Group has cash deposits which are 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 £20.4 million and £8.3 million respectively at December 2008 (2007: £25.7 million and £23.4 million). In addition to the ring-fenced funds held on behalf of the Coal Authority, a £10 million bond has been granted to the Coal Authority as further security against any possible surface damage claims; this bond allowed the release of £10 million of restricted funds in the year. These deposits were secured against liabilities of £18.7 million and £13.4 million respectively.

Gearing at the year end has increased as a result of the increase in the level in borrowings and a fall in the net assets value, the latter being particularly adversely affected by the increase in the deficits on retirement benefit obligations of £30.8 million. The debt to equity ratio at the end of the year was 45.6% (2007: 29.1%).

TAX

The Group paid no corporation tax in 2008 (2007: £nil). A provision of £0.1 million was made

in respect of a potential exposure to Petroleum Revenue Tax in respect of methane gas extracted at our Stillingfleet site.

At December 2008, the Group had gross trading losses of £153.5 million and gross timing differences of £138.5 million (arising largely from unclaimed or disclaimed capital allowances), both of which are available to offset against future profits in the mining business. These had a tax value of £43.0 million (2007: £74.0 million), and £38.8 million (2007: £6.9 million) respectively. Trading losses fell during the year, and timing differences increased as capital allowances were disclaimed to allow increased flexibility in the future. The net deficit on the balance sheet in respect of retirement provisions also represents a tax timing difference of £29.1 million (2007: £20.5 million).

The Group had recognised, at December 2008, a deferred tax asset of £36.1 million (2007: £36.0 million). The Group continues to review its deferred tax asset, given the nature of the business and its historic performance. A net deferred tax credit of £0.1 million has been released directly to reserves, reflecting the £2.4 million deferred tax asset arising on the charge to reserves from hedge accounting for the mark to market adjustments on the interest rate swaps, offset by a £2.3 million charge against the carrying value of the asset recognised on the net balance sheet deficit in respect of retirement provisions.

The Group has in excess of £380 million of capital losses which can be offset against profits arising on disposals of properties currently held by the Group. 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 £0.8 million.

PICTURED

Below:
A dinting machine maintaining the underground roadways at Kellingley colliery in West Yorkshire.

GROUP CASH FLOWS

	2008 £m	2007 £m
Cash (used in)/generated from operations	**(1.1)**	6.1
Interest and financing cost	**(13.8)**	(13.2)
Cash used in operating activities	**(14.9)**	(7.1)
Purchase of property, plant and equipment	**(25.8)**	(23.0)
Pre-coaling expenditure for surface mines	**(6.2)**	(4.7)
Development costs of investment properties	**(14.1)**	(7.5)
Proceeds on disposal of property, plant and equipment	**0.2**	0.8
Proceeds on disposal of investment properties	**6.0**	13.3
Proceeds on disposal of business	**—**	21.5
Net receipt from/(payment to) restricted funds	**20.3**	(6.8)
Other movements	**2.1**	3.4
Cash used in operating and investing activities	**(32.4)**	(10.1)
Net drawdown on bank loans	**59.5**	27.2
Net (repayments)/proceeds of obligations under hire purchase and finance leases	**(5.7)**	0.2
Increase in cash	**21.4**	17.3

There was a net cash outflow from operating activities of £14.9 million, mainly due to interest and financing costs of £13.8 million. The Group spent £46.1 million on investments, being the investment in the mining business, predominantly in deep mining, of £25.8 million, pre-coaling expenses in surface mines of £6.2 million and £14.1 million on investment properties, predominantly on the costs associated with gaining and fulfilling planning consents. These investments were partly funded by the release of £20.3 million from restricted cash deposits.

BALANCE SHEET

The net assets of the Group fell by £57.8 million to £300.4 million. The decrease in net assets is largely due to an increase in the deficit on retirement obligations of £30.8 million, which is discussed below. Other significant movements in the balance sheet during 2008 are in provisions and investment properties. Investment properties have been discussed within the Operating and Financial Review.

PROVISIONS

	2008 £m	2007 £m
(i) Employer and public liabilities	**18.7**	18.9
Surface damage	**13.4**	16.4
(ii) Restoration and closure costs of surface mines	**59.4**	54.6
(iii) Restoration and closure costs of deep mines		
— shaft treatment and pit top	**9.8**	12.2
— spoil heaps	**2.9**	3.2
— pumping costs	**5.3**	6.3
Ground/groundwater contamination	**5.2**	6.5
(iv) Redundancy	**1.2**	4.1
	115.9	122.2

(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 2008, it held £20.4 million of cash deposits and £7.9 million of property assets to meet £18.7 million of liabilities.

The 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 the number of operating deep mines within the Group. As at December 2008, the Group had £8.3 million of ring-fenced deposits and an insurance bond for a further £10 million to provide security to meet these 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 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 is created, and 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 2008, the Group had a non-current asset of £28.5 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 (2007: £20.1 million). At the same date, provisions for restoration and rehabilitation totalled £59.4 million (2007: £54.6 million).

New provisions have been created in the year for the sites at Steadsburn and Lodge House of £8.3 million and £2.6 million respectively.

(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 ongoing and closed mines.

	£m
Ongoing mines	16.8
Closed mines	6.3
	23.1

73% of the deep mines provision relates to our 4 ongoing mines which will be utilised after the point of closure. New investment in the Beeston and Deep Soft seams at Kellingley and Thoresby respectively has extended the lives of these mines, and consequently the provisions, which are discounted for the time value of money, have reduced accordingly. We do not expect to utilise a significant amount of the closed mines provision in 2009, and then may use £2.1 million in 2010 and £1.0 million in 2011, representing predominantly the costs in respect of the Harworth and Rossington collieries, in part depending on any decision regarding the future of Harworth. The remaining balance of £3.2 million will be utilised beyond 2011.

(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. We expect to utilise all the remaining 2008 redundancy provisions in 2009.

PICTURED

Above:
Man-made lakes on the former Waverley surface mine site after restoration. Where plans for a 'New Community' of 3,890 homes and 17,100 sq m of associated leisure, retail and community use development are currently being considered.

RETIREMENT BENEFIT OBLIGATIONS

The Group has a deficit of £104.0 million (2007: £73.2 million) on its defined benefit pension and retirement schemes which are now closed to new entrants but are required to be open for future service. 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 sections of two funded industry wide schemes, together with an unfunded concessionary fuel scheme. The above deficit includes a liability of £29.3 million (2007: £23.4 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 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 3.9% (2007: 2.5%). Contributions are determined by a qualified actuary on the basis of triennial valuations, using the projected unit method. The most recent valuations were at 31 December 2006 which were finalised during 2008.

There has been a significant increase in the deficit on the pension schemes of £24.9 million comprising:

- A loss in the year of £91.9 million due to returns on the funds' assets being much lower than expected.
- This was offset by an actuarial gain on the funds' liabilities of £59.3 million arising from changes in actuarial assumptions. Principally, this is due to an increase in the assumed discount rate from 5.8% in 2007 to 6.5% in 2008 because of increases in AA-rated corporate bond yields which underpin this assumption.
- Extra contributions above service cost of £7.7 million. In total, the Group paid £20.3 million to the schemes in 2008, covering both current service and deficit contributions. The Group has agreed, as part of the triennial revaluation process as at December 2006, to fund both current service and deficit contributions at a rate of £21 million for 2009.

£33.6 million of the movement in the deficit on the pension schemes has been charged to the Statement of Recognised Income and Expenditure ("SORIE") in the year.

There has also been a significant increase in the liability for the unfunded concessionary fuel scheme of £5.9 million. There are two main factors contributing to the increase:

- A loss arising from an increase in the cost of providing coal benefits to members. The liability is based on producers' prices as at the end of December 2008 and reflects changes in coal prices to that date.
- This increase was offset by an actuarial gain arising from changes in actuarial assumptions, with the change in the discount rate noted above being the dominant factor.

The net effect of these items was an actuarial loss of £4.9 million which has been charged to the SORIE.

Details relating to retirement benefit obligations, as presented in the 2008 annual report and the most recent actuarial valuation, are shown in note 24 to the financial statements.

Movements in the schemes in 2008 are set out below.

	Pension* £m	Concessionary fuel £m	Total £m
December 2007	49.8	23.4	73.2
Contributions paid less current service cost	(7.7)	(0.4)	(8.1)
Change in fund value compared to expected return	91.9	1.4	93.3
Actuarial (gain)/loss on liabilities	(59.3)	4.9	(54.4)
December 2008	74.7	29.3	104.0

* Including Blenkinsopp scheme.

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.

A number of actions have been taken during the year to reduce the number of health and safety incidents occurring and to advance further the standards of environmental safety and protection. The Health and Safety Committee of the Board oversees and promotes the importance of health and safety to the business. Health and safety training is provided to employees on an ongoing basis to ensure an awareness of safety issues across the Group. This is to reinforce management's focus on the importance of safety issues and create as safe a working environment as possible. We are confident that by working together with all our 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 effect of the Credit Crisis has made the obtaining or refinancing of debt harder and its cost higher. The maturity of the Group's debt profile is shown in Note 19 to the financial statements. Over the next 12 months there are no significant facility maturities. 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.

Around two-thirds of the total current bank facilities of *circa* £180 million are provided by banks which, following the takeover by Lloyds TSB plc of HBOS plc, are now part of the Lloyds Banking Group plc. Slightly less than 10% was provided by Landsbanki, the failed Icelandic bank which is seeking to close and recover its loan book as part of the bank's closure process. Facilities provided by Landsbanki were largely fully drawn in advance of the collapse of the bank.

As is customary, our bank facilities are subject to convenants, in our case often focusing on loan to property value covenants. These affect around two-thirds of our facilities. Although we are in compliance with these covenants, a further fall in the valuations of our properties could have an impact on covenants leading to increased charges and possibly a limitation of a facility's availability.

PICTURED

Above:
Inspecting rollers on a covered system conveying coal from the face at Thoresby colliery in north Nottinghamshire.

Key Risks and Uncertainties continued

FLUCTUATIONS IN COAL PRICES

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 both of demand and of price. These contracts have, with the subsequent increase in the world price of coal, worked to our disadvantage. Our strategy is now to move towards a balanced mix of longer-term contracts on fixed, on capped and collared and on floating prices, and to maintain an element of shorter-term contract and spot sales.

As disclosed in the Operating and Financial Review, the Group has entered into fixed price contracts. In some cases these 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 has also entered into 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.

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 a deep mine 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 and a new face starting and production ramping up to a normalised level (known as face gaps). During this time coal production may be limited and the economic impact is closely monitored. A significant element of our investment programme, both in capitalised and in expensed spend, is aimed at increasing the amount of development 'bank', i.e. developments ready ahead of requirements, and thereby reducing the risk of face gaps.

Inherent to the nature of our business is the geology of the ground in which we are mining. Whilst bore holes are drilled, and modern surface and other surveys including 3-D seismic surveys offer better information, we often face unexpected geological conditions. These may sometimes be revealed in part 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 above 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.

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 under which it is not permitted to close off the Schemes for future service.

Under IAS 19, as noted in note 24 to the financial statements, these schemes have a combined deficit of £74.1 million. 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. At the end of December 2008, these rates were considerably lower than corporate bond rates and would have resulted in a significantly higher level of deficit. Depending on changes in these rates and investment performance by the time of the next calculation, scheduled for December 2009, a significantly higher deficit could lead to higher deficit contributions being needed in later years.

PROPERTY RISK

PROPERTY MARKET DOWNTURN OR VOLATILITY

Harworth Estates is exposed to changes in the property market and the valuation of its estate will fluctuate in part with the general market. The UK market is currently undergoing a period of disruption, and this is particularly apparent in respect of the small part of our estates that is built out, where property yields have strengthened, with a commensurate fall in value. Conversely, our agricultural land has seen an increase in value per acre, without any change in planning, reflecting the increase in values for this type of land.

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. This has helped largely to retain the RICS value of these sites in 2008, despite the fall in the general market. Notwithstanding this, we remain exposed to movements in the general market and the risk that this movement outweighs the planning gain.

PLANNING APPROVALS

The planning regime affects both Harworth Estates and our mining business, and any major changes could affect the business, either positively or negatively. During the course of 2008, we have seen improvements in the planning environment, especially 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.

PICTURED

Left:
Cartoon strips are being successfully used to drive home important safety messages to miners at Thoresby colliery in north Nottinghamshire.

Above:
Pocket-sized information books are proving to be a useful reference for employees in improving safety when using equipment at Kellingley colliery in West Yorkshire.

Corporate Social Responsibility

We take our Corporate Social Responsibility ("CSR") seriously and are committed to implementing appropriate policies and systems across the Group. These include concern for employees and their health and safety, care for the environment and community involvement.

The Board has responsibility for CSR and is committed to developing and implementing appropriate policies to create and maintain long-term value for all stakeholders. This is important for the Group as it helps to minimise risk, ensure legal compliance, and further develop the Group's reputation. We regularly review our CSR policies in the light of the changing profile of the Group's business to both ensure that all stakeholders are properly represented and that each of our businesses acts appropriately with regard to its type of operations. We have become a member of 'Business in the Community' and commenced a process of engagement with them both to evaluate and further develop our CSR.

HEALTH AND SAFETY

The Board believes that the health and safety of our employees, and persons affected by our operations, is of prime importance and is committed to ensuring that we comply with all of our obligations. In recognition of this, the Board has delegated specific authority and responsibility to its Safety Committee, which has oversight of operational health and safety management of the business.

All Directors are fully aware of the Group's and their own responsibilities towards health and safety and fully support and provide resource for systems and initiatives that promote health and safety.

The Chief Executive issues and annually updates a personal health and safety statement to all employees. He regularly follows this up with programmes of face-to-face meetings with employees in all parts of the business, particularly those working in higher risk areas. Communication of key safety messages is recognised as being paramount to establish and improve safe working practice.

The Directors deeply regret the fatal accident at Kellingley colliery involving an experienced underground workman at the end of September 2008, and have extended their most sincere sympathy for the tragic loss of this colleague to his family and friends.

The management is dedicated to maintaining and enhancing controls and to making improvements throughout the Group's operational structure and activities recognising that it operates in an industry that has to control inherent hazards. The Group invests significant resource both at Headquarters and at sites to provide health and safety advice to operational management.

Health and safety is an integral part of the management accountability process with clear reporting lines up to Board level. Health and safety training, risk assessment with appropriate Group and site control measures, health screening and the personalisation of individuals' roles and responsibilities are the key measures used to ensure health and safety compliance. Internal audits are carried out at all sites. We have a programme of internal and safety audits covering key major hazard control measures which is carried out centrally.

We have a Health and Safety Manager (supported by competent health and safety professionals) with a direct reporting line to the Board which receives regular updates on our safety performance and health and safety strategy. Extensive Group-wide and local policies and procedures are in place and all employees are subject to ongoing health surveillance. Safety inductions are a requirement for all staff and contractors working on sites and risk assessments are carried out for all new working processes to be undertaken. Regular safety audits are conducted and the results of these are reviewed and signed-off by site managers. These are supplemented by regular visits from officers of the appropriate regulatory authorities. The Group is represented on a number of Industry/ Health and Safety Executive consultation and working parties which it fully supports.

