Annual Report
2009

UK COAL PLC
Annual Report and Accounts 2009

Mining

Harworth Estates

UK COAL is the largest producer of coal in the UK, and a significant supplier of energy to the UK's electricity industry. In the last year we mined approximately 15% of the total amount of coal burned in the UK, which is equivalent to the energy needed to provide around 5% of the country's electricity requirements.

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

PICTURED: Surface mining at Lodge House, Derbyshire.

Highlights

Income Statement	2009	2008
Total Group revenue (£m)	316.0	392.5
Average sales price per Gigajoule (£/GJ)	1.87	1.92
Operating (loss)/profit before non-trading exceptional items and property revaluation reduction (£m)	(67.4)	1.8
Non-cash property revaluation reduction (£m)	(25.7)	—
Operating (loss)/profit before non-trading exceptional items (£m)	(93.1)	1.8
Operating loss (£m)	(106.2)	(2.2)
Loss before tax (£m)	(129.1)	(15.6)
Loss after tax (£m)	(127.5)	(15.7)
Loss per share (pence)	(72.9)	(10.0)

Balance Sheet	2009	2008
Net assets (£m)	152.8	300.4
Net assets per share (£)	0.51	1.91
Year end bank gearing (%)	75	46
Year end total gearing (%)	119	46

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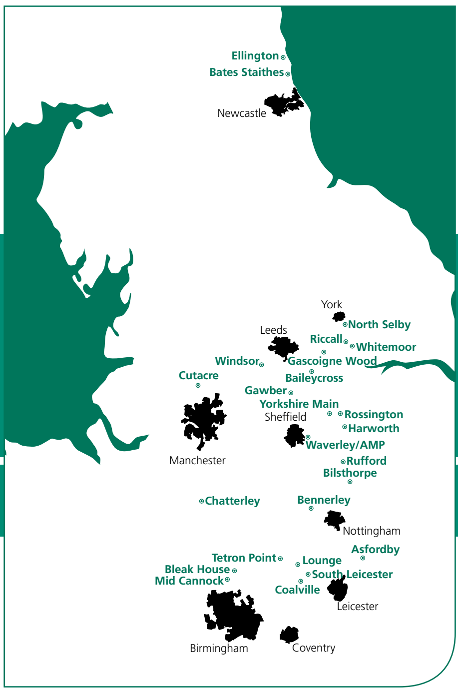
The Business
at a glance

Mining

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

SURFACE MINING
The Group has currently three active surface mines and planning committee approvals or consents to mine a further three sites. We have applied for planning consents for a further three mines and expect to make applications for a further four sites during 2010. Total surface mining reserves and resources, subject to planning, are estimated at over 50 million tonnes.



Harworth Estates

UK COAL owns approximately 43,500 acres (17,600 hectares) of predominately agricultural land. Within this, around 4,500 acres (net) on 85 sites have been identified as offering the prospect for development into a mix of residential, business park, distribution, leisure and community developments over the medium to long term.

The Group's property interests, excluding the deep mine sites, at current open market value were valued at December 2009 at £394 million.

KEY PERFORMANCE INDICATORS

Coal mined

5.7 million tonnes

Operating costs before depreciation and non-trading exceptional items

£291.0m

Operating loss before non-trading exceptional items

£70.5m

Coal mined

1.3 million tonnes

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

£1.75/GJ

Operating profit before non-trading exceptional items

£1.9m

Total coal mined

7.0 million tonnes

Group realised coal sales price per Gigajoule

£1.87/GJ

KEY PERFORMANCE INDICATORS

RICS valuation of property portfolio

£393.8m

Gross acreage held

43,500

PICTURED: New roadway to access around 12 million tonnes of reserves in the Deep Soft seam at Thoresby colliery.

Chairman's Statement

David Jones

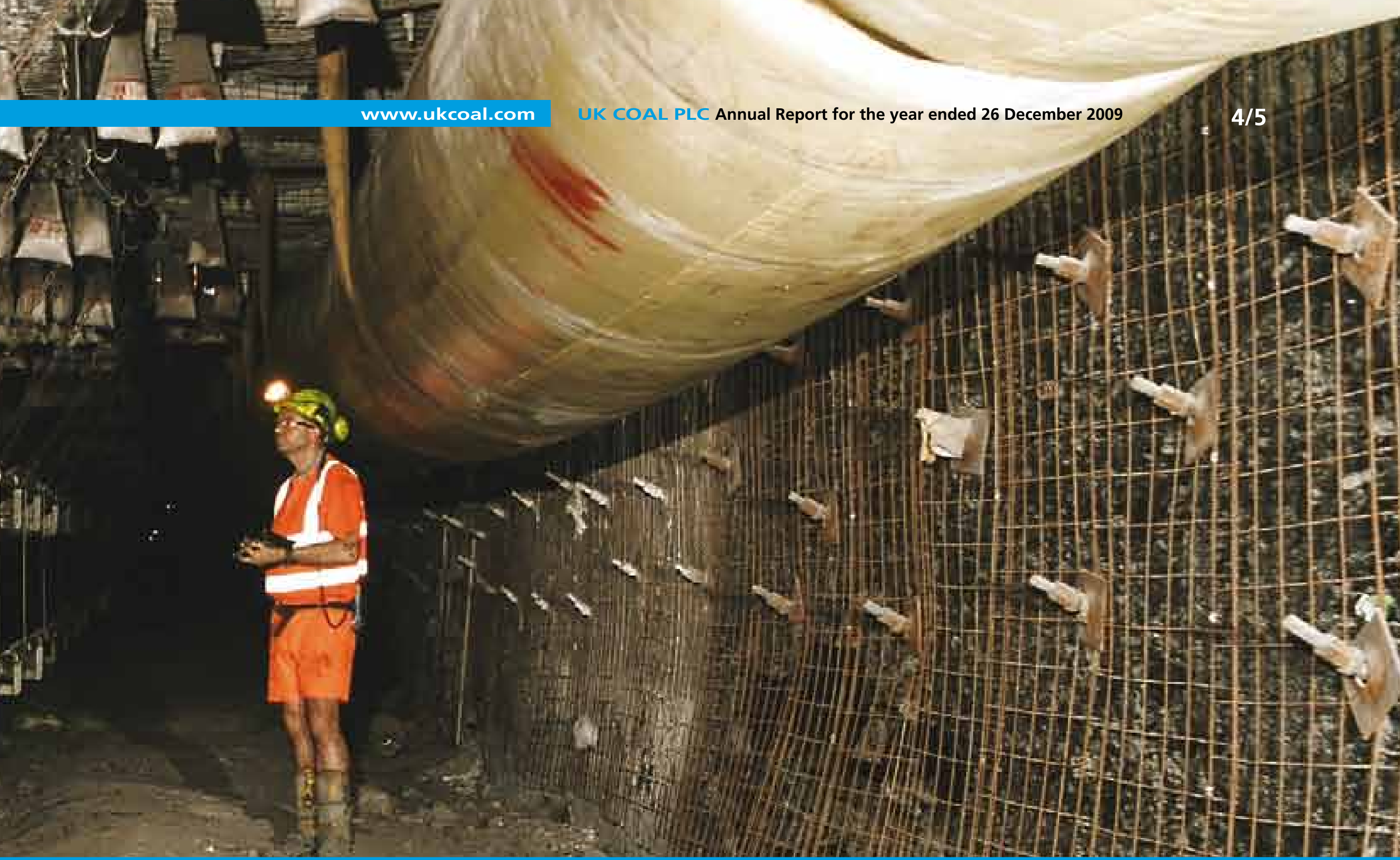
2009 has been an extremely challenging year for the Group.

We took big strides in transitioning the production profile of our deep mining business, a transition which has been substantially completed in the current year with the commencement of production from the new seams at Kellingley and Thoresby. We put in place new long term supply contracts on significantly improved terms with our electricity generator customers and added a major new customer, Scottish and Southern Energy. We also further strengthened our executive team with the appointment of a Board level Director of Mining, Gareth Williams, who brings considerable international mining experience to the Group. The positive effect of this appointment is already being felt. This followed the appointment of a dedicated, executive level, Safety Director. Together, these steps hold the potential to transform the safety, performance and profitability of our deep mining business, and we shall continue working hard to these ends during 2010 and beyond.

In parallel, although the current market conditions have affected property valuations, our property business has continued to perform well in progressing planning and has the ability to deliver very considerable uplifts in value. Our Project Worth central case estimates the worth of our property in 2012 at £615 million and in 2014 at £820 million, which compare to the RICS valuations at December 2009 of £394 million.

With that background, we approached our shareholders, together with new institutional investors, last autumn and secured a net £100 million capital raising, in order to finance the completion of the investment programmes in our mining business and to create a more stable financial position for the Group.

As we have previously reported, however, our financial results for last year have been substantially affected by geological issues in each of our deep mines, which significantly reduced production volumes and did so against the background of a subdued market price for coal in Europe. These difficulties were exacerbated in the last quarter by equipment unreliability and failures, noting in particular the incident leading to the loss



of a life at Kellingley. These geological issues continued into the current year until the new seams at Kellingley and Thoresby, and the new face at Daw Mill, have been brought into production. This has inevitably reduced first quarter production compared to the same period last year.

With Kellingley now in full production in its new seam, Thoresby ramping up in its new seam and with Daw Mill having started its ramp up, we believe that the particular difficulties which have affected us over the past months are now behind us. We therefore look forward to increasing production volumes, and for the business to see the benefit of an improved market price for coal.

However, the lower production volumes to this point, and the consequential deferral of contract delivery commitments, have somewhat delayed the timing of when we will fully benefit from the new supply contracts that we have put in place. As a result, our cash performance has been significantly affected, with the result that our debt has increased with insufficient headroom for the Group.

To address this, we have arranged an increase of up to £20 million in our banking facilities, and a £10 million loan facility with Peel Holdings, to provide us with increased headroom, in particular over the next seven months to reflect the peak funding, and therefore headroom, requirement for the Group.

We consider our debt levels to be too high and therefore intend to take advantage of the current strong market values for agricultural land to pursue the disposal of a significant proportion of our agricultural estate and to explore joint-venturing the development of a larger part of our brownfield land portfolio with the objective of reducing the absolute levels of bank debt and associated costs.

We report in greater detail on all these points, but I, and the whole Board, would like to thank our executive team and all our employees for the way they have faced the challenges of the last six months and for the substantial progress they have achieved in very difficult circumstances. The financial results for 2009 are not those we planned for, but we nevertheless believe UK COAL retains the key ingredients to provide a platform for profitable growth in the medium and longer term.

RESULTS

Reflecting the operational difficulties and non-cash reductions in the valuations of our properties, UK COAL is reporting for 2009 an operating loss before exceptional items of £93.1 million, compared to an operating profit of £1.8 million in 2008, and a loss before tax of £129.1 million, compared to a loss before tax of £15.6 million the year before.

In the year, the deficit on the Group's retirement benefit obligations has increased from £104.0 million at December 2008 to £220.8 million at December 2009. Although the assets have appreciated in value during the year, this appreciation has been more than offset by an increase in liabilities primarily resulting from a change in the actuarial assumption used to discount the future liabilities. As a result of this and the results in the year noted above, and despite the equity issue in October last year, there has been a reduction in net assets per share, from 191 pence at December 2008 to 51 pence at December 2009.

Our property business made good progress in planning during 2009 and benefited from the continued strength of agricultural land values. This helped offset the general market reductions in property values, which began to stabilise in the second half. Nonetheless, our property portfolio saw a £25.7 million reduction in its value, compared with a slight increase in 2008. While non-cash, this contributed to our operating loss, although the major impact was the movement of our mining business from a combined operating loss of £2.4 million in 2008 to a loss of £68.6 million in 2009.

Net bank debt, excluding restricted cash balances and generator loans/prepayments, at December 2009 was £114.3 million (2008: £137.1 million). Including generator loans/prepayments, but excluding restricted cash balances, net debt at December 2009 was £181.9 million (2008: £137.1 million). At the end of the first quarter 2010, net debt, including generator loans/prepayments but excluding restricted cash balances, was £236.0 million of which generator balances were £77.4 million.

For the first quarter of 2010, our deep mine production has been 0.8 million tonnes compared to 1.4 million tonnes in the first quarter of 2009. Surface mine production was 0.2 million tonnes compared to 0.3 million tonnes in the first quarter of 2009.

Safety has to be at the heart of everything that we do and, throughout our employee team there is a thorough commitment to safety. It is therefore deeply regrettable that we have to report the loss of life of two of our colleagues last year, although overall reportable injuries fell to 22.8 per 100,000 manshifts compared to 24.0 in 2008. The addition of a dedicated Safety Director reflects this commitment, but in itself is only a small part of our work to improve our safety culture.

MINING

Deep Mining

We have reached a very significant point for the Group's deep mining business.

The new seams at Kellingley and Thoresby, in which we have been investing over the last three years, are now producing coal and we can now start exiting the old seams at these mines, which have caused so much difficulty. At the same time, Daw Mill's new face has started its ramp up, after an exceptionally difficult installation. Meanwhile, Welbeck is continuing to mine out the last of its reserves and is now expected to cease production in May this year, with the majority of its employees being offered relocation to other mines.

This is resulting in a major and beneficial change in the profile of our deep mining operations. Together with the considerably increased development driveage designed to reduce the impact of future face changes and to improve the reliability of future production volumes, the key steps have now been put in place for a modern and efficient deep mining business — one with substantial and economically accessible reserves which is able to benefit fully from the significantly improved long term supply contracts we have negotiated, once the old legacy contracts are exhausted.

We have already noted the appointment of Gareth Williams to the Board as Director of Mining, and the positive effect of his focus on furthering the process of turning the mining business around.

It has taken longer to get to this point than was originally planned and, as we have previously reported, production volumes in the last quarter of 2009 and this year to date have been impacted by the very difficult geology.

As we report below, we believe these difficulties are now being overcome.

Daw Mill

Daw Mill is the largest of our mines, delivering a production record of 3.2 million tonnes in 2008 and 2.9 million tonnes in 2009. It had a planned face change which was originally scheduled for January 2010, but is only now starting its ramp up. This was principally because of an unpredictable break in the rock strata above the new face line in December last year. Protecting the new face required a very significant amount of roof reinforcement — initially over 500 timber supports were positioned and ultimately over 1,200 additional cable bolts were inserted. Whilst this work was being undertaken, the geology continued to move and the floor rose by over 2 metres. This floor blow had to be removed before the powered roof supports could be put in place. All this work has now been safely and successfully completed.

With the start of production on its new 357 metre long face, which is expected to last *circa* 15 months, Daw Mill is expected to be able to return to, or exceed, its previous volumes of production from its former 295 metre long face.

Kellingley

At Kellingley, production on the last of the old panels in the Silkstone seam was originally scheduled to cease at the end of 2009. In October 2009, however, we suffered a loss of a life on its production face when a powered roof support descended without instruction. Initial investigations were unable to identify the cause, and the Health and Safety Executive issued a prohibition notice that prevented us from continuing to operate the face until we had replaced certain components of the roof supports that might have contributed to the accident. When the old panel restarted in November, it did not return to its previous output levels, in part because of larger and longer than expected faulting in the seam.

We have now, however, completed the ramp up of the new face in the new Beeston seam, and the old face is now in its salvage phase. The new face is therefore able to run at full output levels, and production is now some 40,000 tonnes a week, in line with expectations and significantly above Kellingley's performance over the past two years.

Thoresby

Thoresby has also now started producing from the first of its new Deep Soft faces, only slightly behind the original March schedule, and is currently in the last week of its ramp up period. Before this, Thoresby had been operating in very difficult conditions, producing from 57s panel in the old Parkgate seam, nearly 13 km from the pit bottom. Aware of the risk of interference from previous mine workings, from which we had suffered in 2008, we "rehanded" this panel, moving the large equipment from the gate most likely to suffer the impact of the former workings to the other gate. This was complex and time consuming. As we mined the panel back, we encountered a significantly larger than expected increase in the thickness of the dirt band which was present. This had a very significant impact on the saleable output from the old panel. It reduced the amount of coal extracted in a single cut as well as the speed of the cut, because of the greater density and weight of dirt than coal. Furthermore, the dust generated by the dirt, given the inability to increase airflows to such a remote part of the mine, reduced the working time on the old face, to which the underground travelling time was already approaching two hours each way.

In contrast, the new Deep Soft panel now being mined at Thoresby is only around 3 km from the pit bottom, dramatically reducing travelling times each way and significantly improving working temperatures. It also has only two coal conveyors to the pit bottom in contrast to the 57s nine coal conveyors. This is a marked change in environment and we look forward to seeing output rates from Thoresby going forwards return to at least historically achieved levels.

Welbeck

Welbeck is mining its final panel before closure during May 2010. The first half of the year involved this final panel being developed, but once this was completed, operating costs have reduced as development costs were no longer being incurred. As a result of this, production of 1.0 million tonnes has been achieved during 2009 compared to 0.9 million tonnes in the prior year with lower operating costs.

Surface Mining

Surface mining production in 2009 was 1.3 million tonnes, compared to 1.7 million tonnes in 2008, in particular because we deferred opening the consented mine at Park Wall North, Durham, reflecting levels of coal demand. Extraction costs, before depreciation, also rose sharply during the year to £1.75/GJ from £1.61/GJ in 2008, particularly because of the ratio of muck shifting to coal production in the first half. Overall surface mining made an operating profit of £1.9 million, compared to £10.4 million in 2008.

Planning applications and consents have continued to programme, and we look forward to the opening of three surface mines, Huntington Lane, Telford and Potland Burn, Northumberland along with Park Wall North, Durham in 2010.

We have reviewed our Blair House, Fife site and given its location and the nature of the coals in the site, coupled with our future plans and equipment availability, we are in the process of exploring the possible sale of this site.

SALES AND MARKET

The international market price of coal was again very volatile last year. As the UK came out of the winter at the start of 2009, the impact of the recession showed in a 6.8% fall in electricity demand and a very significant fall in the price of gas, which encouraged generators to switch towards burning gas. Coal demand and the price for coal fell, albeit not to the historically low levels of our legacy contracts.

Our average selling price in 2009, therefore, while within the range we had guided to, was slightly lower than achieved in 2008 at £1.87/GJ, compared with £1.92/GJ.

The market price for coal has now risen from the lows it hit last year, and the forward price continues to reflect the long term trend in increasing energy prices. Prices for delivery of coal in the rest of 2010 average around $80 per tonne, rising to $92 per tonne in 2011 and $104 per tonne in 2012, compared to an average of $70 in 2009. In the UK market, we continue to see the further benefit from the sterling–dollar exchange rate.

Production sold from all mines in 2009 was 6.9 million tonnes compared to 7.9 million tonnes in 2008. We had hoped to reduce our stocks over the year. However, this was not achieved, notably because, at the end of its panel, Daw Mill encountered coal with a higher level of ash than is usual for this mine, whose coal preparation plant was not set up to deal with the particular impurities. These stocks are now being cleared, either through separation, washing at other mines or through blending away with production from the new panel.

With the rephasing of some deliveries that we missed in late 2009 and at the start of 2010, we have a slightly larger volume of older contracts than was originally expected. At the end of 2009, an amount of 6.8 million tonnes, at an average sales price of *circa* £1.63/GJ was left to be delivered, of which 4.2 million tonnes is due for delivery in 2010. We nevertheless have now started benefiting, at first in a small way, from the significantly improved sale price terms of some of the new contracts that we announced in April 2009, and we see a significantly increasing benefit into 2011.

OVERALL

Overall, our mining businesses produced an operating loss before non-trading exceptional items of £68.6 million (2008: £2.4 million) with an operating loss in the deep mines business of £70.5 million (2008: £12.8 million) and an operating profit in surface mines of £1.9 million (2008: £10.4 million). For the first quarter of this year, our deep mine production has been 0.8 million tonnes compared to 1.4 million tonnes in the first quarter of 2009. Surface mine production was 0.2 million tonnes compared to 0.3 million tonnes in the first quarter of 2009.

	Production		**Operating cost***		**Production**	
	2009	2008	**2009**	2008	**Q1 2010**	Q1 2009
	m tonnes	m tonnes	**£m**	£m	**m tonnes**	m tonnes
Deep mines						
Daw Mill	**2.9**	3.2	**110.8**	96.9	**0.2**	0.7
Kellingley	**1.0**	1.2	**74.9**	72.4	**0.3**	0.3
Thoresby	**0.8**	0.9	**59.5**	63.1	**0.2**	0.2
Welbeck	**1.0**	0.9	**52.1**	57.7	**0.1**	0.2
Total deep mines production/costs before stock movements	**5.7**	6.2	**297.3**	290.1	**0.8**	1.4
Stock movements	—	—	**(6.3)**	(3.0)	**—**	—
Total deep mines	**5.7**	6.2	**291.0**	287.1	**0.8**	1.4
Surface mines	**1.3**	1.7	**55.8**	63.1	**0.2**	0.3
Total mines	**7.0**	7.9	**346.8**	350.2	**1.0**	1.7

* Before non-trading exceptional items and depreciation.

HARWORTH ESTATES

Harworth Estates has continued to make strong progress on its strategy of maturing planning consents for our 85 development sites. In 2009, we secured further planning approvals for around 330 homes, a golf course and hotel, and 4,600 sq m (50,000 sq ft) of business space. New planning applications were additionally made for around 2,000 homes and 114,000 sq m (1,230,000 sq ft) of business space.

Since the year end, we have received planning committee approval, subject to signing a Section 106 Planning Agreement and to not being called in by the Secretary of State, for our two applications at Waverley (off J33 M1, Rotherham). These are a new community of 3,890 homes including 15,000 sq m (165,000 sq ft) of associated leisure/retail/community, and a change of use on the Highfield Commercial area to allow a Government campus development of 60,000 sq m (645,000 sq ft) plus hotel and ancillary retail/leisure of 4,500 sq m (48,000 sq ft).

Property market values have clearly been affected by the financial crisis and recession. The strength of our planning progress has done much to offset this impact, and agricultural land values have continued to be strong. In the second half of the year, therefore, the RICS valuation of our portfolio increased by £11.6 million. For the year as a whole, however, as expected, the valuation fell and there was a £25.7 million reduction in valuation to £393.8 million at December 2009. This compared to £23,000 of unrealised gains and £3.7 million of realised gains in 2008 and more than accounted for Harworth Estates 2009 operating loss of £24.5 million, compared to an operating profit of £4.7 million in 2008.

Through Project Worth, our property portfolio has the potential to contribute very substantial shareholder value. In line with last year, we have estimated the future worth of our properties using a number of cases — the central case being an estimated worth of our property in 2012 at £615 million and in 2014 at £820 million (2008: £668 million and £886 million in 2012 and 2014 respectively).

Of our *circa* 43,500 acres of land, *circa* 28,000 acres is agricultural, much with little prospect of development potential even over the long term. While there are longer term coal resources under parts of this land, we do not believe the cost of holding those sites is warranted where the potential for coal extraction over the long term is more marginal. We therefore now intend to realise some of this value by disposals of some of our surplus agricultural land, in doing so helping reduce our overall levels of debt.

We are also coming closer to the time when market conditions may become progressively more favourable for bringing larger portions of our brownfield estate into the development phase, and we are exploring a number of joint venture opportunities to optimise shareholder value whilst managing development risk and capital requirements.

GOING CONCERN

Your Board has always recognised that deep mining has a high operating risk compared to the majority of industries, and this has clearly been evident in the difficulties that our mines have experienced in recent times. We now have a consequentially higher level of bank borrowings and have needed to take into account the levels of working capital we require to finance our future operations. We have therefore held discussions with our financial providers and have increased our loan facilities by up to a further £30 million and extended the term of these facilities. The operating risks are set out in the Operating and Financial Review and we would also draw your attention to those matters which the Board has felt it appropriate to take into account in forming its conclusion on going concern, set out in the Directors' Report and in the Financial Statements.

CORPORATE ACTIVITY

On 9 March 2010, following press speculation, we announced that we had received a very preliminary approach regarding a potential merger transaction. The matter remains at a very early stage and we would continue to stress that there is no certainty that a transaction will result.

OUTLOOK

The start of 2010 has been difficult for the reasons given and has had a direct impact on first quarter revenues and levels of debt.

We have, however, now completed the developments of the new seams at Kellingley and Thoresby, and the output rates from these faces are indicating that they should achieve their expected production levels. We have also commenced the ramp up of the new face at Daw Mill, and we believe this mine too should return to its high historic production levels. We expect to see all the ongoing deep mines increasing their production levels over the next month to full production, with an expectation of achieving production in 2010 of around 6 million tonnes from deep mines and a further 1.6 million tonnes from surface mines.

Our property business is performing in line with expectations and continues to hold the ability to deliver considerable shareholder value. The planned disposals of agricultural acreage are expected to help reduce the Group's indebtedness, while we also pursue our brownfield planning and joint venturing strategy.

It is the combination of a modern, efficient mining business with the ability to access the terms of our improved supply contracts and generate substantial profits and cash flows, together with the potential of our property portfolio, which we presented to our shareholders last autumn. The difficulties in completing the transition of our deep mining business are clearly extremely unwelcome and there remain considerable challenges ahead, but we are determined to repay the trust placed in us by our shareholders.

David Jones
Chairman
26 April 2010

PICTURED: Named 'Surface Mine of the Year' by the Coal Authority, Long Moor in Leicestershire produced 830,000 tonnes, and is now being restored.

Operating and Financial Review (OFR)

Jon Lloyd

Business Overview

UK COAL is the largest producer of coal in the UK, and a significant supplier of energy to the UK's electricity industry. In 2009 we mined 7.0 million tonnes and sold 6.9 million tonnes of coal, which represented approximately 15% of the total amount of coal burned in the UK. Predominantly our customers are in the electricity supply industry ("ESI") and our production therefore represented around 5% of the total energy used to supply the UK with electricity.

At the 2009 year end, the Group had four operational deep mines and four surface mines.

As a result of our heritage, we have a very large estate of around 43,500 acres (17,600 hectares) of land. This estate includes agricultural land which was originally acquired for its underlying coal reserves, and the sites of former mines and associated workings. The estate is largely focused on the UK coal fields along the A1/M1 corridor through Nottinghamshire and Yorkshire, and in Northumberland, although it also includes some very significant sites elsewhere.

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

As a result of our business and strategy, we make a significant contribution to the UK's energy needs, to the local communities where our operations are based and to social and economic regeneration programmes.

Objectives

STRATEGY

The Group's purpose is to create shareholder value by accessing and mining reserves of coal where there is a clear prospect of creating substantial value over time and by realising the considerable value of our land portfolio through identifying optimum development opportunities, securing planning permissions, developing the sites and actively managing our estate.

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

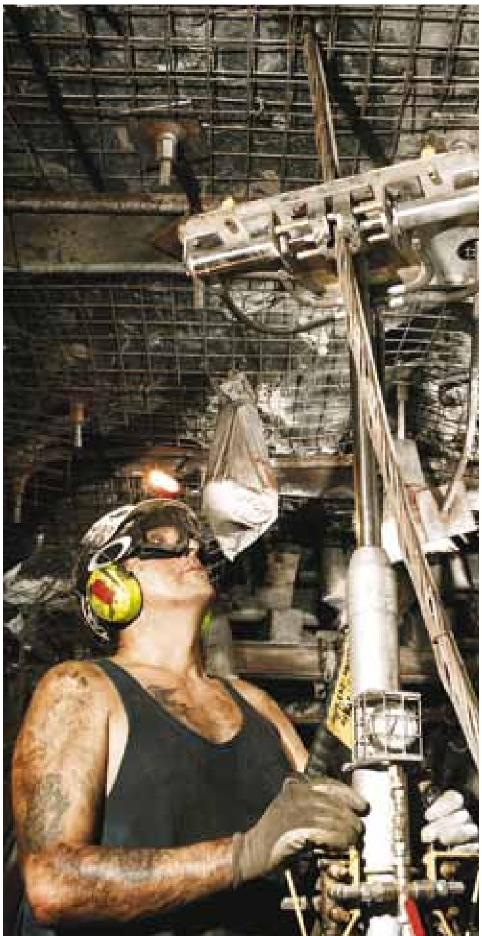
Mining

Deep mining

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

Surface mining

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



PICTURED: The Miner's Mate, designed to make bolting a safer and less arduous job.

Harworth Estates

- To contribute to a programme of debt reduction by identifying and disposing of non-core land
- To identify a long term supply of development sites and to promote these sites through the planning process
- To participate in the development of these sites partly through a programme of joint venture arrangements where this will optimise shareholder returns
- To manage actively and develop rental investment properties and maximise returns from these through asset enhancement, rental growth and/or disposal as appropriate

PICTURED: The Eickhoff shearer cutting along the 302s coal face at Daw Mill.

Review of Operations by Business

Mining

2009 has been a very difficult year for our mining business, with a variety of geological and operational issues being encountered at all four deep mines and at some surface mines combined with a lull in market demand for coal, the result of which caused us to reconsider the timing of the start up of our Park Wall North, Durham surface mine which, as announced in July 2009, has been deferred into 2010.

The impact of these issues has been that revenue from the mining business for 2009 was £310.2 million (2008: £385.6 million) and operating loss before non-trading exceptional items was £68.6 million (2008: £2.4 million). The revenue is derived from deep mines sales of £250.2 million (2008: £309.1 million) and surface mines sales of £60.0 million (2008: £76.5 million). The operating loss before non-trading exceptional items is split as a deep mines loss of £70.5 million (2008: £12.8 million) and surface mines profit of £1.9 million (2008: £10.4 million). The gradual reduction in the relative amount of older legacy coal contracts, and some newer contracts have helped maintain the average realised sales price in a difficult coal market. Average realised sale price per gigajoule was £1.87/GJ, which, although lower than the average of £1.92/GJ achieved in 2008 is still at an historically good level.

We have continued to invest heavily in our deep mines during the year in line with our strategy to increase the productivity and reduce the uncertainty of output from that business. We have accessed coal from the new seams at Kellingley and Thoresby, with the ramp up on Kellingley's new panel (501s) starting in March 2010 and on Thoresby's new panel (DS1) starting at the beginning of April 2010. Daw Mill's new face has now also started its ramp up, after an extraordinarily difficult and delayed installation.

