REGISTRAR

Celtic Mining Group Limited

Directors' report and financial statements

Registered Number 5110139

31 March 2007

Contents

Business review

Celtic Mining Group Limited ("the group") operates opencast coal mining sites in South Wales The group currently operates three coaling sites and is preparing to commence work on a fourth site

The results for the group show a pre-tax profit of £0 1m *(2006 loss of £2 5m)* for the year on turnover of £50 8m *(2006 £47 4m)* The group has net cash balances of £23 8m *(2006 £12 1m)* of which £4 9m *(2006 £1 6m)* is restricted funds and has restoration and aftercare liabilities of £114 8m *(2006 £98 5m)*

Risks and uncertainties

The group faces a number of risks and uncertainties, some of which are inherent in the nature of its operations The Group 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 it is able to do so The Board periodically reviews its chosen strategies to ensure they continue to meet the challenges faced

The key risks within the business may be summarised as follows

- *Market risk* – the group operates within a highly competitive environment where prices are largely driven by world commodity markets, and which, in the case of domestic fuels, are in long–term structural decline The group 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,
- *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 our existing sites and also to seek valid permissions for further economic coal reserves The most immediate risk in this regard is in relation to our application for an extension to our Margam site which is discussed further below,
- *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 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 heath & 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

Future prospects

Prospects for the short to medium term future look encouraging, particularly given the apparent stability in the higher world coal prices seen over the past three years On the domestic front, the group has continued to deliver consistent profitability from what is still an oversupplied market in structural decline - a not inconsiderable achievement We anticipate some rationalisation of supply within the group's markets in the near future, and this should provide a positive opportunity for the business

In the short term the group hopes to receive a positive response to its planning application for an extension to its Margam site - this being key to the longer term viability of the business given the revenue that the additional coal reserve will generate, and the adverse cash impact on the business across the medium term that a refusal would have We are hopeful that the planning authorities will pay due regard to what are, in our view, the overwhelming economic and commercial benefits arising from the scheme for the locality

Business review *(continued)*

Future prospects *(continued)*

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

Board and employees

The Board recognises the contribution to the group'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 group operates

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

Richard Walters
Managing Director

16 July 2007

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2007

Principal activities

The company acts as a holding company for the group

The principal activities of the group are opencast coal mining and associated activities

Business review

A review of the business is given in the Business review on pages 1 and 2

Dividends

The directors do not propose the payment of a dividend for the year *(2006 £Nil)*

Directors and directors' interests

The directors who held office during the year were as follows

R J Walters - Managing Director
MER Llewellyn

The directors who held office at the end of the financial year had the following interests in the shares of the company as recorded in the register of directors' share interests

	£1 Ordinary shares	
	End of year	**Beginning of year**
RJ Walters	1	1
MER Llewellyn	-	-

No directors held options to subscribe for shares in the company during the year to 31 March 2007 or the previous year

Employees

The group's policy is to consult and discuss with employees on matters likely to affect their interests

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

Political and charitable contributions

The group made no political contributions during the year During the year the group contributed more than £24,470 *(2006 £26,000)* to a variety of schemes to benefit the communities within which it operates

Directors' report *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

MER Llewellyn
Secretary

Heol Ty Aberaman
Aberdare
Mid Glamorgan
CF44 6RF

16 July 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and company financial statements in accordance with UK Accounting Standards

The group and parent company financial statements are required by law to 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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

KPMG LLP
Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF24 OTE
United Kingdom

Independent auditors' report to the members of Celtic Mining Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Celtic Mining Group Limited for the year ended 31 March 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

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

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

Independent auditors' report to the members of Celtic Mining Group Limited
(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2007 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

Chartered Accountants
Registered Auditor

19 July 2007

Consolidated profit and loss account
for the year ended 31 March 2007

	Note	2007 £000	2006 £000
Turnover from continuing activities – including exceptional income – *see note 6*	*2*	**50,781**	47,379
Cost of sales – including exceptional net costs – *see note 6*		**(43,816)**	(40,447)
Gross profit		**6,965**	6 932
Operating expenses – including exceptional costs – *see note 6*		**(6,733)**	(7,025)
Group operating profit/(loss) from continuing activities		**232**	(93)
Share of operating loss in associate	*13*	**-**	(42)
Total operating profit/(loss)from continuing activities before interest		**232**	(135)
Profit on sale of associate		**2,217**	-
Interest receivable and similar income			
Group	*7*	**617**	342
Associate		**-**	4
Interest payable and similar charges			
Group	*8*	**(352)**	(384)
Other finance costs	*8*	**(2,572)**	(2,337)
Profit/(loss) on ordinary activities before taxation	*3*	**142**	(2,510)
Tax on profit/(loss) on ordinary activities	*9*	**(10)**	(2 322)
Profit/(loss) for the financial year	*21*	**132**	(4,832)

