

# **SCOTTISH RESOURCES GROUP LIMITED**

**Annual Report and Financial Statements 2010**  
**For the 52 weeks ended 27 March 2010**

**Scottish Resources Group Limited**  
**Financial statements for the period ended 27 March 2010**

## **Company information**

|                                    |                                                                                                                                                                                                                                                                              |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Company Registration Number</b> | SC143746                                                                                                                                                                                                                                                                     |
| <b>Registered Office</b>           | Castlebridge Business Park<br>Gartlove<br>Alloa<br>FK10 3PZ                                                                                                                                                                                                                  |
| <b>Directors</b>                   | Don Nicolson<br>Nick Guest<br>Andrew Foster<br>Alan Somerville<br>Colin Cornes<br>Sam Cornes<br>Lord Lindsay (Non-executive)<br>Sean Mahon (Independent non-executive)<br>Greg Melgaard<br>Nick Parker (Chairman Elect)<br>Rt. Hon. Brian Wilson (Independent non-executive) |
| <b>Company Secretary</b>           | Peter Ferguson                                                                                                                                                                                                                                                               |
| <b>Bankers</b>                     | Lloyds Banking Group<br>Bank of Scotland plc<br>3 <sup>rd</sup> Floor, New Ueberior House<br>11 Earl Gray Street<br>Edinburgh<br>EH3 9BN                                                                                                                                     |
| <b>Solicitors</b>                  | Harper McLeod LLP<br>45 Gordon Street<br>Glasgow<br>G1 3PE<br><br>Eversheds LLP<br>1 Wood Street<br>London<br>EC2V 7WS                                                                                                                                                       |
| <b>Independent Auditors</b>        | PricewaterhouseCoopers LLP<br>Erskine House<br>68-73 Queen Street<br>Edinburgh<br>EH2 4NH                                                                                                                                                                                    |

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## **Chairman's statement**

I joined Scottish Resources Group Limited ("the Group") on 30 December 2009. I am delighted to re-establish a formal relationship with the Group, having been its financial advisor at privatisation in 1994. I look forward to the opportunity to chair this now well-established resources company, which has strong growth potential, and to work with the experienced and committed management team. I am taking over the chair from Sean Mahon, just as the Group enters another important stage in its development. I refer below to Sean's many contributions during his time as Chairman.

I am pleased to report that the Group made significant progress in a number of key areas of the business during the 52 week period ended 27 March 2010.

After taking account of exceptional items and the revaluation of our investment properties, the Group reported a profit before tax of £28.49m compared to a loss of £12.25m in the prior period.

As a result of both increased sales prices and volumes, cash generated from operating activities, but before interest paid, rose significantly to £46.1m (compared to cash used in operating activities, but before interest paid of £13.9m in the prior period). During the year, the Group continued to invest significantly in operating assets; plant and equipment additions were £17.3m and surface mine development spend was £5.2m. This provides an excellent base for the future development of the business.

The Group has continued to advance the development of its business plan. As a result of the strong operating performance in the year the Group was able to reduce net bank debt substantially by £18.4m from £38.3m to £19.9m at the end of the financial year. The Group was also able to make good progress in establishing an appropriate long-term capital structure with longer term bank facilities and the increased use of long-term asset finance to fund plant renewals and growth requirements. On 26 March 2010, the Group entered into new banking facilities with Lloyds Banking Group, comprising a 3 year £40.0m revolving credit facility along with working capital and bonding facilities.

It is pleasing to report that the Group's land and renewable energy portfolios are being actively developed to maximise the value of the Group's asset base and to optimise the existing skills and relationships which the Group has developed. There is a focus on key projects and partnerships are being forged to ensure that these investments are realised over the coming years. Management are focused on maximising the benefits accruing from the strategic land assets across the Group.

The Board of Directors is set out on page 28 and notes my appointment on 30 December 2009.

Following the strengthening of the management team, Patrick Smyth, Niall Crabb and Brian Staples have resigned from the Board during the period. I would like to take this opportunity to thank them for their contributions and support over many years whilst members of the Board.

The Group has an experienced and committed management team in each area of operations to take the business forward and remains fully committed to the highest standards and policies in Health and Safety, the environment and community involvement. The Group's detailed policies in these key areas are set out later in this report.

## **Chairman's statement**

The Group continues to recruit skilled personnel to join its workforce and, at 27 March 2010, employed almost 1000 employees across Scotland. None of what the Group has achieved would have been possible without the skill and commitment of our entire workforce. I am most grateful for all their efforts in helping to demonstrate the enormous benefits which our industry brings to Scotland in providing both vital energy supplies for our homes and equally significant and essential employment in rural communities.

The Group has made good progress with regard to the planned new site openings for the current financial year. Site preparation at Mainshill commenced in January of this year with the site successfully producing coal in May. Site preparation and overburden removal to expose coal seams at two further new sites, Ponesk and Dunstonhill, has commenced and is progressing in-line with expectations. The Group has started the current financial year with production and trading in-line with expectations and the Directors are confident of making further progress on their long-term strategy during the 2011 Financial Year.

The period ended 27 March 2010 saw significant progress towards achieving the long term strategy of the Group and demonstrated its ability to grow sales, production and underlying profits. Whilst there remains global uncertainty around the financial sector there is strong underlying demand for coal, and, with the potential value realisation of our property and renewable energy interests, we believe that the future for the Group is positive. Our two major shareholders have effectively been with, and supported the Group, since privatisation in 1994 and asked the Board some time ago to examine and prepare for possible exit options. This has included a strengthening of the management team in preparation for such a possibility. The Board, having now carefully considered all the options, has decided to seek a main market listing. Such a listing will be subject, but not limited to, market conditions and investor appetite.

Having successfully steered the Group to the current strong position, Sean Mahon has decided to step down from the Board effective from 25 June 2010. On the same day, I was elected Chairman of the Board and on behalf of the Board and the Group's employees, I would like to send a warm message of thanks to Sean for his considerable leadership and support since joining the Board as Chairman. He leaves us well placed to navigate the future as we aspire to become a listed company.

Nick Parker  
Chairman  
25 June 2010

## **Chief Executive's review**

In my last review, I stated that I had been attracted to join Scottish Resources Group Limited by the opportunity to lead a well established energy company with strong promise for growth in the core activity and its diversification potential using the land development and renewable energy opportunities lying within its substantial land portfolio. I am pleased to report that good progress has been made in all three of our divisions – Coal, Estates and Renewables in terms of understanding and analysing the opportunity set and laying foundations for growth. Group strategy is to deliver growth from all three divisions delivered primarily through organic growth from its large resource base and land bank. In addition, selected value-enhancing opportunistic acquisitions may be pursued.

As outlined in the Chairman's statement, the financial year 2009/10 was an encouraging year for the Group both in terms of financial delivery and strategic progress. Revenue increased by 59% to £229.9m, operating profit increased to £33.1m from a loss of £6.2 in the prior year and cash generated from operating activities increased to £46.1m from £13.9m in the previous financial year.

The strong financial performance was underpinned by a 13% increase in coal production to 3.4 million tonnes from 3.0 million tonnes. This second consecutive year of increased production helps consolidate the Group's position as the UK's largest surface coal mining company and second largest coal producer.

During the year, both sales volumes and average sales prices of coal increased. Coal sales have risen significantly over the period from 3.1 million tonnes in the previous financial period to 4.0 million tonnes this period. This reflects an increase in the level of production from the Group's own sites together with the purchase of additional coal sourced from both domestic and foreign producers. The Group's average sales price during the period rose from £1.96 per gigajoule (GJ) to £2.35 per GJ due to the Group successfully locking in higher average sales prices. In addition, a number of the Group's sales contracts have gasoil and inflation adjustment clauses to offset the variable cost pressures facing the Group. At the date of signing these accounts the Group had approximately 3.8 million tonnes of contracted sales commitments for the 10\11 financial year at an average sales price of approximately £2.09 per GJ and the Group continues to have discussions with our customers for additional 10/11 financial year contracts and longer term contracts.

Achieving a continuous flow of new planning consents to mine coal is fundamental to delivering business growth and the Group has a historical track record of success in this matter. The Group's coal reserves and resources have now been independently audited at 52.3 million tonnes, which at current production levels implies over 15 years of production even without adding any further tonnage to the portfolio. Also identified is additional non-JORC compliant reported recoverable resources associated with current and future operational sites amounting to 7.6 million tonnes. The Group has identified approximately 42.6 million tonnes of future coal prospects in addition to its reserves and resources.

The Group's extensive land portfolio is the common base for the mining, estates and renewable energy divisions and I am pleased to report that the carrying value of our investment property, based on independent 'Red Book' valuations, has increased by 44% to £37.7 million over the period from 29 March 2008 to 27 March 2010. Our total land-bank which includes operational sites, investment properties and renewable opportunities were valued on a Red Book basis at £55.7m at 27 March 2010. The Group also commissioned DTZ to undertake a 'Value Vision' assessment of the potential value of our land based on the Group's plans. Based on certain planning consents being granted and improving forward market conditions this assessment has identified a potential value of the Group's land portfolio of between approximately £165 million and £200 million. This contrasts with the Red Book Valuation, which is the current market value of the portfolio as at the date of valuation on a "willing buyer, willing seller" basis, taking into account the planning status at that time. The proposals being progressed from the land bank are diverse and range from an entire new community on the outskirts of Edinburgh through to a range of renewable energy projects. Whilst the latter represents a key growth area for the Group, it also demonstrates one part of our commitment to the lower carbon future sought by all. We are also implementing a range of measures throughout the business to manage the carbon output of our operations and meet the new Carbon Reduction Commitments being introduced.

## **Chief Executive's review**

In progressing the opportunities in our business we have undertaken a rebranding of the Group with a comprehensively revised website. This better explains how the Group's divisions operate together in an integrated manner and how, through our Corporate Social Responsibility policies, we conduct ourselves for the benefit of the Group, our employees and the communities where we operate. I am confident that by carrying this out now, the diversity of operations within the Group will be transparent to all and, as a result, our position as a leading Scottish and UK natural resources group will be better recognised.

I would confirm the comments of the Chairman that our skilled workforce and experienced management team is key to the success of the business. It is our desire and duty to provide them with a safe and positive working environment. To that end, one of our key objectives is to maximise efforts on Health, Safety and Environmental leadership across the entire business and wherever possible identify opportunities to improve systems of work that can be adopted within the Group and across the industry. Whilst it is pleasing to report on everyone's focus and commitment, with reduced accident rates for the second year in a row, we can never be complacent and must always strive for continuous progress in this most important of matters.

I am pleased to welcome Nick Parker to the Board. Nick was previously a senior partner at PricewaterhouseCoopers LLP responsible for Project Finance and Privatisation for Europe, Middle East and Africa. He was subsequently appointed Head of Performance and Innovation at the Scottish Executive between 2004 and 2007. He has considerable experience of the Energy sector during his professional career, including advising the Polish Government on a strategy for the Polish Coal Industry.

As the country tackles its economic problems, an absolute key requirement is for secure and affordable energy provision, which can be provided by maximising the utilisation of its own indigenous resources. The main challenge is to overcome concerns on carbon emissions which results from the use of oil, gas and coal and, to this end, we are pleased that the Scottish Government is now committed to progress on clean coal and carbon capture technologies. We believe that this commitment will help improve demand for coal over the longer term and that the Group is well positioned to service this demand for secure energy supplies as well as contributing to the nation's need for the provision of renewable energy sources.

The Group continued to position itself for further production growth as compared to the 09/10 financial year. In addition to strengthening our balance sheet successfully through the agreement of new banking facilities, the Group has continued to invest significantly in renewing and increasing our extensive plant fleet as well as increasing the workforce, preparing new mine sites for production and securing new sales contracts. The international coal price benchmark, most relevant to our business, (API#2) fell during the recession but has subsequently recovered and, at the time of writing, the API#2 forward curve has risen both for the current year and beyond. This price growth is encouraging for the business' future prospects.

