Annual Report 2011

UK COAL PLC
Annual Report and Accounts 2011

Highlights

	2011	2010
Total Group revenue (£m)	**488.2**	351.2
Average sale price per Gigajoule (£/GJ)	**2.48**	1.97
Non-cash property revaluation increase/(decrease) (£m)	**3.3**	(34.2)
Operating profit/(loss) before non-trading exceptional items (£m)	**65.2**	(74.3)
Profit/(loss) after tax (£m)	**55.2**	(125.1)
Total Group debt including generator balance (£m)	**(138.8)**	(242.4)

Contents

3 Company Information and Advisers
4 Chairman's Statement
6 Operating and Financial Review
7 Review of Operations by Business: Mining
15 Review of Operations by Business: Harworth Estates
19 Financial Review
25 Key Risks and Uncertainties
27 Corporate Social Responsibility
30 Board of Directors
31 Directors' Report
35 Statement of Directors' Responsibilities
36 Corporate Governance
41 Directors' Remuneration Report
48 Independent Auditors' Report
50 Consolidated Income Statement
50 Consolidated Statement of Comprehensive Income
51 Consolidated Statement of Changes in Shareholders' Equity
51 Company Statement of Changes in Shareholders' Equity
52 Balance Sheets
53 Statements of Cash Flows
54 Notes to the Financial Statements

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 16% of the total amount of coal burned in the UK for electricity generation, 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.

Company Information and Advisers

Chairman
Jonson Cox [2,6]

Executive Directors
David Brocksom
Gareth Williams [6]
Owen Michaelson

Non-Executive Directors
Lisa Clement [1,2,3,5]
Keith Heller [1,2,5,6]
Peter Hickson [2,3,4,5,6]
Steven Underwood

Company Secretary and Registered Office
Richard Cole
Harworth Park
Blyth Road
Harworth
Doncaster
South Yorkshire
DN11 8DB

Company Registered Number
2649340

[1] Audit Committee
[2] Nomination Committee
[3] Remuneration Committee
[4] Senior Independent Non-Executive Director
[5] Independent Non-Executive Director
[6] Safety Committee

Independent Auditors
PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds
LS1 4JP

Joint Stockbrokers
Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

Investec Bank PLC
2 Gresham Street
London
EC2V 7QP

Solicitors
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London
EC4Y 1HS

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Principal Bankers
Lloyds Banking Group PLC
2nd Floor
Lisbon House
116 Wellington Street
Leeds
LS1 4LT

Barclays Bank PLC
2nd Floor
1 Park Row
Leeds
LS1 5WU

Chairman's Statement

Results for 2011

For the first time in four years UK Coal delivered a profitable year, with overall pre-tax profits of £58.0m, compared to the loss of £124.6m for 2010 and cumulative losses from 2008 to 2010 of £269m. This improved performance is in line with our Recovery Plan, with an increase in revenue from improved production, stock reductions and realised sales price, and from our initial steps in addressing our cost base.

Net bank debt fell to £55m at 31 December 2011 against £141m in 2010. This reflects the realisation of value from our property portfolio, with sales of £67m achieved at prices slightly ahead of book values.

Recovery Plan

In my statement last year I set out an assessment of UK Coal's business performance as I had found it on becoming Chairman in November 2010. Shortly afterwards, we announced the detailed priorities for the first steps of our Recovery Plan, which has delivered a profit in 2011. We have made some significant progress during the year:

(i) We were very clear that our highest priority was to improve the safety of our mining operations and made initial good progress. Our All Accident Rate for 2011 improved by around 20%. A fatality in September further accelerated our efforts, through our Critical Safety Review, on the changes that are needed around behaviours and working practices.

(ii) Our property business, Harworth Estates, performed well with net receipts from property disposals of £65m in the year.

(iii) We made substantial progress in addressing high, and unaffordable, workforce costs and the future service cost of the Group's defined benefit pension schemes. Service costs have been halved. Labour agreements reached during the year are expected to hold per capita employment costs broadly at 2010 levels until the end of 2013.

(iv) We started work on balancing long term security of sales contracts with more flexibility around market conditions.

(v) Good progress was made in improving financial and operational controls across all areas of the business. We continue to fight inefficiency and high costs, although much remains to be done.

(vi) We started work on rebuilding the management of the Company with significant new appointments to our mining team in the second half of the year.

(vii) At year end, net bank debt, excluding restricted funds, was reduced from £141m to £55m. Total net debt, excluding restricted funds but including loan prepayments, has reduced from £242m to £139m.

(viii) By the end of 2011 we had completed the re-building of the Board, with the appointment of four new Non-Executive Directors since late 2010. These appointments have contributed a fresh outlook and new determination to the Board.

Current progress

While there were significant achievements made in 2011, difficulties at Daw Mill from late 2011 highlighted how much remains to be done to put the UK Coal mining business on a stable footing.

We highlighted in April last year that the Company once again faced a potential three-month 'face gap' at Daw Mill, following the four-month face gap in 2010 which cost the Company the majority of the £100m raised in October 2009. Our mining team developed a two-part mitigation strategy to avoid a 2011 face gap.

At the end of 2011, the element of mitigation which relied on extending the 32s face at Daw Mill failed as a result of combined geological, workforce and management problems. Work started in January 2012 on the second part of the mitigation strategy which was to commence the next face early. The ramp-up of this face was very slow, taking three months in Q1 2012.

The high fixed cost structure inherent in our deep mines and a two week cash conversion cycle coupled with poor operational performance has an immediate impact on the Group's financial position. The current structure, whereby all mines are in the same corporate entity, can quickly result in one mine putting the entire Group at risk.

The problem of operational vulnerability is compounded by the level of our pension deficit and debt to customers and banks. The pension deficit, under the principles used by the Trustees to determine future funding, has almost doubled from around £250m at the last valuation in 2009 to approximately £430m.

As a result, the Company has recently announced its intention to restructure the Group to isolate the operating risk of each deep mine from the Group as a whole and mitigate future financial uncertainty arising from operations at Daw Mill or other mines. It was also announced that a consultation process has begun regarding the early closure of Daw Mill in 2014, subject to the option to retain Daw Mill under a new structure and operating model.

2012 restructuring

Our proposal to parties with an economic interest in UK Coal would entail a more formal separation of mining and property interests, each with an appropriate capital structure. The plan is intended to isolate the operating and financial risk of each deep mine from the Group as a whole and to address the funding and debt structure of the Group.

We have continued constructive discussions with our principal banking partners, Lloyds Banking Group, together with Barclays Bank, the Pension Funds, our customers, the Department for Energy and Climate Change and the Coal Authority. We are in the process of tabling our detailed plan to these parties.

Our intended plan involves a substantial reduction of the pension, and other, liabilities of UK Coal. Under this plan, the Board believes that the value inherent in the mining business can be properly exploited for the benefit of all stakeholders. A minority equity stake in the mining business, together with an interest in the future cash stream from the realisation of the property portfolio, would be offered in consideration for the reduction of pension scheme and, potentially, other stakeholder liabilities.

The Board believes that there is potential value to be realised from our substantial brownfield property portfolio through the development process. It is proposed that the property company would take over the bank debt of the Group and an agreed liability as part of a compromise of the pension scheme. Our proposal is that equity funding, which will be ring fenced to the property business, will need to be raised for the period of time required to pay down bank debt whilst the development process releases this value.

The Board believes that this plan is the only practicable way to create a sustainable structure for the Group. We recognise that this will require significant co-operation and support from all of those with an economic interest in the Group. Without this support there would be a significant risk to the Group, and, in particular, to the continuation of the mining business. We hope to be able to report on the result of our negotiations at our AGM in June.

Outlook

The reliance on coal in the current energy mix continues. During this recent winter, mild as it was, coal generated around half of the electricity needed in the UK. The proposed introduction of the carbon support price may reduce the demand for coal, but coal remains a key factor in keeping energy bills as low as possible.

In the short and medium term, as the UK manages the transition to a cleaner energy future, in a way that also maintains an affordable price for electricity, coal continues to be part of the energy mix. With over 100 years of reserves left in the UK, it is important that we continue to use coal mined in the UK rather than relying solely on imported coal.

We have two immediate over-riding priorities:

(i) To operate the business safely and successfully, delivering the continuing targets of our recovery plan and in particular to improve production at Daw Mill where the recovery of 32s face still has to be achieved and the equipment transferred to 33s on a timely basis.

(ii) To set out and negotiate, with our very wide range of stakeholders, a new structure for the Group to enable it to continue into the medium and longer term.

UK Coal has made significant progress on achieving the objectives set at the beginning of the year. I believe we now have a realistic and practical solution for taking the Group forward and would like to thank all those at UK Coal who have contributed to this progress.

Jonson Cox
Chairman

27 April 2012

Operating and Financial Review for 2011

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 2011 we sold 8.0 million tonnes of coal, including 0.5 million tonnes from stocks (approximately 16% of the total amount of coal burned in the UK). Predominantly our customers are in the electricity supply industry ('ESI') and our production therefore represented around 5% of the UK electricity supply.

The Group had three operational deep mines and five active surface mines in 2011.

As a result of our heritage, we have a land portfolio of around 30,000 acres of land. This includes agricultural land originally acquired for its underlying coal reserves, and the sites of former mines and associated workings. It 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 significant sites elsewhere.

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

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

Business Objectives

Mining

Deep mining

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

Surface mining

- To improve safety significantly;
- To maintain sustainable levels of increased production over the longer term through planning applications and consents;
- To maximise productivity; and
- To maintain high environmental standards and close working relationships with local communities.

Harworth Estates

- To realise the value from our remaining agricultural and other non-core portfolio;
- To increase the value of our strategic land bank by gaining more favourable planning designations;
- To maximise income from our business parks;
- To progress delivery partnerships to bring forward our strategic development sites; and
- To generate value through renewable energy opportunities.

Review of Operations by Business: Mining

General Overview

Good progress was made in 2011 against the Group's Strategic Recovery Plan with a return to profitability.

Revenue from the mining business for 2011 was £477.7 million (2010: £342.8 million) and operating profit before non-trading exceptional items was £54.5 million (2010: loss of £43.7 million). The revenue is derived from sales from deep mine production of £366.3 million (2010: £276.7 million) and sales from surface mine production of £111.4 million (2010: £66.1 million). The operating profit before non-trading exceptional items is split as a deep mines profit of £32.4 million (2010: loss of £44.1 million) and surface mines profit of £22.1 million (2010: £0.4 million). With the continued replacement of lower priced contracts with new, better priced contracts during the year, the mining business was able to benefit from a strong market price and average realised sales price per Gigajoule rose by over 25% to £2.48/GJ (2010: £1.97/GJ).

Key Performance Indicators

	2011	2010
Sales price per Gigajoule (£/GJ)	**2.48**	1.97
Tonnage sold (million tonnes)	**8.0**	7.2
Tonnage produced (million tonnes)	**7.5**	7.2

Market Overview 2011

The UK burned an estimated 45 million tonnes of steam coal in 2011, the vast majority of this to generate electricity. Overall, UK consumption was fairly static in comparison to 2010, which was boosted by extreme winter weather conditions. Towards the end of 2011 coal became the electricity generators fuel of choice as rising gas prices pushed down gas use enabling coal to increase its share of the fuel mix to around 30% in the year. As we enter 2012 the profit margins on gas plant have been further squeezed and some older gas stations have ceased generation.

The longer term demand for our product remains unaffected as the electricity generation market is heavily dominated by imports. Coal mined in the UK, including our own 7.5 million tonnes in 2011, can only meet a portion of this demand making the UK a substantial importer of coal. Demand in the UK will continue substantially to exceed our supply capacity throughout this decade.

In 2010, high stock levels held by UK generators resulted in a downturn in imports as they looked to bring these down to more manageable levels. 2011 saw a resumption of coal buying which led to imports rising by 22% to 32 million tonnes. UK power station stocks started and ended 2011 at around 13 million tonnes.

Given the nature of the UK electricity supply industry, our predominant market, we continue to have a small number of significant customers. All of our major customers have retrofitted flue gas desulphurisation ('FGD') onto their stations to meet the requirements of the European Large Combustion Plant Directive ('LCPD').

The replacement legislation to the LCPD, the Industrial Emissions Directive ('IED') has been approved in the European Parliament and the UK is currently working towards finalising its implementation. The IED will require further investment by the generators to meet the tightening sulphur dioxide and nitrogen oxide emission limit targets after 2015. However as it stands, the IED would allow UK generators, without further investment, some flexibility in their operational emissions but would limit their running hours in return.

In July 2011 the UK Government published its White Paper on 'Electricity Market Reform' (EMR) consultation outlining how it intends to encourage investment in low carbon generation to meet its long term carbon reduction targets. The White Paper put forward four main principles to reach this goal; carbon price support, feed in tariffs, capacity mechanisms and emission performance standards.

The UK Government intends to introduce its carbon price support mechanism in April 2013. This will reduce the competitiveness of coal fired plant against other types of generation. UK Coal believes that this scheme is unnecessary as the Government's proposal to introduce feed in tariffs would deliver the same result.

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

CCS involves capturing the CO^2 emitted from burning fossil fuels, transporting it and storing it safely in geological formations. CCS has the potential to reduce CO^2 emissions from fossil fuel power stations by as much as 90%. The emission performance standard proposals within the EMR proposals would force all new coal power stations to fit CCS to a proportion of its capacity from the start of operations. However, CCS imposes a considerable power burden on generator stations, reducing the overall efficiency and cost effectiveness of coal as a source of energy.

Despite the disappointing news that the CCS scheme at Longannet would not go ahead, the UK Government has reaffirmed that £1 billion would still be available to support CCS projects within the UK. The Government has recently published the CCS roadmap and competition and we expect this to progress during 2012.

Review of Operations by Business: Mining
continued

NW Europe steam coal price

International coal prices for near term deliveries started 2011 at $124 per tonne, remained above $120 per tonne until September before falling back to finish the year at $112 per tonne as mild weather across Europe affected demand.

The Far East remained the main driver in the international market. China's imports were up by 10% although this was partially offset by lower Japanese demand in the aftermath of the tsunami.

In sterling terms, the price per tonne followed a similar trend, starting 2011 at £79 per tonne (£3.13 per gigajoule), and finishing the year at £72 per tonne (£2.85 per gigajoule). As the mild winter progressed in Europe, coal stocks rose at generators, reflecting lower demand. This resulted in a near term reduction in coal price and, as at 30 March 2012, the average forward market price for coal for deliveries in the remainder of 2012 was £67 per tonne.

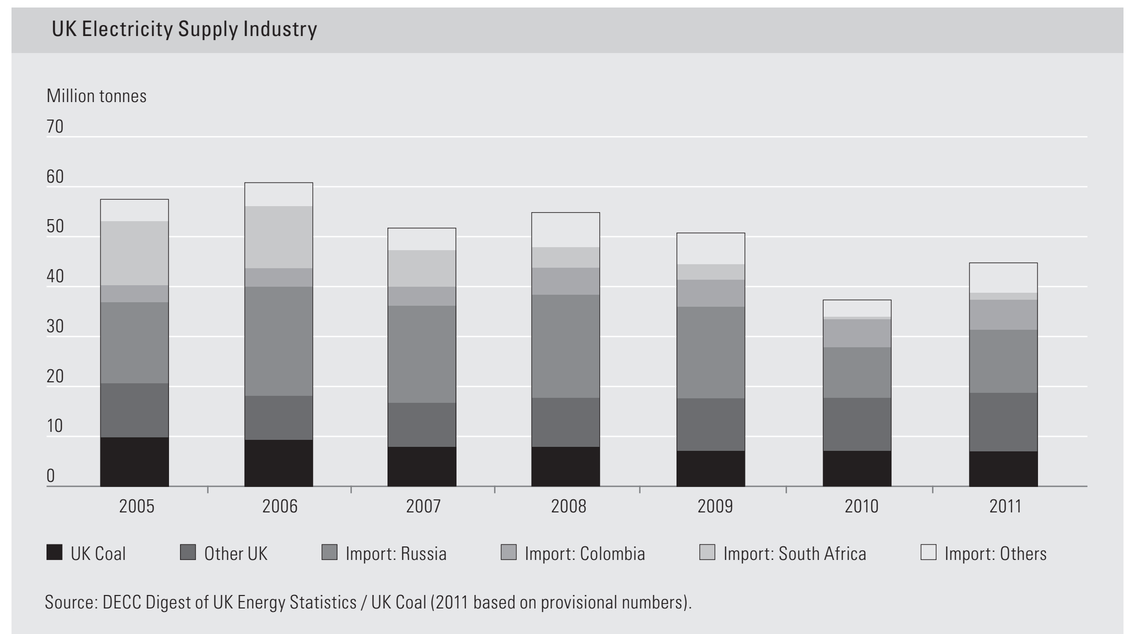
NW Europe spot steam coal price expressed in £/GJ

Source: API 2 – McCloskey Group/GFI.
Actual exchange rates used to date.
Assumed forward exchange rate of $1.58/£1.
Basis: <1%S, CIF NW Europe, 6,000 kcal/kg NAR (25.121 GJ/tonne).
Forward prices based on latest information as at 30 March 2012.

UK steam coal market

Coal delivered into the UK is priced using the Amsterdam/Rotterdam/Antwerp (ARA) price which, for the process of showing a landed UK price, is converted into sterling with the additional cost of delivery into the UK then added. The average forward price for 2012 on the ARA market at 31 December 2011 was $112 per tonne. Converted into sterling at the then exchange rate of $1.56:£1 and into its calorific value by dividing the tonnes by 25.121, this equated to a forward sterling price of £2.86/GJ. The additional cost of delivery to the UK brought this to a UK delivered price of over £3.11/GJ.

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



This table shows coal is the second most used fuel source in UK electricity generation.

Percentage of electricity generated by fuel type

	2011 %	2010 %	2009 %	2008 %	2007 %	2006 %
Gas	**42**	46	45	48	43	37
Coal	**30**	28	28	32	35	38
Nuclear	**19**	16	18	13	15	18
Oil, hydro and renewables	**9**	10	9	7	7	7
Total	**100**	100	100	100	100	100

Source: DECC Energy Statistics (2011 figures based on provisional numbers).

Coal contracts

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

Around 95% of our coal sold is delivered to electricity generator customers with the balance delivered to domestic and industrial and steel making markets.

The contractual commitments at the end of December 2011 stood at 16.4 million tonnes compared to 21.2 million tonnes at December 2010.

Sales are substantially contracted for 2012, in a mix of floating, floating within caps and collars and fixed contracts. We are half way through the process of selling coal for 2013.

Review of Operations by Business: Mining
continued

Deep Mines

Our deep mines business consists of the operational mines at Daw Mill (Warwickshire), Kellingley (Yorkshire) and Thoresby (Nottinghamshire). Our deep mine at Welbeck ceased production in early 2010 and Harworth remains mothballed and its future is currently being reviewed.

Key Performance Indicators

	2011	2010
Coal mined (million tonnes)	**5.7**	5.8
Revenue (£m)	**366.3**	276.7
Operating cost[1] (£m)	**296.5**	288.9
Operating cost[1] per tonne/per Gigajoule (£/tonne / £/GJ)	**48.5/2.01**	49.6/2.06
Operating cost[2] (£m)	**333.9**	320.8
Operating cost[2] per tonne/per Gigajoule (£/tonne / £/GJ)	**54.6/2.26**	55.1/2.28
Operating profit/(loss) before non-trading exceptional items (£m)	**32.4**	(44.1)
Development driveage metres	**13,296**	13,166
Reserves and resources (ongoing mines – million tonnes)	**148.5**	150.7

[1] Before depreciation and excluding non-trading exceptional items.
[2] After depreciation but excluding non-trading exceptional items.

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

Colliery performance summary

	Production		**Operating cost***		**Production**	
	2011 m tonnes	2010 m tonnes	**2011 £ million**	2010 £ million	**Q1 2012 m tonnes**	Q1 2011 m tonnes
Deep mines						
Daw Mill	**2.1**	2.6	**113.8**	109.1	**0.3**	0.7
Kellingley	**2.3**	1.5	**89.0**	83.6	**0.5**	0.5
Thoresby	**1.3**	1.5	**79.3**	77.1	**0.2**	0.4
Total ongoing deep mines production/costs before stock movements	**5.7**	5.6	**282.1**	269.8	**1.0**	1.6
Welbeck	**–**	0.2	**–**	14.6	**–**	–
Total deep mines production/costs before stock movements	**5.7**	5.8	**282.1**	284.4	**1.0**	1.6
Stock movements	**0.4**	–	**14.4**	4.5	**–**	–
Total deep mines	**6.1**	5.8	**296.5**	288.9	**1.0**	1.6

* Before non-trading exceptional items and depreciation, with central costs absorbed.

During the year deep mining invested £30 million in capital expenditure, of which £13.0 million and £10.0 million was in respect of new face equipment at Daw Mill and Thoresby respectively. An additional £3.5 million and £1.3 million was invested to increase coal processing capacity at these two mines.

Overall costs before stock movements (excluding Welbeck) increased by 4.6%. This reflected the cost of increased production levels, rises in electricity and other power tariffs and the impact of increased developments costs on the profit and loss account. Developments in 2011 were wholly expensed at Kellingley and Thoresby rather than being capitalised to the balance sheet as in early 2010 as part of the access costs to new seams.

Development driveage (metres)

	2011	2010
Deep mines		
Daw Mill	**2,454**	2,844
Kellingley	**5,407**	5,763
Thoresby	**5,435**	4,559
Total	**13,296**	13,166

Daw Mill

As previously reported, 32s face was re-planned to work through a fault following further seismic information that showed it was possible to safely mine through, albeit at a slower rate than 2010. This progressed well until late November when, as a result of the creation of steep gradients across the face, it became impossible to advance the powered roof supports. The continued slow recovery of 32s and the slow ramp up of the next coal panel left the mine with minimal production throughout December and poor production in Q1 2012.

We continue to work on the safe recovery of 32s. A decision will be made whether to continue mining or to salvage the face early for preparation of the 2013 panel, 33s, once certain milestones have been achieved. If 32s is not capable of being safely recovered and mined, it is possible that Daw Mill may have a face gap of up to three months during the first half of 2013, although mitigating plans are being put in place as a precaution.

The current panel, 303s, started ramping up in January and immediately hit a known fault area, resulting in reduced Q1 2012 output. It has now moved beyond the known fault area and is producing to plan.

Planned developments at Daw Mill have not been achieved for many years. To address this and the poor mining performance, the Board, having reviewed the strategic options for Daw Mill, implemented an intensive intervention in the day to day management of the mine to lift performance which has yielded positive results.

Notwithstanding this intervention, Daw Mill's performance led to the decision to suspend developments on those faces to be mined from 2014 and to start consultation with the workforce concerning the future of this mine. Discussions continue in this regard.

Kellingley

Production for 2011 finished ahead of plan following the successful transition from 501s to 502s. The experience gained from working the first panel in the Beeston seam, 501s, was successfully transferred to the new face.

