

Company Registration No. 02997376 (England and Wales)

CELTIC ENERGY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

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CELTIC ENERGY LIMITED

COMPANY INFORMATION

Directors	Mr R E Morris	
	Mr R Thompson	
	Mr R Walters	(Appointed 15 May 2015)
	Mr W Watson	
	DHM Consultancy Limited	
Company number	02997376	
Registered office	9 Beddau Way	
	Castlegate Business Park	
	Caerphilly	
	United Kingdom	
	CF83 2AX	
Auditor	UHY Hacker Young	
	Lanyon House	
	Mission Court	
	Newport	
	South Wales	
	United Kingdom	
	NP20 2DW	

CELTIC ENERGY LIMITED

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CELTIC ENERGY LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2016

The directors present the strategic report for the year ended 31 March 2016.

Fair review of the business

During the year Celtic Energy Limited ("the company") continued to operate three surface mines and a processing plant in South Wales, however due to tough global conditions in the coal industry, during the year in October 2015 the Board decided to mothball the Selar site and shortly after the year end the Board concluded that it had no option other than to mothball the site at Nant Helen as well.

The results for the company show a pre-tax loss of £7.4m (2015: £4.1m) for the year and turnover of £52.7m (2015: £66.4m).

Turnover reduced by approximately 21% as a result of lower domestic sales and falling world prices.

Gross Profit ("GP") is the company's key indicator of operating effectiveness. Overall GP% has decreased to 2.0% from 3.8% in 2015. GP includes the benefit of an exceptional credit of £14.4m (2015: charge of £1.3m) in relation to movement in operating provisions and the cost of an exceptional charge of £4.0m (2015: £nil) in relation to impairment of surface mine assets following the mothballing. Excluding these items the company would have made a gross loss of £9.3m, -17.6%, due to cost increases and market conditions.

The directors also monitor performance by reference to non-financial key performance indicators as follows:

	2016	2015
Number of accidents	23	22
Dangerous occurrences	1	2
Number of complaints	32	37
Complaints excluding blasting	15	13

Site Development

In June 2015 Neath & Port Talbot County Council issued a new planning consent for the East Pit site covering:

- a new restoration strategy for the site;
- an extension to the area to be mined; and
- outline consent for post restoration development at the site.

Operations at East Pit have continued under the new planning consent and restoration provisions have been reviewed accordingly.

Following a decision by RWE to dramatically curtail electricity generation at Aberthaw power station from April 2017, a further review of our medium term business plan was undertaken following the year end. Following that review a decision was taken to permanently closer the Selar mine and seek approval for a revised restoration scheme. A decision was also taken to mothball the Nant Helen site until coal extraction was completed at East Pit.

General

Although global coal prices have risen significantly since the year end, the outlook for global production and prices is seen as volatile. A number of political events have increased the uncertainty in this regard.

CELTIC ENERGY LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

Principal risk and uncertainties

Celtic Energy's business faces a number of risks and uncertainties, some of which are inherent in the nature of its operations. Company management looks at each of the risks faced and chooses what it believes to be appropriate methods or strategies to manage those risks to the extent that it is able to do so. The Board periodically reviews its chosen strategies to ensure it continues to meet the challenges faced.

The key risks within the business may be summarised as follows:

Planning risk

The business is dependent on its ability to operate coal reserves with appropriate planning permissions and extraction licences. We work in close co-operation with the relevant regulatory authorities both to operate the existing sites and also to seek valid permissions for further economic coal reserves;

Market risk

The company operates within a highly competitive environment where prices are largely driven by world commodity markets. The company operates its business to achieve a degree of stability in its prices over the short to medium term, whilst managing our productive capacity to reflect our view of the longer term trend in market size;

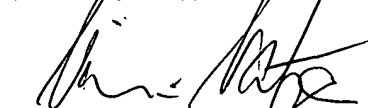
Geological/mining risk

Our site operations involve the extraction of a mineral from its natural environment and are susceptible to the inherent variability in the volume, quality and accessibility of that mineral. Our mines are planned and managed using detailed geological and engineering models and information to limit our exposure to those inherent variabilities, and their resulting impact on sales volumes and our cost base; and

Operational risk

Our business involves the use of heavy equipment undertaking what are potentially environmentally sensitive activities. As such, our operations are planned and organised to address the health & safety issues involved in our day-to-day working practices and both the immediate and long term potential environmental impacts. Our operations are conducted with regular monitoring and dialogue with the relevant regulatory authorities, ensuring that our business is undertaken both responsibly and sustainably, within appropriate constraints.

On behalf of the board



Mr W. Watson

Director

6 December 2016

CELTIC ENERGY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2016

The directors present their annual report and financial statements for the year ended 31 March 2016.

Principal activities

The principal activity of the company continued to be that of surface mine operators.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr R E Morris

Mr R Thompson

Mr R Walters

(Appointed 15 May 2015)

Mr W Watson

DHM Consultancy Limited

Results and dividends

The results for the year are set out on page 8.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The Board recognises the contribution to the company's achievements of the support it receives from its customers, suppliers and particularly its employees, which must always be viewed against the backdrop of the tough environment in which the company operates.

The company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, on matters likely to affect their interests.

The company gives full consideration to suitable applications for the employment of disabled persons. Opportunities also exist for employees of the company who become disabled to continue their employment or to be trained for other positions within the company.

On behalf of the Board I wish to express my gratitude to all employees for their hard work and support during the past year.

Post reporting date events

In June 2016 the company announced that it intended to mothball Nant Helen as well as Selar which had been announced in October 2015 due to deteriorating market conditions; this decision merely confirmed conditions that already existed at the balance sheet date, therefore the impact of the decision has been treated as an adjusting post balance sheet event.