As already mentioned above and in the Chairman's statement, I am encouraged by the good progress the Group has made with regard to planned new site openings. I am also encouraged that the Group has started the current financial year with production and trading in-line with expectations. Over the coming financial year I am optimistic that the Group will continue to perform well and make further positive steps towards executing their long-term strategy.

Don Nicolson  
Chief Executive  
25 June 2010

## Business review and highlights

### BUSINESS HIGHLIGHTS

|                                                                                        | 2010           | 2009    |
|----------------------------------------------------------------------------------------|----------------|---------|
| <b>INCOME STATEMENT</b>                                                                |                |         |
| Revenue (£ in millions)                                                                | <b>229.89</b>  | 144.60  |
| Average sales price achieved (£ per GJ)                                                | <b>2.35</b>    | 1.96    |
| Operating profit/(loss) (£ in millions)                                                | <b>33.10</b>   | (6.19)  |
| EBITDA before revaluations (£ in millions) (*)                                         | <b>48.16</b>   | 16.54   |
| Profit/(loss) for the period (£ in millions)                                           | <b>21.24</b>   | (9.12)  |
| <b>BALANCE SHEET</b>                                                                   |                |         |
| Property, plant and equipment (£ in millions)                                          | <b>117.00</b>  | 104.06  |
| Purchase of plant and equipment (£ in millions)                                        | <b>17.25</b>   | 25.35   |
| Investment property valuation (£ in millions)                                          | <b>37.72</b>   | 26.21   |
| Net assets (£ in millions)                                                             | <b>27.36</b>   | 13.58   |
| <b>HEALTH AND SAFETY</b>                                                               |                |         |
| RIDDOR (**) reportable accident frequency rate<br>per employee (including contractors) | <b>0.01732</b> | 0.01938 |

\* EBITDA before revaluations is defined as operating profit/(loss) before revaluation movements, depreciation and amortisation.

\*\* RIDDOR – the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

## Business review and highlights

### Overview

The Group is the United Kingdom's largest surface coal mining company with an approximate 34 per cent share of UK surface mine production in 2009 and an approximate 20 per cent share of total UK coal production. Along with nine operating sites across central Scotland, the Group also has a freehold land portfolio of approximately 25,000 acres of land including operational, investment and development land. The Group is involved in developing a portfolio of both commercial and residential land as well as leisure, renewable and alternative energy opportunities. The Group's land portfolio and relationships with generators, regulators and local authorities provide a strong opportunity to develop renewable energy projects.

The Group had a very successful year. Group revenues have increased substantially during the period to £229.9 million from £144.6 million in the 2009 Financial Year (52 weeks ended 28 March 2009). Correspondingly, operating profit increased from an operating loss of £6.2 million in the 2009 Financial Year to £33.1 million in the 2010 Financial Year (52 weeks ended 27 March 2010). Of this, the property revaluation gain was £8.8 million (2009: £3.7 million loss).

### Coal performance

The coal business had a very successful year where coal sales rose significantly from 3.1 million tonnes to 4.1 million tonnes which reflects an increase in the level of production from the Group's own sites together with the purchase and blending of additional coal sourced from both domestic and foreign producers. This increased tonnage, together with favourable sales prices led to an increase in revenue of 58.8% to £229.4 million in the 2010 Financial Year from £144.5 million in the 2009 Financial Year. This produced an increase in operating profit to £24.4 million (2009: £1.9 million loss).

The Group's coal division key performance indicators are presented below:

|                                                  | 2010  | 2009  |
|--------------------------------------------------|-------|-------|
| Coal mined (tonnes in millions)                  | 3.38  | 3.01  |
| Coal sales (tonnes in millions)                  | 4.05  | 3.12  |
| Average sales price achieved (£ per GJ)          | 2.35  | 1.96  |
| Operating overburden (m <sup>3</sup> millions)   | 67.8  | 52.8  |
| Investment in new sites (£ in millions) (*)      | 5.21  | 2.20  |
| Investment in plant (£ in millions)              | 17.25 | 25.35 |
| Reserves and resources (tonnes in millions) (**) | 52.26 | N/A   |

### Health and safety

|                                                                                         |         |         |
|-----------------------------------------------------------------------------------------|---------|---------|
| RIDDOR (***) reportable accident frequency rate<br>per employee (including contractors) | 0.01732 | 0.01938 |
|-----------------------------------------------------------------------------------------|---------|---------|

\* Investment in new sites is defined as additions to the surface mine development assets and represents costs incurred prior to coaling at a site.

\*\* Reserves and resources as reported in the Wardell Armstrong reserves and resources report, prepared in accordance with the JORC Code. 2010 is the first year reserves and resources data was prepared in accordance with the JORC Code, hence comparative information for the 2009 financial year is not available.

\*\*\* RIDDOR – the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

## Business review and highlights

### *Coal mined*

The table below details the coal mined for the Group as well as the audited reserves and resources, as audited by Wardell and Armstrong which has been prepared in accordance with the JORC Code:

| SUMMARY OF COAL RESERVES, RESOURCES AND PRODUCTION |                   |                    |              |                    |             |
|----------------------------------------------------|-------------------|--------------------|--------------|--------------------|-------------|
| Site                                               | Reserves<br>Total | Resources<br>Total | Total        | Production Tonnage |             |
|                                                    |                   |                    |              | 2010               | 2009        |
| Pennyvenie                                         | 0.39              | 9.89               | 10.28        | 0.44               | 0.57        |
| House of Water                                     | 3.39              | 0.47               | 3.86         | 0.32               | 0.22        |
| Powharnal                                          | 0.23              | 0.88               | 1.11         | 0.60               | 0.58        |
| Dunstonhill (new site FY 2011)                     | 1.27              | -                  | 1.27         | -                  | -           |
| Glentagart                                         | 0.50              | 4.52               | 5.02         | 0.45               | 0.52        |
| Brokencross                                        | 8.59              | 2.70               | 11.29        | 0.75               | 0.09        |
| Poniel                                             | -                 | 0.16               | 0.16         | 0.28               | 0.36        |
| Mainshill (new site FY 2010)                       | 1.00              | 0.33               | 1.33         | -                  | -           |
| St Ninians                                         | 0.33              | 3.18               | 3.51         | 0.36               | 0.41        |
| Shewington                                         | 0.16              | -                  | 0.16         | 0.18               | 0.26        |
| Future sites                                       | 0.55              | 5.84               | 6.39         | -                  | -           |
| <b>Non contracted site total</b>                   | <b>16.41</b>      | <b>27.97</b>       | <b>44.38</b> | <b>3.38</b>        | <b>3.01</b> |
| Spireslack                                         | 1.44              | 6.44               | 7.88         | 0.15               | 0.21        |
| <b>Total</b>                                       | <b>17.85</b>      | <b>34.41</b>       | <b>52.26</b> | <b>3.53</b>        | <b>3.22</b> |

Coal reserves are the economically mineable part of a measured and/or indicated coal resource. Coal reserve estimates include diluting materials and are adjusted for losses that may occur when the coal is mined.

Coal resource is that part of a coal deposit in such form and quantity that there are reasonable prospects for eventual economic extraction.

Audited reserves and resources relate to existing and proposed mine sites that have been fully evaluated or are at an advanced stage of assessment, and/or sufficient information is available for an independent technical audit to be undertaken. The Group provided a range of information to assist with the audit, such as drilling records and geological plans etc. The audit also included detailed consultation with the Group and a number of site visits.

The contract relating to the operation of Spireslack terminated in May 2010 following the subcontracted area of the site becoming fully mined. The remaining area belongs to the Group which will be mined going forward.

Total own site production was 3.38 million tonnes in the 2010 Financial Year, compared to 3.01 million tonnes in the 2009 Financial Year. The increase in production has been driven principally by the reopening of Broken Cross in 2009 Financial Year as well as the Group's continued investment in plant and equipment; £17.25 million of plant and equipment purchases were made in the 2010 Financial Year.

## **Business review and highlights**

The Group's reserves and resources as reported under the JORC Code as at 27 March 2010 totalled 52.26 million tonnes. This comprised 17.85 million tonnes of recoverable reserves and 34.41 million tonnes of recoverable resources.

### ***Coal sales and average sales price achieved***

Coal sales have risen significantly over the period from 3.12 million tonnes in the 2009 Financial Year to 4.05 million tonnes in the 2010 Financial Year which reflects an increase in the level of production from the Group's own sites together with the purchase and blending of additional coal sourced from both domestic and foreign producers.

The Group's average sales price, including recharged haulage and fuel pass through, during the period rose from £1.96 per GJ in the 2009 Financial Year to £2.35 per GJ in the 2010 Financial Year, as the Group successfully locked in higher average sales prices. In addition, an increasing number of the Group's sales contracts have gasoil and inflation adjustment clauses to offset the variable cost pressures facing the Group.

### ***Operating overburden***

Operating overburden is the amount of overburden that has been moved by the Group's heavy plant fleet in coaling activities, excluding restoration. The amount excavated has increased from 52.8 million cubic metres in the 2009 Financial Year to 67.8 million cubic metres in 2010 Financial Year. This increase can be principally attributed to the reopening of Broken Cross within the 2009 Financial Year and site extension activity at House of Water, Glentagart and Shewington during the year, as well as improvements in the operational capacity of the Group's plant fleet.

### ***Investment in new sites***

Investment in new sites is defined as additions to the surface mine development assets and represents costs incurred prior to coaling at a site. This investment has increased from £2.20 million in the 2009 Financial Year to £5.21 million in the 2010 Financial Year. The significant increase in new site investment in the 2010 Financial Year was principally due to a new site opening at Mainhill during January 2010 plus extensions to existing sites at Pennyvenie, Glentagart, Spireslack and Shewington, along with investment in sites due to open in 2011 and beyond.

Our workforce has increased from 884 at the start of the year to 989 at the year-end as the level of site activity has increased.

### ***Investment in plant***

The Group operates one of the largest earthmoving fleets in Europe and expects to invest around £20 million a year in renewal and expansion of its plant fleet. The Group has invested heavily during the period with £17.25 million of plant and equipment purchases in the 2010 Financial Year and £25.35 million in the 2009 Financial Year which the Directors believe will improve efficiency and provide the Group with the ability to increase production in future years.

## Business review and highlights

### Estates

SRG Estates manages and creates development opportunities on the 25,000 acre land portfolio in Central and Southern Scotland, including a series of major new projects.

The land and property portfolio is well diversified with 26 per cent of Red Book Value coming from agricultural, forestry and renewables assets. The development land within the Group's portfolio is generally at the early stages of the planning process. The Directors believe that the assets are conservatively valued. This allows the Group to add value to the assets by promoting them through the planning system.

### *Summary of Estates & Property Assets by Value*

|              |     |
|--------------|-----|
| Development  | 58% |
| Agricultural | 15% |
| Residential  | 11% |
| Renewables   | 9%  |
| Investment   | 4%  |
| Forestry     | 3%  |

SRG Estates produced an operating profit of £8.62 million in the 2010 Financial Year (2009: £4.14 million loss). Revaluation gain on investment properties was £8.79 million this year whereas the previous year was £3.70 million write-down.

The Group's estates division key performance indicators are presented below:

|                                               | 2010  | 2009  |
|-----------------------------------------------|-------|-------|
| Investment property valuation (£ in millions) | 37.72 | 26.21 |
| Rental income (£ in millions)                 | 0.33  | 0.12  |

The value of the Group's investment property portfolio as at 29 March 2008 was £29.91 million. During the 2009 Financial Year this value was affected by the economic downturn and a fair value loss on investment properties of £3.70 million which was recorded in the income statement. In the 2010 Financial Year, the value of investment property in the Group's balance sheet rose by £11.51 million (to £37.72 million) primarily reflecting progress in individual projects' planning status and a general improvement in the property market outlook together with the reclassification of £2.86 million of operational properties as investment properties.