Developments continue to make good progress and are on track for completion in time for face installation.

The next face change to 503 is due in the Autumn of 2012. Developments are progressing well as is our work to upgrade the face equipment to the same specification successfully used on 502s.

Thoresby

Production was on plan in the second panel of the Deep Soft seam, DS2, following a successful transfer from DS1. Developments are continuing to progress and a transfer to DS3s has recently taken place, with the ramp up on DS3s beginning in Q1 2012.

As reported previously, we have had high stocks of unprocessed coal whilst additional washing capacity was commissioned. These stocks had been reduced significantly by year end and have now fallen to normal levels.

Development of DS4 is progressing well with the aim of producing coal in late 2012/early 2013.

Harworth

Harworth colliery remains on a care and maintenance strategy. A small, dedicated planning team has begun investigations to see whether or not the mine should be reopened or capped and closed. It is envisaged that this decision will take place in 2012.

Review of Operations by Business: Mining
continued

Reserves and Resources – Deep Mines

We estimate that we have approximately 148.5 million tonnes of reserves and resources at our ongoing mines of which 34 million tonnes of coal is accessible under the existing five year mining and investment plans. The additional resources will become accessible beyond this timeframe with investment required as necessary.

Following changes to the mining plans, our available reserves and resources across all mines have not changed significantly since last year and our estimates, as at December 2011, of deep mine coal reserves are set out in the following table:

	Proved m tonnes	Probable m tonnes	Total reserves m tonnes	Resources m tonnes	Total reserves and resources m tonnes
Daw Mill	1.5	14.0	15.5	42.0	57.5
Kellingley	3.5	5.5	9.0	56.0	65.0
Thoresby	1.5	8.0	9.5	16.5	26.0
Harworth	–	–	–	53.0	53.0
Total	**6.5**	**27.5**	**34.0**	**167.5**	**201.5**
2010	7.3	31.7	39.0	164.7	203.7

Reserve Reserves which are accessible using the current infrastructure and in the current five year mining plan.

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

These reserves are calculated on the basis that Daw Mill continues to operate beyond 2014. In the event of a decision to close Daw Mill in early 2014, estimated reserves regarding Daw Mill would reduce to between 4 – 5 million tonnes.

Our closed mines at Rossington, Thorne and Welbeck have 120 million tonnes of resources. We retain a licence on these resources for possible future exploitation.

These figures are based on the Group's best estimates. A number of factors may cause the actual production to vary significantly from these estimates. These factors include:

- Ongoing seismic surveying of reserves to confirm production estimates;
- Sales price of future coal and cost increases – these could render production plans uneconomic or could allow extraction from areas previously thought unviable; or
- Production requirements – the need to maintain continuous production can lead to early commencement of a new face, with coal consequently being left unmined.

As stated last year, we have changed our reporting basis and are now reporting our reserves and resources in accordance with the criteria for internationally recognised reserve and resource categories of the 'Australasian Code for Reporting Mineral Resources and Ore Reserves'. This is published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia.

Surface Mines

Key Performance Indicators

	2011	2010
Coal mined (million tonnes)	**1.8**	1.4
Revenue (£m)	**111.4**	66.1
Operating cost[1] (£m)	**87.7**	63.7
Operating cost[1] per tonne/per Gigajoule (£/tonne / £/GJ)	**47.3/1.97**	45.1/1.91
Operating cost[2] (£m)	**89.4**	65.7
Operating cost[2] per tonne/per Gigajoule (£/tonne / £/GJ)	**48.2/2.01**	46.5/1.97
Operating profit before non-trading exceptional items (£m)	**22.1**	0.4
Restoration spend (£m)	**16.9**	11.6
Sites with consent[3] (number)	**6**	7
Reserves on sites with planning consent (million tonnes)	**5.1**	5.3

[1] Before depreciation and excluding non-trading exceptional items.

[2] After depreciation but excluding non-trading exceptional items.

[3] Includes sites where planning committee approval has been obtained and formal consent is pending.

Production increased by 29% to 1.8 million tonnes compared to 1.4 million tonnes. First quarter production in 2012 was 0.4 million tonnes (Q1 2011: 0.5 million tonnes).

Operating costs increased in the year in absolute terms, primarily due to additional sites in operation and a significant increase in the cost of gas oil. Operating cost per Gigajoule showed a more modest increase year on year due to a change in the portfolio of mines being operated in 2011 compared to 2010 and their respective coal yield operating costs.

Production was ahead of plan due to additional production from Cutacre and Steadsburn sites as they entered their restoration phases in the year, combined with increased production at Potland Burn.

This increase against plan was offset by the delayed start to Butterwell due to additional environmental work and delayed planning permission for Lodge House Extension which came too late to begin work in 2011. Butterwell began production in February 2012 and Lodge House commences mining shortly. In addition, Minorca was granted planning permission in July 2011 and will enter production in late 2012.

These planning successes mean that 100% of 2012 production is consented with a similar level covered in 2013.

Over the last two years we have completed a significant amount of restoration work on certain large former mine sites, especially Stobswood, Maiden’s Hall and Steadsburn. The level of restoration work required in 2012 will therefore be commensurately lower.

The Surface Mines business has been strengthened during the year with the external appointments of a Director of Surface Mining and Head of Business Development. A strong pipeline of development projects exists to support continuity and growth in the Surface Mining business with the aim of increasing production levels.

Review of Operations by Business: Mining
continued

Reserves and Planning – Surface Mines

We estimate that we have surface mining reserves and resources of 32.6 million tonnes (2010: 42.3 million tonnes) as shown in the table below.

The year on year reduction follows a comprehensive review of the development portfolio proposals which saw some long-term, low probability sites being removed and land sold. As a result of this, the remaining developments offer a higher average probability of success.

	Proved m tonnes	Probable m tonnes	Total reserves m tonnes	Resources m tonnes	Total reserves and resources m tonnes	Inventory coal m tonnes	Total m tonnes
Butterwell	1.0		1.0		1.0		1.0
Huntington Lane	0.3		0.3		0.3		0.3
Lodge House Extension	0.7		0.7		0.7		0.7
Minorca	1.2		1.2		1.2		1.2
Park Wall North	0.6		0.6		0.6		0.6
Potland Burn	1.3		1.3		1.3		1.3
Sites with planning	**5.1**		**5.1**		**5.1**		**5.1**
Bradley		0.5	0.5		0.5		0.5
Hoodsclose		2.1	2.1		2.1		2.1
Submitted for planning		**2.6**	**2.6**		**2.6**		**2.6**
Sites in development		**6.5**	**6.5**	**18.4**	**24.9**	**45.2**	**70.1**
2011 Total	**5.1**	**9.1**	**14.2**	**18.4**	**32.6**	**45.2**	**77.8**
2010 Total	5.3	11.2	16.5	25.8	42.3	33.7	76.0

Although we have been successful in the previous 15 applications, the planning environment for surface mines, notwithstanding the arrival of The National Planning Policy Framework, remains challenging. This was demonstrated by the setback with our proposed Bradley site. Despite having been recommended for approval by the Planning Officer, the Planning Committee voted against this scheme and we also lost on appeal. We are now seeking a judicial review and expect a decision in 2013.

We expect to submit planning applications during 2012 for in excess of 6 million tonnes of coal.

Coal reserves are the economically mineable part of the Company's identified coal tonnage. It includes allowances for losses that may occur when the coal is mined. Reserves are sub-divided into proved and probable reserves:

- Proved reserves represent the highest confidence category of reserve estimate as detailed technical and economic studies have demonstrated that extraction is viable and sites are either working, have been granted planning permission or have a resolution to grant planning permission.
- Probable reserves have a lower level of confidence than proved reserves. Detailed technical and economic studies have demonstrated that extraction is viable and planning applications have either been submitted or will be submitted in the short term.

Coal resource is that part of a coal deposit in such form, quality and quantity that there is a reasonable prospect for eventual extraction.

Inventory coal is any occurrence of coal in the ground that can be estimated and reported without necessarily being constrained by economic and geological potential, or other modifying factors.

Tonnages quoted are in accordance with the Australasian code for reporting of exploration results, mineral resources and ore reserves as established in 1971 by the Joint Ore Reserves Committee.

Review of Operations by Business: Harworth Estates

Key Performance Indicators

	2011 £ million	2010 like-for-like £ million	2010 £ million
RICS valuations of the property portfolio	**282.3**	279.6	338.9
Disposals			
Contracts exchanged in year* (net proceeds)	**67.0**		24.4
Cash received in the year	**64.5**		22.7

*In addition we have conditionally exchanged contracts during 2011 on sales with potential net proceeds of £18.1 million where we expect conditions to be satisfied during 2012.

The Group's property division, Harworth Estates, produced a profit of £8.3 million (2010: £33.1 million loss), including a gain on investment properties of £6.0 million (2010: £34.7 million loss), of which £3.3 million was unrealised (2010: £34.2 million loss). In addition, an accounting revaluation gain of £4.5 million was taken directly to reserves (2010: £1.2 million), being the gains recognised on former operating properties transferred to investment property status on their ceasing to be operational sites.

While the focus of the year was on our accelerated disposals programme, we continued to progress the promotion of strategic planning for our portfolio.

Disposals

Disposals during the year secured net proceeds after costs of £67.0 million from the sale of 10,200 acres of residential development sites and agricultural land (and associated properties). These sales resulted in a profit on disposal of £2.7 million. During the year we received £64.5 million of proceeds net of costs with the balance to be received in 2012. These proceeds were principally used to repay bank debt. We also exchanged conditionally on further residential and commercial land sales in 2011 which are expected to generate net proceeds of £18.1 million over the next 3 years.

During 2012 disposals of agricultural and commercial properties will continue to help reduce Group borrowing further.

Valuations

The successful 2011 accelerated land disposals programme achieved prices which underpinned the valuations of both the commercial and agricultural elements in our portfolio. Overall the portfolio is valued at £282.3 million (a 1% increase on a like-for-like basis from 2010). 'Undeveloped land' showed a small gain against 2010 as our successes in gaining new or improved planning status on a number of sites offset some planning reversals. 'Agricultural land' continued to show improving values but our income yielding 'Commercial land' reduced in value slightly in a challenging marketplace. Rental levels in this segment have remained flat, a reflection of the difficult economic conditions facing businesses. Overall the progress made across the portfolio reflects the continuing difficult environment for commercial land in the geographical areas our portfolio covers.

A full independent valuation of our property portfolio was undertaken as at December 2011 in accordance with appraisal and valuation standards published by the Royal Institution of Chartered Surveyors.

Review of Operations by Business: Harworth Estates
continued

The portfolio valuation is summarised in the table below:

	December 2011 £ million	December 2010 £ million	December 2010 like-for-like £ million	%
Agricultural				
Retained for surface mining	**21.9**	25.4	21.6	*1.4%*
Mixed	**27.2**	60.4	25.1	*8.4%*
Low grade	**3.5**	6.1	3.7	*(5.4)%*
	52.6	91.9	50.4	*4.4%*
Undeveloped land				
With planning	**106.2**	42.7	98.0	*8.4%*
Application submitted	**10.6**	71.3	14.1	*(24.8)%*
Without planning	**53.9**	63.8	55.8	*(3.4)%*
	170.7	177.8	167.9	*1.7%*
Commercial land with rental income				
Part or fully developed	**27.7**	28.6	28.6	*(3.1)%*
In development	**16.2**	16.0	16.4	*(1.2)%*
	43.9	44.6	45.0	*(2.4)%*
Investment properties at valuation	**267.2**	314.3	263.3	*1.5%*
Operational				
Potential development	**5.0**	13.0	5.5	*(9.1)%*
Agricultural	**3.6**	5.1	4.4	*(18.2)%*
Other	**6.5**	6.5	6.4	*1.6%*
Operational properties at valuation	**15.1**	24.6	16.3	*(7.4)%*
Total properties at valuation	**282.3**	338.9	279.6	*1.0%*

The like-for-like percentage change from December 2010 comparatives are after property reclassification and take into account adjustments for asset sales with a book value of £63.7 million and purchases, development expenditure and depreciation which together net to £4.4 million.

Active surface mine sites are included in the value above based on their restored land value of £15.1 million (2010: £24.6 million). Sites currently being used by the Group for mining and other activities are recorded at cost less impairment and changes in valuations are not reflected in the balance sheet. As at December 2011, a total of £nil (2010: £5.1 million) has not been included in the balance sheet as a result. Operating deep mine sites are not included in the above valuation.

We continue to engage different valuation firms dependent on the type and location of our property and have used the same firms as in 2010. BNP Paribas Real Estate value all the Group's commercial, residential and development sites. Smiths Gore value the majority of the agricultural portfolio, while Bell Ingram value our agricultural properties in the north of England and Scotland. The commercial and residential land contained within the BNP Paribas valuation has been valued in a market with very little comparable evidence available.

In accordance with RICS 'Red Book' guidance therefore, the valuers make the following statement, the same as last year, which is consistent with a significant number of other declarations made on portfolios throughout the country:

> 'Our valuation is on the basis of market value. This is an internationally recognised basis and is defined as:
>
> "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."
>
> 'This basis of valuation is accepted as meeting the criteria for assessing 'fair value' under International Financial Reporting Standards. International Accounting Standard 16 requires that the fair value of land and buildings is usually determined from market based evidence; that is evidence derived from sales comparison. This is the approach we have generally adopted. However, where the property assets are of such a size or a nature that there is no direct evidence of sales to form a basis of comparison, we have had regard to residual development appraisals in part informed by gross development values derived from sales comparison.

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

Market Conditions and Development

In a fragile property market, we have proved that there is still a market for the right product and location. Transaction volumes remain low and we have had to be more innovative in our offering at the design and planning stages to attract buyers and achieve values in line with expectations. Our confidence in creating and delivering value from our diverse portfolio has increased but cautiousness remains across the property market in the short term which may affect performance in 2012.

The benefit of our divisional structure is being realised with focused teams able to highlight and develop opportunities for both short term quick wins and longer term value creation. This structure has also improved accountability and the ability to focus spend and resources on projects where best opportunities are seen. Our developments generate jobs, build homes and provide new recreational facilities and we have shown our ability to increase land values and generate short term income streams using innovative methods such as harnessing energy from low carbon sources and recovery of previously waste materials.

Strategic Land

Harworth Estates has a large and diverse land portfolio with significant potential given our industrial history. Our development sites have excellent strategic locations, substantial power supplies and are significant in size.

The Strategic Land division has a residential land bank totalling in excess of 7,500 plots and 4.4 million sq ft of employment space, of which 969 plots and 0.3 million sq ft are consented. In 2011:

- Outline planning consent was obtained for a further 500 residential plots and ancillary commercial development at Ellington and Lynemouth, Northumberland;
- A further 400 at Mapplewell near Barnsley, South Yorkshire; and
- Conditional contracts have been exchanged with Gleeson and Jones Homes to enable the development of sites at Barnsley, South Yorkshire and Harworth, Nottinghamshire.

In addition to the consented sites a further 42 sites (around 2,300 acres) have been promoted which, subject to planning, may generate 6,500 plots and 4 million sq ft of employment space. Our largest planning application to be submitted in 2012 is for an urban extension at Rossington, South Yorkshire to regenerate the former colliery site with around 1,200 new homes, a food store, pub/restaurant and hotel.

Harworth Estates continues to seek development partners for our consented sites and to deliver significant growth and employment opportunities.

Developments

Our Development portfolio includes four principal sites:

- Waverley, South Yorkshire;
- Prince of Wales, West Yorkshire;
- Harworth Colliery, Nottinghamshire; and
- Yorkshire Main, South Yorkshire.

These represent over 6,000 residential plots as well as offices, retail and leisure uses of some 1.9 million sq ft.

Our largest development site (Waverley, South Yorkshire) conditionally exchanged residential sales contracts with Taylor Wimpey, Barratt Homes and Harron Homes on the first phase of construction for 254 homes. A contract with Rolls-Royce PLC was conditionally exchanged for 17.4 acres on the Waverley Advanced Manufacturing Park to build a 170,000 sq ft high-tech manufacturing unit and the remainder of the Park has been allocated as an Enterprise Zone. This deal was completed on 18 April 2012.

To maximise value we are phasing plot availability and putting in the necessary infrastructure, such as road networks, wherever appropriate.

We will adopt similar strategies on other sites as required.

Review of Operations by Business: Harworth Estates
continued

Business Parks
We currently have 1 million sq ft of built secondary industrial and business premises on 10 active business parks, some of which are former mine sites that provide low cost facilities and opportunities to various businesses. We also have 120 acres of expansion land and a further 320 acres of land with planning consent, or an employment allocation, for commercial space. This gives us the potential to create 4.5 million sq ft of new build accommodation.

We are actively marketing these sites for further development either in-house as pre-let opportunities or with development partners to assist us in planning, promotion and realisation. One such scheme is our Cutacre site, near Bolton, which is viewed as a major regional distribution site for the North West.

Our active and proposed business parks are valuable assets with the potential to grow the current rental income significantly and increase capital value, or realise capital receipts.

Natural Resources
Our large and diverse portfolio provides opportunities for our land that is outside typical development areas. Our focus on these sites is to maximise the opportunities for low carbon energy generation and environmental operations.

In 2011:

- A deal on Bilsthorpe, Nottinghamshire was completed to enable the construction of a 10MW wind farm, led by Peel Energy and John Laing Infrastructure.
- An Option with EDF for a wind farm at Hilltop, County Durham (6MW) was signed and terms with another wind farm developer on our Bewick Drift, Northumberland (6MW) scheme were agreed.
- £2 million of secondary aggregates, coal fines and scrap metals were recovered from former mining sites as part of our restoration and remediation programme.
- A Waste to Energy partnership agreement was signed with Peel Environmental at 11 sites to enable the appraisal and development of various opportunities.
- A Memorandum of Understanding was signed with Linc Energy to explore the prospects of underground coal gasification at three of our sites.

Many of our brownfield sites provide significant power supplies, rail connectivity, minimal proximity to neighbours, links to emerging government regeneration policies or general opportunities for recycling redundant material following the closure of a mine or previous site activity.

We have a sustainable programme that promotes new opportunities and provides benefits to the Group in the short, medium and long term. We are currently looking at 60 potential schemes (covering over 11,000 acres) with proposals for mineral recovery, renewable energy, waste recycling, coal bed methane, gas storage and land reclamation projects.

Harworth Power
Harworth Power is the UK's leading coal mine methane power generator and operates a high quality clean energy portfolio with access to long term gas reserves.

In 2011, Harworth Power made an operating profit of £2.4 million (2010: £2.5 million). Income increased by £1.7 million but profitability remained flat due to a £1.0 million credit in 2010 for sale of Carbon Credits and £0.2 million profit on sale of assets.

It operates fourteen gas engines, with an installed capacity of 26MW, and generates enough energy from methane captured from four of UK Coal's deep mine sites to supply 30,000 homes with electricity.

We consider that there is value in this operating business as a standalone entity separate from UK Coal whilst retaining both a rental income stream and the opportunity to sell the methane gas generated from our mines. We have started a process to explore the potential sale of this business. We will update further on this should the process progress towards a definitive transaction.

Agriculture
Whilst 2011 saw the disposal of many agricultural sites, we still have a substantial portfolio that is either suitable for long term development including surface mining, adjacent to former mining activity or adjacent to potential development sites.

Our strategy is to sell agricultural land where there is no long term development potential or identify suitable development proposals where we can realise value but retain working rights agreements or clawback arrangements.

Sustainable Property Business
In the long term the aim is to become a leading regeneration specialist and create a sustainable property company with a large and varied land bank which generates significant future growth opportunities. We now have a strong track record in turning problem sites into opportunities.

Financial Review

Group revenues have risen in the year to £488.2 million from £351.2 million in 2010. This was achieved through higher sales volumes and higher realised sales prices. The increase in sales volumes arose from improved production from surface mines and a stock lift from the abnormally high opening stock levels following the bad weather in December 2010. The improvement in the average realised sales price was achieved through a strong market price for coal and the replacement of old, below market price, contracts with some newer contracts at current market prices. At the end of 2011, only 0.5 million tonnes of these old contracts remained to be delivered predominantly in 2012 at a price of circa £1.65/GJ. With these changes, we achieved an average sales price per gigajoule of £2.48/GJ compared to the £1.97/GJ in 2010.

Property disposals were made during the year with a net value of £67.0 million resulting in a profit on disposals of £2.7 million. Net proceeds of £64.5 million were received in the year, being used to reduce Group debt, with the balance receivable in 2012. The year end revaluation of the investment property portfolio produced an upward valuation of £3.3 million (2010: loss £34.2 million).

There was an improvement in the year in the operating profit before non-trading exceptional items, which at £65.2 million was £139.5 million better than the previous year's loss of £74.3 million. This was driven by the significant improvement in group revenues noted above and a £3.3 million gain on investment properties compared to a £34.2 million loss in 2010.

There have been non-trading exceptional items during the year resulting in an exceptional income of £16.1 million in the period (2010: £13.1 million charge). The charges/credits in the current year included:

- Pension scheme past service cost
  A past service gain of £16.4 million arose from the benefit changes made to the industry wide pension schemes and concessionary fuel scheme at the end of 2011 and their impact on assumptions as to future salary growth.
- Refinancing costs
  Costs of £1.7 million were incurred in relation to professional fees relating to the refinancing exercise conducted in the first half of the year.
- Pension scheme curtailment
  There was a curtailment gain of £1.4 million in the first half of the year reflecting the reduction in the pension scheme deficit as relevant members ceased to be active members following current and prior year redundancies, mainly as a result of the closure of Welbeck in 2010.

The operating profit after these non-trading exceptional items for 2011 was £81.3 million compared with a loss of £87.4 million in 2010. Group profit before tax was £58.0 million compared to a loss before tax of £124.6 million in 2010.

Financing Expenses

Net finance expenses in the year were £22.9 million compared to £27.4 million in 2010 (excluding exceptional finance costs, which were £nil in 2011 (2010: £9.9 million). The reduction arose from a net repayment of loans during the year of £84.3 million (2010: net increase in loans £12.3 million) leading to a reduction in bank interest in the year to £9.2 million (2010: £11.6 million), and the fair value of interest rate swaps, which provided a credit of £0.1 million compared to a charge of £1.5 million. These reductions were offset by an increase in the interest charge on generator loans and prepayments to £9.2 million (2010: £8.6 million) which arose on a higher average generator loan balance as the loans reached the maximum drawn value and entered repayment phases during the year.

The Group had cash deposits held by our captive insurance company against insurance claims and, similarly, ring-fenced funds held on behalf of the Coal Authority securing surface damage claims resulting from mining. These totalled £14.7 million and £8.9 million respectively at December 2011 (2010: £15.7 million and £8.8 million). In addition to the ring-fenced funds held on behalf of the Coal Authority, a £10.0 million insurance bond is held by the Coal Authority as further security against any possible surface damage claims. This bond matures in December 2012. These deposits were secured against liabilities as at December 2011 of £8.5 million and £16.5 million respectively (2010: £13.0 million and £15.4 million respectively).

