

**CELTIC ENERGY LIMITED**  
**STRATEGIC REPORT,**  
**REPORT OF THE DIRECTORS AND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 MARCH 2014**

TUESDAY



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COMPANIES HOUSE

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FOR THE YEAR ENDED 31 MARCH 2014**

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**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 MARCH 2014**

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**DIRECTORS:**

DHM Consultancy Limited  
R Thompson  
R E Morris  
W Watson

**REGISTERED OFFICE:**

9 Beddau Way  
Castlegate Business Park  
Caerphilly  
CF83 2AX

**REGISTERED NUMBER:**

02997376 (England and Wales)

**AUDITORS:**

UHY Hacker Young  
Chartered Accountants & Statutory Auditors  
Lanyon House  
Mission Court  
Newport  
South Wales  
NP20 2DW

**STRATEGIC REPORT  
FOR THE YEAR ENDED 31 MARCH 2014**

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The directors present their strategic report for the year ended 31 March 2014.

**REVIEW OF BUSINESS**

Celtic Energy Limited ("the company") currently operates three surface mines and a processing plant in South Wales. The results for the company show a pre-tax profit of £13.4m (2013: £14.5m) for the year and turnover of £81.2m (2013: £94.8m).

In this financial year we saw continued strong demand for most of our products although the mild winter affected domestic sales. Turnover reduced by approximately 14% 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 increased to 27.9% from 25.1% in 2013, however, this is following an exceptional release of provisions of £5.6m following a detailed reassessment; excluding this exceptional credit GP% for the year to 31 March 2014 was 21.0%. This fall compared to 2013 is due predominantly to the lower world coal prices.

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

	31 March 2014	31 March 2013
Number of accidents	17	32
Dangerous occurrences	8	14
Number of complaints	101	50
Complaints excluding blasting	9	11

**SITE DEVELOPMENT**

**Current sites**

We continue to operate surface mines at Nant Helen, East Pit and Selar (including the extension approved in 2013 allowing a further 800,000 tonnes of coal to be extracted) with Margam currently dormant.

A planning application for a post coaling development at East Pit which includes the extraction of an additional 600,000 tonnes of coal has been submitted and is due to be determined early in 2015.

We are developing a new restoration strategy for Margam which may include the extraction of additional coal.

**Potential new sites**

A planning application has been approved for a new site at Bryn Defaid in Rhondda Cynon Taff which includes the extraction of 1.2m tonnes of coal.

We are continuing to look at other opportunities across the UK.

**GENERAL**

In all of our current and future sites we are hopeful that the Local Planning Authorities will continue to pay due regards to what are, in our view, overwhelming social, (in particular employment,) economic and commercial benefits arising from our operations. We remain committed to work with all stakeholders, including the Local Planning Authorities, local communities, the Welsh Government, statutory bodies, land owners and our employees to deliver sustainable developments.

Prospects for the short to medium term future look encouraging. With the benefits of a dedicated and highly trained workforce we remain a company that operates economically and efficiently in a market place that continually faces competition from large overseas producers who benefit from significant economies of scale and reduced levels of legislative burden.

The company continues to make progress and to implement the strategies and actions necessary to address the challenges that the business faces. With the continued support of all interested stakeholders, we believe the company has a sound financial future, with the potential to deliver significant economic value to the wider community in the coming years.

**STRATEGIC REPORT  
FOR THE YEAR ENDED 31 MARCH 2014**

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**PRINCIPAL RISKS AND UNCERTAINTIES**

**RISKS 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;

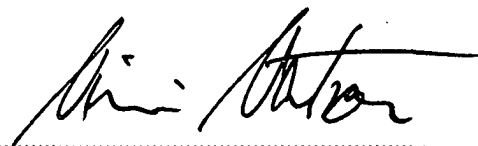
**Geological/mining risk**

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:**



.....  
W Watson - Director

Date: 16/12/14 .....

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 MARCH 2014**

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The directors present their report with the financial statements of the company for the year ended 31 March 2014.

**PRINCIPAL ACTIVITY**

The principal activity of the company in the year under review was that of surface mine operators.

**DIVIDENDS**

No dividends will be distributed for the year ended 31st March 2014 (2013: £nil).

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 April 2013 to the date of this report.