We promote a high standard of safety and a healthy environment for all our employees and others who may be affected by our activities. Underlying health and safety statistics continue to demonstrate improvements in accident and ill health incidents which are reinforced by improving trends in disease-related claims and an underlying reduction in our accident claims handling trend.

In 2008, 1 fatal injury occurred within the Group compared with 2 in the previous year. There were 26 major injury accidents reported to the Health and Safety Executive, of which 20 were in deep mines. The overall reportable injury rate was 24.0 per 100,000 manshifts compared with 23.9 and 27.8 in 2007 and 2006 respectively. The target will always be to achieve Zero Incidents in all Health and Safety categories. Through the direction of management and the involvement of all our people and stakeholders the Group will strive to make continuous improvements towards that goal.

All sites have appropriate emergency arrangements. The deep mines are members of the Approved National Mine Rescue Scheme.

We have occupational health providers who carry out extensive health surveillance in order to enhance our development of risk control strategies, as the health of our employees, within an ageing workforce, is key to the success of the business. Health surveillance includes a formal drugs and alcohol policy.

Health and safety training is, in the main, a standards based process and the programmes ensure all persons are updated with current best practice. Training is primarily contracted out to professional providers. A full review of the Group's health and safety training needs is being undertaken to ensure

PICTURED

Left:
CCTV cameras fitted to free-steered vehicles used to carry equipment underground are eliminating "blind spots" for drivers.

Above:
Some of the latest apprentices who have started their studies to become future electrical and mechanical engineers at our collieries pictured with Billy Sheffield, Development Manager.

that the behavioural needs of our workforce are supported alongside our core training programmes. The Group along with the industry is investing in new NVQ qualifications to meet the future and continuing needs, to develop and demonstrate, against national standards, the competency of all our employees.

EMPLOYEES

It is essential that we have a skilled and motivated workforce to ensure the long-term success of the business. We aim to attract, retain and motivate the highest calibre of employees within a structure that encourages their development and personal initiative.

We currently employ 3,152 people (2007: 3,100). We have maintained our policy of maximising the re-deployment of skilled and experienced mineworkers.

We continue to review working practices to meet the ever changing needs of the business, backed by training and refresher courses to further develop employee skills and safe working practices.

Regular dialogue was also maintained with the mining trade unions, particularly at operational level where the specific requirements of each individual unit have more readily been addressed. As part of our communications strategy, we have continued to produce our NewScene newspaper on a regular basis, distributed free to employees to achieve a common awareness of the financial, economic and operational factors affecting business unit and Group performance. To further facilitate communication, we are updating our Group intranet facility with a view to improving colleagues' access to relevant information and promoting the sharing of best practice throughout the Group.

We remain committed to all aspects of equal opportunities, recognising the value of a positive approach to diversity. To this end, we are committed to providing equal opportunity in recruitment, promotion, career development, training and reward to all employees without discrimination and continue to be supportive of the employment of disabled persons in accordance with their abilities and aptitudes, provided that they can be employed in a safe working environment.

ENVIRONMENT

The Environmental Policy commitments of the Group 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.

The first three-year period of certification to ISO 14001 for all surface and deep mined sites was reached at the end of 2007. The programme for expanding the ongoing continuous certification saw the inclusion of both the Mining Services department and Harworth Estates early in 2008. Increasing the coverage 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, reuse and recycling continue to show positive benefits to the environment.

The Group's commitment to minimising greenhouse gas emissions continues, and is improved through projects such as the use of methane gas from deep mines to generate electricity, and where this is not feasible we flare the methane. This assists in the UK meeting its responsibilities to reduce greenhouse gas emissions under the Kyoto agreement, as well as reducing power costs on the Group's sites.

The Environment Department liaises with our suppliers through the purchasing function to look at ways of encouraging environmentally sustainable practices throughout the supply chain; of growing significance is the need to reduce waste packaging. The Environment Manager is an active participant in the CBI East Midlands Environment Committee, which meets regularly with like-minded companies to share good environmental practice.

The success of our policies is judged internally by the use of internal performance indicators based on established criteria provided by DEFRA. These have been introduced throughout the ongoing mining sites where appropriate reduction programmes and data collection will help us achieve our objectives. Specific environmental success stories from ongoing mines in 2008 included a 5% reduction in waste sent to landfill sites and an increase in recycled wastes of 3% when compared to 2007. The volume of recycled paper increased in 2008, to the equivalent of the previous two years combined.

SOCIAL AND COMMUNITY ISSUES

We have maintained our philosophy of supporting suitable community projects focused on the surface and deep mines and also on major property development operating at the heart of the communities in which they are based. In addition to the Community Fund commitments providing support for projects to those living close to surface mine sites, charitable donations in the year totalled £44,732 (2007: £4,200).

This year, we have again agreed to match awards made by the Miners Welfare National Educational Fund pound-for-pound to the families of former and current employees studying full-time at a university or college or on a designated course of higher education. Each year, the fund provides grants of around £50,000, with UK COAL contributing over £27,000 in 2008 to 83 successful applicants.

This initiative has been warmly welcomed by the communities in which we work and by the individuals that have received the support. This figure is included in the above charitable donations sum. In Derbyshire, as a Community project, we have now completed the stabilisation of a medieval stronghold of bygone Britain, the Codnor Castle and Monument which dates back to shortly after the Norman Conquest of 1066. Around £1.5 million has been spent on stabilising the castle and the nearby Jessop Monument tower and hall.

Community fund projects associated with current approved surface mine schemes are providing access to funding totalling around £2 million to be allocated to local good causes. Surface mines schemes currently within the planning process could provide a further £800,000 of community funding if the schemes are approved.

Each year we typically plant up to 500,000 young trees on our restored surface mine sites and other land. In the last decade, we planted over 4 million trees — 1.1 million in the North East, 1.1 million in Yorkshire and 1.8 million in the Midlands. We have also planted around 0.4 million in Scotland and the North West.

Contributions were also made to a wide range of individual and team activities, individual and Group events and sporting and academic aspirations affecting all age groups. It is anticipated that a similar level of donations will be sustained in 2008.

PICTURED Below:
A donation being made to the Codnor Castle Preservation Society following completion of the work to stabilise the remnants of the medieval stronghold as part of the former Forge and Monument surface mine operations in Derbyshire.

Board of Directors

DAVID JONES
Aged 66, he was appointed to the Board as a non-executive director in January 2003 and became Chairman in April 2003. He has extensive experience in the electricity supply industry and was Chief Executive at The National Grid Company PLC until March 2001. He is currently a non-executive director of United Utilities PLC.

JON LLOYD
Aged 52, he was appointed as Chief Executive on 1 September 2007, having joined the Board as Property Director in July 2006. He is a Chartered Surveyor and was Head of Property at HBOS PLC. He was formerly Regional Managing Director for the North Region at DTZ Debenham Thorpe, and held senior roles at Yorkshire Water PLC, where he was Managing Director of Yorkshire Water Estates Limited, and Rosehaugh Heritage PLC.

DAVID BROCKSOM
Aged 48, he was appointed Finance Director with effect from 18 September 2007. He qualified as a Chartered Accountant with Price Waterhouse and was previously Finance Director of Pace Micro Technology PLC and Avesco PLC.

PETER HAZELL
Aged 60, Chairman of the property developers Argent Group PLC, he joined the Board in September 2003 as a non-executive director. He is also a non-executive director of Brit Insurance Holdings PLC and Smith & Williamson Limited and a member of the Competition Commission. Previously he was UK Managing Partner of PricewaterhouseCoopers and spent his early career at Coopers & Lybrand and Deloitte Haskins & Sells. He is Chairman of the Audit Committee and the Senior Independent Director.

CHAIRMAN
David Jones†*

CHIEF EXECUTIVE
Jon Lloyd†#

FINANCE DIRECTOR
David Brocksom

NON-EXECUTIVE DIRECTORS
Peter Hazell‡†*
Michael Toms‡†*#
Kevin Whiteman‡†*#
Owen Michaelson

SECRETARY AND REGISTERED OFFICE
Richard Cole
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COMPANY REGISTERED NO.
2649340

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FINANCIAL ADVISERS
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Cleveland House
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London
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STOCKBROKER
Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

MIKE TOMS
Aged 55, he joined the Board as a non-executive director and Chairman of the Remuneration Committee with effect from 3 May 2006. He is a Chartered Surveyor, Town Planner and Economist by background and was formerly Group Director, Planning and Regulatory Affairs and Board member at BAA PLC. He is Chairman of Northern Ireland Electricity PLC, 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.

KEVIN WHITEMAN
Aged 52, he is Chief Executive of Kelda Group Limited and joined the Board as a non-executive director on 1 June 2007. He secured a degree in mining engineering at University College, Cardiff and started his career at British Coal. He joined the National Rivers Authority in 1993, becoming Chief Executive in 1995, before spending a year as Regional Director of the Environment Agency. In 1997, he joined Yorkshire Water and was appointed Chief Executive of Kelda Group in 2002. He is Chairman of the Safety Committee.

OWEN MICHAELSON
Aged 42, he was appointed to the Board as a non-executive director with effect from 2 October 2007. He is a Chartered Surveyor and is Corporate Development Director of the Peel Holdings Group of companies. He has specialised in the remediation and development of brownfield and contaminated land, waste management operations and power generation. He is a member of the Coal Forum and a former Chair of the RICS Waste Policy Panel.

SOLICITORS
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REGISTRARS
Equiniti Limited
Aspect House
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BANKERS
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6 East Parade
Leeds
LS1 2UX

Lloyds TSB
6–7 Park Row
Leeds
LS1 1NX

Bank of Scotland
8th Floor
40 Spring Gardens
Manchester
M2 1EN

‡ Audit Committee
† Nomination Committee
* Remuneration Committee
# Safety Committee

Directors' Report

The directors present their report and the audited financial statements for the year ended December 2008. These will be laid before the Annual General Meeting to be held on 19 June 2009. Details of all resolutions to be proposed at the 2009 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 consolidated income statement for the year is set out on page 74.

The Chairman's Statement and the Operating and Financial Review on pages 4 to 47 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
- Principal risks and uncertainties faced by the Group (pages 45 to 47)
- Key Performance Indicators used to measure the Group's performance
- Environmental and employee priorities facing the Group
- Group's future development and outlook for 2009

DIVIDENDS PER ORDINARY SHARE

There was no dividend paid during the year (2007: £nil). The directors are not recommending the payment of a final dividend in respect of the 2008 financial year (2007: £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.

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 Accounts.

DIRECTORS

The directors who served during the year were: David Brocksom, Peter Hazell, David Jones, Jon Lloyd, Owen Michaelson, Mike Toms and Kevin Whiteman.

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 2009 Annual General Meeting, Peter Hazell and Mike Toms 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 on page 60 of the Corporate Governance Report.

The interests of the directors in the shares of the Company are shown in the report on directors' remuneration on page 71. The biographical details of the current directors are shown on pages 52 to 53.

CHARITABLE DONATIONS

The contributions made by the Group during the year for charitable purposes were £44,732 (2007: £4,200). No political donations were made in 2008 (2007: £nil). Charitable donations made were predominantly to associations and charities involved with the coal industry and local communities.

EMPLOYEES

The Group's policy is to consult and discuss with employees on matters likely to affect their interests. A newspaper is 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

It is the Group's policy to give full 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.

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 on pages 48 to 50 of the Corporate Social Responsibility section.

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.

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 binding contracts and to keep to the payment terms provided the relevant goods or services have been supplied in accordance with the contracts.

The Group had 58 days' purchases outstanding at December 2008 (2007: 68 days) based on the average daily amount invoiced by suppliers during the year.

ETHICAL POLICY

UK COAL is committed to working with our 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.

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.

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

The directors have been notified of the following substantial shareholdings as at 27 April 2009.

Company	Date of notification	No. of shares	% of issued share capital
Goodweather Holdings Limited*	31.10.08	44,058,000	28.02
Lazard Asset Management LLC	20.10.08	10,746,084	6.83
Artemis Investment Management Limited	29.11.07	8,568,386	5.45
Ameriprise Financial Inc	20.10.08	7,853,895	4.99
Legal & General Group PLC	09.04.09	6,111,937	3.88

* Member of Peel Holdings.

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.

At the Annual General Meeting of the Company held on 20 May 2008, the directors were authorised to allot new shares up to an aggregate nominal amount of £250,000. A similar resolution will be proposed at the next Annual General Meeting (full details are available in the 2009 Notice of Annual General Meeting).

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 and entitled to vote shall have 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 certified 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 certified 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 certified 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 respect of a share on which the Company has no lien; and (iv) is in favour of not more than four transferees. Transfers of uncertified shares must be carried out using the relevant system and the Board can refuse to register a transfer of an uncertified 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 employee share schemes can be found in the Directors' Remuneration Report on page 67.

PURCHASE OF OWN SHARES

At the Annual General Meeting of the Company held on 20 May 2008, shareholders gave the Company permission, until the conclusion of the next Annual General Meeting to the Company, to purchase up to 15,712,822 ordinary shares of 1 pence of the Company. No such purchases were made during the year. The Directors will seek renewal of this authority at the Annual General Meeting to be held on 19 June 2009 (full details are available in the 2009 Notice of Annual General Meeting).

NEW ARTICLES OF ASSOCIATION

To take account of changes in English Company Law brought about by the phased implementation of the Companies Act 2006, the directors will be seeking authority from shareholders at the Annual General Meeting to approve revised Articles of Association to take effect from 1 October 2009.

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 and revolving credit facilities provided to Harworth Estates (Waverley Prince) Limited by Bank of Scotland among others relating to the redevelopment of the Prince of Wales, Pontefract and Waverley/ Orgreave, Rotherham sites contains mandatory prepayment provisions on 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 on 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 on a change of control of the Company.

- 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

The accounts are prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares a working capital forecast based upon its assumptions as to trading as well as taking into account the available borrowing facilities in line with the Treasury Policy above. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties, both as summarised in the Operating and Financial Review. 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 current production levels. Consequently, unexpectedly large interruptions or prolonged reductions to production can have a material adverse impact on cash flow.

- Although the vast majority of coal production for 2009 is on fixed or capped/floor pricing bases, revenues in respect of certain floating rate 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 an increased risk of unpredictability in coal revenues and cash flows.

- The new contractual arrangements with its customers entered into since the year end are noted in the Operating and Financial Review. These arrangements provide increased funding to the Group either in the form of prepayments or loans and are noted in the Operating and Financial Review. Certain of these arrangements contain pre-conditions as to the availability and timing of this increased funding including the obligation to make certain investments in the mines. The Board has taken the likelihood of these conditions being met into account in assessing the likely availability and timing of funding. If these conditions were not met this could have a material adverse effect on the availability or timing of additional funding.

- Given recent general banking market difficulties, the Board has to take account of the ability of the Group to access new or extended banking facilities. Certain facilities of £50 million and £52 million expire in May 2010 and September 2010 respectively. The Group is already actively engaged in seeking to replace and extend these facilities. Meetings have taken place with a number of banks and leasing institutions in respect of both these facilities and new finance lease arrangements and the Board is very encouraged by these discussions.