Tax

The Group paid no corporation tax in 2011 (2010: £nil), although there was a tax charge for the year of £2.7 million (2010: £0.5 million) which related to deferred tax as outlined below.

At December 2011, the Group had estimated gross trading losses of £230 million (2010: £312 million) and gross timing differences of £230 million, the latter arising largely from unclaimed or disclaimed capital allowances (2010: £195 million), both of which are available to offset against future profits in the mining business. The trading losses had a tax value of £57.7 million at a tax rate of 25% (2010: £84.2 million at 27%), while the gross timing differences had a tax value of £57.7 million at a 25% tax rate (2010: £52.7 million at 27%). Capital allowances have been disclaimed where possible to allow flexibility for the future. The reduction in gross trading losses in the year reflects both the operating performance and the result of disclaiming capital allowances.

The net deficit on the balance sheet in respect of retirement provisions represents an additional tax timing difference of £36.2 million at a tax rate of 25% (2010: £46.3 million at 27%).

The Group recognised a deferred tax asset of £31.5 million at December 2011 (2010: £34.5 million). The Group continues to review its deferred tax asset, given the nature of the business and its historic performance. The deferred tax charge in the year arose due to the change in the rate at which deferred tax

Financial Review
continued

is provided from 27% at the end of 2010 to 25% in line with the forthcoming confirmed reduction in the rate of corporation tax, and adjustments in relation to prior year's deferred tax balances. The impact of the rate change on the opening deferred tax asset was a charge of £2.4 million (2010: £0.9 million) in the income statement and a charge of £nil (2010: £0.3 million) direct to reserves. The adjustment on prior year deferred tax balances was £0.3 million. The charges were offset by a credit of £0.1 million (2010: £1.4 million) for deferred tax on the amortisation (out of the hedging reserve) of previously effective hedge accounting movements. All previously effective hedge accounting movements have now been recycled out of reserves.

The Group has around £350 million of capital losses which can be offset against profits arising on disposals of properties which were held by the Group in 2002. These capital losses are sufficient to offset the vast majority of the deferred tax liability which would otherwise be required in respect of the investment properties leaving a small deferred tax liability which has been recognised in the financial statements of £1.2 million (2010: £1.3 million).

Earnings Per Share
The earnings per share for the period was 18.5 pence (2010: loss 41.8 pence).

Funding

Generator Loans and Prepayments

The Group is party to certain contracts for coal supply which resulted in increased cash flows to the business in 2009, 2010 and 2011 compared to the original contracts in place. The increased cashflows have been treated in the financial statements, together with actual customer loans, as generator loans and prepayments. During the year, these arrangements have moved from the drawdown phase into the repayment phase, and a net £17.1 million was repaid in 2011 (2010: £25.8 million drawdown). The balance outstanding at the year end, including accrued interest, was £84.1 million (2010: £101.2 million).

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

£ million	2012	2013	2014	2015
Net cash outflow	(49)	(21)	(17)	(10)

Bank Facilities

At the year end, the Group had around £97 million of bank facilities and a further £10 million outstanding under finance leases.

Excluding the impact of future property disposals, the weighted average maturity of the facilities, as at December 2011 was 0.9 years (2010: 1.4 years).

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

- Extensions to the maturity of the Revolving Credit Facility ('RCF'), the Additional Revolving Facilities ('ARF'), the Harworth Estate (Waverley Prince) Limited ('HEWPL') facility and the EOS Inc. Ltd facility to the end of December 2013 have all been agreed; and
- The financial profile of the ARF were modified so that the amount available to be drawn, which was initially increased to £27.5 million, reduces by £7.5 million on 30 September 2012 with the balance amortising to £nil over the period June 2013 to November 2013. The facility reduces from £20 million to £12.5 million for a short period at the end of 2012, before reverting to £20 million, matching the profile of the Group's borrowing requirements.

Over and above these extended bank facilities, we have extended the term of the £10.0 million of unsecured stand-by facility from Peel Holdings. This is available for drawing in the event that both the RCF, and part of the ARF are drawn.

This facility has also been extended, amortising gradually from August 2013 to mature in November 2013.

Following the changes, a summary of our principal bank facilities reflecting property disposals at April 2012 is shown below:

	Facility £ million	Margin over LIBOR
RCF	22[1,2]	300-400 bps[4]
ARF	up to 28[3]	1,600 bps
HEWPL facility	27[1]	450 bps
EOS facility	20	300-400 bps
Total	up to 97	

[1] Facility reduces £ for £ as proceeds from property sales are applied.
[2] Reduces by £2 million over October and November 2012.
[3] Facility reduces by £7.5 million on 30 September 2012 and amortises to nil over the period June 2013 to November 2013, with a short period of reduction to £12.5 million at the end of 2012.
[4] Margin dependent on level of committed facility.

The table excludes fully drawn finance leases and other small bank loans which totalled some £10 million at December 2011, and the Peel Holdings loan facility noted above.

The facilities at April 2012 reflect reductions resulting from property disposal receipts since the year ended December 2011. These totalled £3 million in Q1. Net bank debt was £75 million at the end of March 2012 including £9 million of finance leases. Total net debt, including generator loans/repayments but excluding restricted funds, at the end of March 2012 was £154 million.

Movement in Group Net Debt

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

	2011 £ million	2010 £ million
Operating profit/(loss) before non-trading exceptionals	**65.2**	(74.3)
Revaluation of property	**(3.3)**	34.2
(Profit)/loss on sale of fixed assets and investment properties	**(3.3)**	0.3
Depreciation/diminution	**40.5**	35.2
Cash impact of non-trading exceptionals	**(0.3)**	(13.1)
Non-cash movement in mining provisions	**4.4**	5.2
Net working capital movements	**14.5**	(1.1)
Finance costs/interest payments (including loan arrangement fees)	**(21.2)**	(12.2)
Other movements	**1.3**	2.3
	97.8	(23.5)
Deep mines		
Capital expenditure – cash	**(31.8)**	(26.8)
Capital expenditure – new finance leases	**–**	(1.7)
Payments against provisions	**(10.8)**	(13.1)
Fixed asset disposal proceeds	**1.3**	0.3
	(41.3)	(41.3)
Surface mines		
Amortisation of restoration assets	**17.1**	14.0
Pre-coaling expenditure	**(2.6)**	(5.4)
Deferred stripping adjustment	**(0.9)**	(3.0)
Restoration payments	**(16.9)**	(11.6)
	(3.3)	(6.0)
Harworth Estates		
Net proceeds of sales of investment properties	**64.3**	22.7
Planning and development expenditure	**(4.8)**	(2.1)
	59.5	20.6
Pension contributions in excess of current service cost	**(10.0)**	(5.8)
Net movement in restricted funds	**0.9**	3.3
Generator loans	**(17.1)**	25.8
	86.5	(26.9)

The total decrease in net debt in the year was £86.5 million (2010: increase of £26.9 million).

The Group has continued to invest significantly in the business in the year. A total of £31.8 million was invested in the mining business on fixed assets, with some £28 million incurred on face equipment and additional coal processing capacity at Daw Mill and Thoresby, all of which was paid during the year. There were no new finance leases taken out in the year. Capital investment in the year was lower than the £44.7 million in 2010 which included the final elements of the significant investments in the new seams at Kellingley and Thoresby which were completed in 2010.

A further £2.6 million has been spent on pre-coaling expenses in preparation for the opening up of the three new surface mines opening in 2012 (2010: £5.4 million) and £4.8 million (2010: £2.1 million) on costs associated with gaining and fulfilling planning consents on investment properties.

Our ongoing project to dispose of surplus property assets has realised £64.3 million of net sales proceeds from investment properties (2010: £22.3 million), and a further £0.2 million from the sale of operating properties (2010: £0.4 million). These proceeds have been applied against bank borrowings in the year. The cash generated in the business has been used in part to repay £17.1 million of Generator loans, compared to the drawdown of these facilities of £25.8 million in 2010.

Financial Review
continued

Balance Sheet

The net assets of the Group at December 2011 were £146.0 million compared to £81.4 million in 2010. The increase in net assets is due principally to the trading profit for the year of £55.2 million (2010: £125.1 million loss) and a decrease in the deficit on retirement obligations of £26.9 million.

Provisions

		2011 £ million	2010 £ million
(i)	Employer and public liabilities	**8.5**	13.0
	Surface damage	**16.5**	15.4
(ii)	Restoration and closure costs of surface mines	**41.2**	51.6
(iii)	Restoration and closure costs of deep mines		
	– shaft treatment and pit top	**9.6**	9.9
	– spoil heaps	**2.5**	2.9
	– pumping costs	**–**	2.8
	Ground/groundwater contamination	**10.1**	6.3
(iv)	Redundancy	**0.4**	3.2
		88.8	105.1

(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 2011, it held £14.7 million of cash deposits and £6.4 million of property assets to meet £8.5 million of liabilities.

Surface damage provision relates to the Group's liability to compensate for subsidence damage arising essentially from past deep mining operations. Claims can be lodged by the public up to six years after the date of relevant damage. The estimate is based on historical claims experience, following a detailed assessment of the nature of damage foreseen. The increase in the surface damage provisions is in line with the mining pattern at Daw Mill and Kellingley. As at December 2011, the Group had £8.9 million of ring-fenced deposits and an insurance bond, maturing in December 2012, for a further £10.0 million to provide security to meet £16.5 million of liabilities.

(ii) Surface mines

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

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

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

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

As at December 2011, the Group had a non-current asset of £25.7 million (2010: £35.7 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. At the same date, provisions for restoration and rehabilitation totalled £41.2 million (2010: £51.6 million) after expenditure of £16.9 million in the year.

(iii) Deep mines

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

	£ million
Operating mines	10.5
Closed mines	11.7
	22.2

47% of the deep mines provision relates to the three mines classified as 'operating' which will be utilised after the point of closure. We expect that we may utilise £0.2 million of the closed mine provision in 2012 and £2.2 million in 2013, representing predominantly the costs in respect of the former Welbeck and Rossington collieries. The remaining balance of £9.3 million will be utilised beyond 2013.

(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.

Retirement benefit obligations

The Group has a deficit, calculated under International Accounting Standards, on its defined benefit pension and retirement schemes of £144.7 million (2010: £171.6 million). All new employees who joined after the privatisation in 1994 are eligible to join defined contribution schemes.

The defined benefit pension and retirement schemes comprise two funded industry wide schemes, together with an unfunded concessionary fuel scheme. The deficit noted above includes a liability of £43.7 million (2010: £36.5 million) in relation to the unfunded concessionary fuel scheme. All of these schemes are valued annually by our independent actuaries, the Government Actuary's Department.

The schemes have been for these financial statements valued under International Accounting Standard 19 (IAS 19), using the projected unit method and discounting future scheme liabilities on the basis of AA-rated corporate bond yields of over 15 years. The discount rate used, net of inflation, was 2.0% (2010: 2.1%).

Changes to the status of the defined benefit schemes and the concessionary fuel scheme were agreed and implemented during the year, resulting in a credit of £16.4 million to the income statement in recognition of the effect of these changes on past service costs.

Movements in the net liabilities of the schemes in 2011 are set out below:

	Pension* £ million	**Concessionary Fuel £ million**	**Total £ million**
December 2010	**135.1**	**36.5**	**171.6**
Contributions paid less current service cost	(10.0)	(0.7)	(10.7)
Change in fund value compared to expected return	20.1	2.0	22.1
Actuarial (gain)/loss on liabilities	(28.0)	7.5	(20.5)
Gains on curtailment	(1.4)	–	(1.4)
Past service cost	(14.8)	(1.6)	(16.4)
December 2011	**101.0**	**43.7**	**144.7**

* Including Blenkinsopp scheme.

Financial Review
continued

There was a significant decrease in the deficit on the pension schemes of £34.1 million. The main movements were:

- The benefit changes agreed with stakeholders at the end of 2011 affected past service benefits with a resulting credit of £14.8 million. The change with the largest impact on the liabilities was the introduction of a cap, restricting the benefit of future salary increases to inflation;
- An actuarial gain on the funds' liabilities of £28.0 million arising from the change in actuarial assumptions. Principally, this was due to a reduction in the assumed rate of growth of CPI relative to growth in RPI, but also included an experience gain of £5.5 million as salary growth was lower than expected;
- A loss in the year of £20.1 million due to returns in the year on the funds' assets being lower than expected; and
- Contributions, above the current service cost, of £10.0 million. In total, the Group paid £22.5 million to the schemes in 2011, covering both current service and deficit contributions. Further deficit contributions of around £20 million are expected to be made in 2012 of which c.£15 million will be treated as deficit payments under IAS 19 with the balance expressed as finance costs.

£10.8 million of the movement in the deficit on the pension schemes has been credited to the Consolidated Statement of Comprehensive Income ('SOCI') in the year.

There has been an increase in the liability for the unfunded concessionary fuel scheme of £7.2 million, relating mainly to the increase in the cost of the fuel benefit, which averaged around 20% over the year. The interest cost on the liability exceeded the contributions in the year and there was an actuarial loss of £7.5 million on the liability. These impacts were offset by a gain of £1.6 million arising from benefit changes agreed at the end of 2011, which reduced the benefits accruing in the future by 10%. The increase in the cost of fuel benefits is reflected in the changes to the actuarial assumptions and has been charged to the SOCI.

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

Pension schemes' funding levels

Contributions to the schemes are determined by the schemes' actuary on the basis of triennial valuations. The last agreed triennial valuations, which were finalised during 2011, were as of 31 December 2009. The Trustees of the schemes estimated that the combined deficit of the industry wide schemes as at the end of December 2009, but adjusted for the rule changes agreed in 2011, was around £250 million, using assumptions which differ from those that we are required to use under IAS 19.

On the same set of assumptions used by the Trustees, but updated for changes in market rates, the Company has estimated that the deficit, calculated on this basis, had increased to £430 million at December 2011, with liabilities of around £875 million of which just under half were in respect of active members. The next valuation date of the schemes for funding purposes will be 31 December 2012. If the assumptions used by the Trustees result in a significantly increased deficit compared to the 2009 valuation, then it is likely that negotiations would result in significantly increased deficit funding levels compared to the currently agreed £20 million per annum level.

Key Risks and Uncertainties

The mining industry carries inherent risk and is subject to market and other external risks which cannot be fully controlled, mitigated or insured against. In particular, it is in the nature of deep mining that certain events can give rise to the risk of very material consequences, including the loss of a mine or of life, the financial consequences of which cannot be meaningfully quantified in advance. Set out below are some of the principal risks and uncertainties identified by the Directors which could materially affect the financial condition, performance, strategies and prospects of the Group. The following risk information is not intended to be a comprehensive overview.

Mining Risk

Health, safety and environment

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

We continue to focus on the importance of safety issues and strive to create as safe a working environment as possible. Ongoing Health and Safety training is improving on our Health and Safety performance across the Group.

Underground hazards 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 premia, available in the market against these risks which might normally be insurable in other industries. UK Coal has insurance covering a reasonable level of loss, but subject to a material level of insurance excess.

Financing risk

In part, the Group finances its business through debt. The ability to raise funds on reasonable terms in the longer term depends on a number of factors, including general economic, political and capital market conditions and credit availability as well as business performance. There can be no assurance that financing in the longer term will be available or, if it is, that it will be available on acceptable terms for the Group. The maturity of the Group's debt profile at December 2011 is shown in Note 20 to the financial statements and the facilities available, including their maturities, are noted earlier in the Financial Review. Following the extension to our main facilities as noted earlier in the Finance Review, there are now no significant facility maturities in the next 12 months. However, there is a longer term risk that the Group may become unable to refinance its bank debt or unable to obtain new or additional bank debt if this is required.

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

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. This risk is compounded by a short cash conversion cycle resulting in production changes having a fairly immediate impact on cash flow.

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

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

The geology of the ground in which we are mining is an important factor in our business. Whilst bore holes are drilled, and modern seismic surveys (including 3D) offer better information than in the past, we can still face unexpected geological conditions. These may sometimes be revealed when the roadway gates are initially driven, or by knowledge from previous workings in the area such as seams above or below those being mined. The extent of geological faulting or other conditions in the coal seam are not totally predictable.

We manage our mining risks with a well-structured risk management policy. Experienced personnel ensure any operational difficulties are mitigated where ever possible to ensure a continuous production process throughout the year.

Key Risks and Uncertainties
continued

Market price risk

We are exposed to the risks of fluctuating coal prices as our revenue and earnings are directly related to the prevailing prices for the coal produced.

We have historically mitigated this risk in part through longer term customer contracts to provide more certainty of both demand and price. In the past some of these contracts have worked to our disadvantage due to increases in the world price of coal. Therefore, we have moved towards a strategy of a balanced mix of longer term contracts on fixed, capped and collared and floating prices, and whilst maintaining an element of shorter term contract and spot sales. We remain exposed, however, to market price fluctuations the impact of which will vary dependant upon the interaction between the market price and the level of any caps or collars. At around the current market price, we estimate a 10 pence per gigajoule market price movement would have a full year impact in 2012 of c£8 million in revenue terms.

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

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

We remain exposed to the impact on our market of changes in Government regulation, in particular with reference to the development of a low carbon economy.

Employment Risk

Pension risk

Under the terms of the 1994 privatisation, those employees transferred to the employment of UK Coal Mining Ltd ('UKCML') became members of one of two Industry Wide Defined Benefit Pension Schemes.

These schemes are sectionalised, meaning that UKCML has no unprovided liabilities in respect of the employees of other companies in the industry. UK Coal PLC and UKCML both have a responsibility in respect of these pension schemes under the Protected Persons Regulations which provides that it is not permitted to close off the schemes for future service, although in certain circumstances, later legislation may override this.

Under IAS 19, as noted in note 25 to the financial statements, these schemes have a combined deficit of £101.0 million at December 2011. This deficit is, in accordance with IAS, calculated using a discount rate in line with the market rate for corporate bonds. Under the Technical Provisions, which are the basis for the triennial calculation of the pension liabilities for the Pensions Regulator and for agreement on funding rates with the Trustees, different rates, based on gilt yields, are employed. Depending on changes in these rates prevailing at, and investment performance to, the next valuation date (being 31 December 2012), a higher deficit than that as at December 2009 could lead to materially higher deficit contributions being needed in later years.

Other employment risks

The Group operates in a highly unionised environment particularly for the deep mines. During the year the need to change terms and conditions resulted in some difficulties but these were resolved with the assistance of ACAS and industrial disputes were not a material feature. To minimise such risks there remains a strong focus on improving employee and trade union engagement.

The Group relies on the quality and technical competence of its workforce. In an industry which has shrunk in size in recent years, with an ageing workforce, the ability of the Group to attract and retain key skills remains a priority.

Property Risk

Property market downturn or volatility

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

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

Planning approvals

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

Corporate Social Responsibility

Impact and Benefits

As a major employer, mining operator and landowner within Central and Northern England, UK Coal strives to minimise the impact of its operations by maintaining a corporate focus on the local environment, communities, economy and the safety of our employees.

A commitment to Corporate Social Responsibility sees us work with a range of stakeholders, including Business in the Community, to help deliver significant benefits to the areas in which we work.

A National Asset

UK Coal is Britain's largest producer of coal, supplying around 5% of the country's energy needs for electricity generation. The Group has three deep mines located in Central and Northern England with substantial reserves and employs c2,500 people.

UK Coal produces around 40% of the coal mined in the UK. The chief market for coal in the UK is the electricity generation sector which uses coal for approximately 30% of its annual power generation. Around 95% of UK Coal's production is sold to electricity generators, accounting for 19% of coal burnt at power stations in the UK. The remainder of UK Coal's production is sold to industry and merchants, where it is principally used for direct fire applications such as the manufacture of cement and domestic and commercial heating.

Whilst primarily focused on coal mining activities, UK Coal operates a broad business portfolio that also encompasses renewable energy generation and the creation and development of new opportunities across all sectors of the property market. Focussing on this sector helps reach government targets of creating 30% of the UK's electric energy requirements from renewable sources.

A Caring Employer

UK Coal employs a highly skilled and well trained workforce which is essential for the long term success of the business. The aim is to attract, retain and motivate high calibre employees and encourage personal and professional development.

The Group also:

- Carries out continuous workforce development through a rolling programme of performance management training, work practice reviews, refresher courses and appraisals;
- Communicates regularly with employees to engage and inform on operational and organisational information;
- Has feedback channels to listen to the views and suggestions of employees; and
- As an equal opportunities employer, UK Coal welcomes diversity and supports the employment of disabled people, provided that they can be employed in a safe working environment.

Safety and Health

As we set about dealing with deep rooted issues around safety and health in early 2011 our progress was overshadowed by the loss of Gerry Gibson, a well respected colleague at Kellingley colliery. This event resulted in a wide ranging review of the safety practices across the whole company with the full involvement of the workforce and Trade Unions. The review accelerated an ongoing process which continues to promote safe working and the identification and eradication of risks.

For 2011 the full year lost time injury frequency rate improved by over 7% to 25.27 per 100,000 man shifts worked (2010: 27.42 per 100,000 man shifts). This is an improvement of 27% since the end of 2009. For UK Coal to meet its target of a 40% reduction by year end 2012 we will need to improve by a further 15% in this full year 2012. Our All Accident Rate also improved by over 19% in the full year 2011, 85.63 per 100,000 manshifts, compared to the full year 2010 (2010: 106.14 per 100,000 manshifts).

Safety improvement strategy progress

The overriding objective is to achieve zero harm following the introduction of the twelve guiding standards on sound safety management. Supporting the existing external audit processes, a self-audit process was introduced in 2011 across the mining business with all operations using this to define areas of strength and weakness within the twelve standards.

UK Coal continues to ensure the basics of good safety management are correct, with the same principles and processes embedded across the organisation. In 2011, we introduced a behavioural safety program which has provided further training in recognising and intervening on behavioural safety issues for over 450 managers.

The on-going focus is to sustain the progress already made and make improvements where required. This depends on a number of factors which include:

- Leadership at all levels being committed to proactive safety and health improvements;
- Developing a competent workforce, from management to operators, who can effectively control hazards in their workplace;
- A continuation on improving the management of risk, and in particular major hazard risks associated with mining operations;
- Ensuring the organisation has the skills to learn from incidents or near hits reported, internal and external to the organisation; and
- Clear monitoring of where improvements can be made.

Corporate Social Responsibility
continued

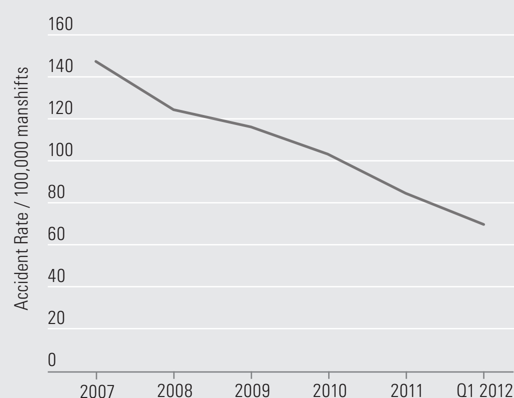
Risk management
In 2011 the organisation focussed on introducing the visible 'felt' leadership element of safety improvement. Particular emphasis was placed on ensuring our front line managers were equipped to intervene where safe behaviours, or safe systems, were absent.