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2007

	Note	2007 £000	2006 £000
Profit/(loss) for the financial year		**132**	(4,832)
Actuarial gain recognised in the pension scheme	*22*	**145**	2
Deferred tax thereon		**(43)**	-
Total recognised gains and losses since the last annual report		**234**	(4,830)

Consolidated and company balance sheets
at 31 March 2007

	Note	**Group 2007 £000**	**Company 2007 £000**	Group 2006 £000	Company 2006 £000
Fixed assets					
Intangible fixed assets	*11*	**32,215**	-	35,532	-
Tangible assets	*12*	**59,909**	-	54 291	-
Investments	*13*	-	-	-	25,919
Investment in associate	*13*	-	-	1,153	-
		92,124	-	90,976	25,919
Current assets					
Stocks	*14*	**6,276**	-	6,986	-
Debtors	*15*	**10,164**	**4,021**	8,169	1
Cash at bank and in hand	*16*	**23,789**	-	12,129	335
		40,229	**4,021**	27,284	336
Creditors amounts falling due within one year	*17*	**(11,700)**	**(2,334)**	(13,085)	(1,520)
Net current assets/(liabilities)					
Due within one year		**24,529**	**1,687**	10 199	(1,184)
Due after more than one year – deferred tax asset	*9*	**4,000**	-	4,000	-
		28,529	**1,687**	14,199	(1,184)
Total assets less current liabilities		**120,653**	**1,687**	105,175	24,735
Creditors amounts falling due after more than one year	*18*	**(3,304)**	**(47,862)**	(4,207)	(69,508)
Net assets/(liabilities) excluding pension liability and provisions		**117,349**	**(46,175)**	100 968	(44,768)
Pension liability	*27*	**(1,597)**	-	(1,709)	-
		115,752	**(46,175)**	99,259	(44,768)
Provisions for liabilities and charges	*19*	**115,379**	-	99,120	-
Capital and reserves					
Called up share capital	*20*	-	-	-	-
Profit and loss account	*21*	**373**	**46,175**	139	(44,768)
Surplus/(deficit) on equity shareholders' funds	*22*	**373**	**(46,175)**	139	(44,768)
		115,752	**46,175**	99,259	(44,768)

These financial statements were approved by the board of directors on 16 July 2007 and were signed on its behalf by

RJ Walters
Director

Consolidated cash flow statement

for the year ended 31 March 2007

	Note	2007	2006
Net cash inflow from operating activities	24	**17,593**	17,852
Returns on investments and servicing of finance	26	**276**	(85)
Taxation		**(25)**	-
Capital expenditure and financial investment	26	**(10,431)**	(9 711)
Acquisitions and disposals	26	**(2,370)**	(3,757)
Net cash inflow before use of liquid resources and financing		**9,783**	4 299
Financing	26	**(1,466)**	(1 327)
Increase in cash	25	**8,317**	2,972

Reconciliation of net cash flow to movement in net funds

for the year ended 31 March 2007

	Note	2007 £000	2006 £000
Increase in cash in the year		**8,317**	2,972
Cash outflow from decrease in finance leases		**1,466**	1,327
Cash outflow from decrease in loans and loan stock		-	1,757
Loan interest accrued		**(21)**	(35)
New finance leases		**(1,185)**	(2,783)
Movement in net funds		**8,577**	3,238
Net funds at start of year		**5,388**	2,150
Net funds at end of year	25	**13,965**	5,388

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and under historical cost accounting rules

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts shown in the financial statements Actual amounts could differ from those estimates

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 March 2007 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence The group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets, is included in investments in the consolidated balance sheet

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account

Notes *(continued)*

1 Accounting policies *(continued)*

Related party transactions

The exemption given under Financial Reporting Standard 8 from the requirement to disclose transactions with group companies where 90% or more of the equity is controlled has been adopted

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 period 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

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 opencast sites and charged to the profit and loss account over the coaling life of the site on a unit of production basis

Acquisitions and disposals

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the group's share of separable assets and liabilities acquired Where the cost of acquisition exceeds the values attributable to such assets and liabilities, the difference is treated as purchased goodwill For acquisitions since the incorporation of the company, purchased goodwill is capitalised and amortised through the profit and loss account over its estimated economic life, normally over a period of up to twenty years

In attributing fair values, long term monetary assets and liabilities are discounted to their net present value and the difference is charged/credited to the profit and loss account at a constant rate on the amount outstanding

The profit or loss on the disposal of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business