- Existing bank funding arrangements contain, in certain cases, covenants based upon loan to property value and net asset covenants. Given the current volatility of the general property market, the market deterioration could outpace any planning gains, possibly resulting in a fall in property and net asset values. Similarly net asset values would be affected by adverse changes in profit expectations. In the event that this happens, the Group could breach these covenants which could result in the need to pay down in part some of these loans or a renegotiation of terms or, *in extremis*, a reduction or withdrawal of facilities by the banks concerned.

Whilst 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, it has concluded that the Group has adequate working capital and therefore confirms its belief that it is appropriate to use the going concern basis of preparation for the financial statements of the Group and the parent company. 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.

AUDITOR AND DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor in connection with preparing its report) of which the Company's auditor is 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 auditor to the Company will be proposed at the Annual General Meeting.

By order of the Board

Richard Cole
Company Secretary
27 April 2009

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 regulation. Under the 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.

The directors consider that in preparing the financial statements on pages 74 to 123 the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and comply with IFRSs as adopted by the European Union.

The directors have responsibility for ensuring that the Company and Group keep accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group and which enable them to ensure that the financial statements comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulations. 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 Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The directors are responsible for the maintenance and integrity of the website.

It is accepted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board confirms to the best of its knowledge:

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

Corporate Governance

The Company recognises the importance of, and is committed to, high standards of Corporate Governance and the following sections explain how the Company 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 Company has complied with the provisions set out in the Combined Code throughout the year ended December 2008.

THE BOARD OF DIRECTORS

The Company is headed by a Board of Directors, comprising the Chairman, two executive directors and four non-executive directors, three of whom are determined by the Board to be independent. The Board recognises that Owen Michaelson, who is a Director of Peel Holdings which is the major shareholder in the Group, is not independent. The offices of Chairman and Chief Executive are held separately, and both officers have clearly defined roles and responsibilities.

The Chairman is 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 Chief Executive is responsible for running the Group's business and for implementing the Board strategies and policies. 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 independent non-executive directors bring strong judgement and considerable knowledge and experience to the Board's deliberations. It is further considered that Owen Michaelson's skills and experience are extremely relevant to the business and he contributes to the realisation of the Group's strategy. The non-executive directors have no financial or contractual interests in the Company, other than interests in ordinary shares as disclosed in the Directors' Remuneration Report. Non-executive directors are offered the opportunity to attend meetings with major shareholders and would attend them if requested by major shareholders.

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

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors. Further, there are indemnities between the 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 71. The biographical details of the current directors are shown on pages 52 to 53.

ATTENDANCE AT BOARD MEETINGS

Attendance by individual directors at meetings of the Board and its Committees during 2008 is shown in the table below:

	Board		Audit		Remuneration		Nomination		Safety	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
D H Jones	11	11	—	—	4	4	1	1	—	—
J S Lloyd	11	11	—	—	—	—	1	1	5	5
D G Brocksom	11	11	—	—	—	—	—	—	—	—
P F Hazell	11	11	4	4	4	4	1	1	—	—
R O Michaelson	11	11	—	—	—	—	—	—	—	—
M R Toms	11	11	4	4	4	4	1	1	5	5
K I Whiteman	11	10	4	3	4	3	1	1	5	5

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 Company's website. Board and committee papers are circulated in advance of each meeting so that all directors are fully briefed. Papers are supplemented by reports and presentations to ensure that Board members are supplied in a timely manner with the information they need.

Nomination Committee

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

The Committee's members are the independent non-executive directors and the Chairman, together with the Chief Executive. 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.

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 on page 65.

Audit Committee and Auditors

The Audit Committee comprises Peter Hazell (Chairman), Mike Toms and Kevin Whiteman. 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, the Chief Executive, the Finance Director, the Group Internal Audit Manager 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 Company's accounting and financial reporting practices, the work of the 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 the internal audit function 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 Company's website. The Group Internal Audit Manager has a direct reporting line to the Committee.

The auditors throughout 2008 has been PricewaterhouseCoopers LLP.

Fees to PricewaterhouseCoopers LLP:

	2008	2007
	£000	£000
Audit fees	**290**	348
Other fees	**202**	165
Tax compliance and advice services	**111**	212
	603	725

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 auditor will not, as a general rule, provide consulting services. 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.
- The Audit Committee reviews on a regular basis all fees paid for audit, and all consultancy fees, with a view to assessing reasonableness of fees, value of delivery, and any independence issues that may have arisen or may potentially arise in the future.
- The auditor's reports 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 Company 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 Kevin Whiteman (Chairman), Mike Toms and Jon Lloyd and meetings are attended by all relevant senior managers.

OTHER MEETINGS

In accordance with best practice, the Chairman has regular 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 formal induction training on joining the Company and access to further training is made available. The Company provides the necessary internal and external resources to enable directors to develop and update their knowledge and capabilities.

PERFORMANCE EVALUATION

The Board and its committees have conducted a self-evaluation of their performance and effectiveness and have both identified and addressed matters requiring attention. 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 has responsibility for the appraisal of the performance of the non-executive directors and the Chief Executive. The Chief Executive has 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. Its membership is as follows:

Chief Executive	Jon Lloyd
Finance Director	David Brocksom
Production Director	Bill Tinsley
Human Resources and Communications Director	Norman Haslam
Commercial Contracts Director	Philip Garner
Company Secretary	Richard Cole

DIRECTORS' CONFLICT OF INTEREST PROCEDURES

With effect from 1 October 2008, a director has a duty under the Companies Act 2006 ("CA 2006") to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the existing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The CA 2006 allows directors of public companies to authorise conflicts and potential conflicts where the Articles of Association contain a provision to that effect. Shareholders approved amendments to the Company's Articles of Association at the Annual General Meeting held on 20 May 2008 which included provisions giving the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the position that existed before 1 October 2008. The Board has a procedure when deciding whether to authorise a conflict or potential conflict of interest. Firstly, only independent directors (i.e. only those that have no interest in the matter under consideration) will be able to take the relevant decision. Secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. In addition, the directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

RELATIONS WITH SHAREHOLDERS

The Company 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.

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 24 March 2009, 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. The Board receives regular reports from the Internal Audit and Health & Safety Management departments. These reports identify areas of risk exposure, recommendations made and actions implemented. They also highlight new areas of legislation that will impact on the risk profile of the Group, and provide 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 to 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 — 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 Company 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.

- 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

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

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

The Audit Committee reviews internal audit reports and corporate governance matters. The internal audit plan is based on the annual assessment of risks as reviewed by the Board and is not limited to financial systems. Reports give 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.

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

INTRODUCTION

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report provides details of UK COAL's Remuneration Policy. The second part provides details of the remuneration, service contracts and share interests of all the directors for the year ended December 2008. The Remuneration Report is unaudited unless otherwise disclosed. The directors confirm that the Remuneration Report has been drawn up in accordance with the Directors' Remuneration Report Regulations 2002 and the Combined Code (2006) on Corporate Governance ("Combined Code").

REMUNERATION COMMITTEE

Responsibility for reviewing Group remuneration strategy and policy, recommending any changes and approving individual remuneration packages for the Chairman, executive directors and members of the Executive Management Committee rests with the Remuneration Committee ("Committee"). The Committee consists of independent non-executive directors and the Chairman and meets on at least 2 occasions each year. The members in 2008 were: Mike Toms (Committee Chairman), Peter Hazell, David Jones 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) and Norman Haslam (HR Director) provided information to the Committee during the year.

The Committee also meets without management and receives information and independent executive remuneration advice from remuneration consultants, Hewitt New Bridge Street ("HNBS"), who were appointed by the Committee. HNBS does not provide any other services to the Group. Neither the Chairman nor the executive directors participate in discussions relating to their own remuneration. The Committee liaises with the Audit Committee where appropriate, including confirmation of the Group's financial performance to assist in determining whether performance targets and measures have been achieved.

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

DIRECTORS' REMUNERATION POLICY

The policy of the Committee recognises that the Company requires high quality and committed executive directors and other senior executives in order to deliver appropriate levels of performance. The Committee therefore conducts its work to determine the appropriate remuneration levels and structure consistent with the need to attract, motivate and retain executive directors of the high quality required to further the Company's interests and to optimise long-term shareholder value creation.

The executive directors' remuneration comprises a base salary, an annual performance bonus, participation in a Long Term Incentive Plan, a car or car allowance, pension contributions to a defined contribution pension scheme or a pension allowance and health insurance. Bonus payments and benefits in kind are not pensionable.

This remuneration policy is expected to apply to 2009 and beyond.

The Company is required to seek shareholder approval for this report, and to put forward any new incentive schemes for shareholder approval at the Annual General Meeting. There are no changes proposed to the remuneration policy for 2009.

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

CHAIRMAN

The Chairman receives fees commensurate with his duties, which include: managing the business of the Board and its Committees, maximising long-term shareholder value by reviewing short-term performance, risk management and long-term development of the Group, ensuring that corporate governance is in line with best practice, ensuring a management succession process is in place and working, making recommendations on the remuneration of all other non-executive directors and agreeing with the Chief Executive the most appropriate role of the Chairman vis-à-vis stakeholders including government, shareholders, the financial community, customers, competitors, potential and actual partners, trade unions, employees, the media and the wider community. Following a review, it has been agreed that the Chairman's fee of £150,000 per annum will not increase in 2009.

EXECUTIVE DIRECTORS

Remuneration Mix

An appropriate balance is maintained between fixed remuneration and "at risk" (performance-related) remuneration. Performance-related remuneration is made up of short-term and long-term incentives (further details of which are given below) and represents approximately 40% of Jon Lloyd's and David Brocksom's remuneration packages (based on target performance). If maximum performance thresholds are reached under the short-term and long-term incentives, performance-related remuneration represents approximately 55–60% of their packages.

Base Salaries

Executive directors' salaries are reviewed by the 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. To express personal leadership, both Mr Lloyd and Mr Brocksom have elected to forgo a pay increase for 2009. Hence, their base salaries remain at £375,000 and £234,675 per annum respectively.

Annual Bonus

The annual bonus provides an incentive opportunity in the range of 0% to 80% (Chief Executive) and 0% to 75% (for other executive directors) of base salary. At the start of the incentive year (1 January), the 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 targets in 2008 were cash flow, profit, growth in property net asset value, safety and personal performance. There was no payment in respect of the first 4 targets and the bonus below is in respect of the personal performance element only. Both Mr Lloyd and Mr Brocksom were set challenging personal targets. The performance against these targets reflected strong management and leadership in a challenging business environment.

In respect of 2008, Jon Lloyd will receive a bonus of £45,000 (2007: £168,327) and David Brocksom will receive a bonus of £24,641 (2007: £33,936 for the period from 18.9.2007). The bonus for the period represents 12% of basic pay for Jon Lloyd and 10.5% of basic pay for David Brocksom.

In 2009 the following measures will be applied for each director in the proportions shown:

	Cash flow (%)	Profit (%)	Group coal sales (%)	Safety (%)	Personal (%)
Jon Lloyd	35	20	10	20	15
David Brocksom	40	25	—	20	15

Long Term Incentive Plan ("LTIP")

Under the terms of the current LTIP, an award of shares up to a maximum value of 100% of base salary is conditionally allocated to each executive director. It is anticipated that grant levels in 2009 will be 60% of base salary for Jon Lloyd and 60% of base salary for David Brocksom, which are lower than in 2008.

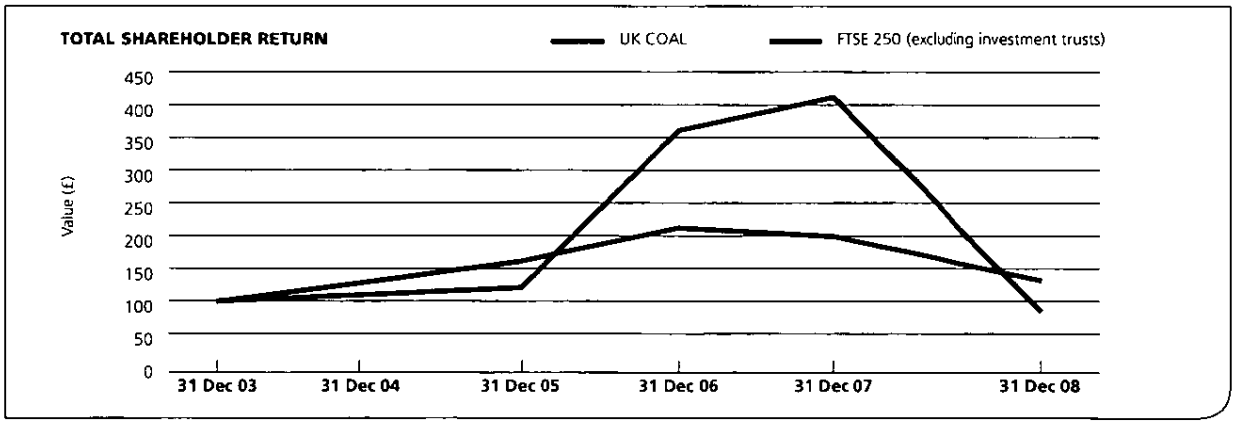
These shares are released to the executive 3 years from the date of grant of award, contingent upon the Group achieving predetermined levels of performance, with performance being measured as in the Company's Total Shareholder Return ("TSR") over a 3 year period. It is anticipated that the performance condition attached to awards to be made in 2009 will require TSR of between 75% and 150% over the 3 year performance period, which represents a significant increase on the range applied to awards granted in 2008 of between 25% and 75%. TSR is calculated using a 2 month averaging period prior to the beginning and end of the performance period. In addition and in order for any shares to vest, the Company must achieve earnings per share growth of at least 3% over RPI per annum over the performance period. The executive director must remain in post throughout the 3 year period (subject to exceptions as set out in the plan) in order to be entitled to this award.

The TSR performance of the Company will be independently calculated and then verified by the Committee.

TSR was chosen as the performance condition for the LTIP since it aligns the interests of executives with those of shareholders. The Committee considers absolute TSR to be the most appropriate performance measure given the lack of meaningful comparator companies for the Company and that this provides the most rounded and meaningful assessment of performance of both the mining and property interests of the Company.

LTIP awards may be satisfied with newly issued shares, or shares purchased in the market.

Performance Graph



Source: Thomson Financial

The above graph displays the value, by the end of 2008, of £100 invested in the Company on 31 December 2003 compared with the value of £100 invested in the FTSE 250 Index (excluding investment trusts). The other points are the values at intervening financial year-ends.

For most of 2008, UK COAL was a member of the FTSE 250 Index. Accordingly, this has been selected as the most appropriate index against which to compare UK COAL's return to shareholders in the absence of any more specific sector index.

Other Terms and Conditions of Service

The executive directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate executive directors of the quality required to manage the Group. The Committee considers that a notice period of no more than 1 year is appropriate. It is the Company's policy not to enter into service contracts that provide written notice of more than 1 year.

In respect of Jon Lloyd employment will continue until terminated by the Company giving the executive not less than 12 months written notice, or by the executive giving the Company not less than 6 months written notice. David Brocksom's contract shall continue until either party terminates it by not less than 12 months notice in writing.

When calculating termination payments, the Committee takes into account a variety of factors including individual and Group performance, the obligation of the executive director to mitigate his own loss (for example by gaining new employment), the executive director's age and his length of service 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 to executive directors on a change of control.