## Business review and highlights

### *Description of Ongoing Development Project Activities*

Most of the Group's development projects tend to be mixed use due to the size of individual landholdings. There is generally a primary use for each of these projects which provides the basis for the principal project summaries set out below.

#### *Residential Projects*

##### *Blindwells, East Lothian*

Blindwells comprises a major 393 acre residential development for a major new settlement located approximately 10 miles from Edinburgh city centre in East Lothian which is a prime commuter location for Edinburgh. The site is currently zoned for 1,600 homes plus retail, commercial and community uses. The project is one of the largest private housing developments on the periphery of Edinburgh and has considerable potential for expansion in the future. Access to the site is directly off the A1 and the main East Coast railway line is immediately adjacent to the site. Submission of an outline planning application is targeted for the second half of 2010. This site is no longer operational as a mine and has been substantially restored. The Red Book Value of this site is £18.40 million.

##### *Ravenstruther, Lanark, South Lanarkshire*

Ravenstruther is a 37 acre site currently used as a rail distribution facility. The site has potential for residential development subject to resolving certain title restrictions. The Red Book Value of this site is £1.1 million.

##### *Dalquhandy, Coalburn, South Lanarkshire*

Dalquhandy is a 1850 acre site located close to Junction 10 of the M74. The site has recently been restored and now includes approximately 558 acres of woodlands. The site is identified in the South Lanarkshire Local Plan as a rural investment area. Outline planning consent was granted in September 2008 for a residential development on a 17 acre section of the site. Further residential and renewable energy opportunities are being explored on other sections of the site. The Red Book Value of this site is £1.99 million.

#### *Commercial Projects*

##### *Castlebridge, Alloa, Clackmannanshire*

Castlebridge is a 64 acre site located near the new Clackmannanshire Bridge crossing of the River Forth. The bridge links directly to the central Scotland motorway network placing the site within less than an hour's drive of either Edinburgh or Glasgow. The site was a former pithead complex. Outline planning consent was granted in August 2008 for an industrial and office development with an area of 494,000 sq ft. Detailed planning consent was granted during April 2010 for the first new office building. This site may benefit from a planned large expansion to the settlement of Forestmill, near Alloa. The Red Book Value of this site is £2.98 million.

##### *Poniel, Douglas, South Lanarkshire*

Poniel is a 630 acre site situated immediately adjacent to J11 of the M74 Motorway some 25 miles south of Glasgow. The site was previously surface mined and is in the latter stages of restoration. In December 2007, 100 acres of land was sold to Dewars for the creation of a bonded warehouse / maturation plant. Dewars obtained planning consent for circa 1 million sq ft of accommodation and their development has progressed with a number of warehouses in place and operational. A planning application was lodged in April 2010 for the remainder of the site. This outline application seeks consent for another 2 million sq ft of industrial accommodation plus a hotel. Determination of this application is expected by the end of 2010. The Red Book Value of this site £4.66 million.

## Business review and highlights

### *Leisure Projects*

#### *St. Ninians, Dunfermline, Fife*

St. Ninians is a 1,200 acre operational site located at J4 of the M90, 20 miles north of Edinburgh and 10 miles north of the Forth Bridges. During December 2009, planning consent was obtained for the “Fife Earth Project”. This is a landscape restoration scheme of national significance. The Fife Earth Project has been designed by Charles Jencks who has an international reputation for creating innovative land art. The design is being implemented as the restoration phases commence. The finished scheme is expected to become a tourist attraction within central Scotland. Beyond the Fife Earth Project, opportunities exist for retail, leisure and residential development. The Group is in consultation with local authorities with regards to the next phase of this site’s development. The Red Book Value of this site is £2.94 million.

### *Renewables Projects*

#### *Westfield, Kinglassie, Fife*

Westfield is a 1,044 acre site approximately five miles east of Junction 5 of the M90 motorway. The site was previously surface mined and has a freight line allowing the site direct access to the main East Coast rail line. Due to the size and nature of the site, there are a number of potential opportunities for future use and development. The site is adjacent to the Fife Energy Park which is currently operated by Scottish and Southern Energy. There is also a substantial electricity inter–connector/substation adjacent to the site. A planning application was submitted in October 2008 to renew a planning consent for the first phase of a Green Business Park which focuses on recycling and clean energy generation. A planning consent has been granted for a biomass heat and power plant. A planning application has also been lodged by Infinis for a 12.5 MW wind farm, which, if granted, would generate revenue for the Group. The Red Book Value for this site is £1.88 million.

#### *Damside, Shotts, North Lanarkshire*

Damside is a 1,294 acre site located three miles south of Junction 5 of the M8 motorway. The location is equidistant between Edinburgh and Glasgow. The site was previously surface mined and is partially restored. The site has potential opportunities for wind farms, industrial or leisure use with small pockets of residential. The site is identified within the North Lanarkshire Southern Area Local Plan as being a strategic development location and a rural investment area. Initial planning promotion is ongoing with a view to submitting an outline application for an Energy Park with associated uses in November 2010. The Red Book Value for this site is £1.53 million.

### Renewables

The renewables division produced an operating profit of £0.074 million in the 2010 Financial Year (2009: £0.002 million profit).

The Group’s renewables division key performance indicators are presented below:

|                               | 2010 | 2009 |
|-------------------------------|------|------|
| Rental income (£ in millions) | 0.18 | 0.02 |

The Group seeks to monitor both holding rent levels and progress of planning status achieved through internal projects and the sale and purchase agreement with Infinis. Revenue from renewable projects in the 2010 Financial Year was £178,000. Looking forward, the Directors believe that renewable energy, notably wind, will provide a significant source of latent value within the Group given its existing experience and skills as well as its extensive land bank. Key projects are as follows:-

## Business review and highlights

### Wind Projects

The Group's landholdings lend themselves to wind farm projects due to the nature of their locations which tend to be rural and within parts of Scotland which benefit from good wind speeds. In addition, all of the potential sites are located in the Central Belt of Scotland and within easy reach of Glasgow and Edinburgh, which is an advantage in connecting the relevant wind farms to the Electricity Grid. Current Scottish planning policy is generally supportive of renewable energy development.

In September 2007, the Group concluded a transaction with Infinis in relation to a number of wind farm and biomass sites. The transaction involved the sale of the freehold for one parcel of land and put in place a leasehold structure for four other areas. Infinis is currently taking these wind farm sites through the planning process. Upon receipt of planning consent the Group will receive a capital payment based upon the size of the consented wind farm. When the wind farm is operational, the Group will receive an income stream based upon a percentage of generated revenue. Whilst the projects are going through the planning process, the Group receives a nominal holding rental income. Infinis is currently promoting approximately 140 MW of wind turbine generating capacity involving approximately 60 turbines on the Group's land.

The Group is currently working on further developing its wind farm portfolio with another seven sites expected to be promoted through the planning system. The scale of this phase is likely to be approximately 200 MW of generating capacity, representing some 85 turbines. The Group has undertaken financial and technical analysis of these landholdings. Preliminary discussions have also taken place with wind farm operators.

Given the Group's extensive land bank and the infrastructure which already exists on many of its sites, it is well-positioned as a potential partner for prospective wind farm developers.

### Biomass Projects

The Infinis transaction granted development rights over four land parcels for the development of 125MW of biomass power generation, however Infinis intend to develop approximately 375MW of biomass power generation on these sites. To date 40MW has been consented at Westfield.

The Group owns approximately 2,700 acres of forestry (of which a small proportion is energy crop - primarily short rotation coppice willow). Demand for timber in the United Kingdom has recently increased in response to rising demand for biomass and it is the Directors' intention to exploit opportunities in this segment. The Group has now completed a full timber management assessment and will seek to manage its timber assets on a more active basis.

In a co-ordinated approach to expanding the business into a range of renewable energy projects, the Group has re-engaged in discussions with the generators for the potential supply of biomass related fuels using the Group's existing sales and distribution network. The potential supply is based on the experience gained and opportunities created by the operation by the Group of Scottish BioFuels Limited prior to its sale to Infinis in 2007. The Group expects that it would fulfil these supply contracts using a combination of already owned timber and traded timber. The plans are still at an early stage.

The supply of biomass and energy crop by the Group remains in its early development. However, if and when successful, it would complement the Group's main coaling business as it also has the same customers and substantially the same operational characteristics in handling, storage, logistics, sampling and analysis.

## Business review and highlights

### Waste-to-Energy Projects

The Group is currently reviewing a number of waste-to-energy projects. These projects are at an early stage and have the potential for development due to the location/nature of the Group's landholdings and its existing relationships with local authorities. These longer term projects include municipal and commercial waste projects.

### Energy Parks

The Group is currently exploring proposals with regard to establishing a number of energy parks across its landholdings. An energy park is a development which has Renewable Energy at the core of the proposal, typically encompassing clean energy generation on-site.

### FINANCIAL REVIEW

|                                                                | 2010          | 2009   |
|----------------------------------------------------------------|---------------|--------|
| <b>INCOME STATEMENT</b>                                        |               |        |
| Revenue (£ in millions)                                        | <b>229.89</b> | 144.60 |
| Average sales price achieved (£ per GJ)                        | <b>2.35</b>   | 1.96   |
| Operating profit/(loss) (£ in millions)                        | <b>33.10</b>  | (6.19) |
| EBITDA before revaluations (£ in millions) (*)                 | <b>48.16</b>  | 16.54  |
| Profit/(loss) for the period (£ in millions)                   | <b>21.24</b>  | (9.12) |
| <b>BALANCE SHEET</b>                                           |               |        |
| Property, plant and equipment (£ in millions)                  | <b>117.00</b> | 104.06 |
| Purchase of plant and equipment (£ in millions)                | <b>17.25</b>  | 25.35  |
| Investment property valuation (£ in millions)                  | <b>37.72</b>  | 26.21  |
| Financial liabilities – current borrowings (£ in millions)     | <b>11.02</b>  | 33.70  |
| Financial liabilities – non-current borrowings (£ in millions) | <b>49.44</b>  | 33.74  |
| Net assets (£ in millions)                                     | <b>27.36</b>  | 13.58  |

### *Revenue*

In the 2010 Financial Year revenue increased by £85.29 million or 59.0 per cent to £229.89 million from £144.60 million in the 2009 Financial Year. This increase was principally driven by a further 19.9 per cent increase in achieved sales price (rising to £2.35 per GJ in the 2010 Financial Year) together with a 29.8 per cent increase in sales volume to 4.05 million tonnes.

### *Cost of sales*

Cost of sales increased by £55.96 million or 39.5 per cent to £197.69 million in the 2010 Financial Year, notably less than the revenue growth over the same period. Compared to the 2009 Financial Year, overburden volume increased by 28.4 per cent and the Group purchased significant volumes of coal from other suppliers to exploit market opportunities; the cost of these imports, from commencement to 27 March 2010, amounted to approximately £25.9 million in the 2010 Financial Year, taking total cost of coal purchased from third parties to £34.3 million, compared to £5.1 million in 2009 Financial Year.

## Business review and highlights

### *Fair value gain/(loss) on investment properties*

The Group's gains on investment properties were £8.79 million in the 2010 Financial Year compared to losses of £3.70 million in the 2009 Financial Year. These movements are largely driven by the underlying conditions in the UK property market as well as changes in the use of the Group's property portfolio. In particular, the 2010 Financial Year increase was driven by the increases in value of the Blindwells site (£4.10 million), planning gains and a number of smaller increases in value across the Group's portfolio.

### *Operating profit/(loss)*

As a result of the above, operating profit increased from an operating loss of £6.19 million in the 2009 Financial Year to a profit of £33.10 million in the 2010 Financial Year.

### *Exceptional operating expenses*

The operating profit/(loss) value includes exceptional operating expenses. Exceptional costs of £0.10 million were incurred in the 2010 Financial Year which related to a Health and Safety incident. This compares with £0.27 million in the 2009 Financial Year which related to professional fees in respect of the transition to IFRS and other project costs.