DHM Consultancy Limited  
R Thompson  
R E Morris  
W Watson

**ULTIMATE PARENT UNDERTAKING**

The company is a wholly owned subsidiary of Celtic Group Holdings. The ultimate parent undertaking is Celtic Mining Group Limited.

**EMPLOYEES**

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 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.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Report of the Directors 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;
- state whether applicable accounting standards 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 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.

**REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 MARCH 2014**

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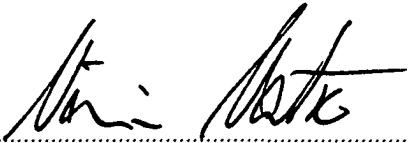
**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director 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 auditors are aware of that information.

**AUDITORS**

UHY Peacheys changed their name to UHY Hacker Young on 1 January 2014, UHY Hacker Young are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

**ON BEHALF OF THE BOARD:**



.....  
W Watson - Director

Date: 16/12/14 .....

## **REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CELTIC ENERGY LIMITED**

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We have audited the financial statements of Celtic Energy Limited for the year ended 31 March 2014 on pages eight to twenty nine. 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).

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 a Report of the Auditors 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 auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page four, 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 Strategic Report and the Report of the Directors 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 2014 and of its profit 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.

### **Emphasis of matter - estimation uncertainty**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures in notes 1, 10 and 16 respectively concerning the company's restoration and rehabilitation provisions and the carrying value of surface mine assets. The notes explain that these provisions and assets involve a significant amount of estimation uncertainty; the actual liabilities can vary significantly from the estimates made by management. Significant variations in provision can have a significant impact on the carrying value of surface mine assets as well as a significant impact on the company's profit and loss account.

### **Opinion on other matter prescribed by the Companies Act 2006**

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



**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF  
CELTIC ENERGY LIMITED**

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**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.



John Griffiths FCA (Senior Statutory Auditor)  
for and on behalf of UHY Hacker Young  
Chartered Accountants & Statutory Auditors  
Newport  
South Wales

Date: 22/01/2014

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2014**

	Notes	2014 £'000	2013 £'000
<b>TURNOVER</b>	2	81,209	94,795
Cost of sales (including £5.6m exceptional release of provision)		(58,583)	(71,000)
<b>GROSS PROFIT</b>		22,626	23,795
Administrative expenses		(5,282)	(5,501)
<b>OPERATING PROFIT</b>	4	17,344	18,294
Interest receivable and similar income	6	331	362
Other finance income	19	3	-
		17,678	18,656
Interest payable and similar charges	7	(4,231)	(4,140)
Other finance costs	19	-	(42)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		13,447	14,474
Tax on profit on ordinary activities	8	(2,093)	1,476
<b>PROFIT FOR THE FINANCIAL YEAR</b>		11,354	15,950

**CONTINUING OPERATIONS**

None of the company's activities were acquired or discontinued during the current year or previous year.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 MARCH 2014**

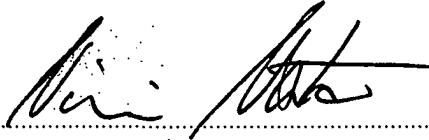
	2014 £'000	2013 £'000
<b>PROFIT FOR THE FINANCIAL YEAR</b>	11,354	15,950
Actuarial (loss) /gain recognised in the pension scheme	84	(380)
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>	<u>11,438</u>	<u>15,570</u>
Prior year adjustment		(49,150)
<b>TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT</b>		<u>(33,580)</u>

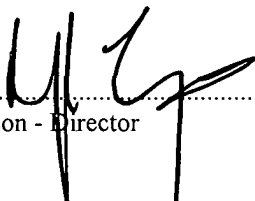
**BALANCE SHEET**  
**31 MARCH 2014**

	Notes	2014 £'000	£'000	2013 £'000	£'000
<b>ASSETS</b>					
<b>FIXED ASSETS</b>					
Tangible assets	10		33,727		31,967
<b>CURRENT ASSETS</b>					
Stocks	11	10,081		15,228	
Debtors	12	108,055		105,503	
Investments	13	3,366		3,366	
Cash at bank		48,424		48,035	
			169,926		172,132
			203,653		204,099
<b>LIABILITIES</b>					
<b>CAPITAL AND RESERVES</b>					
Called up share capital	14	-		-	
Other reserves	15	10,000		10,000	
Profit and loss account	15	25,686		14,248	
<b>SHAREHOLDERS' FUNDS</b>	21		35,686		24,248
<b>PROVISIONS FOR LIABILITIES</b>	16		155,408		159,179
<b>CREDITORS</b>	17		11,831		20,062
<b>PENSION LIABILITY</b>	19		728		610
			203,653		204,099