Any payments made pursuant to these provisions will be made less any deductions the employer is required to make and shall be in full and final settlement of any claims the executive director may have against the employer or any associated company arising out of the termination of employment except for any personal injury claim, any claim in respect of accrued pension rights or statutory employment protection claims.

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 3 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 3 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 2009.

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 2008)	Notice period
Chairman			
David Jones	12.12.08	3 years	3 months
Executive directors			
Jon Lloyd	01.07.06	Rolling 1 year	1 year
David Brocksom	04.09.07	Rolling 1 year	1 year
Non-executive directors			
Peter Hazell	31.08.06	9 months	3 months
Owen Michaelson	01.10.07	1 year 9 months	3 months
Mike Toms	13.04.06	4 months	3 months
Kevin Whiteman	29.05.07	1 year 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 27 DECEMBER 2008*

	Salary/ fees £000	Allow-ances £000	Annual bonus £000	Benefits in kind £000	Total 2008 £000	Total 2007 £000
Chairman						
David Jones	146	—	—	—	**146**	140
Executive directors						
Jon Lloyd[(i)]	375	20	45	12	**452**	498
David Brocksom[(ii)]	235	10	25	5	**275**	124
Non-executive directors						
Peter Hazell	43	—	—	—	**43**	39
Owen Michaelson	38	—	—	—	**38**	8
Mike Toms	43	—	—	—	**43**	39
Kevin Whiteman	43	—	—	—	**43**	20

[(i)] Jon Lloyd received £6,325 which represented the balance of his relocation expenses entitlement and this is included in benefits in kind listed above. He also received a car allowance of £20,000 which is included in allowances above.

[(ii)] David Brocksom received a car allowance of £10,000 which is included in allowances above.

[(iii)] Other than disclosed in points (i) and (ii) above, benefits in kind comprise car benefits and health insurance.

PENSION CONTRIBUTIONS*

Executive directors are entitled to receive a pension contribution at the rate of 30% of base salary. During the year Jon Lloyd was a member of the UK COAL money purchase pension scheme. The money purchase scheme does not provide additional post-retirement benefits (including contingent death benefits).

Pension contributions on behalf of executive directors were as follows:

	Pensions contributions 2008 £000	Pensions contributions 2007 £000
Jon Lloyd	**109**	78
David Brocksom	**70**[(i)]	—
	179	78

[(i)] This was paid to Mr Brocksom's personal pension arrangements.

LONG TERM INCENTIVE PLAN*

	Interest at Dec 2007	Interest awarded during the year[i]	Interest lapsed during the year	Interest matured during the year	Interest at Dec 2008[ii]	Vesting date	End of perform-ance period
Jon Lloyd							
Executive LTIP 2006[iii]	65,060	—	65,060	—	—	03.07.09	Dec 2008
Executive LTIP 2007[iv]	27,789	—	—	—	27,789	02.03.10	Dec 2009
Executive LTIP 2007[iv]	39,560	—	—	—	39,560	18.09.10	Dec 2009
Executive LTIP 2008[iv]	—	82,599	—	—	82,599	22.04.11	Dec 2010
Total	132,409	82,599	65,060	—	149,948		
David Brocksom							
Executive LTIP 2007[iv]	44,955	—	—	—	44,955	18.09.10	Dec 2009
Executive LTIP 2008[iv]	—	51,690	—	—	51,690	22.04.11	Dec 2010
Total	44,955	51,690	—	—	96,915		

[i] The market value of the shares awarded, at the date of the awards for Messrs Lloyd and Brocksom, on 22 April 2008, was 452.5p.

[ii] The exercise price of all outstanding awards is £nil.

[iii] The performance conditions for 2006 awards required absolute TSR growth of 75% or above (for 30% vesting), 100% or above (for 50% vesting) and 150% or above (for full vesting), 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 have not been achieved and hence Mr Lloyd's award has lapsed.

[iv] The performance conditions for 2007 and 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.

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 December 2008	Beneficial interest in ordinary shares at December 2007
David Jones	**35,000**	10,000
Jon Lloyd	**25,000**	—
David Brocksom	**18,500**	—
Peter Hazell	**—**	—
Owen Michaelson	**25,861**	—
Mike Toms	**4,000**	—
Kevin Whiteman	**10,000**	—

There have been no changes in directors' interests in shares between the end of the year and 27 April 2009.

The market value of the Company's shares during the year ranged from 51.5p to 585.5p. The market value on 27 December 2008 was 93p.

EXTERNAL APPOINTMENTS

None of the executive directors held positions as non-executive directors with other companies during 2008.

This report has been approved by the Board for submission to shareholders at the Annual General Meeting to be held on 19 June 2009, and signed on behalf of the Board by Mike Toms.

By order of the Board

Mike Toms
Chairman, Remuneration Committee
27 April 2009

Independent Auditor's Report to the Members of UK COAL PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of UK COAL PLC for the year ended 27 December 2008 which comprise the consolidated income statement, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

The Directors are responsible for the maintenance and integrity of the Company's website. The maintenance and integrity of the UK COAL PLC website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Highlights, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 27 December 2008 and of its loss and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 27 December 2008 and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

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.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Leeds

27 April 2009

Consolidated Income Statement

for the year ended 27 December 2008

	Notes	**Year ended 27 December 2008 £000**	Year ended 29 December 2007 £000
Revenue	2	**392,541**	328,485
Cost of sales		**(389,699)**	(319,218)
Gross profit		**2,842**	9,267
Net appreciation in fair value of investment properties		**23**	66,799
Profit on disposal of investment properties		**3,661**	3,688
Gains on investment properties		**3,684**	70,487
Profit on sale of business	30	**—**	8,481
Other operating income and expenses	4	**(8,774)**	(5,579)
Operating (loss)/profit	2	**(2,248)**	82,656
Finance costs	6	**(17,817)**	(17,121)
Finance income	6	**2,919**	2,951
Finance costs — net	6	**(14,898)**	(14,170)
Share of post-tax profit from joint venture	14	**1,503**	537
(Loss)/profit before tax	3	**(15,643)**	69,023
Tax (charge)/credit	8	**(100)**	25,000
(Loss)/profit for the financial year		**(15,743)**	94,023
Attributable to:			
Equity holders of the Company		**(15,743)**	94,023
(Loss)/earnings per share		**pence**	pence
Basic and diluted	11	**(10.0)**	59.9

Consolidated Statement of Recognised Income and Expense

for the year ended 27 December 2008

	Notes	**Group Year ended 27 December 2008 £000**	Group Year ended 29 December 2007 £000	**Company Year ended 27 December 2008 £000**	Company Year ended 29 December 2007 £000
Actuarial (loss)/gain on defined benefit pension schemes	24	**(33,900)**	35,733	—	—
Actuarial gain on Blenkinsopp pension scheme	24	**262**	464	—	—
Actuarial (loss)/gain on concessionary fuel reserve	24	**(4,911)**	1,280	—	—
Movement on deferred tax asset relating to retirement benefit liabilities	8	**(2,257)**	(22,012)	—	—
Movement on deferred tax asset relating to cash flow hedges	8	**2,378**	—	—	—
Impact of change in UK tax rate on deferred tax	8	—	(2,383)	—	—
Revaluation of property transferred from operating to investment properties	13	**3,170**	6,733	—	—
Cash flow hedges		**(7,354)**	—	—	—
Net (loss)/gain recognised directly in equity		**(42,612)**	19,815	—	—
(Loss)/profit for the financial year		**(15,743)**	94,023	**(168,440)**	(1,867)
Total recognised (expense)/income for the year		**(58,355)**	113,838	**(168,440)**	(1,867)
Attributable to:					
Equity holders of the Company		**(58,355)**	113,838	**(168,440)**	(1,867)

Balance Sheets

at 27 December 2008

	Notes	**Group As at 27 December 2008 £000**	Group As at 29 December 2007 £000	**Company As at 27 December 2008 £000**	Company As at 29 December 2007 £000
ASSETS					
Non-current assets					
Operating property, plant and equipment	12	**181,801**	199,551	—	—
Surface mine development and restoration assets	12	**28,479**	20,111	—	—
		210,280	219,662	—	—
Investment properties	13	**404,658**	384,291	—	—
Investments in subsidiaries	14	—	—	**300,310**	473,224
Investment in joint ventures	14	**2,778**	342	—	—
Deferred tax asset	8	**36,121**	36,000	—	—
Trade and other receivables	15	**1,527**	1,613	—	—
		655,364	641,908	**300,310**	473,224
Current assets					
Inventories	16	**46,752**	39,756	—	—
Trade and other receivables	17	**39,991**	29,953	**155,463**	166,101
Derivative financial instruments	22	—	424	—	424
Cash and cash equivalents	18	**71,102**	70,068	**40,682**	20,063
		157,845	140,201	**196,145**	186,588
LIABILITIES					
Current liabilities					
Borrowings	19	**(7,306)**	(27,320)	—	—
Trade and other payables	20	**(104,052)**	(100,213)	**(224,308)**	(217,618)
Provisions	21	**(35,206)**	(31,061)	—	—
		(146,564)	(158,594)	**(224,308)**	(217,618)
Net current assets/(liabilities)		**11,281**	(18,393)	**(28,163)**	(31,030)
Non-current liabilities					
Borrowings	19	**(172,057)**	(97,921)	—	—
Derivative financial instruments	22	**(8,493)**	(2,148)	—	(2,148)
Trade and other payables	20	**(139)**	(73)	—	—
Deferred tax liabilities	8	**(815)**	(815)	—	—
Provisions	21	**(80,693)**	(91,141)	—	—
Retirement benefit obligations	24	**(104,016)**	(73,171)	—	—
		(366,213)	(265,269)	—	(2,148)
Net assets		**300,432**	358,246	**272,147**	440,046
Shareholders' equity					
Capital and reserves					
Called up share capital	25	**1,572**	1,571	**1,572**	1,571
Share premium	26	**30,756**	30,756	**30,756**	30,756
Revaluation reserve	27	**130,339**	143,014	—	—
Capital redemption reserve	27	**257**	257	**257**	257
Fair value reserve	27	**175,904**	177,851	—	—
Hedging reserve	27	**(4,976)**	—	—	—
Retained (loss)/earnings	26	**(33,420)**	4,797	**239,562**	407,462
Total shareholders' equity		**300,432**	358,246	**272,147**	440,046

The financial statements on pages 74 to 123 were approved by the Board of Directors on 27 April 2009 and were signed on its behalf by:

J S Lloyd
Chief Executive

D G Brocksom
Finance Director

Cash Flow Statements

for the year ended 27 December 2008

	Notes	**Group Year ended 27 December 2008 £000**	Group Year ended 29 December 2007 £000	**Company Year ended 27 December 2008 £000**	Company Year ended 29 December 2007 £000
Cash flows from operating activities					
(Loss)/profit for the financial year	2	**(15,743)**	94,023	**(168,440)**	(1,867)
Depreciation of property, plant and equipment	12	**37,913**	38,500	—	—
Amortisation of surface mine development and restoration assets	12	**12,583**	8,723	—	—
Net fair value appreciation in investment properties	13	**(23)**	(66,799)	—	—
Net interest payable/(receivable) and unwinding of discount on provisions	6	**14,898**	14,170	**(1,886)**	4,695
Net charge for share-based remuneration		**540**	284	**540**	284
Share of post-tax profit from joint ventures		**(1,503)**	(537)	—	—
Profit on sale of business	30	—	(8,481)	—	—
Profit on disposal of investment properties		**(3,661)**	(3,688)	—	—
Profit on disposal of operating property, plant and equipment		**(82)**	(1,598)	—	—
Capitalised surface mine restoration assets		**(11,077)**	(14,490)	—	—
Decrease in provisions		**(18,265)**	(38,818)	—	—
Tax charge/(credit)	8	**100**	(25,000)	—	—
Provision for impairment of investments	14	—	—	**172,914**	—
Increase in stocks		**(6,996)**	(3,116)	—	—
(Increase)/decrease in receivables		**(9,952)**	17,253	**10,638**	1,490
Increase/(decrease) in payables		**3,805**	(4,304)	**6,690**	30,084
Cash generated from operations		**2,537**	6,122	**20,456**	34,686
Loan arrangement fees paid		**(1,231)**	(1,610)	—	(601)
Interest paid		**(12,518)**	(11,578)	—	(4,669)
Cash (used in)/generated from operating activities		**(11,212)**	(7,066)	**20,456**	29,416
Cash flows from investing activities					
Interest received		**2,919**	2,951	**162**	575
Net receipt from/(payment to) insurance and subsidence security funds		**20,329**	(6,794)	—	—
Net proceeds from sale of business	30	—	21,500	—	—
Proceeds on disposal of investment properties		**6,032**	13,335	—	—
Proceeds on disposal of operating property, plant and equipment		**217**	787	—	—
Net (investment in)/receipts from joint ventures		**(933)**	400	—	—
Development costs of investment properties		**(14,090)**	(7,547)	—	—
Pre-coaling expenditure for surface mines and deferred stripping costs		**(9,874)**	(4,650)	—	—
Purchase of operating property, plant and equipment		**(25,753)**	(23,046)	—	—
Cash (used in)/generated from investing activities		**(21,153)**	(3,064)	**162**	575
Cash flows from financing activities					
Proceeds from issue of ordinary shares		**1**	—	**1**	—
Net drawdown/(repayment) of bank loans		**59,494**	27,223	—	(12,476)
Net (repayments of)/proceeds from obligations under hire purchase and finance leases		**(5,767)**	253	—	—
Cash generated from/(used in) financing activities		**53,728**	27,476	**1**	(12,476)
Increase in cash		**21,363**	17,346	**20,619**	17,515
At January					
Cash		**20,973**	3,627	**20,063**	2,548
Cash equivalents		**49,095**	42,301	—	—
		70,068	45,928	**20,063**	2,548
(Decrease)/increase in cash equivalents (net receipt from insurance and subsidence security funds)		**(20,329)**	6,794	—	—
Increase in cash		**21,363**	17,346	**20,619**	17,515
		71,102	70,068	**40,682**	20,063
At December					
Cash		**42,336**	20,973	**40,682**	20,063
Cash equivalents		**28,766**	49,095	—	—
Cash and cash equivalents	18	**71,102**	70,068	**40,682**	20,063

Notes to the Financial Statements

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 1985 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 taken through the income statement. IFRSs also require an alternative treatment to the historic cost convention in certain circumstances (principally in the areas of retirement benefit obligations, share-based payments and financial instruments).

Trading accounts within the Group are made up to an appropriate week end date around 31 December each year. For 2008, trading is shown for the year ended on 27 December 2008 (2007: year ended 29 December 2007).

The Group has adopted the amendments to IAS 39 'Financial instruments: recognition and measurement' and IFRS 7 'Financial instruments: disclosures' in 2008 with no material impact on either the current or prior period.

In preparing the 2008 financial statements, the following pronouncements which are not yet effective have not been adopted early by the Group or Company.

IFRS 8 'Operating segments'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will not change materially from our current internal reporting provided to the chief operating decision-maker.