Auditor

UHY Hacker Young have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

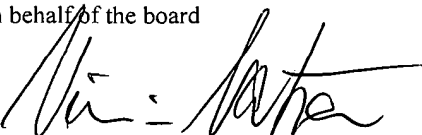
CELTIC ENERGY LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



Mr W Watson

Director

6 December 2016

CELTIC ENERGY LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

The directors are responsible for preparing the annual 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and of the profit or loss of the company 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;
- 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CELTIC ENERGY LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CELTIC ENERGY LIMITED

We have audited the financial statements of Celtic Energy Limited for the year ended 31 March 2016 set out on pages 8 to 40. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

CELTIC ENERGY LIMITED

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF CELTIC ENERGY LIMITED**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



**Mr John Griffiths (Senior Statutory Auditor)
for and on behalf of UHY Hacker Young**

6 December 2016

**Chartered Accountants
Statutory Auditor**

Lanyon House
Mission Court
Newport
South Wales
United Kingdom
NP20 2DW

CELTIC ENERGY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Turnover	3		52,682		66,419
Cost of sales:					
Exceptional movement in operating provisions	4	14,402		(1,254)	
Exceptional impairment of surface mine assets	4	(4,029)		-	
Movement in deferred overburden		2,564		(1,673)	
Gas oil derivative expenses		(3,834)		(1,062)	
Other cost of sales		(60,707)		(59,905)	
Total cost of sales			(51,604)		(63,894)
Gross profit			1,078		2,525
Administrative expenses (including exceptional costs of £1.4m)	4		(6,082)		(3,815)
Other operating income			-		1
Profit/(loss) on disposal of tangible fixed assets			363		(125)
Operating loss	5		(4,641)		(1,414)
Interest receivable and similar income	9		788		1,272
Interest payable and similar charges	10		(3,581)		(3,960)
Loss before taxation			(7,434)		(4,102)
Taxation	11		304		1,079
Loss for the financial year			(7,130)		(3,023)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

CELTIC ENERGY LIMITED**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016**

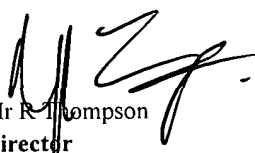
	2016 £'000	2015 £'000
Loss for the year	(7,130) <u> </u>	(3,023) <u> </u>
Other comprehensive income		
Revaluation of tangible fixed assets	1,060	-
Actuarial gain/(loss) on defined benefit pension schemes	1,396	(1,278)
Tax relating to other comprehensive income	(345) <u> </u>	54 <u> </u>
Other comprehensive income for the year	2,111 <u> </u>	(1,224) <u> </u>
Total comprehensive income for the year	(5,019) <u> </u>	(4,247) <u> </u>


CELTIC ENERGY LIMITED

**BALANCE SHEET
AS AT 31 MARCH 2016**

	Notes	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	13	19,390	22,648
Investment properties	14	5,353	4,217
		<u>24,743</u>	<u>26,865</u>
Current assets			
Stocks	15	8,027	14,854
Debtors	17	120,571	119,967
Investments	16	7,972	5,426
Cash at bank and in hand		24,630	38,750
		<u>161,200</u>	<u>178,997</u>
Creditors: amounts falling due within one year	18	(14,036)	(12,713)
Net current assets		<u>147,164</u>	<u>166,284</u>
Total assets less current liabilities		<u>171,907</u>	<u>193,149</u>
Creditors: amounts falling due after more than one year	19	(624)	(1,252)
Provisions for liabilities	21	(145,290)	(159,611)
Net assets excluding pension liability		<u>25,993</u>	<u>32,286</u>
Defined benefit pension liability	23	-	(1,274)
Net assets		<u><u>25,993</u></u>	<u><u>31,012</u></u>
Capital and reserves			
Revaluation reserve		1,060	-
Other reserves		10,000	10,000
Profit and loss reserves		14,933	21,012
Total equity		<u><u>25,993</u></u>	<u><u>31,012</u></u>

The financial statements were approved by the board of directors and authorised for issue on 6 December 2016 and are signed on its behalf by:


Mr R Thompson
Director


Mr W Watson
Director

Company Registration No. 02997376

CELTIC ENERGY LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016**

	Notes	Revaluation reserve £'000	Other reserves £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 April 2014		-	10,000	25,259	35,259
Year ended 31 March 2015:					
Loss for the year		-	-	(3,023)	(3,023)
Other comprehensive income:					
Actuarial gains on defined benefit plans		-	-	(1,278)	(1,278)
Tax relating to other comprehensive income		-	-	54	54
Total comprehensive income for the year		-	-	(4,247)	(4,247)
Balance at 31 March 2015		-	10,000	21,012	31,012
Year ended 31 March 2016:					
Loss for the year		-	-	(7,130)	(7,130)
Other comprehensive income:					
Revaluation of tangible fixed assets		1,060	-	-	1,060
Actuarial gains on defined benefit plans		-	-	1,396	1,396
Tax relating to other comprehensive income		-	-	(345)	(345)
Total comprehensive income for the year		1,060	-	(6,079)	(5,019)
Balance at 31 March 2016		1,060	10,000	14,933	25,993

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies

Company information

Celtic Energy Limited is a company limited by shares incorporated in England and Wales. The registered office is 9 Beddau Way, Castlegate Business Park, Caerphilly, United Kingdom, CF83 2AX.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

These financial statements for the year ended 31 March 2016 are the first financial statements of Celtic Energy Limited prepared in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 April 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 28.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Celtic Mining Group Limited. These consolidated financial statements are available from its registered office, 9 Beddau Way, Castlegate Business Park, Caerphilly, CF83 2AX.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies

(Continued)

1.3 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from contracts for the provision of professional services is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1.4 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is not provided on freehold land. On other assets depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Freehold land and buildings	2% per annum on buildings, land not depreciated
Plant and machinery fixed*	10% per annum
Computer equipment	33% per annum
Plant and machinery - mobile*	12.5% to 20% per annum
Surface works	10% per annum
Surface mine preparation, restoration, rehabilitation and pre-coaling costs	unit of production basis
Motor vehicles	33% per annum

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

* Mobile plant and machinery is depreciated on a straight line basis as disclosed above. However, depreciation of plant is absorbed into capitalised stripping costs based on the total forecast site depreciation and the current stage of the site's completion (percentage of coal mined basis). The corresponding credit offsets the original depreciation charge in cost of sales.