In 2012 the focus is on introducing a risk management approach that can be applied consistently across the Group. A programme has been developed to assist those involved at an operational level with specific responsibilities for implementing risk management. It is designed to ensure they have a full understanding of the process and this is implemented in their part of the organisation.

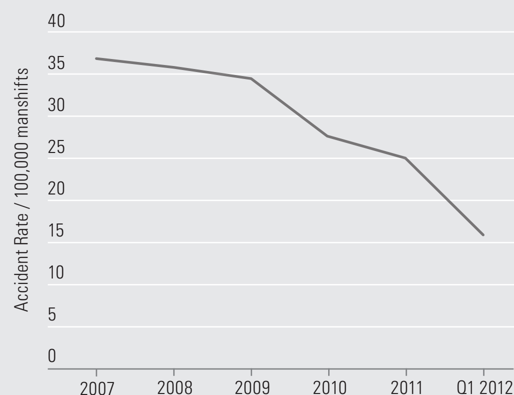
The risk management programme complements work being conducted centrally to examine major hazard risks with a low probability of occurrence, but very high potential consequences. From this, a set of Major Risk Standards and supporting Guidelines will be developed and deployed into the business

Looking forward
Maintaining focus on continual improvement is essential to ensure we achieve our safety goals. 2012 is about the development of major hazard standards. In 2013 we will roll these effectively across the organisation and develop a way of auditing, measuring compliance and developing targeted improvement programmes for each site.

UK Coal All Accident Rate 2007 – Q1 2012



UK Coal Time Lost Accident Rate 2007 – Q1 2012



Environment

As a significant part of the energy sector, UK Coal is aware of the impact that our operations have on the surrounding environment and has strong environmental policy commitments which:

- 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.

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

Certification to ISO 14001 covers all surface and deep mined sites, and our mining services department. Application of our certified system improves both the day to day operational procedures and longer-term environmental risk management over our main activities. Our Environmental Policy is reviewed by both in-house and external auditors to 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 use of the waste hierarchy by reducing, re-using and re-cycling, continue to show positive benefits to the environment.

The success of our policies is judged by the use of key performance indicators. One of the most significant is the need to reduce the use of energy. In the middle of 2010 a target was set to reduce energy use by 3%. When comparing 2011 to 2010, we achieved a c5% reduction in energy usage.

Social and Community Issues

UK Coal believes in supporting suitable community projects around its surface and deep mines and work with suppliers and customers to restore former coal mining sites by investing in sustainable land regeneration projects and renewable technologies. We consistently measure the impact of our mining and development activities to help mitigate risks associated with our operations and meet environmental and safety standards.

Most of our projects are located in areas of previously mined land. We not only have a responsibility to keep supplying the UK's energy industry with vital coal supplies, but also play an important role in addressing issues around subsidence and surface restoration at previously neglected mine workings.

To help these areas thrive once more, Harworth Estates helps build communities by providing a range of sustainable mixed use developments offering a range of homes, recreational facilities, wildlife habitats and commercial space. Our sites offer real potential to generate investment by bringing important job opportunities and positive change to local communities. A wide range of consultation and engagement exercises are carried out to ensure local people are fully informed about our projects and have the opportunity to contribute to development plans and shape their communities.

Over the years UK Coal has invested millions of pounds in projects as diverse as schools, sports clubs and the creation of green spaces. All have benefitted from substantial funds provided by the extraction of indigenously mined coal.

UK Coal's surface mine restoration team has won further awards in the last 12 months for their work on land rehabilitation. Close collaboration between UK Coal, Leeds City Council and the RSPB has resulted in a former mine site, St. Aidan's near Leeds, being transformed over 10 years into an area of international wildlife importance.

Board of Directors

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

David Brocksom
David Brocksom was appointed Finance Director in September 2007. He was previously Finance Director of Pace Micro Technology plc and Avesco plc and has worked in a number of UK listed companies, for over 13 years as a Board member. He qualified as a Chartered Accountant with Price Waterhouse having read Law at Cambridge University. He was a non-executive director of Helius Energy plc.

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

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

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

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

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

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

Directors' Report

The directors present their report and the audited consolidated financial statements for 2011. These will be laid before the 2012 Annual General Meeting. Details of all resolutions to be proposed at the Annual General Meeting are set out in the notice calling the meeting, which is enclosed with this report.

Principal Activities, Business Review and Future Developments

The principal activities of the Group comprise surface and underground coal mining, property regeneration and management and power generation. The principal activity of the Company during 2011 was that of a holding company.

The Chairman's Statement and the Operating and Financial Review (beginning on pages 4 and 6 respectively) are incorporated by reference. These provide a review of the Group's business which includes the:

- Development and performance of the Group in the year and its position at the year end;
- Principal risks and uncertainties faced by the Group (on pages 25 and 26);
- Key Performance Indicators used to measure the Group's performance (on pages 10, 13 and 15);
- Environmental and employee priorities facing the Group (on pages 27 to 29); and
- Group's future development and outlook for 2012 (on page 5).

Dividends Per Ordinary Share

There was no interim dividend paid during the year (2010: £nil). The directors are not recommending the payment of a final dividend in respect of the 2011 financial year (2010: £nil).

Land and Property

The Group's investment property was re-valued at the year end, full details of which are set out in the Operating and Financial Review (on page 16).

Development

The Group actively develops its mining and property portfolios, full details of which are found in the Operating and Financial Review and in the Notes to the Financial Statements (on pages 73 and 74).

Directors

The directors who served during the year were: David Brocksom, Lisa Clement, Jonson Cox, Peter Hazell, Keith Heller, Peter Hickson, Owen Michaelson, Mike Toms, Kevin Whiteman, Steven Underwood and Gareth Williams.

Peter Hickson and Lisa Clement were appointed non-executive directors with effect from 1 July 2011 and 15 December 2011 respectively and will offer themselves (and are recommended by the Board) for election at the 2012 Annual General Meeting. Keith Heller was appointed with effect from 19 April 2011 and re-elected at the 2011 Annual General Meeting.

Kevin Whiteman retired as a non-executive director on 31 March 2011. Mike Toms and Peter Hazell retired as non-executive directors on 30 June 2011 and 31 December 2011 respectively.

In accordance with the Articles of Association, Gareth Williams and Steven Underwood will retire by rotation and seek re-appointment at the 2012 Annual General Meeting. The Board unanimously recommends their re-election.

All executive directors have service contracts, which may be terminated by the Company on not more than twelve months' notice; for all non-executive directors the notice period is three months with the exception of Peter Hickson, Senior Independent Director, whose appointment is subject to six months' notice. There are no directors on fixed term contracts. There are no contractual clauses that give any of the directors an entitlement to compensation exceeding their due payment in lieu of notice. Details of indemnities from the Company and insurance taken out for the benefit of the directors is set out in the Corporate Governance Report (on page 36).

The interests of the directors in the shares of the Company are shown in the report on directors' remuneration (on page 47).

Charitable Donations

The contributions made by the Group during the year for charitable purposes were £nil (2010: £39,325). No political donations were made in 2011 (2010: £nil). Charitable donations made in 2010 were predominantly to associations and charities involved with the coal industry and local communities.

Employees

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

Disabled Persons

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

Directors' Report
continued

Health and Safety
UK Coal is committed to maintaining high standards of health and safety in every area of the business. It is the aim of the Group to exceed the requirements of the Health and Safety at Work Act 1974 and all other relevant health and safety legislation and the Group has established a committee of the Board to oversee health and safety. Details of the Group's commitment to health and safety are found in the Corporate Social Responsibility section (on pages 27 and 28).

During the year UK Coal Mining Ltd ('UKCML') was ordered to pay the sum of £1.2 million, comprising £450,000 in fines and £750,000 in costs, in respect of breaches of health and safety legislation brought against it by the Health and Safety Executive ('HSE') following 4 fatalities in 2006 and 2007. Subsequent to the year-end UKCML has pleaded guilty to 2 charges for breaches of health and safety legislation, following a further fatality in 2009. It is anticipated that UKCML will be fined in summer 2012. Provision has been made for this in the financial statements for 2011.

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 24 to the financial statements (on pages 83 and 84).

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

The Group had 65 days' purchases outstanding at 31 December 2011 (2010: 78 days) based on the average daily amount invoiced by suppliers during the year.

Ethical Policy
UK Coal is committed to working with its employees, customers, suppliers and contractors to promote responsible working and trading practices. It also provides assistance to the wider community by way of financial support for charitable and other local causes. Further information regarding how the Group addresses social and community issues is shown in the report on corporate social responsibility (on page 29).

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

Share Capital, Voting Rights and Transfer of Shares
Details of the structure of the Company's share capital and changes in the share capital during the year are disclosed in note 26 to the financial statements.

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

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

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

The instrument of transfer of a certificated share may be in any usual form or in any other form which the Board may approve. The Board may refuse to register any instrument of transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of certificated share unless the

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

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

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

Significant Agreements

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

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

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

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

The terms of the facility agreement originally dated 14 April 2011 as amended and restated from time to time provided to the Company by Peel Holdings Finance Limited include a mandatory prepayment provision causing the facility to be cancelled upon (and to become immediately due and payable five business days following) a change of control of the Company.

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

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

Going Concern

These financial statements are prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares cash flow forecasts based upon its assumptions as to trading with particular consideration to production levels and key risks and uncertainties as summarised on pages 25 and 26 as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed in the Directors' Report on page 32.

The key factors that have been considered in this regard are:

- The deep mines operate with a cost base which is largely fixed relative to production levels. Consequently, unexpectedly large interruptions or prolonged reductions in production can have a fairly immediate material adverse impact on cash flow. Recent performance has been illustrative of the difficulties inherent in deep mining operations and the impact of unpredictable geological conditions and/or other operational issues on production volumes, and on development and salvage activities at our deep mines. In particular, development, face installation progress and salvage and overhaul of equipment from previous faces all need to be completed in time to enable new faces to be operational on the exhaustion of old faces;

Directors' Report
continued

- Bank funding arrangements contain, in certain cases, covenants based upon, in particular, operating profits adjusted for property revaluations and depreciation, interest cover, loan to property values and net asset values. Property valuations affect the loan to value covenants and net asset values and similarly net asset values are affected by operational performance. Breach of covenants could result in the need to pay down in part some of these loans, additional costs, or a renegotiation of terms or, in extremis, a reduction or withdrawal of facilities by the banks concerned; and
- Revenues in respect of certain floating rate contracts, capped/collared contracts and uncontracted coal will vary based upon the market price for coal, which is expressed in dollars, and sterling/dollar exchange rates. These variables have, over the last year, proved to be volatile and therefore there is a risk of unpredictability in coal revenues and therefore cash flows.

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

Auditors and Disclosure of Information to Auditors

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

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

By order of the Board

Richard Cole
Company Secretary

27 April 2012

Statement of Directors' Responsibilities

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

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

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

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

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

Each of the directors, whose names and functions are listed on page 30 confirm that, to the best of their knowledge:

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

Corporate Governance

The Group recognises the importance of, and is committed to, high standards of Corporate Governance and the following sections explain how the Group has applied the main and supporting principles set out in the UK Corporate Governance Code ('Code'), issued by the Financial Reporting Council in June 2010, a copy of which is publicly available at www.frc.org.uk/corporate/ukcgcode.cfm. The Board confirms that the Group has complied with the provisions set out in the Code throughout the year ended December 2011 save that in light of the need to develop the two distinct principal businesses within the Group it has aligned the Board and management structure such that the Managing Directors of the Mining and Property Divisions respectively report to the Chairman, who retains overall leadership of the Group. At this time, the Chairmanship is substantially a full-time role although it is intended that, over time, it should reduce in commitment and revert to a non-executive position.

The Board of Directors

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

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

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

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

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

The Group maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors. Further, there are indemnities between the Group and all directors 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 47).

Attendance at Board Meetings

Attendance by individual directors at Board meetings (including those convened and held as conference calls) and at Committees during 2011 is shown in the table below. Attendance by non-Committee members at Committee meetings is not included.

	Board		Audit		Remuneration		Nomination		Safety	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
J Cox	13	13	–	–	–	–	2	2	3	3
D Brocksom	13	13	–	–	–	–	–	–	–	–
L Clement (appointed 15.12.11)	1	1	1	1	–	–	–	–	–	–
K Heller (appointed 19.4.11)	8	8	3	3	1	1	–	–	3	3
P Hickson (appointed 1.7.11)	6	6	–	–	1	1	–	–	2	2
O Michaelson	13	12	–	–	–	–	–	–	–	–
S Underwood	13	11	–	–	–	–	–	–	–	–
G Williams	13	13	–	–	–	–	–	–	3	3
M Toms (resigned 30.6.11)	7	6	2	2	3	3	–	–	–	–
P Hazell (resigned 31.12.11)	13	11	4	4	4	4	2	2	–	–
K Whiteman (resigned 31.3.11)	4	4	–	–	1	1	–	–	–	–

Committees

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

Nomination Committee

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

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

During the year the Committee engaged the services of external search consultants to assist with the recruitment of Peter Hickson, Keith Heller and Lisa Clement as independent non-executive directors. In addition, external search consultants were used to recruit senior managers for both the Mining and Property Divisions.

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

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

Remuneration Committee

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

Audit Committee and Auditors

The Audit Committee comprises Lisa Clement (Chair) and Keith Heller.

Peter Hazell, who retired from the Board on 31 December 2011, was Chairman throughout the period and Messrs Whiteman and Toms were both members of the Committee until they resigned as directors (on 31 March 2011 and 30 June 2011 respectively).

The Board is satisfied that Lisa Clement has recent and relevant financial experience and that all members of the Committee are independent non-executive directors. The Chairman, Finance Director and the external auditors are invited to attend meetings. The minutes of meetings of the Committee are circulated to all directors. The Committee meets at least four times a year to review the Group's accounting and financial reporting practices, the work of internal and external auditors and compliance with policies, procedures and applicable legislation. The Audit Committee also reviews the half year and annual financial statements before submission to the Board and periodically reviews the scope, remit and effectiveness of internal audit provision and the effectiveness of the Group's internal control systems. It also reviews 'whistle-blowing' arrangements by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties. The terms of reference of the Audit Committee are available to shareholders on request and are also available on the Group's website.

The auditors throughout 2011 have been PricewaterhouseCoopers LLP.

Fees to PricewaterhouseCoopers LLP

	2011 £000	2010 £000
Audit Fees	**319**	305
Other audit related fees	**62**	130
Tax compliance and advice services	**81**	–
	462	435

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

- The Audit Committee reviews the audit appointment periodically;
- It is Group policy that the external auditors will not, as a general rule, provide consulting services to the Group. The external auditors provide audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholder and other circulars;

Corporate Governance
continued

- The external auditors may undertake due diligence reviews and provide assistance on tax matters given their knowledge of the Group's businesses. Such provision will, however, be assessed on a case by case basis so that the best placed adviser is retained. The Audit Committee monitors the application of the policy in this regard and keeps the policy under review;
- The Audit Committee reviews on a regular basis all fees paid for audit, and all other fees, with a view to assessing reasonableness of fees, value of delivery, and any independent issues that may have arisen or may potentially arise in the future; and
- The auditors report to the Directors and the Audit Committee confirming their independence in accordance with Auditing Standards.

Safety Committee

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

Other Meetings

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

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

Directors' Development

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

Performance Evaluation

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

Executive Management Committee

The Executive Management Committee was established to manage and co-ordinate all strategic and key operational issues. It comprises the Chairman, Finance Director, Managing Director – Mining and Managing Director – Property with attendance by the Company Secretary, Chief Operating Officer-Recovery Programme (an interim appointment), HR Director and Director of Communications.

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

Directors Conflict of Interest Procedures

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

Relations with Shareholders

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

Substantial Shareholdings in the Company

The directors have been notified of the following substantial shareholdings as at 27 April 2012:

Company	Number of shares	% of issued share capital
Goodweather Holdings Ltd*	87,054,470	29.09
UBS Investment Bank	25,512,154	8.52
Pelham Capital	22,376,560	7.48

*Member of Peel Holdings.

Powers of Directors to Allot Shares

At the 2011 Annual General Meeting of the Company held on 9 June 2011, the directors were authorised to allot new shares up to an aggregate nominal amount of £997,660. In accordance with the latest institutional guidelines published by the Association of British Insurers, a resolution to seek authority to allot new shares up to an aggregate nominal value of £1,995,320 will be proposed at the next Annual General Meeting (full details are available in the 2012 Notice of Annual General Meeting).

Purchase of Own Shares

At the 2011 Annual General Meeting of the Company, shareholders gave the Company permission, until the conclusion of the next Annual General Meeting of the Company, to purchase up to 29,929,815 ordinary shares of 1 pence each of the Company. No such purchases were made during the year. The directors will seek renewal of a similar authority at the next Annual General Meeting (full details are available in the 2012 Notice of Annual General Meeting).

Internal Control Risk Assessment

There is an ongoing process for identifying, evaluating and managing the significant risks of the Group, and this process has been in place throughout the year under review. An updated strategic risk assessment of the Group's risks and effectiveness of internal controls was reviewed on 27 March 2012; it was concluded that there were no strategic risks that had not been considered nor any significant weaknesses in internal controls that had not been identified.

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

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

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

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

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

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

- *Cost budgeting*
  The annual budget setting process includes a detailed review of each business unit and final budgets are approved by the Board. Costs and performance are monitored on a monthly basis against budgets. Monthly Operational Review meetings are held with senior management to discuss financial issues.
- *Treasury*
  The terms of reference for the Treasury department are approved and kept under review by the Board. The Treasury department is responsible for placing deposits, for arranging borrowings and for making payments. These transactions are subject to director or senior management authorisation.
- *Insurance risk*
  The Group holds insurance cover for all employer liability and public liability claims, which is issued by its captive insurance company, and which limits the Group's exposure to £250,000 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 in accordance with the Group's delegated authorities.

Assurance Procedures

In 2011, assurance was provided by an in-house team of Internal Auditors during the first half of the year and external specialists who undertook specific reviews in the second half of the year. Assurance was further provided by in-house Health & Safety Auditors and Environmental Auditors. This resource was supplemented by the HM Inspectorate of Mines (Health & Safety) and other Health & Safety Commission personnel, legal advisors and professional claims handlers (Insurance and Claims Management) and external environmental consultants (Environmental Management).

Reports were prepared and summarised at management level for reporting to the Board as either standing or intermittent agenda items. The Audit Committee reviewed internal audit reports and corporate governance matters. The Group has recently appointed a Head of Internal Audit who will manage all external resources and lead a strengthened in-house team.

Corporate Governance
continued

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

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

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

Directors' Remuneration Report

**Denotes auditable elements of the Remuneration Report*

Context

This report is set in the context of the Recovery Plan for UK Coal, of which the principal objective is to restructure the Group to provide a stable platform for the Group's mining and property businesses. This, it is believed, will provide greatest value for all stakeholders. In addressing remuneration issues, the Remuneration Committee has acted to incentivise key executives to meet operational targets and deliver the restructuring plan, thereby aligning executive reward to the challenges facing the Group.

Introduction

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

Remuneration Committee

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

The members of the Committee are:

- Peter Hickson (Committee Chairman from 1 July 2011); and
- Lisa Clement (with effect from 15 December 2011).

Mike Toms was Committee Chairman until his retirement from the Board on 30 June 2011, and Peter Hazell and Kevin Whiteman were both members of the Committee until they resigned as Directors (on 31 December 2011 and 31 March 2011 respectively).

The Committee may seek any information it requires from any employee or director, and all employees and directors are required to co-operate with any request made by the Committee. Richard Cole (Company Secretary) provided information to the Committee during the year.

The Committee also meets without management and exercises its judgement using publically available information. During the year Mr Toms received information and independent executive remuneration advice from specialist remuneration consultants, New Bridge Street, a trading name of Aon Corporation, who were appointed by the Committee. Executive Directors do not participate in discussions relating to their own remuneration. The Committee liaises with the Audit Committee where appropriate; this includes confirmation of the Group's financial performance to assist in determining whether performance targets and measures have been achieved and to ensure that the structure for the incentive arrangements throughout the Group are appropriate from a risk perspective. It also liaises with the Safety Committee in respect of the safety element of the annual bonus scheme.

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

Remuneration Policy

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

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

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

Executive Director remuneration (excluding the Chairman) comprises a base salary, an annual performance bonus, participation in a long term incentive plan or arrangement, a car or car allowance plus fuel card, pension contributions to a defined contribution pension scheme or a pension allowance, life assurance and health insurance. Gareth Williams, for 2011 only, participates in a deferred share based annual bonus scheme. Bonus payments and benefits in kind are not pensionable. An appropriate balance is maintained between fixed remuneration and performance-related remuneration.

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

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

Directors' Remuneration Report
continued

Base Salaries

Executive Directors' salaries are normally reviewed by the Remuneration Committee on an annual basis. In determining salary levels for executives the Committee has, principally, had regard to external comparators for roles of equivalent size and complexity and, for Mr Brocksom specifically, the number of years without an increase. Following a review of executive salary levels, Messrs Brocksom's, Williams' and Michaelson's base salaries have been increased from £234,675 to £242,889, £230,000 to £240,350 and from £230,000 to £236,900 respectively with effect from 1 January 2012.

Annual Bonus for Executive Directors

With the exception of the Chairman, Executive Directors participate in an annual bonus arrangement. The Committee sets both the performance measures and targets based on the Group's business priorities. These targets ensure that incentives are payable only for demonstrably superior Group and individual performance. The annual bonus provided in 2011 an incentive opportunity in the range of 0% to 75% of base salary for Executive Directors.

The Committee has reviewed executive performance in 2011 against the Group performance targets related to safety, production, cashflow, profit before tax, operating costs and property sales, each executive's personal targets and, for Mr Michaelson only, specific property related performance targets. In light of achievement against these targets and significant leadership and contribution in an extremely challenging environment the Committee has awarded the following bonuses. David Brocksom has been awarded a bonus of £114,404 (2010: £70,000), Gareth Williams £106,375 (2010: £113,077) and Owen Michaelson £144,900 (2010: £25,000). The bonus for the period represents 48.75% of annual basic pay for David Brocksom, 46.25% for Gareth Williams and 63% for Owen Michaelson.

In light of the announcement made on 14 March 2012 to restructure the Group, these bonuses will not become payable until the sufficient short-term recovery of the mining business and the proposals for restructuring have been fully developed and tabled with key stakeholders. The Company has taken a similar approach with all bonuses for 2011 across the management teams.

As disclosed in last year's Remuneration Report, Gareth Williams' annual bonus opportunity (for 2011 only) has been supplemented with a deferred bonus arrangement, whereby a maximum of 500,000 shares in the Company would be awarded at the end of the 2011 financial year based on the achievement of operational targets for 2011; the award (which is not pensionable) will vest, subject generally to continued employment, on 31 December 2013. The Committee has decided that it is appropriate to defer consideration of these operational measures until the proposed restructuring has been completed.