IAS 23 (Amended) 'Borrowing costs'. The standard is effective from 1 January 2009 and the amendment to the standard is still subject to endorsement by the EU. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The Group will apply IAS 23 (Amended) from 1 January 2009, subject to endorsement by the EU. The effect on the 2008 accounts would not be material.

Going concern

The accounts are prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares a working capital forecast based upon its assumptions as to trading as well as taking into account the available borrowing facilities in line with the Treasury Policy. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties, both as summarised in the Operating and Financial Review on pages 45 to 47. 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 current production levels. Consequently, unexpectedly large interruptions or prolonged reductions to production can have a material adverse impact on cash flow.

— Although the vast majority of coal production for 2009 is on fixed or capped/floor pricing bases, revenues in respect of certain floating rate 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 an increased risk of unpredictability in coal revenues and cash flows.

— The new contractual arrangements with its customers entered into since the year end are noted in the Operating and Financial Review. These arrangements provide increased funding to the Group either in the form of prepayments or loans and are noted in the Operating and Financial Review. Certain of these arrangements contain pre-conditions as to the availability and timing of this increased funding including the obligation to make certain investments in the mines. The Board has taken the likelihood of these conditions being met into account in assessing the likely availability and timing of funding. If these conditions were not met this could have a material adverse effect on the availability or timing of additional funding.

1 ACCOUNTING POLICIES continued

— Given recent general banking market difficulties, the Board has to take account of the ability of the Group to access new or extended banking facilities. Certain facilities of £50 million and £52 million expire in May 2010 and September 2010 respectively. The Group is already actively engaged in seeking to replace and extend these facilities. Meetings have taken place with a number of banks and leasing institutions in respect of both these facilities and new finance lease arrangements and the Board is very encouraged by these discussions.

— Existing bank funding arrangements contain, in certain cases, covenants based upon loan to property value and net asset covenants. Given the current volatility of the general property market, the market deterioration could outpace any planning gains, possibly resulting in a fall in property and net asset values. Similarly net asset values would be affected by adverse changes in profit expectations. In the event that this happens, the Group could breach these covenants which could result in the need to pay down in part some of these loans or a renegotiation of terms or, *in extremis*, a reduction or withdrawal of facilities by the banks concerned.

Whilst the Board notes that the matters set our above indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern, it has concluded that the Group has adequate working capital and therefore confirms its belief that it is appropriate to use the going concern basis of preparation for the financial statements of the Group and the parent company. The financial statements do not include the adjustments that would result if the Group or parent company were unable to continue as a going concern.

Consolidation

The consolidated financial information incorporates the financial statements of UK COAL ("the Company") and its subsidiaries, together "the Group".

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

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.

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.

Foreign currencies

The presentational currency of the Group is sterling. Transactions in other currencies are translated at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities are translated at year end exchange rates and the resulting exchange rate differences are included in the consolidated income statement within the results of operating activities if arising from trading activities and within finance cost/income if arising from financing.

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

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns or whose operational characteristics, that are different to those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

1 ACCOUNTING POLICIES continued

The Group manages its business primarily by reference to business 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 and our captive insurance company. In addition from 2008, the methane generation operations which were formerly included within a separate Power division are now included within the deep mines segment. 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. As the Group is based and operates in a single geographical market, the United Kingdom, no secondary segmentation is provided.

Revenue

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

Coal transactions

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

A large proportion of production is sold under medium to long-term contracts. Revenue is only recognised on individual sales when all of the significant risks and rewards of ownership have been transferred to a third party. In most instances this is when the product is dispatched, 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 closure, rationalisation and business disposals.

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

Coal Investment Aid

Coal Investment Aid is received as a contribution towards qualifying expenditure, as defined by the Department for Energy and Climate Change ("DECC"), 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.

1 ACCOUNTING POLICIES continued

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 administration purposes
- 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' or if appropriate, in inventories as assets held for disposal.

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 DECC (see accounting policy on property clawback) on deemed disposal. Investment properties are not depreciated.

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

Where the development of investment property commences with a view to sale, the property is transferred from investment properties to 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.

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 amortisation 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.

1 ACCOUNTING POLICIES continued

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 pre-feasibility 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.

On conversion to IFRS, the Group opted to continue to measure operating property, plant and equipment (excluding investment properties) at historic cost, less accumulated depreciation, in the consolidated balance sheet.

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 income statement.

Mines and surface works

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

Seismic and geological mapping costs

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

1 ACCOUNTING POLICIES continued

Surface mine development and restoration assets

Costs incurred prior to coaling for surface mines are capitalised as surface mine development and restoration assets within tangible fixed assets 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
- anticipated coal prices

1 ACCOUNTING POLICIES 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.

Hire purchases and leases — as lessee

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

Hire purchases and 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

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

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

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

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

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

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

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

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.

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.

1 ACCOUNTING POLICIES continued

Trade receivables

Trade receivables are recognised initially at fair value and are subsequently reduced by any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group 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 creditworthiness. Any impairment is recognised in the income statement within 'other operating income and expenses'. When a trade receivable is uncollectible, it is written off against the allowance account.

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

Trade payables

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, DECC is entitled to a percentage of any property gain (above certain thresholds and after deducting an amount representing corporation tax thereon) accruing, or treated as accruing to the Group, as a result of the disposal or deemed disposal or major development of certain properties acquired at privatisation. The percentage applied is 30% for 2008, reducing by 3 percentage points per annum until 31 March 2015, after which date it reduces to zero. If properties are disposed of, or are deemed to have been disposed of during this period, a part of the relevant gain will become payable to DECC. 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 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 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 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.

1 ACCOUNTING POLICIES continued

Employer and public liability claims

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

Redundancy

Provision is made for the estimated present value of redundancy costs when there is a demonstrable commitment to terminate the employment of either an employee or group of employees. The expected amounts of redundancy payments, including any amounts in respect of ex gratia payments, are provided where the employment terminations have been communicated to employees. These costs are charged to the 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 recognised income and expense.

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 recognised income and expense, 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.

On conversion to IFRS, the Group, in recognising fair values of share-based payments to employees, chose to apply the exemption only to include those awards made after 7 November 2002 which had not vested at 31 December 2003 in its calculations at the date of transition.

Taxation

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

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 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 82.

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.

1 ACCOUNTING POLICIES continued

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.

Deferred stripping costs

See accounting policy on page 83.

Capitalisation of exploration and evaluation costs

See accounting policy on page 82.

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 understated or overstated. 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.

Review of asset carrying values and impairment charges

The Group performs impairment testing in accordance with the accounting policy stated on page 83. The calculation of recoverable amounts 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.

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

Revenue

Revenue from operations arises from:	**Year ended December 2008 £000**	Year ended December 2007 £000
Sale of goods	**374,798**	318,671
Rendering of services	**12,624**	5,037
Rental income	**5,119**	4,777
	392,541	328,485

The Board has determined that the primary segmental reporting format is by business segments, based on the Group management and internal reporting structure. As the Group operates in a single geographical market, the United Kingdom, no secondary segmentation is provided. The operations are divided into the following segments:

Deep mining

The Group has 4 operating deep mines in 2008 located in central and northern England. The Group has estimated total reserves and resources of approximately 105 million tonnes. The closed/sold deep mines segment consists of Rossington and Harworth colleries and the Maltby colliery which was sold in 2007. The Group generates electricity from mines methane at both operating and closed sites. In 2008, these operations are included within the deep mining segment for the first time, having been disclosed as a separate segment in previous years. Comparative information has been restated to reflect this change.

Surface mining

The Group has 5 active coaling surface mines and planning consent to mine 3 further sites. Planning consent in respect of surface mine reserves of 11 million tonnes has either already been granted, applied for or is planned to be applied for during 2009.

Property

The Group has a portfolio of approximately 45,000 acres and has identified *circa* 3,700 net acres of this land as offering prime prospects for a mix of business park, residential, distribution and community development. Certain land has been identified as potentially suitable for wind farms and this opportunity is being pursued.

Other

This includes any activities not already included within one of the above segments and any unallocated items.

Segment results, assets and liabilities include items before non-trading exceptional items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items consist mainly of interest-bearing borrowings and taxation.

2 SEGMENTAL REPORTING continued

Primary reporting format — business segments

Year ended December 2008

	Ongoing deep mines £000	Closed/ sold deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other £000	Total £000
Continuing operations							
Revenue — gross	309,103	—	309,103	83,575	5,181	2,195	400,054
Revenue — intra Group	—	—	—	(7,125)	(20)	(368)	(7,513)
Revenue	309,103	—	309,103	76,450	5,161	1,827	392,541
Operating profit/(loss) before non-trading exceptional items	(12,795)	—	(12,795)	10,416	4,706	(489)	1,838
Non-trading exceptional items							
— Rationalisation, closure and other costs	(468)	(3,456)	(3,924)	(162)	—	—	(4,086)
Operating (loss)/profit after non-trading exceptional items	(13,263)	(3,456)	(16,719)	10,254	4,706	(489)	(2,248)
Finance costs							(17,817)
Finance income							2,919
Finance costs — net							(14,898)
Share of post-tax profit from joint ventures							1,503
Loss before tax							(15,643)
Tax charge							(100)
Loss for the year							**(15,743)**
Other segmental items							
Capital expenditure	21,487	—	21,487	3,137	15,219	—	39,843
Depreciation	34,772	—	34,772	2,936	162	43	37,913
Surface mine development costs and restoration assets capitalised	—	—	—	20,951	—	—	20,951
Amortisation of surface mine development and restoration assets	—	—	—	12,583	—	—	12,583
Provisions — non cash charge	6,900	—	6,900	14,370	—	45	21,315

* Closed/sold deep mines includes income and expenditure arising at the Harworth colliery.

Property operating profit includes the net appreciation in fair value of properties of £23,000 and profit on disposal of investment properties of £3,661,000.

Non-trading exceptional items

Rationalisation, closure and other costs are predominantly associated with the deep mines operations and consist of costs of £3,447,000 for Harworth colliery and redundancy costs of £1,072,000, offset by income of £433,000 from the release of provisions following the settlement of HMRC and redundancy disputes, since these were recorded as exceptional costs in prior years.

All trading and non-trading exceptional items are included in cost of sales.

2 SEGMENTAL REPORTING continued

Year ended December 2007

	Ongoing deep mines £000	Closed/ sold deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other £000	Total £000
Continuing operations							
Revenue — gross	262,549	7,375	269,924	60,399	4,803	1,286	336,412
Revenue — intra Group	—	—	—	(7,542)	—	(385)	(7,927)
Revenue	262,549	7,375	269,924	52,857	4,803	901	328,485
Operating profit/(loss) before non-trading exceptional items	(9,704)	(600)	(10,304)	8,543	73,200	694	72,133
Non-trading exceptional items							
— Profit on sale of business	238	8,243	8,481	—	—	—	8,481
— Rationalisation, closure and other costs	4,078	(1,811)	2,267	(225)	—	—	2,042
Operating profit/(loss) after non-trading exceptional items	(5,388)	5,832	444	8,318	73,200	694	82,656
Finance costs							(17,121)
Finance income							2,951
Finance costs — net							(14,170)
Share of post-tax profit from joint venture							537
Profit before tax							69,023
Tax credit							25,000
Profit for the year							**94,023**
Other segmental items							
Capital expenditure	19,796	1,040	20,836	1,447	8,116	194	30,593
Depreciation	34,720	529	35,249	3,079	172	—	38,500
Surface mine development costs and restoration assets capitalised	—	—	—	19,140	—	—	19,140
Amortisation of surface mine development and restoration assets	—	—	—	8,723	—	—	8,723
Provisions — non cash charge/(credit)	(245)	(8,633)	(8,878)	12,086	—	17	3,225

* Closed/sold deep mines consists of income and expenditure arising at the Harworth and Maltby collieries.

Property operating profit includes the net appreciation in fair value of properties of £66,799,000 and profit on disposal of investment properties of £3,688,000.

From 2008, the methane generation operations have been included within the deep mining segment. In 2007, these results were reported as a separate business segment, with revenue of £4,145,000, operating profit before non-trading exceptional items of £4,333,000, non-trading exceptional items of £238,000 and operating profit after non-trading exceptional items of £4,571,000. Capital expenditure in this segment was £3,422,000 and depreciation was £1,056,000.

Trading exceptional items

Deep mines operating loss includes recovery and related costs for Daw Mill colliery of £11,505,000.

Non-trading exceptional items

The profit on sale of business arose on the sale of Maltby colliery in February 2007.

Rationalisation, closure and other costs are predominantly associated with the deep mines operations and consist of a net credit of £8,767,000 following settlement of a dispute on tax deductions arising on redundancies with HMRC and pension curtailment gains of £668,000, offset by mothballing costs of £1,811,000 for Harworth colliery, redundancy costs of £3,065,000, write-down of stores equipment in connection with a strategic review on closure of deep mine operations of £1,737,000, and other costs of £780,000.

All trading and non-trading exceptional items are included in cost of sales.

2 **SEGMENTAL REPORTING continued**

Balance sheet
at December 2008

	Ongoing deep mines £000	Closed/ sold deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other £000	Total £000
Assets and liabilities							
Segment assets	258,023	13	258,036	54,792	418,043	1,104	731,975
Investment in joint ventures	—	—	—	—	874	1,904	2,778
Total segment assets	**258,023**	**13**	**258,036**	**54,792**	**418,917**	**3,008**	**734,753**
Segment liabilities	(223,559)	(8,443)	(232,002)	(72,160)	(25,237)	(3,199)	(332,598)
Segment net assets/(liabilities)	**34,464**	**(8,430)**	**26,034**	**(17,368)**	**393,680**	**(191)**	**402,155**
Group borrowings							(179,366)
Cash and cash equivalents (unrestricted)							42,337
Net deferred tax asset							35,306
Net assets							**300,432**

* Closed/sold deep mines includes the assets and liabilities of Harworth and Rossington colleries and Maltby colliery which was sold in 2007.

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

Deficits resulting from retirement benefit obligations are included within the deep mining segment.

Balance sheet
at December 2007

	Ongoing deep mines £000	Closed/ sold deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other £000	Total £000
Assets and liabilities							
Segment assets	277,909	—	277,909	43,577	401,680	1,628	724,794
Investment in joint venture	—	—	—	—	—	342	342
Total segment assets	**277,909**	**—**	**277,909**	**43,577**	**401,680**	**1,970**	**725,136**
Segment liabilities	(197,639)	(11,346)	(208,985)	(67,185)	(15,388)	(6,249)	(297,807)
Segment net assets/(liabilities)	**80,270**	**(11,346)**	**68,924**	**(23,608)**	**386,292**	**(4,279)**	**427,329**
Group borrowings							(125,241)
Cash and cash equivalents (unrestricted)							20,973
Net deferred tax asset							35,185
Net assets							**358,246**

* Closed/sold deep mines includes the assets and liabilities of Harworth and Rossington collieries and Maltby colliery which was sold in 2007.

From 2008, the methane generation operations have been included within the deep mining segment. In 2007, the assets were £9,088,000 and the liabilities were £4,737,000.

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

Deficits resulting from retirement benefit obligations are included within the deep mining segment.