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

1 Accounting policies

(Continued)

1.5 Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured using the fair value model and stated at its fair value as the reporting end date. The surplus or deficit on revaluation is recognised in the profit and loss account.

Where fair value cannot be achieved without undue cost or effort, investment property is accounted for as tangible fixed assets.

Depreciation is not provided in respect of investment properties.

1.6 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Cost includes production and preparation costs appropriate to the relevant stage of production.

Stocks held for distribution at no or nominal consideration are measured at cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.8 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

1 Accounting policies

(Continued)

1.9 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

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

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.10 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.11 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

1.12 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

1 Accounting policies

(Continued)

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.13 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

1.14 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.15 Retirement benefits

The company operates both a defined benefit scheme and defined contribution schemes.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

In respect of the defined benefit scheme, contributions are paid to the scheme in accordance with the recommendations of independent actuaries to enable the trustees to meet from the scheme the benefits accruing in respect of current and future service.

The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method, and is based on actuarial advice.

The change in the net defined benefit liability arising from employee service during the year is recognised as an employee cost. The cost of plan introductions, benefit changes, settlements and curtailments are recognised as an expense in measuring profit or loss in the period in which they arise.

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies

(Continued)

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Remeasurement changes comprise actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability excluding amounts included in net interest. These are recognised immediately in other comprehensive income in the period in which they occur and are not reclassified to profit and loss in subsequent periods.

The defined net benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in other finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The pension scheme surplus, to the extent that it is considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

The costs of providing other post retirement benefits are charged to the profit and loss account over the service lives of the relevant employees.

1.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

1 Accounting policies

(Continued)

1.17 Mining costs

Exploration costs

Exploration costs to prove reserves at both existing and prospective sites are charged to revenue as incurred.

Pre-coaling expenditure

Expenditure, other than recoverable land acquisition costs, incurred at each site prior to the extraction of coal is capitalised in tangible fixed assets as surface mines and charged to the profit and loss account over the coaling life of the site on a unit of production basis.

Capitalised stripping costs

Where the actual stripping ratio for a site (the ratio of muck to saleable coal) is higher than the expected average stripping ratio, the excess removal cost is capitalised and included in site costs when the company is able to accurately estimate the expected average stripping ratio for a site. The amount capitalised is released to the profit and loss account when the actual stripping ratio falls below the expected average stripping ratio.

No liability is recognised for deferred stripping cost.

Restoration and rehabilitation

The total costs of reinstatement of soil excavation and of surface restoration are recognised as a provision on site commissioning when the obligation arises. The amount provided represents the present value of the expected future costs. Costs are charged to the provision as incurred and the unwinding of the discount is included in the interest charge for the year. An asset is created for an amount equivalent to the initial provision and is included in fixed assets under opencast sites. This is amortised to the profit and loss account on a unit of production basis over the life of the site.

1.18 Repair and maintenance costs

Repair and maintenance costs under long-term sub-contract arrangements reflect the average committed cost of repair and maintenance obligations incurred up to the balance sheet date. Expenditure on repairs and maintenance is recognised in the profit and loss account when a commitment to incur expenditure arises, through the operation of a contract or purchase arrangement.

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2016

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Operating provisions

The restoration and rehabilitation provision is made based on management's best estimate of the net present value of the cashflows associated with fulfilling these obligations. These estimates include significant estimation of factors such as the ratio of muck to coal in future coaling areas and changes in future operating factors and costs. The restoration works are expected to be carried out over a period spanning more than 5 years after the balance sheet date.

Management's best estimate of the present value of the company's obligations at 31 March 2016 as set out in note 21 is approximately £144.1 million (2015: £158.2 million), however changes in factors that contribute to these estimates have a significant impact on the estimated liability, therefore the actual liability could vary significantly. Unwinding of discount decreased the provision by £3.1 million in the current year (2015: £3.8 million increase); other changes resulted in a decrease of £16.9 million (2015: £0.6 million increase) (this consists of decreased provision for East Pit of £44.4 million (2015: £3.9 million) and increases of £13.1 million (2015: £3.1 million) for Nant Helen, £5.0 million (2015: £0.7 million) for Selar and £nil (2015: £0.7 million) for Margam). £3.6 million (2015: £0.7 million) of the increases and £6.1 million (2015: £1.4 million) of the decrease has been reflected in the carrying value of fixed assets in accordance with section 21 of FRS 102, the remainder, £14.4 million increase (2015: £1.3 million reduction) has been charged to the profit and loss account. This is regarded as an exceptional item, refer to note 4.

Surface mines

Restoration and rehabilitation assets are created for an amount equivalent to the initial provision and are included in fixed assets under surface mine assets. The assets are amortised on a unit of production basis. The carrying value of surface mine assets is susceptible to the same uncertainties as the estimation of operating provisions. At 31 March 2016 the carrying value of restoration and rehabilitation assets was approximately £0.6 million (2015: £8.1 million), however depending on the actual liability the carrying value of restoration and rehabilitation assets could vary significantly. Provision adjustments have resulted in a decrease in assets by approximately £2.5 million in the current year (2015: £0.7 million).