Key Performance Indicators ("KPIs")

	2009	2008
Sales price per Gigajoule (£/GJ)	**1.87**	1.92
Tonnage sold (million tonnes)	**6.9**	7.9
Tonnage produced (million tonnes)	**7.0**	7.9

Mining

MARKET OVERVIEW

The UK burned an estimated total of 43 million tonnes of steam coal in 2009, the vast majority of this being used to generate electricity. Overall consumption fell in the UK by 17% in 2009 compared to 2008, with demand in the electricity market adversely affected by a combination of the economic downturn, improved performance at nuclear stations and low gas prices which encouraged a switch to the burning of gas to generate electricity over the summer.

This downturn presented a lull in short term demand for our coal at certain points in the year, but this was mitigated by our mixture of sales contracts. The longer term demand for our product remains unaffected as the electricity generation market is heavily dominated by imports, and indigenous production, including our own 7.0 million tonnes last year, can only meet a portion of this demand, making the UK a substantial importer of coal. Demand will continue substantially to exceed our supply capacity throughout this decade.

Given the nature of the UK electricity supply industry, our predominant market, we continue to have a small number of significant customers. However, the recent retro-fitting of flue gas desulphurisation ("FGD") equipment onto more power stations to meet the requirements of the European Large Combustion Plant Directive ("LCPD") has expanded the number of sites able to burn coal mined in the UK, which typically has higher sulphur content than other coalfields generally around the world. This has allowed us to supply coal to Ferrybridge power station in 2009 for the first time since 2002.

The replacement legislation to the LCPD, the Industrial Emissions Directive ("IED") has been finalised in Council, but has still to receive its second reading in the European Parliament. The IED as it stands will allow UK generators flexibility to meet tightening sulphur dioxide and nitrogen oxide emission targets after 2015.

PICTURED: Surface mine coal being loaded at Steadsburn, Northumberland for supply to the local Alcan power station.

PICTURED: Most of UK COAL's sales are transported by rail, this trainload leaving Thoresby colliery for a local power station.

In 2009 the UK Government published its 'Framework for Clean Coal' which sets out how coal will play its part going forward in a low carbon economy. It concluded that new coal power stations are important in maintaining diversity and in the security of energy supplies and that the UK Government remains keen to keep coal in the energy mix as the UK becomes more dependent on gas imports.

Carbon capture and storage ("CCS") is key to the future of coal. 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 Government has announced that all new coal stations must demonstrate CCS on a portion of its capacity from the start of operations with the requirement to fit CCS to the remaining capacity by 2025. To assist this development, the Secretary of State at the Department of Energy and Climate Change ("DECC") confirmed in January 2010 that the Government would be willing to give financial support for four commercial demonstration schemes to kick start this development.

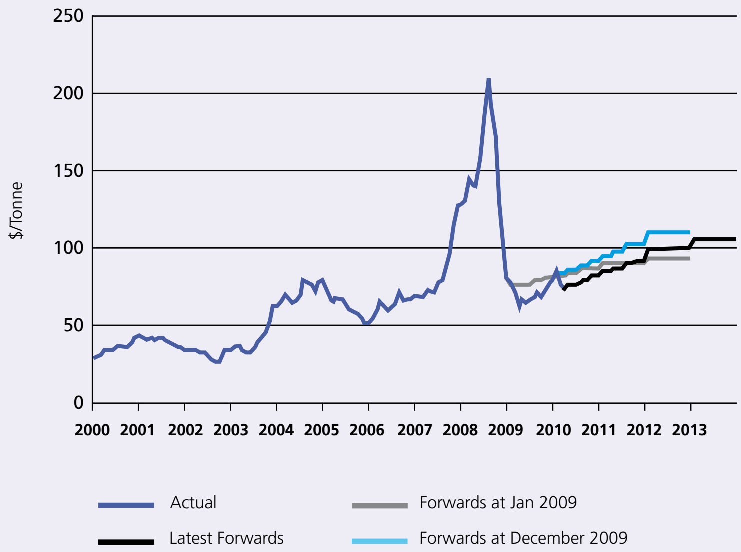
NW Europe Steam Coal Price

International coal prices for near term deliveries started 2009 at $81 per tonne, fell back to $61 per tonne in the spring before recovering to finish the year back at $80 per tonne. The main driver in the international market has been the return of demand in the Far East, especially in China where imports grew by 43 million tonnes, an increase of over 300%. This demand has kept coal prices relatively firm at a time of economic downturn and has seen a change of supply patterns with coal from as far away as Colombia moving into the Asian market. The strength of the US dollar against sterling has helped to mitigate the impact of these changes, themselves in part driven by the performance of the US dollar against producer nation currencies. In sterling terms, the price per tonne showed less volatility, starting 2009 at £54 per tonne (£2.15/GJ), falling to £41 per tonne in the spring and recovering at the year end to £49 per tonne. At 16 April 2010 the average forward market price for coal for deliveries in the remainder of 2010 was $80 or £52 per tonne.

The short period of lower international prices experienced earlier in 2009 did encourage many buyers and coal traders to take advantage of the saving against higher future prices and to buy coal for burn at a later date. This resulted in coal stocks in the UK hitting a peak of just under 25 million tonnes in September. The flattening of the coal price forward curve towards the end of the year has curbed this type of transaction.

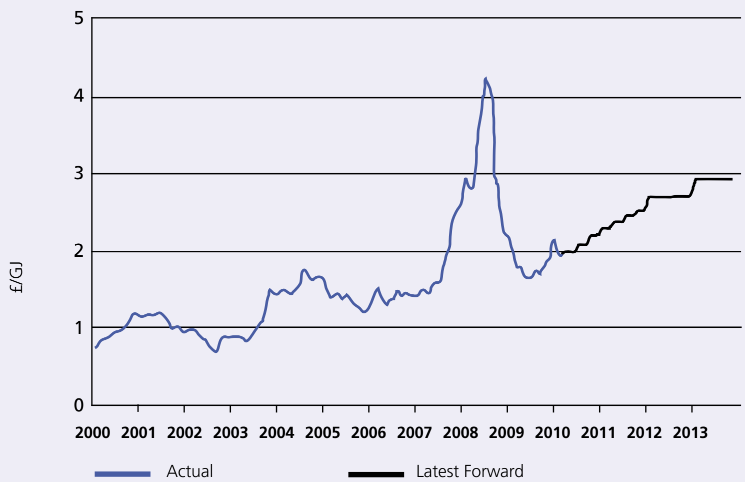
Mining

NW EUROPE SPOT STEAM COAL PRICE IN $/TONNE



Source: API 2 — McCloskey Group/TFS Brokers
Basis: <1%S, CIF NW Europe, 6000 kcal/kg NAR (25.121 GJ/Tonne)
Forward Prices based on latest information as at 16 April 2010

NW EUROPE SPOT STEAM COAL PRICE £/GJ



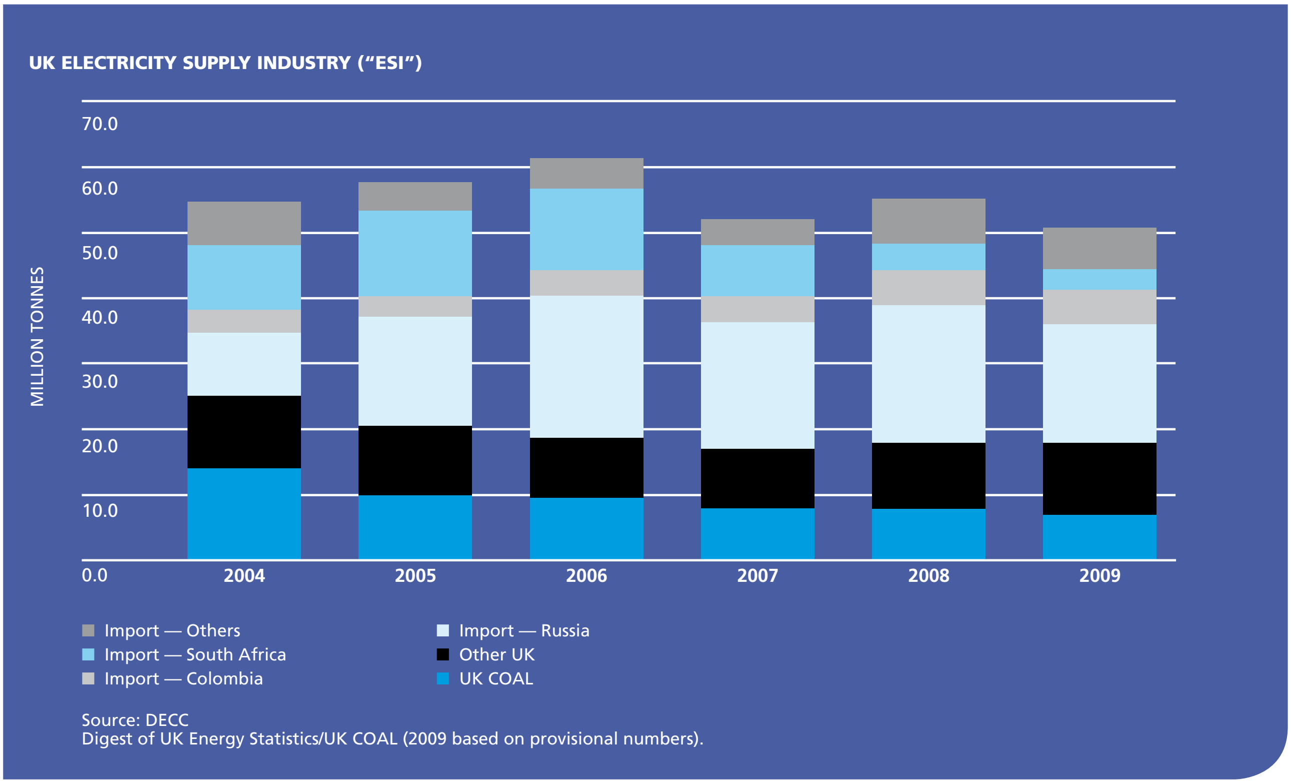
Source: API 2 — McCloskey Group/TFS Brokers
Actual exchange rates used to date
Assumed forward exchange rate of $1.54/£1
Basis: <1%S, CIF NW Europe, 6000 kcal/kg NAR (25.121 GJ/Tonne)
Forward Prices based on latest information as at 16 April 2010

The longer term outlook for coal was less driven by these short term considerations, and the forward curve remains strongly supportive of a long term positive outlook for coal producers.

Historic steam coal prices together with the latest forward market prices for coal delivered to Amsterdam/Rotterdam/Antwerp (“ARA”) are shown to the left. Large mining companies worldwide have been seen to be tailoring their short term production to a period of reduced demand until global commodity consumption and economic growth is re-established. UK COAL also responded by taking the decision to defer the start up of one of its surface mines into the middle of 2010.

UK steam coal market

Coal delivered into the UK is priced off the ARA price shown below left, converted into sterling, with the additional cost of delivery into the UK market then added. The average forward price for 2010 on the ARA market at 31 December 2009 was $87 per tonne. Converted into sterling at the then exchange rate of $1.61:£1 and into its calorific value by dividing the tonnes by 25.121, this equated to a forward sterling price of £2.15/GJ. The additional cost of delivery to the UK, brought this to a UK delivered price of over £2.40/GJ at that time.



The table above shows the UK steam coal market together with UK COAL's share. The table also highlights the market share of Russian imports into the UK over recent years.

Percentage of electricity generated by fuel type

	2009	2008	2007	2006
	%	%	%	%
Coal	**28**	32	35	38
Gas	**45**	48	43	37
Nuclear	**18**	13	15	18
Oil, hydro & renewables	**9**	7	7	7
Total	**100**	100	100	100

Source: DECC Energy Statistics (2009 figures based on provisional numbers).

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

Mining

Coal Contracts

The amended customer contracts announced in our 2008 Annual Report are in line with the Group's continued strategy to achieve a diverse mix of long term contracts with customers, with shorter term contracts or spot sales, allowing a balance between security of supply contracts with the ability to take advantage of international coal prices where beneficial.

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

The contractual commitments at the end of December 2009 stood at 28.4 million tonnes compared to 36.1 million tonnes at December 2008. The re-negotiation of certain contracts at the end of 2008 and signed at the start of 2009 resulted in increased cash flows into the business in 2009 and 2010. These benefits are treated as generator loans and prepayments which, together with implied interest, are to be repaid either out of later revenue or as separate repayments. A summary of our outstanding contractual commitments is given below.

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

Total commitments split into year of delivery

Million tonnes	TOTAL	2010	2011	2012	2013	2014	2015
Fully floating‡	4.1	1.3	1.4	1.3	0.1	—	—
Floating within caps and floors*	8.2	1.3	2.6	3.1	0.4	0.5	0.3
Fixed, subject to indexation†	5.5	3.6	1.7	0.2	—	—	—
Fixed, not subject to indexation	10.6	1.1	2.1	1.9	1.9	1.8	1.8
Total	28.4	7.3	7.8	6.5	2.4	2.3	2.1
Options to purchase coal granted at fully floating prices	3.0	—	0.5	0.5	1.0	1.0	—

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

The average realised sales price will be influenced over the following years by both the market price of coal and the proportion of older contracts still to be delivered. At December 2009, an amount of 6.8 million tonnes, at average sales price of *circa* £1.63/GJ was left to be delivered, of which 4.2 million tonnes was to be delivered in 2010, 2.4 million tonnes in 2011 and the remaining 0.2 million tonnes in 2012.

As a guide to the possible outcome in respect of contractual commitments alone, we have set out opposite the possible average outturn in revenue, expressed in £/GJ. In all cases indexation on coal prices, where applicable, in line with Bank of England RPI targets of 2% has been assumed on an annual basis. The actual sales price outcome will be dependent on inflation, the actual outcome for API2, the volume of coal delivered in any year which is not currently contracted and a number of other factors. The table excludes the effect of uncontracted or fully floating optional coal and is not intended to be a forecast of the expected overall realised sales price.

Indicative outcome of contractual commitments given varying market pricing

API 2 Assumptions* £/GJ	2010 £/GJ	2011 £/GJ	2012 £/GJ	2013 £/GJ	2014 £/GJ	2015 £/GJ
3.00	2.13	2.50	2.96	2.55	2.50	2.49
2.75	2.08	2.40	2.77	2.54	2.50	2.49
2.50	2.04	2.34	2.67	2.54	2.50	2.49
2.25	1.97	2.24	2.51	2.49	2.46	2.46
2.00	1.92	2.15	2.35	2.47	2.45	2.45
1.75	1.87	2.09	2.27	2.46	2.45	2.45
1.50	1.83	2.05	2.22	2.46	2.45	2.45

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

Although the number of gigajoules per tonne delivered varies by customer and mine, as a guide, in 2009, the Group averaged 23.8 gigajoules per tonne.

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

£ million	2009	2010	2011	2012	2013	2014	2015
Increase/(decrease) in cash flow	69	27	(32)	(50)	(18)	(18)	(4)

DEEP MINES

Our deep mines business consists of the operational mines at Daw Mill (Warwickshire), Kellingley (Yorkshire) and Thoresby and Welbeck (Nottinghamshire). The mine at Welbeck has commenced mining its final panel and will be closed during 2010 once this is complete. The key performance indicators for this business are:

Key Performance Indicators ("KPIs")

	2009	2008
Coal mined (million tonnes)	**5.7**	6.2
Revenue (£m)	**250.2**	309.1
Operating cost (£m)*	**291.0**	287.1
Operating cost per gigajoule (£/GJ)*	**2.21**	1.88
Loss before non-trading exceptional items (£m)	**70.5**	12.8
Face gap times (weeks)	**6**	33
Development driveage metres, excluding Welbeck	**18,540**	13,435
Reserves and resources — ongoing mines (million tonnes)	**98**	105

* Operating cost before non-trading exceptional items and depreciation costs. Deep mine costs and revenues include those of the power operation. 2008 figures have been restated in the above table to incorporate these, with revenue of £4.6 million and operating costs of £2.3 million.

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

Mining

Colliery Performance Summary:

	Production		Operating cost*		Production	
	2009	2008	**2009**	2008	**Q1 2010**	Q1 2009
	m tonnes	m tonnes	**£m**	£m	**m tonnes**	m tonnes
Deep mines						
Daw Mill	**2.9**	3.2	**110.8**	96.9	**0.2**	0.7
Kellingley	**1.0**	1.2	**74.9**	72.4	**0.3**	0.3
Thoresby	**0.8**	0.9	**59.5**	63.1	**0.2**	0.2
Welbeck	**1.0**	0.9	**52.1**	57.7	**0.1**	0.2
Total deep mines production/costs before stock movements	**5.7**	6.2	**297.3**	290.1	**0.8**	1.4
Stock movements	**—**	—	**(6.3)**	(3.0)	**—**	—
Total deep mines	**5.7**	6.2	**291.0**	287.1	**0.8**	1.4

* Operating cost before non-trading exceptional items and depreciation, with central costs absorbed. Deep mine costs include the costs of the power operation, formerly reported separately. The 2008 costs here have been restated to incorporate these costs, which totalled £2.3 million for that period.

With the exception of Welbeck, which has developed its last panel during the year, we have invested more in 2009 in development at all deep mines than in 2008 as shown below. This has the impact of increasing spend in the short term, but will enable a smoother flow of future coal production, helping minimise face gaps and improving future production volumes.

Overall operating costs in the business have increased, in particular at Daw Mill, where development of future faces in the year has been significantly higher than in the previous year, with driveage of 4,191 metres in the year against 1,972 metres in the prior year. The costs of developing the first faces of the new seams at Kellingley (Beeston) and Thoresby (Deep Soft) are capitalised in line with our accounting policies.

	Development driveage	
	2009	2008
	metres	metres
Deep mines		
Daw Mill	**4,191**	1,972
Kellingley	**6,498**	5,646
Thoresby	**7,851**	5,817
Total excluding Welbeck	**18,540**	13,435
Welbeck	**1,242**	3,714

PICTURED: Part of the investment in mechanised muscle designed to drive tunnels faster than before, a new MR340X roadheader at Daw Mill.

The primary objectives for the collieries continue to be to operate safely and to increase the reliability of production. This is being tackled with a set of initiatives:

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

Improved operating hours: increased operating hours leverage off the largely fixed costs of operating a deep mine.

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

Increased development work: as each of our mines usually operates a single face, it is important to ensure that the replacement face is available in time to start when the old face is finishing. As shown from the table of development driveage opposite, we have continued to invest in increased development labour hours and new development equipment to build a "bank" of development work to mitigate any development delays should these occur.

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

Mining

Daw Mill

Daw Mill started the year where the record breaking 2008 left off. It was mining through its 302s panel and was producing slightly ahead of expectations in a strong performance in the first half of 2009. This performance was aided by the improved reliability from the completion of the belt replacement programme which we commenced at the back end of 2008 in line with the initiatives outlined on the previous page.

However, production performance in the final quarter of 2009 was affected by a decrease in the reliability of the face equipment, which had been in continuous operation since January 2008. In addition, the panel retreated into an area where the seam started to thin and we had to mine a larger amount of ash than is usual for Daw Mill. Daw Mill's coal preparation plant is not designed to handle the nature and amount of ash contained in this output. Sales revenue consequently saw a fall at the tail end of 2009. The product, which was not immediately saleable in isolation, was put to stock and while some has been washed and blended with production at other mines, the remainder will be blended with Daw Mill production from the new face. Despite all these issues, Daw Mill still produced 2.9 million tonnes of coal during the year (2008: 3.2 million tonnes).

Development has been a priority at Daw Mill during 2009 to get ahead of development required in order to maximise reserves and to minimise future face gaps. Work has been undertaken in developing the next two faces, 32s (now just started) and 303s (starting in mid 2011), during the year.

Despite this effort, the installation of 32s encountered very significant unforeseen delays following a break in the rock strata on the face line, coupled with substantial floor lift of over 2 metres. This movement resulted in the installation of 1,200 additional cable bolts, each of between 8 and 10 metres in length, over 500 timber supports and the excavation of over 15,000 tonnes of floor material.

Mitigating actions were taken, including the extraction of additional coal off the existing 302s panel at the start of 2010, but this face gap has had a large impact on working capital, not only as a result of the production gap, but also due to the additional hours and overtime required to deal safely with the issues. The face, which was initially expected to commence in January 2010 commenced in April 2010. Production on this face will now last until the middle of 2011. The 303s panel, which is already being developed, is scheduled to be ready to commence production in mid 2011.

PICTURED: Checking out the Eickhoff SL500 shearer after a £1 million overhaul for the new 32s coal face at Daw Mill.

PICTURED: Working the last face of the Silkstone seam at Kellingley.

Kellingley

Kellingley has worked its way through the last of the Silkstone coal during 2009, which as previously reported, has continued to be particularly problematic in both physical and environmental terms. The last face in this seam is just finishing and the first face of the new, more favourable, Beeston seam panels commenced in the first week of March 2010.

We were deeply saddened to report the loss of life of a colleague at Kellingley in October. Both the Company and HSE conducted detailed investigations into the accident, and additional precautionary work was completed on the face equipment, after which recovery to a normalised level of production was slower than expected. This return to normalised production increased costs due to the effort required in that recovery.

Total production at Kellingley in 2009 was 1.0 million tonnes compared with 1.2 million tonnes in the previous year.

As noted above, the first face in the new Beeston seam, 501s, has now commenced and is now ramped up. As well as the development of this panel, significant development work has been undertaken during 2009 on the next face, 502s, and is progressing well with 2,900 metres of gate driven out of a total of 4,000 metres of gate and faceline, and is currently expected to be available for production in early 2011 when the 501s panel finishes.

Mining

Thoresby

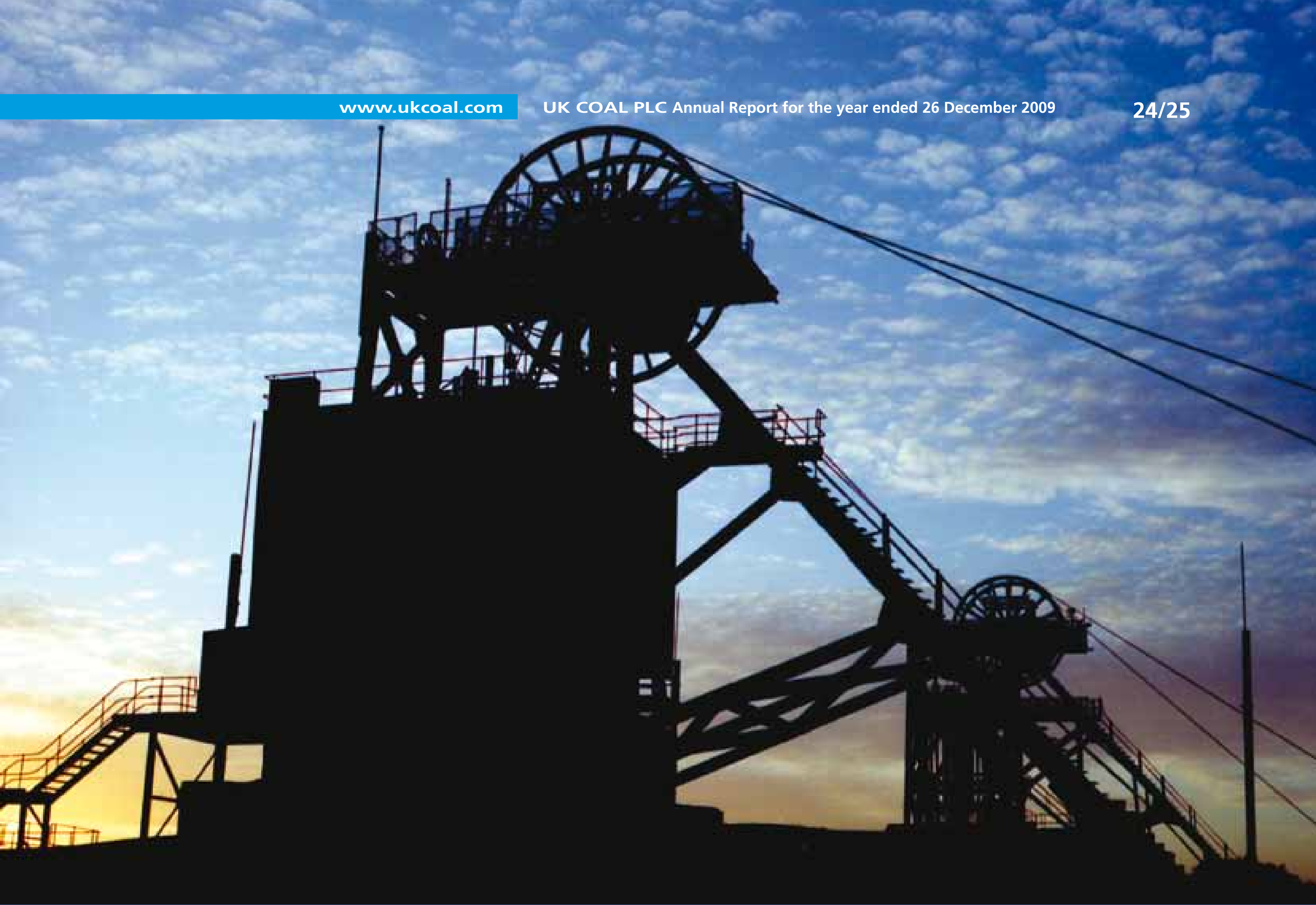
As with Kellingley, Thoresby has been working the last of its existing seam, the Parkgate seam, prior to starting in a new seam, the Deep Soft, at the start of 2010. It too, like Kellingley, has continued to suffer from poor geology in the last panel in its old seam. Mitigating actions were undertaken before commencing the final face, 57s, in the first half of 2009, including changing the layout of the gates and replanning the mining work.

Regrettably in July, a colleague lost his life at Thoresby when a stack of pipes being unloaded underground slipped from the transport vehicle.

Production for the year was 0.8 million tonnes, compared to 0.9 million tonnes in 2008. As expected, we have been mining through a split seam for much of the second half of 2009, but the split has been far greater than anticipated and progress through this band has been slower than expected. One of the main problems encountered has been the dust produced at the face as a result of the split seam, and we had to reduce the daily man-hours worked on the face as a result, meaning that production could not be accelerated by increased effort.

Development work for the Deep Soft seam is now complete and production commenced in April 2010 following record-breaking development driveage in 2009. Driveage of 7,851 metres in the year, largely on the new Deep Soft faces DS1 and DS2, has been achieved in the year, compared to 5,817 metres in the prior year. This leaves the mine in good stead for the future in line with our strategy of improving the development banks at all our mines. Development on DS2 is on track to be available for production to commence in mid 2011.

PICTURED: Cutting the last face in the Parkgate seam at Thoresby.



PICTURED: Welbeck colliery closing due to the exhaustion of reserves after producing coal for almost a century.

Welbeck

Welbeck is mining its final panel before closure during May 2010. The first half of the year involved this final panel being developed, but once this was completed, operating costs have reduced as development costs were no longer being incurred. As a result of this, production of 1.0 million tonnes has been achieved during 2009 compared to 0.9 million tonnes in the prior year with lower operating costs.

As a result of the impending closure of the mine, a provision has been made in the 2009 financial statements for the closure costs. We are planning to retain as many of the experienced and motivated Welbeck workforce as possible, and a plan for their redeployment, either permanently or temporarily, at other mines to displace work carried out by contractors has been devised.

As a consequence of the closure, we have made an exceptional provision of £12.7 million of which redundancies account for £8.5 million with the balance relating to the write off of spares and other assets no longer required by the Group. These costs have been offset by a gain of £4.0 million on curtailment of pensions benefits accruing to those individuals who cease to be active members as a result of the redundancies.

ELECTRICITY GENERATION FROM METHANE

Methane is extracted from operating mines from a safety standpoint, and its use as a fuel source both contributes to our operations providing an economic fuel source and reduces the impact on the environment of venting methane, a greenhouse gas with approximately 21 times the environmental impact of CO_2.

During 2009, 147,260 MWh of electricity was generated from 28 MW installed capacity from methane extracted at both our operating and former mine workings. This is down 13% compared to the 165,834 MWh generated in 2008 largely due to the lower activity at our operating mines, but still allowed us to effectively self supply over 50% of our deep mine electricity requirements.

HARWORTH

We continued into 2009 to explore the viability and funding of reopening our Harworth colliery at some time in the future. We estimate that Harworth has 54 million tonnes of resources and mineral potential. Exceptional costs of £3.5 million have been incurred during the year in the care and maintenance of the mine, together with the geological and seismic work carried out at the start of the year to assess the viability of reopening it.

In the light of the difficulties encountered in the other deep mines during the year, there are no current plans to reopen Harworth. However, we will continue to maintain the asset, albeit at a reduced level of cost.

Mining

PRODUCTIVITY AND FACE GAPS

There were five face changes in the year, incurring face gaps of six weeks (2008: 33 weeks). Face gaps consist of two weeks lost in the Thoresby face change and four weeks at Welbeck.

The Group invested significantly in improving its production development bank during 2009 in order to minimise future face gaps, with driveage in the year of 19,782 metres (2008: 17,149 metres). Excluding Welbeck, which ceased development activities in 2009 in advance of its closure in 2010, the three ongoing deep mines increased development metreage by 38% to 18,540 metres (2008: 13,435 metres) with increases in development work at all three mines.

RESERVES AND RESOURCES

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

We estimate that we have approximately 98 million tonnes of reserves and resources at our ongoing mines of which 39 million tonnes of coal is accessible under the existing five year mining and investment plans. The additional resources will become accessible beyond this timeframe with investment required as necessary.

The only significant movements in our available reserves and resources during the year have been the output for the year at each mine. Our estimates as at December 2009 of our deep mine coal reserves are set out in the following table:

Ongoing colliery	**Reserves m tonnes**	**Resources m tonnes**	**Total reserves and resources m tonnes**	**Mineral potential m tonnes**	**Total m tonnes**
Daw Mill	19	2	21	41	62
Kellingley	11	46	57	5	62
Thoresby	9	11	20	5	25
Welbeck	—	—	—	—	—
2009 Total	**39**	**59**	**98**	**51**	**149**
2008 Total	**45**	**60**	**105**	**50**	**155**

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

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

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

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

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

PICTURED: Recovering coal at Cutacre surface mine, an old colliery tip site near Bolton in the North West.

SURFACE MINES

Our surface mining business has also had a challenging year in 2009. Production for the year was 1.3 million tonnes compared to 1.7 million tonnes in the prior year. Most of the difficulty was encountered in the first half of the year, where we experienced the need for a greater proportionate amount of "muckshift" effort (the lift of non-coal material in order to expose coal for extraction) than in 2008.

Mining operations at Sharlston completed in the first half of 2009. This meant that for the second half of 2009, we only mined out of four operational sites rather than the five we operated throughout 2008.