Tangible fixed assets

Depreciation is not provided on freehold land On other assets it is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Freehold buildings	- 2% per annum
Plant and machinery – fixed	- 10% per annum
Plant and machinery – mobile	- 12 5% to 20% per annum
Surface works	- 10% per annum
Computer equipment	- 33% per annum
Motor vehicles	- 33% per annum
Opencast site preparation, restoration, rehabilitation and pre-coaling costs	- unit of production basis

Investments

Investments in subsidiary undertakings in the parent company balance sheet are stated at cost less a provision to reduce the carrying value to equate to the net assets of the relevant subsidiaries

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

Notes *(continued)*

1 Accounting policies *(continued)*

Leases and hire purchase agreements

Assets held under finance leases and hire purchase agreements are capitalised at their fair value on the inception of the agreement and depreciated over their estimated useful lives The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding

All other leases are treated as operating leases and rentals are charged to the profit and loss account in equal annual amounts over the lease term

Capital instruments

Capital instruments are accounted for and classified as equity or non-equity share capital and debt according to their form

Finance costs including issue costs, interest, dividends and redemption premiums are charged to the profit and loss account over the anticipated term of the instrument at a constant rate on the amount outstanding

Debt instruments are stated at their net issue proceeds, plus accrued finance costs less payments made in respect of the instrument

Pensions and other post retirement benefits

The group 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 group'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

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the result 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

Turnover

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

Exploration costs

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

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability on that date to the extent that they are appropriately authorised and are no longer at the direction of the company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Grant income

Revenue grants receivable are credited to the profit and loss account to match the period over which the related expenditure is incurred Capital grants in respect of expenditure on fixed assts are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets

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

Notes *(continued)*

2 Analysis of turnover

Turnover is entirely derived from opencast mining and associated activities in the United Kingdom

Analysis of turnover by geographical market	**2007 £000**	2006 £000
United Kingdom	**47,082**	42,258
Rest of Europe	**3,699**	5,121
	50,781	47,379

3 Profit on ordinary activities before taxation

	2007 £000	2006 £000
Profit on ordinary activities before taxation is stated		
after charging		
Auditors' remuneration		
Audit of these financial statements	**8**	7
Audit of financial statements of subsidiaries	**48**	46
Other services relating to taxation	**26**	30
Depreciation and other amounts written off tangible fixed assets		
Owned	**8,086**	4,779
Leased	**813**	684
Goodwill amortisation	**3,295**	3,295
Impairment of goodwill (see note 6)	**-**	1,906
Operating lease rentals		
Plant and machinery	**9,481**	10,002
Other	**167**	179
Redundancy and employment termination costs	**512**	447
Increase in operating provisions (see note 6)	**5,558**	6,410
after crediting		
Rents receivable from property	**17**	31
Profit on sale of tangible fixed assets	**168**	410
Income from breach of terms under take or pay' contract (see note 6)	**1,563**	-
Profit on sale of associate	**2,217**	-
Adjustment to deferred costs (see note 6)	**3,818**	3 079

Notes *(continued)*

4 Remuneration of directors

	2007	2006
	£000	£000
Aggregate emoluments and benefits	**1,546**	86
Sums paid to a third party for the services of a director	**300**	200
Company contributions to money purchase pension schemes	**15**	7
	1,861	293

The emoluments of the highest paid director were £1,561,000 *(2006 £95,000)* including company pension contributions of £15,000 *(2006 £7,000)*

No other directors are accruing benefits under company pension schemes

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the period, analysed by category, was as follows

	Number of employees	
	2007	2006
Mining operations	**248**	281
Technical support	**2**	2
Selling	**4**	4
Management and administration	**15**	17
	269	304

The aggregate payroll costs of these persons were as follows

	2007	2006
	£000	£000
Wages and salaries	**8,785**	8,022
Social security costs	**790**	737
Other pension costs (see note 27)	**421**	424
Redundancy and employment termination costs	**512**	447
	10,508	9,630

Notes *(continued)*

6 Exceptional items

Year ended 31 March 2007

'Take or pay' contract

Turnover for 2007 includes an amount of £1,563,000 in relation to monies received following failure by the customer to fulfil the terms under a take or pay' supply contract

Operating provisions

During 2007 the directors reviewed certain of the operating provisions held for the restorations and rehabilitations of opencast sites, and in particular, the timing and value of future cashflows, in the light of recent cost experience As a result, provisions were increased by £14,380,000, of which £5,558,000 was charged against profits and £8,822,000 was added to tangible fixed assets

Opencast sites

During 2007 the directors reviewed the expected total coal reserves and related muck shift at each of its washing sites, in light of recent experience, and expected future performance As a result a cumulative adjustment to the value of deferred costs within opencast sites was made with a credit of £3,818,000 to the profit and loss account relating to production prior to the commencement of the financial year