Surface mine assets also include capitalised stripping costs. The estimates of stripping cost assets include significant estimation of factors such as the ratio of muck to coal in future coaling areas. Changes in these estimates can have a significant impact on the estimation of stripping cost carried forward. At 31 March 2016 the carrying value of capitalised stripping costs was approximately £5.2 million (2015: £2.6 million). A further £4.0 million has been written off restoration assets due to the mothballing of Selar and Nant Helen. This is regarded as an exceptional item, refer to note 4.

Defined benefit pension scheme

The company operates a defined benefit pension scheme. The present value of the defined benefit obligation depends on a number of factors as set out in note 23 including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors, with guidance from the company's actuary, in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends; however the choice of assumptions can have a significant impact on the balance recorded.

CELTIC ENERGY LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016****3 Turnover and other revenue**

An analysis of the company's turnover is as follows:

	2016	2015
	£'000	£'000
Turnover		
Sale of goods	52,682	66,419

Other significant revenue

Interest income	788	1,272
-----------------	-----	-------

Turnover analysed by geographical market

	2016	2015
	£'000	£'000
United Kingdom	46,831	59,997
Rest of Europe	5,851	6,422
	52,682	66,419

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

4 Exceptional costs/(income)

	2016	2015
	£'000	£'000
Exceptional costs included in cost of sales		
Movement in operating provisions	(14,402)	1,254
Impairment of surface mine assets	4,031	-
	<u>(10,371)</u>	<u>1,254</u>
Exceptional costs included in administrative expenses		
Redundancy costs	918	-
Impairment of investment properties	524	-
	<u>1,442</u>	<u>-</u>
Total	<u><u>(8,929)</u></u>	<u><u>1,254</u></u>

Operating provisions

During the year ended 31 March 2016 management reviewed the operating provisions held for the restoration and rehabilitation of surface mine sites, and in particular, the timing and carrying value of future cash flows, in the light of revised planning consent for East Pit and revised operating factors and recent cost experience. As a result, provisions were decreased by £16.9 million of which £14.4 million was recorded in the profit and loss account and £2.5 million was capitalised.

The net decrease in operating provisions consisted of a £44.4 million decrease in relation to East Pit and a £28.3 million increase in relation to other sites. The £14.4 million recognised in the profit and loss account is regarded as being exceptional.

Surface mine asset impairment

As a result of the decisions to mothball the sites at Nant Helen and Selar the remaining surface mine assets relating to those sites have been written off.

Other exceptional costs

Due to the mothballing of Selar and Nant Helen the company incurred redundancy costs of £918,000.

The company's investment properties were fair valued during the year in accordance with the requirement of Section 16 of FRS 102. Overall the value of investment properties increased by £536,000, this included increases in value of £1,060,000 which have been recognised in other comprehensive income and credited to the revaluation reserve and a charge of £524,000 relating to properties valued below original cost which has been charged to the profit and loss account as an exceptional cost.

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

5 Operating loss

	2016	2015
	£'000	£'000
Operating loss for the year is stated after charging/(crediting):		
Fees payable to the company's auditor for the audit of the company's financial statements	42	47
Depreciation of owned tangible fixed assets	1,954	2,889
Depreciation of tangible fixed assets held under finance leases	1,462	1,726
Impairment of owned tangible fixed assets	4,031	-
Cost of stocks recognised as an expense	44,507	45,651
Operating lease rentals - plant and machinery	13,545	14,166
Operating lease rentals - other	2	2
Rents receivable from property	(350)	(283)
Exceptional items (see note 4)	(8,929)	1,254
	<u> </u>	<u> </u>

6 Auditor's remuneration

	2016	2015
	£'000	£'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the company's financial statements	42	47
	<u> </u>	<u> </u>
For other services		
All other non-audit services	4	2
	<u> </u>	<u> </u>

7 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2016	2015
	Number	Number
Mining operations	305	305
Technical support	3	3
Selling	3	3
Management and distribution	12	13
	<u> </u>	<u> </u>
	323	324
	<u> </u>	<u> </u>

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

7	Employees	(Continued)	
Their aggregate remuneration comprised:			
		2016	2015
		£'000	£'000
Wages and salaries		11,999	11,677
Social security costs		1,174	1,154
Pension costs		627	487
		<u>13,800</u>	<u>13,318</u>
8	Directors' remuneration	2016	2015
		£'000	£'000
Remuneration for qualifying services		1,638	1,113
Company pension contributions to defined contribution schemes		180	40
		<u>1,818</u>	<u>1,153</u>
The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 3 (2015 - 2).			
Remuneration disclosed above include the following amounts paid to the highest paid director:			
Remuneration for qualifying services		611	400
Company pension contributions to defined contribution schemes		100	-
		<u>711</u>	<u>400</u>
9	Interest receivable and similar income	2016	2015
		£'000	£'000
Interest income			
Interest on bank deposits		788	817
Net interest on pension		-	24
Total interest revenue		<u>788</u>	<u>841</u>
Other income from investments			
Gains on financial instruments measured at fair value through profit or loss		-	431
Total income		<u>788</u>	<u>1,272</u>

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

10 Interest payable and similar charges

	2016	2015
	£'000	£'000
Interest on bank overdrafts and loans	-	29
Interest on finance leases and hire purchase contracts	60	136
Finance costs for financial instruments measured at fair value through profit or loss	154	-
Net interest on pension	38	-
Unwinding of discount on provisions	3,329	3,795
	<u>3,581</u>	<u>3,960</u>

11 Taxation

	2016	2015
	£'000	£'000
Current tax		
UK corporation tax on profits for the current period	-	(1,011)
Adjustments in respect of prior periods	(214)	(60)
Total current tax	<u>(214)</u>	<u>(1,071)</u>
Deferred tax		
Origination and reversal of timing differences	(90)	(8)
Total tax credit	<u>(304)</u>	<u>(1,079)</u>