The impact of the above was offset by improved production at Steadsburn and Cutacre where higher quality, thicker seams were exposed and mined as expected.

As announced in our Interim Report in August, we took the decision to defer the mining of our Park Wall North site in Durham until 2010. We have continued successfully to progress our planning applications for future sites. We therefore look forward to the opening in 2010 of Huntington Lane, Telford, and Potland Burn, Northumberland, in addition to Park Wall North.

We have reviewed our Blair House, Fife site and given its location and the nature of the coals in the site, coupled with our future plans and equipment availability, we are in the process of exploring the possible sale of this site.

Key Performance Indicators ("KPIs")

	2009	2008
Coal mined (million tonnes)	**1.3**	1.7
Revenue (£m)	**60.0**	76.5
Operating cost (£m)*	**55.8**	63.1
Operating cost per gigajoule (£/GJ)*	**1.75**	1.61
Operating profit before non-trading exceptional items (£m)	**1.9**	10.4
Sites with consent (number)†	**6**	8
Reserves on sites with planning consent (million tonnes)	**5.8**	6.8

* Excluding non-trading exceptional items and depreciation.
† Includes sites where planning committee approval has been obtained and formal consent is pending, but excludes Blair House.

Mining

Surface mines operations have a more variable cost base than deep mines. Surface mine operating costs stated above are after charging amortisation of mine development and restoration assets. The site by site cost per GJ will vary according to the nature of each site. The costs of planning gains and the coal yield at each site, along with variations associated to operating cost, efficiencies and weather, make year to year direct comparisons difficult. However, we incurred higher costs in the first half of 2009 due to the significant amount of work involved in muckshift as noted above, particularly at Cutacre where there was a greater than expected extent of unrecorded former underground workings exposed as we mined the site. Extraction costs in the second half of the year were greatly improved once the higher quality and thicker seams were exposed at Cutacre and Steadsburn.

PLANNING AND RESERVES

We are continuing to see a change in the success rate for surface mining consents with the various Local Authorities. Recognition is being given not only to the need for an indigenous supply of coal for both national and local requirements but also to the fact that the schemes are meeting high environmental standards both in design and operation.

We have now been successful in all nine of our last planning applications. Excluding Blair House, which is mentioned above, we currently have planning consents in place for six sites equivalent to 5.8 million tonnes, and applications already submitted for a further three sites equivalent to 2.7 million tonnes. We expect during 2010 to submit planning applications for a further four sites equivalent to 9.0 million tonnes.

Again excluding Blair House, we estimate that we have surface mine reserves where the Group controls the majority of a site through ownership and working rights agreements totalling 17.4 million tonnes, of which 8.5 million tonnes relate to sites that are currently operational or in the short term plan with the remainder in the medium term plan. Planning consent (or committee approval) has been received to date for 5.8 million tonnes of the 8.5 million tonnes.

In addition, using the same basis as above, resources of 37.5 million tonnes have been estimated at sites for which additional geological and planning work is required to confirm with a reasonable level of certainty the tonnage available to mine. In some cases third party landowner agreements may be required to access some of this coal.

In total therefore we estimate that we have reserves and resources of over 50 million tonnes. As a very substantial proportion of this is subject to planning consent, we continue to exercise caution in estimating how much will ultimately be recoverable. In the medium term, we estimate that we should recover around 2 million tonnes per annum for 10+ years.

We also estimate that we have the potential to access a further 34.6 million tonnes. To be more certain about the ability of the Group to extract all this coal the Group, in most instances, will need to acquire further control over the sites and to undertake a significant amount of geological and planning work. The outcome of these actions could materially change the coal available for extraction.

A summary of estimated remaining reserves at December 2009 (excluding Blair House) through the various stages of planning is set out in the table below:

Million tonnes	Sites with planning consent (or committee approval)	Applications submitted for planning, decision awaited	Applications to be submitted in the following 12 months*
Cutacre	0.4	—	—
Steadsburn	0.6	—	—
Lodge House	0.6	—	—
Park Wall North	1.3	—	—
Potland Burn	2.0	—	—
Huntington Lane	0.9	—	—
Bradley	—	0.5	—
Butterwell	—	1.0	—
Minorca	—	1.2	—
Lodge House extension	—	—	0.8
Hoodsclose	—	—	2.2
Shortwood Farm	—	—	1.2
Highthorn	—	—	4.8
Total reserves in process 2009	**5.8**	**2.7**	**9.0**
Total reserves in process 2008	**6.8**	**1.4**	**3.3**

* Including tonnage not yet under the Group's control of 5.6 million tonnes.

PICTURED: Former surface mine at St Aidens, West Yorkshire, after restoration.

PICTURED: UK COAL's Advanced Manufacturing Park being developed on the Waverley site, Rotherham, South Yorkshire.

Review of Operations by Business continued

Harworth Estates

Our property division, Harworth Estates produced a loss of £24.5 million (2008: £4.7 million profit), including a loss on investment properties of £25.7 million (2008: £3.7 million gain), of which £25.7 million was unrealised (2008: £23,000). A further revaluation gain of £52,000 was taken directly to reserves (2008: £3.2 million), being the gains recognised on former operating properties transferred to investment property status on their ceasing to be operational sites.

Key Performance Indicators ("KPIs")

	2009	2008
RICS valuations of the property portfolio (£m)	**393.8**	422.3
Number of sites in Project Worth	**85**	77
2012 estimate of Project Worth (£m)	**615**	668
2014 estimate of Project Worth (£m)	**820**	886

Harworth Estates, manages approximately 17,600 hectares (43,500 acres) of freehold land, predominately in England, on behalf of various Group companies. The majority of the portfolio is located on the A1/M1 corridor from Leicestershire to Northumberland. There are, in addition, a small number of sites in Scotland, North West England and North Wales.

Harworth Estates has four key objectives:

- To contribute to a programme of debt reduction by identifying and disposing of non-core land.
- To identify a long term supply of development sites and to promote these sites through the planning process.
- To participate in the development of these sites partly through a programme of joint venture arrangements where this will optimise shareholder returns.
- To manage actively and develop rental investment properties and maximise returns from these through asset enhancement, rental growth and/or disposal as appropriate.

During the course of 2009 Harworth Estates continued its full planning activities with a view to ensuring that it maintains a healthy pipeline of future sites which can be offered into the market for sale, or developed out either directly or through joint ventures, as market conditions improve. The major submission in the year was our Harworth colliery site where we submitted a planning application for a mixed use scheme of *circa* 1,000 homes and 80,000 sq m (860,000 sq ft) of commercial, retail and ancillary retail.

Harworth Estates

	Residential	Commercial	
	Homes	sq m	sq ft
Applications in system at December 2008	4,208	215,789	2,322,805
Submitted in year	1,981	114,267	1,230,000
Consented in year*	332	4,645	50,000
Applications in system at December 2009	5,857	325,411	3,502,805
% increase in year	*39%*	*51%*	*51%*

* In addition, an 18 hole golf course and hotel has received consent.

Since the year end, we have received planning committee approval, subject to signing a Section 106 Planning Agreement and to not being called in by the Secretary of State, for our two applications at Waverley (off J33 M1, Rotherham) being a new community of 3,890 homes including 15,000 sq m (165,000 sq ft) of associated leisure/retail/community, and a change of use on the Highfield Commercial area to allow a Government campus development of 60,000 sq m (645,000 sq ft) plus hotel and ancilliary retail/leisure of 4,500 sq m (48,000 sq ft).

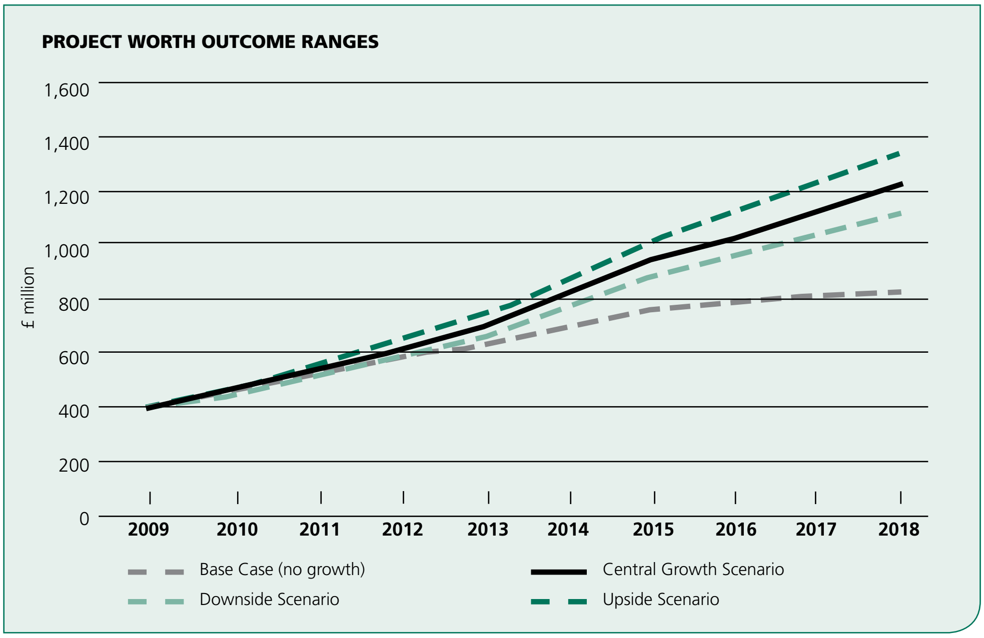
Despite a difficult environment in the first half of the year which saw our portfolio value decrease by around 10%, the second half saw a levelling out and we are pleased to report that the portfolio increased by 3% in this period, a testament to the division's performance in adding value through planning, strong asset management and related activities as well as positive market improvements. Harworth Estates continues to make a very satisfactory contribution to realising the Group's potential land value. The benefits of holding a mixed commercial and agricultural portfolio were seen with solid demand for freehold agricultural land and agricultural land values remained firm throughout the year generating an 8% increase in like-for-like value.

We continue to progress Project Worth, which is our programme to add value to the portfolio over time. As such, the estimates of value from Project Worth are not reflected in the accounts. Project Worth has been reviewed and updated with our advisers DTZ in light of both market conditions and progress on the individual projects concerned. While we have seen improved conditions in the property market over the last

PICTURED: Part of the Baileycross development at Pontefract, West Yorkshire where permission has been granted to develop 917 residential units and 261,000 square feet of office, retail and community facilities.

few months there does, as last year, continue to be a wide ranging market uncertainty on recovery timing, values and volumes. We have therefore produced a range of estimates and, as in previous years, presented a central estimate of Project Worth from within this range of alternative outcomes. In line with last year we are presenting Project Worth at both 2012 and 2014 as the general market assumption that crystallising the worth of the portfolio will, due to the unprecedented market conditions experienced over the past two years, have delayed value accretion and subsequent realisation. The table and graph below set out the central growth scenario assumptions and ranges of Project Worth for both 2012 and 2014. As can be seen, this central scenario is for an estimate of Project Worth of £820 million by 2014.

	2012 £m	2014 £m
Base Case (no growth)	580	699
Central Growth Scenario	**615**	**820**
Downside Scenario	578	767
Upside Scenario	642	870



The scenarios are based on the following assumptions:

- That the next peak of the housing market cycle will occur at the end of 2020.
- The central scenario assumes that real House Price Inflation (HPI) over the period to end 2020 from the Q3 previous peak will be 2.0%, with growth back-ended in the decade.
- The downside scenario assumes that real HPI over the period to end 2020 from the Q3 previous peak will be 0.75%, with growth back-ended in the decade and a much more prolonged lag before sustained house price recovery sets in.
- The upside scenario assumes that real HPI over the period to end 2020 from the Q3 previous peak will be 2.7%, with earlier recovery of strong real HPI growth than the central scenario.
- All the scenarios assume that the recovery in prices over the last 8 months peters out this year, but with inflation two of the scenarios give modest nominal HPI growth.
- The Commercial market is assumed to track the HPI scenario by *circa* 80% (this assumption has been arrived at by comparing the IPD All Region Total Returns Index for Offices against our HPI assessment over the period 2009–2014).

We would emphasise that the residential and housing scenarios are not forecasts and are a tool to assess sensitivity to market recovery rather than being an accurate guide to market recovery. Indices do not exist to reflect exactly the Project Worth portfolio or land values in general.

Harworth Estates

PROPERTY VALUATIONS

A full independent valuation of our property portfolio has been undertaken as at December 2009 in accordance with appraisal and valuation standards published by the Royal Institution of Chartered Surveyors.

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

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

'Our valuation has been arrived at primarily after consideration of market evidence for similar property, although in the case of those properties where we consider market value will be informed by their ultimate redevelopment potential we have also undertaken development appraisals to estimate the residual value of the landholding after due regard to the cost of, and revenue from the development of the property.

'In such instances, on account of the sensitivity of the market value, to the detail of any future planning consent, and the potential for material variance in the actuality of development costs, as compared with our own estimates, together with the subjective nature of hope value, we must state that the values we have reported (consistent with the guidance of the Red Book), are subject to material uncertainty.'

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

	Dec-09 £m	Dec-08 like-for-like	%	Dec-08 £m
Agricultural				
Mixed	**110,923**	103,582	7%	108,744
Low grade	**5,848**	5,035	16%	5,045
	116,771	108,617	8%	113,788
Undeveloped land				
With planning	**56,820**	67,764	-16%	68,820
Application submitted	**73,550**	93,182	-21%	90,250
Without planning	**80,354**	79,408	1%	77,475
	210,724	240,354	-12%	236,545
Commercial land with rental income				
Part or fully developed	**28,750**	32,333	-11%	32,600
In development	**21,750**	22,182	-2%	21,725
	50,500	54,515	-7%	54,325
Investment Properties at valuation	**377,995**	403,486	-6%	404,658
Operational				
Potential development	**7,536**	9,000	-16%	8,792
Agricultural	**1,298**	1,218	7%	1,218
Other	**7,000**	7,437	-6%	7,600
Operational Properties at valuation	**15,834**	17,655	-10%	17,610
Total Properties at valuation	**393,829**	421,141	-6%	422,268

PICTURED: The Advanced Manufacturing Park close to the M1, South Yorkshire is now home for companies involved in cutting-edge technologies.

The like-for-like percentage change from December 2008 comparatives are after property reclassification and take into account adjustments for asset sales of £9.2 million and purchase, development expenditure and depreciation of £8.1 million.

Active surface mine sites are included in the value above based on their restored land value of £15.8 million (2008: £17.6 million). For so long as sites, otherwise being held for their long term investment potential, are being used by the Group for its mining and other activities, these properties are recorded at cost less impairment and changes in valuations are not reflected in the balance sheet. At December 2009 a total of £5.1 million (2008: £6.8 million) has not been included in the balance sheet as a result. Operating deep mine sites are not included in the above valuation.

PRINCIPAL DEVELOPMENT ACTIVITIES DURING 2009

Waverley, Rotherham

This major regionally significant former operational site now consists of three principal development areas, each a major scheme in its own right.

Advanced Manufacturing Park (AMP)

The AMP consists of a part built out serviced employment campus having approximately 23 hectares (57 acres) of remaining developable land. Evolution Park, an 8,700 sq m (94,000 sq ft) hybrid industrial development undertaken in a joint venture with Strategic Sites Limited was completed on part of the AMP in October 2008. Dormer Tools have taken occupation of the largest unit 1,750 sq m (18,800 sq ft), in February 2009. Five further units totalling 1,410 sq m (15,200 sq ft) have been occupied, leaving eight units remaining.

Along with our principal partners on the scheme, Yorkshire Forward, we continue to market the remaining plots to a wide range of suitable occupiers in the high technology metals and civil nuclear industries.

Harworth Estates

Highfield Commercial Business Park

Proposed 60,000 sq m (645,000 sq ft) Government Office Campus plus hotel 4,000 sq m (43,000 sq ft) and ancillary retail and leisure 500 sq m (5,000 sq ft) being jointly promoted with Helical Governetz. Rotherham's Planning Board at its meeting on 25 January 2010 resolved to grant consent, subject to completion of a Section 106 Planning Agreement and the Secretary of State deciding not to intervene. The application has been forwarded to the Government Office for Yorkshire and the Humber who will make a recommendation to the Secretary of State. Upon confirmation and issue of the consent and the identification of pre-lets, work will commence on the design and construction of the necessary infrastructure.

Waverley New Community

Planning application submitted in August 2008 for 3,890 new homes and around 15,000 sq m (165,000 sq ft) of associated leisure and retail and community uses. Rotherham's Planning Board at its meeting on 25 January 2010 resolved to grant consent, subject to completion of a Section 106 Planning Agreement and the Secretary of State deciding not to intervene. The application has been forwarded to the Government Office for Yorkshire and the Humber who will make a recommendation to the Secretary of State. Market conditions are being monitored and in due course the project will commence in all likelihood through a series of joint venture structures.

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

Planning consent for 917 residential units and 24,250 sq m (261,000 sq ft) of office, retail and community use was received on 11 June 2009. The development is likely to be phased and joint ventured over the coming years with the commencement of infrastructure to open up the site is expected to commence in 2012.

PICTURED: Volunteers and other community groups removed around 37 tonnes of rubbish deposited on the former Rufford colliery site in Nottinghamshire.

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

The agreement with Gazeley over the 79,000 sq m (850,000 sq ft) development site has been extended as a result of the time being taken to secure a decision on the planning application which Gazeley made for the site in August 2007. Gazeley have continued to promote the site in the Local Development Framework process and to support the planning application. The site was shortlisted in 2009 for the Hitachi maintenance ECML depot, but ultimately not selected.

Gascoigne Wood, Selby, North Yorkshire

Our agents DTZ continue to market the 66 hectares (165 acres) rail connected site and have secured significant long and short term interest in the site. Short term agreements with DB Schenker (formerly EWS) and British Gypsum, which make use of the rail sidings and 20,400 sq m (220,000 sq ft) of covered storage yard, are in place. Detailed discussions are underway with a number of parties who wish to have a long term interest in the site making use of the high quality East Coast Mainline rail access and substantial power connectivity.

Rossington, Doncaster, South Yorkshire

We have continued to position the site as a major housing led regeneration scheme which could accommodate up to 1,700 homes on the former pit yard area. This is being promoted through Doncaster's Local Development Framework. In parallel with this work, we have been supporting the Council who are preparing to submit a funding bid to the Department of Transport in Q2 2010 to secure funding for the proposed new road between J3 of the M18 and Robin Hood Doncaster Airport. The 6 million sq ft Inland Port which is being promoted on adjoining land (by another developer) has secured a resolution to grant planning consent, subject to completing a Section 106 Agreement and the Secretary of State has recently decided not to intervene leaving the Council to issue the consent over the coming weeks. When implemented, that scheme will provide the first leg of the proposed new road and provide an improved access into the housing site.

Harworth, Doncaster, South Yorkshire

A planning application was submitted Q4 2009 on a surplus area of the former Harworth colliery site, covering a gross area of approximately 60 hectares (125 acres). The proposal seeks consent for *circa* 1,000 homes, 3,250 sq m (35,000 sq ft) of retail and 76,650 sq m (825,000 sq ft) of employment space. Determination is anticipated Q3 2010.

Yorkshire Main, Doncaster, South Yorkshire

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

Coalville Residential Development Site, Leicestershire

Good progress has been made in promoting approximately 100 acres of residential development land as part of an urban extension to Coalville on land adjacent to the Ellistown site. We have been working with the adjoining landowner and North West Leicestershire District Council to provide the necessary evidence to enable the site to be allocated within the Council's new development plan.

Bleak House, Cannock, Staffordshire

This site, close to the Birmingham Northern Relief Road, was partly a former surface mine site and is being promoted in response to the Regional Spatial Strategy (which sets out the need for substantial housing growth in the area) as suitable for a major residential development. 24 hectares (60 acres) of the restored site together with 36 hectares (90 acres) of adjoining land under third party ownership could provide up to 2,000 homes together with significant local infrastructure improvements. A planning application for an initial phase of the development will be prepared for late 2010. Our adjoining land at Bleak House is the subject of a wind farm application now being promoted through our wind farm collaboration agreement with Peel Energy.

Rufford, Nottinghamshire

In January 2009, Nottinghamshire County Council resolved to grant planning consent for a new Energy Recovery Facility at the former Rufford Colliery site. The application was submitted by Veolia who will build, own and operate the facility on a site leased from the Company.

The application was 'called in' by the Secretary of State and a Public Inquiry began in October 2009. However, a number of ecological issues were raised at the Inquiry and it was adjourned until later in 2010. In parallel to the Veolia proposals, we have prepared a planning application for a 24 hectares (60 acres) business park on land adjacent to the Veolia proposal. This planning application will be submitted imminently.

Harworth Estates

BUSINESS PARKS

Interest in the well established business parks of Asfordby, Whitemoor and Riccall has remained strong throughout 2009 despite the prevailing economic climate with occupancy rates of 92%, 61% and 58% respectively being maintained. Bilsthorpe has also seen significant improvements with the completion of a 4 hectares (10 acres) ground lease to Nottinghamshire County Council for the creation of a highways depot and 0.6 hectare (1.5 acres) ground lease to Alkane Energy for a mines gas electricity generation facility, while occupancy rates for the built accommodation at Bilsthorpe have now achieved in excess of 50% with continued interest in the remaining available units and plots. Active asset management has been the main priority in 2009 and we have seen success in both lease renewals, being achieved to ensure continued levels of income, and rent reviews where we have experienced good growth. We expect the business park market to remain very competitive through 2010 but are confident that our properties, and continued emphasis on actively managing these assets, will add further value through lease renewals, improvements in occupancy levels and rent reviews.

PROPERTY DISPOSALS

Disposals during the year secured receipts of £8.6 million from the sale of 642 hectares (1,587 acres) of agricultural land and associated properties. All agricultural land sold had either been mined and was therefore surplus to operational requirements and/or had no prospect of medium term development. Due to market conditions during the year no development land was sold. We do however continue to market a small number of commercial and residential development sites.

During the year we transferred 5.2 hectares (13 acres) of development land at Bates Staithes, Northumberland into a 50/50 joint venture with the HJ Banks Group which generated proceeds of £0.8 million. HJ Banks contributed a similar area of adjacent land into the JV. This combined parcel will be developed primarily for residential use. Site remediation is currently ongoing with funding from the Homes and Communities Agency to enable this significant regeneration project to be brought forward.

DEVELOPMENT AND MARKET CONDITIONS

Property market conditions during the first three quarters of 2009 continued to worsen albeit at a slower pace during Q3. Q4 saw a more stable market environment return with residential development land values stabilising and yields on commercial built out properties, especially prime, recovering markedly. While the property marketplace is showing signs of further recovery we remain cautious about the short term and as such, like many other major land owners and developers, we are continuing to restrict expenditure on infrastructure and are not undertaking speculative construction. We have, however, maintained full scale planning application and associated activities and will continue to do so throughout 2010. We remain confident that in due course market conditions will improve further, and as such we intend to remain capable and flexible enough to respond rapidly to those improvements.

PROJECT WORTH

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

At an appropriate stage, on each site, the optimum way forward will be considered to take the site from planning to the physical development stage. In recent months the Board has decided on a course to optimise stakeholder value by limiting future cash requirements on these sites and taking the benefit of specialisms and balance sheet strength of potential joint venture partners to bring forward physical development in a way that will maximise the benefit derived from improving market conditions.

Whilst Project Worth estimates, as reported above, currently include our agricultural portfolio with an assumed value of £125 million in 2012 and £138 million in 2014, it will, over the balance of the year, be refined to concentrate solely on the currently 85 development sites along with others that are identified over the coming months and years. This time next year the Project Worth portfolio will be reported accordingly.

WIND POWER PROJECTS

We continue to progress a number of potential wind farm sites through our collaboration agreement with Peel Energy, signed in November 2008. The collaboration agreement allows us to utilise Peel's existing expertise to investigate the potential for promoting viable wind turbine locations within the UK Coal portfolio. A number of substantial wind resource sites have been identified through this agreement and it is intended that these are taken forward, under the terms of the collaboration agreement, to ensure that planning consents are secured and the additional land value created from these consents is fully realised.

WASTE-TO-ENERGY SCHEMES

There has been substantial effort over the past six months to identify potentially valuable waste-to-energy opportunities within the Group's Project Worth development sites. Waste-to-energy projects typically are either stand-alone and of substantial size or of a smaller scale in support of significant mixed use residential and commercial schemes. The Board believes that it may be in the Company's interests to develop a high value waste-to-energy programme on a joint venture basis with an appropriate specialist developer. In this regard and building on the successful wind farm collaboration agreement, the Company has held detailed discussions with Peel Environmental, the specialist in this area within the Peel Holdings group of companies. These discussions may result in the Company bringing forward, at a future date, a proposal to establish a joint venture in this area with Peel Environmental on the basis that it could be a related party transaction under the FSA's listing rules requiring shareholder approval. Until this occurs, it is planned that the Company and Peel Environmental will continue to collaborate in good faith to, we believe, the benefit of all shareholders in scaling the opportunities that such a joint venture might bring beyond the relevant land values that are targeted in Project Worth.

PICTURED: The Advanced Manufacturing Park, Waverley, South Yorkshire developed in partnership with Yorkshire Forward.

Harworth Estates

DESCRIPTION OF MATERIAL PROPERTIES

A summary of the Group's material properties is set out on the following pages by location, development status and current market valuation band under RICS as at 26 December 2009.

BUSINESS PARKS/RENTED PROPERTIES

Type and Location	Description of Property	RICS Valuation Band
Asfordby, Melton Mowbray Leicestershire	28 hectares (70 acres) rail connected mixed use business park with 25,700 sq m (275,000 sq ft) of commercial space built. Masterplan in place for a further 42,000 sq m (450,000 sq ft). Current rent roll is £1.017 million per annum plus service charge and the site is 92% let.	£10m–£20m
Gascoigne Wood, Sherburn in Elmet, Selby, North Yorkshire	100 hectares (245 acres) regionally significant strategic rail connected former deep mine complex with surrounding agricultural land. Planning consent approved for rail related distribution covering 24,000 sq m (254,000 sq ft). Potential for up to 93,000 sq m (1,000,000 sq ft) employment space on the site. Two leases granted. Rental income of £0.35 million per annum in 2009, with substantially greater potential in the medium term.	£10m–£20m
Bilsthorpe, North Nottinghamshire	25 hectares (62 acres) former colliery with outline planning consent. Detailed consent for 6,875 sq m (74,000 sq ft) B2 and B8 of which 4,300 sq m (46,000 sq ft) built and 54% let. Two ground leases covering 4.7 hectares (11 acres) for mines gas power generation and local authority highways depot. Rental approximately £0.12 million per annum plus service charge.	£5m–£7.5m

PICTURED: Construction of a new facility for a distribution company, at Asfordby, Leicestershire. Around 30 businesses already operate on the site.