Year ended 31 March 2006

Operating provisions

During 2006 the directors reviewed certain of the operating provisions held for the restoration and rehabilitation of opencast sites, and, in particular, the timing and value of future cash flows, in the light of recent cost experience As a result, provisions were increased by £15,655,000, of which £6,410,000 was charged against profits and £9,245,000 was added to tangible fixed assets

Opencast sites

During 2006 the directors reviewed the expected total coal reserves and related muck shift at each of its working sites, in the light of recent experience, and expected future performance As a result a cumulative adjustment to the value of deferred costs within opencast sites was made with a credit of £3,079,000 to the profit and loss account relating to production prior to the commencement of the financial year

Exceptional impairment of goodwill

During 2006 the directors reviewed the carrying value of the goodwill arising from the acquisition of Celtic Group Holdings On the basis of future cashflows discounted for the time value of money, at a rate of 7%, the directors concluded that the value of the goodwill had been impaired As a result £1,906,000 was written off goodwill and charged against profits

7 Interest receivable and similar income

	2007	2006
	£000	£000
Bank interest receivable	617	342

Notes *(continued)*

8 Interest payable and similar charges and other finance costs

	2007 £000	2006 £000
Interest payable and similar charges		
Amounts payable on bank loans and overdrafts	-	25
Amounts payable on loan notes and other loans	45	81
Finance charges payable in respect of finance leases and similar hire purchase contracts	307	278
	352	384
Other finance costs		
Expected return on pension scheme assets	(349)	(267)
Interest on pension scheme liabilities	380	353
	31	86
Unwinding of discount on provisions (see note 19)	2,447	1,985
Unwinding of discount on deferred consideration (see note 18)	94	266
	2,572	2,337

9 Taxation

	2007 £000	2006 £000
Current year taxation		
Corporation tax at 30%	-	52
Share of associated company s tax credit	-	(7)
	-	45
Previous years		
Corporation tax at 30%	10	(15)
Share of associated company's tax charge	-	5
Total current tax charge	10	35
Deferred tax		
Origination and reversal of timing differences	-	2,300
Pension cost charge in excess of pension cost relief	-	(6)
	-	2,294
Total tax charge for the year	10	2 322

Notes *(continued)*

9 Taxation *(continued)*

Factors affecting the tax charge for the current year

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 30% The differences are explained below

	2007 £000	2006 £000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	**142**	(2,510)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**43**	(753)
Effects of		
Expenses not deductible for tax purposes	**1,396**	1 681
Profits on disposal of investments not taxable	**(1,011)**	-
Capital allowances for the year in excess of depreciation	**(563)**	(481)
Provisions not allowed until paid	**310**	(276)
Movement in losses carried forward	**(175)**	(112)
Adjustments in relation to previous years	**10**	(15)
Differences in tax rates	**-**	(9)
Total current tax charge for the year	**10**	35

Factors that may affect future tax charges

The Group has losses available to carry forward of approximately £39 million (*2006 £35 million*) which will be available to set against trading and other profits arising in future years

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 30%, are shown below

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Difference between accumulated depreciation and amortisation and capital allowances	**(49)**	**-**	802	-
Other timing differences	**7,883**	**-**	6,841	-
Tax losses carried forward	**11,542**	**-**	10,584	-
Total potential deferred tax asset	**19,376**	**-**	18 227	-
Less provision for recoverability	**(15,376)**	**-**	(14 227)	-
Deferred tax asset recognised (see note 15)	**4,000**	**-**	4,000	-

The £Nil charge (*2006 £2 3 million charge*) to the profit and loss account during the year in respect of deferred tax reflects changes in the estimated recoverability of past trading losses as a result of trading performance in the current period and that anticipated going forward

Notes *(continued)*

10 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the parent undertaking's profit and loss account has not been included separately in these financial statements The loss for the financial year relating to the parent undertaking is £1,407,000 *(2006 loss of £44,465,000, after an impairment charge of £48,133,000 against the company's fixed asset investments)*

11 Intangible fixed assets

Group	**Goodwill** £000
Cost	
At beginning of year	43,204
Adjustments	(22)
At end of year	43,182
Accumulated amortisation	
At beginning of year	(7,672)
Charge for year	(3,295)
At end of year	(10,967)
Net book value	
At 31 March 2007	**32,215**
At 31 March 2006	35,532

Goodwill represents amounts arising on the acquisition of Celtic Group Holdings in July 2004 The goodwill is being amortised on a straight-line basis over 13 years, being the period over which the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets

Notes *(continued)*

12 Tangible fixed assets

Group	Freehold land and buildings	Plant and machinery	Surface works	Opencast sites	Computer equipment and motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost						
At beginning of year	9,488	31,139	1,837	172,698	180	215,342
Additions	201	2,003	50	12,425	-	14,679
Disposals	(158)	(1,627)	-	-	(45)	(1 830)
Transfers	-	(344)	344	-	-	-
At end of year	9,531	31,171	2,231	185,123	135	228,191
Depreciation						
At beginning of year	326	22,039	1,479	137,074	133	161,051
Charge for year	35	2,678	18	6,144	24	8 899
Disposals	-	(1,627)	-	-	(41)	(1,668)
At end of year	361	23,090	1,497	143,218	116	168,282
Net book value						
At 31 March 2007	**9,170**	**8,081**	**734**	**41,905**	**19**	**59,909**
At 31 March 2006	9,162	9,100	358	35,624	47	54,291

Included in the cost of freehold land and buildings is £1,741,000 (*2006 £1,741,000*) in respect of depreciable assets

Opencast sites represents capitalised costs of site preparation, restoration and rehabilitation

Included in the total net book value at 31 March 2007 is £4,909,000 (*2006 £3,326,000*) in respect of assets held under finance leases and similar hire purchase contracts Depreciation for the year on these assets was £813,000 (*2006 £684,000*)

Notes *(continued)*

13 Fixed asset investments

Company	Interests in subsidiary undertakings £000
Cost	
At beginning of year	74 052
Adjustment	(22)
Group transfer	(10,000)
At end of year	64,030
Provisions	
At beginning of year	(48,133)
Impairment in year	(15,897)
At end of year	(64,030)
Net book value	
At 31 March 2007	-
At 31 March 2006	25,919

As part of a group reorganisation exercise during the year, the company transferred the entire share capital of Celtic Group Holdings to an intermediate holding company, Celtic Mining Operations Group Limited for the consideration of £1 In addition, the entire share capital of Celtic Energy Limited was transferred to Celtic Group Holdings for the consideration of £10m The consideration was settled by means of assignment of inter-company debt owed by Celtic Mining Group Limited to Celtic Energy Limited

Details of subsidiary undertakings at the year end are as follows

Name	Activity	Shares held	Proportion of nominal value of issued share capital held by group	Proportion of nominal value of issued share capital held by company
Subsidiary undertakings				
Celtic Group Holdings	Holding company	Ordinary	100% *	-
Celtic Mining Operations Group Limited	Holding company	Ordinary	100%	100%
Celtic Energy Limited	Opencast mining	Ordinary	100% *	-
Celtic Mining Limited	Dormant during the year	Ordinary	100% *	-

All of the above companies are incorporated in Great Britain and registered in England and Wales

* Held by intermediary holding companies

Notes *(continued)*

13 Fixed asset investments *(continued)*

Group	**Interest in associated undertaking £000**
At beginning of year	1,153
Disposal	(1,153)
At end of year	-

The 49% interest in the associated undertaking was disposed of during the year for a consideration of £3,370,000, net of associated costs The investment was held at a nominal amount in the parent company

14 Stocks

	Group 2007 £000	**Company 2007 £000**	Group 2006 £000	Company 2006 £000
Coal stocks	**6,276**	**-**	6,986	-

15 Debtors

	Group 2007 £000	**Company 2007 £000**	Group 2006 £000	Company 2006 £000
Trade debtors	**4,912**	**-**	3 540	-
Other debtors	**-**	**-**	52	1
Consortium relief receivable	**-**	**-**	232	-
Prepayments and accrued income	**1,252**	**98**	345	-
Amounts owed by subsidiary undertakings	**-**	**3,923**	-	-
Total debtors due within one year	**6,164**	**4,021**	4,169	1
Deferred tax asset (see note 9)	**4,000**	**-**	4 000	-
Total debtors	**10,164**	**4,021**	8 169	1

Notes *(continued)*

16 Cash at bank and in hand

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Cash at bank and in hand	**18,798**	-	10,481	335
Restricted cash deposits	**4,991**	-	1 648	-
	23,789	-	12,129	335

Restricted cash deposits are held in separate bank accounts which are formally charged and whose release is restricted dependent on the group meeting certain performance criteria

17 Creditors: amounts falling due within one year

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Loan notes	**314**	**314**	-	-
Other loans	**361**	**361**	340	340
Obligations under finance leases and hire purchase contracts	**1,607**	-	1,337	-
Trade creditors	**3,952**	**118**	3,813	60
Retentions from contractors	**39**	-	163	-
Corporation tax	-	-	21	-
Other taxes and social security	**676**	**52**	820	1
Other creditors	**3,723**	**461**	3,271	6
Accruals and deferred income	**864**	**864**	2,290	-
Deferred consideration	**164**	**164**	1,030	1,030
Amounts owed to subsidiary undertakings	-	-	-	83
	11,700	**2,334**	13 085	1,520