The financial statements were approved by the Board of Directors on 16/12/14 and were signed on its behalf by:

  
DHM Consultancy Limited - Director

  
W Watson - Director

  
R Thompson - Director

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2014**

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**1. ACCOUNTING POLICIES**

**Accounting convention**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and are in accordance with applicable accounting standards.

**Cash flow statement and related party transactions**

Exemption has been taken under the terms of FRS 1 from preparing a cash flow statement on the grounds that the company is included in the consolidated financial statements of Celtic Mining Group Limited which includes a cash flow statement. The consolidated financial statements of Celtic Mining Group Limited are available to the public and may be obtained from Companies House. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of Celtic Mining Group Limited. For details of other related party transactions see note 21.

**Turnover**

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year. Income is recognised when substantially all of the risks and rewards of ownership have been transferred to the customer.

**Tangible fixed assets**

Depreciation is not provided on freehold land. On other assets it is provided on their cost less estimated residual value in equal annual instalments over the estimated useful economic lives of the assets. The rates of depreciation are as follows:

Freehold buildings	- 2% per annum
Plant and machinery - fixed *	- 10% per annum
Plant and machinery - mobile *	- 12.5 to 20% per annum
Computer equipment	- 33% per annum
Motor vehicles	- 33% per annum
Surface works	- 10% per annum
Surface mine preparation, restoration, rehabilitation and pre-coaling costs	- unit of production basis

\* 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.

**Exploration costs**

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

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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**1. ACCOUNTING POLICIES - continued**

**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 subsequently amortised over the remaining reserves and the balance 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.

**Investment properties**

Investment properties are revalued annually. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. Depreciation is not provided in respect of freehold investment properties, or in respect of leasehold investment properties where the unexpired term of the lease is more than 20 years. The directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 'Accounting for investment properties'. The financial effect of the departure from the statutory accounting rules is not material.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes production and preparation costs appropriate to the relevant stage of production.

**Current and fixed asset investments**

Investments held as current and fixed assets are stated at cost less any provision for permanent diminution in value.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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**1. ACCOUNTING POLICIES - continued**

**Pension costs and other post-retirement benefits**

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

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.

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.

In respect of defined contribution schemes, contributions are charged to the profit and loss account as they become payable in accordance with the scheme rules.

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

**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.

**Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**1. ACCOUNTING POLICIES - continued**

**Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenue and expenses during the year. The nature of estimation means that the actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities are:

**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 2014 as set out in note 16 is approximately £154.0 million (2013: £157.9 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 increased the provision by £4.0 million in the current year; other changes resulted in a decrease of £7.2 million (this consists of increased provision for East Pit of £2.6 million and a reduction of £9.8 million for Nant Helen and Selar; £1.0 million of the increase and £2.6 million of the decrease has been reflected in the carrying value of fixed assets in accordance with FRS 12, the remainder has been charged/credited to the profit and loss account. This is regarded as an exceptional item, refer to note 5.

**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 2014 the carrying value of restoration and rehabilitation assets was approximately £11.0 million (2013: £14.5 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 £1.0 million in the current year.

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 2014 the carrying value of capitalised stripping costs was approximately £4.3 million (2013: £nil).

**2. TURNOVER**

The turnover and profit before taxation are attributable to the one principal activity of the company.

An analysis of turnover by geographical market is given below:

	2014	2013
	£'000	£'000
United Kingdom	72,696	82,644
Rest of Europe	8,513	12,151
	<u>81,209</u>	<u>94,795</u>



**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**3. STAFF COSTS**

	2014	2013
	£'000	£'000
Wages and salaries	13,105	13,636
Social security costs	1,316	1,138
Pension costs	420	475
	<u>14,841</u>	<u>15,249</u>

The average monthly number of employees during the year was as follows:

	2014	2013
Mining operations	322	325
Technical support	3	3
Selling	3	3
Management and distribution	13	12
	<u>341</u>	<u>343</u>