The delayed consideration of operational measures applicable to the deferred bonus arrangement will not impact the maximum number of shares that may be granted under Mr Williams' award or the vesting date of the award once the number of shares under award has been determined.

The Committee is satisfied that this amendment to the terms of Mr Williams' award is appropriate in light of the challenges presented by the Company's current position, and that the amended terms are an appropriate means of incentivising and retaining Mr Williams. Once granted: the number of shares under the award may be adjusted in the event of any variation of share capital or special dividend; the award cannot be transferred or charged by Mr Williams; the award cannot be amended to the advantage of Mr Williams except in respect of minor amendments to benefit the administration of the award, to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment. The amended arrangement is entered into pursuant to the authority contained in Listing Rule 9.4.2R(2).

A resolution was passed by shareholders at the 2011 Annual General Meeting to satisfy the award through the issue of new, rather than existing, shares.

The Committee has agreed one-off bonus arrangements for 2012, which replace the normal potential awards, only in respect of Messrs Williams, Michaelson and Brocksom. Messrs Williams and Michaelson have the opportunity to receive an enhanced bonus of up to 150% of base salary in the event of the restructuring plan announced on 14 March 2012 being successfully implemented. The first half of this bonus (of up to 75% of salary) will be payable at the end of 2012 for achievement of specific targets to improve the operational and financial performance of the business together with achieving key personal targets. The second half of the bonus (of up to 75% of salary) will be paid on successful implementation of the restructuring plan during 2012 but will be deferred until the end of 2013 and shall be conditional upon the continued employment of Messrs Williams and Michaelson. Mr Brocksom shall, for 2012, have the opportunity to receive an enhanced bonus of up to 100% of his base salary subject to successful implementation of the restructuring plan and successful management of the Group's financial position, together with a one-off bonus equivalent in value to a maximum of 250,000 shares which is dependant on the achievement of personal performance targets for the 2012 financial year.

Chairman

Mr Cox, Chairman, is paid a base salary of £350,000 per annum on the basis he provided four days per week in 2011; this requirement falls to three days per week in 2012. In the light of the time Mr Cox has been providing, and is expected to provide, in 2012, the Committee has agreed to supplement Mr Cox's base salary by £120,000 for this year only. However, this will not be paid until the sufficient short-term recovery of the mining

business and the proposals for restructuring have been fully developed and tabled with key stakeholders.

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

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

- A Long Term Award to acquire up to 2,800,000 ordinary 1 pence shares which will normally vest on 15 November 2013 (being the third anniversary of Mr Cox's appointment) subject to continued employment and satisfaction of performance criteria related to the turnaround and recovery of the Company. The Committee has recently determined that the condition for the vesting of these shares should be the substantive completion of the three year Recovery Plan which commenced on the appointment of Mr Cox in November 2010. The Committee amended the conditions applicable to the Long Term Award in light of the Company's current financial position which has made the original targets relating to de-gearing and the Company's equity value inappropriate. In light of current business conditions the Committee is satisfied that the amended performance condition applicable to the Long Term Award is no less challenging than the original targets.
- The Committee has the discretion to scale back the award if it is not satisfied that there has been an improvement in the underlying financial performance of the Company having regard to cash flow, profit, net asset value, dividend and gearing. Mr Cox will be entitled to the value of any dividends paid between the grant and the vesting dates.
- An Annual Award over 1,520,000 shares which was to normally vest on an annual basis in three equal tranches subject to Mr Cox's continued employment and progress against the achievement of strategic key performance indicators over the three year period. These required the stabilisation of the mining business, delivery of short, medium and long-term value in the property business, creation of appropriate levels of financial headroom, achievement of financial stability with a de-leveraged balance sheet and development of a long-term strategy. In addition there is a requirement to provide effective leadership to the Board and to develop a Chief Executive to enable the reversion to a conventional governance structure. The Committee has decided that in light of the strategic importance of the Recovery Plan these key performance indicators should be primarily assessed against the achievement of the Recovery Plan, and therefore the condition for the vesting of these shares should be the same as the Long Term Award shares. Progress will be assessed by the Committee annually and the Committee will continue to review the appropriate strategic key performance indicators applicable to Mr Cox's Annual Award.
- Following Mr Cox's proposal that, in light of the Company's Strategic Recovery Plan being over a three year period, it would be more appropriate to measure progress towards achievement of the key performance criteria over the plan's full three year period, the Committee amended the terms of the plan so that vesting would be at the end of the three year period. It has, however, reviewed Mr Cox's progress against the targets and concluded that, in respect of the first year of the three periods, he was on track to meet the key performance indicators in full.

To the extent the awards vest, awards may be satisfied with either existing shares (other than treasury shares) or, following shareholder approval at the 2011 Annual General Meeting through new issue, rather than existing, shares.

Long Term Incentive Plan ('2010 LTIP')

Under the 2010 LTIP an annual award of up to 100% of base salary is conditionally allocated to each Executive Director (excluding the Chairman). Messrs Williams, Brocksom and Michaelson were granted awards of 100% of salary in 2011.

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

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

In light of the plan to restructure the Group, it is not expected that any further awards will be granted and that following completion of the restructuring plan long-term incentives for executives will be reviewed and an appropriate incentivisation structure put into place.

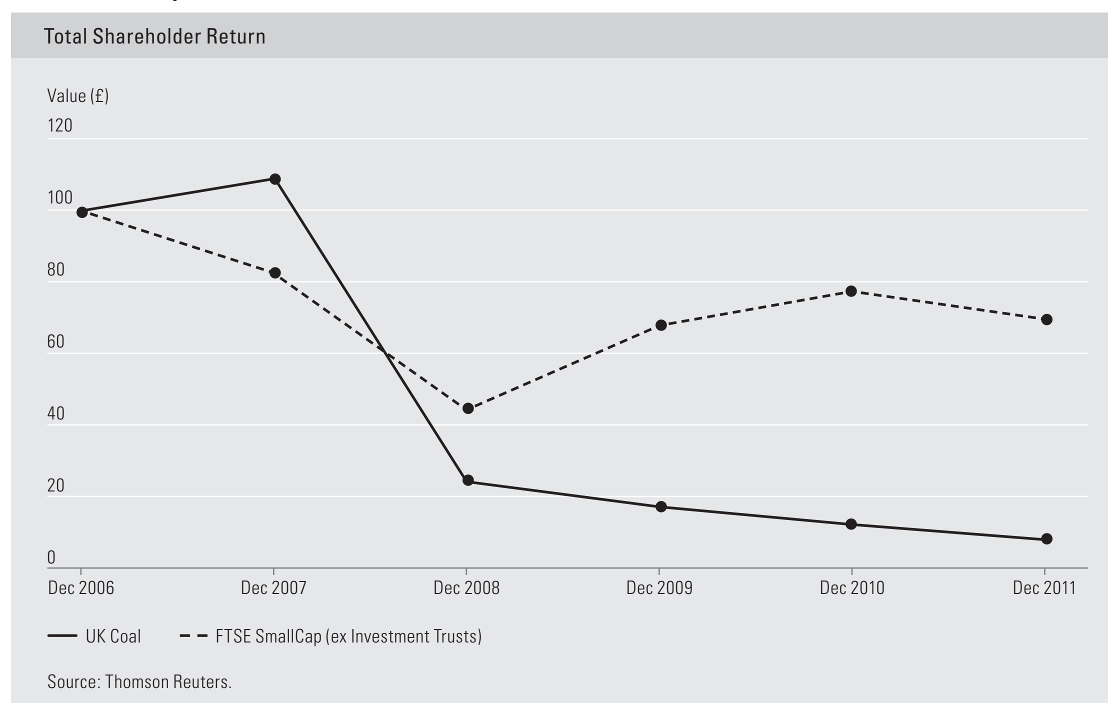
Share Usage

The 2010 LTIP contains limits which control the issuance of new shares to satisfy share awards. This limit restricts the issue of new shares to an amount equivalent to no more than 5% of issued share capital over any ten year period. As at 31 December 2011 the level of issuance of new shares was at 0.4% of the current issued share capital.

Directors' Remuneration Report
continued

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

Performance Graph



The above graph displays the values, by the end of 2011, of £100 invested in the Company on 31 December 2006 compared with the value of £100 invested in the FTSE Small Cap Index (excluding investment trusts). The other points are the values at intervening financial year ends.

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

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

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

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

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

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

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

Directors' Service Contracts and Letters of Appointment

	Contract date	Unexpired term (as at December 2011)	Notice period
Chairman			
Jonson Cox	15.11.10	Rolling 1 year	1 year
Executive Directors			
David Brocksom	4.9.07	Rolling 1 year	1 year
Owen Michaelson	30.7.10	Rolling 1 year	1 year
Gareth Williams	15.2.10	Rolling 1 year	1 year
Non-Executive Directors			
Peter Hickson	30.6.11	2 years 6 months	6 months
Lisa Clement	29.11.11	2 years 11 months	3 months
Keith Heller	18.4.11	2 years 3 months	3 months
Steven Underwood	27.7.10	1 year 7 months	3 months

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

Directors' Emoluments for the Year Ended December 2011*

	Salary/fees £000	Allowances £000	Annual bonus £000	Benefits in kind[3] £000	Total 2011 £000	Total 2010 £000
Chairman						
Jonson Cox[1]	350	20	–	9	**379**	49
Executive Directors						
David Brocksom[2]	235	10	114	8	**367**	321
Owen Michaelson[2]	230	10	145	3	**388**	149
Gareth Williams[2]	230	10	106	5	**351**	422
Non-Executive Directors						
Peter Hickson (appointed 1.7.11)	33	–	–	–	**33**	–
Lisa Clement (appointed 15.12.11)	2	–	–	–	**2**	–
Keith Heller[4] (appointed 19.4.11)	32	–	–	–	**32**	–
Steven Underwood[5]	13	–	–	–	**13**	–
Peter Hazell (resigned 31.12.11)	46	–	–	–	**46**	46
Mike Toms (resigned 30.6.11)	23	–	–	–	**23**	46
Kevin Whiteman (resigned 31.3.11)	11	–	–	–	**11**	46

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

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

[3] Benefits in kind comprise car benefits, life assurance and health insurance.

[4] Fees in respect of the services provided by Keith Heller are paid to S/Dolo Inc.

[5] Fees payable for the services provided by Steven Underwood commenced with effect from 1 September 2011 and are paid to Peel Management Limited.

Directors' Remuneration Report
continued

Pension Contributions*

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

	Pension contributions 2011 £000	Pensions contributions 2010 £000
Jonson Cox[1]	**114**	5
David Brocksom[2]	**70**	70
Owen Michaelson	**69**	29
Gareth Williams[1]	**69**	60
	322	164

[1] This was paid as an allowance.

[2] Of this, £67,601 was paid to Mr Brocksom's personal arrangements and £2,802 as an allowance.

Long Term Incentive Plan*

	Interest at Dec 2010 No. of shares	**Interest awarded during the year[1] No. of shares**	**Interest lapsed during the year No. of shares**	**Interest at Dec 2011 No. of shares**	**Vesting date**	**End of performance period**
David Brocksom						
Executive LTIP 2009[2]	133,734	–	133,734	–	5.5.12	Dec 2011
Executive LTIP 2010[3]	586,687	–	–	586,687	26.8.13	Dec 2012
Executive LTIP 2011[1, 3]	–	680,217	–	680,217	20.4.14	Dec 2013
Total	**720,421**	**680,217**	**133,734**	**1,266,904**		
Owen Michaelson						
Executive LTIP 2010[3]	575,000	–	–	575,000	26.8.13	Dec 2012
Executive LTIP 2011[1, 3]	–	666,665	–	666,665	20.4.14	Dec 2013
Total	**575,000**	**666,665**	**–**	**1,241,665**		
Gareth Williams						
Executive LTIP 2010[3]	575,000	–	–	575,000	26.8.13	Dec 2012
Executive LTIP 2011[1,3]	–	666,665	–	666,665	20.4.14	Dec 2013
Total	**575,000**	**666,665**	**–**	**1,241,665**		

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

[2] The performance conditions for the 2009 awards required absolute TSR growth between 75% and 150% for between 30% and 100% of an award to vest (with straight-line vesting between these points). In addition, the Company was required to achieve EPS growth of at least RPI + 3% over the performance period. The performance targets were not achieved and, therefore, the 2009 awards have lapsed in full.

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

Jonson Cox – Share Awards*

	Interest at Dec 2010	Interest awarded during the year[1]	Interest at Dec 2011	Vesting date	Performance period
Annual Award[2]	–	1,520,000	**1,520,000**	15.11.13	3 years to 15.11.2013
Long Term Award[3]	–	2,800,000	**2,800,000**	15.11.13	3 years to 15.11.2013

[1] The share price at the date of the awards on 4 February 2011 was 45.5 pence.

[2, 3] The performance conditions are set out on page 43.

Directors' Interests in Ordinary Shares*

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

	Beneficial interest in ordinary shares at Dec 2011	Beneficial interest in ordinary shares at Dec 2010
	No. of shares	No. of shares
Jonson Cox	**196,945**	100,000
David Brocksom	**47,090**	28,675
Owen Michaelson	**75,000**	52,366
Gareth Williams	**–**	–
Peter Hickson	**–**	–
Lisa Clement	**–**	–
Keith Heller	**525,000**	–
Steven Underwood	**31,369**	1,652

There have been no changes in Directors' interests in shares between the end of the year and 27 April 2012.

The market value of the Company's shares during the year ranged from 28.5 pence to 55.25 pence. The market value on 31 December 2011 was 28.5 pence.

External Appointments

The Remuneration Committee recognises the importance of allowing Executive Directors to take Non-Executive Director roles elsewhere. Mr Cox's business interests include a Non-Executive Directorship of Wincanton PLC for which he received (and retained) fees of £49,173 in 2011. Mr Michaelson holds a Non-Executive Directorship within the Peel Group and the Peel Group has confirmed that he receives no remuneration nor participates in any form of incentive arrangement which might benefit him currently or at any future time from his involvement with the Peel Group.

This report has been approved by the Board for submission to shareholders at the 2012 Annual General Meeting, and signed on behalf of the Board by Peter Hickson.

By order of the Board

Peter Hickson
Chairman, Remuneration Committee

27 April 2012

Independent Auditors' 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 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Company Balance Sheet, the Group and Company Statement of Cash Flows, the Consolidated and Company Statement of Changes in Shareholders' Equity and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the Companies Act 2006.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement on page 35, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2011 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's profit and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provision of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Emphasis of Matter – Going Concern

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

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on pages 33 and 34, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

27 April 2012

Notes:

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

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

Consolidated Income Statement

for the year ended 31 December 2011

Continuing operations	Note	Year ended 31 December 2011 £000	Year ended 25 December 2010 £000
Revenue	2	**488,216**	351,179
Cost of sales		**(402,639)**	(383,937)
Gross profit/(loss)		**85,577**	(32,758)
Net increase/(decrease) in fair value of investment properties		**3,325**	(34,197)
Profit/(loss) on disposal of investment properties		**2,685**	(550)
Net profit/(loss) on investment properties		**6,010**	(34,747)
Other operating income and expenses	4	**(10,317)**	(19,890)
Operating profit/(loss)	2	**81,270**	(87,395)
Finance costs	6	**(23,112)**	(37,643)
Finance income	6	**256**	275
Net finance costs	6	**(22,856)**	(37,368)
Share of post-tax (loss)/profit from joint ventures	14	**(431)**	147
Profit/(loss) before tax	3	**57,983**	(124,616)
Tax charge	8	**(2,742)**	(479)
Profit/(loss) for the financial year		**55,241**	(125,095)
Attributable to:			
Equity holders of the Company		**55,241**	(125,095)
Earnings/(loss) per share		**pence**	pence
Basic and diluted	11	**18.5**	(41.8)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £000	Year ended 25 December 2010 £000
Profit/(loss) for the financial year		**55,241**	(125,095)
Other comprehensive income:			
Actuarial gain on industry wide pension schemes	25	**10,633**	49,651
Actuarial gain on Blenkinsopp pension scheme	25	**132**	161
Actuarial loss on concessionary fuel reserve	25	**(7,463)**	(76)
Rate change on deferred tax asset relating to retirement benefit liabilities	8	**–**	(325)
Amortisation of interest rate swaps recycled from reserves	23	**372**	3,848
Movement on deferred tax asset relating to cash flow hedges	8	**(110)**	(1,357)
Revaluation of property transferred from operating to investment properties	13	**4,519**	1,223
Total other comprehensive income		**8,083**	53,125
Total comprehensive profit/(loss) for the financial year		**63,324**	(71,970)
Attributable to:			
Equity holders of the Company		**63,324**	(71,970)

The notes on pages 54 to 93 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at January 2010		**2,993**	**30,756**	**271,503**	**(152,463)**	**152,789**
Loss for the financial year to December 2010		–	–	–	(125,095)	(125,095)
Other comprehensive income:						
Actuarial gain on post retirement benefits	25	–	–	–	49,736	49,736
Fair value loss on revaluation of investment properties	13	–	–	(34,197)	34,197	–
Property revaluation on transfer to investment properties	13	–	–	1,223	–	1,223
Transfer of realised gain on disposed properties	28	–	–	(11,892)	11,892	–
Rate change on deferred tax asset relating to retirement benefit liability	8	–	–	–	(325)	(325)
Hedging reserve – amortised in period	28	–	–	3,848	–	3,848
Movement on deferred tax asset in relation to cash flow hedges	8	–	–	(1,357)	–	(1,357)
Total comprehensive loss for the period ended December 2010		–	–	(42,375)	(29,595)	(71,970)
Transactions with owners:						
Accrual for long term incentive plan liabilities	26	–	–	–	574	574
		–	–	–	574	574
Balance at December 2010		**2,993**	**30,756**	**229,128**	**(181,484)**	**81,393**
Profit for the financial year to December 2011		–	–	–	55,241	55,241
Other comprehensive income:						
Actuarial gain on post retirement benefits	25	–	–	–	3,302	3,302
Fair value profit on revaluation of investment properties	13	–	–	3,325	(3,325)	–
Property revaluation on transfer to investment properties	13	–	–	4,519	–	4,519
Transfer of realised gain on disposed properties	28	–	–	(44,697)	44,697	–
Hedging reserve – amortised in period	28	–	–	372	–	372
Movement on deferred tax asset in relation to cash flow hedges	8	–	–	(110)	–	(110)
Total comprehensive profit for the period ended December 2011		–	–	(36,591)	99,915	63,324
Transactions with owners:						
Accrual for long term incentive plan liabilities	26	–	–	–	1,286	1,286
		–	–	–	1,286	1,286
Balance at December 2011		**2,993**	**30,756**	**192,537**	**(80,283)**	**146,003**

Retained earnings include a cumulative actuarial loss on the Group's retirement benefit obligations of £85,161,000 (2010: £88,463,000).

Company Statement of Changes in Shareholders' Equity

Company	Note	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at January 2010		**2,993**	**30,756**	**257**	**332,281**	**366,287**
Loss for the financial year		–	–	–	(16,960)	(16,960)
Other comprehensive income:						
Actuarial gain on post retirement benefits	25	–	–	–	161	161
Transactions with owners:						
Accrual for long term incentive plan liabilities	26	–	–	–	574	574
Balance at January 2011		**2,993**	**30,756**	**257**	**316,056**	**350,062**
Loss for the financial year		–	–	–	(3,829)	(3,829)
Other comprehensive income:						
Actuarial gain on post retirement benefits	25	–	–	–	132	132
Transactions with owners:						
Accrual for long term incentive plan liabilities	26	–	–	–	1,286	1,286
Balance at December 2011		**2,993**	**30,756**	**257**	**313,645**	**347,651**

Balance Sheets
at 31 December 2011

	Note	Group As at 31 December 2011 £000	Group As at 25 December 2010 £000	Company As at 31 December 2011 £000	Company As at 25 December 2010 £000
ASSETS					
Non-current assets					
Operating property, plant and equipment	12	**223,495**	237,153	**–**	–
Surface mine development and restoration assets	12	**25,745**	35,675	**–**	–
		249,240	272,828	**–**	–
Investment properties	13	**250,640**	314,237	**–**	–
Investment in subsidiaries	14	**–**	–	**300,310**	300,310
Investment in joint ventures	14	**2,979**	3,410	**–**	–
Deferred tax asset	8	**31,509**	34,474	**–**	–
Other receivables	15	**3,357**	3,136	**–**	–
		537,725	628,085	**300,310**	300,310
Current assets					
Inventories	16	**34,754**	50,334	**–**	–
Trade and other receivables	17	**26,302**	25,916	**216,307**	211,309
Cash and cash equivalents	19	**25,278**	24,901	**419**	384
Non-current assets classified as held for sale	18	**16,600**	–	**–**	–
		102,934	101,151	**216,726**	211,693
Total assets		**640,659**	729,236	**517,036**	512,003
LIABILITIES					
Current liabilities					
Borrowings – bank loans, overdrafts and finance leases	20	**(37,541)**	(56,251)	**–**	–
– generator loans and prepayments	20	**(41,723)**	(26,428)	**–**	–
Derivative financial instruments	23	**(546)**	(1,145)	**–**	–
Trade and other payables	21	**(113,759)**	(110,557)	**(168,793)**	(161,089)
Provisions	22	**(13,480)**	(34,915)	**–**	–
		(207,049)	(229,296)	**(168,793)**	(161,089)
Net current (liabilities)/assets		**(104,115)**	(128,145)	**47,933**	50,604
Non-current liabilities					
Borrowings – bank loans, overdrafts and finance leases	20	**(18,849)**	(85,361)	**–**	–
– generator loans and prepayments	20	**(42,386)**	(74,760)	**–**	–
Derivative financial instruments	23	**(4,470)**	(5,462)	**–**	–
Trade and other payables	21	**(736)**	(9,925)	**–**	–
Deferred tax liabilities	8	**(1,171)**	(1,265)	**–**	–
Provisions	22	**(75,290)**	(70,171)	**–**	–
Retirement benefit obligations	25	**(144,705)**	(171,603)	**(592)**	(852)
		(287,607)	(418,547)	**(592)**	(852)
Total liabilities		**(494,656)**	(647,843)	**(169,385)**	(161,941)
Net assets		**146,003**	81,393	**347,651**	350,062
SHAREHOLDERS' EQUITY					
Capital and reserves					
Called up share capital	26	**2,993**	2,993	**2,993**	2,993
Share premium		**30,756**	30,756	**30,756**	30,756
Revaluation reserve	28	**113,097**	129,420	**–**	–
Capital redemption reserve	28	**257**	257	**257**	257
Fair value reserve	28	**64,993**	99,713	**–**	–
Hedging reserve	28	**–**	(262)	**–**	–
Amounts recognised in reserves relating to non-current assets held for sale	18	**14,190**	–	**–**	–
Retained (loss)/earnings	27	**(80,283)**	(181,484)	**313,645**	316,056
Total shareholders' equity		**146,003**	81,393	**347,651**	350,062