3 (LOSS)/PROFIT BEFORE TAX

	Notes	**Year ended December 2008 £000**	Year ended December 2007 £000
Profit before tax is stated after (charging)/crediting:			
Depreciation of operating property, plant and equipment — owned assets		**(34,100)**	(34,449)
Depreciation of operating property, plant and equipment — under finance leases		**(3,813)**	(4,051)
Amortisation of surface mine development and restoration assets	12	**(12,583)**	(8,723)
Coal Investment Aid	33	**3,106**	2,926
Profit on disposal of investment properties		**3,661**	3,688
Profit on disposal of operating property, plant and equipment		**82**	1,598
Repairs and maintenance for deep and surface mining		**(64,427)**	(60,157)
Staff costs	5	**(175,333)**	(156,975)
Spares and consumables used		**(44,700)**	(20,298)
Operating expense for rental investment property		**(2,251)**	(1,360)
Operating lease payments		**(317)**	(252)

4 OTHER OPERATING INCOME AND EXPENSES

	Year ended December 2008 £000	Year ended December 2007 £000
Administrative expenses	**(13,547)**	(13,103)
Other operating income	**4,773**	7,524
Other operating income and expenses	**(8,774)**	(5,579)

Due to the nature of the Group's business, distribution expenses are treated as a part of cost of sales. Other operating income includes Coal Investment Aid of £3,106,000 (2007: £2,926,000).

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 2008 Number	Year ended December 2007 Number	**Year ended December 2008 Number**	Year ended December 2007 Number
Deep mining	**2,554**	2,701	**—**	—
Surface mining	**531**	499	**—**	—
Property	**19**	15	**—**	—
Other	**75**	73	**7**	7
	3,179	3,288	**7**	7

5 EMPLOYEE INFORMATION continued

Total staff costs for the Group were:

	Group		Company	
	Year ended December 2008	Year ended December 2007	**Year ended December 2008**	Year ended December 2007
Staff costs (including the Board of Directors)	**£000**	£000	**£000**	£000
Wages and salaries	**145,258**	128,842	**1,151**	1,428
Social security costs	**14,535**	12,948	**120**	403
Pension and post retirement benefit costs	**15,000**	14,901	**168**	118
Share-based payments	**540**	284	**540**	284
	175,333	156,975	**1,979**	2,233

Wage and salary costs in 2007 include the benefit of pension curtailment gains as disclosed within note 2.

Key management compensation

	Year ended December 2008	Year ended December 2007
	£000	£000
Salaries and short-term employee benefits	**1,386**	2,330
Post employment benefits	**240**	182
Termination benefits	**—**	249
Share-based payments	**34**	215
	1,660	2,976

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 63.

Directors' remuneration and interests

Detailed information relating to directors' remuneration and their interests in share options is indicated by * on pages 69 to 70 and forms part of these financial statements.

6 FINANCE INCOME AND COSTS

	Year ended December 2008	Year ended December 2007
	£000	£000
Interest expense		
— Bank borrowings	**(11,816)**	(8,868)
— Hire purchase agreements and finance leases	**(879)**	(810)
— Unwinding of discount on provisions	**(4,257)**	(3,933)
— Amortisation of the issue costs of bank loans	**(1,626)**	(1,610)
Gains/(losses) on interest rate swaps not eligible for hedge accounting	**761**	(1,900)
Finance costs	**(17,817)**	(17,121)
Finance income	**2,919**	2,951
Net finance costs	**(14,898)**	(14,170)

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 2008 £000	Year ended December 2007 £000
Audit services		
— Fees payable to the Company auditors for the audit of the parent company and the consolidated accounts	**70**	100
Non-audit services		
— The audit of the Company's subsidiaries pursuant to legislation	**220**	248
— Other services pursuant to legislation	**81**	50
— Tax advisory and compliance services	**111**	212
— Other services	**121**	115
	603	725

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 set threshold cost.

8 TAX

Analysis of charge/(credit) in the year	**Year ended December 2008 £000**	Year ended December 2007 £000
Corporation tax	**100**	—
Deferred tax	**—**	(25,000)
Taxation charge/(credit)	**100**	(25,000)

The tax for the year is different to the standard rate of corporation tax in the UK of 28% (2007: 30%). The differences are explained below:

	Year ended December 2008 £000	Year ended December 2007 £000
(Loss)/profit before taxation	**(15,643)**	69,023
(Loss)/profit before taxation multiplied by rate of Corporation tax in the UK of 28% (2007: 30%)	**(4,380)**	20,707
Effects of:		
Expenses not deducted/income not chargeable for tax purposes	**2,255**	(22,222)
Deferred tax not recognised	**2,225**	(23,485)
Total taxation charge/(credit)	**100**	(25,000)

8 TAX continued

Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007: 28%). Deferred tax asset and liability 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 £815,000 (2007: £815,000) in respect of revaluation gains on investment properties expected to be recovered through future use.

	As at December 2008 £000	As at December 2007 £000
Deferred tax asset — to be recovered after more than 12 months	**36,121**	36,000
Deferred tax liability — to be recovered after more than 12 months	**(815)**	(815)
Net deferred tax asset	**35,306**	35,185

The movement on the deferred tax asset is shown below:

	2008 £000	2007 £000
At January	**35,185**	34,580
Amounts credited to the consolidated income statement	**—**	25,000
Amounts credited/(charged) to consolidated statement of recognised income and expense	**121**	(24,395)
At December	**35,306**	35,185

A deferred tax asset of £36,121,000 (2007: £36,000,000) 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 £113,314,000 (2007: £101,397,000) as set out below:

	As at December 2008 Total amount recognised £000	**As at December 2008 Total potential asset/ (liability) £000**	As at December 2007 Total amount recognised £000	As at December 2007 Total potential asset/ (liability) £000
Fixed asset timing differences	**(815)**	**29,228**	(815)	(815)
Other timing differences	**—**	**9,596**	—	7,670
Trading losses	**24,643**	**42,987**	24,643	74,049
Retirement benefit liabilities	**9,100**	**29,125**	11,357	20,493
Cash flow hedges	**2,378**	**2,378**	—	—
Net deferred tax asset	**35,306**	**113,314**	35,185	101,397

8 TAX continued

The fixed asset timing difference 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 £388,000,000 (2007: £392,000,000).

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

	2008	2007
	£000	£000
Impact on deferred tax asset due to change in tax rate	—	(2,383)
Movement on deferred tax asset relating to retirement benefit liabilities in the period	**(2,257)**	(22,012)
Movement on deferred tax asset relating to cash flow hedges in the period	**2,378**	—
Deferred tax asset movement credited/(charged) to equity	**121**	(24,395)

The Company has no recognised or unrecognised deferred tax in 2008 or 2007.

9 LOSS FOR THE FINANCIAL YEAR OF THE PARENT ENTITY

As permitted by section 230 of the Companies Act 1985, the Company's income statement has not been included separately in these financial statements. The loss for the financial year was £168,440,000 (2007: loss £1,867,000). This is after an impairment charge against the carrying value of investments in subsidiaries of £172,914,000 in the current year (2007: £nil). See note 14.

10 DIVIDENDS

No dividends have been paid or proposed in relation to 2008 or 2007.

11 (LOSS)/EARNINGS PER SHARE

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

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

	Year ended December 2008	Year ended December 2007
	£000	£000
(Loss)/profit before tax	**(15,643)**	69,023
Tax (charge)/credit	**(100)**	25,000
(Loss)/profit for the year	**(15,743)**	94,023
Weighted average number of shares used for basic earnings per share calculation	**157,154,163**	156,839,338
Dilutive effect of share options	—	—
Weighted average number of shares used for diluted earnings per share calculation	**157,154,163**	156,839,338
Basic and diluted (loss)/earnings per share (pence)	**(10.0)**	59.9

(Loss)/earnings per share, as adjusted to exclude tax, for the year are (10.0) pence (2007: earnings 44.0 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 2008	19,676	786,937	90,615	897,228	37,939	935,167
Additions	1,129	21,480	3,144	25,753	20,951	46,704
Disposals	—	—	(2,969)	(2,969)	(9,262)	(12,231)
Transfer to investment properties	(5,844)	—	—	(5,844)	—	(5,844)
At December 2008	14,961	808,417	90,790	914,168	49,628	963,796
Depreciation:						
At January 2008	4,346	626,262	67,069	697,677	17,828	715,505
Charge for the year	162	33,469	4,282	37,913	12,583	50,496
Disposals	—	—	(2,834)	(2,834)	(9,262)	(12,096)
Transfer to investment properties	(389)	—	—	(389)	—	(389)
At December 2008	4,119	659,731	68,517	732,367	21,149	753,516
Net book amount:						
At December 2008	**10,842**	**148,686**	**22,273**	**181,801**	**28,479**	**210,280**
Cost:						
At January 2007	18,759	811,628	93,194	923,581	24,040	947,621
Additions	569	17,414	5,063	23,046	19,140	42,186
Disposals	(43)	(42,105)	(7,642)	(49,790)	(5,241)	(55,031)
Transfer to investment properties	(1,256)	—	—	(1,256)	—	(1,256)
Transfer from investment properties	1,647	—	—	1,647	—	1,647
At December 2007	19,676	786,937	90,615	897,228	37,939	935,167
Depreciation:						
At January 2007	4,174	622,306	68,853	695,333	14,346	709,679
Charge for the year	172	34,194	4,134	38,500	8,723	47,223
Disposals	—	(30,238)	(5,918)	(36,156)	(5,241)	(41,397)
At December 2007	4,346	626,262	67,069	697,677	17,828	715,505
Net book amount:						
At December 2007	15,330	160,675	23,546	199,551	20,111	219,662

Surface mine development and restoration assets net book amounts includes capitalised pre-coaling costs of £12,471,000 (2007: £10,821,000), restoration/rehabilitation costs of £12,340,000 (2007: £9,290,000) and deferred stripping costs of £3,668,000 (2007: £nil). These are depreciated over the estimated tonnage of the recoverable reserves as these are extracted.

Surface mine asset additions in the period of £20,951,000 (2007: £19,140,000) comprise £6,206,000 (2007: £4,650,000) in respect of pre-coaling expenditure, £11,077,000 (2007: £14,490,000) recognised as a non-current asset on the creation of a corresponding provision for restoration and rehabilitation costs and £3,668,000 (2007: £nil) of deferred stripping costs.

Included in operating property, plant and equipment is £20,132,000 (2007: £5,806,000) 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 2008 £000	As at December 2007 £000
Cost	**26,245**	30,334
Aggregate depreciation	**(12,739)**	(10,990)
Net book amount	**13,506**	19,344

Certain land and buildings with a book value of £nil (2007: £6,588,000) are subject to security to cover surface damage provisions.

12 OPERATING PROPERTY, PLANT AND EQUIPMENT continued

In accordance with IAS 36, tangible fixed assets 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 tangible fixed assets of the deep and surface mining business since the net assets of the Group exceed its market capitalisation at the year end.

In the year ended December 2008, no impairment charges were recognised. The estimates of recoverable amount were based on value-in-use calculations, using a pre-tax discount rate of 12.5% 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 18.0%;
- The estimated long-term price of coal of $72/tonne assumed in calculating the discounted cash flows decreased by 4%; and
- The estimated level of annual production assumed in calculating the discounted cash flows decreased by 0.25 million tonnes.

13 INVESTMENT PROPERTIES

At valuation — Group	2008 £000	2007 £000
At January	**384,291**	311,677
Additions	**14,090**	7,547
Disposals	**(2,371)**	(8,074)
Fair value uplift	**23**	66,799
Transfer from operating property, plant and equipment at net book amount	**5,455**	1,256
Revaluation of operating property transferred to investment properties	**3,170**	6,733
Transfer to operating property, plant and equipment	**—**	(1,647)
At December	**404,658**	384,291

The properties were valued at December 2008, in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors, by three firms, Atisreal, 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
- 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 £98,397,000 (2007: £81,351,000).

Land and buildings with a value of £345,280,000 (2007: £245,765,000) are subject to fixed and floating charges to cover borrowings against those assets and £7,886,000 (2007: £3,281,000) are subject to restrictions as they cover insurance requirements. Other operating property, plant and equipment is subject to floating charges to cover liabilities due to bank borrowings.

14 INVESTMENTS

Investment in joint ventures

At December 2008, the Group owned 50% of the 1,000 £1 issued equity shares in Coal4Energy Limited, a company incorporated in England and Wales which was formed in 2006 as a joint venture company with Hargreaves Services PLC ("Hargreaves") to produce, market and distribute domestic and industrial coal products. Subsequent to the year end, in January 2009, the 50% shareholding in Coal4Energy Limited was sold to Hargreaves, realising a profit on sale of £6,500,000.

During the year the Group acquired 50% of the issued shares in UK Strategic Partnership Limited as a joint venture company with Strategic Sites Limited for the development of certain investment properties. The first development will be at the Advanced Manufacturing Park at Waverley, South Yorkshire.

	2008	2007
	£000	£000
At January	**342**	205
Additions	**933**	—
Share of profit	**1,503**	537
Dividends	**—**	(400)
At December	**2,778**	342

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 %**
2008						
Coal4Energy Limited	England and Wales	9,696	(7,792)	36,630	1,562	50
UK Strategic Partnership Limited	England and Wales	4,230	(3,356)	—	(59)	50
Total		13,926	(11,148)	36,630	1,503	
2007						
Coal4Energy Limited	England and Wales	7,026	(6,684)	30,217	537	50
Total		7,026	(6,684)	30,217	537	

Investment in subsidiaries

Company	**£000**
Cost:	
At January and December 2008	473,224
Provision for impairment:	
At January 2008	—
Charge for the year	(172,914)
At December 2008	(172,914)
Net book amount:	
At December 2008	300,310
Cost and net book amount:	
At January and December 2007	473,224

14 INVESTMENTS continued

As a result of the decline in the Group's market capitalisation, the investment held by the parent company has been written down to its estimated recoverable amount. Note 12 details the value-in-use calculations.

Investments in subsidiaries are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 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.

Particulars of the principal Group undertakings at December 2008 are as follows:

	Activity	Description of shares held	Proportion of nominal value of issued share capital held by 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	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	—

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 TRADE AND OTHER RECEIVABLES — NON-CURRENT

Amounts classed as non-current are as follows:

	Group		Company	
	As at December 2008 £000	As at December 2007 £000	**As at December 2008 £000**	As at December 2007 £000
Other receivables	**1,527**	1,613	**—**	—

Other receivables include £865,000 (2007: £956,000) of long-term deposits held as security for surface mines.

16 INVENTORIES

	Group		Company	
	As at December 2008 £000	As at December 2007 £000	**As at December 2008 £000**	As at December 2007 £000
Coal stocks	**21,412**	16,282	**—**	—
Spares and consumables	**25,340**	23,474	**—**	—
	46,752	39,756	**—**	—

The cost of inventories recognised as an expense and included in cost of sales amounted to £44,700,000 (2007: £20,298,000).

During the year, further provision of £883,000 has been created against stores stock, the charge for which is included in cost of sales.