Directors' remuneration, included in the above, is as follows:

	2014	2013
	£'000	£'000
Directors' remuneration	1,001	1,746
Directors' pension contributions	36	52
	<u>1,037</u>	<u>1,798</u>

Information regarding the highest paid director is as follows:

	2014	2013
	£'000	£'000
Emoluments	400	768
Pension contributions	-	-
	<u>400</u>	<u>768</u>

**4. OPERATING PROFIT**

The operating profit is stated after charging/(crediting):

	2014	2013
	£'000	£'000
Operating lease rentals - plant and machinery	14,855	14,041
Operating lease rentals - other	4	2
Depreciation and other amounts written off tangible fixed assets		
- owned	4,197	7,621
- leased	1,481	1,480
Rents receivable from property	(237)	(167)
Auditors' remuneration for audit services	43	43
	<u></u>	<u></u>

**5. EXCEPTIONAL ITEMS**

**Operating provisions**

During the year ended 31 March 2014 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 operating factors and recent cost experience. As a result, provisions were decreased by £7.2m of which £5.6m was recorded in the profit and loss account and £1.6m was capitalised.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**6. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2014	2013
	£'000	£'000
Bank interest receivable	<u>331</u>	<u>362</u>

**7. INTEREST PAYABLE AND SIMILAR CHARGES**

	2014	2013
	£'000	£'000
Bank interest	-	1
Hire purchase	204	295
Unwinding of discount on provisions	<u>4,027</u>	<u>3,844</u>
	<u>4,231</u>	<u>4,140</u>

Other finance costs:

	2014	2013
	£'000	£'000
Expected return on pension scheme assets	(611)	(545)
Interest on pension scheme liabilities	<u>608</u>	<u>587</u>
	<u>(3)</u>	<u>42</u>

**8. TAXATION**

**Analysis of the tax charge/(credit)**

The tax charge/(credit) on the profit on ordinary activities for the year was as follows:

	2014	2013
	£'000	£'000
Current tax:		
UK corporation tax	2,104	100
Adjustments to tax charge in respect of prior years	<u>-</u>	<u>(1,732)</u>
Total current tax	2,104	(1,632)
Deferred tax	<u>(11)</u>	<u>156</u>
Tax on profit on ordinary activities	<u>2,093</u>	<u>(1,476)</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**8. TAXATION - continued**

**Factors affecting the tax charge/(credit)**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	<u>13,447</u>	<u>14,474</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23% (2013 - 24%)	3,093	3,474
Effects of:		
Utilisation of tax losses	(1,354)	(3,873)
Adjustments to tax charge in respect of previous periods	-	(1,732)
Items not deductible for tax purposes	11	74
Difference between capital allowances and depreciation	520	1,457
Provisions not allowed until paid	<u>(166)</u>	<u>(1,032)</u>
Current tax charge/(credit)	<u>2,104</u>	<u>(1,632)</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 the statement of total recognised gains and losses and amounts to £11,000. The amount of deferred tax recognised in the statement of total recognised gains and losses is £nil, which is the proportion that relates to the actuarial loss recognised. The deferred tax asset relating to the pension liability is set out in note 19.

**9. PRIOR YEAR ADJUSTMENT**

In September 2010 the company entered into a transaction pursuant to which its freehold interest in its existing surface mine sites was transferred. At the time the surface mine assets and the related liabilities for restoration and rehabilitation of the sites were derecognised.

The SFO opened an enquiry in relation to this transaction. The Board took further legal advice whilst the SFO investigation was ongoing. Having considered the matter carefully, the Board determined that whilst they believed that the transaction had been entered into in good faith and on the basis of legal advice, the company should reflect the liabilities for restoration and rehabilitation in the accounts and the associated unamortised element of the FRS 12 asset. Therefore a prior year adjustment was reflected in the 2013 financial statements. The effect on reserves at 1 April 2012, was a reduction of £49.2 million; this was reflected in the Statement of Total Gains and Losses.

During 2014, following a Crown Court ruling against the SFO, the SFO's action has been concluded with no further criminal proceedings to be brought.

NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 MARCH 2014

10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Investment properties £'000	Plant, machinery and equipment £'000	Surface mines £'000	Totals £'000
<b>COST OR VALUATION</b>					
At 1 April 2013	1,923	2,777	46,249	52,449	103,398
Additions	133	1,146	4,063	4,364	9,706
Disposals	-	-	(2,536)	(1,646)	(4,182)
At 31 March 2014	2,056	3,923	47,776	55,167	108,922
<b>DEPRECIATION</b>					
At 1 April 2013	77	-	33,355	37,999	71,431
Charge for year	19	-	3,926	1,802	5,747
Eliminated on disposal	-	-	(1,983)	-	(1,983)
At 31 March 2014	96	-	35,298	39,801	75,195
<b>NET BOOK VALUE</b>					
At 31 March 2014	1,960	3,923	12,478	15,366	33,727
At 31 March 2013	1,846	2,777	12,894	14,450	31,967

Surface mine sites represents the capitalised costs of site preparation, restoration, rehabilitation and stripping costs. As explained in note 1 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.

Included in the cost of freehold and and buildings is land of £1.0m (2013: £1.0m) which is not depreciated.

Included in the total net book value at 31 March 2014 is £7.287m (2013: £8.766m) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £1.481m (2013: £1.487m).

Cost or valuation at 31 March 2014 is represented by:

	Freehold land and buildings £'000	Investment properties £'000	Plant, machinery and equipment £'000	Surface mines £'000	Totals £'000
Valuation in 2014	-	3,923	-	-	3,923
Cost	2,056	-	47,776	55,167	104,999
	2,056	3,923	47,776	55,167	108,922

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 March 2014 by the directors. The properties are not depreciated. The depreciation which would otherwise have been charged amounts to £125,627 (2013: £51,978). The directors consider the value to be the same as the historical cost for the investment properties held at 31 March 2014.

11. STOCKS

	2014 £'000	2013 £'000
Coal stocks	10,081	15,228

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**12. DEBTORS**

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Trade debtors	11,768	17,670
Other debtors	502	30
Tax	871	2,975
Prepayments and accrued income	451	1,509
	<u>13,592</u>	<u>22,184</u>
Amounts falling due after more than one year:		
Amounts owed by parent undertakings	55,581	55,581
Cash funds held by LPAs	38,882	27,738
	<u>94,463</u>	<u>83,319</u>
Aggregate amounts	<u>108,055</u>	<u>105,503</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.

**Analysis of deferred tax asset**

No deferred tax asset has been recognised other than in relation to the pension deficit (see note 19).

The recognised and unrecognised deferred tax assets, excluding the deferred tax asset deducted in arriving at the net pension liability on the balance sheet, calculated under the liability method, at 20% (2013: 23%) are shown below:

	2014 £'000	2013 £'000
Difference between accumulated depreciation and amortisation and capital allowances	143	(91)
Trading losses carried forward	-	1,354
Other timing differences	7,187	8,044
	<u>7,330</u>	<u>9,307</u>
Provision for recoverability	<u>(7,330)</u>	<u>(9,307)</u>
Balance at 31st March	<u>-</u>	<u>-</u>

**13. CURRENT ASSET INVESTMENTS**

Current asset investments are comprised of the following amounts:

	2014 £'000	2013 £'000
Listed investments	3,366	3,366
	<u>3,366</u>	<u>3,366</u>

The market value of listed investments at 31 March 2014 was £3.3m (2013: £3.3m).

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**14. CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2014 £	2013 £
1	Ordinary	£1	<u>1</u>	<u>1</u>

**15. RESERVES**

	Profit and loss account £'000	Other reserves £'000	Totals £'000
At 1 April 2013	14,248	10,000	24,248
Profit for the year	11,354	-	11,354
Actuarial gain on pension scheme (net of deferred tax)	84	-	84
At 31 March 2014	<u>25,686</u>	<u>10,000</u>	<u>35,686</u>
Profit and loss account excluding pension liability	26,414		
Pension deficit	<u>(728)</u>		
Profit and loss account	<u>25,686</u>		

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**16. PROVISIONS FOR LIABILITIES**

	At 1 April 2013	Increase/ (decrease) in the year	Utilised in year	Unwinding of discount	At 31 March 2014
	£'000	£'000	£'000	£'000	£'000
Concessionary fuel	1,274	104	-	-	1,378
Operating provisions	157,905	(7,214)	(689)	4,027	154,029
	<u>159,179</u>	<u>(7,110)</u>	<u>(689)</u>	<u>4,027</u>	<u>155,407</u>

**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. 15 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:

	2014	2013
Average retirement age	65 years	65 years
Discount rate	4.35%	4.45%
Pensionable life - current pensioner aged 60	25.6 years	25.3 years
Pensionable life - future retiree upon reaching 60	27.9 years	26.9 years

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

**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 1 these items are based on management estimates and involve significant uncertainty.