### *EBITDA before revaluation movements*

This measure is defined as operating profit/(loss) before revaluation movements, depreciation and amortisation. The Group has experienced EBITDA before revaluation movements growth from £16.54 million in the 2009 Financial Year to £48.16 million in the 2010 Financial Year. This has been achieved by growth in both production and average sales where revenue has increased by £85.29 million, offset with the increase in cost of sales of £55.96 million. Operating expenses has increased by £2.53 million while the add-back for depreciation and amortisation has increased by £4.82 million due to additional investment in plant and new sites.

### *Finance costs*

The following table sets forth the Group's net financing costs (excluding exceptional finance costs) for the 2009 and 2010 Financial Years (values in £millions)

|                                             | 2010        | 2009        |
|---------------------------------------------|-------------|-------------|
| Bank borrowings                             | 1.08        | 2.23        |
| Hire purchase agreements and finance leases | 2.18        | 1.31        |
| Unwinding of discount on provisions         | 0.45        | 0.98        |
| Pension finance charges                     | 0.52        | 0.35        |
| Other interest                              | -           | 0.34        |
|                                             | <b>4.23</b> | <b>5.21</b> |

The Group's finance costs decreased by £0.98 million, or 19.2 per cent, from £5.21 million in the 2009 Financial Year to £4.23 million in the 2010 Financial Year. In the 2010 Financial Year, bank borrowing costs decreased due to the decline in interest rates, whilst hire purchase and finance lease interest increased due to increased capital expenditure funded by finance leases.

## Business review and highlights

### *Tax*

The Group recorded a tax credit of £3.13 million in the 2009 Financial Year. This moved to a charge of £7.25 million in the 2010 Financial Year. These movements have largely been driven by the Group's profit before tax figures in each of the years.

### *Profit/(loss) for the period*

Due to the factors discussed above the Group's profit after tax for the 2010 Financial Year was £21.24 million, compared to a loss of £9.12 million in the 2009 Financial Year.

### *Cash flow*

The following sets forth the Group's cash flow statement for the 2009 and 2010 Financial Years (values in £millions)

|                                              | 2010           | 2009   |
|----------------------------------------------|----------------|--------|
| Net cash generated from operations           | <b>46.11</b>   | 13.94  |
| Interest paid                                | <b>(3.64)</b>  | (4.72) |
| Net cash generated from operating activities | <b>42.47</b>   | 9.22   |
| Net cash used in investing activities        | <b>(16.66)</b> | (9.38) |
| Net cash used in financing activities        | <b>(12.00)</b> | (7.05) |
| Increase/(decrease) in cash                  | <b>13.81</b>   | (7.21) |

### *Net cash generated from/(used in) operating activities*

The Group generated £42.47 million from its operations during the 2010 Financial Year, an increase of £33.25 million from the 2009 Financial Year driven principally by the increase in operating profit partially offset by fair value movements in investment property which are non-cash movements. Interest paid decreased by £1.08 million to £3.64 million due primarily to lower interest rates and principal amounts owed.

### *Net cash (used in)/generated from investing activities*

The Group used £16.66 million in its investing activities during the 2010 Financial Year. This was an increase of £7.28 million from the £9.38 million used in the 2009 Financial Year principally owing to increased capital expenditure including a significant amount in relation to the re-opening of the Group's Broken Cross site.

### *Net cash (used in)/generated from financing activities*

The Group used £12.00 million of cash in its financing activities during the 2010 Financial Year, an increase of £4.95 million from the £7.05 million of cash used in the 2009 Financial Year, principally due to increased capital finance lease repayments and repayments of bank loans.

## **Strategy**

The Group has a growth strategy in place to drive shareholder value from each of its three integrated Divisions – Coal, Estates and Renewables.

The core of the Group's business is surface mining and the strategy will exploit the Group's market leadership to grow production and its resource base going forward. In addition the Group will seek to provide diversification through growing the proportional contribution to Group earnings of the Estates and Renewables divisions.

The Group's strategy will be delivered primarily through organic growth from its large resource base and land bank. In addition selected value enhancing inorganic growth in all three divisions may be pursued on an opportunistic basis.

Individual divisional strategies are as follows:

- **Coal**

The Group will seek to increase levels of production each year whilst targeting, in line with historical trends, reserve and resource growth in excess of production levels. The strategy will be underpinned by continuing to deliver strong operating efficiencies whilst seeking to deliver continuous improvement in health, safety and environmental performance.

- **Estates**

The Group will seek to deliver a combination of portfolio value growth and cash returns through planning gain, asset sales and joint venturing.

- **Renewables**

The Group will seek to exploit the Group's property portfolio to develop land suitable for renewable energy projects so as to increase the scale and profitability of the division over the medium term.

The Directors believe that the combination of the Group's strong asset base, skill sets, stakeholder relationships and experience will underpin the successful delivery of its strategy.

## Principal risks and uncertainties

We operate in an industry which, by exploiting natural resources, carries inherent operational uncertainty, and is subject to market and other external risks which cannot be fully foreseen, mitigated or insured against. Set out below are some of the principal risks and uncertainties identified by the directors which exist within the Group and are actively dealt with by the management team but nevertheless, could adversely affect the business, results of operations, financial condition or prospects of the Group or the price and/or value of the Ordinary Shares. The following risk information is not intended to be a comprehensive overview of risks inherent within the business nor is it intended to rank the risks in any order of importance or materiality.

| Risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Potential Impact                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Global Commodity Prices</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| The Group's revenue is mainly derived from the sale of coal at prices linked to international coal prices which can be volatile.                                                                                                                                                                                                                                                                                                                                                                                                                                                 | A sustained, material fall in the global coal prices would lead to a fall in the Group's revenue, which would not necessarily be matched by a commensurate fall in costs and would therefore impact upon the Group's profit.                                                                                                                                                                                                                                                              | The Group mitigates to a certain extent its exposure to the volatility of international coal prices by using a mix of shorter term fixed price contracts and longer term contracts linked to international prices. In addition, a number of these contracts contain floors, 'cap and collar' mechanisms, indexation and fuel pass through clauses.                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| A significant proportion of the Group's costs are dependent upon market gasoil prices, as this is a key fuel used in powering the Group's plant fleet.                                                                                                                                                                                                                                                                                                                                                                                                                           | A sustained, material increase in gasoil prices would lead to an increase in operating costs and would have a negative impact upon the Group's profit.                                                                                                                                                                                                                                                                                                                                    | <p>The Group manages its exposure to gasoil prices through the use of:</p> <ul style="list-style-type: none"> <li>• Longer-term fixed price purchase contracts with our major fuel suppliers;</li> <li>• Using derivatives to hedge floating fuel cost exposures although no such instruments were used during the current year;</li> <li>• Maintaining floating coal sales contracts, as the price of oil is correlated to that of coal and therefore there is a natural hedge in that revenue and a proportion of costs will move in a correlated nature;</li> <li>• A proportion of fixed price sales contracts have fuel escalation clauses which will offset the move in line with gasoil costs.</li> </ul>                                                                                      |
| <b>Surface Mining Operational Risks</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <p>Operational problems particularly associated with any one of the Group's surface mining operations may include:</p> <ul style="list-style-type: none"> <li>• Variations in the amount and quality of coal deposits particularly as a result of the unrecorded geological features or past workings;</li> <li>• Adverse weather conditions;</li> <li>• Mechanical plant failures particularly of prime movers on site;</li> <li>• Difficult blasting conditions;</li> <li>• Water discharge conditions; and</li> <li>• The actions of anti-coal protestors on site.</li> </ul> | If any of these problems occur there may be an effect on production and or the costs on that particular site. Such delays and costs could have a material adverse effect on the Group's operations, financial condition and future prospects, particularly given the Group's main source of income is derived from production emanating from its mining business and in the short term, the operating costs of the Group's surface mines are largely fixed relative to production levels. | <p>These risks are minimised by the highly experienced staff that are directly employed by the Group. Extensive pre-coaling geological assessment, drilling/borehole analysis and ongoing review and analysis is undertaken by the Group's geologists who are available at very short notice to address issues arising.</p> <p>In managing machine productivity the Group seeks to maintain the plant fleet to a high standard using in-house engineers and outside specialists, as necessary. The Group also manage a large stock of equipment spares to ensure that any downtime is minimised. By using its own equipment and directly employing most of its maintenance engineers the Group is able to react quickly to any breakdowns while retaining good flexibility over fleet utilisation</p> |

## Principal risks and uncertainties

| Risk                                                                                                                                                                                                                                                                                                                                                                                                                    | Potential Impact                                                                                                                                                                                                                                                                                                                                            | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Increased costs and schedule delays may impact our development projects</i>                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <i>Coal</i>                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| The Group's ability to sustain or increase its current level of production in the longer term is dependent on the development of new surface mine coal projects at existing surface mines and on obtaining planning consents for and developing new surface mine sites.                                                                                                                                                 | Any inability of the Group to sustain or increase its current level of production or develop additional mines or reserves could have a material adverse effect on its future prospects.                                                                                                                                                                     | The Group has consistently been able to replenish its reserve base in excess of production driven by the strength of its in-house geotechnical and planning teams combined with its long-standing relationships with planning authorities and local communities to deliver planning consents for new sites..                                                                                                                            |
| <i>Estates and Renewables</i>                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| A number of the Group's Estates and Renewables projects are dependant upon the actions of third parties to progress the development projects for each of the Group's sites.                                                                                                                                                                                                                                             | If the Group's Estates and Renewables projects do not progress as anticipated, it may not be able to realise the perceived latent value in its land bank.                                                                                                                                                                                                   | The Group uses the same skills and relationships to deliver growth in its Estates and Renewables divisions.                                                                                                                                                                                                                                                                                                                             |
| In addition, a number of the projected renewable activities are at the early stage of evolution. They may not deliver the projected levels of return.                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <i>Inherent uncertainty in reserve estimates</i>                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| There are numerous unknowns inherent in estimating economic recoverable reserves and many of these factors are beyond the Group's control. Actual levels of production may vary adversely to those contained within the Group's estimate of coal reserves for the following reasons:                                                                                                                                    | The volume and grade of reserves actually recovered and rates of production from the Group's present mineral reserves may be less than geological measurements of the reserves. Market price fluctuations in commodities and exchange rates, and changes in operating and capital costs, may in the future render certain coal reserves uneconomic to mine. | The Group bases its reserve information on geological data which is independently verified. Reserves and resources information is reported using externally recognised criteria. The reserves estimates as to both quantity and quality are periodically updated to reflect production and new drilling, coal seam thickness, coal quality testing, mine strata structure all for geo-technical evaluation prior to mine plan approval. |
| <ul style="list-style-type: none"> <li>Geological conditions that may not be fully identified by available exploration data or that may differ from experience in current operations;</li> <li>Ongoing surveying of reserves that could result in either an increase or a decrease to the production estimates; and</li> <li>Changes in mining plans could result in a decrease in accessible coal reserves.</li> </ul> | In addition, short term operating factors relating to the coal reserves, such as the need for orderly extraction of coal resources or the processing of new or different coal grades, may cause coal reserves to be modified or the Group's operations to be unprofitable.                                                                                  | The Group seeks to further mitigate this risk through significant investment in drilling activities to improve the accuracy of its geological data.                                                                                                                                                                                                                                                                                     |