The financial statements on pages 50 to 93 were approved by the Board of Directors on 27 April 2012 and were signed on its behalf by:

J Cox
Chairman

D G Brocksom
Finance Director

Company Registered Number 2649340

Statements of Cash Flows

for the year ended 31 December 2011

	Note	**Group Year ended 31 December 2011 £000**	Group Year ended 25 December 2010 £000	**Company Year ended 31 December 2011 £000**	Company Year ended 25 December 2010 £000
Cash flows from operating activities					
Profit/(loss) for the financial year	2	**55,241**	(125,095)	**(3,829)**	(16,960)
Depreciation/impairment of property, plant and equipment	12	**40,499**	35,187	**–**	–
Amortisation of surface mine development and restoration assets	12	**17,121**	14,033	**–**	–
Net fair value (increase)/decrease in investment properties	13	**(3,325)**	34,197	**–**	–
Net interest payable/(receivable) and unwinding of discount on provisions	6	**22,856**	37,368	**(156)**	(1,303)
Net charge for share-based remuneration		**1,286**	574	**1,286**	574
Share of post-tax loss/(profit) from joint ventures		**431**	(147)	**–**	–
(Profit)/loss on disposal of investment properties		**(2,685)**	550	**–**	–
Profit on disposal of operating property, plant and equipment		**(657)**	(243)	**–**	–
Decrease in capitalised surface mine restoration assets		**(3,684)**	(19,493)	**–**	–
(Decrease)/increase in provisions		**(19,635)**	43	**–**	–
Pension contributions (in excess of)/lower than charge		**(23,597)**	506	**(128)**	(68)
Tax charge/(credit)	8	**2,742**	479	**701**	(1,438)
Operating cash inflows/(outflows) before movements in working capital		**86,593**	(22,041)	**(2,126)**	(19,195)
Decrease in stocks		**15,580**	5,425	**–**	–
Decrease/(increase) in receivables		**2,094**	(724)	**(4,998)**	(9,344)
(Increase)/decrease in payables		**(3,197)**	(5,816)	**7,159**	14,768
Cash generated from/(used in) operations		**101,070**	(23,156)	**35**	(13,771)
Loan arrangement fees paid		**(744)**	(1,195)	**–**	(159)
Consortium relief received		**–**	538	**–**	–
Interest (paid)/received		**(20,678)**	(11,236)	**–**	1,445
Cash generated from/(used in) operating activities		**79,648**	(35,049)	**35**	(12,485)
Cash flows from investing activities					
Interest received		**256**	275	**–**	–
Net receipt from insurance and subsidence security funds		**885**	3,298	**–**	–
Proceeds on disposal of investment properties		**64,342**	22,297	**–**	–
Proceeds on disposal of operating property, plant and equipment		**1,349**	703	**–**	–
Development costs of investment properties		**(4,774)**	(2,105)	**–**	–
Pre-coaling expenditure for surface mines and deferred stripping costs		**(3,507)**	(8,404)	**–**	–
Purchase of operating property, plant and equipment		**(31,815)**	(26,789)	**–**	–
Cash generated from/(used in) investing activities		**26,736**	(10,725)	**–**	–
Cash flows from financing activities					
Net (repayment of)/proceeds from bank loans		**(84,282)**	12,348	**–**	–
Net (repayment of)/proceeds from generator loans and prepayments		**(17,078)**	25,831	**–**	–
Repayments of obligations under hire purchase and finance leases		**(3,762)**	(5,565)	**–**	–
Cash (used in)/generated from financing activities		**(105,122)**	32,614	**–**	–
Increase/(decrease) in cash		**1,262**	(13,160)	**35**	(12,485)
At January					
Cash		**427**	13,587	**384**	12,869
Cash equivalents		**24,474**	27,772	**–**	–
		24,901	41,359	**384**	12,869
Decrease in cash equivalents (net receipt from insurance and subsidence security funds)		**(885)**	(3,298)	**–**	–
Increase/(decrease) in cash		**1,262**	(13,160)	**35**	(12,485)
		25,278	24,901	**419**	384
At December					
Cash		**1,689**	427	**419**	384
Cash equivalents		**23,589**	24,474	**–**	–
Cash and cash equivalents	19	**25,278**	24,901	**419**	384

Notes to the Financial Statements
for the year ended 31 December 2011

1. Accounting Policies

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

Basis of preparation

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

Trading Financial Statements within the Group are made up to the last Saturday in December each year. For 2011, trading is shown for the year ended on 31 December 2011 (2010: year ended 25 December 2010).

General information

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

Going concern

These financial statements are prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares cash flow forecasts based upon its assumptions as to trading with particular consideration to production levels and key risks and uncertainties as summarised on pages 25 and 26 as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed in the Directors' Report on page 32.

The key factors that have been considered in this regard are:

- The deep mines operate with a cost base which is largely fixed relative to production levels. Consequently, unexpectedly large interruptions or prolonged reductions in production can have a fairly immediate material adverse impact on cash flow. Recent performance has been illustrative of the difficulties inherent in deep mining operations and the impact of unpredictable geological conditions and/or other operational issues on production volumes, and on development and salvage activities at our deep mines. In particular, development, face installation progress and salvage and overhaul of equipment from previous faces all need to be completed in time to enable new faces to be operational on the exhaustion of old faces;
- Bank funding arrangements contain, in certain cases, covenants based upon, in particular, operating profits adjusted for property revaluations and depreciation, interest cover, loan to property values and net asset values. Property valuations affect the loan to value covenants and net asset values and similarly net asset values are affected by operational performance. Breach of covenants could result in the need to pay down in part some of these loans, additional costs, or a renegotiation of terms or, in extremis, a reduction or withdrawal of facilities by the banks concerned; and
- Revenues in respect of certain floating rate contracts, capped/collared contracts and uncontracted coal will vary based upon the market price for coal, which is expressed in dollars, and sterling/dollar exchange rates. These variables have, over the last year, proved to be volatile and therefore there is a risk of unpredictability in coal revenues and therefore cash flows.

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

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

- IAS 24, 'Related party disclosures' (revised 2009) has been applied from 1 January 2011.
- 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC was issued, and the amendments correct the problem. The Group has applied this from 1 January 2011, but the impact of its adoption is not considered to be significant.

1. Accounting Policies: continued

Changes in accounting policy and disclosures: continued

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

- Amendment to IAS 32, 'Financial instruments: Presentation – Classification of rights issues' is not applicable as the Group has not made a rights issue during the period.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' is not applicable as the Group has not used equity to settle financial liabilities.

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

- IFRS 9 'Financial instruments', issued in November 2009. This addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013, but is available for early adoption. The Group is yet to assess IFRS 9's full impact or determine its date of adoption.
- IAS 19 'Employee benefits' was amended in June 2011. The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other consolidated income as they occur, to immediately recognise all past service costs and to replace interest costs and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability.
- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.
- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.
- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where it is already required or permitted by other standards within IFRS or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012, subject to endorsement by the EU.
- Amendment to IAS 12 'Income taxes' on deferred tax. IAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether the recovery will be through use or through when the asset is measured using the fair value model in IAS 40 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

Consolidation

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

Subsidiaries are entities over which the Group has power to govern the financial and operating policies. Control is presumed to exist where the Group owns more than half of the voting rights, unless in exceptional circumstances where it can be demonstrated that ownership does not constitute control. The consolidated financial statements 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.

Notes to the Financial Statements
for the year ended 31 December 2011: continued

1. Accounting Policies: continued

Segmental reporting

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

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

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

Investments

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

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.

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 despatched, being the point at which title to the product is transferred to the purchaser.

Service transactions

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

Exceptional items

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

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

1. Accounting Policies: continued

Profit or loss on disposal

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

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

Investment properties and operating properties

The Group holds the following types of freehold property:

– Working deep mines in production;

– Working surface mines in production;

– Property held for administrative purposes; and

– Property held for rental income, capital appreciation or both.

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

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

Investment properties

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

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

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

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

Operating properties

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

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

Notes to the Financial Statements

for the year ended 31 December 2011: continued

1. Accounting Policies: continued

Properties in the course of development

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

Exploration and evaluation

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

– Researching and analysing existing exploration data;

– Conducting geological studies, exploratory drilling and sampling;

– Examining and testing extraction and treatment methods; and/or

– Compiling prefeasibility and feasibility studies.

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

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

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

Plant and equipment

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

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

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

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

Mining assets

Mine development

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

Mines and surface works

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

Seismic and geological mapping costs

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

1. Accounting Policies: continued

Mining assets: 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 once a planning application is to be made and a separate provision for the outstanding restoration and rehabilitation obligations is established. Both of these costs are then charged to the consolidated income statement (net of any residual value) over the recoverable reserves of the mine.

Deferred stripping costs

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

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

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

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

Depreciation

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

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

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

Impairment

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

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

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

Future cash flows are based on:

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

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

Notes to the Financial Statements

for the year ended 31 December 2011: continued

1. Accounting Policies: continued

Finance and operating leases – as lessee

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

Finance and operating leases – as lessor

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

Financial instruments and derivatives

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

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

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

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

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

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

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

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

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 inventories. Coal is recognised as inventories 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 credit worthiness. Any impairment is recognised in the consolidated income statement within 'other operating income and expenses'. When a trade receivable is uncollectible, it is written off against the allowance account.

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

Trade payables

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

Property clawback

Under the terms of the 1994 privatisation Sale and Purchase Agreement, DECC is entitled to a percentage of any property gain (above certain thresholds and after deducting an amount representing corporation tax thereon) accruing, or treated as accruing to the Group, as a result of the disposal or deemed disposal or major development of certain properties acquired at privatisation. The percentage applied was 21% for 2011, reducing by 3 percentage points per annum until 31 March 2015, when it reduces to zero. If properties are disposed of, or are deemed to have been disposed of during this period, a part of the relevant gain will become payable to DECC. A liability for clawback in respect of property disposals is recognised only when an actual or deemed disposal occurs. A liability for clawback on a deemed disposal as a result of granting a lease is recognised over the life of the lease.

Cash and cash equivalents

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

Provisions for restoration, rehabilitation and environmental costs

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

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

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

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

Other provisions

Surface damage (subsidence)

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

Employer and public liability claims

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

Notes to the Financial Statements
for the year ended 31 December 2011: continued

1. Accounting Policies: continued

Other provisions: continued

Redundancy

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

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

Employee benefits

Pension obligations

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

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

Concessionary fuel

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

Share-based payments

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

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

Tax

Current tax

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

1. Accounting Policies: continued

Tax: continued

Deferred tax

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

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

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

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

Share capital

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

Dividend distribution

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

Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

Estimation of future production levels

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

Review of asset carrying values and impairment charges

The Group performs impairment testing in accordance with the accounting policy stated on page 59. The calculation of recoverable amount requires the use of estimates and assumptions consistent with the most recent budgets and plans that have been formally approved by management. Significant factors considered when using estimates to assess the carrying value of assets include future coal prices, expected annual production, expected colliery operating costs, remaining colliery lives and coal reserves and discount rates. Refer to note 12 for the key assumptions used in the calculations.

Estimation of colliery asset lives

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

If the amount of coal expected to be extracted varies, this will impact on the amount of the asset which should be carried in the consolidated balance sheet. See accounting policy stated on page 58.

Notes to the Financial Statements
for the year ended 31 December 2011: continued

1. Accounting Policies: continued

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

Determination of coal reserve estimates

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

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

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

Deferral of stripping costs

See accounting policy on page 59.

Capitalisation of exploration and evaluation costs

See accounting policy on page 58.

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 25.

Estimation of other provisions (including clawback liabilities)

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

Estimation of close down and restoration costs

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

Recoverability of deferred tax assets

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

2. Segmental Reporting

In accordance with IFRS 8 'Operating segments', the chief operating decision-maker has been identified as the Executive Management Committee, as detailed below. The Committee manages and co-ordinates all strategic and key operational issues. As at December 2011, the Executive Management Committee consisted of the following individuals:

Chairman	Jonson Cox
Finance Director	David Brocksom
Managing Director – Mining	Gareth Williams
Managing Director – Property	Owen Michaelson
Company Secretary	Richard Cole
Chief Operating Officer – Recovery Programme	Tony Martin
HR Director	David Stewart
Communications Director	Andrew Mackintosh

On 25 January 2012 David Stewart left the Company.

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

Deep mining

The Group had three ongoing operating deep mines in 2011 (2010: three) located in central and northern England. The Group has estimated total reserves and resources of approximately 201.5 million tonnes (2010: 203.7 million tonnes like-for-like). The closed deep mines consist of the closed Welbeck and mothballed Harworth collieries.

Surface mining

The Group had six active coaling surface mines during 2011 (2010: six) (three finished coaling during the year) and had planning committee approval or consent to mine three further sites (2010: one). Planning consent in respect of surface mine reserves of 8 million tonnes has either already been granted or application submitted.

Property

The Group had a portfolio of approximately 27,500 acres (2010: 37,900 acres) and has identified circa 4,000 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. The Property Division also operates the Group's methane generation activities in which electricity is generated from mines methane at both operating and closed sites.

Other

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

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

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

Revenue

Revenue from operations arises from:	**Year ended December 2011 £000**	Year ended December 2010 £000
Sale of goods	**481,931**	345,434
Rendering of services	**16**	19
Rental income	**6,269**	5,726
	488,216	351,179

Revenues of approximately £421,000,000 (2010: £313,000,000) are derived from four (2010: four) external customers. These revenues are attributable to the deep and surface mining segments.

Notes to the Financial Statements

for the year ended 31 December 2011: continued

2. Segmental Reporting: continued

Year ended December 2011	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue – gross	366,269	–	366,269	119,461	13,430	6	**499,166**
Revenue – intra Group	–	–	–	(8,038)	(2,912)	–	**(10,950)**
Revenue – external	366,269	–	366,269	111,423	10,518	6	**488,216**
Operating profit/(loss) before non-trading exceptional items and net increase in fair value of investment properties	**34,861**	**(2,492)**	**32,369**	**22,055**	**7,402**	**11**	**61,837**
Net increase in fair value of investment properties	–	–	–	–	3,325	–	**3,325**
Operating profit/(loss) before non-trading exceptional items	**34,861**	**(2,492)**	**32,369**	**22,055**	**10,727**	**11**	**65,162**
Non-trading exceptional items							
– Rationalisation, closure and other costs	17,808	–	17,808	–	–	(1,700)	**16,108**
Operating profit/(loss) after non-trading exceptional items	**52,669**	**(2,492)**	**50,177**	**22,055**	**10,727**	**(1,689)**	**81,270**
Finance costs							**(23,112)**
Finance income							**256**
Net finance costs							**(22,856)**
Share of post-tax loss from joint ventures – property							**(431)**
Profit before tax							**57,983**
Tax charge							**(2,742)**
Profit for the year							**55,241**

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

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

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

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

In 2011, Harworth Power has been included in the property segment, with revenue of £3,413,000 and operating profit of £2,435,000 for the year ended December 2011. Depreciation for this period in this segment was £1,007,000.

Non-trading exceptional items

Rationalisation, closure and other costs consists of professional fees in relation to the refinancing of £1,700,000, a curtailment gain of £1,430,000 and an accounting adjustment relating to past service costs in pension schemes of £16,378,000 following changes to the schemes rules in the year. All non-trading exceptional items are included in cost of sales, with the exception of professional fees in relation to refinancing which are within other operating expenses.

2. Segmental Reporting: continued

Year ended December 2010	Ongoing deep mines £000	Closed deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue – gross	250,683	26,841	277,524	74,026	10,303	6	**361,859**
Revenue – intra Group	(828)	–	(828)	(7,935)	(1,917)	–	**(10,680)**
Revenue – external	249,855	26,841	276,696	66,091	8,386	6	**351,179**
Operating (loss)/profit before non-trading exceptional items and net decrease in fair value of investment properties	**(45,386)**	**1,291**	**(44,095)**	**382**	**3,554**	**47**	**(40,112)**
Net decrease in fair value of investment properties	–	–	–	–	(34,197)	–	**(34,197)**
Operating (loss)/profit before non-trading exceptional items	**(45,386)**	**1,291**	**(44,095)**	**382**	**(30,643)**	**47**	**(74,309)**
Non-trading exceptional items							
– Rationalisation, closure and other costs	(3,810)	(1,721)	(5,531)	(293)	(17)	(7,245)	**(13,086)**
Operating (loss)/profit after non-trading exceptional items	**(49,196)**	**(430)**	**(49,626)**	**89**	**(30,660)**	**(7,198)**	**(87,395)**
Finance costs							**(27,696)**
Exceptional finance costs							**(9,947)**
Finance income							**275**
Net finance costs							**(37,368)**
Share of post-tax profit from joint ventures – property							**147**
Loss before tax							**(124,616)**
Tax charge							**(479)**
Loss for the year							**(125,095)**

Other segmental items							
Capital expenditure	43,929	–	43,929	105	2,270	457	**46,761**
Depreciation/impairment	31,602	288	31,890	1,977	1,255	65	**35,187**
Surface mine development costs and restoration assets capitalised	–	–	–	27,897	–	–	**27,897**
Amortisation of surface mine development and restoration assets	–	–	–	14,033	–	–	**14,033**
Provisions – non-cash charge	4,501	(2,111)	2,390	22,286	17	–	**24,693**

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

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

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

Non-trading exceptional items

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

Exceptional finance costs

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

Notes to the Financial Statements

for the year ended 31 December 2011: continued

2. Segmental Reporting: continued

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

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

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

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

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

3. Profit/(Loss) Before Tax

	Note	**Year ended December 2011 £000**	Year ended December 2010 £000
Profit/(loss) before tax is stated after (charging)/crediting:			
Depreciation of property, plant and equipment – owned assets	12	**(37,859)**	(29,914)
Depreciation of property, plant and equipment – under finance leases	12	**(2,640)**	(5,050)
Amortisation of surface mine development, restoration and closure assets	12	**(17,121)**	(14,033)
Impairment of operating plant and equipment	12	**–**	(223)
Coal Investment Aid	33	**–**	1,011
Profit/(loss) on disposal of investment properties		**2,685**	(550)
Profit on disposal of operating property, plant and equipment		**657**	243
Repairs and maintenance for deep and surface mining		**(61,791)**	(53,531)
Staff costs	5	**(160,392)**	(176,254)
Pension past service credits	5	**16,378**	–
Spares and consumables used		**(29,165)**	(34,217)
Operating expense for rental investment property		**(4,228)**	(1,842)
Operating lease payments		**(3,094)**	(192)

Depreciation and impairment of operating property, plant and equipment is included within cost of sales.

4. Other Operating Income and Expenses

	Year ended December 2011 £000	Year ended December 2010 £000
Administrative expenses	**(17,181)**	(23,191)
Other operating income	**6,864**	3,301
Other operating income and expenses	**(10,317)**	(19,890)

Due to the nature of the Group's business, distribution expenses are treated as part of cost of sales. Other operating income includes Coal Investment Aid of £nil (2010: £1,011,000), as disclosed in note 33.

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 2011 Number	Year ended December 2010 Number	**Year ended December 2011 Number**	Year ended December 2010 Number
Deep mining	**2,026**	2,247	**–**	–
Surface mining	**517**	538	**–**	–
Property	**26**	19	**–**	–
Other	**36**	73	**7**	8
	2,605	2,877	**7**	8

Total staff costs for the Group were:

	Group		**Company**	
Staff costs (including the Board of Directors)	**Year ended December 2011 Number**	Year ended December 2010 Number	**Year ended December 2011 Number**	Year ended December 2010 Number
Wages and salaries	**131,108**	142,956	**1,810**	2,542
Social security costs	**13,421**	14,252	**185**	184
Pension and post retirement benefit costs	**14,577**	18,472	**153**	245
Share-based payments	**1,286**	574	**1,286**	574
	160,392	176,254	**3,434**	3,545
Past service credit (see note 2)	**(16,378)**	–	**–**	–
	144,014	176,254	**3,434**	3,545

Key management compensation

	Year ended December 2011 £000	Year ended December 2010 £000
Salaries and short-term employee benefits	**2,062**	1,514
Post employment benefits	**167**	297
Termination benefits	**–**	435
	2,229	2,246

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 65.

Directors' remuneration and interests

Detailed information relating to directors' remuneration and their interests in share options is indicated by * on pages 45 to 47 and forms part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2011: continued

6. Finance Costs and Finance Income

	Year ended December 2011 £000	Year ended December 2010 £000
Interest expense		
– Bank borrowings	**(9,227)**	(11,594)
– Hire purchase agreements and finance leases	**(915)**	(1,237)
– Unwinding of discount on provisions	**(3,319)**	(3,336)
– Amortisation of the issue costs of loans	**(537)**	(1,446)
– Generator loans and prepayments	**(9,187)**	(8,618)
Gains on interest rate swaps not eligible for hedge accounting	**445**	177
Amortisation of interest rate swaps recycled from reserves	**(372)**	(1,642)
Finance costs	**(23,112)**	(27,696)
Arrangement fees related to refinancing	**–**	(4,998)
Write off of previously capitalised issue costs of bank loans	**–**	(2,743)
Fair value of interest rate swaps recycled from reserves	**–**	(2,206)
Exceptional finance costs	**–**	(9,947)
Finance income	**256**	275
Net finance costs	**(22,856)**	(37,368)

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 2011 £000	Year ended December 2010 £000
Audit services		
Fees payable to the Company auditors for the audit of the parent Company and the consolidated accounts	**75**	75
Fees payable to the Company auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**244**	230
– Other services pursuant to legislation	**45**	50
– Tax advisory and compliance services	**81**	–
– Other services	**17**	80
	462	435

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

8. Tax

Analysis of tax charge in the year		Year ended December 2011 £000	Year ended December 2010 £000
Corporation tax	– current year	**–**	–
	– prior year	**(19)**	(8)
Deferred tax	– current year	**2,448**	(403)
	– prior year	**313**	890
Tax charge		**2,742**	479

The tax for the year is different to the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below:

	Year ended December 2011 £000	Year ended December 2010 £000
Profit/(loss) before tax	**57,983**	(124,616)
Profit/(loss) before tax multiplied by rate of corporation tax in the UK of 26.5% (2010: 28%)	**15,365**	(34,892)
Effects of:		
Use of brought forward losses not recognised	**(15,688)**	–
Expenses not deducted and income not chargeable for tax purposes	**(828)**	9,502
Deferred tax not recognised	**1,153**	24,081
Rate change on opening deferred tax asset	**2,446**	906
Prior year deferred tax movement	**313**	890
Prior year consortium relief adjustment	**(19)**	(8)
Total tax charge	**2,742**	479

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2010: 27%). This reduction reflects the new main rate of corporation tax which would have been in force from 1 April 2012 as provided in the Finance Act 2011. Further reductions to the main rate have been enacted subsequent to the balance sheet date to reduce the rate to 24% from 1 April 2012 and then a further 1% per annum to 22% by 1 April 2014. However, these changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

Deferred tax assets and liabilities are offset when there is a legally enforced right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The Group's deferred tax liability in respect of fixed assets can all be offset in this way, apart from the liability of £1,171,000 (2010: £1,265,000) in respect of revaluation gains on investment properties expected to be recovered through future use.