The actual credit for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2016	2015
	£'000	£'000
Loss before taxation	<u>(7,434)</u>	<u>(4,102)</u>
Expected tax credit based on the standard rate of corporation tax in the UK of 20.00% (2015: 21.00%)	(1,487)	(861)
Tax effect of expenses that are not deductible in determining taxable profit	80	35
Adjustments in respect of prior years	(214)	(60)
Provisions not allowed until paid	-	(610)
Difference in tax rates on loss carry back	-	(88)
Movement in deferred tax not provided	1,317	368
Transition adjustments	-	137
Taxation for the year	<u>(304)</u>	<u>(1,079)</u>

CELTIC ENERGY LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016****11 Taxation****(Continued)**

In addition to the amount credited to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2016	2015
	£'000	£'000
Deferred tax arising on:		
Actuarial differences recognised as other comprehensive income	345	(54)
	<u> </u>	<u> </u>

The deferred tax charge relates to the element of the movement in the deferred tax asset related to the pension deficit that has not been recognised in other comprehensive income and amounts to £90,000 (2015: £8,000). The amount of deferred tax recognised in other comprehensive income is a credit of £345,000 (2015: charge of £54,000).

12 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	2016	2015
	£'000	£'000
In respect of:		
Surface mines	4,031	-
Investment property	524	-
	<u> </u>	<u> </u>
Recognised in:		
Cost of sales	4,031	-
Administrative expenses	524	-
	<u> </u>	<u> </u>

More information on the impairment of surface mines arising in the year is given in note 4.

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

13 Tangible fixed assets

	Freehold land and buildings	Plant, machinery and equipment	Surface mines	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2015	2,042	32,914	52,887	87,843
Additions	3,070	1,308	6,165	10,543
Disposals	-	(2,015)	(6,146)	(8,161)
Transfer to investment property	(119)	-	-	(119)
At 31 March 2016	4,993	32,207	52,906	90,106
Depreciation and impairment				
At 1 April 2015	115	22,993	42,087	65,195
Depreciation charged in the year	20	2,353	1,043	3,416
Impairment losses	-	-	4,031	4,031
Eliminated in respect of disposals	-	(1,926)	-	(1,926)
At 31 March 2016	135	23,420	47,161	70,716
Carrying amount				
At 31 March 2016	4,858	8,787	5,745	19,390
At 31 March 2015	1,927	9,921	10,800	22,648

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases or hire purchase contracts.

	2016 £'000	2015 £'000
Plant, machinery and equipment	4,288	7,452
Depreciation charge for the year in respect of leased assets	1,462	1,726

More information on the impairment arising in the year is given in notes 4 and 12.

Surface mine sites represents the capitalised costs of site preparation, restoration, rehabilitation and stripping costs. As explained in note 2 these items are based on management estimates and involve significant uncertainty. Variations in provisions affect the carrying value of surface mine assets based on the stage of completion of the site.

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

14 Investment property

	2016 £'000
Fair value	
At 1 April 2015	4,217
Additions through external acquisition	480
Transfers from land and buildings	119
Net gains or losses through fair value adjustments	537
	<u>5,353</u>
At 31 March 2016	<u>5,353</u>

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 March 2016 by the directors. The properties are not depreciated.

If revalued assets were stated on an historical cost basis rather than a fair value basis, the total amounts included would have been as follows:

If investment properties were stated on an historical cost basis rather than a fair value basis, the amounts would have been included as follows:

	2016 £'000	2015 £'000
Cost	4,816	4,217
Accumulated depreciation	(313)	(222)
	<u>4,503</u>	<u>3,995</u>

15 Stocks

	2016 £'000	2015 £'000
Coal stock	6,605	13,395
Consumables	1,422	1,459
	<u>8,027</u>	<u>14,854</u>

16 Current asset investments

	2016 £'000	2015 £'000
Listed investments	7,972	5,426
	<u>7,972</u>	<u>5,426</u>
Listed investments included above:		
Listed investments carrying amount	7,972	5,426
	<u>7,972</u>	<u>5,426</u>

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

17 Debtors

	2016	2015
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	8,695	11,080
Corporation tax recoverable	1,265	4,116
Other debtors	120	29
Prepayments and accrued income	616	578
	<u>10,696</u>	<u>15,803</u>
Amounts falling due after one year:		
Amount due from parent undertaking	55,581	55,581
Cash funds held by LPAs	54,294	48,328
	<u>109,875</u>	<u>103,909</u>
Deferred tax asset (note 22)	-	255
	<u>109,875</u>	<u>104,164</u>
Total debtors	<u>120,571</u>	<u>119,967</u>

Cash funds held by Local Planning Authorities (LPAs) are cash balances paid by the company as part of its Section 106 commitments and will be repaid to the company on milestones during the restoration and rehabilitation of the relevant sites.

No deferred tax asset has been recognised other than in relation to the pension deficit.

18 Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
	Notes	
Obligations under finance leases	20	1,776
Trade creditors		4,450
Other taxation and social security		889
Derivative financial instruments		1,278
Other creditors		196
Accruals and deferred income		4,124
		<u>14,036</u>
		<u>12,713</u>

The company does not use derivative financial instruments for speculative purposes. At the year end the company was committed to purchase 12 million litres of gas oil for the year ending 31st March 2017 at approximately 35 pence per litre, 12 million litres of gas oil for the year ending 31st March 2018 at approximately 36 pence per litre and 12 million litres of gas oil for the year ending 31st March 2019 at approximately 36 pence per litre. This is entirely for the company's own use.