BUSINESS PARKS/RENTED PROPERTIES

Type and Location	Description of Property	RICS Valuation Band
Whitemoor, Barlby, Selby, North Yorkshire	26 hectares (65 acres) former mine access site. Existing buildings on 9 hectares (23 acres) have been converted to a mixed use business park totalling a net area of approximately 7,600 sq m (82,100 sq ft). Annual income *circa* £0.22 million per annum plus service charge. 61% let.	£2m–£5m
Riccall, Selby, North Yorkshire	42 hectares (104 acres) former mine access site. Existing buildings have been converted to create a mixed use business park on 9 hectares (22 acres) totalling a net area of approximately 7,350 sq m (78,600 sq ft). Rental income of £0.168 million per annum plus service charge. 58% let with further negotiations ongoing.	£2m–£5m

DEVELOPMENT PROPERTIES WITH PLANNING CONSENT

Type and Location	Description of Property	RICS Valuation Band
Highfield Commercial, Waverley, Rotherham, South Yorkshire	Existing consent for mixed use business park comprising 51,250 sq m (552,000 sq ft) of B1, B2, B8 space, a hotel and ancillary retail. Revised application submitted with joint venture partner Helical Governetz Ltd. to accommodate Government office campus proposal comprising 60,000 sq m (646,000 sq ft) of B1, a hotel of 4,000 sq m (43,000 sq ft) and 500 sq m (5,000 sq ft) of ancillary retail. On 25 January 2010, the Planning Committee resolved to grant Outline Planning Permission, subject to the completion of a Section 106 Agreement and the Secretary of State deciding not to intervene.	£5m–£7.5m
Mid-Cannock, Staffordshire	10 hectares (25 acres) rail connected site, fully let on 50 year lease from April 2005.	£5m–£7.5m

Harworth Estates

DEVELOPMENT PROPERTIES WITH PLANNING CONSENT

Type and Location	Description of Property	RICS Valuation Band
Waverley Advanced Manufacturing Park (AMP) (off the Sheffield Parkway, J33 M1), Rotherham, South Yorkshire	Advanced Manufacturing Park, developed in partnership with Yorkshire Forward. Remaining developable land approximately 23 hectares (57 acres) which could accommodate up to approximately 73,000 sq m (786,000 sq ft). In addition the Group retains an interest in Evolution Park, an 8,700 sq m (94,000 sq ft) business park development joint venture with Strategic Sites Ltd. Currently 36% occupied.	£5m–£7.5m
Tetron Point, Swadlincote, South Derbyshire	Fully restored surface mine site. Currently consented area substantially developed out as employment park through plot sales to third parties. Remaining 99 hectares (245 acres) includes consented 11.7 hectares (29 acres) rail head and ancillary land. Balance of land being considered for mixed use schemes, including leisure facility comprising 18 hole golf course with hotel and clubhouse (tenant selected for golf course, consent granted and work commencing 2010).	£2m–£5m
South Leicester Disposal Point, Ellistown, Leicestershire	Former 29 hectares (72 acres) operational site with a resolution to grant planning consent for 52,000 sq m (564,000 sq ft) of B1, B2 and B8 space, subject to completion of a Section 106 Agreement.	£2m–£5m
Baileycross, Phase I (off J32 M62), Pontefract, West Yorkshire	Planning consent secured for Phase 1 pit yard redevelopment, 917 residential units and 24,000 sq m (261,000 sq ft) of office, retail and community uses.	£10m–£20m

OTHER PROJECTS IN THE PLANNING PIPELINE

Type and Location	Description of Property	RICS Valuation Band
Waverley (off the Sheffield Parkway, J33 M1), Rotherham, South Yorkshire	New housing led mixed use community comprising 3,890 residential units and around 15,000 sq m (165,000 sq ft) of retail and leisure space plus community uses. On 25 January 2010, the Planning Committee resolved to grant Outline Planning Permission, subject to the completion of a Section 106 Agreement and the Secretary of State deciding not to intervene.	£20m–£50m
Baileycross, Phase II (off J32 M62), Pontefract, West Yorkshire	Phase II housing site of approximately 13 hectares (32 acres) provided as part of slurry extraction and reclamation scheme on adjoining spoil heap. Promoted through Wakefield's Local Development Framework, expect to be included in draft Allocations DPD in Q4 2010.	£2m–£5m
Cutacre (off J4 M61), Bolton, Greater Manchester	80 hectares (200 acres) strategic employment site. Published version of Bolton's Core Strategy identifies Cutacre as a broad location for up to 80 hectares (200 acres) of employment land. It is anticipated this will be submitted to the Secretary of State Q2 2010 with an Examination in Public being held in Q3 2010.	£10m–£20m
Rossington, Doncaster, South Yorkshire	145 hectares (350 acres) former colliery. Housing led regeneration scheme which could accommodate approximately 1,700 new homes is being promoted through Doncaster's Local Development Framework process on former Pit Yard area comprising around 50 hectares (125 acres). There is potential for further development, subject to greenbelt review or remaining land interests.	£10m–£20m

OTHER PROJECTS IN THE PLANNING PIPELINE

Type and Location	Description of Property	RICS Valuation Band
Harworth, South Yorkshire	Outline planning application submitted Q4 2009 for up to 996 residential units, 3,252 sq m of retail and 76,645 sq m of employment uses and community space on a site of approximately 60 hectares (148 acres). The application takes account of the potential to reopen this mine which would occupy the area proposed for employment space.	£10m–£20m
North Gawber, Barnsley, South Yorkshire	Brownfield 16 hectares (39 acres) former colliery. Planning application resubmitted in 2009 for 400 houses.	£5m–£7.5m
Lounge, A42, Ashby-de-la-Zouch, Leicestershire	42 hectares (104 acres) former coal disposal point with substantial rail infrastructure. Development agreement with Gazeley PLC. Planning application submitted for 79,000 sq m (850,000 sq ft) B8 major distribution scheme and in parallel site being promoted through the local authority's local development framework.	£5m–£7.5m
Bennerley, Broxtowe, Nottinghamshire	Rail connected former disposal point, substantially restored. Promotion through the local authority's local development framework for 30 hectares (75 acres) with good access to J26 M1.	£2m–£5m
Ellington/Lynemouth, Northumberland	11 hectares (27 acres) residential led regeneration scheme in South-East Northumberland Growth Point. Planning application for approximately 500 houses and 10 hectares (24.7 acres) of employment use submitted February 2009. Initial scheme for workspace completed with grant aid from Castle Morpeth Borough Council and Northumberland Strategic Partnership. Now operating, 100% occupancy of refurbished area.	£5m–£7.5m
Bates Staithes, Northumberland	5 hectares (12 acres) former coal disposal point. Joint venture with Banks Development for 327 house residential scheme. Planning application approved and work commenced to remediate the site within partnership with HCA.	£2m–£5m
Chatterley Valley, Stoke-on-Trent, Staffordshire	Rail connected 10 hectares (25 acres) former coal disposal point forming part of an approximately 65 acre joint venture with adjoining land owner. Outline planning consent granted 2008. 37,200 sq m (400,000 sq ft) on UK COAL land. Ongoing consideration of options for site following cessation of Prologis Agreement.	£2m–£5m
Yorkshire Main, Doncaster, South Yorkshire	19 hectares (47 acres) restored colliery site. Outline planning consent granted for up to 250 homes and 1 hectare (10 acre) for employment use.	£5m–£7.5m
Additional Sites	54 schemes within the mid term project pipeline of early stage promotion and planning. These schemes have a current year end value of not more than £5.7 million each.	To £5.7m
	Head office & workshops	£5m–£7.5m

PICTURED: Surface mining at Steadsburn, Northumberland.

Financial Review

David Brocksom

Group revenues have fallen in the year to £316.0 million from £392.5 million in 2008. This is mainly a reflection the lower volume of coal sales in 2009 than was achieved in 2008. Although there has been a lull in market demand for coal in response to falls in the price of gas, and a subsequent lowering of the market price for coal at various points during the year, the contracts with our core electricity generator customers have enabled us to increase the long term contracted coal price and achieve an average sales price per gigajoule of £1.87/GJ, which although lower than the average of £1.92/GJ achieved in 2008 is still at a historically good level.

Overall, the Group loss before tax has increased to £129.1 million from £15.6 million in 2008. Operating loss before non-trading exceptional items, totalled £93.1 million compared to a profit of £1.8 million in 2008. Of this, the loss on revaluation of investment properties was £25.7 million for the year compared with a small gain of £23,000 in 2008.

The largest impact on the current year loss has been the increased loss made by the deep mining business. As outlined in the operating review, the deep mines have a largely fixed cost base relative to production levels, and so the lower level of output from the mines in 2009 (5.7 million tonnes) against that of 2008 (6.2 million tonnes) does not manifest itself in lower operating costs. In addition, also as outlined in the operating review, the Thoresby and Kellingley mines have continued to mine their way through difficult geology throughout the year pending completion of the investment in their new seams, while Daw Mill has focused on increasing its development work, all of which has increased operating costs for 2009.

There have been non-trading exceptional items during the year resulting in a charge of £13.1 million in the period (2008: £4.1 million). The main charges/credits in the current year included:

- **Welbeck closure costs**

  As previously reported, the closure of the Welbeck mine will take place in 2010, and a provision made for the associated costs has been made. The total charge in the year of £14.4 million consists of redundancy costs (£10.3 million), the write down of spare stores stock for that stock which would not be required by the three ongoing deep mines (£3.5 million) and impairment of fixed assets which would not be utilised elsewhere in the business (£0.6 million).

  At the year end, £12.7 million of these costs remained unspent. There were no such costs or provisions in the prior year.

- **Provision for HSE prosecution**

  The Health and Safety Executive ("HSE") has brought ten charges for alleged breaches of Health and Safety legislation against UK Coal Mining Limited following four fatalities in separate incidents in 2006 and 2007.

- **Costs in relation to Harworth mine**

  Costs of £3.5 million (2008: £3.5 million) have been incurred in the care and maintenance of the Harworth mine, which is currently mothballed, together with some exploration costs incurred at the start of the year to prove its coal assets.

- **Pension scheme curtailment**

  As a result of redundancies in respect of the Welbeck closure, there has been a curtailment gain of £4.0 million reflecting the reduction in the pension scheme deficit as the relevant members cease to be active members.

- **Disposal of joint venture**

  There was a £6.5 million profit on disposal of the Group's share of Coal4Energy Limited, one of its joint ventures, in early 2009. The shares were sold to Hargreaves Services PLC, UK COAL's former joint venture partner.

Operating loss after these non-trading exceptional items for 2009 was £106.2 million compared with £2.2 million in 2008.

Loss per share for the period was 72.9 pence (2008: 10.0 pence).

FUNDING

As announced in the Annual Report for 2008, the Group entered into new or amended contractual arrangements with its generator customers. These have had the benefit of increasing cash flows to the Group in 2009 by £63.6 million. Interest on the outstanding amounts of £4.0 million has been accrued. There were no such balances in 2008.

During the year, the Group raised £99.7 million (net of expenses) through a firm placing to institutional and other professional investors, and a placing and open offer to certain qualifying shareholders. In total, 142,045,413 shares were issued at an issue price of 75 pence per share. The placing and the placing and open offer both completed on 9 October 2009. Information relating to share capital, including details of the firm placing and placing and open offer, is shown in note 25 to the financial statements.

In addition to this equity raising, the Group has renewed and extended its banking facilities. The Group had *circa* £167 million of bank borrowing facilities and a further £17 million outstanding on finance leases at December 2009. The borrowing facilities include a revolving credit facility of £52 million, £110 million secured on property and £5 million secured on surface mining and other plant. The weighted average maturity of the facilities as at December 2009 was 2.3 years (2008: 2.2 years).

Since the year end, we have restructured our banking arrangements. The principal changes are:

- to increase the amounts available under the £52 million revolving credit facility ("RCF") by an additional line of up to £20 million, reducing over the winter period;
- to extend the maturity of the RCF to the end of July 2011, in line with the maturity date of the additional line;
- to modify the financial profile of the Harworth Estates (Waverley Prince) Limited ("HEWPL") term loan facility, including providing the Group with the ability to roll up interest into the loan in the period to June 2011. Repayment of this facility will be £12 million in July 2011, together with rolled up interest, thereafter amortising at a rate of £2.5 million per quarter until final repayment in July 2013; and
- to increase the effective interest rates on the HEWPL, Harworth Estates (Agricultural Land) Limited ("HEALL") and RCF facilities.

Over and above these extended bank facilities, we have agreed a further £10 million of unsecured stand-by facility from Peel Holdings, which is available for drawing in the event that the RCF is fully drawn. This facility also expires at the end of July 2011.

The Group will apply property disposal proceeds, as and when received, in reducing its bank facilities, with consequent benefits to our cost of debt.

A summary of our principal current facilities, including the unamended EOS Inc. Ltd ("EOS") facility, is shown below:

	Facility £m	Margin over LIBOR	Maturity
RCF	52[1]	300–500bps[2]	July 2011
Additional line	20	1,600bps	July 2011
HEALL facility	46	400bps	May 2012
HEWPL facility	43	900bps	July 2013
EOS	22	300bps	May 2012
Total	183		

Notes
1 Falling to £49.5 million in October 2010.
2 Margin dependent on level of committed facility.

The above table excludes fully drawn finance leases and other small bank loans which totalled some £17 million and £5 million respectively at December 2009, and the Peel Holdings loan facility noted above.

The amendments to our existing banking arrangements described above give rise under IAS to the requirement to write off, in the 2010 financial year, the carrying value of the fees originally incurred in arranging the loans being *circa* £3.5 million, as well as the bank arrangement fees being charged in respect of the amendments, estimated at a similar level.

FINANCING EXPENSES

Net finance expenses in the year have increased to £24.6 million (2008: £14.9 million). During 2008, we started to apply hedge accounting on our interest rate swaps where possible and as a result, movements in the fair value of those swaps which were effective for hedge accounting purposes were charged to a hedging reserve. However, as the bank facilities were renewed and extended, the characteristics of the loans changed to such an extent that the interest rate swaps were no longer effective for hedge accounting purposes, and consequently from partway through 2009, all mark to market adjustments are now charged or credited to the income statement. Furthermore, all movements which had previously been charged to the hedging reserve are now being amortised to the income statement over the remaining life of the interest rate swap. As a result, there was a loss on interest rate swaps not effective for hedge accounting purposes of £1.4 million (2008: gain of £0.7 million), which consisted of amortisation of amounts previously charged to the hedge reserve of £3.1 million (2008: £nil) offset by mark to market credits of £1.7 million (2008: £0.7 million).

Excluding the change in fair value of interest rate swaps, finance expenses have increased from £18.6 million in 2008 to £23.9 million in 2009. As well as the £4.0 million interest charge on generator loans and prepayments outlined above, there was an increase in the interest cost on bank borrowings of £0.8 million to £12.6 million, and an increase in the cost of amortisation of bank loan issue costs of £1.1 million to £2.7 million, both reflecting the higher cost of the bank borrowings following renewal of the facilities during the year. Also included in Group financing expenses is a charge for the unwinding of discounts in relation to the provisions in the balance sheet of £3.6 million (2008: £4.3 million).

The Group has cash deposits which are held by our captive insurance company against insurance claims and, similarly, ring-fenced funds held on behalf of the Coal Authority securing surface damage claims resulting from mining. These totalled £19.1 million and £8.7 million respectively at December 2009 (2008: £20.4 million and £8.3 million). In addition to the ring-fenced funds held on behalf of the Coal Authority, a £10.0 million bond is held by the Coal Authority as further security against any possible surface damage claims. These deposits were secured against liabilities at December 2009 of £16.2 million and £13.2 million respectively.

Despite the funds raised in the year and the lower level of bank borrowings (net of £13.7 million of unrestricted cash deposits) at December 2009 compared to the prior year, bank gearing at the year end has increased to 74.9% (2008: 45.6%). This is a result of the fall in the net assets value, being particularly adversely affected by the increase in the deficits on retirement benefit obligations of £116.8 million as well as the result for the year partly offset by the result of the equity raising.

TAX

The Group paid no corporation tax in 2009 (2008: £nil), but the tax credit for the year was £1.5 million (2008: charge of £0.1 million). The credit relates to consortium relief receivable of £0.5 million, and deferred tax credits of £1.0 million as outlined below. At December 2009, the Group had gross trading losses of £248.9 million (2008: £153.5 million) and gross timing differences of £166.0 million, arising largely from unclaimed or disclaimed capital allowances (2008: £138.5 million), both of which are available to offset against future profits in the mining business. These had a tax value of £69.7 million (2008: £43.0 million), and £46.4 million (2008: £38.8 million) respectively. Both of these have increased during the year due to the result for the year, and because capital allowances have been disclaimed where possible to allow flexibility for the future. The net deficit on the balance sheet in respect of retirement provisions also represents a tax timing difference of £61.8 million (2008: £29.1 million).

The Group had recognised a deferred tax asset of £35.8 million at December 2009 (2008: £36.1 million). The Group continues to review its deferred tax asset, given the nature of the business and its historic performance. The deferred tax credit in the income statement of £1.0 million relates to a deferred tax credit of £0.9 million on the amortisation (out of the hedging reserve) of previously effective hedge accounting movements outlined above, together with a net deferred tax credit of £0.1 million relating to the movement in the deferred tax asset recognised in the balance sheet. The latter reflects a deferred tax charge of £0.4 million on the movements in the mark to market hedges outlined above, offset by other deferred tax credits of £0.5 million.

The Group has in excess of £380 million of capital losses which can be offset against profits arising on disposals of properties currently held by the Group. These capital losses are sufficient to offset the vast majority of the deferred tax liability which would otherwise be required in respect of the investment properties leaving a small deferred tax liability which has been recognised in the financial statements of £0.4 million (2008: £0.8 million).

Financial Review continued

GROUP CASH FLOWS

	2009 £m	2008 £m
Cash used in operations	**(61.1)**	(1.1)
Interest and financing cost	**(17.5)**	(13.8)
Cash used in operating activities	**(78.6)**	(14.9)
Purchase of property, plant and equipment (excluding assets financed by leases)	**(53.2)**	(25.8)
Pre-coaling expenditure for surface mines	**(3.9)**	(6.2)
Development costs of investment properties	**(8.1)**	(14.1)
Proceeds on disposal of property, plant and equipment	**0.4**	0.2
Proceeds on disposal of investment properties	**8.5**	6.0
Proceeds on disposal of shares in joint venture company	**8.7**	—
Net receipt from restricted funds	**1.0**	20.3
Other movements	**0.5**	2.1
Cash used in operating and investing activities	**(124.7)**	(32.4)
Proceeds from issue of ordinary shares	**99.7**	—
Net (repayment)/drawdown on bank loans	**(59.2)**	59.5
Net drawdown from generator loans and prepayments	**63.6**	—
Repayments of obligations under hire purchase and finance leases	**(8.1)**	(5.7)
(Decrease)/increase in cash	**(28.7)**	21.4

There was a net cash outflow from operating activities of £78.6 million (2008: £14.9 million). The Group has continued to invest heavily in the business in the year, spending £65.2 million (2008: £46.1 million) in total on investments. £53.2 million (2008: £25.8 million), with a further £17.2 million (2008: £nil) funded by finance lease, has been the invested in the mining business, predominantly in deep mining, £3.9 million (2008: £6.2 million) has been spent on pre-coaling expenses in surface mines and £8.1 million (2008: £14.1 million) on investment properties, mainly on the costs associated with gaining and fulfilling planning consents. The cash outflows from operations and investments have been offset by the equity funds raised in the latter part of the year of £99.7 million (net of expenses) and the cash benefits of £63.6 million arising from the renegotiated supply contracts with our generator customers which we announced last year.

Purchases of property, plant and equipment are stated above in accordance with IAS, excluding the value of assets acquired under finance lease. These totalled £17.2 million in the year (2008: £nil).

BALANCE SHEET

The net assets of the Group at December 2009 were £152.8 million compared to £300.4 million in 2008. The decrease in net assets is largely due to the trading loss for the year of £127.5 million (2008: £15.7 million), together with an increase in the deficit on retirement obligations of £116.8 million (2008: £30.8 million) which is discussed below, offset by the funds raised from the equity placing of £99.7 million (2008: £nil) as discussed above. Other significant movements in the balance sheet during 2009 are in provisions and investment properties. Investment properties have been discussed within the Operating and Financial Review.

PROVISIONS

	2009 £m	2008 £m
(i) Employer and public liabilities	**16.2**	18.7
Surface damage	**13.2**	13.4
(ii) Restoration and closure costs of surface mines	**39.3**	59.4
(iii) Restoration and closure costs of deep mines:		
— shaft treatment and pit top	**10.3**	9.8
— spoil heaps	**2.9**	2.9
— pumping costs	**5.4**	5.3
Ground/groundwater contamination	**5.3**	5.2
(iv) Redundancy	**9.1**	1.2
Total	**101.7**	115.9

(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. At December 2009, it held £19.1 million of cash deposits and £9.0 million of property assets to meet £16.2 million of liabilities.

Surface damage provision relates to the Group's liability to compensate for subsidence damage arising essentially from past deep mining operations. Claims can be lodged by the public up to six years after the date of relevant damage. The estimate is based on historical claims experience, following a detailed assessment of the nature of damage foreseen. The reduction in surface damage provisions is in line with the reduction in number of operating deep mines within the Group. At December 2009, the Group had £8.7 million of ring-fenced deposits and an insurance bond for a further £10 million to provide security to meet £13.2 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 is created, and an equal and opposite non-current asset is created, when coaling commences. Along with other pre-coaling expenses, this asset is written off in proportion to the expected recoverable reserves of the mine.

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

At December 2009, the Group had a non-current asset of £22.6 million (2008: £28.5 million), relating to expenditure on pre-coaling and similar expenses, deferred stripping costs and the recognition of restoration and rehabilitation liabilities on sites that had started coaling. At the same date, provisions for restoration and rehabilitation totalled £39.3 million (2008: £59.4 million) after expenditure of £21.2 million was incurred 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.

	£m
Operating mines	17.4
Closed mines	6.5
Total	23.9

73% of the deep mines provision relates to the four mines classified as 'operating' which will be utilised after the point of closure. This includes provisions of £5.0 million for Welbeck colliery, which is scheduled to be closed in 2010, from which we expect to utilise £1.3 million in 2010, and £0.3 million in 2011, with the balance being utilised in subsequent years. Furthermore, we expect that we may utilise £2.1 million of the closed mine provision in 2010 and £1.1 million in 2011, representing predominantly the costs in respect of the Harworth and Rossington collieries, in part depending on any decision regarding the future of Harworth. The remaining balance of £3.3 million will be utilised beyond 2011.

(iv) Redundancy provisions

Redundancy provisions are created when the decision to make the redundancies has been made and communicated, usually through the representatives of the workforce. The majority of the £9.1 million provided, arises in respect of redundancies arising as a result of the decision to close Welbeck. We expect to utilise all the redundancy provisions in 2010.

RETIREMENT BENEFIT OBLIGATIONS

The Group has a deficit of £220.8 million (2008: £104.0 million) on its defined benefit pension and retirement schemes which are now closed to new entrants but are required to be open for future service. All new employees who joined after the privatisation in 1994 are eligible to join defined contribution schemes.

The defined benefit pension and retirement schemes comprise two funded industry wide schemes, together with an unfunded concessionary fuel scheme. The above deficit includes a liability of £34.9 million (2008: £29.3 million) in relation to the unfunded concessionary fuel scheme. All of these schemes are valued annually by our independent actuaries, the Government Actuary's Department.

The schemes have been valued under International Accounting Standard 19 ("IAS 19"), using the projected unit method and discounting future scheme liabilities on the basis of AA-rated corporate bond yields of over 15 years. The discount rate used, net of inflation, was 2.2% (2008: 3.9%). Contributions are determined by a qualified actuary on the basis of triennial valuations, using the projected unit method. The most recent triennial valuations were at 31 December 2006 which were finalised during 2008.

Movements in the schemes deficit in 2009 are set out below:

	Pension* £m	Concessionary fuel £m	Total £m
December 2008	**74.7**	**29.3**	**104.0**
Contributions paid less current service cost	(8.3)	(0.4)	(8.7)
Change in fund value compared to expected return	(27.0)	1.9	(25.1)
Actuarial loss on liabilities	150.5	4.1	154.6
Gains on curtailment	(4.0)	—	(4.0)
December 2009	**185.9**	**34.9**	**220.8**

* Including Blenkinsopp scheme.

There has been a significant increase in the deficit on the pension schemes of £111.2 million comprising:

- An actuarial loss on the funds' liabilities of £150.5 million arising from the change in actuarial assumptions. Principally, this is due to a decrease in the assumed discount rate from 6.5% in 2008 to 5.7% in 2009, and an increase in the assumed level of price inflation from 2.6% in 2008 to 3.5% in 2009. In real terms therefore, the real discount rate taking inflation into account has fallen from 3.9% in 2008 to 2.2% in 2009. The underlying discount rate has fallen due to decreases in AA-rated corporate bond yields which underpin the assumption.
- A gain in the year of £27.0 million due to returns on the funds' assets being higher than expected.
- Extra contributions above service cost of £8.3 million. In total, the Group paid £21.4 million to the schemes in 2009, covering both current service and deficit contributions, and expects to make contributions of around £22 million in 2010.

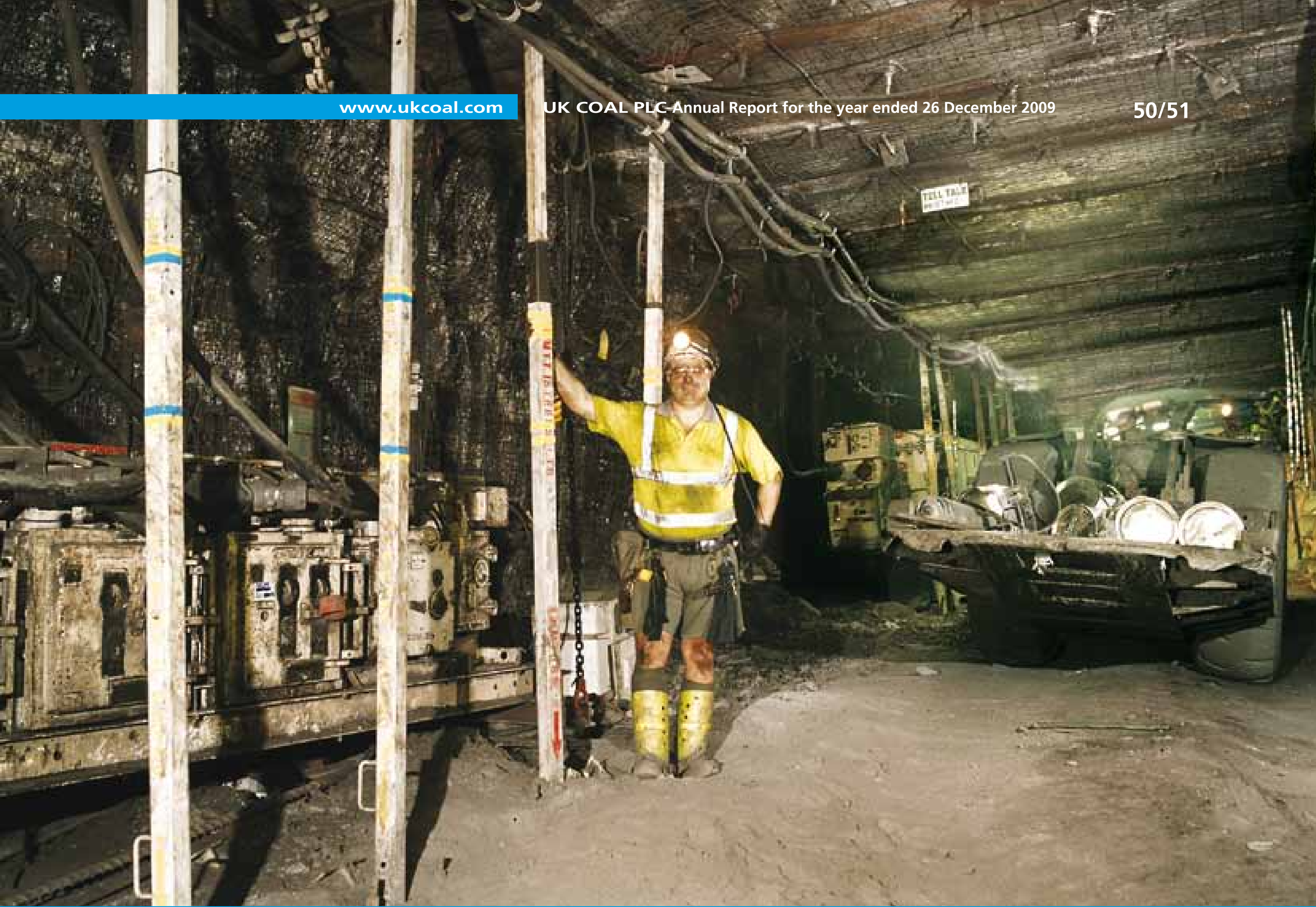
£118.6 million of the movement in the deficit on the pension schemes has been charged to the Consolidated Statement of Comprehensive Income ("SOCI") in the year.

There has also been a significant increase in the liability for the unfunded concessionary fuel scheme of £5.6 million. There are two main factors contributing to the increase:

- An actuarial loss due to a reduction in the real discount rate by 1.7% to 2.2% as outlined above, offset by an experience gain as the price of the coal products did not increase as much as was expected at the start of the year; and
- An interest cost of £1.9 million compared to £1.4 million in 2008.

The actuarial loss of £4.1 million has been charged to the SOCI.

Details relating to retirement benefit obligations, as presented in the 2009 Annual Report and the most recent actuarial valuation, are shown in note 24 to the financial statements.



PICTURED: The steel sentry safety system designed to prevent equipment being damaged by passing vehicles taking materials underground.

Key Risks and Uncertainties

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

MINING RISK

HEALTH, SAFETY AND ENVIRONMENT

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

A number of actions have been taken during the year to reduce the number of health and safety incidents occurring and to advance further the standards of environmental safety and protection. A Health and Safety Committee of the Board was established in 2008 to oversee and promote the importance of health and safety to the business, and during 2009 we appointed a Safety Director, who reports directly to the Chief Executive and who now forms part of the Executive Management Committee. Health and safety training is provided to employees on an ongoing basis to ensure an awareness of safety issues across the Group. This is to reinforce management's focus on the importance of safety issues and create as safe a working environment as possible. We are confident that by working together with our entire workforce, we can improve on our health and safety performance.

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

FINANCING RISK

In part the Group finances its business through debt. The ability of the Group to raise funds on reasonable terms in the longer term depends on a number of factors, including general economic, political and capital market conditions and credit availability as well as business performance. There can be no assurance that financing for the Group in the longer term will be available or, if it is, that it will be available on terms that the Group considers acceptable. The maturity of the Group's debt profile at December 2009 is shown in Note 19 to the financial statements and the facilities available to the Group, including their maturities, are noted earlier in the Financial Review. Over the next 12 months there are no significant facility maturities. However, there is a longer term risk that the Group is unable to refinance its bank debt or is unable to obtain new or additional bank debt if this is required. In particular, the Group's new revolving credit facility expires in 15 months time in July 2011.

As is customary, our bank facilities are subject to covenants, in our cases focusing on loan to property value covenants. Although we are in compliance with these covenants, a fall in the valuations of our properties could have an impact on covenants leading to increased charges and possibly a limitation of facilities availability.

MAJOR UNFORESEEABLE PRODUCTION SHORTFALLS OR GEOLOGICAL CONSTRAINTS

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

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

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

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

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

FLUCTUATIONS IN COAL PRICES

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

We have mitigated this by the use of longer term customer contracts, both to ensure more certainty of demand and of price. Some of these contracts have, with the subsequent increase in the world price of coal, worked to our disadvantage. Our strategy is to move towards a balanced mix of longer term contracts on fixed, on capped and collared and on floating prices, and to maintain an element of shorter term contract and spot sales.

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

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

PENSION RISK

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

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

Under IAS 19, as noted in note 24 to the financial statements, these schemes have a combined deficit of £184.9 million. This deficit is, in accordance with IAS, calculated using a discount rate in line with the market rate for corporate bonds. Under the Technical Provisions, which are the basis for the triennial calculation of the pension liabilities for the Pensions Regulator and for agreement on funding rates with the Trustees, different rates, based on gilt yields, are employed. Depending on changes in these rates and investment performance to be incorporated into the next calculation, which is currently being worked on, a significantly higher deficit could lead to higher deficit contributions being needed in later years.

PROPERTY RISK

PROPERTY MARKET DOWNTURN OR VOLATILITY

The value of our properties is exposed to changes in the property market and the valuation of the estate will fluctuate in part with the general market, and economic conditions in the UK and the continued impact of the global credit crisis have adversely impacted property values and liquidity in the property market. Our agricultural land has again seen an increase in value per acre, without any change in planning, reflecting the increase in values for this type of land, while the market for our brownfield estate has declined over the last 12 months.

The 'immaturity', in planning terms, of our brownfield sites means that a considerable amount of value can be added by the work that we do in advancing them through the planning process. This has helped reduce the impact of the fall in the general market on the RICS value of these sites in 2009. However, the current market for this type of land remains at a low level of activity, making the disposals of land more challenging. Notwithstanding this, we remain exposed to movements in the general market and the risk that any such movement outweighs the planning gain.

PLANNING APPROVALS

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

Corporate Social Responsibility

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

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

OUR PERFORMANCE CULTURE:

Corporate responsibility is integral to the way we do business, and our performance culture underpins everything that we do.

HOW WE STRIVE TO WORK TOGETHER TOWARDS ACHIEVING OUR BUSINESS GOALS:

There are five fundamental ingredients that sustain our performance culture:

A. SAFETY AND WELLBEING

We place the highest emphasis on safety and health in our workplace.

B. SOCIAL AND ENVIRONMENTAL IMPACT

Respect for our environment, care for our communities and commitment to high ethical standards.

C. PEOPLE

Developing and nurturing talent, empowering employees, encouraging teamwork, rewarding and recognising success.