	As at December 2011 £000	As at December 2010 £000
Deferred tax asset – to be recovered after more than 12 months	**31,509**	34,474
Deferred tax liability – to be paid after more than 12 months	**(1,171)**	(1,265)
Net deferred tax asset	**30,338**	33,209

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

	Year ended December 2011 £000	Year ended December 2010 £000
At the beginning of the year	**33,209**	35,378
Amounts charged to the consolidated income statement	**(2,761)**	(487)
Amounts charged to the consolidated statement of comprehensive income	**(110)**	(1,682)
At the end of the year	**30,338**	33,209

Notes to the Financial Statements
for the year ended 31 December 2011: continued

8. Tax: continued

Deferred tax: continued

A deferred tax asset of £31,509,000 (2010: £34,474,000) 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 £152,459,000 (2010: £185,006,000) as set out below:

	As at December 2011 Total amount recognised £000	**As at December 2011 Total potential asset £000**	As at December 2010 Total amount recognised £000	As at December 2010 Total potential asset £000
Fixed asset timing differences	**(1,171)**	**47,264**	(1,265)	42,655
Other timing differences	**–**	**11,199**	–	9,994
Trading losses	**22,139**	**57,683**	23,915	84,240
Retirement benefit liabilities	**8,125**	**36,176**	8,775	46,333
Cash flow hedges	**1,245**	**137**	1,784	1,784
Net deferred tax asset	**30,338**	**152,459**	33,209	185,006

The fixed asset timing difference recognised relates to the deferred tax liability arising from the directors' estimate of the proportion of revaluation gains on investment properties which will be recovered through use. No tax liability has been recognised in relation to the balance of the gain which is expected to be realised through sale, due to the fact that the Group has unrecognised capital losses brought forward of £350,000,000 (2010: £379,000,000).

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

	2011 £000	2010 £000
Movement on deferred tax asset relating to retirement benefit liabilities in the period	**–**	(325)
Movement on deferred tax asset relating to cash flow hedges in the period	**(110)**	(1,357)
Deferred tax asset movement charged to equity	**(110)**	(1,682)

The Company has no recognised or unrecognised deferred tax in 2011 or 2010.

9. Loss for the Financial Year for the Parent Entity

As permitted by section 408 of the Companies Act 2006, the Company's income statement and statement of comprehensive income have not been included separately in these financial statements. The loss for the financial year was £3,829,000 (2010: loss £16,960,000).

10. Dividends

No dividends have been paid or proposed in relation to 2011 or 2010.

11. Earnings/(Loss) Per Share

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

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

	Year ended December 2011 £000	Year ended December 2010 £000
Profit/(loss) before tax	**57,983**	(124,616)
Tax charge	**(2,742)**	(479)
Profit/(loss) for the year	**55,241**	(125,095)
Weighted average number of shares used for basic earnings per share calculation	**299,298,160**	299,298,160
Dilutive effect of share options	**–**	–
Weighted average number of shares used for diluted earnings per share calculation	**299,298,160**	299,298,160
Basic and diluted earnings/(loss) per share (pence)	**18.5**	(41.8)

Basic and diluted earnings/(loss) per share, as adjusted to exclude tax, for the year is 19.4 pence (2010: loss 41.6 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 2011	23,984	857,365	89,470	970,819	55,416	1,026,235
Additions	13	30,174	1,618	31,805	7,191	38,996
Disposals	(167)	–	(8,797)	(8,964)	(1,380)	(10,344)
Transfers	–	1,469	(1,469)	–	–	–
Transfer to investment properties	(4,103)	–	–	(4,103)	–	(4,103)
At December 2011	19,727	889,008	80,822	989,557	61,227	1,050,784
Depreciation:						
At January 2011	4,444	655,848	73,374	733,666	19,741	753,407
Charge for the year	163	37,390	2,946	40,499	17,121	57,620
Transfers	–	1,009	(1,009)	–	–	–
Disposals	–	–	(8,103)	(8,103)	(1,380)	(9,483)
At December 2011	4,607	694,247	67,208	766,062	35,482	801,544
Net book amount:						
At December 2011	**15,120**	**194,761**	**13,614**	**223,495**	**25,745**	**249,240**
Cost:						
At January 2010	15,008	876,027	89,715	980,750	40,757	1,021,507
Additions	165	43,929	562	44,656	27,897	72,553
Disposals	(338)	(62,591)	(807)	(63,736)	(13,238)	(76,974)
Transfer from investment properties	9,485	–	–	9,485	–	9,485
Transfer to investment properties	(336)	–	–	(336)	–	(336)
At December 2010	23,984	857,365	89,470	970,819	55,416	1,026,235
Depreciation:						
At January 2010	4,282	686,549	70,924	761,755	18,150	779,905
Charge for the year	162	31,667	3,135	34,964	14,033	48,997
Impairment	–	223	–	223	–	223
Disposals	–	(62,591)	(685)	(63,276)	(12,442)	(75,718)
At December 2010	4,444	655,848	73,374	733,666	19,741	753,407
Net book amount:						
At December 2010	19,540	201,517	16,096	237,153	35,675	272,828
At January 2010	10,726	189,478	18,791	218,995	22,607	241,602

Surface mine development and restoration assets net book amounts include capitalised pre-coaling costs of £9,216,000 (2010: £11,373,000), restoration/rehabilitation costs of £14,223,000 (2010: £19,554,000) and deferred stripping costs of £2,306,000 (2010: £4,748,000). These are depreciated over the estimated tonnage of the recoverable reserves as these are extracted.

Surface mine asset additions in the period of £7,191,000 (2010: £27,897,000) comprise £2,606,000 (2010: £5,416,000) for pre-coaling expenditure, £3,685,000 (2010: £19,493,000) recognised as a non-current asset on the creation of a corresponding provision for restoration and rehabilitation costs and £900,000 (2010: £2,988,000) of deferred stripping costs.

Included in operating property, plant and equipment is £9,131,000 (2010: £25,543,000) 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 2011 £000	As at December 2010 £000
Cost	**21,894**	41,589
Aggregate depreciation	**(14,999)**	(29,702)
Net book amount	**6,895**	11,887

Notes to the Financial Statements
for the year ended 31 December 2011: continued

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 as a result of movements in the coal price and other assumptions. The estimates or recoverable amount were based on value-in-use calculations, using a pre-tax discount rate of 10%. These calculations use cash flow projections based on budgets approved by management covering a five year period.

Following the completion of mining at Welbeck colliery, an impairment charge of £nil (2010: £223,000) was required for its remaining fixed assets.

Sensitivity analysis

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

– The revised estimated pre-tax discount rate applied to the discounted cash flows was increased to over 20%;

– The estimated long-term price of coal of $97/tonne assumed in calculating the discounted cash flows decreased by 7.5%; and

– The estimated level of annual production assumed in calculating the discounted cash flows decreased by 5%.

13. Investment Properties

At valuation – Group	**As at December 2011 £000**	As at December 2010 £000
At the beginning of the year	**314,237**	377,995
Additions	**4,774**	2,105
Disposals	**(63,718)**	(23,740)
Fair value increase/(decrease)	**3,325**	(34,197)
Transfer from operating property, plant and equipment at net book amount	**4,103**	336
Transfer to operating property, plant and equipment at net book amount	**–**	(9,485)
Transfer to non-current assets held for sale	**(16,600)**	–
Revaluation of property transferred to investment properties	**4,519**	1,223
At the end of the year	**250,640**	314,237

The properties were valued at December 2011, in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors, by three firms, BNP Paribas Real Estates, Smiths Gore and Bell Ingram, all independent firms with relevant experience of valuations of this nature. The valuation excludes any deduction of rehabilitation and restoration costs which are stated within provisions in the balance sheet.

Key assumptions within the basis of fair value are:

– The sites will be cleared of redundant buildings, levelled and prepared ready for development;

– The values are on a basis that no material environmental contamination exists on the subject or adjoining sites, or where this is present the sites will be remediated to a standard consistent with the intended use, the costs for such remediation being separately provisioned; and

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

Had the above investment properties been carried at historic cost, rather than fair value, their value would be £80,630,000 (2010: £90,827,000).

Land and buildings with a value of £282,335,000 (2010: £298,617,000) are subject to fixed charges to cover borrowings against those assets and £6,390,000 (2010: £8,842,000) are subject to restrictions as they cover insurance requirements. Other property, plant and equipment is subject to floating charges to cover liabilities due to bank borrowings.

14. Investments

Investment in joint ventures

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

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

	2011 £000	2010 £000
At the beginning of the year	**3,410**	3,263
Share of (loss)/profit – property joint ventures	**(431)**	147
At the end of the year	**2,979**	3,410

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 %**
2011						
UK Strategic Partnership Limited	England and Wales	3,362	(2,784)	830	(454)	50
Bates Regeneration Limited	England and Wales	3,570	(1,169)	–	23	50
Total		6,932	(3,953)	830	(431)	
2010						
UK Strategic Partnership Limited	England and Wales	4,062	(3,030)	242	119	50
Bates Regeneration Limited	England and Wales	3,495	(1,117)	–	28	50
Total		7,557	(4,147)	242	147	

Investment in subsidiaries

Company	**£000**
Cost:	
At January and December 2011	473,224
Provision for impairment:	
At January and December 2011	(172,914)
Net book amount:	
At December 2011	**300,310**
Cost:	
At January and December 2010	473,224
Provision for impairment:	
At January and December 2010	(172,914)
Net book amount:	
At December 2010	300,310

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

Notes to the Financial Statements

for the year ended 31 December 2011: continued

14. Investments: continued

Investment in subsidiaries: continued

Particulars of the principal Group undertakings at December 2011 are as follows:

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

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

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

15. Other Receivables – Non-Current

Amounts classed as non-current are as follows:

	Group		Company	
	As at December 2011 £000	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Other receivables	**3,357**	3,136	**–**	–

Other receivables include £2,422,000 (2010: £2,071,000) of long-term deposits held as security for surface mines.

16. Inventories

	Group		Company	
	As at December 2011 £000	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Coal stocks	**15,238**	32,906	**–**	–
Spares and consumables	**19,516**	17,428	**–**	–
	34,754	50,334	**–**	–

The cost of spares and consumables recognised as an expense and included in cost of sales amounted to £29,165,000 (2010: £34,001,000).

A net realisable value provision credit of £nil (2010: £1,379,000) against coal stocks was included in cost of sales in the year.

17. Trade and Other Receivables – Current

	Group		**Company**	
	As at December 2011 £000	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Trade receivables	**21,599**	23,415	**–**	–
Less: provision for impairment of trade receivables	**(79)**	(97)	**–**	–
Net trade receivables	**21,520**	23,318	**–**	–
Other receivables	**1,161**	174	**64**	972
Prepayments and accrued income	**3,621**	2,424	**–**	77
Amounts owed by subsidiary undertakings	**–**	–	**216,243**	210,260
	26,302	25,916	**216,307**	211,309

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.

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

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

	Group	
	2011 £000	2010 £000
At the beginning of the year	**97**	273
Provisions for impairment of receivables	**–**	9
Receivables written off during the year as uncollectable	**(12)**	(21)
Unused amounts reversed	**(6)**	(164)
At the end of the year	**79**	97

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 2011, there were provisions against trade receivables of £79,000 (2010: £97,000) which were impaired. The Group has assessed that it is unlikely that these receivables will be recovered. The ageing of these receivables is as follows:

	Group	
	As at December 2011 £000	As at December 2010 £000
3 to 6 months	**–**	9
Over 6 months	**79**	88
	79	97

As of December 2011, trade receivables of £21,186,000 (2010: £20,792,000) were fully performing.

As of December 2011, trade receivables of £334,000 (2010: £2,526,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and consequently there are no indications at the reporting date that they will not meet their payment obligation. The ageing analysis of these trade receivables is as follows:

	Group	
	As at December 2011 £000	As at December 2010 £000
Up to 3 months	**213**	2,327
Over 3 months	**121**	199
	334	2,526

Notes to the Financial Statements
for the year ended 31 December 2011: continued

18. Non-current Assets Classified As Held For Sale

	Group		Company	
	As at December 2011 £000	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Investment properties	**16,600**	–	**–**	–

Conditional sales contracts were exchanged during 2011 for the disposal of investment properties, held within the property reporting segment, with fair value of £16,600,000. The conditions for these sales are expected to be satisfied during 2012 upon which the disposal will be recognised in the financial statements. As a result, these properties have been classified as assets held for sale and have been presented separately in the balance sheet.

The amount recognised in reserves relating to these properties was £14,190,000 (2010: £nil).

19. Cash and Cash Equivalents

	Group		Company	
	As at December 2011 £000	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Cash deposited to cover insurance requirements	**14,735**	15,705	**–**	–
Subsidence security fund	**8,854**	8,769	**–**	–
	23,589	24,474	**–**	–
Cash held and other cash balances	**1,689**	427	**419**	384
	25,278	24,901	**419**	384

Total cash held subject to restrictions to cover insurance and surface damage liabilities at the year end amounts to £23,589,000 (2010: £24,474,000). In addition to this, security to cover surface damage liabilities in the form of an insurance bond for £10,000,000 (2010: £10,000,000) is in place.

20. Borrowings

	Group		Company	
Current	**As at December 2011 £000**	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Bank loans, overdrafts and finance leases due within one year or on demand:				
Secured – bank loans and overdrafts	**31,007**	52,427	**–**	–
Finance lease obligations	**6,534**	3,824	**–**	–
	37,541	56,251	**–**	–
Generator loans and prepayments due within one year	**41,723**	26,428	**–**	–
Total borrowings – due within one year or on demand	**79,264**	82,679	**–**	–

	Group		Company	
Non-current	**As at December 2011 £000**	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Bank loans, overdrafts and finance leases due after more than one year:				
Secured – bank loans and overdrafts	**15,712**	75,752	**–**	–
Finance lease obligations	**3,137**	9,609	**–**	–
	18,849	85,361	**–**	–
Generator loans and prepayments due after more than one year	**42,386**	74,760	**–**	–
Total borrowings – due after more than one year	**61,235**	160,121	**–**	–

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 £989,000 (2010: £380,000). Non-current bank loans and overdrafts are stated after deduction of unamortised borrowing costs of £nil (2010: £402,000).

20. Borrowings: continued

During the period, the Group made repayments of £84,282,000 against bank loans and overdrafts. The amount drawn under the Revolving Credit Facility ('RCF') is disclosed as current as, at the balance sheet date, it was due for repayment in July 2012.

Interest and finance fees of £3,028,000 were capitalised to the Harworth Estates (Waverley Prince) Limited loan during 2011.

During the year £3,762,000 was paid under finance leases. These leases are due to be repaid in the period 2011 through to 2014.

The Group is party to certain contracts for coal supply which resulted in increased cash flows to the business in 2009, 2010 and 2011. These benefits together with accrued implied interest are treated as generator loans and prepayments, and will be repaid either out of later revenue or as separate repayments which commenced in October 2010 and end in 2015. Interest is charged on these outstanding amounts using actual or implied interest rates. The average interest rate on these balances is 11%. During the year £17,078,000 has been repaid against these balances.

No new bank loans were taken out during 2011 (2010: £nil).

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

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

	2011 £000	2010 £000
Expiring within 1 year	**81,253**	104,385
Expiring between 1 and 2 years	**15,712**	60,443
Expiring between 2 and 5 years	–	20,712
	96,965	185,540

These facilities are all nominally at floating interest rates, but interest rate swaps/caps with principal value of £67,150,000 (2010: £21,950,000) are held to convert an element of these borrowings to fixed/capped interest rates.

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

	2011				2010			
Group	**Debt £000**	**Generator loans and prepayments £000**	**Finance leases £000**	**Total £000**	Debt £000	Generator loans and prepayments £000	Finance leases £000	Total £000
Within 1 year	**31,007**	**41,723**	**6,534**	**79,264**	52,427	26,428	3,824	82,679
Between 1 and 2 years	**15,712**	**17,461**	**2,253**	**35,426**	57,754	41,286	6,472	105,512
Between 2 and 5 years	–	**24,925**	**884**	**25,809**	17,998	33,474	3,137	54,609
	46,719	**84,109**	**9,671**	**140,499**	128,179	101,188	13,433	242,800

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

	As at December 2011 £000	As at December 2010 £000
Within 1 year	**7,176**	4,757
Between 1 and 5 years	**3,337**	10,431
	10,513	15,188
Future finance charges on finance leases	**(842)**	(1,755)
Present value of finance lease liabilities	**9,671**	13,433

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

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

– Extensions to the maturity of the RCF, the Additional Revolving Facilities ('ARF'), the Harworth Estates (Waverley Prince) Limited facility and the EOS Inc. Ltd facility to the end of December 2013 have all been agreed;

– The financial profile of the ARF were modified so that the amount available to be drawn, which was initially increased to £27,500,000, reduces by £7,500,000 on 30 September 2012 and amortises over the period June 2013 to November 2013. The facility reduces from £20,000,000 to £12,500,000 for a short period at the end of 2012, before reverting to £20,000,000.

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

Notes to the Financial Statements
for the year ended 31 December 2011: continued

21. Trade and Other Payables

	Group		Company	
	As at December 2011 £000	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Current				
Trade payables	**51,688**	53,128	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**158,409**	147,427
Taxation and social security	**14,262**	12,730	**–**	–
Accruals and deferred income	**47,809**	44,699	**10,384**	13,662
	113,759	110,557	**168,793**	161,089
Non-current				
Trade payables	**736**	9,925	**–**	–

22. Provisions

Group	At January 2011 £000	Provided in year £000	Released in year £000	Utilised in year £000	Unwinding of discount £000	At December 2011 £000
Employer and public liabilities	13,040	2,212	(1,804)	(4,996)	–	**8,452**
Surface damage	15,338	4,295	(1,471)	(2,253)	583	**16,492**
	28,378	6,507	(3,275)	(7,249)	583	**24,944**
Claims	15	–	–	–	–	**15**
Redundancy	3,162	4,682	–	(7,399)	–	**445**
Restoration and closure costs of surface mines	51,632	7,813	(3,266)	(16,935)	1,915	**41,159**
Restoration and closure costs of deep mines:						
– shaft treatment and pit top	9,866	–	–	(584)	364	**9,646**
– spoil heaps	2,929	–	–	(556)	111	**2,484**
– pumping costs	2,771	–	(2,869)	–	98	**–**
Ground/groundwater contamination	6,333	3,496	–	–	248	**10,077**
	105,086	22,498	(9,410)	(32,723)	3,319	**88,770**

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

The total of provisions created, net of provisions released, are £13,088,000 (2010: £24,693,000).

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

	As at December 2011 £000	As at December 2010 £000
Current	**13,480**	34,915
Non-current	**75,290**	70,171
	88,770	105,086

22. 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	3,450	1,950	2,768	284	**8,452**
Surface damage	3,809	3,372	7,069	2,242	**16,492**
	7,259	5,322	9,837	2,526	**24,944**
Claims	15	–	–	–	**15**
Redundancy	445	–	–	–	**445**
Restoration and closure costs of surface mines	5,516	9,506	21,999	4,138	**41,159**
Restoration and closure costs of deep mines:					
– shaft treatment and pit top	60	51	2,514	7,021	**9,646**
– spoil heaps	185	25	802	1,472	**2,484**
– pumping costs	–	–	–	–	**–**
Ground/groundwater contamination	–	2,095	4,722	3,260	**10,077**
	13,480	16,999	39,874	18,417	**88,770**

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

Employer and public liabilities

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

Surface damage

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

Claims

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

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.

Notes to the Financial Statements

for the year ended 31 December 2011: continued

23. Financial Instruments and Derivatives

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

Derivative financial instruments

	Assets £000	Liabilities £000
At the end of the year		
Fair value – 2011	–	5,016
Fair value – 2010	–	6,607

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 2011 and December 2010.

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

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

Hedging relationships

As at December 2011, cash flow hedges were in place up to July 2013. None of these hedging relationships are effective for hedge accounting purposes.

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 £445,000 (2010: £177,000) in the year is presented within finance costs in the consolidated income statement (see note 6).

The application of hedge accounting in the year has resulted in an income statement credit of £445,000 (2010: £177,000) for ineffective hedges, no movement in reserves (2010: £nil) for effective hedge relationships and a charge to income of £372,000 (2010: £3,848,000), representing the amortisation of reserves for discontinued hedging relationships.

In 2010, the Group entered into a notional principal £40,000,000 fixed interest cap agreement at a rate of 4.75% effective between 29 July 2011 and 31 July 2013. The terms of the agreement provide that the initial notional principal is amortised by £20,000,000 per year. At the year end, the notional principal was £35,000,000. In 2011, the Group entered into a fixed interest/interest rate cap agreement with a total initial notional principle of £46,000,000, amortising down to £16,500,000 in May 2013. The average fixed interest rate swap element over the lifetime of the agreement is 38%.

The total notional principal of outstanding fixed interest rate swaps that the Group is committed to is £32,650,000 (2010: £21,950,000). The weighted average fixed interest rate and period to maturity of the Group's interest rate swaps was 8.15% (2010: 8.69%) and 0.8 years (2010: 1.4 years), respectively.

The Company has no interest rate swaps.

Other financial assets and liabilities

	December 2011		December 2010	
Group	**Book value £000**	**Fair value £000**	Book value £000	Fair value £000
Assets				
Cash and cash equivalents	**25,278**	**25,278**	24,901	24,901
Trade and other receivables	**29,659**	**29,659**	29,052	29,052
Liabilities				
Bank borrowings	**46,719**	**46,719**	128,179	128,179
Finance lease liabilities	**9,671**	**9,671**	13,433	13,433
Generator loans and prepayments	**84,109**	**93,746**	101,188	113,607
Trade and other payables	**114,495**	**114,495**	120,482	120,482
Derivative financial instruments	**5,016**	**5,016**	6,607	6,607

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 2011 and 2010 year ends, the Group did not have any 'held to maturity' or 'available for sale' financial assets or 'held for trading' financial assets and liabilities as defined by IAS 39.

At the year end, the Company held cash and cash equivalents of £419,000 (2010: £384,000).

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 20.

23. Financial Instruments and Derivatives: continued

Other financial assets and liabilities: continued

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.

24. 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 and fixed interest caps to hedge a proportion of the Group's borrowings over the period of the related loan. The interest rate swaps, allow the Group to exchange, at specified intervals (usually quarterly), the difference between contracted fixed rates and floating rate interest payable on borrowings calculated by reference to the agreed notional amounts. The Group does not enter into instruments which are leveraged or held for speculative purposes.