## Principal risks and uncertainties

| Risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Potential Impact                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Health and Safety</i></b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| In common with other primary industries and the construction sector, mining operations are subject to potential health and safety risks; particularly associated with the operation of heavy plant and explosives on site.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <p>The potential impact of a major health and safety incident cannot be quantified.</p> <p>Potential impacts include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• Substantial fines or potential criminal proceedings against the Group and/or its senior employees if it is found to be in breach of Health and Safety legislation;</li> <li>• Compensation to employees or contractors involved in a health and safety incident; and,</li> <li>• Prohibition Notice applied to a site believed to be dangerous by the Health and Safety Executive.</li> </ul>                                                                                         | <p>The Group believes that the health and safety of its employees, and persons affected by our operations, is of paramount importance and is committed to ensuring that we do much more than merely comply with all of our obligations and to this end, we promote an active safety culture.</p> <p>The Board is therefore dedicated to maintaining and enhancing controls and making improvements throughout the Group's operational structure and activities.</p> <p>The Group operates a Health and Safety Department which has a high profile within the Group and which regularly conducts internal audits to embed best practice and reduce the risk of a health and safety incident.</p> |
| <b><i>Environment and Regulation</i></b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <p>National, regional and local authorities regulate the coal mining industry with respect to matters such as employee health and safety, royalties, permitting and licensing requirements, environmental compliance, plant and wildlife protection, reclamation and restoration of surface mining properties after surface mining is completed, and the effects that surface mining has on groundwater quality and availability.</p> <p>Laws and regulations may also impose liability for the release of certain materials into the air, ground or water from a property, including asbestos, and such release can form the basis of liability to third parties for personal injury or other damages.</p> | <p>The costs, liabilities and requirements associated with these regulations may be expensive and time consuming and may delay commencement or continuation of exploration or production at any particular site.</p> <p>The possibility exists that new legislation or regulations may be adopted that may materially adversely affect the Group's surface mining operations, cost structure or its customers' ability to use coal.</p> <p>The Group may also be liable for the costs of investigation, ongoing monitoring or remediation of hazardous or toxic substances located on or in its land and properties. These costs may be substantial and long-term in nature.</p> | <p>The Group seeks to minimise any such environmental risks, through the appropriate use of in-house expertise supplemented where appropriate by external professional consultants, and the Directors believe that the Group's residual risk in this respect is acceptably low. However, it is not possible to eliminate such risk completely.</p>                                                                                                                                                                                                                                                                                                                                              |

## Principal risks and uncertainties

| Risk                                                                                                                                                                                                                                                                                                                    | Potential Impact                                                                                                                                                                                                                                                                                                                | Mitigation                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b><i>Reduced demand for coal</i></b>                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                       |
| There is anticipated to be a reduction in coal consumption in the UK as a result of the Large Combustion Plant Directive, where non-Flue Gas Desulphurisation power plants are scheduled to close by the end of 2015. The closure of these plants will reduce coal fired electricity generation capacity by 8 GW (28%). | A reduction in demand for coal may impact upon the UK coal market and, consequently, the price achieved for the Group's production. Any reduction in the price of coal would be unlikely to be matched by a fall in costs and hence, this would be likely to impact upon the Group's financial conditions and future prospects. | Even after this 8MW reduction by 2015, the Directors believe that UK total coal demand will still exceed indigenous production by a significant amount and therefore demand for the Group's production will remain intact.                            |
| The EU Industrial Emissions Directive ("IED") is also expected to introduce requirements to reduce Nitrogen Oxide emissions (NOx) through selective catalytic reduction.                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                 | In addition, the sulphur and nitrogen content of SRG-produced coal complies with strict global standards. This is expected to become a competitive advantage against imported coal as modernisation and increased regulation of emissions progresses. |

### ***Financial risks – as per note 20 of the financial statements***

## **Corporate social responsibility**

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

The Board has responsibility for Corporate Social Responsibility and, as explained below, is committed to developing and implementing appropriate policies to create and maintain long term value for all stakeholders.

### **Health and safety**

The Group believes that the health and safety of employees and persons affected by its operations, is of paramount importance and is committed to ensuring that it has procedures that exceed the minimum legal and regulatory requirements. This includes a leading role in CoalPro in relation to industry-wide initiatives on health and safety standards and policies. The Group is also a member of the Royal Society for the Prevention of Accidents. The Group promotes a culture of safety in the workplace. The Group's health and safety policy statement is subject to an annual review and the Board is dedicated to maintaining and enhancing controls and continuous improvement in health and safety performance.

The Group has a dedicated Safety and Environment Department, supported by experienced health and safety professionals, which regularly reports directly to the Board, which receives regular updates on safety and environmental performance and improvement initiatives.

With the cooperation of the unions, all employees are actively encouraged to participate in health and safety, including local safety committees. A culture whereby everyone in the Group is responsible for health and safety is fostered and suitable information, instruction and training is tailored to individual roles within the organisation (the maxim of the Group being 'Work Safe - Home Safe'). A full program of training, audits and review is in place which is reported at all levels of the business including monthly management meetings and to the Group Board.

The Group is a member of the Royal Society for the Prevention of Accidents ("ROSPA") which provides a focus to continually strive to improve our health and safety performance.

### ***Health and Safety Training***

SRG recognises that investment in the health, safety and environment training and the development of its employees contributes to the company's levels of performance, profitability and safety by increasing the competence and motivation of staff at all levels.

All directors and senior managers are fully aware of the Group's and their own responsibilities towards health and safety and fully support and provide resources for systems and initiatives that promote health and safety. This includes attendance at appropriate training on health and safety responsibilities provided by external advisors.

All new employees (including contractors' employees) receive induction training to allow them to commence work with a level of understanding of health, safety and environmental requirements appropriate to their job function. This extends to a Plant Operator Competence Scheme – developed by SRG specifically for surface coal mining operations and the type of equipment used at sites. The aim of this scheme is to promote standardisation of employee training and competence assessments across all sites.

## Corporate social responsibility

### *Health and Safety Training (cont)*

Training requirements are continually reviewed and arrangements made for the appropriate training to be provided.

Regular training sessions and seminars are undertaken on all the sites to improve standards, impart knowledge learnt elsewhere and provide an opportunity for feedback from staff. All training is recorded in employee personal training files.

### *Accident Reporting and Rates*

The Group has a policy of encouraging the reporting of all accidents and also the reporting of 'near misses'. It strongly believes that in so doing, vital lessons will be learnt by management and employees alike and that new procedures can be immediately implemented to counter any risks that may have been highlighted.

This reporting is fully agreed with the Unions and opportunities are freely available for either direct or anonymous reporting direct to site management. The Group considers that this level of reporting is making a significant difference to overall accident levels. Whilst considerable progress has been made in reducing accidents, the Group recognises that more can be done and the Board has reaffirmed its commitment to further improvements.

In 2009/10 there were 3 major injury accidents involving SRG employees within an overall reportable accident rate of 1,732 per 100,000 employees. This is an improvement on the rate of 1,938 per 100,000 in 08/09. It must also be noted that there was a double fatality accident in 2006/07 and a further fatality in 2007/08 involving a subcontractor on one of our sites. A Fatal Accident Inquiry on the former is ongoing. An Inquiry into the latter accident concluded that there was no defect in the system of work and the accident could have been avoided if the driver had followed procedures. Notwithstanding this, a number of system modifications have been adopted.

### *Commitment to Progress*

The Board is fully committed to the highest standards in Health and Safety policy and performance and will aim to maximise all our efforts on Health, Safety leadership across the entire business. This includes the Group continuing to play a leading role in CoalPro in relation to health and safety standards and policies and involving a number of industry-wide initiatives.

### Employees

It is essential that we have a skilled and motivated workforce to ensure the long-term success of the business. We aim to attract, retain and motivate the highest calibre of employees within a structure that encourages their development and personal initiative. This includes collectively negotiated terms and conditions with superior sick pay and pension provisions. As stated above there is also a comprehensive occupational health service for all employees.

We currently employ 989 people (2009: 884 people). We maintained our policy of maximising the employment of local labour and of redeployment of skilled and experienced employees as sites come to conclusion and new sites open.

It is the policy of the Group to consult on and discuss with employees, matters likely to affect their interests and to improve communications with all employees across the Group. This is being achieved through newsletters, briefings and corporate presentations.

## Corporate social responsibility

### Employees (cont)

The Group formally recognises a number of Trade Unions and supports membership wherever an employee wishes to do so. It is also the policy of the Group to give full consideration to suitable applicants for the employment of disabled persons and for employees who become disabled to continue in their employment by retraining for suitable alternative positions within the Group.

### Environmental Matters

#### *Environmental Commitment*

The Group maintains high environmental standards across all of its operations and is committed to continual improvement in environmental performance to meet both regulatory requirement and public expectations. This commitment extends to using the principles of sustainable development to design new projects and restore completed sites with resulting long term environmental and/or community benefits.

The Group ensures that:-

- Its environmental impact is minimised to prevent pollution and ensure compliance with all legal requirements;
- Environmental issues are taken into account when planning the Group's operations giving particular emphasis to any significant environmental aspects such as noise, dust, blasting vibrations, road traffic and water discharges;
- There is regular liaison with all relevant regulatory environmental protection bodies;
- Regular environmental audits are carried out by competent persons at all sites;
- Environmental issues are routinely reviewed at Board and management meetings;
- Sustainable practices such as recycling are encouraged wherever possible both within the Group and its suppliers.

#### *Environmental Implementation*

The Group's environmental policy and performance is reviewed regularly by the Board, and both in-house and external audits ensure continued compliance.

The Directors believe that seeking to reduce the Group's environmental impact will have a direct benefit on profitability and the long term development of the business.

#### *Reducing Carbon Emissions*

The Group supports and encourages the earliest possible development of clean coal and carbon capture technologies to ensure that carbon emitting fuels can continue to meet the UK electricity needs and, through industry representation, continues to lobby Government for early implementation.

The Group is implementing a carbon management programme in order to monitor and ultimately to reduce carbon emissions within the business. The Board will continue to take an active interest in this process and will be regularly advised of new developments.

#### *Renewable Energy and Carbon Offset Developments*

The Group is progressing a programme of renewable energy projects on its landholding which will diversify the business and meet the increasing governmental targets for an ordered shift of balance towards energy from lower carbon sources.

## Corporate social responsibility

### *Environmental Impact and Monitoring of Operations*

The Group's operations are subject to detailed planning permissions. Current legislation requires a full environmental impact assessment with any planning application. Other consents must be also obtained, notably from the Scottish Environmental Protection Agency ("SEPA") covering a range of water and groundwater issues.

During operations, the Group carries out monitoring and analysis of emissions to air, water and land, as well as analysing the use of natural resources. The Group seeks where possible to set targets which exceed statutory minimum requirements.

### *Environmental Legacy*

Surface mining can remove the historic problems associated with past underground mining and leave the land in better overall condition than before commencement. Typically the old surface waste heaps are removed, old shafts and collapsing galleries are dug out and filled and, surface water treatment areas are installed for long term resolution of associated problems.

In consultation with local authorities and communities, and having regard to local authority policies, the land can be restored to a variety of new uses, often with employment or visitor attraction potential. Such projects can often also provide long term environmental advantages for the area after the temporary mining activities have ceased.

Some examples are:

- A Geopark of national significance, in East Ayrshire, where the geological strata is displayed for academic and tourism benefits.
- The Fife Earth project by Charles Jencks at St Ninians, near Dunfermline, where the mining site is being restored into a major 'LandArt' feature to act as a focus for future leisure and commercial development
- A range of renewable energy projects which include windpower and the production and combustion of biomass.
- Detailed survey and compensatory (mitigation) works within a Special Protection Area.

### **Community involvement**

The Group recognises that it is part of and has responsibility to the community in which it is working and continues to support those communities, not only in terms of jobs and wealth creation, but in fostering involvement and high standards across a range of areas including sport, education, environment and health. In each area where the Group is actively involved, we have set up a community fund (Minerals Trust Funds) which receives a levy per tonne of coal mined. During 2010 £829,277 (2009: £675,188) was paid by the Group to these community funds.

There are variations in the 'Trusts' format in each administrative area although in each case, the funds are distributed by the Trustees to local organisations and projects for the direct benefit of the communities local to those sites. Typically, the trust will be a registered charity with trustees drawn from the local communities in which the Group operates and consists of both elected councillors and community representatives.