D. OPENNESS AND TRANSPARENCY

Trust and co-operation is paramount. We embrace an ethical and democratic culture that encourages debate, challenge and respect — allowing clear and honest communication. We aim to instil and inspire pride, pace and passion among all employees throughout the Company — across all levels, departments and divisions.

E. AMBITIOUS TARGETS

Maximising value and customer satisfaction; striving to set the benchmark for delivering world-class performance.

Our stakeholders are very important to us and are intrinsic to our commitment to being socially and environmentally responsible.

We engage with our stakeholders in a number of ways:

- Employee surveys;
- Union discussions/agreements;
- Community investment;
- Working in partnership with NGOs, Government, Health and Safety Executive, regulators

HEALTH AND SAFETY

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

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

PICTURED: Thoresby colliery team celebrate being awarded the workplace Investors in People standard.

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

A Safety Director reporting to the Chief Executive works closely with the Board, the Company Directors, Senior Managers and stakeholders to continually improve and develop health and safety policy and strategy.

The directors deeply regret the fatal accidents at Thoresby colliery and Kellingley colliery involving experienced underground workmen in July and October 2009, and extend their most sincere sympathy for the tragic loss of these colleagues to their families and friends.

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

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

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

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

In 2009, two fatal injuries occurred within the Group compared with one in the previous year. There were 27 major injury accidents reported to the Health and Safety Executive, 26 in 2008. The overall reportable injury rate was 22.8 per 100,000 manshifts compared with 24.0 in 2008, 23.9 in 2007 and 27.8 in 2006. The target will always be to achieve Zero Incidents in all Health and Safety categories. Through the direction of management and the involvement of all our people and stakeholders the Company will strive to make continuous improvements towards that goal.

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

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

Health and safety training is, in the main, a standards based process and the programmes ensure all persons are updated with current best practice. Training is primarily contracted out to professional providers. A full review of the Group's health and safety training needs is being undertaken to ensure that the behavioural needs of our workforce are supported alongside our core training programmes. The Company along with the industry is investing in new NVQ qualifications to meet future and continuing needs and to develop and demonstrate, against national standards, the competency of all our employees.

EMPLOYEES

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

We currently employ 2,932 people (2008: 3,152). We have maintained our policy of maximising the redeployment of skilled and experienced mineworkers.

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

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

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

ENVIRONMENT

The Environmental Policy commitments of the Group are to:

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

- Encourage the efficient use of coal with minimum emissions; and
- Maximise the use of other natural resources recovered with the coal.

Certification to ISO 14001 covers all surface and deep mine sites, our Mining Services department and Harworth Estates. Application of our certified system improves both the day-to-day operational procedures and longer-term environmental risk management over all our activities. Our Environmental Policy is reviewed by the Board, and both in-house and external audits ensure continued compliance. Monitoring and analysis of emissions to air, water and land, as well as the use of natural resources, are carried out and, where appropriate, programmes to reduce emissions, or to reduce the use of natural resources are designed and implemented. As new legislative regulations on waste and resources are introduced, our programmes to encourage reduction, reuse and recycling continue to show positive benefits to the environment. In 2009 we achieved the Carbon Trust Standard as part of our ongoing commitment to minimising energy use across the Company.

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

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

The success of our policies is judged internally by the use of performance indicators based on established criteria provided by DEFRA. These have been introduced throughout the ongoing mining sites where appropriate reduction programmes and data collection will help us achieve our objectives. Specific environmental success stories from ongoing mines over the past four years include a 37% reduction in towns water use, a 25% reduction in surface water use and a 26% reduction in the amount of waste sent to landfill.

SOCIAL AND COMMUNITY ISSUES

We have maintained our philosophy of supporting suitable community projects focused on the surface and deep mines and also on major property developments operating at the heart of the communities in which they are based. In addition to the Community Fund commitments providing support for projects to those living close to surface mine sites, charitable donations in the year totalled £51,546 (2008: £44,732).

During 2009, we again matched pound-for-pound the awards made by the Miners Welfare National Educational Fund to the families of former and current employees studying full-time at a university or college or on a designated course of higher education. Each year, the fund provides grants of around £50,000; in the 2009 academic year, the Fund sponsored 168 students with grants totalling more than £90,000, of which around £36,000 was 'match funding' from UK COAL. This initiative has been warmly welcomed by the communities in which we work and by the individuals that have received the support. This figure is included in the charitable donations sum.

Contributions were also made to a wide range of individual and team activities, individual and group events and sporting and academic aspirations affecting all age groups. It is anticipated that a similar level of donations will be sustained in 2010.

Community fund projects associated with current operating surface mine schemes are providing access to funding totalling around £300,000 to be allocated to local good causes, while surface mines schemes with planning consent (but where mining operations have yet to commence) will provide a further £1.3 million of community funding. If three schemes currently in the planning process are approved, a further £275,000 will be made available from them for local worthy causes during the operational life of those sites.

Each year we typically plant thousands of young trees on our restored surface mine sites and other land. In 2009, we planted over 38,000 trees on sites in Yorkshire, over 52,000 on sites in the North East and more than 57,000 on three sites in the Midlands. In the last decade, we have planted over 4 million trees — 1.15 million in the North East, 1.14 million in Yorkshire and around 1.9 million on sites in the Midlands. We have also planted around 0.4 million in Scotland and the North West.

Board of Directors

DAVID JONES
Aged 67, he was appointed to the Board as a non-executive director in January 2003 and became Chairman in April 2003. He has extensive experience in the electricity supply industry and was Chief Executive at The National Grid Company PLC until March 2001. He is currently a non-executive director of United Utilities PLC.

JON LLOYD
Aged 53, he was appointed as Chief Executive on 1 September 2007, having joined the Board as Property Director in July 2006. He is a Chartered Surveyor and was Head of Property at HBOS PLC. He was formerly Regional Managing Director for the North Region at DTZ Debenham Thorpe, and held senior roles at Yorkshire Water PLC, where he was Managing Director of Yorkshire Water Estates Limited, and Rosehaugh Heritage PLC.

DAVID BROCKSOM
Aged 49, he was appointed Finance Director with effect from 18 September 2007. He qualified as a Chartered Accountant with Price Waterhouse and was previously Finance Director of Pace Micro Technology PLC and Avesco PLC. He is a non-executive director of Helius Energy PLC.

GARETH WILLIAMS
Aged 43, Gareth was appointed to the Board as Mining Director with effect from 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. Born in England, Gareth was raised and educated in New Zealand, gaining an honours degree in Mining Engineering at the University of Otago/Auckland in 1988.

CHAIRMAN
David Jones†*

CHIEF EXECUTIVE
Jon Lloyd†#

EXECUTIVE DIRECTORS
David Brocksom
Gareth Williams

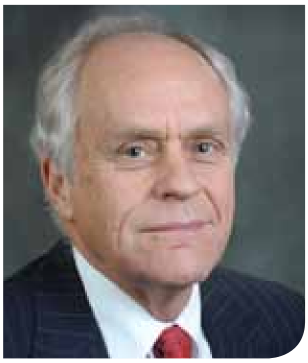
NON-EXECUTIVE DIRECTORS
Peter Hazell‡†*
Michael Toms‡†*#
Kevin Whiteman‡†*#
Owen Michaelson

SECRETARY AND REGISTERED OFFICE
Richard Cole
Harworth Park
Blyth Road
Harworth
Doncaster
South Yorkshire
DN11 8DB

COMPANY INCORPORATED IN ENGLAND AND WALES REGISTERED NO.
2649340

AUDITORS
PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds
LS1 4JP

FINANCIAL ADVISERS
Gleacher Shacklock LLP
Cleveland House
33 King Street
London
SW1Y 6RJ



PETER HAZELL
Aged 61, Chairman of the property developers Argent Group PLC, he joined the Board in September 2003 as a non-executive director. He is also a non-executive director of Brit Insurance Holdings PLC and Smith & Williamson Limited and was until mid-January 2010 a member of the Competition Commission. Previously he was UK Managing Partner of PricewaterhouseCoopers and spent his early career at Coopers & Lybrand and Deloitte Haskins & Sells. He is Chairman of the Audit Committee and the Senior Independent Director.

MIKE TOMS
Aged 56, he joined the Board as a non-executive director and Chairman of the Remuneration Committee with effect from 3 May 2006. He is a Chartered Surveyor, Town Planner and Economist by background and was formerly Group Director, Planning and Regulatory Affairs and Board member at BAA PLC. He is Chairman of Northern Ireland Electricity PLC, a non-executive director of Bellway PLC, a non-executive director of Birmingham Airport Holdings Limited and a non-executive director of Oxera Consulting Limited.

KEVIN WHITEMAN
Aged 53, he is Chairman of Kelda Group Limited and joined the Board as a non-executive director on 1 June 2007. He secured a degree in mining engineering at University College, Cardiff and started his career at British Coal. He joined the National Rivers Authority in 1993, becoming Chief Executive in 1995, before spending a year as Regional Director of the Environment Agency. In 1997, he joined Yorkshire Water and was appointed Chief Executive of Kelda Group in 2002. He is Chairman of the Safety Committee.

OWEN MICHAELSON
Aged 43, he was appointed to the Board as a non-executive director with effect from 2 October 2007. He is a Chartered Surveyor and is Corporate Development Director of the Peel Holdings Group of companies. He has specialised in the remediation and development of brownfield and contaminated land, waste management operations and power generation. He is a member of the Coal Forum and a former Chair of the RICS Waste Policy Panel.

JOINT STOCKBROKERS
Numis Securities Limited
10 Paternoster Square
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EC4M 7LT

Evolution Securities Limited
100 Wood Street
London
EC2V 7AN

SOLICITORS
Freshfields Bruckhaus Deringer
65 Fleet Street
London
EC4Y 1HS

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

BANKERS
Barclays Bank PLC
6 East Parade
Leeds
LS1 2UX

Lloyds TSB
6–7 Park Row
Leeds
LS1 1NX

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

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

Directors' Report

The directors present their report and the audited financial statements for 2009. These will be laid before the Annual General Meeting to be held on 25 June 2010. Details of all resolutions to be proposed at the 2010 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 other related activities.

The Chairman's Statement and the Operating and Financial Review (beginning on pages 4 and 10 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 51 to 53)
- Key Performance Indicators used to measure the Group's performance (on pages 19, 28 and 31)
- Environmental and employee priorities facing the Group (on pages 56 to 57)
- Group's future development and outlook for 2010 (on page 9)

DIVIDENDS PER ORDINARY SHARE

There was no interim dividend paid during the year (2008: £nil). The directors are not recommending the payment of a final dividend in respect of the 2009 financial year (2008: £nil).

LAND AND PROPERTY

The Group's investment property was revalued at the year end, full details of which are set out in the Operating and Financial Review (on page 34).

DEVELOPMENT

The Group actively develops its mining and property portfolios, full details of which are found in the Operating and Financial Review and in notes 12 and 13 in the Notes to the Financial Statements (on pages 107 to 109).

DIRECTORS

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

Gareth Williams was appointed Mining Director with effect from 15 February 2010 and will offer himself for re-election at the 2010 Annual General Meeting.

Under the Articles of Association, there is a process of rotation which ensures that approximately one-third of all directors are required to retire and seek reappointment at each Annual General Meeting. At the 2010 Annual General Meeting, Jon Lloyd and Kevin Whiteman will retire by rotation and will offer themselves (and are recommended by the Board) for re-election.

All executive directors have service contracts, which may be terminated by the Company on not more than twelve months' notice, for all non-executive directors the notice period is three months. There are no directors on fixed term contracts. There are no contractual clauses that give any of the directors an entitlement to compensation exceeding his due payment in lieu of notice. Details of indemnities from the Company and insurance taken out for the benefit of the directors is set out in the Corporate Governance Report (on page 65).

The interests of the directors in the shares of the Company are shown in the report on directors' remuneration (on page 77).

CHARITABLE DONATIONS

The contributions made by the Group during the year for charitable purposes were £51,546 (2008: £44,732). No political donations were made in 2009 (2008: £nil). Charitable donations made were predominantly to associations and charities involved with the coal industry and local communities.

EMPLOYEES

The Group's policy is to consult and discuss with employees on matters likely to affect their interests. A newspaper is produced and distributed free to all employees regularly. Information on matters of concern to employees is given periodically to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance

DISABLED PERSONS

It is the Group's policy to give full 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.

HEALTH AND SAFETY

UK COAL is committed to maintaining high standards of health and safety in every area of the business. It is the aim of the Group to exceed the requirements of the Health and Safety at Work Act 1974 and all other relevant health and safety legislation and has established a committee of the Board to oversee health and safety. Details of the Group's commitment to health and safety are found in the Corporate Social Responsibility section (on pages 54 to 56).

TREASURY POLICY AND LIQUIDITY

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

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

Details of financial risks in respect of market risk, credit risk and liquidity risk are set out in note 23 to the financial statements (on pages 118 to 120).

SUPPLIER PAYMENT POLICY

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

The Group had 74 days' purchases outstanding at December 2009 (2008: 58 days) based on the average daily amount invoiced by suppliers during the year.

ETHICAL POLICY

UK COAL is committed to working with our employees, customers, suppliers and contractors to promote responsible working and trading practices. It also provides assistance to the wider community by way of financial support for charitable and other local causes. Further information regarding how the Group addresses social and community issues is shown in the report on corporate social responsibility (on pages 56 to 57).

QUALITY AND INTEGRITY OF PERSONNEL

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

SHARE CAPITAL, VOTING RIGHTS AND TRANSFER OF SHARES

Details of the structure of the Company's share capital and changes in the share capital during the year are disclosed in note 25 to the consolidated financial statements. On 9 October 2009, the share capital of the Company was increased from £1,572,527.47 to £2,992,981.60 in connection with a firm placing and placing and open offer. As a result of the firm placing and placing and open offer, 142,045,413 ordinary shares of 1 pence each were issued.

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 employee share schemes can be found in the Directors' Remuneration Report.

SIGNIFICANT AGREEMENTS

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

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

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

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

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

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

GOING CONCERN

The 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 a cash flow forecast based upon its assumptions as to production and trading as well as taking into account the available borrowing faculties in line with the Treasury Policy disclosed in the Directors' Report. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties as summarised on pages 51 to 53. The key factors that have been considered in this regard are:

- The deep mines operate with a cost base which is largely fixed relative to production levels. Consequently, unexpectedly large interruptions or prolonged reductions in production can have a material adverse impact on cash flow. Recent performance has been illustrative of the difficulties inherent in deep mining operations and, in particular, the impact of unpredictable geological conditions and/or other operational issues on production volumes from our deep mines. The Board now believes that these risks are now much reduced as Kellingley and Thoresby have started producing coal from their new seams and as Daw Mill has started the ramp up of its new face.

- Bank funding arrangements contain, in certain cases, covenants based upon interest cover, capital expenditure, loan to property value, adjusted net asset values and operating profits adjusted for property revaluations and depreciation in particular. Property valuations affect the loan to value convenants and net asset values and similarly net asset values are affected by operational performance. Breach of convenants could result in the need to pay down in part some of these loans or to a renegotiation of terms or, *in extremis*, a reduction or withdrawal of facilities by the banks concerned.

- Although the majority of coal production for the next 12 months is on fixed or capped/floor pricing bases, revenues in respect of certain floating rate contracts and uncontracted coal will vary based upon the market price for coal, which is expressed in dollars, and sterling/dollar exchange rates. These variables have, over the last year, proved to be very volatile and therefore there is a risk of unpredictability in coal revenues and cash flows.

The Board notes that the matters set out above indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. Nevertheless, the Board confirms its belief that it is appropriate to use the going concern basis of preparation for these financial statements of the Group. 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.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITOR

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

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

By order of the Board

Richard Cole
Company Secretary
26 April 2010

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 elected to prepare 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;
- 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 Company'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 detailed on pages 58 to 59 confirm that, to the best of their knowledge:

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

Corporate Governance

The Company recognises the importance of, and is committed to, high standards of Corporate Governance and the following sections explain how the Company has applied the main and supporting principles set out in the Combined Code on Corporate Governance, issued by the UK Listing Authority. The Board confirms that the Company has complied with the provisions set out in the Combined Code throughout the year ended December 2009.

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 Owen Michaelson, who is a director of Peel Holdings which is the major shareholder in the Group, is not independent. The offices of Chairman and Chief Executive are held separately, and both officers have clearly defined roles and responsibilities.

The Chairman is responsible for the running of the Board including, but not limited to, ensuring that a fixed schedule of matters is exclusively retained for the Board's review and approval, and that a framework exists to allow the clear and timely dissemination of relevant information to all directors for such review to occur. The Chief Executive is responsible for running the Group's business and for implementing the Board strategies and policies. The Senior Independent Director is Peter Hazell.

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

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

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

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

The interests of the directors in the shares of the Company are shown in the Directors' Remuneration Report (on page 77).

ATTENDANCE AT BOARD MEETINGS

Attendance by individual directors at meetings of the Board and its Committees during 2009 is shown in the table below.

	Board		Audit		Remuneration		Nomination		Safety	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
D H Jones	13	13	—	—	4	4	2	2	—	—
J S Lloyd	13	13	—	—	—	—	2	2	5	5
D G Brocksom	13	13	—	—	—	—	—	—	—	—
P F Hazell	13	12	4	4	4	4	2	2	—	—
R O Michaelson	13	13	—	—	—	—	—	—	—	—
M R Toms	13	12	4	4	4	4	2	2	5	4
K I Whiteman	13	13	4	3	4	4	2	2	5	5

COMMITTEES

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

Nomination Committee

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

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

During the year the Committee engaged the services of external search consultants to assist with the recruitment of Gareth Williams as Mining Director and main Board member and David Stewart as a member of the Executive Management Committee in the role of Human Resources Director.

The Board initially appoints all new directors, having first considered recommendations made to it by the Nomination Committee. Following such appointment, the director is required to retire and seek reappointment 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 reappointment at each Annual General Meeting.

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

Remuneration Committee

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

Audit Committee and Auditors

The Audit Committee comprises Peter Hazell (Chairman), Mike Toms and Kevin Whiteman. The Board is satisfied that Peter Hazell has recent and relevant financial experience and that all members of the Committee are independent non-executive directors. The Chairman, the Chief Executive, the Finance Director, the Group Internal Audit Manager and the external auditor are invited to attend meetings. The minutes of meetings of the Committee are circulated to all directors.

The Committee meets at least four times a year to review the Company's accounting and financial reporting practices, the work of the internal and external auditors and compliance with policies, procedures and applicable legislation. The Audit Committee also reviews the half year and annual financial statements before submission to the Board and periodically reviews the scope, remit and effectiveness of the internal audit function and the effectiveness of the Group's internal control systems. It also reviews 'whistle-blowing' arrangements by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties. The terms of reference of the Audit Committee are available to shareholders on request and are also available on the Company's website. The Group Internal Audit Manager has a direct reporting line to the Committee.

The auditor throughout 2009 has been PricewaterhouseCoopers LLP.

Fees to PricewaterhouseCoopers LLP

	2009	2008
	£000	£000
Audit Fees	**315**	290
Other audit related fees	**338**	202
Tax compliance and advice services	**38**	111
	691	603

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

- The Audit Committee reviews the audit appointment periodically.
- It is Group policy that the external auditor will not, as a general rule, provide consulting services. The external auditor provides audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholder and other circulars.
- The external auditor may undertake due diligence reviews and provide assistance on tax matters given its knowledge of the Group's businesses. Such provision will, however, be assessed on a case by case basis so that the best placed adviser is retained. The Audit Committee monitors the application of the policy in this regard and keeps the policy under review.
- The Audit Committee reviews on a regular basis all fees paid for audit, and all consultancy fees, with a view to assessing reasonableness of fees, value of delivery, and any independent issues that may have arisen or may potentially arise in the future.
- The auditor reports to the Directors and the Audit Committee confirming its independence in accordance with Auditing Standards. PricewaterhouseCoopers LLP have been the Company's auditor for a number of years and the Committee is satisfied that they remain both effective and independent.

Safety Committee

The Board has a Safety Committee to assist it in ensuring that the Company complies with its health and safety obligations and to review and recommend to the Board strategic options that may enhance the policies, standards and processes that operate within the Group. The Committee comprises Kevin Whiteman (Chairman), Mike Toms and Jon Lloyd and meetings are attended by all relevant senior managers. Stuart Hoult was appointed Safety Director with effect from 1 January 2010 (and member of the Executive Management Committee) and has a direct reporting line to the Committee.

OTHER MEETINGS

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

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

DIRECTORS' DEVELOPMENT

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

PERFORMANCE EVALUATION

The Board and its committees have conducted a self-evaluation of their performance and effectiveness and have both identified and addressed matters requiring attention. The Chairman's performance is reviewed by the non-executive directors, led by the Senior Independent Director, after consultation with the executive directors. The Chairman has responsibility for the appraisal of the performance of the non-executive directors and the Chief Executive. The Chief Executive has responsibility to conduct a performance evaluation of executive directors and members of the Executive Management Committee.

EXECUTIVE MANAGEMENT COMMITTEE

The Executive Management Committee was established to manage and co-ordinate all strategic and key operational issues. Its membership is as follows:

Chief Executive	Jon Lloyd
Finance Director	David Brocksom
Mining Director	Gareth Williams
Company Secretary	Richard Cole
Production Director	Bill Tinsley
Human Resources Director	David Stewart
Commercial Contracts Director	Philip Garner
Safety Director	Stuart Hoult

DIRECTORS' CONFLICT OF INTEREST PROCEDURES

A director has a duty under the Companies Act 2006 (the 'CA 2006') to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. This duty is in addition to the existing duty that a director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The 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 Company maintains ongoing dialogue with major shareholders through regular presentations and meetings to outline the Group's trading environment and objectives and also offers them the opportunity to meet non-executive directors. The Senior Independent Director is available to all shareholders. Private investors are encouraged to attend the Annual General Meeting where they have the opportunity to question the Board.

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

The directors have been notified of the following substantial shareholdings as at 26 April 2010:

Company	**No. of Shares**	**% of Issued Share Capital**
Goodweather Holdings Ltd*	84,639,470	28.28
UBS Investment Bank	16,209,608	5.42

* Member of Peel Holdings.

POWERS OF DIRECTORS TO ALLOT SHARES

At the General Meeting of the Company held on 9 October 2009, the directors were authorised to allot new shares up to an aggregate nominal amount of £2,418,115, of which £1,420,454.13 was allotted in accordance with the terms of a capital raising approved by shareholders on 9 October 2009. A resolution to seek authority to allot up to an aggregate nominal amount of £997,660 will be proposed at the next Annual General Meeting (full details are available in the 2010 Notice of Annual General Meeting).

PURCHASE OF OWN SHARES

At the Annual General Meeting of the Company held on 19 June 2009, shareholders gave the Company permission, until the conclusion of the next Annual General Meeting to the Company, to purchase up to 15,712,822 ordinary shares of 1 pence of the Company. No such purchases were made during the year. The directors will seek renewal of similar authority at the Annual General Meeting to be held on 25 June 2010 (full details are available in the 2010 Notice of Annual General Meeting).

ARTICLES OF ASSOCIATION

Changes to the Articles of Association of the Company must be approved by special resolution of the Company. Changes to the Articles of Association were approved at the 2009 Annual General Meeting and took effect on 1 October 2009.

INTERNAL CONTROL RISK ASSESSMENT

There is an ongoing process for identifying, evaluating and managing, but not eliminating, the significant risks of the Group, and this process has been in place throughout the year under review. Following a review by the Board, on 15 April 2010, of an updated strategic risk assessment and the effectiveness of the Group's system of internal controls, it concluded that there were no significant risks that had not been considered, nor any significant weaknesses in internal controls.

The updated assessment supplements ongoing dialogue between the Board and the directors and managers responsible for monitoring risks at an operational level. The Audit Committee receives regular reports from the Internal Audit and Health & Safety Management departments. These reports identify areas of risk exposure, recommendations made and actions implemented. They also highlight new areas of legislation that will impact on the risk profile of the Group, and provide positive assurance that procedures are working and assisting in the attainment of business objectives. Operational and financial risk management is delegated to directors and managers who are responsible for the day-to-day management of the business. The following controls are embedded in the procedures of the relevant business units:

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

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

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

Financial (which assist in the consolidation of the Group's accounts) — These controls are considered under the following headings:

- Cost budgeting — The annual budget setting process includes a detailed review of each business unit and final budgets are approved by the Board. Costs and performance are monitored on a monthly basis against budgets. Monthly Operational Review meetings are held with senior management to discuss financial issues.

- Treasury — The terms of reference for the Treasury department are approved and kept under review by the Board. The Treasury department is responsible for placing deposits, for arranging borrowings and for making payments. These transactions are subject to director or senior management authorisation.

- Insurance risk — The Company holds insurance cover for all employer liability and public liability claims, which is issued by its captive insurance company, and which limits the Group's exposure to £100,000 per claim. All claims are subject to expert assessment and challenge and, where appropriate, independent medical and legal opinion.

- Capital expenditure — Board approval of all major capital projects is required. Smaller capital projects are approved by the Investment Committee, which is chaired by the Finance Director and comprises the executive directors. Senior executives are invited where appropriate. The Investment Committee reviews projects with a cost in excess of £100,000.

ASSURANCE PROCEDURES

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

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

The Audit Committee reviews internal audit reports and corporate governance matters. The internal audit plan is based on the annual assessment of risks as reviewed by the Board and is not limited to financial systems. Reports give an opinion of the risk and control profile of each audited system. The Safety Committee reviews all internal safety audits and approves an annual safety audit plan.

GOING CONCERN

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

ANNUAL GENERAL MEETING

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

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

Directors’ Remuneration Report

* Denotes auditable elements of the Remuneration Report.

INTRODUCTION

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report provides details of UK COAL’S Remuneration Policy. The second part provides details of the remuneration, service contracts and share interests of all the directors for the year ended December 2009. The Remuneration Report is unaudited unless otherwise disclosed. The Directors confirm that the Remuneration Report has been drawn up in accordance with the Companies Act 2006 and the Combined Code on Corporate Governance (‘Combined Code’).

THE REMUNERATION COMMITTEE

Responsibility for reviewing Group remuneration strategy and policy, recommending any changes and approving individual remuneration packages for the Chairman, executive directors and members of the Executive Committee rests with the Remuneration Committee (the ‘Committee’). The Committee consists of independent non-executive directors and the Chairman and meets on at least two occasions each year. The members in 2009 were: Mike Toms (Committee Chairman), Peter Hazell, David Jones and Kevin Whiteman. The Committee may seek any information it requires from any employee or director, and all employees and directors are required to co-operate with any request made by the Committee. Richard Cole (Company Secretary) provided information to the Committee during the year.

The Remuneration Committee also meets without management and receives information and independent executive remuneration advice from specialist remuneration consultants, Hewitt New Bridge Street (‘HNBS’), who were appointed by the Remuneration Committee. HNBS does not provide any other services to the Group. Neither the Chairman nor the executive directors participate in discussions relating to their own remuneration. The Remuneration 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 Company are appropriate from a risk perspective. It also liaises with the Safety Committee in respect of safety targets for the annual bonus scheme.

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

DIRECTORS’ REMUNERATION POLICY

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

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

This remuneration policy is expected to apply to 2010 and beyond.

The Company is required to seek shareholder approval for this report, and to put forward any new incentive schemes for shareholder approval at the Annual General Meeting. It is proposed to seek shareholder approval at the 2010 Annual General Meeting for a new Long term Incentive Plan to replace the existing plan which expires in May 2010. Full details of the new LTIP are found in the Notice of meeting and Circular for the meeting.

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

CHAIRMAN

The Chairman receives fees commensurate with his duties, which include: managing the business of the Board and its Committees, maximising long term shareholder value by reviewing short term performance, risk management and long term development of the Group, ensuring that corporate governance is in line with best practice, ensuring a management succession process is in place and working, making recommendations on the remuneration of all other non-executive directors and agreeing with the Chief Executive the most appropriate role of the Chairman vis-à-vis stakeholders including government, shareholders, the financial community, customers, competitors, potential and actual partners, trade unions, employees, the media and the wider community. Following a review, it has been agreed that the Chairman's fee of £150,000 per annum will not increase in 2010.

EXECUTIVE DIRECTORS

Remuneration mix

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

Base Salaries

Executive Directors' salaries are reviewed by the Remuneration Committee on an annual basis. In determining salary levels for executives, due regard is given to external market data in similarly sized companies across a range of sectors, personal and Company performance and pay and employment conditions within the Group. Executive Directors' salaries are targeted at broadly mid-market levels for similarly sized companies. It has been agreed that both Mr Lloyd's and Mr Brocksom's salaries will, in 2010, remain at £375,000 and £234,675 per annum respectively. Mr Williams' base salary is £230,000 per annum.

Annual Bonus

The annual bonus provides an incentive opportunity in the range of 0% to 80% (Chief Executive) and 0% to 75% (for other Executive Directors) of base salary. At the start of the incentive year (1 January), the Remuneration Committee sets both the performance measures and targets based on the Group's business priorities. These targets ensure that incentives at the higher end of the range are payable only for demonstrably superior Group and individual performance.

The targets in 2009 were safety, cash flow, profit, Group coal sales and personal performance. In light of the poor operational performance of the business there was no payment in respect of the first four targets and the bonus below is in respect of the personal performance element only. The bonuses payable were for the delivery of cash flows from commercial renegotiations and the capital raising both of which have enabled the completion of major deep mine investments which will drive future shareholder value.

In respect of 2009, Jon Lloyd received a bonus of £36,000 (2008: £45,000) and David Brocksom received a bonus of £21,120 (2008: £24,641). The bonus for the period represents 9.6% of basic pay for Jon Lloyd and 9% of basic pay for David Brocksom.

In 2010 the following measures will be applied for each director in the proportions shown:

	Safety (%)	**Cash flow (%)**	**Profit (%)**	**Deep & Surface Mines Production (%)**	**Personal (%)**
Jon Lloyd	20	35	20	10	15
David Brocksom	20	35	20	10	15
Gareth Williams	20	15	10	40	15

Long term Incentive Plan ('LTIP')

No awards vested in 2009 due to performance conditions for awards granted in 2006 not being achieved. The Company's Total Shareholder Return (TSR) targets for awards granted in 2007 (due to vest in 2010) have not been achieved and hence all awards have lapsed.

The current LTIP expires in May 2010, following which no further awards can be granted.