If interest rates on sterling denominated borrowings during the year had been 2% higher with all other variables held constant, post-tax profit for the year would have been £1,200,000 (2010: £2,067,000) lower, as a result of higher interest expense on floating rate borrowings which have not been economically hedged with an interest rate swap contract. An increase or decrease of 2% represents the Group's assessment of a reasonably possible change in interest rates.

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

Currency risk

During 2011 and 2010, the Group's borrowings at variable and fixed rates were denominated in sterling. No foreign exchange contracts were entered into in 2011 (2010: none) as the Group has no direct material foreign exchange exposure.

Credit risk

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

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

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

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

Liquidity risk

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

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

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

Notes to the Financial Statements
for the year ended 31 December 2011: continued

24. Financial Risk Management: continued

Liquidity risk: continued

The net debt position, excluding restricted cash, of £242,373,000 at the beginning of the year had reduced during the year to £138,810,000 at the year end. The Group generated cash from operating activities after investing activities for the year of £106,384,000 (2010: used £45,774,000).

As at December 2011, 77% of the total bank facilities of £97,000,000 was provided by the Lloyds Banking Group plc.

The Group's committed borrowing facilities are subject to financial covenants based on loan to value ('LTV') calculations which are tested on a quarterly basis. These covenants restrict the Group's ability to access committed facilities within a range of 25% – 75% of the value of certain properties on which the borrowings are secured. These covenants affect 99% of the bank facilities as at December 2011. The Group is currently in compliance with these covenants at the year end date. However, a decrease in the valuations of the Group's properties could impact on covenants resulting in increased charges and potential reduction in the availability of facilities.

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

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
At December 2011			
Bank borrowings	**36,377**	**16,695**	**–**
Finance lease liabilities	**7,176**	**2,426**	**911**
Generator loans and prepayments	**49,348**	**21,060**	**27,355**
Trade and other payables	**113,759**	**736**	**–**
Derivative financial instruments	**3,291**	**2,289**	**–**
At December 2010			
Bank borrowings	58,750	63,844	18,831
Finance lease liabilities	4,757	7,095	3,336
Generator loans and prepayments	31,531	49,483	42,693
Trade and other payables	110,557	9,925	–
Derivative financial instruments	1,931	2,482	1,718

Capital risk management

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

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

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

The gearing ratios for the Group at December 2011 and December 2010 were as follows:

	2011 £000	2010 £000
Total borrowings	**140,499**	242,800
Less: Unrestricted cash and cash equivalents (note 19)	**(1,689)**	(427)
Net debt	**138,810**	242,373
Total equity	**87,065**	81,393
Gearing ratio	**159.4%**	297.8%

25. Retirement Benefit Obligations

Defined contribution pension schemes

The Group operates defined contribution pension schemes in respect of all employees who joined after the privatisation date in 1994. Contributions to defined contribution schemes in the year amounted to £1,425,000 (2010: £1,530,000).

Defined benefit obligations

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

	Group		Company	
	As at December 2011 £000	As at December 2010 £000	**As at December 2011 £000**	As at December 2010 £000
Industry wide schemes	**100,417**	134,269	**–**	–
Blenkinsopp	**592**	852	**592**	852
Concessionary fuel	**43,696**	36,482	**–**	–
	144,705	171,603	**592**	852

Contributions to defined benefit schemes during the year amounted to £23,836,000 (2010: £22,118,000). At December 2011, contributions of £2,066,000 remained unpaid (2010: £nil).

Industry wide schemes

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

	As at December 2011	As at December 2010
Discount rate	**4.9% p.a.**	5.5% p.a.
Rate of return on investments	**5.2% p.a.**	6.5% p.a.
Rate of salary increases – IWMPS	**1.9% p.a.**	3.7% p.a.
Rate of salary increases – IWCSSS	**2.9% p.a.**	4.4% p.a.
Rate of price inflation (RPI)	**2.9% p.a.**	3.4% p.a.
Rate of return on equities	**6.0% p.a.**	7.3% p.a.
Rate of return on debt	**3.7% p.a.**	4.8% p.a.
Rate of cash commutation	**20.0% - 25.0%**	20.0% - 25.0%

	Year ended December 2011	Year ended December 2010
Longevity at age 60 for current pensioners (years)		
IWMPS and IWCSSS		
– Men	**22.5 - 25.1**	22.5 - 25.0
IWCSSS		
– Women	**27.4**	27.3
Longevity at age 60 for future pensioners (years)		
IWMPS and IWCSSS		
– Men	**23.4 - 25.8**	23.4 - 25.7
IWCSSS		
– Women	**28.2**	28.1

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

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

Notes to the Financial Statements
for the year ended 31 December 2011: continued

25. Retirement Benefit Obligations: continued

Industry wide schemes: continued

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

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Fair value of plan assets	**448,937**	431,746	379,949	316,464	372,188
Present value of funding obligations	**(549,354)**	(566,015)	(564,822)	(390,543)	(421,081)
Net liability recognised in the balance sheet	**(100,417)**	(134,269)	(184,873)	(74,079)	(48,893)

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

The amounts recognised in the consolidated income statement are:

	Year ended December 2011 £000	Year ended December 2010 £000
Current service cost	**(12,660)**	(15,250)
Interest cost	**(31,034)**	(32,265)
Expected return on plan assets	**28,174**	26,421
Effect of curtailment or settlement	**1,430**	1,050
Past service cost	**14,814**	–
	724	(20,044)

Current service cost is charged to cost of sales, with interest cost less expected return on plan assets included in administration expenses and the effect of curtailment is included in non-trading exceptional items. A further £10,633,000 gain (2010: £49,651,000 gain) has been reflected in the statement of comprehensive income in the year. This represents the net effect of experience and actuarial gains and losses on the schemes in the year.

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

Change in assets	**Year ended December 2011 £000**	Year ended December 2010 £000
Fair value of plan assets at the start of the year	**431,746**	379,949
Expected return on plan assets	**28,174**	26,421
Actuarial (losses)/gains on assets	**(17,272)**	17,155
Employer contributions	**22,495**	20,997
Plan participants' contributions	**3,044**	3,601
Benefits paid	**(19,250)**	(16,377)
Fair value of plan assets at the end of the year	**448,937**	431,746

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

	As at December 2011 £000	As at December 2010 £000
Equity securities	**289,253**	289,900
Debt securities	**159,684**	141,846
	448,937	431,746

The actual return on plan assets was a gain of £10,902,000 (2010: gain of £43,576,000).

25. Retirement Benefit Obligations: continued

Industry wide schemes: continued

Change in defined benefit obligations	Year ended December 2011 £000	Year ended December 2010 £000
Present value of defined benefit obligation at the start of the year	**(566,015)**	(564,822)
Current service cost	**(12,660)**	(15,250)
Interest cost	**(31,034)**	(32,265)
Plan participants' contributions	**(3,044)**	(3,601)
Curtailment gain	**1,430**	1,050
Actuarial gain	**27,905**	32,496
Benefits paid	**19,250**	16,377
Past service cost	**14,814**	–
Present value of defined benefit obligation at the end of the year	**(549,354)**	(566,015)

Analysis of the movement of the balance sheet liability	Year ended December 2011 £000	Year ended December 2010 £000
At the start of the year	**(134,269)**	(184,873)
Total amounts recognised in the income statement	**724**	(20,044)
Contributions	**22,495**	20,997
Net actuarial gain recognised in the year	**10,633**	49,651
At the end of the year	**(100,417)**	(134,269)

Cumulative actuarial gains and losses recognised in equity	Year ended December 2011 £000	Year ended December 2010 £000
At the start of the year	**(78,588)**	(128,239)
Net actuarial gain in the year	**10,633**	49,651
At the end of the year	**(67,955)**	(78,588)

Experience gains and losses	Year ended December 2011 £000	Year ended December 2010 £000
Actual return less expected return on schemes' assets	**(17,272)**	17,155
Experience gains arising on schemes' liabilities	**5,472**	7,386
Changes in assumptions underlying present value of liabilities	**22,433**	25,110
Net actuarial gain	**10,633**	49,651

History of experience gains/(losses)	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Actual return less expected return on schemes' assets	**(17,272)**	17,155	31,840	(92,915)	(237)
Percentage of year end scheme assets	**(4)%**	4%	8%	(29)%	0%
Experience gains/(losses) arising on schemes' liabilities	**5,472**	7,386	(7,412)	(2,914)	(1,495)
Percentage of the present value of schemes' liabilities	**1%**	1%	1%	1%	0%

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

The contributions expected to be paid to the schemes in the year ending December 2012 will be around £26,000,000 including deficit contributions.

Notes to the Financial Statements

for the year ended 31 December 2011: continued

25. Retirement Benefit Obligations: continued

Blenkinsopp

Blenkinsopp is a section of the IWMPS covering the pension arrangements of the various companies comprising parts of the former British Coal. Blenkinsopp Collieries Limited was sold by the Group in 1998. However, it has since gone into liquidation and the retirement liabilities have reverted to the Group and Company. The liability as at December 2011 is £592,000 (2010: £852,000), employer's contributions for the year were £192,000 (2010: £158,000), the amount recognised in the income statement is £64,000 (2010: £90,000) (current service costs £16,000 (2010: current service cost £28,000) and interest cost less expected return on plan assets £48,000 (2010: £62,000)) and the actuarial gain recognised in the statement of comprehensive income is £132,000 (2010: gain £161,000). Cumulative actuarial gains recognised in equity for this Blenkinsopp section were £617,000 (2010: £485,000).

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

Concessionary fuel

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

An actuarial valuation for the purpose of IAS 19 was carried out by an independent actuary at December 2011. The major assumptions used by the actuary were:

	Year ended December 2011	Year ended December 2010
Discount rate	**4.9% p.a.**	5.5% p.a.
Inflation assumption	**2.9% p.a.**	3.4% p.a.

The amounts recognised in the balance sheet are as follows:

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Net liability recognised in the balance sheet	**(43,696)**	(36,482)	(34,879)	(29,277)	(23,443)

The amounts recognised in the consolidated income statement are:

	Year ended December 2011 £000	Year ended December 2010 £000
Current service cost	**(476)**	(515)
Interest cost	**(1,988)**	(1,975)
Past service cost	**1,564**	–
	(900)	(2,490)

Current service cost is charged to cost of sales and interest cost is included in administration expenses. A further loss of £7,463,000 (2010: £76,000 loss) has been reflected in the statement of comprehensive income in the year. This represents the net effect of experience and actuarial gains and losses on the schemes in the year.

Analysis of the movement of the balance sheet liability	**Year ended December 2011 £000**	Year ended December 2010 £000
Concessionary fuel reserve at the start of the year	**(36,482)**	(34,879)
Current service cost	**(476)**	(515)
Benefits paid to former employees during the year	**1,149**	963
Interest cost	**(1,988)**	(1,975)
Actuarial loss	**(7,463)**	(76)
Past service cost	**1,564**	–
Concessionary fuel reserve at the end of the year	**(43,696)**	(36,482)

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

Cumulative actuarial gains and losses recognised in equity	**Year ended December 2011 £000**	Year ended December 2010 £000
At the start of the year	**(10,360)**	(10,284)
Net actuarial loss in the year	**(7,463)**	(76)
At the end of the year	**(17,823)**	(10,360)

25. Retirement Benefit Obligations: continued

Concessionary fuel: continued

Experience gains and losses	Year ended December 2011 £000	Year ended December 2010 £000
Experience (loss)/gain on concessionary fuel reserve	**(6,795)**	942
Changes in assumptions underlying present value of liabilities	**(668)**	(1,018)
Total amount in statement of comprehensive income	**(7,463)**	(76)

History of experience gains and losses	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Experience (loss)/gain on concessionary fuel reserve	**(6,795)**	942	3,559	(8,510)	444
Percentage of concessionary fuel reserve	**(16)%**	3%	10%	(29)%	2%

26. Called Up Share Capital

	2011		2010	
Group and Company	**Number of shares**	**£000**	Number of shares	£000
Authorised share capital				
At the start and end of the year				
Ordinary shares of 1 pence each	**Unlimited**	**Unlimited**	Unlimited	Unlimited
Issued and fully paid				
At the start and end of the year				
Ordinary shares of 1 pence each	**299,298,160**	**2,993**	299,298,160	2,993

No shares vested during 2011 or 2010 under the Long Term Incentive Plan ('LTIP').

Long Term Incentive Plan

A Long Term Incentive Plan was introduced in 2000 for Executive Directors and Senior Executives. Details of the plan are set out in the Directors' Remuneration Report. During the year, nil (2010: nil) shares were reserved against the award of shares under the LTIP. The shares are awarded at an exercise price of £nil. Shares outstanding at December 2011 are as follows:

	2011 Number	2010 Number
Exercisable from 2012	**–**	853,969
Exercisable from 2013	**7,751,339**	3,551,837
Exercisable from 2014	**4,105,744**	–

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

	2011	2011	2011	2010	2010	2009	2008
Grant date	**3 November**	**31 August**	**20 April**	15 November	26 August	5 May	22 April
Share price at grant date	**£0.33**	**£0.47**	**£0.35**	–	£0.39	£1.38	£4.53
Exercise price	**£nil**	**£nil**	**£nil**	£nil	£nil	£nil	£nil
Number of employees	**1**	**2**	**18**	1	19	18	18
Shares under option	**50,000**	**202,659**	**4,225,142**	4,320,000	3,551,837	886,740	366,160
Vesting period (years)	**3**	**3**	**3**	3	3	3	3
Expected volatility	**60.7%**	**59.8%**	**59.3%**	N/A	57.8%	46.7%	34.3%
Option life (years)	**3**	**3**	**3**	3	3	3	3
Expected life (years)	**2.84**	**2.66**	**2.30**	1.87	2.35	2.66	2.69
Risk free rate	**0.78%**	**0.98%**	**1.68%**	N/A	0.88%	1.92%	4.36%
Possibility of ceasing employment before vesting	**5% p.a.**	**5% p.a.**	**5% p.a.**	5% p.a.	5% p.a.	5% p.a.	5% p.a.
Fair value per option	**£0.20**	**£0.35**	**£0.23**	£0.40	£0.11	£0.82	£1.97

Notes to the Financial Statements
for the year ended 31 December 2011: continued

26. Called Up Share Capital: continued

The expected volatility is based on historical volatility over the last five years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to December 2011 is shown below:

	Year ended December 2011 Number	Year ended December 2010 Number
Outstanding at the start of the year	**8,725,806**	1,438,224
Granted	**4,477,801**	7,871,837
Expired	**(1,346,524)**	(584,255)
Outstanding at the end of the year	**11,857,083**	8,725,806

The total charge for the year relating to employee share-based payment plans was £1,286,000 (2010: £574,000) all of which related to equity settled share-based payment transactions.

27. Retained (Loss)/Earnings

Group	Note	**2011 £000**	2010 £000
At January		**(181,484)**	(152,463)
Profit/(loss) for the financial year		**55,241**	(125,095)
Actuarial gains on post retirement benefits	25	**3,302**	49,736
Rate change on deferred tax asset relating to retirement benefit liability	8	**–**	(325)
Fair value (profit)/loss on revaluation of investment properties	13	**(3,325)**	34,197
Transfer of realised gain on disposed properties	28	**44,697**	11,892
Accrual for long term incentive plan liabilities	26	**1,286**	574
At December		**(80,283)**	(181,484)

Company	Note	**2011 £000**	2010 £000
At January		**316,056**	332,281
Loss for the financial year		**(3,829)**	(16,960)
Actuarial gain on post retirement benefits	25	**132**	161
Accrual for long term incentive plan liabilities	26	**1,286**	574
At December		**313,645**	316,056

28. Other Reserves

Group	Note	**Hedging reserve £000**	**Revaluation reserve £000**	**Capital redemption reserve £000**	**Assets held for sale £000**	**Fair value reserve £000**	**Total £000**
At January 2010		(2,753)	127,497	257	–	146,502	271,503
Revaluation on recognition of investment properties	13	–	1,223	–	–	–	1,223
Transfer of realised loss/(gain) on disposed properties		–	700	–	–	(12,592)	(11,892)
Fair value loss on revaluation of investment properties	13	–	–	–	–	(34,197)	(34,197)
Hedging reserve – amortised in period	23	3,848	–	–	–	–	3,848
Movement in deferred tax asset on cash flow hedges	8	(1,357)	–	–	–	–	(1,357)
At January 2011		**(262)**	**129,420**	**257**	**–**	**99,713**	**229,128**
Revaluation on recognition of investment properties	13	–	4,519	–	–	–	4,519
Transfer of realised gain on disposed properties		–	(6,652)	–	–	(38,045)	(44,697)
Fair value gain on revaluation of investment properties	13	–	–	–	–	3,325	3,325
Hedging reserve – amortised in period	23	372	–	–	–	–	372
Amounts recognised in reserves relating to non-current assets held for sale	18	–	(14,190)	–	14,190	–	–
Movement in deferred tax asset on cash flow hedges	8	(110)	–	–	–	–	(110)
At December 2011		**–**	**113,097**	**257**	**14,190**	**64,993**	**192,537**

28. Other Reserves: continued

Company	Capital redemption reserve £000	Total £000
At January 2010 and 2011 and December 2010 and 2011	**257**	**257**

None of the other reserves balances at either the 2011 or 2010 year ends represented realised reserves.

29. Capital and Other Financial Commitments

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

Group	**As at December 2011 £000**	As at December 2010 £000
Property, plant and equipment	**11,895**	27,746
Investment property	**559**	844
	12,454	28,590

30. Operating Lease Commitments

Group

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

	As at December 2011 £000	As at December 2010 £000
Lease expiring:		
Within 1 year	**2,988**	5,302
Later than 1 year and less than 5 years	**7,273**	8,964
After 5 years	**25,130**	20,189
	35,391	34,455

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

	As at December 2011 £000	As at December 2010 £000
Lease expiring:		
Within 1 year	**3,453**	1,184
Later than 1 year and less than 5 years	**13,617**	4,421
After 5 years	**814**	1,337
	17,884	6,942

The Company had no interest in any operating leases (2010: £nil).

31. Contingent Liabilities

Guarantees have been given in the normal course of business for performance bonds of £5,619,000 (2010: £4,209,000) 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.

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

There are no other material contingent liabilities at December 2011 for which provision has not been made in these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2011: continued

32. Related Party Transactions

Group

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

Key management compensation is disclosed in note 5.

Transactions with joint ventures

The following transactions were carried out with the joint ventures:

Bates Regeneration Limited	**Year ended December 2011 £000**	Year ended December 2010 £000
Sale of services to related party	**–**	12
	–	12

Transactions with Bates Regeneration Limited were carried out on commercial terms and conditions and at market prices.

Balances owing from/(to) joint ventures

Bates Regeneration Limited

The balance arising from sales at December 2011 was £nil (December 2010: £12,000).

Company

The Group manages its financing arrangements centrally. Amounts are transferred within the Group dependent on the operational needs of individual companies. All amounts are repayable on demand, carry no security and incur interest at LIBOR +2%, except UK Coal Mining Ltd at LIBOR +3.5%. Details of the Company's receivables and indebtedness are set out in notes 17 and 21 and amounts due from or owed to subsidiary undertakings are set out below:

Owed to:	**As at December 2011 £000**	As at December 2010 £000
UK Coal Mining Ltd	**(93,873)**	(78,905)
Harworth Power Limited	**(10,824)**	(8,417)
Centechnology (UK) Limited	**(1,813)**	(1,713)
Harworth Park Services Limited	**(7)**	(10)
UK Coal Holdings Limited	**(36)**	(35)
Harworth Group Limited	**(6,578)**	(6,450)
Harworth Guarantee Co. Limited	**(48)**	(46)
Potland Burn Limited	**(21,349)**	(27,668)
Dormant and non-trading companies	**(23,881)**	(24,183)
	(158,409)	(147,427)

Owed by:	**As at December 2011 £000**	As at December 2010 £000
Mining Services Limited	**5,511**	6,171
LHTC Limited	**2,987**	2,917
Harworth Mining Limited	**6,981**	6,294
EOS Inc. Ltd	**12,258**	10,959
Harworth Estates (Agricultural Land) Limited	**6,821**	24,185
Harworth Estates (Waverley Prince) Limited	**97,928**	77,667
Harworth Insurance Company Limited	**335**	124
Dormant and non-trading companies	**83,422**	81,943
	216,243	210,260

32. Related Party Transactions: continued

Peel Group

The £10,000,000 unsecured facility from Peel Holdings Finance Limited, was originally agreed in 2010 and renewed in 2011. The facility was due to expire at the end of July 2012 but was extended in April 2012 until November 2013, amortising in value by £2,500,000 per month from August 2013 to November 2013. No interest was payable in 2011 as the facility was undrawn in the period. Total fees of £311,000 were incurred in 2011 in relation to the facility of which £261,000 was paid during the year with the remaining £50,000 paid in 2012.

We received shareholder approval on 11 July 2011 for waste to energy joint ventures with members of the Peel Group for 11 sites which are part of our property portfolio. Joint venture companies have been set up for each of these sites but none are operating. The market value of these sites at 11 July 2011 was £7,000,000 with an agreed base option price, subject to appropriate planning permissions, of £14,700,000.

Peel Wind Farms (IOM) Limited has sold a wind farm development activity at Bilsthorpe in Nottinghamshire to a third party and has paid UK Coal £868,000 in connection with this sale in October 2011. This transaction represented a smaller related party transaction pursuant to the Listing Rules and the appropriate confirmations set out in Listing Rule 11.1.10 were provided to the Financial Services Authority.

As reported in the 2010 Annual Report and Accounts, the Company agreed to sell 164 acres of farmland near Tyldesley in Greater Manchester to Peel Investments (Intermediate) Limited, a subsidiary of Peel Holdings Finance Limited, for a cash consideration of £1,600,000 of which £1,060,000 was received in 2010, and the balance received in July 2011. This transaction represented a smaller related party transaction pursuant to the Listing Rules and the appropriate confirmations set out in Listing Rule 11.1.10 were provided to the Financial Services Authority.

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

	Year ended December 2011 £000	Year ended December 2010 £000
Release of deferred income	–	1,011

34. Post Balance Sheet Events

As outlined in the operating and financial review, the Group has restructured its banking arrangements and the stand-by facility from Peel Holdings Finance Limited since the year end. Note 20 identifies the principal changes to those facilities.

The Group announced on 14 March 2012 that it is consulting on the potential closure of Daw Mill, once it has mined coal from existing and part developed coal panels in 2014. The consultation process is continuing and no decisions have yet been made. The Group estimates that, were an irrevocable decision be made to close Daw Mill in 2014, an impairment loss of approximately £40,000,000 will need to be recognised. In addition, depreciation would be accelerated on the remaining tangible fixed assets with a net book value at December 2011 of £46,000,000. Other related costs, including redundancies, will depend on the outcome of negotiations and cannot yet be estimated with any degree of accuracy.

UK COAL PLC
Harworth Park
Blyth Road
Harworth
Doncaster
South Yorkshire
DN11 8DB

Tel: +44 (0)1302 751751
Fax: +44 (0)1302 752420

Annual Report 2011

www.ukcoal.com