Deferred consideration is settled through the issue of loan notes which are redeemable at any time more than six months from the date of issue, such loan notes being unsecured, guaranteed by the group's bankers, and bearing interest at 1% less than the rate earned on an equivalent value deposit held with the group's bankers

The other loans are unsecured and bear interest at 2% above Barclays Bank base rate

Notes *(continued)*

18 Creditors: amounts falling due after more than one year

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Deferred consideration	439	439	791	791
Obligations under finance leases and hire purchase contracts	2,865	-	3 416	-
Amounts owed to subsidiary undertaking	-	47,423	-	68,712
	3,304	47,862	4,207	69,503

The maturity of the loan notes, deferred consideration, other loans, finance leases and hire purchase contracts, as at the balance sheet date, is as follows

2007	Amounts falling due			
	Within one year £000	In one to two years £000	In two to five years £000	Total £000
Loan notes	314	-	-	314
Deferred consideration	164	360	79	603
Other loans	361	-	-	361
Company	839	360	79	1,278
Finance leases and hire purchase contracts	1 607	963	1,902	4,472
Group	2,446	1,323	1,981	5,750

2006	Amounts falling due			
	Within one year £000	In one to two years £000	In two to five years £000	Total £000
Deferred consideration	1,030	791	-	1,821
Other loans	340	-	-	340
Company	1,370	791	-	2,161
Finance leases and hire purchase contracts	1,337	1,417	1,999	4,753
Group	2,707	2 208	1 999	6,914

Notes *(continued)*

18 Creditors: amounts falling due after more than one year *(continued)*

Group and Company

Deferred consideration

	£000
At 1 April 2006	1 821
Settled in year	(1,000)
Adjustments	2
Transfer to loan notes	(314)
Unwinding of discount (see note 8)	94
At 31 March 2007	**603**

The deferred consideration is contingent partly upon the achievement of certain financial performance targets and partly upon the occurrence of specific future events whose timing is uncertain The fair value of the consideration represents the directors current estimate of the amounts reasonably expected to become payable All elements of deferred consideration have been discounted from their anticipated settlement date at a rate of 6 75% The maximum performance related consideration payable linked to future events amounted to £3,600,000, with a further uncapped element relating to the performance of the group's investment in Cofton (Wales) Limited The difference between the present value and the ultimate settlement amount has been accrued through a charge to interest payable of £94,000 *(2006 £266,000)*

19 Provisions for liabilities and charges

Group	At 1 April 2006 £000	Increase in the year £000	Utilised in year £000	Unwinding of discount (see note 8) £000	**At 31 March 2007 £000**
Concessionary fuel	576	39	(6)	-	**609**
Operating provisions	98,544	14,380	(601)	2,447	**114,770**
	99,120	14,419	(607)	2 447	**115,379**

Notes *(continued)*

19 Provisions for liabilities and charges *(continued)*

Concessionary fuel retirement benefits

The Group 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 11 former workers and widows already receive this benefit and there are 17 current employees who will become eligible for this allowance

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

	2007	2006
Principal assumptions		
Average retirement age	**60 years**	60 years
Discount rate	**3 0%**	3 0%
Pensionable life - male	**15 years**	15 years
Pensionable life - female	**20 years**	20 years

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

Operating provisions

Operating provisions include provisions for restoration and rehabilitation of opencast sites and distribution centres

The timing and amounts of cash flows relating to the reinstatement of soil excavation and of surface restoration, of opencast sites and distribution centres, are 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

The provision is calculated by applying a 'real' discount rate of 2 5% to these cash flows

20 Called up share capital

	2007 £	2006 £
Authorised		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid		
1 ordinary share of £1 each	1	1

Notes *(continued)*

21 Profit and loss account

	2007 £000
Group	
At beginning of year	139
Profit for the year	132
Actuarial gain on pension scheme (net of deferred tax)	102
At end of year	**373**

	£000
Company	
At beginning of year	(44 768)
Loss for the year	(1 407)
At end of year	**(46,175)**

22 Reconciliations of movements in shareholders' funds

	2007 £000	2006 £000
Group		
Profit/(loss) for the financial year	132	(4,832)
Actuarial gain on pension scheme	145	2
Movement on deferred tax relating to pension scheme	(43)	-
Net addition to/(reduction in) shareholders' funds	234	(4,830)
Opening shareholders funds	139	4,969
Closing shareholders' funds	**373**	139