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

19 Creditors: amounts falling due after more than one year

	Notes	2016 £'000	2015 £'000
Obligations under finance leases	20	624	1,252

Obligations under hire purchase contracts are secured on the assets to which they relate.

20 Finance lease obligations

	2016 £'000	2015 £'000
Future minimum lease payments due under finance leases:		
Within one year	1,378	1,776
In two to five years	624	1,252
	<u>2,002</u>	<u>3,028</u>

Finance lease payments represent rentals payable by the company for certain items of plant and machinery. Leases include purchase options at the end of the lease period, and no restrictions are placed on the use of the assets. The average lease term is 3 - 4 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

21 Provisions for liabilities

	2016 £'000	2015 £'000
Operating provisions	144,045	158,180
Concessionary fuel	1,245	1,431
	<u>145,290</u>	<u>159,611</u>

Movements on provisions:

	Operating provisions £'000	Concessionary fuel £'000	Total £'000
At 1 April 2015	158,180	1,431	159,611
Additional provisions in the year	(16,879)	-	(16,879)
Reversal of provision	-	(148)	(148)
Utilisation of provision	(389)	(38)	(427)
Unwinding of discount	3,133	-	3,133
At 31 March 2016	<u>144,045</u>	<u>1,245</u>	<u>145,290</u>

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

(Continued)

21 Provisions for liabilities

Operating provisions

Operating provisions exist for restoration and rehabilitation of surface mine sites and distribution centres.

The total costs of reinstatement of soil excavation and of surface restoration are recognised as a provision on site commissioning when the obligation arises. The amount provided represents the present value of the expected future costs. Costs are charged to the provision as incurred and the unwinding of the discount is included in the interest charge for the year.

The timing and amounts of cash flows relating to the reinstatement of soil excavation and of surface restoration, of opencast sites and distribution centres, were estimated by management based on:

- past experience
- current extraction ratios
- best estimates of coaling cessation
- expectation of the cost and timing of site restoration/rehabilitation.

As set out in note 2 these items are based on management estimates and involve significant uncertainty.

Concessionary fuel retirement benefits

The company has a commitment to provide concessionary fuel benefits to retired ex British Coal employees. At retirement upon attaining the age of 50, and having been employed for a minimum of 15 years, employees become entitled to a retirement fuel allowance. 14 former workers and widows already receive this benefit and there are 12 current employees who will become members eligible for this allowance.

The principal assumptions used to estimate the amount of the provision are given below:

	2016	2015
Average retirement age	60 years	60 years
Discount rate	3.60%	3.30%
Pensionable life - current pensioner aged 60	25.5 years	25.6 years
Pensionable life - future retiree upon reaching 60	27.3 years	27.4 years

Concessionary fuel is an unfunded retirement benefit and as such there are no assets in the scheme.

22 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Assets 2016 £'000	Assets 2015 £'000
Balances:		
Accelerated capital allowances	-	126
Other timing differences	-	6,916
Provision for recoverability	-	(7,042)
Deferred tax on defined benefit liability	-	255
	<u>-</u>	<u>255</u>

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

22 Deferred taxation **(Continued)**

	2016
	£'000
Movements in the year:	
Liability/(Asset) at 1 April 2015	(255)
Credit to profit or loss	(90)
Charge to other comprehensive income	345
	<u> </u>
Liability at 31 March 2016	<u> </u> <u> </u>

No deferred tax asset has been recognised other than in relation to the pension deficit.

23 Retirement benefit schemes

	2016	2015
	£'000	£'000
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	391	284
	<u> </u>	<u> </u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Outstanding contributions at 31 March in respect of defined contribution schemes were £29,000 (2015: £41,000).

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

23 Retirement benefit schemes

(Continued)

Defined benefit schemes

The company operates a defined benefit scheme for qualifying employees. No other post retirement benefits are provided.

British Coal employees whose employment transferred to Celtic Energy Limited are members of the Industry Wide Coal Staff Superannuation Scheme ("IWCSSS"), a defined benefit scheme. The Celtic Energy employee fund ("the Scheme") is part of the IWCSSS. The assets of the Scheme are held in separate trustee administered funds. The Scheme is subject to triennial valuation by independent professionally qualified actuaries, the most recent valuation being performed as at 31 December 2012.

The valuation was performed by the Scheme Actuary on the Projected Unit Method and reported in accordance with Guidance Note GN9 issued by the Institute of Actuaries and the Faculty of Actuaries.

The main assumption underlying the full actuarial valuation of the Scheme as at 31 December 2012 is a long term gross yield on scheme assets of 6.2% which will exceed the annual rate of increase in pensionable salaries by 3.6% and price inflation by 3.1%. Pensions are expected to increase in line with price inflation at 3.1%. The aggregate market value of the assets at the valuation date was £12.1 million for the IWCSSS. The aggregate funding level on an ongoing basis was 85.5%, i.e. there is an implied deficit of £2.0m. The company has agreed a recovery plan with the actuary; additional contributions of approximately £0.9 million were paid in December 2014 and a further £0.9 million will be paid in 2016 following the triennial valuation to 31 December 2015.

Following the actuarial valuation undertaken as at 31 December 2012, a revised contribution rate has applied, and additional payments are being made which are intended to make good the deficit. For members of the IWCSSS, employer contributions are 32% (2009 valuation: 33%).