Accordingly, shareholder approval is being sought for a new LTIP at this year's Annual General Meeting and the annual award for 2010 will be granted under the new LTIP immediately after the AGM.

At the time of writing this report it is anticipated that the following policy will apply for LTIP awards in 2010:

Award value

Grant levels for 2010 will be 75% of base salary for executive directors (other than the Mining Director) and 65% for other members of the Executive Committee. Other senior executives (approximately 10–12 in total) occupying positions with a material influence on the Company's performance will receive grants worth, typically, 20%–50% of base salary. The Committee considers that these Award levels will provide a broadly competitive overall package, when taking account of other elements of the package. Gareth Williams will receive an award in 2010 worth 100% of salary as agreed with him at the time of his recruitment.

Awards will take the form of a 'nil cost' option.

Performance conditions

There has been considerable thought given to the structure of the performance condition. Under the existing LTIP there has been a requirement for absolute TSR targets to be achieved. In the recent past the three year target range has been either 25%–75% or 75%–150% growth, depending on the outlook for performance and the starting level of share price.

The Committee considered whether there would be any financial performance conditions which would reflect both the earnings-driven mining and the value-driven property sides to the business. We have looked into setting EPS ranges, assessing Net Asset Value (NAV) growth and relative measures such as comparing total property return versus a relevant investment property database index.

However, due to the ongoing volatility both of our business and the markets in which we operate, the Committee considers that it would be preferable to set a performance condition based on a relative stock market measure of performance. Various benchmarks have been considered, but noting the lack of a natural comparator group, it is proposed to use the constituents of the FTSE All Share Index as at grant, minus financial services companies. Such an approach recognises that the Company competes for capital with a wide range of other potential investments.

The performance condition for awards in 2010 will be based on a comparison of the Company's TSR against the constituents of the FTSE All Share Index as at the date of grant, excluding financial and investment companies. The performance period will be three years from the beginning of the financial year in which the award is granted. Twenty five per cent of an award will vest if the Company's TSR is ranked at the median of the comparator group, rising so that there will be full vesting if the Company's TSR is ranked at or above the upper quartile.

In addition awards will not vest unless the Company's absolute TSR is positive over the three year performance period and the Committee is satisfied that there has been an improvement in the Company's financial performance over the three year performance period. This will take into account, amongst other things, cash flow, profit, NAV, dividend and gearing. In the event that the Committee, in its sole discretion, considers that there has not been an improvement, it may scale back the number of shares vesting by reference to the TSR performance condition by an amount it considers to be appropriate (but potentially to zero).

The fair value of the awards is estimated to be in the region of 60% of the face value of the shares as at the date of the award. On this basis the total IFRS 2 'Share-based Payment' charge to the Income Statement for the award to the three executive directors would be *circa* £380,000. The statutory fair value will be calculated as at the date of the award and disclosed next year in the notes to the Financial Statements.

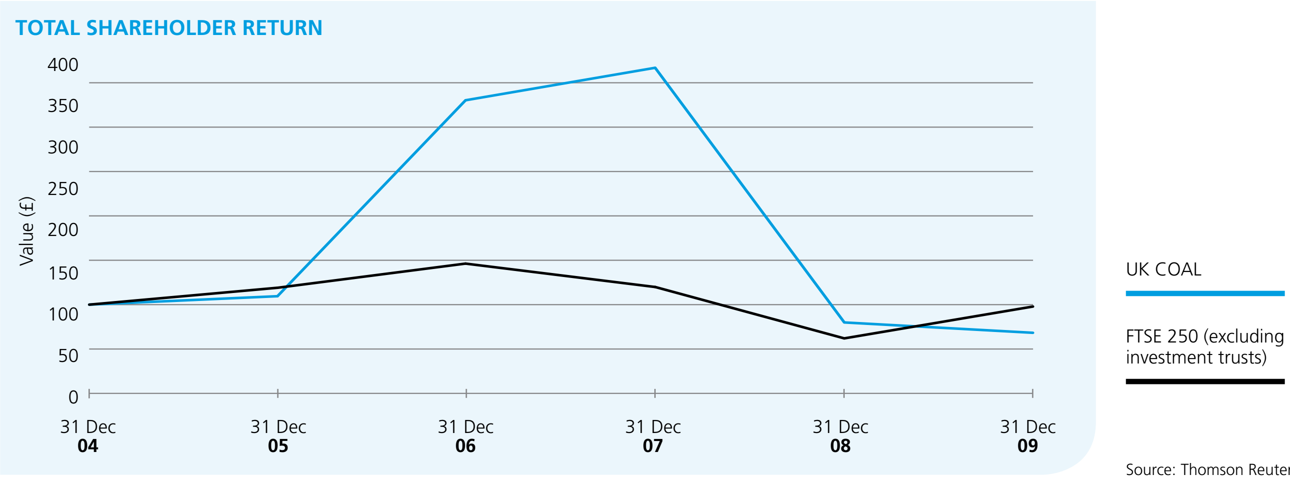
Share usage

The new LTIP contains limits which control the issuance of new shares to satisfy share awards. Under the LTIP the limit restricts the issue of new shares under the LTIP and any other executive plan to an amount equivalent to no more than 5% of issued share capital over any ten year period. As at December 2009 the level of issuance of new shares was at 0.3% of the current issued share capital.

Shareholding Guideline

An executive shareholding guideline will be introduced for executive directors and other selected senior executives. To the extent awards vest under the LTIP, the executive 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).

Performance Graph



Source: Thomson Reuters

The above graph displays the value, by the end of 2009, of £100 invested in the Company on 31 December 2004 compared with the value of £100 invested in the FTSE Small Cap Index (excluding investment trusts). The other points are the values at intervening financial year-ends.

Other Terms and Conditions of Service

The executive directors' service contracts, including arrangements for early termination, are considered carefully by the Remuneration Committee and are designed to recruit, retain and motivate executive directors of the quality required to manage the Group. The Remuneration Committee considers that a notice period of no more than one year is appropriate.

In respect of Jon Lloyd employment will continue until terminated by the Company giving the executive not less than twelve months' written notice, or by the executive giving the Company not less than six months' written notice. David Brocksom's and Gareth Williams' contracts shall continue until either they or the Company terminates it by not less than 12 months' notice in writing.

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

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

NON-EXECUTIVE DIRECTORS

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

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

Non-executive directors are paid a basic fee of £40,000 per annum. Additional fees of £6,000 per annum are payable for chairing a committee. These fees will not be increased during 2010.

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 09)	Notice Period
Chairman			
David Jones	12.12.08	2 years	3 months
Executive directors			
Jon Lloyd	01.07.06	Rolling 1 year	1 year
David Brocksom	04.09.07	Rolling 1 year	1 year
Gareth Williams	15.02.10	Rolling 1 year	1 year
Non-executive directors			
Peter Hazell	19.08.09	2 years 9 months	3 months
Owen Michaelson	01.10.07	9 months	3 months
Mike Toms	21.04.09	2 years 4 months	3 months
Kevin Whiteman	29.05.07	5 months	3 months

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

DIRECTORS' EMOLUMENTS FOR THE YEAR ENDED DECEMBER 2009*

	Salary /fees £000	Allowances £000	Annual bonus £000	Benefits in kind £000	Total 2009 £000	Total 2008 £000
Chairman						
David Jones	150	—	—	—	**150**	146
Executive directors						
Jon Lloyd (i)	375	20	36	5	**436**	452
David Brocksom (ii)	235	10	21	5	**271**	275
Non-executive directors						
Peter Hazell	46	—	—	—	**46**	43
Owen Michaelson	40	—	—	—	**40**	38
Mike Toms	46	—	—	—	**46**	43
Kevin Whiteman	46	—	—	—	**46**	43

(i) Jon Lloyd received a car allowance of £20,000 which is included in allowances above.
(ii) David Brocksom received a car allowance of £10,000 which is included in allowances above.
(iii) Other than disclosed in points (i) and (ii) above benefits in kind comprise car benefits, life assurance and health insurance.

Directors' Remuneration Report continued

PENSION CONTRIBUTIONS*

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

Pension contributions on behalf of executive directors were as follows:

	Pensions contributions 2009 £000	Pensions contributions 2008 £000
Jon Lloyd	**113**	109
David Brocksom (i)	**70**	70
	183	179

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

LONG TERM INCENTIVE PLAN*

	Interest at Dec 2008 (ii)	Interest awarded during the year (i)	Interest lapsed during the year	Interest matured during the year	Interest at Dec 2009 (ii)	Vesting date	End of performance period
Jon Lloyd							
Executive LTIP 2007 (iii)	32,068	—	32,068	—	**—**	02.03.10	Dec 09
Executive LTIP 2007 (iii)	45,652	—	45,652	—	**—**	18.09.10	Dec 09
Executive LTIP 2008 (iii)	95,319	—	—	—	**95,319**	22.04.11	Dec 10
Executive LTIP 2009 (iv)	—	213,703	—	—	**213,703**	05.05.12	Dec 11
Total	173,039	213,703	77,720	—	**309,022**		
David Brocksom							
Executive LTIP 2007 (iii)	51,878	—	51,878	—	**—**	18.09.10	Dec 09
Executive LTIP 2008 (iii)	59,650	—	—	—	**59,650**	22.04.11	Dec 10
Executive LTIP 2009 (iv)	—	133,734	—	—	**133,734**	05.05.12	Dec 11
Total	111,528	133,734	51,878	—	**193,384**		

(i) The share price at the date of the awards for Messrs Lloyd and Brocksom, on 5 May 2009, was 138p.

(ii) The exercise price of all outstanding awards is £nil. As a result of new shares being issued by the Company in October 2009 (55,556,403 shares were issued by firm placing and 86,489,010 issued by placing and open offer at 75 pence each) all existing awards have been adjusted to take account of the placing and open offer element of the capital raising at the time they vest. The adjustment is calculated by multiplying the original number of shares under each award by 1.154 which was determined in accordance with the theoretical ex entitlement price ('TEEP') formula

(iii) The performance conditions for 2007 and 2008 awards require absolute TSR growth of between 25% and 75% for between 30% and 100% of an award to vest (with straight-line vesting between these points). In addition, the Company must achieve EPS growth of at least RPI+3% p.a. over the performance period. The TSR targets for 2007 have not been achieved and hence Messrs Lloyd's and Brocksom's awards have lapsed.

(iv) The performance conditions for 2009 awards require absolute TSR growth of between 75% and 150% for between 30% and 100% of an award to vest (with straight-line vesting between these points). In addition, the Company must achieve EPS growth of at least RPI+3% p.a. over the performance period.

DIRECTORS' INTERESTS IN ORDINARY SHARES*

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

	Beneficial interest in ordinary shares at Dec 2009	Beneficial interest in ordinary shares at Dec 2008
David Jones	**54,250**	35,000
Jon Lloyd	**38,750**	25,000
David Brocksom	**28,675**	18,500
Peter Hazell	**—**	—
Owen Michaelson	**40,084**	25,861
Mike Toms	**6,200**	4,000
Kevin Whiteman	**15,500**	10,000

There have been no changes in directors' interests in shares between the end of the year and 26 April 2010.

The market value of the Company's shares during the year ranged from 59.25p to 154.5p (on an unadjusted basis). The market value on 26 December 2009 was 64p.

EXTERNAL APPOINTMENTS

The Remuneration Committee recognises the importance of allowing executive directors to take non-executive director roles elsewhere. Mr Brocksom is a non-executive director of Helius Energy PLC. He was appointed with effect from 1 December 2009 and received (and retained) fees of £3,000 in 2009.

This report has been approved by the Board for submission to shareholders at the Annual General Meeting to be held on 25 June 2010, and signed on behalf of the Board by Mike Toms.

By order of the Board

Mike Toms
Chairman, Remuneration Committee
26 April 2010

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

We have audited the financial statements of UK COAL PLC for the year ended 26 December 2009 which comprise the Consolidated Income Statement, the Group and Company Statements of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Cash Flow, the Consolidated and Company Statements of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 64, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 December 2009 and of the Group's loss and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

GOING CONCERN

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

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the information given in the Corporate Governance Statement set out on pages 65 to 70 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit; or

- a Corporate Governance Statement has not been prepared by the Parent Company.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 63, in relation to going concern; and

- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Steve Denison
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
26 April 2010

NOTES:

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

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

Consolidated Income Statement

for the year ended 26 December 2009

Continuing operations	Notes	Year ended 26 December 2009 £000	Year ended 27 December 2008 £000
Revenue	2	**316,005**	392,541
Cost of sales		**(392,639)**	(389,699)
Gross (loss)/profit		**(76,634)**	2,842
Net (decrease)/increase in fair value of investment properties		**(25,704)**	23
(Loss)/profit on disposal of investment properties		**(3)**	3,661
Net (loss)/gain on investment properties		**(25,707)**	3,684
Profit on sale of joint venture	30	**6,534**	—
Other operating income and expenses	4	**(10,395)**	(8,774)
Operating loss	2	**(106,202)**	(2,248)
Finance costs	6	**(25,306)**	(17,817)
Finance income	6	**729**	2,919
Net finance costs	6	**(24,577)**	(14,898)
Share of post-tax profit from joint ventures	14	**1,719**	1,503
Loss before tax	3	**(129,060)**	(15,643)
Tax credit/(charge)	8	**1,513**	(100)
Loss for the financial year		**(127,547)**	(15,743)
Attributable to:			
Equity holders of the Company		**(127,547)**	(15,743)
Loss per share		**pence**	pence
Basic and diluted	11	**(72.9)**	(10.0)

Statements of Comprehensive Income

for the year ended 26 December 2009

	Notes	**Group Year ended 26 December 2009 £000**	Group Year ended 27 December 2008 £000	**Company Year ended 26 December 2009 £000**	Company Year ended 27 December 2008 £000
Loss for the financial year		**(127,547)**	(15,743)	**(6,240)**	(168,440)
Other comprehensive income:					
Actuarial loss on industry wide pension schemes	24	**(118,239)**	(33,900)	**—**	—
Actuarial (loss)/gain on Blenkinsopp pension scheme	24	**(402)**	262	**—**	—
Actuarial loss on concessionary fuel reserve	24	**(4,110)**	(4,911)	**—**	—
Movement on deferred tax asset relating to retirement benefit liabilities	8	**—**	(2,257)	**—**	—
Cash flow hedges		**3,134**	(7,354)	**—**	—
Movement on deferred tax asset relating to cash flow hedges	8	**(911)**	2,378	**—**	—
Revaluation of property transferred from operating to investment properties	13	**52**	3,170	**—**	—
Total comprehensive loss for the financial year		**(248,023)**	(58,355)	**(6,240)**	(168,440)
Attributable to:					
Equity holders of the Company		**(248,023)**	(58,355)	**(6,240)**	(168,440)

Consolidated Statement of Changes in Shareholders' Equity

	Notes	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at January 2008		**1,571**	**30,756**	**321,122**	**4,797**	**358,246**
Loss for the financial year to December 2008		—	—	—	(15,743)	(15,743)
Other comprehensive income:						
Actuarial losses on post retirement benefits	24	—	—	—	(38,549)	(38,549)
Movement on deferred tax asset in relation to retirement benefit liabilities		—	—	—	(2,257)	(2,257)
Fair value gain on revaluation of investment properties	13	—	—	23	(23)	—
Property revaluation on transfer to investment properties	13	—	—	3,170	—	3,170
Transfer of realised gain on disposed properties	27	—	—	(17,815)	17,815	—
Hedging reserve created — fair value gains in period		—	—	(7,354)	—	(7,354)
Movement on deferred tax asset in relation to cash flow hedges	8	—	—	2,378	—	2,378
Total comprehensive income for the period ended December 2008		—	—	(19,598)	(38,757)	(58,355)
Transactions with owners:						
New shares issued	25	1	—	—	—	1
Accrual for long term incentive plan liabilities	25	—	—	—	540	540
		1	—	—	540	541
Balance at January 2009		**1,572**	**30,756**	**301,524**	**(33,420)**	**300,432**
Loss for the financial year to December 2009		—	—	—	(127,547)	(127,547)
Other comprehensive income:						
Actuarial losses on post retirement benefits	24	—	—	—	(122,751)	(122,751)
Fair value loss on revaluation of investment properties	13	—	—	(25,704)	25,704	—
Property revaluation on transfer to investment properties	13	—	—	52	—	52
Transfer of realised gain on disposed properties	27	—	—	(6,592)	6,592	—
Hedging reserve — amortised in period		—	—	3,134	—	3,134
Movement on deferred tax asset in relation to cash flow hedges	8	—	—	(911)	—	(911)
Total comprehensive income for the period ended December 2009		—	—	(30,021)	(218,002)	(248,023)
Transactions with owners:						
New shares issued	25	1,421	—	—	98,283	99,704
Accrual for long term incentive plan liabilities	25	—	—	—	676	676
		1,421	—	—	98,959	100,380
Balance at December 2009		**2,993**	**30,756**	**271,503**	**(152,463)**	**152,789**

Retained earnings include a cumulative actuarial loss on the Group's retirement benefit obligations of £138,199,000 (2008: loss of £15,448,000).

As disclosed in note 25, during the year the Group raised £99,704,000 (net of expenses) through a firm placing, placing and open offer.

Company Statement of Changes in Shareholders' Equity

Company	Notes	Ordinary shares £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at January 2008		**1,571**	**30,756**	**257**	**407,462**	**440,046**
New shares issued	25	1	—	—	—	1
Profit for the year		—	—	—	4,474	4,474
Provision for impairment of investment						
in subsidiaries	9	—	—	—	(172,914)	(172,914)
Accrual for long term incentive plan liabilities	25	—	—	—	540	540
Balance at January 2009		**1,572**	**30,756**	**257**	**239,562**	**272,147**
New shares issued	25	1,421	—	—	98,283	99,704
Loss in the year		—	—	—	(6,240)	(6,240)
Accrual for long term incentive plan liabilities	25	—	—	—	676	676
Balance at December 2009		**2,993**	**30,756**	**257**	**332,281**	**366,287**

As disclosed in note 25, during the year the Company raised £99,704,000 (net of expenses) through a firm placing, placing and open offer.

Balance Sheets

at 26 December 2009

	Notes	**Group As at 26 December 2009 £000**	Group As at 27 December 2008 £000	**Company As at 26 December 2009 £000**	Company As at 27 December 2008 £000
ASSETS					
Non-current assets					
Operating property, plant and equipment	12	**218,995**	181,801	**—**	—
Surface mine development and restoration assets	12	**22,607**	28,479	**—**	—
		241,602	210,280	**—**	—
Investment properties	13	**377,995**	404,658	**—**	—
Investments in subsidiaries	14	**—**	—	**300,310**	300,310
Investment in joint ventures	14	**3,263**	2,778	**—**	—
Deferred tax asset	8	**35,800**	36,121	**—**	—
Trade and other receivables	15	**1,963**	1,527	**—**	—
		660,623	655,364	**300,310**	300,310
Current assets					
Inventories	16	**55,759**	46,752	**—**	—
Trade and other receivables	17	**24,676**	39,991	**201,847**	155,463
Cash and cash equivalents	18	**41,359**	71,102	**12,869**	40,682
		121,794	157,845	**214,716**	196,145
Total assets		**782,417**	813,209	**515,026**	496,455
LIABILITIES					
Current liabilities					
Borrowings — bank loans, overdrafts and finance leases	19	**(10,728)**	(7,306)	**—**	—
— generator loans and prepayments	19	**(2,990)**	—	**—**	—
Derivative financial instruments	22	**(721)**	—	**—**	—
Trade and other payables	20	**(104,276)**	(104,052)	**(147,658)**	(224,308)
Provisions	21	**(38,556)**	(35,206)	**—**	—
		(157,271)	(146,564)	**(147,658)**	(224,308)
Net current (liabilities)/assets		**(35,477)**	11,281	**67,058**	(28,163)
Non-current liabilities					
Borrowings — bank loans, overdrafts and finance leases	19	**(117,194)**	(172,057)	**—**	—
— generator loans and prepayments	19	**(64,619)**	—	**—**	—
Derivative financial instruments	22	**(6,062)**	(8,493)	**—**	—
Trade and other payables	20	**(76)**	(139)	**—**	—
Deferred tax liabilities	8	**(422)**	(815)	**—**	—
Provisions	21	**(63,151)**	(80,693)	**—**	—
Retirement benefit obligations	24	**(220,833)**	(104,016)	**(1,081)**	—
		(472,357)	(366,213)	**(1,081)**	—
Total liabilities		**(629,628)**	(512,777)	**(148,739)**	(224,308)
Net assets		**152,789**	300,432	**366,287**	272,147
SHAREHOLDERS' EQUITY					
Capital and reserves					
Called up share capital	25	**2,993**	1,572	**2,993**	1,572
Share premium		**30,756**	30,756	**30,756**	30,756
Revaluation reserve	27	**127,497**	130,339	**—**	—
Capital redemption reserve	27	**257**	257	**257**	257
Fair value reserve	27	**146,502**	175,904	**—**	—
Hedging reserve	27	**(2,753)**	(4,976)	**—**	—
Retained (loss)/earnings	26	**(152,463)**	(33,420)	**332,281**	239,562
Total shareholders' equity		**152,789**	300,432	**366,287**	272,147

The financial statements on pages 80 to 131 were approved by the Board of Directors on 26 April 2010 and were signed on its behalf by:

J S Lloyd
Chief Executive

D G Brocksom
Finance Director

Company Registered No. 2649340

Statements of Cash Flows

for the year ended 26 December 2009

	Notes	**Group Year ended 26 December 2009 £000**	Group Year ended 27 December 2008 £000	**Company Year ended 26 December 2009 £000**	Company Year ended 27 December 2008 £000
Cash flows from operating activities					
Loss for the financial year	2	**(127,547)**	(15,743)	**(6,240)**	(168,440)
Depreciation/impairment of property, plant and equipment	12	**32,864**	37,913	**—**	—
Amortisation of surface mine development and restoration assets	12	**9,961**	12,583	**—**	—
Net fair value decrease/(increase) in investment properties	13	**25,704**	(23)	**—**	—
Net interest payable/(receivable) and unwinding of discount on provisions	6	**24,577**	14,898	**5,400**	(1,886)
Net charge for share-based remuneration		**676**	540	**676**	540
Share of post-tax profit from joint ventures		**(1,719)**	(1,503)	**—**	—
Profit on sale of joint venture	30	**(6,534)**	—	**—**	—
Loss/(profit) on disposal of investment properties		**3**	(3,661)	**—**	—
Profit on disposal of operating property, plant and equipment		**(172)**	(82)	**—**	—
Decrease/(increase) in capitalised surface mine restoration assets		**1,456**	(11,077)	**—**	—
(Decrease)/increase in provisions		**(23,753)**	(18,265)	**1,081**	—
Tax (credit)/charge	8	**(1,513)**	100	**452**	—
Provision for impairment of investments	14	**—**	—	**—**	172,914
Operating cash (outflows)/inflows before movements in working capital		**(65,997)**	15,680	**1,369**	3,128
Increase in stocks		**(9,007)**	(6,996)	**—**	—
Decrease/(increase) in receivables		**14,879**	(9,952)	**(46,384)**	10,638
Increase/(decrease) in payables		**692**	3,805	**(74,793)**	6,690
Cash (used in)/generated from operations		**(59,433)**	2,537	**(119,808)**	20,456
Loan arrangement fees paid		**(4,155)**	(1,231)	**—**	—
Interest paid		**(13,406)**	(12,518)	**(7,709)**	—
Cash (used in)/generated from operating activities		**(76,994)**	(11,212)	**(127,517)**	20,456
Cash flows from investing activities					
Interest received		**729**	2,919	**—**	162
Net receipt from insurance and subsidence security funds		**994**	20,329	**—**	—
Net proceeds from sale of joint venture	30	**8,726**	—	**—**	—
Proceeds on disposal of investment properties		**8,483**	6,032	**—**	—
Proceeds on disposal of operating property, plant and equipment		**400**	217	**—**	—
Net investment in joint ventures		**(208)**	(933)	**—**	—
Development costs of investment properties		**(8,064)**	(14,090)	**—**	—
Pre-coaling expenditure for surface mines and deferred stripping costs		**(5,545)**	(9,874)	**—**	—
Purchase of operating property, plant and equipment		**(53,233)**	(25,753)	**—**	—
Cash (used in)/generated from investing activities		**(47,718)**	(21,153)	**—**	162
Cash flows from financing activities					
Proceeds from issue of ordinary shares		**99,704**	1	**99,704**	1
Net (repayment of)/proceeds from bank loans		**(59,278)**	59,494	**—**	—
Net proceeds from generator loans and prepayments		**63,609**	—	**—**	—
Repayments of obligations under hire purchase and finance leases		**(8,072)**	(5,767)	**—**	—
Cash generated from financing activities		**95,963**	53,728	**99,704**	1
(Decrease)/increase in cash		**(28,749)**	21,363	**(27,813)**	20,619
At January					
Cash		**42,336**	20,973	**40,682**	20,063
Cash equivalents		**28,766**	49,095	**—**	—
		71,102	70,068	**40,682**	20,063
Decrease in cash equivalents (net receipt from insurance and subsidence security funds)		**(994)**	(20,329)	**—**	—
(Decrease)/increase in cash		**(28,749)**	21,363	**(27,813)**	20,619
		41,359	71,102	**12,869**	40,682
At December					
Cash		**13,587**	42,336	**12,869**	40,682
Cash equivalents		**27,772**	28,766	**—**	—
Cash and cash equivalents	18	**41,359**	71,102	**12,869**	40,682

Notes to the Financial Statements

1 ACCOUNTING POLICIES

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

Basis of preparation

These consolidated financial statements have been prepared in accordance with European Union ('EU') Endorsed International Financial Reporting Standards ('IFRSs'), IFRIC interpretations and those parts of the Companies Act 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 taken through the income statement. IFRSs also require an alternative treatment to the historic cost convention in certain circumstances (principally in the areas of retirement benefit obligations, share-based payments and financial instruments).

Trading accounts within the Group are made up to an appropriate week end date around 31 December each year. For 2009, trading is shown for the year ended on 26 December 2009 (2008: year ended 27 December 2008).

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009:

- IAS 1 (revised) 'Presentation of Financial Statements'. The most significant change within IAS 1 (revised) is the requirement to produce a statement of comprehensive income setting out all items of income and expense relating to non-owner changes in equity. There is choice between presenting comprehensive income in one statement or in two statements comprising an income statement and a separate statement of comprehensive income. The Group has elected to present comprehensive income in two statements. In addition, IAS 1 (revised) requires the statement of changes in shareholders' equity to be presented as a primary statement. The other revisions to IAS 1 have not had a significant impact on the presentation of the Group's financial information. The 2009 financial statements have been prepared under the revised disclosure requirements.
- IFRS 2 (amendment) 'Share-based payment', deals with vesting conditions and cancellations. It clarifies that the only conditions that are vesting are service conditions and performance conditions only and other features of a share-based payment are not. The Group and Company has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group or Company's financial statements.
- IFRS 7 'Financial instruments — Disclosures' (amendment), the amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level. The amendment does not have a material impact on the Group or Company's financial statements.
- IFRS 8 'Operating Segments'. IFRS 8 replaces IAS 14 'Segment Reporting' and requires the disclosure of segment information on the same basis as the management information provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive Management Committee. The adoption of this standard has not resulted in a change in the Group's reportable segments.
- IAS 23 (revised) 'Borrowing Costs'. IAS 23 (revised), requires the capitalisation of borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use). The adoption of this standard has resulted in a change in accounting policy as the Group previously elected to expense borrowing costs as incurred. The impact of IAS 23 (revised) on the Group's results is not significant at 26 December 2009.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant to the Group:

- IFRIC 13 'Customer Loyalty Programmes';
- IFRIC 15 'Agreements for the Construction of Real Estate'; and
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2009 and have not been adopted early:

- IFRS 3 (revised) 'Business Combinations' and consequential amendments to IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures', effective prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after 1 July 2009. The Group will apply IFRS 3 (revised) to all business combinations from 1 January 2010, subject to endorsement by the EU.
- IFRIC 17 'Distributions of Non-Cash Assets to Owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group as it has not made any non-cash distributions.
- IFRIC 18 'Transfers of Assets From Customers', effective for transfers of assets received on or after 1 July 2009. This is not relevant to the Group as it has not received any assets from customers.

1 ACCOUNTING POLICIES continued

Going concern

The 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 a cash flow forecast based upon its assumptions as to production and trading as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed in the Directors' Report. The Board also prepares a number of alternative scenarios modelling the business variables and key risks and uncertainties as summarised on pages 51 to 53. The key factors that have been considered in this regard are:

— The deep mines operate with a cost base which is largely fixed relative to production levels. Consequently, unexpectedly large interruptions or prolonged reductions in production can have a material adverse impact on cash flow. Recent performance has been illustrative of the difficulties inherent in deep mining operations and, in particular, the impact of unpredictable geological conditions and/or other operational issues on production volumes from our deep mines. The Board believes that these risks now much reduced as Kellingley and Thoresby have started producing coal from their new seams and as Daw Mill has started the ramp up of its new face.

— Bank funding arrangements contain, in certain cases, covenants based upon interest cover, capital expenditure, loan to property value, adjusted net asset values and operating profits adjusted for property revaluations and depreciation in particular. 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 or to a renegotiation of terms or, *in extremis*, a reduction or withdrawal of facilities by the banks concerned.

— Although the majority of coal production for the next 12 months is on fixed or capped/floor pricing bases, revenues in respect of certain floating rate contracts and uncontracted coal will vary based upon the market price for coal, which is expressed in dollars, and sterling/dollar exchange rates. These variables have, over the last year, proved to be very volatile and therefore there is a risk of unpredictability in coal revenues and cash flows.

The Board notes that the matters set out above indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. Nevertheless, the Board confirms its belief that is appropriate to use the going concern basis of preparation for these financial statements of the Group. 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.

Consolidation

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

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

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

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.

1 ACCOUNTING POLICIES continued

Foreign currencies

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

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

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

Segment reporting

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

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

The Group manages its business primarily by reference to operating segments, and this approach is adopted in the accounting policies as the primary segment. Deep mining comprises the underground mining operations of the Group and related labour services, the methane generation operations and the captive insurance company. Surface mining incorporates all mining activities at surface level, together with the plant hire operations of the Group. The Property division, Harworth Estates, maintains, develops and rents the Group's property portfolio. Any activity not falling into any of these categories is included in the Other segment. As the Group is based and operates in a single geographical market, the United Kingdom, no secondary geographical segmentation is provided.