Whilst these Trusts are seen as the main route for providing funds to support local communities, there are several very specific projects which the Group also supports. For example the East Ayrshire Coalfield Environment Initiative (CEI) which is a partnership organisation between East Ayrshire Council, Scottish Natural Heritage, the Royal Society for the Protection of Birds. This project was set up to with the aim to promote the conservation, protection and improvement of the environment for the public benefit across a much wider area and encompassing several larger communities. (Please refer to CEI's website ([www.ca-cci.org.uk](http://www.ca-cci.org.uk)) for further information.)

## **Directors' report**

The Directors present their report which includes the audited financial statements of the Scottish Resources Group (registered number SC143746) for the 52 weeks ended 27 March 2010. The comparative period is for the 52 weeks ended 28 March 2009. Scottish Resources Group is a limited company that is incorporated, domiciled and has its registered office in Scotland.

### **PRINCIPAL ACTIVITIES**

The principal activities of the Group are the surface mining of coal, land development and renewables. There have been no changes in the principal activities during the year.

### **BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

The Chairman's statement (pages 3 to 4) the Chief Executive review (pages 5 to 6) and the Business Review and Highlights (pages 7 to 17) provide a review of the Group's business which includes:-

- The development and performance of the Group in the period and its position at the period end; and
- The Group's future development and outlook for 2010/11.

The principal risks and uncertainties faced by the Group are detailed within Strategy, Objectives and Key Risks as set out on pages 19 to 22, while the strategy of the Group is detailed on page 18.

Environmental and employees priorities facing the Group are detailed within Corporate Social Responsibility on pages 23 to 26.

### **RELATIONSHIPS**

The Group has contractual relationships with a number of parties which are essential to the business of the Group, including:-

- A substantial amount of the Group's sales are to a limited number of customers within the power generation sector;
- Various contractual relationships including purchase contracts with fuel suppliers, importers of coal, IT companies, plant suppliers and spare part supplies;
- Contracts with local authorities and extraction licence with the Coal Authority;
- Contractual arrangements with banks and other finance providers for the provision of funds and finance facilities to the Group.

The Group is committed to conducting business in a socially responsible way and believe this to be consistent with its business objectives and strategy.

### **RESULTS AND DIVIDEND**

The results for the 52 weeks ended 27 March 2010 are set out in the consolidated income statement on page 33.

No dividends were paid during the 52 weeks ended 27 March 2010 (2009:£nil). The directors are not recommending the payment of a final dividend in respect of the 52 weeks ended 27 March 2010 (2009:£nil).

**Scottish Resources Group Limited**  
**Financial statements for the period ended 27 March 2010**

## **Directors' report**

### **KEY PERFORMANCE INDICATORS (KPIs)**

The Board of Directors and the management team regularly monitor the operating and financial performance of the Group through the use of KPIs as outlined on pages 8, 11, 13 and 15.

### **DIRECTORS**

The directors who served during the 52 weeks ended 27 March 2010 and up to the date of signing the financial statements were as follows:

|                       |                                          |                              |
|-----------------------|------------------------------------------|------------------------------|
| Don Nicolson          | Chief Executive                          |                              |
| Nick Guest            | Finance director                         |                              |
| Niall Crabb           | Director – Planning and Development      | (resigned 1 February 2010)   |
| Andrew Foster         | Managing director – Coaling Operations   |                              |
| Alan Somerville       | Managing director – Estates & Renewables |                              |
| Colin Cornes          | Non-executive                            |                              |
| Sam Cornes            | Non-executive                            |                              |
| Lord Lindsay          | Non-executive                            |                              |
| Sean Mahon            | Independent non-executive                |                              |
| Greg Melgaard         | Non-executive                            |                              |
| Nick Parker           | Non-executive Chairman Elect             | (appointed 30 December 2009) |
| Patrick Smyth         | Non-executive                            | (resigned 1 February 2010)   |
| Brian Staples         | Non-executive                            | (resigned 28 January 2010)   |
| Rt. Hon. Brian Wilson | Independent non-executive                |                              |

### **INDEMNIFICATION OF DIRECTORS AND OFFICERS**

The Group maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its directors.

### **CHARITABLE DONATIONS AND POLITICAL CONTRIBUTIONS**

The contributions made by the Group during the financial year for charitable purposes were £4,420 (2009: £5,365). There were no donations to political parties (2009: £nil). Charitable donations made were predominately to associations and charities involved with the coal industry and local communities. Payments also made to the various trusts are disclosed within the Corporate Social Responsibility section on page 26.

### **EMPLOYEES**

Employee policy details are disclosed within the Corporate Social Responsibility section on pages 24 to 25.

### **DISABLED PERSONS**

Disabled persons policy details are disclosed within the Corporate Social Responsibility section on pages 24 to 25.

### **HEALTH AND SAFETY**

Scottish Resources Group Limited is committed to maintaining high standards of health and safety in every area of the business. It is the aim of the Group to exceed the requirements of the Health and Safety at Work Act 1974 and all other relevant health and safety legislation and has established committees to oversee Health and Safety which reports into the Board. Details of the Group's commitment to health and safety are found on page 23 to 24.

## **Directors' report**

### **LIQUIDITY AND GOING CONCERN**

The Group entered into a new banking facility with Lloyds Banking Group from March 2010 which is considered sufficient to cover forecast cash requirements. Forward sales contracts have been secured for the foreseeable future. On this basis, the Directors of Scottish Resources Group Limited have concluded that it is appropriate for their consolidated financial statements for the 52 weeks ended 27 March 2010 to be prepared on a going concern basis.

Details of financial risks in respect of market risk, credit risk and liquidity risk are set out in note 20 to the financial statements.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report and the Group and the parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the European Union and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the Group and the parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Directors' report**

### **DISCLOSURE OF INFORMATION TO AUDITORS**

So far as each director is aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware. Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty 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.

### **INDEPENDENT AUDITORS**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the Board

Peter Ferguson  
**Company Secretary**  
25 June 2010

## **Independent auditors' report to the members of Scottish Resources Group Limited**

We have audited the Group financial statements (the "financial statements") of Scottish Resources Group Limited for the 52 weeks ended 27 March 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Principal Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

We have reported separately on the parent company financial statements of Scottish Resources Group Limited for the 52 weeks ended 27 March 2010.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 29 to 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's 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 Group financial statements.

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 27 March 2010 and of its profit and cash flows for the 52 week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

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

## **Independent auditors' report to the members of Scottish Resources Group Limited**

### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

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

- 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.

**Caroline Roxburgh (Senior Statutory Auditor)**  
**For and on behalf of PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
Edinburgh  
28 June 2010

Scottish Resources Group Limited  
Financial statements for the period ended 27 March 2010

**Consolidated income statement**  
For the 52 weeks ended 27 March 2010

|                                                         |      | 2010             | Restated<br>2009 |
|---------------------------------------------------------|------|------------------|------------------|
|                                                         | Note | £000             | £000             |
| <b>Revenue</b>                                          | 1    | <b>229,891</b>   | 144,597          |
| Cost of sales                                           |      | <b>(197,688)</b> | (141,726)        |
| <b>Gross profit</b>                                     |      | <b>32,203</b>    | 2,871            |
| Fair value gain/(loss) on investment properties         | 12   | <b>8,789</b>     | (3,700)          |
| Operating expenses                                      | 2    | <b>(7,895)</b>   | (5,359)          |
| <b>Operating profit/(loss)</b>                          |      | <b>33,097</b>    | (6,188)          |
| <b>Analysed as:</b>                                     |      |                  |                  |
| <b>Operating profit/(loss) before exceptional items</b> |      | <b>33,198</b>    | (5,921)          |
| Exceptional items                                       | 4    | <b>(101)</b>     | (267)            |
| <b>Operating profit/(loss)</b>                          |      | <b>33,097</b>    | (6,188)          |
| Finance costs                                           | 6    | <b>(4,233)</b>   | (5,214)          |
| Exceptional finance costs                               | 7    | <b>(375)</b>     | (845)            |
| Total finance costs                                     |      | <b>(4,608)</b>   | (6,059)          |
| <b>Profit/(loss) before tax</b>                         | 3    | <b>28,489</b>    | (12,247)         |
| Tax (charge)/credit                                     | 9    | <b>(7,252)</b>   | 3,127            |
| <b>Profit/(loss) for the period</b>                     |      | <b>21,237</b>    | (9,120)          |
| Attributable to:                                        |      |                  |                  |
| Equity holders of the Company                           |      | <b>21,237</b>    | (9,120)          |
| <b>EBITDA before revaluations* (note 1)</b>             |      | <b>48,164</b>    | 16,543           |

\* EBITDA before revaluations is defined as operating profit/(loss) before revaluation movements, depreciation and amortisation.

The accompanying notes form an integral part of these financial statements.

**Scottish Resources Group Limited**  
**Financial statements for the period ended 27 March 2010**

**Consolidated statement of comprehensive income**  
**For the 52 weeks ended 27 March 2010**

|                                                           | <u>Note</u> | 2010<br>£000         | 2009<br>£000           |
|-----------------------------------------------------------|-------------|----------------------|------------------------|
| Profit/(loss) for the period                              |             | 21,237               | (9,120)                |
| <b>Other comprehensive income</b>                         |             |                      |                        |
| Actuarial loss on defined benefit schemes                 | 21          | (10,178)             | (4,693)                |
| Deferred tax on actuarial loss on defined benefit schemes | 9           | 2,852                | 1,314                  |
| Corporation tax on excess pension contributions           |             | 650                  | 676                    |
| Deferred tax on excess pension contributions              | 9           | (650)                | (676)                  |
| Other comprehensive losses for the period                 |             | <u>(7,326)</u>       | <u>(3,379)</u>         |
| <b>Total comprehensive income/(loss) for the period</b>   |             | <u><b>13,911</b></u> | <u><b>(12,499)</b></u> |
| Attributable to:                                          |             |                      |                        |
| Equity holders of the Company                             |             | <u><b>13,911</b></u> | <u><b>(12,499)</b></u> |

The accompanying notes form an integral part of these financial statements.

**Scottish Resources Group Limited**  
**Financial statements for the period ended 27 March 2010**

**Consolidated balance sheet**

**As at 27 March 2010**

|                                                          | <u>Note</u> | 2010<br>£'000   | 2009<br>£'000   |
|----------------------------------------------------------|-------------|-----------------|-----------------|
| <b>ASSETS</b>                                            |             |                 |                 |
| <b>Non-current assets</b>                                |             |                 |                 |
| Property, plant and equipment                            | 11          | 116,997         | 104,065         |
| Investment property                                      | 12          | 37,721          | 26,210          |
| Deferred tax asset                                       | 9           | 28,976          | 31,486          |
|                                                          |             | <b>183,694</b>  | <b>161,761</b>  |
| <b>Current assets</b>                                    |             |                 |                 |
| Inventories                                              | 14          | 10,148          | 6,801           |
| Trade and other receivables                              | 15          | 11,743          | 12,618          |
| Cash and cash equivalents                                | 16          | 6,045           | -               |
|                                                          |             | <b>27,936</b>   | <b>19,419</b>   |
| <b>LIABILITIES</b>                                       |             |                 |                 |
| <b>Current liabilities</b>                               |             |                 |                 |
| Financial liabilities – borrowings                       | 17          | 11,019          | 33,691          |
| Trade and other payables                                 | 18          | 39,000          | 31,737          |
|                                                          |             | <b>50,019</b>   | <b>65,428</b>   |
| <b>Net current liabilities</b>                           |             | <b>(22,083)</b> | <b>(46,009)</b> |
| <b>Non-current liabilities</b>                           |             |                 |                 |
| Financial liabilities – borrowings                       | 17          | 49,436          | 33,735          |
| Provisions                                               | 19          | 67,285          | 60,646          |
| Deferred tax liability                                   | 9           | 3,326           | 1,436           |
| Retirement benefit obligations - defined benefit schemes | 21          | 14,205          | 6,352           |
|                                                          |             | <b>134,252</b>  | <b>102,169</b>  |
| <b>Net assets</b>                                        |             | <b>27,359</b>   | <b>13,583</b>   |
| <b>EQUITY</b>                                            |             |                 |                 |
| <b>Capital and reserves</b>                              |             |                 |                 |
| Ordinary shares                                          | 22          | 20,113          | 20,113          |
| Share premium                                            |             | 26,046          | 26,046          |
| Revaluation reserve                                      |             | 24,588          | 24,723          |
| Retained earnings                                        |             | (43,388)        | (57,299)        |
| <b>Total equity</b>                                      |             | <b>27,359</b>   | <b>13,583</b>   |

The financial statements on pages 33 to 83 were approved by the Board of Directors on 25 June 2010.