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 26 March 2016 by KPMG LLP, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	2016	2015
	%	%
<i>Key assumptions</i>		
Discount rate	3.60%	3.30%
Expected rate of increase of pensions in payment	2.80%	3.10%
Expected rate of salary increases	1.90%	3.75%
	<u> </u>	<u> </u>
<i>Mortality assumptions</i>	2016	2015
Assumed life expectations on retirement at age 60:	Years	Years
Retiring today		
- Males	25.5	25.6
- Females	28.0	28.2
	<u> </u>	<u> </u>
Retiring in 20 years		
- Males	27.3	27.4
- Females	30.0	30.2
	<u> </u>	<u> </u>

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

23 Retirement benefit schemes

(Continued)

	2016	2015
	£'000	£'000
<i>Amounts recognised in the profit and loss account</i>		
Current service cost	236	207
Net interest on defined benefit liability/(asset)	38	18
Other costs and income	90	102
Total costs	<u>364</u>	<u>327</u>

	2016	2015
	£'000	£'000
<i>Amounts taken to other comprehensive income</i>		
Actual return on scheme assets	109	(1,935)
Less: calculated interest element	527	596
Return on scheme assets excluding interest income	636	(1,339)
Actuarial changes related to obligations	(2,795)	2,469
Movement in unrecognised plan surplus	763	-
Total costs/(income)	<u>(1,396)</u>	<u>1,130</u>

The amounts included in the balance sheet arising from the company's obligations in respect of defined benefit plans are as follows:

	2016	2015
	£'000	£'000
Present value of defined benefit obligations	14,967	17,267
Fair value of plan assets	(15,730)	(15,993)
(Surplus)/deficit in scheme	<u>(763)</u>	<u>1,274</u>
Asset not recognised due to asset ceiling	763	-
Total liability recognised	<u>-</u>	<u>1,274</u>

	2016
	£'000
<i>Movements in the present value of defined benefit obligations</i>	
Liabilities at 1 April 2015	17,267
Current service cost	236
Benefits paid	(340)
Contributions from scheme members	34
Actuarial gains and losses	(2,795)
Interest cost	565
At 31 March 2016	<u>14,967</u>

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

23 Retirement benefit schemes

(Continued)

The defined benefit obligations arise from plans funded as follows:

	2016 £'000
Wholly unfunded obligations	-
Wholly or partly funded obligations	14,967
	<u>14,967</u>

Movements in the fair value of plan assets

	2016 £'000
Fair value of assets at 1 April 2015	15,993
Interest income	527
Return on plan assets (excluding amounts included in net interest)	(636)
Benefits paid	(340)
Contributions by the employer	242
Contributions by scheme members	34
Other	(90)
	<u>15,730</u>
At 31 March 2016	<u>15,730</u>

	2016 £'000	2015 £'000
<i>Fair value of plan assets at the reporting period end</i>		
Equity instruments	6,065	6,402
Debt instruments	6,314	6,326
Property	1,236	1,124
Diversified growth fund	2,090	2,116
Cash and other	25	25
	<u>15,730</u>	<u>15,993</u>

24 Operating lease commitments

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £'000	2015 £'000
Within one year	45	3,068
Between two and five years	64	109
	<u>109</u>	<u>3,177</u>

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

25 Events after the reporting date

In June 2016 the company announced that it intended to mothball Nant Helen as well as Selar which had been announced in October 2015 due to deteriorating market conditions; this decision merely confirmed conditions that already existed at the balance sheet date, therefore the impact of the decision has been treated as an adjusting post balance sheet event.

CELTIC ENERGY LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016****26 Related party transactions****Remuneration of key management personnel**

The remuneration of key management personnel is as follows:

	2016 £'000	2015 £'000
Aggregate compensation	1,637	791

Other related party transactions

The company has taken advantage of the exemption, under the terms of FRS 102, section 33.1A, not to disclose related party transactions with wholly owned subsidiaries within the group.

Transactions during the current and previous years with companies in the G. Walters (Holdings) Limited group of companies, a group within the family interests of the company's ultimate controlling shareholder, Mr R J Walters, were as follows:

	Sales / (purchases) during the year 2016 £'000	Sales / (purchases) during the year 2015 £'000
Sale of assets	499	32
Purchase of assets	(139)	(338)
Income from hire or lease of equipment	8	4
Charges for hire or lease of equipment	(15,093)	(15,513)
Income for services	4	45
Charges for services	(1,926)	(1,807)
Purchase of coal	-	(212)

All of the above transactions were undertaken on normal commercial terms.

No amounts were written off or provided for in respect of any of these transactions.

Balances at 31 March 2016 and 2015 with companies in the G. Walters (Holdings) Limited group of companies, a group within the family interests of the company's ultimate controlling shareholder, Mr R J Walters, were as follows:

	2016 £'000	2015 £'000
Total amounts due to Celtic Energy Limited at the year end	25	10
Total amounts due from Celtic Energy Limited at the year end	(2,228)	(1,144)

During the year the company made sales of £nil (2015: £100,000) to High Bird Developments Limited, a company which is under the common control of Mr R J Walters and of which Mr R Thompson is also a director, for plant hire and labour. At the year end the company had accrued income of £nil (2015: £100,000) from High Bird Developments Limited.

During the year the company incurred £400,000 (2015: £400,000) of consultancy fees from DHM Consultancy Limited a company which is a corporate director of the company.

There were no other transactions requiring disclosure.

No guarantees have been given or received.

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

27 Controlling party

The company is a wholly owned subsidiary of Celtic Group Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

The ultimate parent undertaking is Celtic Mining Group Limited, a company incorporated in Great Britain and registered in England and Wales. Celtic Mining Group Limited is the parent of the smallest and largest group of which the company is a member and for which consolidated accounts are prepared. Consolidated accounts of this company are available to the public and may be obtained from Companies House.

The directors consider that, at the balance sheet date, Mr R J Walters, who owns 100% of the voting shares in the ultimate parent undertaking was the ultimate controlling party.