Revenue

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

Coal transactions

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

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

Service transactions

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

Exceptional items

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

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

1 ACCOUNTING POLICIES continued

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

Coal Investment Aid

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

Profit or loss on disposal

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

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

Investment properties and operating properties

The Group holds the following types of freehold property:

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

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

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

Investment properties

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

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

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

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

1 **ACCOUNTING POLICIES** continued

Operating properties

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

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

Properties in the course of development

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

Exploration and evaluation

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

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

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

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

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

Plant and equipment

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

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

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

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

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

1 ACCOUNTING POLICIES continued

Mining assets

Mine development

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

Mines and surface works

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

Seismic and geological mapping costs

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

Surface mine development and restoration assets

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

Deferred stripping costs

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

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

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

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

Depreciation

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

1 **ACCOUNTING POLICIES** continued

Depreciation continued

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

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

Impairment

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

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

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

Future cash flows are based on:

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

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.

Hire purchases and leases — as lessee

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

Hire purchases and leases — as lessor

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

Financial instruments

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

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

1 ACCOUNTING POLICIES continued

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

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

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

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity, and the ineffective portion is recognised immediately in the income statement 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 income statement in the same period in which the hedged item affects net profit or loss.

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the 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 stock. Coal is recognised as stock when delivered to the surface and is valued at the average cost of extraction.

Trade receivables

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

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

Notes to the Financial Statements continued

1 **ACCOUNTING POLICIES** continued

Property clawback

Under the terms of the 1994 privatisation Sale and Purchase Agreement, DBERR is entitled to a percentage of any property gain accruing (above certain thresholds and after deducting an amount representing corporation tax thereon), or treated as accruing to the Group, as a result of the disposal or deemed disposal or major development of certain properties acquired at privatisation. The percentage applied is 27% for 2009, reducing by 3 percentage points per annum until 31 March 2015, when it reduces to zero. If properties are disposed of, or are deemed to have been disposed of during this period, a part of the relevant gain will become payable to DBERR. A liability for clawback in respect of property disposals is recognised only when an actual or deemed disposal occurs. A liability for clawback on a deemed disposal as a result of granting a lease is recognised over the life of the lease.

Cash and cash equivalents

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

Provisions for restoration, rehabilitation and environmental costs

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

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

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

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

Other provisions

Surface damage (subsidence)

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

Employer and public liability claims

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

Redundancy

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

1 ACCOUNTING POLICIES continued

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

Employee benefits

Pension obligations

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

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.

1 ACCOUNTING POLICIES continued

Tax continued

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 92. 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 91.

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.

1 ACCOUNTING POLICIES continued

Deferral of stripping costs

See accounting policy on page 91.

Capitalisation of exploration and evaluation costs

See accounting policy on page 90.

Estimation of fair value of investment property

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

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

Estimation of post-retirement benefit obligations

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

Estimation of other provisions (including clawback liabilities)

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

Estimation of close down and restoration costs

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

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

The Group has adopted the provisions of IFRS 8 'Operating segments' for the first time in these financial statements. This standard requires the disclosure of segmental information on the same basis as the management information provided to the chief operating decision-maker.

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 26 December 2009, the Executive Management Committee consisted of the following individuals:

Chief Executive	Jon Lloyd
Finance Director	David Brocksom
Production Director	William Tinsley
Commercial Contracts Director	Philip Garner
Company Secretary	Richard Cole

Subsequent to the year end Gareth Williams as Mining Director, David Stewart as Human Resources Director and Stuart Hoult as Safety Director have been appointed to the Executive Management Committee.

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 Committee considers that the operating segments comprise the following:

Deep mining

The Group had four operating deep mines in 2009 located in central and northern England. The Group has estimated total reserves and resources of approximately 100 million tonnes. The closed/sold deep mines consist of the closed Rossington colliery, the mothballed Harworth colliery and the Maltby colliery which was sold. The Group generates electricity from mines methane at both operating and closed sites. Although the decision to close the Welbeck colliery has been made and provisions for the closure costs are included in 2009, as the mine was still working in 2010 it is reported as an ongoing mine and will become a closed deep mine for 2010 reporting.

Surface mining

The Group had four active coaling surface mines and planning committee approval or consent to mine 4 further sites. Planning consent in respect of surface mine reserves of 18 million tonnes has either already been granted, applied for or is planned to be applied for during 2010.

Property

The Group had a portfolio of approximately 43,500 acres and has identified *circa* 4,500 net acres of this land as offering prime prospects for a mix of business park, residential, distribution and community development. Certain land has been identified as potentially suitable for wind farms and this opportunity is being pursued.

Other

This includes any 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.

Revenue

Revenue from operations arises from:	**Year ended December 2009 £000**	Year ended December 2008 £000
Sale of goods	**309,528**	374,798
Rendering of services	**660**	12,624
Rental income	**5,817**	5,119
	316,005	392,541

Revenues of approximately £276,000,000 (2008: £325,000,000) are derived from three external customers. These revenues are attributable to the deep and surface mining segments.

2 SEGMENTAL REPORTING continued

Year ended December 2009

	Ongoing deep mines £000	Closed/ sold deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue — gross	250,566	—	250,566	67,842	6,690	1	**325,099**
Revenue — intra Group	(368)	—	(368)	(7,870)	(856)	—	**(9,094)**
Revenue — external	250,198	—	250,198	59,972	5,834	1	**316,005**
Operating (loss)/profit before non-trading exceptional items and net decrease in fair value of investment properties	**(70,486)**	**—**	**(70,486)**	**1,853**	**1,229**	**(24)**	**(67,428)**
Net decrease in fair value of investment properties	—	—	—	—	(25,704)	—	**(25,704)**
Operating (loss)/profit before non-trading exceptional items	**(70,486)**	**—**	**(70,486)**	**1,853**	**(24,475)**	**(24)**	**(93,132)**
Non-trading exceptional items							
— Profit on sale of joint venture	—	—	—	—	—	6,534	**6,534**
— Rationalisation, closure and other costs	(15,508)	(3,434)	(18,942)	(355)	—	(307)	**(19,604)**
Operating (loss)/profit after non-trading exceptional items	**(85,994)**	**(3,434)**	**(89,428)**	**1,498**	**(24,475)**	**6,203**	**(106,202)**
Finance costs							**(25,306)**
Finance income							**729**
Net finance costs							**(24,577)**
Share of post-tax profit from joint ventures							
— property							**1,331**
— Coal4Energy							**388**
Loss before tax							**(129,060)**
Tax credit							**1,513**
Loss for the year							**(127,547)**
Other segmental items							
Capital expenditure	69,843	—	69,843	264	8,272	132	**78,511**
Depreciation	29,677	—	29,677	2,330	163	65	**32,235**
Surface mine development costs and restoration assets capitalised	—	—	—	5,686	—	—	**5,686**
Amortisation of surface mine development and restoration assets	—	—	—	9,961	—	—	**9,961**
Provisions — non-cash charge	13,222	—	13,222	(771)	—	20	**12,471**

* Closed/sold deep mines includes income and expenditure arising at the Harworth colliery.
† 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 decrease in fair value of properties of £25,704,000 and loss on disposal of investment properties of £3,000.

Non-trading exceptional items

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

All trading and non-trading exceptional items are included in cost of sales with the exception of the estimated costs of fines which are within other operating income and expense.

Notes to the Financial Statements continued

2 SEGMENTAL REPORTING continued

Year ended December 2008

	Ongoing deep mines £000	Closed/ sold deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Continuing operations							
Revenue — gross	309,103	—	309,103	83,575	5,181	2,195	**400,054**
Revenue — intra Group	—	—	—	(7,125)	(20)	(368)	**(7,513)**
Revenue — external	309,103	—	309,103	76,450	5,161	1,827	**392,541**
Operating profit/(loss) before non-trading exceptional items and net increase in fair value of investment properties	**(12,795)**	**—**	**(12,795)**	**10,416**	**4,683**	**(489)**	**1,815**
Net increase in fair value of investment properties	—	—	—	—	23	—	**23**
Operating profit/(loss) before non-trading exceptional items	**(12,795)**	**—**	**(12,795)**	**10,416**	**4,706**	**(489)**	**1,838**
Non-trading exceptional items							
— Rationalisation, closure and other costs	(468)	(3,456)	(3,924)	(162)	—	—	**(4,086)**
Operating (loss)/profit after non-trading exceptional items	**(13,263)**	**(3,456)**	**(16,719)**	**10,254**	**4,706**	**(489)**	**(2,248)**
Finance costs							**(17,817)**
Finance income							**2,919**
Net finance costs							**(14,898)**
Share of post-tax (loss)/profit from joint ventures							
— property							**(59)**
— Coal4Energy							**1,562**
Loss before tax							**(15,643)**
Tax charge							**(100)**
Loss for the year							**(15,743)**
Other segmental items							
Capital expenditure	21,487	—	21,487	3,137	15,219	—	**39,843**
Depreciation	34,772	—	34,772	2,936	162	43	**37,913**
Surface mine development costs and restoration assets capitalised	—	—	—	20,951	—	—	**20,951**
Amortisation of surface mine development and restoration assets	—	—	—	12,583	—	—	**12,583**
Provisions — non-cash charge	6,900	—	6,900	14,370	—	45	**21,315**

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

† 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 appreciation in fair value of properties of £23,000 and profit on disposal of investment properties of £3,661,000.

Non-trading exceptional items

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

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

2 SEGMENTAL REPORTING continued

Total assets at December 2009

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

Total assets at December 2008

	Ongoing deep mines £000	Closed/ sold deep mines* £000	Deep mining £000	Surface mining £000	Property £000	Other† £000	Total £000
Segment assets	258,022	13	258,035	54,792	418,043	1,104	731,974
Investment in joint ventures	—	—	—	—	874	1,904	2,778
Total segment assets	**258,022**	**13**	**258,035**	**54,792**	**418,917**	**3,008**	**734,752**
Cash and cash equivalents (unrestricted)							42,336
Deferred tax asset							36,121
Total assets per balance sheet							**813,209**

* Closed/sold deep mines includes the assets of Harworth and Rossington collieries and Maltby colliery which was sold.
† Other consists of operations not controlled by the mining or property businesses and unallocated central activities which do not represent a separate reportable segment in accordance with IFRS 8.

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

3 LOSS BEFORE TAX

	Notes	Year ended December 2009 £000	Year ended December 2008 £000
Loss before tax is stated after (charging)/crediting:			
Depreciation of property, plant and equipment — owned assets	12	**(27,069)**	(34,100)
Depreciation of property, plant and equipment — under finance leases	12	**(5,166)**	(3,813)
Amortisation of surface mine development, restoration and closure assets	12	**(9,961)**	(12,583)
Impairment of operating plant and equipment	12	**(629)**	—
Coal Investment Aid	33	**2,867**	3,106
(Loss)/profit on disposal of investment properties		**(3)**	3,661
Profit on disposal of operating property, plant and equipment		**172**	82
Repairs and maintenance for deep and surface mining		**(73,967)**	(64,427)
Staff costs	5	**(182,176)**	(175,333)
Spares and consumables used		**(45,338)**	(44,700)
Operating expense for rental investment property		**(2,000)**	(2,251)
Operating lease payments		**(314)**	(317)

4 OTHER OPERATING INCOME AND EXPENSES

	Year ended December 2009 £000	Year ended December 2008 £000
Administrative expenses	**(14,241)**	(13,547)
Other operating income	**3,846**	4,773
Other operating income and expenses	**(10,395)**	(8,774)

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 £2,867,000 (2008: £3,106,000).

5 EMPLOYEE INFORMATION

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

	Group		Company	
	Year ended December 2009 Number	Year ended December 2008 Number	Year ended December 2009 Number	Year ended December 2008 Number
Deep mining	**2,443**	2,554	**—**	—
Surface mining	**575**	531	**—**	—
Property	**20**	19	**—**	—
Other	**74**	75	**7**	7
	3,112	3,179	**7**	7

5 EMPLOYEE INFORMATION continued

Total staff costs for the Group were:

	Group		Company	
Staff costs (including the Board of Directors)	**Year ended December 2009 £000**	Year ended December 2008 £000	**Year ended December 2009 £000**	Year ended December 2008 £000
Wages and salaries	**151,434**	145,258	**1,009**	1,151
Social security costs	**15,312**	14,535	**120**	120
Pension and post retirement benefit costs	**14,754**	15,000	**183**	168
Share-based payments	**676**	540	**676**	540
	182,176	175,333	**1,988**	1,979

Wage and salary costs in 2009 include the benefit of pension curtailment gains of £3,954,000 (2008: £nil) as disclosed within Notes 2 and 24.

Key management compensation

	Year ended December 2009 £000	Year ended December 2008 £000
Salaries and short term employee benefits	**1,441**	1,386
Post employment benefits	**279**	240
Termination benefits	**216**	—
Share-based payments	**—**	34
	1,936	1,660

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 68.

Directors' remuneration and interests

Detailed information relating to directors' remuneration and their interests in share options is indicated by * on pages 75 to 76 and forms part of these financial statements.

6 FINANCE INCOME AND COSTS

	Year ended December 2009 £000	Year ended December 2008 £000
Interest expense		
— Bank borrowings	**(12,569)**	(11,816)
— Hire purchase agreements and finance leases	**(998)**	(879)
— Unwinding of discount on provisions	**(3,626)**	(4,257)
— Amortisation of the issue costs of bank loans	**(2,697)**	(1,626)
— Generator loans and prepayments	**(4,000)**	—
Gains on interest rate swaps not eligible for hedge accounting	**1,714**	761
Amortisation of interest rate swaps recycled from reserves	**(3,130)**	—
Finance costs	**(25,306)**	(17,817)
Finance income	**729**	2,919
Net finance costs	**(24,577)**	(14,898)

7 AUDITOR'S REMUNERATION

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

	Year ended December 2009 £000	Year ended December 2008 £000
Audit services		
— Fees payable to the Company auditor for the audit of the Parent Company and the consolidated accounts	**75**	70
Non-audit services		
— The audit of the Company's subsidiaries pursuant to legislation	**240**	220
— Other services pursuant to legislation	**50**	81
— Tax advisory and compliance services	**38**	111
— Other services	**288**	121
	691	603

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 (credit)/charge in the year	**Year ended December 2009 £000**	Year ended December 2008 £000
Corporation tax	**(530)**	100
Deferred tax	**(983)**	—
Tax (credit)/charge	**(1,513)**	100

The tax for the year is different to the standard rate of corporation tax in the UK of 28% (2008: 28%). The differences are explained below:

	Year ended December 2009 £000	Year ended December 2008 £000
Loss before tax	**(129,060)**	(15,643)
Loss before tax multiplied by rate of corporation tax in the UK of 28% (2008: 28%)	**(36,137)**	(4,380)
Effects of:		
Expenses not deducted and income not chargeable for tax purposes	**4,700**	2,255
Deferred tax not recognised	**29,924**	2,225
Total tax (credit)/charge	**(1,513)**	100

8 TAX continued

Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%). 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 £422,000 (2008: £815,000) in respect of revaluation gains on investment properties expected to be recovered through future use.

	As at December 2009 £000	As at December 2008 £000
Deferred tax asset — to be recovered after more than 12 months	**35,800**	36,121
Deferred tax liability — to be recovered after more than 12 months	**(422)**	(815)
Net deferred tax asset	**35,378**	35,306

The movement on the deferred tax asset is shown below:

	Year ended December 2009 £000	Year ended December 2008 £000
At the beginning of the year	**35,306**	35,185
Amounts credited to the consolidated income statement	**983**	—
Amounts (charged)/credited to consolidated statement of comprehensive income	**(911)**	121
At the end of the year	**35,378**	35,306

A deferred tax asset of £35,800,000 (2008: £36,121,000) 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 £179,896,000 (2008: £113,314,000) as set out below:

	As at December 2009 Total amount recognised £000	**As at December 2009 Total potential asset/ (liability) £000**	As at December 2008 Total amount recognised £000	As at December 2008 Total potential asset/ (liability) £000
Fixed asset timing differences	**(422)**	**36,144**	(815)	29,228
Other timing differences	**—**	**10,335**	—	9,596
Trading losses	**24,800**	**69,684**	24,643	42,987
Retirement benefit liabilities	**9,100**	**61,833**	9,100	29,125
Cash flow hedges	**1,900**	**1,900**	2,378	2,378
Net deferred tax asset	**35,378**	**179,896**	35,306	113,314

Notes to the Financial Statements continued

8 TAX continued

Deferred tax continued

The fixed asset timing difference relates to the deferred tax liability arising from the directors' estimate of the proportion of revaluation gains on investment properties which will be recovered through use. No tax liability has been recognised in relation to the balance of the gain which is expected to be realised through sale, due to the fact that the Group has unrecognised capital losses brought forward of £387,000,000 (2008: £388,000,000).

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

	2009 £000	2008 £000
Movement on deferred tax asset relating to retirement benefit liabilities in the period	**—**	(2,257)
Movement on deferred tax asset relating to cash flow hedges in the period	**(911)**	2,378
Deferred tax asset movement (charged)/credited to equity	**(911)**	121

The Company has no recognised or unrecognised deferred tax in 2009 or 2008.

9 LOSS FOR THE FINANCIAL YEAR OF THE PARENT ENTITY

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included separately in these financial statements. The loss for the financial year was £6,240,000 (2008: loss £168,440,000). There was an impairment charge against the carrying value of investments in subsidiaries in 2008 of £172,914,000 (see Note 14).

10 DIVIDENDS

No dividends have been paid or proposed in relation to 2009 or 2008.

11 LOSS PER SHARE

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

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

	Year ended December 2009 £000	Year ended December 2008 £000
Loss before tax	**(129,060)**	(15,643)
Tax credit/(charge)	**1,513**	(100)
Loss for the year	**(127,547)**	(15,743)
Weighted average number of shares used for basic earnings per share calculation	**175,008,424**	157,154,163
Dilutive effect of share options	**—**	—
Weighted average number of shares used for diluted earnings per share calculation	**175,008,424**	157,154,163
Basic and diluted loss per share (pence)	**(72.9)**	(10.0)

Loss per share, as adjusted to exclude tax, for the year is 73.7 pence (2008: loss 10.0 pence).

12 OPERATING PROPERTY, PLANT AND EQUIPMENT

Group	Operating properties £000	Deep mines including surface works £000	Plant and equipment £000	Subtotal £000	Surface mine development and restoration assets £000	Total £000
Cost:						
At January 2009	14,961	808,417	90,790	914,168	49,628	963,796
Additions	208	69,843	396	70,447	5,686	76,133
Disposals	—	(2,233)	(1,471)	(3,704)	(14,557)	(18,261)
Transfer to investment properties	(161)	—	—	(161)	—	(161)
At December 2009	15,008	876,027	89,715	980,750	40,757	1,021,507
Depreciation:						
At January 2009	4,119	659,731	68,517	732,367	21,149	753,516
Charge for the year	163	28,422	3,650	32,235	9,961	42,196
Impairment	—	629	—	629	—	629
Disposals	—	(2,233)	(1,243)	(3,476)	(12,960)	(16,436)
At December 2009	4,282	686,549	70,924	761,755	18,150	779,905
Net book amount:						
At December 2009	**10,726**	**189,478**	**18,791**	**218,995**	**22,607**	**241,602**
Cost:						
At January 2008	19,676	786,937	90,615	897,228	37,939	935,167
Additions	1,129	21,480	3,144	25,753	20,951	46,704
Disposals	—	—	(2,969)	(2,969)	(9,262)	(12,231)
Transfer to investment properties	(5,844)	—	—	(5,844)	—	(5,844)
At December 2008	14,961	808,417	90,790	914,168	49,628	963,796
Depreciation:						
At January 2008	4,346	626,262	67,069	697,677	17,828	715,505
Charge for the year	162	33,469	4,282	37,913	12,583	50,496
Disposals	—	—	(2,834)	(2,834)	(9,262)	(12,096)
Transfer to investment properties	(389)	—	—	(389)	—	(389)
At December 2008	4,119	659,731	68,517	732,367	21,149	753,516
Net book amount:						
At December 2008	10,842	148,686	22,273	181,801	28,479	210,280

Surface mine development and restoration assets net book amounts includes capitalised pre-coaling costs of £12,446,000 (2008: £12,471,000), restoration/rehabilitation costs of £6,720,000 (2008: £12,340,000) and deferred stripping costs of £3,441,000 (2008: £3,668,000). These are depreciated over the estimated tonnage of the recoverable reserves as these are extracted.

Surface mine asset additions in the period of £5,686,000 (2008: £20,951,000) comprise £3,911,000 (2008: £6,206,000) in respect of pre-coaling expenditure, £141,000 (2008: £11,077,000) recognised as a non-current asset on the creation of a corresponding provision for restoration and rehabilitation costs and £1,634,000 (2008: £3,668,000) of deferred stripping costs.

Included in operating property, plant and equipment is £78,452,000 (2008: £20,132,000) of capitalised work in progress which is not depreciated.

12 OPERATING PROPERTY, PLANT AND EQUIPMENT continued

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

	As at December 2009 £000	As at December 2008 £000
Cost	**45,989**	26,245
Aggregate depreciation	**(26,273)**	(12,739)
Net book amount	**19,716**	13,506

The movement in aggregate depreciation is the net of new equipment leased and new leases for 2009 including previously owned assets with previous aggregate depreciation.

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 the significant operating loss recorded by the Group in the year ended 26 December 2009.

In the year ended December 2009 £629,000 of Welbeck colliery fixed assets were impaired; however, no other impairment charges were recognised. The estimates of recoverable amount were based on value-in-use calculations, using a pre-tax discount rate of 14.7% which reflects the specific risks of the business. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated assuming a zero growth rate.

Sensitivity analysis

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

— The revised estimated pre-tax discount rate applied to the discounted cash flows was increased to over 20%;
— The estimated long term price of coal of $100/tonne assumed in calculating the discounted cash flows decreased by 10%; and
— The estimated level of annual production assumed in calculating the discounted cash flows decreased by 0.25 million tonnes.

13 INVESTMENT PROPERTIES

At valuation — Group	As at December 2009 £000	As at December 2008 £000
At the beginning of the year	**404,658**	384,291
Additions	**8,064**	14,090
Disposals	**(9,236)**	(2,371)
Fair value (decrease)/increase	**(25,704)**	23
Transfer from operating property, plant and equipment at net book amount	**161**	5,455
Revaluation of property transferred to investment properties	**52**	3,170
At the end of the year	**377,995**	404,658

The properties were valued at December 2009, 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.
— No deduction or adjustment has been made in relation to clawback provisions, or other taxes which may be payable in certain events.

13 INVESTMENT PROPERTIES continued

Had the above investment properties been carried at historic cost, rather than fair value, their value would be £103,995,000 (2008: £98,397,000).

Land and buildings with a value of £351,319,000 (2008: £345,280,000) are subject to fixed charges to cover borrowings against those assets and £9,010,000 (2008: £7,886,000) 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 shares in UK Strategic Partnership Limited as a joint venture company with Strategic Sites Limited for the development of certain investment properties. The first development was at the Advanced Manufacturing Park at Waverley, South Yorkshire.

During 2009 the Group acquired 50% of the issued shares in Bates Regeneration Limited as a joint venture company with Banks Property Limited for the development of an investment property at Blyth, Northumberland.

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

Group		**2009 £000**	2008 £000
At the beginning of the year		**2,778**	342
Additions		**1,060**	933
Share of profit/(loss)	— property joint ventures	**1,331**	(59)
	— Coal4Energy Limited	**388**	1,562
Sale of share of joint venture		**(2,294)**	—
Dividends		**—**	—
At the end of the year		**3,263**	2,778

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:

Group	**Country of incorporation**	**Assets £'000**	**Liabilities £'000**	**Revenues £'000**	**Profit/(loss) £'000**	**Interest held %**
2009						
UK Strategic						
Partnership Limited	England and Wales	4,079	(3,166)	321	40	50
Bates Regeneration Limited	England and Wales	2,350	—	—	1,291	50
Coal4Energy Limited	England and Wales	—	—	7,506	388	—
Total		6,429	(3,166)	7,827	1,719	
2008						
Coal4Energy Limited	England and Wales	9,696	(7,792)	36,630	1,562	50
UK Strategic						
Partnership Limited	England and Wales	4,230	(3,356)	—	(59)	50
Total		13,926	(11,148)	36,630	1,503	

14 INVESTMENTS continued

Investment in subsidiaries

Company	£000
Cost:	
At January and **December 2009**	473,224
Provision for impairment:	
At January 2009	(172,914)
Charge for the year	—
At December 2009	(172,914)
Net book amount:	
At December 2009	**300,310**
Cost:	
At January and December 2008	473,224
Provision for impairment:	
At January 2008	—
Charge for the year	(172,914)
At December 2008	(172,914)
Net book amount:	
At December 2008	300,310

In 2008, as a result of the decline in the Group's market capitalisation, the investment held by the Parent Company was written down to its estimated recoverable amount. Note 12 details the value-in-use calculations. No further impairment charge has been made in 2009.

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

Particulars of the principal Group undertakings at December 2009 are as follows:

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

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

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

15 TRADE AND OTHER RECEIVABLES — NON-CURRENT

Amounts classed as non-current are as follows:

	Group		Company	
	As at December 2009 £000	As at December 2008 £000	**As at December 2009 £000**	As at December 2008 £000
Other receivables	**1,963**	1,527	**—**	—

Other receivables include £1,335,000 (2008: £865,000) of long term deposits held as security for surface mines.

16 INVENTORIES

	Group		Company	
	As at December 2009 £000	As at December 2008 £000	**As at December 2009 £000**	As at December 2008 £000
Coal stocks	**28,690**	21,412	**—**	—
Spares and consumables	**27,069**	25,340	**—**	—
	55,759	46,752	**—**	—

The cost of inventories recognised as an expense and included in cost of sales amounted to £45,338,000 (2008: £44,700,000).

During the year, a further provision of £3,487,000 (2008: £883,000) has been created against spares and consumables stock and a net realisable value provision of £3,600,000 (2008: nil) created against coal stocks, the charges for which are included in cost of sales.

17 TRADE AND OTHER RECEIVABLES — CURRENT

	Group		Company	
	As at December 2009 £000	As at December 2008 £000	**As at December 2009 £000**	As at December 2008 £000
Trade receivables	**18,388**	32,508	**—**	—
Less: provision for impairment of trade receivables	**(273)**	(136)	**—**	—
Net trade receivables	**18,115**	32,372	**—**	—
Other receivables	**1,348**	1,399	**1,296**	949
Prepayments and accrued income	**5,213**	5,750	**—**	—
Amounts owed by joint ventures	**—**	470	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**200,551**	154,514
	24,676	39,991	**201,847**	155,463

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

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

17 TRADE AND OTHER RECEIVABLES — CURRENT continued

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

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

	Group	
	2009	2008
	£000	£000
At the beginning of the year	**136**	22
Provisions for impairment of receivables	**266**	200
Receivables written off during the year as uncollectable	**(1)**	(77)
Unused amounts reversed	**(128)**	(9)
At the end of the year	**273**	136

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 2009, there were provisions against trade receivables of £273,000 (2008: £136,000) 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 2009	As at December 2008
	£000	£000
3 to 6 months	**—**	136
Over 6 months	**273**	—

As of December 2009, trade receivables of £493,000 (2008: £2,653,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and consequently there are no indications at the reporting date that they will not meet their payment obligations. The ageing analysis of these trade receivables is as follows:

	Group	
	As at December 2009	As at December 2008
	£000	£000
Up to 3 months	**408**	1,901
Over 3 months	**85**	752
	493	2,653

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	As at December 2009 £000	As at December 2008 £000	**As at December 2009 £000**	As at December 2008 £000
Cash deposited to cover insurance requirements	**19,104**	20,425	**—**	—
Subsidence security fund	**8,668**	8,341	**—**	—
	27,772	28,766	**—**	—
Cash held and other cash balances	**13,587**	42,336	**12,869**	40,682
	41,359	71,102	**12,869**	40,682

Total cash held subject to restrictions to cover insurance and surface damage liabilities at the year end amounts to £27,772,000 (2008: £28,766,000). In addition to this, security to cover surface damage liabilities in the form of an insurance bond for £10,000,000 (2008: £10,000,000) is in place.

19 BORROWINGS

	Group		Company	
Current	**As at December 2009 £000**	As at December 2008 £000	**As at December 2009 £000**	As at December 2008 £000
Bank loans, overdrafts and finance leases due within one year or on demand:				
Secured — bank loans and overdrafts	**5,710**	1,365	**—**	—
Finance lease obligations	**5,018**	5,941	**—**	—
	10,728	7,306	**—**	—
Generator loans and prepayments due within one year	**2,990**	—	**—**	—
Total borrowings — due within one year or on demand	**13,718**	7,306	**—**	—

	Group		Company	
Non-current	**As at December 2009 £000**	As at December 2008 £000	**As at December 2009 £000**	As at December 2008 £000
Bank loans, overdrafts and finance leases due after more than one year:				
Secured — bank loans and overdrafts	**104,943**	169,871	**—**	—
Finance lease obligations	**12,251**	2,186	**—**	—
	117,194	172,057	**—**	—
Generator loans and prepayments due after more than one year	**64,619**	—	**—**	—
Total borrowings — due after more than one year	**181,813**	172,057	**—**	—

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 £2,307,000 (2008: £1,841,000). Non-current bank loans and overdrafts are stated after deduction of unamortised borrowing costs of £1,859,000 (2008: £1,020,000). The Group's Revolving Credit Facility can be drawn when required and is committed until July 2011.

During the period, the Group made repayments of £62,730,000 against bank loans and overdrafts. Additional finance lease facilities of £17,214,000 have been secured during the period. These leases are due to be repaid in the period 2012 through to 2014. The balance relates to payments against finance leases.

19 BORROWINGS continued

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

During 2009, new bank loans were taken out with a value of £3,451,000 (2008: £13,929,000), secured on the Group's investment properties and certain other fixed assets.

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:

Group	**2009 £000**	2008 £000
Expiring within 1 year	**8,017**	12,606
Expiring between 1 and 2 years	**64,348**	102,389
Expiring between 2 and 5 years	**94,454**	91,424
	166,819	206,419

These facilities are all nominally at floating interest rates, but interest rate swaps with principal value of £120,211,000 (2008: £125,779,000) are held to convert these borrowings to fixed interest rates.

Of the unutilised borrowing facilities, £nil (2008: £17,715,000) is linked to certain properties and can only be utilised against expenditure related to these properties.