	2007 £000	2006 £000
Company		
Loss for the financial year	(1,407)	(44,465)
Opening deficit on shareholders' funds	(44,768)	(303)
Closing deficit on shareholders' funds	**(46,175)**	(44,768)

Notes *(continued)*

23 Commitments

(i) Capital commitments at the end of the financial period, for which no provision has been made, are as follows

Group	**2007**	2006
	£000	£000
Contracted	-	-

The company had no capital commitments at the end of the financial year (*2006 £Nil*)

(ii) Annual commitments under non-cancellable operating leases are as follows

	2007		2006	
	Land and buildings	**Other**	Land and buildings	Other
Group	**£000**	**£000**	£000	£000
Operating leases which expire				
Within one year	-	12	-	2
In the second to fifth years inclusive	52	55	52	48
	52	67	52	50

The company had no operating lease commitments at the end of the financial year *(2006 £Nil)*

24 Reconciliation of operating profit to net cash inflow from operating activities

	2007	2006
	£000	£000
Group operating profit/(loss) from continuing activities	232	(135)
Depreciation and other amounts written off tangible fixed assets	8,899	5,462
Amortisation and impairment of goodwill	3,295	5,201
Profit on sale of tangible fixed assets	(99)	(410)
Difference between pension cost and cash contributions	(46)	(65)
Increase in goodwill	22	-
Increase in deferred consideration	96	-
Decrease/(increase) in stocks	709	(2 321)
(Increase)/decrease in debtors	(1,988)	3,672
(Increase)/decrease in creditors	(1,102)	188
Increase in provisions	7,575	6,260
Net cash inflow from operating activities	17,593	17,852

Notes *(continued)*

25 Analysis of net funds

	At 1 April 2006 £000	Cash flows £000	Other non-cash changes £000	**At 31 March 2007 £000**
Cash	10,481	8 317	-	**18,798**
Debt due within one year	(340)	-	(21)	**(361)**
Finance leases and hire purchase contracts	(4,753)	1,466	(1,185)	**(4,472)**
	(5,093)	1,466	(1 206)	**(4,833)**
Total	5,388	9,783	(1 206)	**13,965**

26 Analysis of cash flow for headings netted in the cash flow statement

	2007 £000	2006 £000
Returns on investments and servicing of finance		
Interest received	**628**	342
Interest paid	**(45)**	(86)
Finance lease interest paid	**(307)**	(341)
	276	(85)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(2,070)**	(2,354)
Increase in capitalised work in progress and pre-coaling costs	**(5,280)**	(7,192)
Receipts from sales of tangible fixed assets	**262**	849
Increase in restricted cash deposits	**(3,343)**	(1,014)
	(10,431)	(9,711)
Acquisitions and disposals		
Payment of deferred consideration	**-**	(2,000)
Redemption of loan notes issued as deferred consideration	**(1,000)**	(1,757)
Receipts from sale of associate	**3,370**	-
	2,370	(3,757)
Financing		
Capital element of finance lease repayments	**(1,466)**	(1 327)

Notes *(continued)*

27 Pension schemes

The group operates defined benefit and defined contribution pension schemes

Pension costs payable by the Group in respect of both defined contribution and defined benefit schemes are shown below

	2007	2006
	£000	£000
Defined benefit schemes	**248**	251
Defined contribution schemes	**173**	173
	421	424

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 which was set up on privatisation The assets of the scheme are held in separate trustee administered funds The scheme is subject to triennial valuation by the Government Actuary's Department, independent professionally qualified actuaries, the most recent valuation being performed as at 31 December 2003

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 2003 is a long term gross yield on scheme assets of 7% which will exceed the annual rate of increase in pensionable salaries by 5 5% and price inflation by 4% Pensions are expected to increase in line with price inflation The aggregate market value of the assets at the valuation date was £3 7 million for the IWCSSS The aggregate funding level on an ongoing basis was 86%

Following the actuarial valuation undertaken as at 31 December 2003, a revised contribution rate has applied since March 2006 which together with an additional employer contribution of £134,400 per annum for a ten year period is intended to make good the deficit For members of the IWCSSS, employer contributions are 16 6% (2000 valuation – 16 2%)

Creditors at 31 March in respect of defined benefit and defined contribution schemes are shown below

	2007	2006
	£000	£000
Defined benefit schemes	**25**	28
Defined contribution schemes	**19**	21
	44	49

Notes *(continued)*

27 Pension schemes *(continued)*

The latest full actuarial valuation at 31 December 2003 has been updated by the scheme actuary at 31 March 2007 and 2006 on a FRS 17 basis The principal assumptions used by the actuary were as follows