..... Nick Guest, Finance Director

..... Don Nicolson, Chief Executive  
The accompanying notes form an integral part of these financial statements.

**Scottish Resources Group Limited**  
**Financial statements for the period ended 27 March 2010**

**Consolidated statement of changes in equity**  
**For the period ended 27 March 2010**

|                                       | Ordinary      | Share premium | Revaluation   | Retained        | Total         |
|---------------------------------------|---------------|---------------|---------------|-----------------|---------------|
|                                       | shares        | account       | reserve       | earnings        | Equity        |
|                                       | £000          | £000          | £000          | £000            | £000          |
| <b>At 29 March 2008</b>               | <b>20,113</b> | <b>26,046</b> | <b>24,723</b> | <b>(44,800)</b> | <b>26,082</b> |
| Loss in the financial period          | -             | -             | -             | (9,120)         | (9,120)       |
| Other comprehensive losses            | -             | -             | -             | (3,379)         | (3,379)       |
| Total comprehensive losses            | -             | -             | -             | (12,499)        | (12,499)      |
| <b>At 28 March 2009</b>               | <b>20,113</b> | <b>26,046</b> | <b>24,723</b> | <b>(57,299)</b> | <b>13,583</b> |
| Profit/(loss) in the financial period | -             | -             | (135)         | 21,237          | 21,102        |
| Other comprehensive losses            | -             | -             | -             | (7,326)         | (7,326)       |
| Total comprehensive income            | -             | -             | (135)         | 13,911          | 13,776        |
| <b>At 27 March 2010</b>               | <b>20,113</b> | <b>26,046</b> | <b>24,588</b> | <b>(43,388)</b> | <b>27,359</b> |

The accompanying notes form an integral part of these financial statements.

**Scottish Resources Group Limited**  
**Financial statements for the period ended 27 March 2010**

**Consolidated statement of cash flows**  
**For the period ended 27 March 2010**

|                                                       |      | 2010            | 2009           |
|-------------------------------------------------------|------|-----------------|----------------|
|                                                       | Note | £000            | £000           |
| <b>Cash flows from operating activities</b>           |      |                 |                |
| Cash generated from operations                        | 23   | 46,107          | 13,945         |
| Interest paid                                         |      | (3,642)         | (4,725)        |
| <b>Cash generated from operating activities</b>       |      | <u>42,465</u>   | <u>9,220</u>   |
| <b>Cash flows from investing activities</b>           |      |                 |                |
| Proceeds on disposal of property, plant and equipment |      | 843             | 385            |
| Purchase of property, plant and equipment             |      | (17,500)        | (9,765)        |
| <b>Cash used in investing activities</b>              |      | <u>(16,657)</u> | <u>(9,380)</u> |
| <b>Cash flows from financing activities</b>           |      |                 |                |
| Capital repayments under finance leases               |      | (7,996)         | (5,384)        |
| Proceeds from bank loan                               |      | 26,500          | -              |
| Repayment of bank loan                                |      | (30,500)        | (1,663)        |
| <b>Cash used in financing activities</b>              |      | <u>(11,996)</u> | <u>(7,047)</u> |
| <b>Increase/(decrease) in cash</b>                    | 24   | <u>13,812</u>   | <u>(7,207)</u> |

The accompanying notes form an integral part of these financial statements.

## **Principal accounting policies**

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

Prior year allocation of expenses between Cost of Sales and Operating Expenses has been adjusted for comparison purposes to reflect the allocation used in the current period which is consistent with agreed upon Group wide policies. Turnover was restated by £1,082k, cost of sales by £2,604k and operating expenses by £1,522k. There is no impact on profit for the period.

### **Basis of preparation**

These consolidated financial statements have been prepared in accordance with European Union ("EU") endorsed International Financial Reporting Standards ("IFRSs"), International Financial Reporting Interpretations Committee ("IFRIC") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of Investment Properties which have been taken through the income statement. IFRSs also require an alternative treatment to the historic cost convention in certain circumstances (principally in the areas of retirement benefit obligations and financial instruments).

The Group operates a 4,4,5 weeks quarterly reporting cycle for its financial reporting, with reporting periods ending on a Saturday. Accordingly this set of annual results has been prepared for the 52 weeks ended 27 March 2010. The comparative period is for the 52 weeks ended 28 March 2009.

The following new standards and amendments are mandatory for the first time for financial years beginning on or after 1 January 2009 and have been applied in these financial statements:-

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner change in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents the consolidated statement of changes in equity as owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard.
- IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting'. This standard required a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief-operating decision-maker ("CODM"). The CODM has been identified as the Board of Directors. Note 1 discloses the operating segment results and subsequent results.
- IFRS 7 (amendment), 'Financial instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. This has been applied and it was determined that the Group's financial assets would fall within level 3 as determined by the standard as none are measured using market observable data.
- IAS 40 (amendment), 'Investment properties'. The standard requires that assets classed under construction for investment properties be measured at fair value. Investment properties within the estates portfolio are strategic land and are not assets held under construction for the purposes of the standard.

## **Principal accounting policies**

### **Basis of preparation (cont)**

- IAS 23 (revised), 'Borrowing costs'. In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 29 March 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007). In accordance with the transition provisions of the standard; comparative figures have not been restated. This did not have a material impact on the current year results.
- IFRIC 9, 'Reassessment of embedded derivatives'. This interpretation confirmed that any embedded derivatives are assessed and, if necessary accounted for separately as a derivative, when the entity first becomes party to the contract. It clarified that subsequent reassessment is prohibited unless there is a change in the contract terms that significantly modifies the cash flows that otherwise would be required under the contract. The Group assesses any embedded derivatives at the time that the entity first becomes party to a contract and does not subsequently change its assessment unless there is any significant change in the contract terms, therefore there is no impact arising as a result of this new interpretation.
- IAS 32 (amendment), 'Financial instruments: Presentation' and IAS 1 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation'. The amendments require certain puttable financial instruments, and certain financial instruments that impose on the Group an obligation to deliver to another party a pro rata share of net assets of the Group only on liquidation, to be classified as equity. There has been no impact on the Group's financial statements.
- IFRIC 14, IAS 19, 'The limit on a defined benefit asset, minimum funding requirements and their interaction' was adopted by the Group from 29 March 2009. The interpretation provides guidance on assessing the limit in IAS 19, 'Employee benefits' on the amount of the surplus that can be recognised as an asset and explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The interpretation has been taken into consideration in determining the treatment of the Group's defined benefit pension plans, although there has been no impact on the Group's financial statements. Please refer to note 21 – retirement benefit obligations.

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

|                    |                                                   |
|--------------------|---------------------------------------------------|
| IFRS 2 (amendment) | Share-based payments                              |
| IFRIC 13           | Customer loyalty programmes                       |
| IFRIC 15           | Agreements for the construction of real estate    |
| IFRIC 16           | Hedges of a net investment in a foreign operation |

The following new standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted:-

|                    |                                                                                |
|--------------------|--------------------------------------------------------------------------------|
| IFRIC 17           | Distribution of non-cost asset to owners – effective 1 July 2009               |
| IAS 27 (revised)   | Consolidated and separate financial statements – effective 1 July 2009         |
| IFRS 3 (revised)   | Business combinations – effective 1 July 2009                                  |
| IFRS 2 (amendment) | Group cash settled share-based payment transactions – effective 1 January 2010 |
| IFRS 1 (revised)   | First time adoption of IFRS – effective 1 July 2009                            |
| IAS 39 (amendment) | Financial instruments: Recognition and measurement – effective 1 July 2009     |
| IFRS 1 (amendment) | First time adoption of IFRS – effective 1 January 2010                         |
| IFRIC 12           | Service concession arrangements – effective 30 March 2009                      |
| IFRIC 18           | Transfer of assets from customers – effective 1 July 2009                      |

## **Principal accounting policies**

### **Consolidation**

The consolidated financial information incorporates the financial statements of Scottish Resources Group Limited (“SRG” or “the Company”) and its subsidiaries, together (“the Group”).

Subsidiaries are entities over which SRG has power to govern the financial and operating policies. Control is considered to exist where SRG owns more than half of the voting rights. The consolidated financial statements includes all the assets, liabilities, revenues, expenses and cash flows of the parent and its subsidiaries, after eliminating inter-company balances and transactions. The results of subsidiaries sold or acquired are included in the consolidated income statement up to, or from, the date control passes.

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

### **Segment reporting**

IFRS 8, ‘Operating segments’ requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief-operating decision-maker (“CODM”). The CODM has been identified as the Board of Directors.

The Group has three reportable operating segments:

- Coal
- Estates
- Renewables

Coal incorporates all mining activities at surface level together with plant services provided to the Group’s mining activities.

The Estates segment maintains, develops and rents the Group’s property portfolio.

Renewables develops the Group’s interests in renewable energy, such as wind energy, biomass and energy from waste.

These segments have separate management teams and offer different products and services. The above three segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

The Group accounts for inter-segmental sales and transfers as if the sales or transfers were to third parties. Those inter-segmental sales are then eliminated upon consolidation.

The Group’s management evaluates performance of the segments based on segment revenues and operating profit (Note 1).

## **Principal accounting policies**

### **Revenue**

Revenue comprises sales (excluding intra-group sales) of coal and aggregates and property rental income.

#### *Coal transactions*

A large proportion of the Group's production is sold under medium to long-term contracts to UK power generators. Revenue is only recognised on individual sales when all of the significant risks and rewards of ownership have been transferred to a third party. The sales contracts generally allow for an adjustment to sales price based on a survey of the coal by the customer and accordingly the sales revenue is based on the most recently determined estimate of product specifications.

#### *Aggregate sales*

Revenue is recognised when delivery is made to the customer.

#### *Property rental income*

Rental income for both Estates and renewable are recognised during the period in which rents due to the Group accrue.

### **Foreign currency transactions**

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling at the date of the transaction.

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

### **Exceptional items**

Items that are non-recurring and whose significance is sufficient to warrant separate disclosure and identification within the consolidated financial statements by virtue of their size or nature are referred to as exceptional items. Items that may give rise to classification as exceptional items include, but are not limited to, significant and material restructuring, closures and reorganisation programmes, asset impairments, and profits or losses on the disposal of businesses.

### **Investment properties and operating properties**

The Group holds the following types of freehold property:

- working surface mines in production
- property held for potential future surface mines
- property held for administrative or distribution purposes
- property held for rental income, capital appreciation or both

Working surface mines in production, property held for potential future surface mines and property held for administrative or distribution purposes are held as Operating Properties. These assets are used or intended to be used within the operations of the Group and are accounted for at historic cost.

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

## **Principal accounting policies**

### *Investment properties*

Investment Properties comprise freehold land and buildings and are measured at fair value. The fair values are determined by obtaining full external valuation every three years. External, independent valuation firms have appropriate, recognised professional qualifications and recent experience in the location and category of property being valued, while a Directors' valuation (by a suitably qualified Director) will be deemed sufficient for the various years in-between.

### *Operating properties*

Operating properties which are acquired or constructed are initially recorded at cost, being the purchase price of the asset and other costs incurred to bring the asset into existing use, and subsequently stated at historic cost less accumulated depreciation (other than freehold land which is not depreciated).