28 Reconciliations on adoption of FRS 102

Reconciliation of equity

		At 1 April 2014			At 31 March 2015		
		Previous UK GAAP £'000	Effect of transition £'000	FRS 102 £'000	Previous UK GAAP £'000	Effect of transition £'000	FRS 102 £'000
	Notes						
Fixed assets							
Tangible assets		28,166	-	28,166	22,648	-	22,648
Investment properties		3,923	-	3,923	4,217	-	4,217
		<u>32,089</u>	<u>-</u>	<u>32,089</u>	<u>26,865</u>	<u>-</u>	<u>26,865</u>
Current assets							
Stocks		11,720	-	11,720	14,854	-	14,854
Debtors - deferred tax	i	-	193	193	(255)	255	-
Debtors - other		108,054	-	108,054	119,967	-	119,967
Investments	ii	3,366	(46)	3,320	5,041	385	5,426
Bank and cash		48,424	-	48,424	38,750	-	38,750
		<u>171,564</u>	<u>147</u>	<u>171,711</u>	<u>178,357</u>	<u>640</u>	<u>178,997</u>
Creditors due within one year							
Finance leases		(2,693)	-	(2,693)	(1,776)	-	(1,776)
Taxation		(521)	-	(521)	(889)	-	(889)
Derivatives	iii	-	(215)	(215)	-	(1,278)	(1,278)
Other creditors	iv	(7,721)	(166)	(7,887)	(8,582)	(188)	(8,770)
		<u>(10,935)</u>	<u>(381)</u>	<u>(11,316)</u>	<u>(11,247)</u>	<u>(1,466)</u>	<u>(12,713)</u>
Net current assets		<u>160,629</u>	<u>(234)</u>	<u>160,395</u>	<u>167,110</u>	<u>(826)</u>	<u>166,284</u>
Total assets less current liabilities		<u>192,718</u>	<u>(234)</u>	<u>192,484</u>	<u>193,975</u>	<u>(826)</u>	<u>193,149</u>
Creditors due after one year							
Finance leases		(896)	-	(896)	(1,252)	-	(1,252)

CELTIC ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016

28 Reconciliations on adoption of FRS 102

(Continued)

		At 1 April 2014			At 31 March 2015		
		Previous UK GAAP £'000	Effect of transition £'000	FRS 102 £'000	Previous UK GAAP £'000	Effect of transition £'000	FRS 102 £'000
	Notes						
Provisions for liabilities							
Pension obligations	i	(728)	(193)	(921)	(1,019)	(255)	(1,274)
Other provisions		(155,408)	-	(155,408)	(159,611)	-	(159,611)
		<u>(156,136)</u>	<u>(193)</u>	<u>(156,329)</u>	<u>(160,630)</u>	<u>(255)</u>	<u>(160,885)</u>
Net assets		<u>35,686</u>	<u>(427)</u>	<u>35,259</u>	<u>32,093</u>	<u>(1,081)</u>	<u>31,012</u>
Capital and reserves							
Other reserves		10,000	-	10,000	10,000	-	10,000
Profit and loss	ii, iii, iv	25,686	(427)	25,259	22,093	(1,081)	21,012
Total equity		<u>35,686</u>	<u>(427)</u>	<u>35,259</u>	<u>32,093</u>	<u>(1,081)</u>	<u>31,012</u>

Reconciliation of loss for the financial period

		Year ended 31 March 2015		
		Previous UK GAAP £'000	Effect of transition £'000	FRS 102 £'000
	Notes			
Turnover		66,420	-	66,420
Cost of sales	iii, iv	(62,810)	(1,085)	(63,895)
Gross profit		<u>3,610</u>	<u>(1,085)</u>	<u>2,525</u>
Administrative expenses	i	(3,815)	-	(3,815)
Other operating income		1	-	1
Exceptional items		(125)	-	(125)
Operating loss		<u>(329)</u>	<u>(1,085)</u>	<u>(1,414)</u>
Interest receivable and similar income	ii	841	431	1,272
Interest payable and similar charges		(3,960)	-	(3,960)
Loss before taxation		<u>(3,448)</u>	<u>(654)</u>	<u>(4,102)</u>
Taxation		<u>1,079</u>	<u>-</u>	<u>1,079</u>
Loss for the financial period		<u>(2,369)</u>	<u>(654)</u>	<u>(3,023)</u>

CELTIC ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2016**

28 Reconciliations on adoption of FRS 102

(Continued)

Notes to reconciliations on adoption of FRS 102

i. Reclassification of deferred tax on defined benefit pension liability

Prior to transition to FRS 102, the defined benefit pension liability at 31 March 2015 was net of a deferred tax asset of £254,800 (2014: £193,410). As part of the transition to FRS 102 this deferred tax asset has been reanalysed and included as a timing difference as part of the overall deferred tax calculation.

ii. Revaluation of current asset investments

Prior to transition to FRS 102, current asset investments were stated at cost less any provision for permanent diminution in value. As part of the transition to FRS 102, current asset investments have been revalued to market value, being an upward revaluation of £384,854 at 31/03/2015 (2014: downward revaluation of £45,970). The movement of £430,824 during the year ended 31 March 2015 has been recognised in the profit and loss account.

iii. Recognition of gas oil commodity as derivative liability

Prior to transition to FRS 102 the company was not required to recognise a liability in respect of gas oil commodities however this is required under FRS 102. Consequently an additional liability of £1,277,880 has been provided in the balance sheet at 31 March 2015 (2014: £215,400). The movement of £1,062,480 during the year ended 31 March 2015 has been recognised in the profit and loss account.

iv. Recognition of holiday pay accrual

Prior to transition to FRS 102 the company was not required to recognise a liability in respect of holiday pay accrued by employees however this is required under FRS 102. Consequently an additional liability of £188,225 has been provided in the balance sheet at 31 March 2015 (2014: £165,909). The movement of £22,316 during the year ended 31 March 2015 has been recognised in the profit and loss account.