17 TRADE AND OTHER RECEIVABLES — CURRENT

	Group		Company	
	As at December 2008 £000	As at December 2007 £000	**As at December 2008 £000**	As at December 2007 £000
Trade receivables	**32,508**	21,242	**—**	—
Less: provision for impairment of trade receivables	**(136)**	(22)	**—**	—
Net trade receivables	**32,372**	21,220	**—**	—
Other receivables	**1,399**	710	**949**	235
Prepayments and accrued income	**5,750**	5,691	**—**	—
Amounts owed by joint ventures	**470**	2,332	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**154,514**	165,866
	39,991	29,953	**155,463**	166,101

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 sales are to 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.

17 TRADE AND OTHER RECEIVABLES — CURRENT continued

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:

	2008	2007
	£000	£000
At January	**22**	6,140
Provisions for impairment of receivables	**200**	380
Receivables written off during the year as uncollectible	**(77)**	(6,490)
Unused amounts reversed	**(9)**	(8)
At December	**136**	22

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 2008, there were provisions against trade receivables of £136,000 (2007: £22,000) 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:

	As at December 2008	As at December 2007
	£000	£000
3 to 6 months	**136**	22

As of December 2008, trade receivables of £2,653,000 (2007: £908,000) 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 obligations. The ageing analysis of these trade receivables is as follows:

	As at December 2008	As at December 2007
	£000	£000
Up to 3 months	**1,901**	619
Over 3 months	**752**	289
	2,653	908

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at December 2008 £000	As at December 2007 £000	**As at December 2008 £000**	As at December 2007 £000
Cash deposited to cover insurance requirements	**20,425**	25,692	**—**	—
Subsidence security fund	**8,341**	23,403	**—**	—
	28,766	49,095	—	—
Cash held and other cash balances	**42,336**	20,973	**40,682**	20,063
	71,102	70,068	**40,682**	20,063

Total cash held subject to restrictions to cover insurance and surface damage liabilities at the year end amounts to £28,766,000 (2007: £49,095,000). In addition to this, security to cover surface damage liabilities in the form of an insurance bond for £10,000,000 (2007: £nil) has been granted during the year.

19 BORROWINGS

	Group		Company	
Current	**As at December 2008 £000**	As at December 2007 £000	**As at December 2008 £000**	As at December 2007 £000
Borrowings due within one year or on demand:				
Secured — bank loans and overdrafts	**1,365**	21,339	—	—
Finance lease obligations	**5,941**	5,981	**—**	—
	7,306	27,320	—	—

	Group		Company	
Non-current	**As at December 2008 £000**	As at December 2007 £000	**As at December 2008 £000**	As at December 2007 £000
Borrowings due after more than one year:				
Secured — bank loans and overdrafts	**169,871**	90,008	—	—
Finance lease obligations	**2,186**	7,913	—	—
	172,057	97,921	**—**	—

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 £1,841,000 (2007: £1,309,000). Non-current bank loans and overdrafts are stated after deduction of unamortised borrowing costs of £1,020,000 (2007: £1,946,000). The Group's Revolving Credit Facility can be drawn when required and is committed until 2010.

During 2008, new bank loans were taken out with a value of £13,929,000 (2007: £42,951,000), secured on the Group's investment properties and certain other fixed assets.

On 24 April 2008, a 12 month unsecured facility for £10,000,000 was granted by the Group's major shareholder, Peel Holdings Limited. No drawings on this facility were made during the period.

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

19 BORROWINGS continued

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

	As at December 2008 £000	As at December 2007 £000
Expiring within 1 year	**12,606**	74,091
Expiring between 1 and 2 years	**102,389**	2,171
Expiring between 2 and 5 years	**91,424**	118,082
	206,419	194,344

These facilities are all nominally at floating interest rates, but interest rate swaps with principal value of £125,779,000 (2007: £114,970,000) are held to convert these borrowings to fixed interest rates.

Of the unutilised borrowing facilities, £17,715,000 (2007: £28,300,000) is linked to certain properties and can only be utilised against expenditure related to these properties.

The maturity profile of the Group's borrowings is as follows:

	As at December 2008			As at December 2007		
	Debt £000	**Finance leases £000**	**Total £000**	Debt £000	Finance leases £000	Total £000
Within 1 year	**1,365**	**5,941**	**7,306**	21,339	5,981	27,320
Between 1 and 2 years	**96,469**	**2,011**	**98,480**	1,896	5,935	7,831
Between 2 and 5 years	**73,402**	**175**	**73,577**	88,112	1,978	90,090
	171,236	**8,127**	**179,363**	111,347	13,894	125,241

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

	As at December 2008 £000	As at December 2007 £000
Within 1 year	**6,442**	6,881
Between 1 and 5 years	**2,298**	8,526
	8,740	15,407
Future finance charges on finance leases	**(613)**	(1,513)
Present value of finance lease liabilities	**8,127**	13,894

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

The Company had no external borrowings at December 2008 or December 2007.

20 TRADE AND OTHER PAYABLES

	Group		**Company**	
	As at December 2008 £000	As at December 2007 £000	**As at December 2008 £000**	As at December 2007 £000
Current				
Trade payables	**47,787**	40,823	**—**	—
Amounts owed to subsidiary undertakings	**—**	—	**224,049**	217,320
Other taxation and social security	**12,958**	15,272	**—**	—
Accruals and deferred income	**43,307**	44,118	**259**	298
	104,052	100,213	**224,308**	217,618
Non-current				
Accruals and deferred income	**139**	73	**—**	—

Included within accruals and deferred income is £3,878,000 (2007: £6,984,000) representing contributions to capital expenditure in the form of Coal Investment Aid. See note 33.

21 PROVISIONS

Group	At January 2008 £000	Provided in year £000	Released in year £000	Utilised in year £000	Reassessment of discount rate and unwinding of discount £000	At December 2008 £000
Employer and public liabilities	18,875	3,384	—	(3,543)	—	**18,716**
Surface damage	16,405	4,733	(1,684)	(5,736)	(299)	**13,419**
Claims	39	45	—	(22)	—	**62**
Redundancy	4,099	1,072	(433)	(3,542)	—	**1,196**
Restoration and closure costs of surface mines	54,598	14,208	—	(8,862)	(586)	**59,358**
Restoration and closure costs of deep mines:						
— shaft treatment and pit top	12,193	384	(126)	(1,425)	(1,278)	**9,748**
— spoil heaps	3,224	—	(2)	(115)	(266)	**2,841**
— pumping costs	6,304	—	—	—	(977)	**5,327**
Ground/groundwater contamination	6,465	—	(266)	—	(967)	**5,232**
	122,202	23,826	(2,511)	(23,245)	(4,373)	**115,899**

Accounting life extension

During the year ended December 2008, the discounted deep mine decommissioning liabilities reduced following the extension of the accounting lives of Kellingley and Thoresby deep mines by 7 years to 2017. As a result of the accounting life extensions, the level of undiscounted estimated decommissioning liabilities remains unchanged. However, the decommissioning workstreams will occur later, therefore reducing the discounted decommissioning liabilities by £6,400,000. In accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities', the reduction in discounted deep mine decommissioning liabilities is fully offset by a corresponding decrease in the capitalised deep mine development assets. As a result, there is no net revaluation impact for this change in the consolidated income statement.

During the year ended December 2008, the Group has revised the rate used to discount the liabilities for restoration and decommissioning. These provisions have been stated in the consolidated balance sheet at current price levels, discounted at a long-term real rate of interest of 2% per annum to take account of the timing of payments. As a result, the revaluation impact for this change of £2,600,000 has been recorded within the consolidated income statement.

The total of provisions created, net of provisions released, was £21,315,000 (2007: £3,225,000). This included a net charge of £639,000 (2007: net credit £5,702,000) in respect of non-trading exceptional items.

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

	As at December 2008 £000	As at December 2007 £000
Current	**35,206**	31,061
Non-current	**80,693**	91,141
	115,899	122,202

21 PROVISIONS continued

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 below:

	Within 1 year £000	1–2 years £000	2–5 years £000	More than 5 years £000	Total £000
Employer and public liabilities	7,063	4,530	6,511	612	**18,716**
Surface damage	3,083	2,748	5,761	1,827	**13,419**
Claims	62	—	—	—	**62**
Redundancy	1,196	—	—	—	**1,196**
Restoration and closure costs of surface mines	23,764	12,149	19,621	3,824	**59,358**
Restoration and closure costs of deep mines:					
— shaft treatment and pit top	31	1,677	1,507	6,533	**9,748**
— spoil heaps	7	856	601	1,377	**2,841**
— pumping costs	—	—	—	5,327	**5,327**
Ground/groundwater contamination	—	—	—	5,232	**5,232**
	35,206	21,960	34,001	24,732	**115,899**

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 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

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

Redundancy

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

Restoration and closure costs of surface mines

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

Restoration and closure costs of deep mines:

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

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

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

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

22 FINANCIAL INSTRUMENTS AND DERIVATIVES

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

Derivative financial instruments

	Assets £000	Liabilities £000
At December		
Fair value — 2008	—	8,493
Fair value — 2007	424	2,148

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 2008 and 2007.

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.

Hedging relationships

As at December 2008, cash flow hedges were in place up to July 2012. The movement in effective hedging relationships in the year was a loss of £7,354,000 (2007: £nil) and is recorded in the hedge reserve within equity. See note 27.

The movement in the fair value of contracts which are not effective for hedge accounting purposes, or which were not designated as cash flow hedges, being a gain of £761,000 (2007: loss of £1,900,000) in the year is presented within finance costs in the consolidated income statement. See note 6.

The total notional principal of outstanding interest rate swaps that the Group is committed to is £125,779,000 (2007: £114,970,000). The weighted average fixed interest rate and period to maturity of the Group's interest rate swaps was 7.32% (2007: 7.34%) and 2.2 years (2007: 2.8 years), respectively.

The Company has no interest rate swaps.

Other financial assets and liabilities

	As at December 2008		As at December 2007	
Group	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Assets				
Cash and cash equivalents	**71,102**	**71,102**	70,068	70,068
Trade and other receivables	**41,518**	**41,518**	41,369	41,369
Derivative financial instruments	—	—	424	424
Liabilities				
Bank borrowings	**171,236**	**171,236**	111,347	111,347
Finance lease liabilities	**8,127**	**8,127**	13,894	13,894
Trade and other payables	**104,191**	**104,191**	100,213	100,213
Derivative financial instruments	**8,493**	**8,493**	2,148	2,148

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 2008 and 2007 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, classified as 'loans and receivables', of £40,682,000 (2007: £20,063,000).

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) 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 to hedge a proportion of the Group's borrowings over the period of the related loan. These 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 (loss)/profit for the year would have been £638,000 (2007: £489,000) 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 (loss)/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 2008 and 2007, the Group's borrowings at variable and fixed rates were denominated in sterling. No foreign exchange contracts were entered into in 2008 (none in 2007) 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.

23 FINANCIAL RISK MANAGEMENT continued

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.

Subsequent to the year end, in support of the committed credit facilities, the Group has renegotiated some of its coal supply contracts with its customers with the result that increased cash flows have been agreed in the form of prepayments and loans. Details of these transactions are disclosed in note 34.

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, after restricted cash, of £104,268,000 at the beginning of the year had increased during the year to £137,027,000 at the year end. The Group generated negative cash flow from operating activities after capital expenditure for the year of £32,365,000 (2007: £10,130,000).

As at December 2008, 68% of the total bank facilities of £196,419,000 was provided by banks which, following the takeover by Lloyds TSB plc of HBOS plc, are now part of the Lloyds Banking Group plc. Also, at December 2008, 8% was provided by Landsbanki, the failed Icelandic bank which is seeking to close and recover its loan book as part of the bank's closure process. Facilities provided by Landsbanki were largely fully drawn in advance of the collapse of the bank.

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 50%–75% of the value of certain properties on which the borrowings are secured. These covenants affect 71% of the facilities as at December 2008. The Group is currently in compliance with these convenants 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 contractual undiscounted cash flows.

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
At December 2008			
Bank borrowings	**11,218**	**107,109**	**75,842**
Finance lease liabilities	**6,442**	**2,112**	**186**
Trade and other payables	**104,052**	**139**	—
Derivative financial instruments	**4,050**	**1,566**	**1,616**
At December 2007			
Bank borrowings	30,719	9,532	105,331
Finance lease liabilities	6,881	6,435	2,091
Trade and other payables	100,213	73	—
Derivative financial instruments	(196)	77	1,029

23 FINANCIAL RISK MANAGEMENT continued

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 cash and cash equivalents.

The gearing ratios for the Group at December 2008 and 2007 were as follows:

	2008	2007
	£000	£000
Total borrowings	**179,363**	125,241
Less: Unrestricted cash and cash equivalents (note 18)	**(42,336)**	(20,973)
Net debt	**137,027**	104,268
Total equity	**300,432**	358,246
Gearing ratio	**45.6%**	29.1%

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 £1,368,000 (2007: £1,229,000).

Defined benefit obligations

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

	As at December 2008 £000	As at December 2007 £000
Industry wide schemes	**74,079**	48,893
Blenkinsopp	**660**	835
Concessionary fuel	**29,277**	23,443
	104,016	73,171

Contributions to defined benefit schemes during the year amounted to £20,116,000 (2007: £20,118,000). At December 2008, contributions of £nil remained unpaid (2007: £854,000).

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 2008	As at December 2007
Discount rate	**6.5% p.a.**	5.8% p.a.
Rate of return on investments	**6.4% p.a.**	6.7% p.a.
Rate of salary increases	**3.6% p.a.**	3.3% p.a.
Rate of price inflation	**2.6% p.a.**	3.3% p.a.
Rate of return on equities	**7% p.a.**	7% p.a.
Rate of return on debt	**5.2% p.a.**	5.8% p.a.
Rate of cash commutation	**20.0%–25.0%**	22.5%

24 RETIREMENT BENEFIT OBLIGATIONS continued

	As at December 2008	As at December 2007
Longevity at age 60 for current pensioners (years)		
IWMPS and IWCSSS		
— Men	**22.0–23.7**	20.4–22.3
IWCSSS		
— Women	**26.3**	26.7
Longevity at age 60 for future pensioners (years)		
IWMPS and IWCSSS		
— Men	**23.3–24.7**	21.4–22.9
IWCSSS		
— Women	**27.2**	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 price inflation, after April 2005: 1.9%).

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

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

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Fair value of plan assets	**316,464**	372,188	348,325	301,540	231,744
Present value of funding obligations	**(390,543)**	(421,081)	(442,794)	(418,270)	(344,925)
Net liability recognised in the balance sheet	**(74,079)**	(48,893)	(94,469)	(116,730)	(113,181)

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

The amounts recognised in the consolidated income statement are:

	Year ended December 2008 £000	Year ended December 2007 £000
Current service cost	**(12,341)**	(13,593)
Interest cost	**(24,534)**	(22,034)
Expected return on plan assets	**25,473**	22,925
Effect of curtailment or settlement	**—**	2,427
	(11,402)	(10,275)

Current service cost is charged to cost of sales, with interest cost less expected return on plan assets included in administration expenses and effect of curtailment or settlement is included in non-trading exceptional items. A further £33,900,000 loss (2007: £35,733,000 gain) has been reflected in the statement of recognised income and expense in the year. This represents the net effect of experience and actuarial gains and losses on the schemes in the year.