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

	2009				2008		
Group	**Debt £000**	**Generator loans and prepayments £000**	**Finance leases £000**	**Total £000**	Debt £000	Finance leases £000	Total £000
Within 1 year	**5,710**	**2,990**	**5,018**	**13,718**	1,365	5,941	7,306
Between 1 and 2 years	**11,068**	**17,043**	**3,426**	**31,537**	96,469	2,011	98,480
Between 2 and 5 years	**93,875**	**45,134**	**8,825**	**147,834**	73,402	175	73,577
More than 5 years	**—**	**2,442**	**—**	**2,442**	—	—	—
	110,653	**67,609**	**17,269**	**195,531**	171,236	8,127	179,363

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

Group	**As at December 2009 £000**	As at December 2008 £000
Within 1 year	**5,993**	6,442
Between 1 and 5 years	**13,859**	2,298
	19,852	8,740
Future finance charges on finance leases	**(2,583)**	(613)
Present value of finance lease liabilities	**17,269**	8,127

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

The Company had no external borrowings at December 2009 or December 2008.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	As at December 2009	As at December 2008	**As at December 2009**	As at December 2008
Current	**£000**	£000	**£000**	£000
Trade payables	**60,989**	47,787	**—**	—
Amounts owed to subsidiary undertakings	**—**	—	**147,513**	224,049
Other taxation and social security	**3,757**	12,958	**—**	—
Accruals and deferred income	**39,530**	43,307	**145**	259
	104,276	104,052	**147,658**	224,308

	Group		Company	
	As at December 2009	As at December 2008	**As at December 2009**	As at December 2008
Non-current	**£000**	£000	**£000**	£000
Accruals and deferred income	**76**	139	**—**	—

Included within accruals and deferred income is £1,011,000 (2008: £3,878,000) representing contributions to capital expenditure in the form of Coal Investment Aid (see note 33).

21 PROVISIONS

Group	**At January 2009 £000**	**Provided in year £000**	**Released in year £000**	**Utilised in year £000**	**Unwinding of discount £000**	**At December 2009 £000**
Employer and public liabilities	18,716	3,635	(2,105)	(4,065)	—	**16,181**
Surface damage	13,419	1,866	(419)	(2,166)	510	**13,210**
	32,135	5,501	(2,524)	(6,231)	510	**29,391**
Claims	62	2	(49)	—	—	**15**
Redundancy	1,196	10,865	(149)	(2,845)	—	**9,067**
Restoration and closure costs of						
surface mines	59,358	3,628	(4,754)	(21,208)	2,237	**39,261**
Restoration and closure costs of deep mines:						
— shaft treatment and pit top	9,748	198	—	(5)	370	**10,311**
— spoil heaps	2,841	—	(57)	—	108	**2,892**
— pumping costs	5,327	—	(96)	—	202	**5,433**
Ground/groundwater contamination	5,232	—	(94)	—	199	**5,337**
	115,899	20,194	(7,723)	(30,289)	3,626	**101,707**

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

The total of provisions created, net of provisions released, was £12,471,000 (2008: £21,315,000). This included a net charge of £10,716,000 (2008: £639,000) for non-trading exceptional items.

21 PROVISIONS continued

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

Group	As at December 2009 £000	As at December 2008 £000
Current	**38,556**	35,206
Non-current	**63,151**	80,693
	101,707	115,899

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:

Group	Within 1 year £000	1–2 years £000	2–5 years £000	More than 5 years £000	Total £000
Employer and public liabilities	7,556	2,998	5,361	266	**16,181**
Surface damage	3,035	2,705	5,671	1,799	**13,210**
	10,591	5,703	11,032	2,065	**29,391**
Claims	15	—	—	—	**15**
Redundancy	9,067	—	—	—	**9,067**
Restoration and closure costs of surface mines	15,461	5,291	12,974	5,535	**39,261**
Restoration and closure costs of deep mines:					
— shaft treatment and pit top	2,549	845	378	6,539	**10,311**
— spoil heaps	873	456	193	1,370	**2,892**
— pumping costs	—	—	—	5,433	**5,433**
Ground/groundwater contamination	—	—	—	5,337	**5,337**
	38,556	12,295	24,577	26,279	**101,707**

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

Employer and public liabilities

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

Surface damage

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

Claims

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

Redundancy

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

21 PROVISIONS continued

Restoration and closure costs of surface mines

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

Restoration and closure costs of deep mines:

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

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

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

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

22 FINANCIAL INSTRUMENTS AND DERIVATIVES

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

Derivative financial instruments

	Assets £000	Liabilities £000
At the end of the year		
Fair value — 2009	—	6,783
Fair value — 2008	—	8,493

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 2009 and December 2008.

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 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 2009, cash flow hedges were in place up to July 2012. The movement in effective hedging relationships in the year was a gain of £4,000 (2008: loss £7,354,000) and is recorded in the hedge reserve within equity (see note 27).

The movement in the fair value of contracts which are not effective for hedge accounting purposes, or which were not designated as cash flow hedges, being a gain of £1,714,000 (2008: £761,000) in the year is presented within finance costs in the consolidated income statement (see note 6).

22 FINANCIAL INSTRUMENTS AND DERIVATIVES continued

Hedging relationships continued

The application of hedge accounting in the year has resulted in an income statement credit of £1,714,000 (2008: £761,000) for ineffective hedges, a credit to reserves of £4,000 (2008: charge of £7,354,000) for effective hedge relationships and a charge to income of £3,130,000 (2008: nil), representing the amortisation of reserves for discontinued hedging relationship.

The total notional principal of outstanding interest rate swaps that the Group is committed to is £120,211,000 (2008: £125,779,000). The weighted average fixed interest rate and period to maturity of the Group's interest rate swaps was 7.73% (2008: 7.32%) and 1.4 years (2008: 2.2 years), respectively.

The Company has no interest rate swaps.

Other financial assets and liabilities

	December 2009		December 2008	
	Book value	**Fair value**	Book value	Fair value
Group	**£000**	**£000**	£000	£000
Assets				
Cash and cash equivalents	**41,359**	**41,359**	71,102	71,102
Trade and other receivables	**26,639**	**26,639**	41,518	41,518
Liabilities				
Bank borrowings	**110,653**	**110,653**	171,236	171,236
Finance lease liabilities	**17,269**	**17,269**	8,127	8,127
Generator loans and prepayments	**67,609**	**78,611**	—	—
Trade and other payables	**104,352**	**104,352**	104,191	104,191
Derivative financial instruments	**6,783**	**6,783**	8,493	8,493

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 2009 and 2008 year ends, the Group did not have any 'held to maturity' or 'available for sale' financial assets or 'held for trading' financial assets and liabilities as defined by IAS 39.

At the year end date, the Company held cash and cash equivalents of £12,869,000 (2008: £40,682,000).

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

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

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

23 FINANCIAL RISK MANAGEMENT

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

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

Interest rate risk

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

23 FINANCIAL RISK MANAGEMENT continued

If interest rates on sterling denominated borrowings during the year had been 2% higher or lower with all other variables held constant, post-tax loss for the year would have been £539,000 (2008: £638,000) lower or higher, as a result of higher or lower interest expense on floating rate borrowings which have not been economically hedged with an interest rate swap contract. An increase or decrease of 2% represents the Group's assessment of a reasonably possible change in interest rates.

The sensitivity of post-tax loss 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 2009 and 2008, the Group's borrowings at variable and fixed rates were denominated in sterling. No foreign exchange contracts were entered into in 2009 (none in 2008) 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 & 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.

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

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

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

The net debt position, excluding restricted cash, of £137,027,000 at the beginning of the year had increased during the year to £181,944,000 at the year end. The Group generated negative cash flow from operating activities after capital expenditure for the year of £124,712,000 (2008: £32,365,000).

As at December 2009, 52% of the total bank facilities of £166,819,000 was provided by banks which, following the takeover by Lloyds TSB plc of HBOS plc, are now part of the Lloyds Banking Group plc. Also, at December 2009, 10% was provided by Landsbanki, the failed Icelandic bank which is seeking to close and recover its loan book as part of the bank's closure process.

23 FINANCIAL RISK MANAGEMENT continued

Liquidity risk continued

The Group's committed borrowing facilities are subject to financial covenants based on loan to value ("LTV") calculations which are tested on a quarterly basis. These covenants restrict the Group's ability to access committed facilities within a range of 45%–75% of the value of certain properties on which the borrowings are secured. These covenants affect 98% of the facilities as at December 2009. 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.

Group	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At December 2009				
Bank borrowings	12,898	17,066	100,844	—
Finance lease liabilities	5,993	4,274	9,585	—
Generator loans and prepayments	4,432	20,853	51,155	2,442
Trade and other payables	104,276	76	—	—
Derivative financial instruments	2,992	988	(27)	—
At December 2008				
Bank borrowings	11,218	107,109	75,842	—
Finance lease liabilities	6,442	2,112	186	—
Trade and other payables	104,052	139	—	—
Derivative financial instruments	4,050	1,566	1,616	—

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 2009 and December 2008 were as follows:

	2009 £000	2008 £000
Total borrowings	**195,531**	179,363
Less: Unrestricted cash and cash equivalents (note 18)	**(13,587)**	(42,336)
Net debt	**181,944**	137,027
Total equity	**152,788**	300,432
Gearing ratio	**119.1%**	45.6%

24 RETIREMENT BENEFIT OBLIGATIONS

Defined contribution pension schemes

The Group operates defined contribution pension schemes in respect of all employees who joined after the privatisation date in 1994. Contributions to defined contribution schemes in the year amounted to £1,494,000 (2008: £1,368,000).

Defined benefit obligations

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

	Group		Company	
	As at December 2009 £000	As at December 2008 £000	**As at December 2009 £000**	As at December 2008 £000
Industry wide schemes	**184,873**	74,079	**—**	—
Blenkinsopp	**1,081**	660	**1,081**	—
Concessionary fuel	**34,879**	29,277	**—**	—
	220,833	104,016	**1,081**	—

Contributions to defined benefit schemes during the year amounted to £19,682,000 (2008: £20,116,000). At December 2009, contributions of £nil remained unpaid (2008: £nil).

Industry wide schemes

Group

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 2009	As at December 2008
Discount rate	**5.7% p.a.**	6.5% p.a.
Rate of return on investments	**6.9% p.a.**	6.4% p.a.
Rate of salary increases	**4.5% p.a.**	3.6% p.a.
Rate of price inflation	**3.5% p.a.**	2.6% p.a.
Rate of return on equities	**7.7% p.a.**	7.0% p.a.
Rate of return on debt	**5.1% p.a.**	5.2% p.a.
Rate of cash commutation	**20.0%–25.0%**	20.0%–25.0%

	Year ended December 2009	Year ended December 2008
Longevity at age 60 for current pensioners (years)		
IWMPS and IWCSSS		
— Men	**22.1–23.8**	22.0–23.7
IWCSSS		
— Women	**26.4**	26.3
Longevity at age 60 for future pensioners (years)		
IWMPS and IWCSSS		
— Men	**23.4–24.7**	23.3–24.7
IWCSSS		
— Women	**27.2**	27.2

24 RETIREMENT BENEFIT OBLIGATIONS continued

IWCSSS pensions in payment are assumed to increase in line with price inflation. For the IWMPS, the assumed pension increases depend on the period of service accrual (before April 1997: no increases, 1997 to 2005: in line with price inflation, after April 2005: 2.5%).

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

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

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Fair value of plan assets	**379,949**	316,464	372,188	348,325	301,540
Present value of funding obligations	**(564,822)**	(390,543)	(421,081)	(442,794)	(418,270)
Net liability recognised in the balance sheet	**(184,873)**	(74,079)	(48,893)	(94,469)	(116,730)

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

The amounts recognised in the consolidated income statement are:

	Year ended December 2009 £000	Year ended December 2008 £000
Current service cost	**(11,413)**	(12,341)
Interest cost	**(25,472)**	(24,534)
Expected return on plan assets	**20,694**	25,473
Effect of curtailment or settlement	**3,954**	—
	(12,237)	(11,402)

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 or settlement is included in non-trading exceptional items. A further £118,239,000 loss (2008: £33,900,000 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.

Change in assets	**Year ended December 2009 £000**	Year ended December 2008 £000
Fair value of plan assets at the start of the year	**316,464**	372,188
Expected return on plan assets	**20,694**	25,473
Actuarial gains/(losses) on assets	**31,840**	(92,915)
Employer contributions	**19,682**	20,116
Plan participants' contributions	**3,922**	3,762
Benefits paid	**(12,653)**	(12,160)
Fair value of plan assets at the end of the year	**379,949**	316,464

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

	As at December 2009 £000	As at December 2008 £000
Equity securities	**260,044**	215,889
Debt securities	**119,905**	100,575
	379,949	316,464

The actual return on plan assets was a gain of £52,534,000 (2008: loss of £67,442,000).

24 RETIREMENT BENEFIT OBLIGATIONS continued

Change in defined benefit obligations	Year ended December 2009 £000	Year ended December 2008 £000
Present value of defined benefit obligation at the start of the year	**(390,543)**	(421,081)
Current service cost	**(11,413)**	(12,341)
Interest cost	**(25,472)**	(24,534)
Plan participants' contributions	**(3,922)**	(3,762)
Curtailment gain	**3,954**	—
Actuarial (loss)/gain	**(150,079)**	59,015
Benefits paid	**12,653**	12,160
Present value of defined benefit obligation at the end of the year	**(564,822)**	(390,543)

Analysis of the movement of the balance sheet liability	Year ended December 2009 £000	Year ended December 2008 £000
At the start of the year	**(74,079)**	(48,893)
Total amounts recognised in the income statement	**(12,237)**	(11,402)
Contributions	**19,682**	20,116
Net actuarial loss recognised in the year	**(118,239)**	(33,900)
At the end of the year	**(184,873)**	(74,079)

Cumulative actuarial gains and losses recognised in equity	Year ended December 2009 £000	Year ended December 2008 £000
At the start of the year	**(10,000)**	23,900
Net actuarial loss in the year	**(118,239)**	(33,900)
At the end of the year	**(128,239)**	(10,000)

Experience gains and losses	Year ended December 2009 £000	Year ended December 2008 £000
Actual return less expected return on schemes' assets	**31,840**	(92,915)
Experience losses arising on schemes' liabilities	**(7,412)**	(2,914)
Changes in assumptions underlying present value of liabilities	**(142,667)**	61,929
Net actuarial loss	**(118,239)**	(33,900)

History of experience losses	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Actual return less expected return on schemes' assets	**31,840**	(92,915)	(237)	9,634	36,975
Percentage of year end scheme assets	**8%**	(29)%	0%	3%	12%
Experience losses arising on schemes' liabilities	**(7,412)**	(2,914)	(1,495)	(3,721)	(5,242)
Percentage of the present value of schemes' liabilities	**1%**	1%	0%	1%	1%

Contributions are determined by a qualified actuary on the basis of triennial valuations, using the projected credit unit method. The most recent valuations for the purpose of determining contributions were at 31 December 2006, which were agreed in December 2008.

The contribution expected to be paid to the schemes during the year ending December 2010 is around £22,000,000 including current service costs.

24 RETIREMENT BENEFIT OBLIGATIONS continued

Blenkinsopp

Group and Company

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 at the end of 2009 to the Company. The liability as at December 2009 is £1,081,000 (2008: £660,000), employer's contributions for the year were £70,000 (2008: £nil), the amount recognised in the income statement is £89,000 (2008: £87,000) (current service costs £38,000 (2008: current service cost £38,000) and interest cost less expected return on plan assets £51,000 (2008: £49,000)) and the loss recognised in the statement of comprehensive income is £402,000 (2008: gain £262,000). Cumulative actuarial gains recognised in equity for this Blenkinsopp section were £324,000 (2008: £726,000).

Concessionary fuel

Group

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 2009. The major assumptions used by the actuary were:

	Year ended December 2009	Year ended December 2008
Discount rate	**5.7% p.a.**	6.5% p.a.
Inflation assumption	**3.5% p.a.**	2.6% p.a.

The amounts recognised in the balance sheet are as follows:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Net liability recognised in the balance sheet	**(34,879)**	(29,277)	(23,443)	(24,727)	(24,309)

The amounts recognised in the consolidated income statement are:

	Year ended December 2009 £000	Year ended December 2008 £000
Current service cost	**(441)**	(309)
Interest cost	**(1,890)**	(1,347)
	(2,331)	(1,656)

Current service cost is charged to cost of sales and interest cost is included in administration expenses. A further loss of £4,110,000 (2008: £4,911,000 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 2009 £000**	Year ended December 2008 £000
Concessionary fuel reserve at the start of the year	**(29,277)**	(23,443)
Current service cost	**(441)**	(309)
Benefits paid to former employees during the year	**839**	733
Interest cost	**(1,890)**	(1,347)
Actuarial loss	**(4,110)**	(4,911)
Concessionary fuel reserve at the end of the year	**(34,879)**	(29,277)

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

24 RETIREMENT BENEFIT OBLIGATIONS continued

Cumulative actuarial gains and losses recognised in equity	**Year ended December 2009 £000**	Year ended December 2008 £000
At the start of the year	**(6,174)**	(1,263)
Net actuarial loss in the year	**(4,110)**	(4,911)
At the end of the year	**(10,284)**	(6,174)

Experience gains and losses	**Year ended December 2009 £000**	Year ended December 2008 £000
Experience gain/(loss) on concessionary fuel reserve	**3,559**	(8,510)
Changes in assumptions underlying present value of liabilities	**(7,669)**	3,599
Total amount in statement of comprehensive income	**(4,110)**	(4,911)

History of experience gains and losses	**2009 £000**	2008 £000	2007 £000	2006 £000	2005 £000
Experience gain/(loss) on concessionary fuel reserve	**3,559**	(8,510)	444	1,258	—
Percentage of concessionary fuel reserve	**10%**	(29)%	2%	5%	0%

25 CALLED UP SHARE CAPITAL

Group and Company	**2009 Number of shares**	**2009 £000**	2008 Number of shares	2008 £000
Authorised share capital				
At the start and end of the year				
Ordinary shares of 1 pence each	**Unlimited**	**Unlimited**	250,000,000	2,500
Issued and fully paid				
Ordinary shares of 1 pence each				
At the start of the year	**157,252,747**	**1,572**	157,128,220	1,571
Issued during the year	**142,045,413**	**1,421**	124,527	1
At the end of the year	**299,298,160**	**2,993**	157,252,747	1,572

No shares vested during 2009 under the Long Term Incentive Plan ("LTIP"). 124,527 ordinary shares were issued at par on 31 October 2008 to fulfil awards crystallised under the LTIP.

Firm placing, placing and open offer

On 16 September, the Group announced that it proposed to raise up to approximately £106,000,000 (£100,000,000 net of expenses) by way of a firm placing, placing and open offer made to institutional and other professional investors and to qualifying shareholders of 142,045,413 shares at the issue price of 75 pence per share. The principal reason for making the open offer was to provide qualifying shareholders an opportunity to invest in the Group at the same price at which the placing shares were issued and to mitigate the dilutive effects of the placing. The minimum *pro rata* entitlement of qualifying shareholders under the open offer was calculated on the basis of 11 open offer shares for every 20 Ordinary Shares held.

The firm placing, placing and open offer all duly completed on 9 October 2009, raising £106,534,000 (£99,704,000 net of expenses).

Ordinarily, the excess of the net proceeds over the nominal value of the share capital would be credited to an undistributable share premium account. However, the firm placing, placing and open offer were effected through a structure which resulted in the excess of the proceeds over the nominal value of the share capital issued being recognised within retained earnings under Section 25 of the Companies Act 2006.

25 CALLED UP SHARE CAPITAL continued

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 (2008: 124,527) 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 2009 are as follows:

Group and Company	**2009 Number**	2008 Number
Exercisable from 2010	**—**	279,126
Exercisable from 2011	**414,936**	359,570
Exercisable from 2012	**1,023,288**	—

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

Group and Company	**2009**	2008	2007	2007
Grant date	**5 May**	22 April	18 September	2 March
Share price at grant date	**£1.38**	£4.53	£5.03	£4.95
Exercise price	**£nil**	£nil	£nil	£nil
Number of employees	**18**	18	10	17
Shares under option	**886,740**	366,160	144,406	241,411
Vesting period (years)	**3**	3	3	3
Expected volatility	**46.7%**	34.3%	33.5%	33.5%
Option life (years)	**3**	3	3	3
Expected life (years)	**2.66**	2.69	2.23	2.84
Risk free rate	**1.92%**	4.36%	4.97%	5.05%
Possibility of ceasing employment before vesting	**5% p.a.**	5% p.a.	5% p.a.	5% p.a.
Fair value per option	**£0.82**	£1.97	£2.83	£2.91

The expected volatility is based on historical volatility over the last nine years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to December 2009 is shown below:

Group and Company	**Year ended December 2009 Number**	Year ended December 2008 Number
Outstanding at the start of the year	**638,696**	793,831
Granted	**886,740**	366,160
Exercised	**—**	(124,527)
Adjustment for share issue uplift	**234,890**	—
Expired	**(322,102)**	(396,768)
Outstanding at the end of the year	**1,438,224**	638,696

As a result of new shares being issued by the Company in October 2009 (55,556,403 shares were issued by firm placing and 86,486,010 issued by placing and open offer at 75 pence each) all existing awards have been adjusted to take account of the placing and open offer element of the capital raising at the time they vest. The adjustment is calculated by multiplying the original number of shares under each award by 1.154 which was determined in accordance with the theoretical ex-entitlement price ('TEEP') formula.

The total charge for the year relating to employee share-based payment plans was £676,000 (2008: £540,000) all of which related to equity settled share-based payment transactions.

26 RETAINED EARNINGS

Group	Notes	2009 £000	2008 £000
At January		**(33,420)**	4,797
Loss for the financial year		**(127,547)**	(15,743)
Actuarial losses on post retirement benefits	24	**(122,751)**	(38,549)
Movement on deferred tax asset in relation to retirement benefit liabilities		**—**	(2,257)
Fair value loss/(gain) on revaluation of investment properties	13	**25,704**	(23)
Transfer of realised gain on disposed properties	27	**6,592**	17,815
New shares issued		**98,283**	—
Accrual for long term incentive plan liabilities	25	**676**	540
At December		**(152,463)**	(33,420)

Company	Notes	2009 £000	2008 £000
At January		**239,562**	407,462
New shares issued		**98,283**	—
(Loss)/profit in the year		**(6,240)**	4,474
Provision for impairment of investment in subsidiaries	9	**—**	(172,914)
Accrual for long term incentive plan liabilities	25	**676**	540
At December		**332,281**	239,562

27 OTHER RESERVES

Group	Notes	Hedging reserve £000	Revaluation reserve £000	Capital redemption reserve £000	Fair value reserve £000	Total £000
At January 2008		**—**	**143,014**	**257**	**177,851**	**321,122**
Revaluation on recognition of investment properties	13	—	3,170	—	—	3,170
Transfer of realised gain on disposed properties		—	(15,845)	—	(1,970)	(17,815)
Fair value gain on revaluation of investment properties	13	—	—	—	23	23
Cash flow hedges		(7,354)	—	—	—	(7,354)
Movement in deferred tax asset on cash flow hedges	8	2,378	—	—	—	2,378
At January 2009		**(4,976)**	**130,339**	**257**	**175,904**	**301,524**
Revaluation on recognition of investment properties	13	—	52	—	—	52
Transfer of realised gain on disposed properties		—	(2,894)	—	(3,698)	(6,592)
Fair value loss on revaluation of investment properties	13	—	—	—	(25,704)	(25,704)
Hedging reserve — amortised in period		3,130	—	—	—	3,130
Cash flow hedges		4	—	—	—	4
Movement in deferred tax asset on cash flow hedges	8	(911)	—	—	—	(911)
At December 2009		**(2,753)**	**127,497**	**257**	**146,502**	**271,503**

Company	Capital redemption reserve £000	Total £000
At January 2008 and 2009 and December 2008 and 2009	**257**	**257**

None of the other reserves balances at either the 2009 or 2008 year ends represented realised reserves.

Notes to the Financial Statements continued

28 CAPITAL AND OTHER FINANCIAL COMMITMENTS

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

Group	**As at December 2009 £000**	As at December 2008 £000
Property, plant and equipment	**26,274**	38,613
Investment property	**1,118**	865
	27,392	39,478

29 OPERATING LEASE COMMITMENTS

The minimum lease payments due to the Group under non-cancellable operating leases, all of which relate to property rentals, are as follows:

Group	**As at December 2009 £000**	As at December 2008 £000
Lease expiring:		
Within 1 year	**4,632**	4,354
Later than 1 year and less than 5 years	**8,061**	5,890
After 5 years	**21,695**	20,007
	34,388	30,251

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

Group	**As at December 2009 £000**	As at December 2008 £000
Lease expiring:		
Within 1 year	**227**	220
Later than 1 year and less than 5 years	**355**	347
After 5 years	**412**	261
	994	828

The Company had no interest in any operating leases (2008: £nil).

30 SALE OF BUSINESS

The Group disposed of its 50% holding in Coal4Energy Limited, the joint venture with Hargreaves Services PLC, at the end of January 2009. Before the disposal, the joint venture earned profits of £388,000 (2008: £1,562,000). The disposal resulted in net proceeds after the costs of sale of £8,726,000 and realised a profit on sale of £6,534,000.

31 CONTINGENT LIABILITIES

Guarantees have been given in the normal course of business for performance bonds of £4,265,000 (2008: £1,235,000) to cover the performance of work under a number of Group contracts.

The Company is liable for the pension schemes contributions and deficit on the industry wide schemes. Furthermore, the Company has provided a guarantee for an insurance bond for £10,000,000 which is used as security to cover surface damage liabilities.

There are no other material contingent liabilities at December 2009 for which provision has not been made in these financial statements.

32 RELATED PARTY TRANSACTIONS

During the year, the Group made various payments to industry wide defined benefit pension schemes. Details of these transactions are set out in note 24 to the financial statements.

Key management compensation is disclosed in note 5.

Transactions with joint ventures

The following transactions were carried out with the joint ventures, in the case of Bates Regeneration Limited for November and December 2009 only and in the case of Coal4Energy Limited for January 2009 only:

Group	**Year ended December 2009 £000**	Year ended December 2008 £000
UK Strategic Partnership Limited		
Sale of land to related party	**—**	1,292
Purchases of goods and services from related party	**—**	143
Bates Regeneration Limited		
Sale of land to related party	**750**	—
Coal4Energy Limited		
Sales of goods and services to related party:		
— Coal	**5,600**	24,436
— Services	**84**	580
	5,684	25,016
Purchases of goods and services from related party:		
— Coal	**—**	5
— Finance costs	**—**	3
	—	8

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

Profit of £nil (2008: £62,000) has been recognised in the period on the sale of land to UK Strategic Partnership Limited.

Loss of £1,231,000 (2008: £nil) has been recognised in the period on the sale of land to Bates Regeneration Limited.

Balances owing from/(to) joint ventures

Coal4Energy Limited

The balance arising from sales of goods and services at December 2009 was £nil (December 2008: £61,000) owed from the joint venture, and the balance arising from purchase of goods and services at December 2009 was £nil (December 2008: £nil).

UK Strategic Partnership Limited

The balance arising from sales at December 2009 was £nil (December 2008: £409,000).

32 RELATED PARTY TRANSACTIONS continued

Balances owed to/owed by subsidiaries

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 incure interest at LIBOR +2%, except UK Coal Mining Limited at LIBOR +3.5%. Details of the Company's cash and indebtedness are set out in notes 17 and 20 and amounts due from or owed to subsidiary undertakings are set out below:

Owed to:	As at December 2009 £000	As at December 2008 £000
UK Coal Mining Limited	80,269	187,321
Harworth Power Limited	8,430	6,728
Centechnology (UK) Limited	2,444	1,168
Harworth Park Services Limited	8	8
UK Coal Holdings Limited	35	28
Harworth Group Limited	6,376	12,799
Harworth Guarantee Co. Limited	45	36
Potland Burn Limited	25,960	—
Dormant and non-trading companies	23,946	15,961
	147,513	224,049

Owed by:	As at December 2009 £000	As at December 2008 £000
Mining Services Limited	4,031	4,184
LHTC Limited	2,979	2,438
Harworth Mining Limited	6,292	4,060
EOS Inc. Ltd	9,435	6,650
Harworth Estates (Agricultural Land) Limited	22,734	17,992
Harworth Estates (Waverley Prince) Limited	73,525	53,750
Harworth Insurance Limited	478	312
Dormant and non-trading companies	81,077	65,128
	200,551	154,514

Peel Holdings Limited

In connection with the firm placing, placing and open offer announced on 16 September 2009, the Company agreed to pay to Goodweather Holdings Limited ("Goodweather"), the Group's major shareholder, a subsidiary of Peel Holdings Limited, a commission equal to 4.5% of the aggregate value at the issue price of the number of shares acquired in the open offer by Goodweather, equivalent to approximately £825,000. The payment of his commission was a related party transaction pursuant to the Listing Rules and the appropriate confirmations set out in Listing Rule 11.1.10 were provided to the FSA.

33 GOVERNMENT GRANTS

The Group has received support from the Government, in the form of, Coal Investment Aid, in order to provide assistance towards investment in the industry. Details of how this aid is treated is set out in note 1 to the financial statements. Amounts credited to the income statement are as follows:

Group	Year ended December 2009 £000	Year ended December 2008 £000
Release of deferred income	2,867	3,106

34 POST-BALANCE SHEET EVENTS

As outlined in the operating and financial review, the Group has restructured its banking arrangements since the year end. The principal changes are:

- to increase the amounts available under the £52 million revolving credit facility ("RCF") by an additional line of up to £20 million, reducing over the winter period;
- to extend the maturity of the RCF to the end of July 2011, in line with the maturity date of the additional line;
- to modify the financial profile of the Harworth Estates (Waverley Prince) Limited team loan facility, including providing the Group with the ability to roll up interest into the loan in the period to June 2011. Repayment of this facility will be £12 million in July 2011, together with rolled up interest, thereafter amortising at a rate of £2.5 million per quarter until final repayment in July 2013; and
- to increase the effective interest rates on the Harworth Estates (Waverley Prince) Limited, Harworth Estates (Agricultural Land) Limited and RCF facilities.

Over and above these extended bank facilities, we have agreed a further £10 million of unsecured stand-by facility from Peel Holdings, which is available for drawing in the event that the RCF is fully drawn. This facility also expires at the end of July 2011.

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Annual Report 2009

Mining

Harworth Estates