**17. CREDITORS**

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Hire purchase contracts (see note 18)	2,693	2,746
Trade creditors	4,371	7,572
Social security and other taxes	308	381
VAT	213	2,073
Other creditors	185	337
Accruals and deferred income	3,165	3,238
	<u>10,935</u>	<u>16,347</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**17. CREDITORS - continued**

	2014 £'000	2013 £'000
Amounts falling due after more than one year:		
Hire purchase contracts (see note 18)	<u>896</u>	<u>3,715</u>
Aggregate amounts	<u>11,831</u>	<u>20,062</u>

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

**18. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS**

	2014 £'000	2013 £'000
Net obligations repayable:		
Within one year	2,693	2,746
Between one and five years	<u>896</u>	<u>3,715</u>
	<u>3,589</u>	<u>6,461</u>



**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**19. EMPLOYEE BENEFIT OBLIGATIONS**

The company operates defined benefit and defined contribution pension schemes.

Pension costs in respect of both defined benefit and defined contribution schemes are shown below:

	2014	2013
	£'000	£'000
Defined benefit schemes	157	213
Defined contribution schemes	421	180
	<u>578</u>	<u>393</u>

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 involving a payment of approximately £0.9 million in December 2014 and a further £0.9 million to 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%).

Outstanding contributions at 31 March in respect of defined benefit and defined contribution schemes are shown below:

	2014	2013
	£'000	£'000
Defined benefit schemes	18	18
Defined contribution schemes	28	28
	<u>46</u>	<u>46</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**19. EMPLOYEE BENEFIT OBLIGATIONS - continued**

The amounts recognised in the balance sheet are as follows:

	Defined benefit pension plans	
	2014	2013
	£'000	£'000
Present value of funded obligations	(14,256)	(13,685)
Fair value of plan assets	13,335	12,893
	<u>(921)</u>	<u>(792)</u>
Present value of unfunded obligations	-	-
Deficit	(921)	(792)
Deferred tax asset	193	182
Net liability	<u>(728)</u>	<u>(610)</u>

The amounts recognised in profit or loss are as follows:

	Defined benefit pension plans	
	2014	2013
	£'000	£'000
Current service cost	191	180
Interest cost	608	587
Expected return	(611)	(545)
Past service cost	230	-
	<u>418</u>	<u>222</u>
Actual return on plan assets	<u>483</u>	<u>1,447</u>

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans	
	2014	2013
	£'000	£'000
Opening defined benefit obligation	13,685	11,794
Current service cost	191	180
Past service cost	230	-
Contributions by scheme participants	40	42
Interest cost	608	587
Actuarial losses/(gains)	(212)	1,396
Benefits paid	(286)	(314)
	<u>14,256</u>	<u>13,685</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**19. EMPLOYEE BENEFIT OBLIGATIONS - continued**

Changes in the fair value of scheme assets are as follows:

	Defined benefit pension plans	
	2014	2013
	£'000	£'000
Opening fair value of scheme assets	12,893	10,859
Contributions by employer	205	859
Contributions by scheme participants	40	42
Expected return	611	545
Actuarial gains/(losses)	(128)	902
Benefits paid	(286)	(314)
	<u>13,335</u>	<u>12,893</u>

The amounts recognised in the statement of recognised gains and losses are as follows:

	Defined benefit pension plans	
	2014	2013
	£'000	£'000
Actual return less expected return on assets	(128)	902
Changes in assumptions	212	(1,396)
	<u>84</u>	<u>(494)</u>
Cumulative amount of actuarial gains/(losses)	<u>(321)</u>	<u>(405)</u>

The major categories of scheme assets as amounts of total scheme assets are as follows:

	Defined benefit pension plans	
	2014	2013
	£'000	£'000
Equities and property	6,411	8,061
Cash	63	48
Bonds	4,869	4,784
Alternatives	1,992	-
	<u>13,335</u>	<u>12,893</u>