24 RETIREMENT BENEFIT OBLIGATIONS continued

Change in assets	2008 £000	2007 £000
Fair value of plan assets at January	**372,188**	348,325
Expected return on plan assets	**25,473**	22,925
Actuarial losses on assets	**(92,915)**	(237)
Employer contributions	**20,116**	19,264
Plan participants' contributions	**3,762**	3,381
Benefits paid	**(12,160)**	(8,975)
Effect of Maltby colliery sale	**—**	(13,349)
December cash contributions accrued	**—**	854
Fair value of plan assets at December	**316,464**	372,188

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

	As at December 2008 £000	As at December 2007 £000
Equity securities	**215,889**	293,493
Debt securities	**100,575**	78,695
	316,464	372,188

The actual return on plan assets was a loss of £67,442,000 (2007: gain of £22,688,000).

Change in defined benefit obligations	2008 £000	2007 £000
Present value of defined benefit obligation at January	**(421,081)**	(442,794)
Current service cost	**(12,341)**	(13,593)
Interest cost	**(24,534)**	(22,034)
Plan participants' contributions	**(3,762)**	(3,381)
Curtailment gain	**—**	668
Actuarial gain	**59,015**	35,970
Benefits paid	**12,160**	8,975
Effect of Maltby colliery sale	**—**	15,108
Present value of defined benefit obligation at December	**(390,543)**	(421,081)

24 RETIREMENT BENEFIT OBLIGATIONS continued

Analysis of the movement of the balance sheet liability	2008 £000	2007 £000
At January	**(48,893)**	(94,469)
Total amounts recognised in the income statement	**(11,402)**	(10,275)
Contributions	**20,116**	20,118
Net actuarial (loss)/gain recognised in the year	**(33,900)**	35,733
At December	**(74,079)**	(48,893)

Cumulative actuarial (losses)/gains recognised in equity	2008 £000	2007 £000
At January	**23,900**	(11,833)
Net actuarial (loss)/gain in the year	**(33,900)**	35,733
At December	**(10,000)**	23,900

Experience (losses)/gains	Year ended December 2008 £000	Year ended December 2007 £000
Actual return less expected return on schemes' assets	**(92,915)**	(237)
Experience losses arising on schemes' liabilities	**(2,914)**	(1,495)
Changes in assumptions underlying present value of liabilities	**61,929**	37,465
Net actuarial (loss)/gain	**(33,900)**	35,733

History of experience losses	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Actual return less expected return on schemes' assets	**(92,915)**	(237)	9,634	36,975	10,171
Percentage of year end scheme assets	**(29%)**	0%	3%	12%	4%
Experience losses arising on schemes' liabilities	**(2,914)**	(1,495)	(3,721)	(5,242)	(7,074)
Percentage of the present value of schemes' liabilities	**1%**	0%	1%	1%	2%

Contributions are determined by a qualified actuary on the basis of triennial valuations, using the projected unit credit 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 2009 is around £21,000,000 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. The liability as at December 2008 is £660,000 (2007: £835,000), the amount recognised in the income statement is £87,000 (current service costs £38,000 and interest cost less expected return on plan assets £49,000) and the amount reflected in the statement of recognised income and expense is £262,000 (2007: £464,000). Cumulative actuarial gains recognised in equity for this Blenkinsopp section were £726,000 (2007: £464,000).

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 was carried out by an independent actuary at December 2008. The major assumptions used by the actuary were:

	Year ended December 2008	Year ended December 2007
Discount rate	**6.5% p.a.**	5.8% p.a.
Inflation assumption	**2.6% p.a.**	3.3% p.a.

The amounts recognised in the balance sheet are as follows:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Net liability recognised in the balance sheet	**(29,277)**	(23,443)	(24,727)	(24,309)	(22,579)

The amounts recognised in the consolidated income statement are:

	Year ended December 2008 £000	Year ended December 2007 £000
Current service cost	**(309)**	(424)
Interest cost	**(1,347)**	(1,214)
Effect of curtailment or settlement	**—**	946
	(1,656)	(692)

Current service cost is charged to cost of sales, interest cost is included in administration expenses and effect of curtailment or settlement is included in non-trading exceptional items. A further £4,911,000 loss (2007: £1,280,000 gain) has been reflected in the statement of recognised income and expense in the year. This represents the net effect of experience and actuarial gains and losses on the scheme in the year.

Analysis of the movement of the balance sheet liability	**2008 £000**	2007 £000
Concessionary fuel reserve at January	**(23,443)**	(24,727)
Current service cost	**(309)**	(424)
Benefits paid to former employees during the year	**733**	696
Interest cost	**(1,347)**	(1,214)
Actuarial (loss)/gain	**(4,911)**	1,280
Effect of curtailment or settlement	**—**	946
Concessionary fuel reserve at December	**(29,277)**	(23,443)

The valuation of the balance sheet liability has been based on market prices for the related coal products at the end of the year. The actuarial loss in the year arises principally as a result of the increases experienced in those market prices.

24 RETIREMENT BENEFIT OBLIGATIONS continued

Cumulative actuarial losses recognised in equity	2008 £000	2007 £000
At January	**(1,263)**	(2,543)
Net actuarial (loss)/gain in the year	**(4,911)**	1,280
At December	**(6,174)**	(1,263)

Experience (losses)/gains	Year ended December 2008 £000	Year ended December 2007 £000
Experience (loss)/gain on concessionary fuel reserve	**(8,510)**	444
Changes in assumptions underlying present value of liabilities	**3,599**	836
Total amount reflected in the statement of recognised income and expense	**(4,911)**	1,280

History of experience (losses)/gains	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Experience (loss)/gain on concessionary fuel reserve	**(8,510)**	444	1,258	—	3,186
Percentage of concessionary fuel reserve	**(29%)**	2%	5%	0%	14%

25 CALLED UP SHARE CAPITAL

Group and Company	2008 Number of shares	2008 £000	2007 Number of shares	2007 £000
Authorised share capital				
At the start and end of the year				
Ordinary shares of 1 pence each	**250,000,000**	**2,500**	250,000,000	2,500
Issued and fully paid				
Ordinary shares of 1 pence each				
At the start of the year	**157,128,220**	**1,571**	156,651,482	1,566
Issued during the year	**124,527**	**1**	476,738	5
At the end of the year	**157,252,747**	**1,572**	157,128,220	1,571

124,527 ordinary shares were issued at par on 31 October 2008 to fulfil awards crystallised 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, 124,527 (2007: 476,738) 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 are as follows:

	2008 Number	2007 Number
Exercisable from 2009	—	377,221
Exercisable from 2010	**279,126**	292,083
Exercisable from 2011	**359,570**	—

25 CALLED UP SHARE CAPITAL continued

The awards granted in the year were valued using a Monte Carlo simulation utilising Black–Scholes methodology as follows:

	2008	2007	2007
Grant date	**22 April**	18 September	2 March
Share price at grant date	**£4.53**	£5.03	£4.95
Exercise price	**£nil**	£nil	£nil
Number of employees	**18**	10	17
Shares under option	**366,160**	144,406	241,411
Vesting period (years)	**3**	3	3
Expected volatility	**34.3%**	33.5%	33.5%
Option life (years)	**3**	3	3
Expected life (years)	**2.69**	2.23	2.84
Risk free rate	**4.36%**	4.97%	5.05%
Possibility of ceasing employment before vesting	**5% p.a.**	5% p.a.	5% p.a.
Fair value per option	**£1.97**	£2.83	£2.91

The expected volatility is based on historical volatility over the last nine 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 is shown below:

	2008 Number	2007 Number
Outstanding at January	**793,831**	1,191,186
Granted	**366,160**	385,817
Exercised	**(124,527)**	(458,668)
Expired	**(396,768)**	(324,504)
Outstanding at December	**638,696**	793,831

The total charge for the year relating to employee share-based payment plans was £540,000 (2007: £284,000), all of which related to equity settled share-based payment transactions.

Bonus Share Matching Plan

A Bonus Share Matching Plan for executive directors and senior executives, was introduced in 2000. It is no longer operated by the Group.

	2008 Number	2007 Number
Outstanding at January	**—**	22,322
Expired	**—**	—
Interests matured	**—**	(22,322)
Outstanding at December	**—**	—

26 RESERVES

Group	Ordinary shares £000	Share premium account £000	Other reserves (note 27) £000	Retained earnings £000	Total equity £000
At January 2007	1,566	30,756	253,639	(41,842)	244,119
New shares issued	5	—	—	—	5
Profit in the year	—	—	—	94,023	94,023
Actuarial gains on post retirement benefits	—	—	—	37,477	37,477
Long term incentive plan liabilities — value of employees services	—	—	—	284	284
Movement on deferred tax asset in relation to retirement benefit liabilities	—	—	—	(24,395)	(24,395)
Disposal of investment properties	—	—	(6,049)	6,049	—
Revaluation of investment properties	—	—	6,733	—	6,733
Fair value gain on revaluation of investment properties	—	—	66,799	(66,799)	—
At January 2008	1,571	30,756	321,122	4,797	358,246
New shares issued	1	—	—	—	1
Loss in the year	—	—	—	(15,743)	(15,743)
Actuarial gains on post retirement benefits	—	—	—	(38,549)	(38,549)
Long term incentive plan liabilities — value of employee services	—	—	—	540	540
Movement on deferred tax asset in relation to retirement benefit liabilities	—	—	—	(2,257)	(2,257)
Transfer of realised gain on disposed properties	—	—	(17,815)	17,815	—
Revaluation on recognition of investment properties	—	—	3,170	—	3,170
Fair value gain on revaluation of investment properties	—	—	23	(23)	—
Cash flow hedges	—	—	(7,354)	—	(7,354)
Movement on deferred tax asset in relation to cash flow hedges	—	—	2,378	—	2,378
At December 2008	**1,572**	**30,756**	**301,524**	**(33,420)**	**300,432**

Retained earnings include a cumulative actuarial loss on the Group's retirement benefit obligations of £15,448,000 (2007: gain of £23,101,000).

Company	Ordinary shares £000	Share premium account £000	Other reserves (note 27) £000	Retained earnings £000	Total equity £000
At January 2007	1,566	30,756	257	409,045	441,624
New shares issued	5	—	—	—	5
Loss in the year	—	—	—	(1,867)	(1,867)
Long term incentive plan liabilities — value of employee services	—	—	—	284	284
At January 2008	1,571	30,756	257	407,462	440,046
New shares issued	1	—	—	—	1
Profit in the year	—	—	—	4,474	4,474
Provision for impairment of investment in subsidiaries	—	—	—	(172,914)	(172,914)
Long term incentive plan liabilities — value of employee services	—	—	—	540	540
At December 2008	**1,572**	**30,756**	**257**	**239,562**	**272,147**

27 OTHER RESERVES

Group	Hedging reserve £000	Revaluation reserve £000	Capital redemption reserve £000	Fair value reserve £000	Total £000
At January 2008	—	143,014	257	177,851	321,122
Revaluation on recognition of investment properties	—	3,170	—	—	3,170
Transfer of realised gain on disposed properties	—	(15,845)	—	(1,970)	(17,815)
Fair value gain on revaluation of investment properties	—	—	—	23	23
Cash flow hedges	(7,354)	—	—	—	(7,354)
Movement in deferred tax asset in relation to cash flow hedges	2,378	—	—	—	2,378
At December 2008	**(4,976)**	**130,339**	**257**	**175,904**	**301,524**

Company	Capital redemption reserve £000	Total £000
At January and December 2008	**257**	**257**

None of the other reserves balances at either the 2008 or 2007 year ends represented realised reserves.

28 CAPITAL AND OTHER FINANCIAL COMMITMENTS

Group	As at December 2008 £000	As at December 2007 £000
Operating property, plant and equipment	**38,613**	12,200
Investment property	**865**	2,100
	39,478	14,300

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 2008 £000	As at December 2007 £000
Lease expiring:		
Within 1 year	**4,354**	5,444
Later than 1 year and less than 5 years	**5,890**	9,063
After 5 years	**20,007**	19,055
	30,251	33,562

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

	As at December 2008 £000	As at December 2007 £000
Lease expiring:		
Within 1 year	**220**	127
Later than 1 year and less than 5 years	**347**	124
After 5 years	**261**	119
	828	370

The Company had no interest in any operating leases (2007: £nil).

30 SALE OF BUSINESS

On 26 February 2007, Maltby colliery was sold to Hargreaves Services PLC ("Hargreaves") with a transfer of operational assets and liabilities, together with the workforce. Hargreaves was the second largest customer for Maltby. The consideration of £21,500,000 resulted in a profit on sale of £8,481,000.

31 CONTINGENT LIABILITIES

Guarantees have been given in the normal course of business for performance bonds of £1,235,000 (2007: £2,558,000) 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 2008 for which provision has not been made in these financial statements.

32 RELATED PARTY TRANSACTIONS

Group

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

	Year ended December 2008 £000	Year ended December 2007 £000
UK Strategic Partnership Limited		
Sales of land to related party	**1,292**	—
Purchases of goods and services from related party	**143**	—
Coal4Energy Limited		
Sales of goods and services to related party:		
— Coal	**24,436**	29,114
— Services	**580**	516
	25,016	29,630
Purchases of goods and services from related party:		
— Coal	**5**	24
— Finance costs	**3**	23
	8	47

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

Profit of £62,000 has been recognised in the period on the sale of land to UK Strategic Partnership Limited.

Balances owing from/(to) joint ventures

Coal4Energy Limited

The balance arising from sales of goods and services at December 2008 was £61,000 (2007: £2,332,000) owed from the joint venture, and the balance arising from purchase of goods and services at December 2008 was £nil (2007: £nil).

UK Strategic Partnership Limited

The balance arising from sales at December 2008 was £409,000 (2007: £nil).

Peel Holdings Limited

On 24 April 2008, the Group's major shareholder, Peel Holdings Limited, granted a £10,000,000 unsecured facility committed for 12 months.

Company

The Group manages its financing arrangements centrally. Amounts are transferred within the Group dependent on the operational needs of individual companies. The Directors do not consider it meaningful to set out the gross amounts of transfers between individual companies. Details of the Company's cash and indebtedness are set out in notes 18 and 19 and amounts due from or owed to subsidiary undertakings are set out in notes 17 and 20.

The Company received vehicle hire services from Mining Services Limited of £nil (2007: £6,000).

33 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. Details of how this aid is treated is set out in note 1 to the financial statements. Amounts credited to the income statement are as follows:

	Year ended December 2008 £000	Year ended December 2007 £000
Release of deferred income	**3,106**	2,926

34 POST BALANCE SHEET EVENTS

As disclosed in note 14, the 50% shareholding in Coal4Energy Limited, one of the Group's joint ventures, was sold in January 2009 to Hargreaves, the joint venture partner, realising a profit on sale of *circa* £6.5 million.

Following discussions held with customers after the year end, as outlined in the Operating and Financial Review, we have successfully negotiated new or amended old long-term supply contracts. The negotiations have led to an increase in contractual coal commitments from 24.0 million tonnes at the end of 2007 to 36.1 million tonnes at the start of calendar year 2009, and increased cash flows into the business in 2009 and 2010 in the form of customer prepayments, loans and other contractual terms. The total benefit in cash flow terms of these arrangements will be of the order of £85 million in 2009 and a further £15 million in 2010, with repayments to be made in later years up to 2015.

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Mining

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