	2007	2006	2005
	%	%	%
Rate of increase in pensionable salaries	**4 70**	4 50	4 50
Rate of increase in pensions in payment	**3 20**	3 00	3 00
Rate of increase in pensions in deferment	**3 20**	3 00	3 00
Discount rate	**5 40**	4 90	5 50
Inflation	**3 20**	3 00	3 00

The assets of the scheme that are attributable to the company's (and group's) employees and the expected rate of return were

	Value at 31 March 2007	Value at 31 March 2006	Value at 31 March 2005
	£000	£000	£000
Equities	**4,207**	4,097	2,914
Bonds	**1,514**	1,110	940
Total market value of assets	**5,721**	5,207	3,854
Present value of scheme liabilities	**(8,003)**	(7,649)	(6,278)
Deficit in the scheme	**(2,282)**	(2,442)	(2,424)
Related deferred tax asset	**685**	733	727
Net pension liability	**(1,597)**	(1,709)	(1,697)

The expected long-term rates of return on the assets in the scheme were

	2007	2006	2005
	%	%	%
Equities	**7 00**	7 00	7 00
Bonds	**5 40**	4 90	5 50

Notes *(continued)*

27 Pension schemes *(continued)*

	2007 £000	2006 £000
Analysis of the amount charged to operating profit		
Current service cost (net of employee contributions)	**248**	251
Analysis of the amount charged to other finance costs		
Expected return on pension scheme assets	**349**	267
Interest on pension scheme liabilities	**(380)**	(353)
Other finance costs	**(31)**	(86)
Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")		
Actual return less expected return on pension scheme assets	**(76)**	760
Experience gains and losses arising on the scheme liabilities	**(280)**	137
Changes in assumptions underlying the present value of liabilities	**501**	(895)
Actuarial gain recognised in the STRGL	**145**	2
Movement in deficit during the year		
Deficit at beginning of year	**(2,442)**	(2,424)
Current service cost (net of employee contributions)	**(296)**	(308)
Contributions	**342**	374
Other finance costs	**(31)**	(86)
Actuarial gain	**145**	2
Deficit at end of year	**(2,282)**	(2,442)

History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets					
Amount	**£(76,000)**	£760,000	£145,000	£536 000	£(1,206,000)
Percentage of scheme assets	**(1 3%)**	14 6%	3 8%	16 2%	(47 7%)
Experience gains and losses on scheme liabilities					
Amount	**£(280,000)**	£137,000	£(54,000)	£(511,000)	£63,000
Percentage of the present value of scheme liabilities	**(3 5%)**	1 8%	(10 9%)	(9 2%)	15 3%
Total amount recognised in the statement of total recognised gains and losses					
Amount	**£145,000**	£2,000	£(111 000)	£(528 000)	£(1,439,000)
Percentage of the present value of scheme liabilities	**1 8%**	-	(1 8%)	(9 5%)	(34 9%)

Notes *(continued)*

28 Ultimate controlling party

The directors consider that, at the balance sheet date, 100% of voting shares in the company are controlled by Richard Walters, a director of the company

29 Related party transactions

Transactions during the years to 31 March 2007 and 2006 and balances at 31 March 2007 and 2006, with companies in the G Walters Holdings Limited group of companies, a group within the family interests of the company's ultimate controlling shareholder, Richard Walters, were as follows

	Sales/(purchases) during the period 2007 £000	**Debtor/(creditor) outstanding at period end 2007 £000**	Sales/(purchases) during the period 2006 £000	Debtor/(creditor) outstanding at period end 2006 £000
Sales of assets	**263**	**-**	408	16
Purchase of assets	**(849)**	**-**	(909)	-
Charges for hire or lease of equipment	**(9,472)**	**(2,343)**	(10,034)	(2,042)
Charges for services	**(2,313)**	**(5)**	(3,327)	(295)
Consultancy services	**(300)**	**(100)**	(200)	(50)

In addition, at 31 March the group had loans outstanding totalling £361,000 (2006 *£340,000*) from the G Walters Holdings Limited group of companies, details of which are set out in note 17

Transactions during the years to 31 March 2007 and 2006 and balances at 31 March 2007 and 2006, with Cofton (Wales) Limited, a company in which the group had a 49% interest, were as follows

	Credited/(charged) to profit and loss account 2007 £000	**Debtor/(creditor) outstanding at period end 2007 £000**	Credited/(charged) to profit and loss account 2006 £000	Debtor/(creditor) outstanding at period end 2006 £000
Recharge of utilities, staff costs etc	**-**	**-**	-	2
Rent/lease payable	**3**	**-**	(1)	(9)
Consortium relief receivable	**-**	**-**	-	232

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

There were no other transactions requiring disclosure under Financial Reporting Standard 8