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2014	2013
Discount rate	4.35%	4.45%
Future salary increases	4.10%	4.05%
Rate of price inflation	3.60%	3.55%

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**19. EMPLOYEE BENEFIT OBLIGATIONS - continued**

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60-year old to live for a number of years as follows:

- current pensioner aged 60: 25.6 years
- future retiree upon reaching 60: 27.9 years

Amounts for the current and previous four periods are as follows:

	2014	2013	2012 as restated	2011	2010 as restated
	£'000	£'000	£'000	£'000	£'000
<b>Defined benefit pension plans</b>					
Defined benefit obligation	(14,256)	(13,685)	(11,794)	(9,980)	(10,300)
Fair value of scheme assets	13,335	12,893	10,859	8,975	7,880
Deficit	(921)	(792)	(935)	(1,005)	(2,420)
Experience adjustments on scheme liabilities	5.52%	-	-1.47%	7.85%	-
Experience adjustments on scheme assets	-0.96%	7.00%	2.04%	-	19.40%

**20. OTHER FINANCIAL COMMITMENTS**

The company had no capital commitments at the year end (2013: £nil).

Annual commitments under non-cancelable operating leases are as follows:

	2014		2013	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	-	5	-	29
In the second to fifth years inclusive	99	43	69	16
More than five years	-	-	30	-
	<u>99</u>	<u>48</u>	<u>99</u>	<u>45</u>

**DERIVATIVE FINANCIAL INSTRUMENTS**

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 diesel at approximately 48p per litre. This is entirely for the company's own use.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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**21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2014	2013
	£'000	£'000
Profit for the financial year	11,354	15,950
Other recognised gains and losses relating to the year (net)	84	(380)
	<u>11,438</u>	<u>15,570</u>
Net addition to shareholders' funds	11,438	15,570
Opening shareholders' funds	24,248	8,678
	<u>24,248</u>	<u>8,678</u>
Closing shareholders' funds	<u>35,686</u>	<u>24,248</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**22. RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemption, under the terms of Financial Reporting Standard 8 Related Party Disclosures, from disclosing related party transactions with wholly owned subsidiaries within the group.

Transactions during the current and previous years and balances at 31 March 2014 and 2013, 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 2014 £'000	Debtor/(creditor) outstanding at year end 2014 £'000	Sales/(purchases) during the year 2013 £'000	Debtor/(creditor) outstanding at year end 2013 £'000
Sale of assets	64	-	-	-
Purchase of assets	(332)	-	(234)	(156)
Income from hire or lease of equipment	3,873	1	2	1
Charges for hire or lease of equipment	(24,397)	(1,808)	(564)	(119)
Income for services	49	8	51	10
Charges for services	(2,158)	(106)	(1,476)	(105)
Purchase of coal	(90)	-	-	-

All of the above transactions were undertaken on an arms length basis and on normal commercial terms.

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

During the year the company made sales of £3,869,342 (2013: £10,336,548) to High Bird Developments Limited for plant hire and labour. The company made purchases from High Bird Developments Limited of £13,754,456 (2013: £37,944,595) for plant hire and labour. High Bird Developments Limited is a company which is under the common control of Mr R J Walters and of which Mr R Thompson is also a director.

At the year end the company was owed £nil (2013: £1,411,248) by High Bird Developments Limited. This amount is included within trade debtors. At the year end the company had accrued income of £nil (2013: £209,496) from High Bird Developments Limited.

At the year the company owed £213,904 (2013: £5,452,885) to High Bird Developments Limited. This amount is included with trade creditors due within one year. At the year end the company had also accrued amounts of £nil (2013: £756,994) owing to High Bird Developments Limited.

During the year the company incurred £400,000 (2013: £400,000) of consultancy fees from DHM Consultancy Limited a company which is a corporate director of the company.

During the year the company made a loan of £465,000 to Neath Port Talbot (Recycling) Limited, a company of which Mr W Watson is a director. Interest is being charged at 2.5%. The balance outstanding at 31 March 2014 was £465,000; this is recorded within other debtors.

There were no other transactions requiring disclosure under Financial Reporting Standard 8 in the current or the previous year.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**FOR THE YEAR ENDED 31 MARCH 2014**

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**23. ULTIMATE PARENT AND CONTROLLING PARTY**

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.