### *Transfers between operating and investment properties*

All transfers are made in accordance with IAS 40, 'Investment properties'. Properties which have historically been used as working surface mines (operating properties) are transferred to property held for rental income or capital appreciation (investment properties) at the point when a decision is made to pursue planning with a view to future development or rental, and once mining has ceased. IAS 16, 'Property, plant and equipment', is applied up to the date of transfer and any difference at that date between the book value and fair value is taken to the revaluation reserve. Subsequent gains or losses arising from changes in the fair values of assets are recognised in the consolidated income statement.

Where properties are transferred from investment properties to operating properties, this transfer is made at fair value, which is then considered to represent deemed cost.

Where the development of investment properties commences with a view to sale, the property is transferred from investment properties to inventories at fair value, which is then considered to represent deemed cost. Investment property which is held with a view for sale without development is retained within investment properties.

### *Property claw-back*

Under the terms of the 1994 privatisation Sale and Purchase Agreement, the UK Government is entitled to a percentage of any property gain (above certain thresholds and after deducting an amount representing capital gains tax thereon) accruing, or treated as accruing to the Group, as a result of the disposal or deemed disposal or major development of certain properties acquired at privatisation. The percentage applied is 27% for 2010 (30% for 2009), reducing by 3 percentage points per annum until 1 April 2015, when it reduces to zero. If properties are disposed of, or are deemed to have been disposed of during this period, a part of the relevant gain becomes payable to the UK Government. A liability for claw-back in respect of property disposals is recognised only when an actual or deemed disposal occurs.

### *Properties in the course of development*

Directly attributable costs incurred in the course of developing a property are capitalised as part of the cost of the property. For Operating Properties, amortisation of these costs follows the depreciation policy for the property. Development costs on Investment Properties are capitalised and the change in value is recognised through the next valuation.

## **Principal accounting policies**

### *Profit or loss on disposal*

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

In the case of Investment Properties, the revaluation reserve in relation to the property disposed of is treated as realised on disposal of the property and transferred to retained earnings.

### **Plant, equipment and mining related assets**

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

### *Surface mine development costs*

The directly attributable costs incurred prior to coaling are referred to as 'surface mine development' and are capitalised within 'property, plant and equipment'. These costs principally comprise:

- Removal of overburden and other surface mine material to expose the coal deposit, a process referred to as 'development stripping';
- The costs associated with achieving necessary planning consents; and
- Drilling, geology and mine design costs.

Capitalisation of surface mine development ceases when saleable coal is produced. This asset is amortised to the consolidated income statement over the coaling life of the site on a coal extraction basis.

### *Deferred stripping costs*

Stripping commences at the time that saleable coal begins to be extracted from the surface mine and normally continues throughout the life of a surface mine. The costs of stripping are charged to the income statement at a constant rate as operating costs when the ratio of overburden to coal extracted for an area of interest is expected to be constant throughout its estimated life. When the ratio of overburden to coal is not expected to be constant, stripping costs are deferred and accounted for as follows:-

- When the cumulative ratio of overburden to coal is greater than the estimated life-of-mine ratio, a portion of the operating costs is deferred;
- In subsequent years when the cumulative ratio of overburden to coal is less than the estimated life-of-mine ratio, a portion of deferred costs is released to the income statement as operating costs.

The amount of operating costs deferred or released in a financial year is determined so that the stripping expense for the financial year reflects the estimated life-of-mine ratio of overburden to coal. Changes to the estimated life-of-mine ratio are accounted for prospectively from the date of change.

## **Principal accounting policies**

### **Restoration and rehabilitation costs**

The mining and extraction activities of the Group normally give rise to obligations for site restoration or rehabilitation. Restoration and rehabilitation works can include site decommissioning and dismantling and site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Group's environmental policies.

Provisions for the cost of each site restoration and rehabilitation are recognised at the commencement of site mining activities. When the anticipated level of mining activity increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur progressively over the life of the operation and at the time of restoration in connection with surface mining activity at the reporting date.

The timing of the actual restoration and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the site, the operating licence conditions and the environment in which the surface mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements.

Restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value applying an appropriate risk adjusted rate and determined according to the probability of alternative estimates of cash flows occurring for each site. Significant judgements and estimates are involved in forming expectation of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing planning requirements or management's future development plans which give rise to a constructive obligation.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of restoration and rehabilitation activities is recognised as 'restoration assets' within property, plant and equipment before being released to the income statement on a coal extraction basis over the life of the site. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised in 'other finance costs'.

Restoration and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the unamortised capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the income statement. In the case of closed sites, changes to estimated costs are recognised immediately in the income statement. Changes to the capitalised cost result in an adjustment to future amortisation and financial charges. Adjustments to the estimated amount and timing of future restoration and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Factors influencing those changes include:

- Revisions to estimated reserves, resources and lives of sites;
- Planning requirements and management's development plans;
- Changes in the estimated extent and costs of anticipated activities, including the effects of inflation;
- Movements in interest rates and yield of government bonds or gilts affect the discount rate applied.

## Principal accounting policies

### Depreciation

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

Depreciation is recorded over the useful life of the asset, or over the expected remaining life of the mine if shorter, as follows:

|                                         | <u>Basis</u>        |
|-----------------------------------------|---------------------|
| - Freehold land                         | not depreciated     |
| - Operating properties (excluding land) | 50 years            |
| - Plant and equipment                   |                     |
| - plant and equipment                   | 2 to 12 years       |
| - motor vehicles                        | 3 to 5 years        |
| - Mines and surface works               |                     |
| - surface mine installation             | units of production |

Leased operating properties are depreciated over 50 years or, if shorter, the period of the lease.

### Impairment

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

### Finance leases and hire purchase agreements – as lessee

Leases which transfer substantially all the risks and rewards of ownership to the Group are treated as finance leases. Assets held under hire purchase and finance lease arrangements are capitalised and written off according to the depreciation rate of the applicable asset category. The outstanding capital obligations are included in financial liabilities - borrowings. Interest is allocated to accounting periods over the hire purchase or lease term to reflect a constant rate of charge on the remaining balance of the obligation.

Finance leases are capitalised at the commencement of each lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

### Operating leases – as lessee

All other leases are treated as operating leases. Costs in respect of the operating leases are charged to the consolidated income statement as incurred.

### Operating leases – as lessor

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

## **Principal accounting policies**

### **Financial instruments**

#### *Financial assets*

Financial assets are classified, as appropriate, as financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments or as available for sale. They include cash and cash equivalents, trade receivables, other receivables, loans and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The only measurement of financial assets attributed to the Group's financial statements is for loans and receivables and can be described as follows:

*Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered in evaluating whether a trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

#### *Financial liabilities*

When a financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability. Financial liabilities include trade payables, other payables, borrowings and derivative financial instruments. The only measurement of financial liabilities attributed to the Group's financial statements is for cash and cash equivalents, interest bearing loans and borrowings and trade and other payables and can be described as follows:-

#### *Cash and cash equivalents*

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

## **Principal accounting policies**

### *Interest bearing loans and borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawn-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### *Trade and other payables*

Trade payables are not interest bearing and are stated at amortised cost which approximates to nominal value due to creditors days being relatively low.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is primarily on the basis of average site operating costs or, with regard to purchased coal, cost of acquisition, and includes transport and port costs where applicable. Appropriate provisions are made for slow-moving and obsolete inventories.

### **Other provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

### **Employee benefits**

#### *Pension obligations*

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

The Group also operates two closed pension schemes providing benefits based on final pensionable pay. The employees within the defined benefit schemes are members of industry wide schemes, being either the Industry Wide Coal Staff Superannuation Scheme ("IWCSSS") and the Industry Wide Mineworkers Pension Scheme ("IWMPS"), both of which commenced on privatisation following the Coal Industry Act 1994. The assets of the Schemes are held separately from those of the Group, being funds administered by Trustees of the Schemes. A qualified actuary updates the costs of the Schemes annually under the provisions of IAS 19 'Employee Benefits', and carries out a full valuation triennially. The Group accounts for pensions and similar benefits under IAS 19 'Employee Benefits'. In respect of defined benefit plans, obligations are measured at discounted present value and plan assets are recorded at fair value. Service costs are charged systematically over the service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the consolidated statement of comprehensive income.

## **Principal accounting policies**

### **Taxation**

#### *Current tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *Deferred tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### **Share capital**

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

### **Application of critical accounting policies and estimates**

The preparation of the consolidated financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported revenue and expenses during the periods presented therein. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management based its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The Group has identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

## Principal accounting policies

### Application of critical accounting policies and estimates (cont)

a) **Investment property valuations**

The fair value of Investment Property reflects, amongst other things, rental income from our current leases, assumptions about rental income from future leases and the possible outcome of planning applications, in the light of current market conditions. A change in fair values could have a material impact on the Group's results.

b) **Retirement benefit obligations**

These are subject to actuarial estimates of, amongst other items, rate of return on investments, rate of salary increases, rate of price inflation, the cost of funding future liabilities and post-retirement life expectancy. Details of the significant estimates used are set out in note 21.

c) **Reserves estimate**

Reserves are estimates of the amount of coal that can be economically extracted from the Group's sites. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, quality, mine plans, overburden ratios, production costs, transport costs, coal demand, coal prices and exchange rates.

Estimating the quantity and/or quality of reserves requires the size, shape and depth of reserves to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements to interpret the data.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset and liability values may be affected due to changes in estimated future cash flows;
- Amortisation charged to the income statement may change where such charges are determined by the future reserves estimates on a units of production basis;
- Overburden removal costs recorded on the balance sheet or charged to the income statement may change due to changes in deferred stripping ratios;
- Site restoration provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities;
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of the tax benefits.

## Principal accounting policies

### Application of critical accounting policies and estimates (cont)

d) **Surface mine development cost capitalisation**

Surface mine development cost capitalisation commences after project sanctioning by the appropriate level of management. Judgement is applied by management in determining when a site is economically viable. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable mine plan can be established. Any such estimates and assumptions may change as new information become available. If, after having commenced the surface mine development, the amount of coal expected to be extracted varies, this will impact on the rate at which the asset is amortised.

e) **Restoration and rehabilitation provisions**

The Group's accounting policy for the recognition of restoration and rehabilitation provisions requires significant estimates and assumptions such as: planning requirements, the timing, extent and costs of required restoration and rehabilitation work and the discount rate applied. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the balance sheet by adjusting both the restoration and rehabilitation asset and provision. For closed sites, changes to estimated costs are recognised immediately in the income statement.

f) **Deferral of stripping costs**

The deferral of stripping costs is based on the estimated life-of-mine overburden ratio. The ratio is supported by an annual assessment of coal reserves and overburden on an individual site basis. A change in estimated life-of-mine ratio for a given site will result in a change in the level of future cost deferral.

g) **Review of asset carrying values and impairment charges**

The Group performs impairment testing where appropriate. The calculation of recoverable amounts requires the use of estimates and assumptions consistent with the most recent budgets and plans that have been formally approved by management. Significant factors considered when using estimates to assess the carrying value of assets include future coal prices, expected annual production, expected operating costs, remaining life of the surface mine coal reserves and discount rates.

h) **Deferred taxation**

The recognition of deferred tax assets requires considerable judgement as to the future profitability of the surface mining business. The recognition of a deferred tax liability in relation to property revaluations requires an estimate to be made of the proportion of the value of a property which will be recovered through use, compared to the proportion of the value which will be recovered through sale. Deferred tax will be provided on land where the value is expected to be recovered through sale, in accordance with IAS 12 'Income Taxes' and capital losses will be offset in calculating the deferred tax balance.

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 1 Operating segments

| Revenue       | 2010<br>£000   | 2009<br>£000   |
|---------------|----------------|----------------|
| Sale of goods | 229,045        | 143,376        |
| Rental income | 508            | 139            |
| Other income  | 338            | 1,082          |
|               | <u>229,891</u> | <u>144,597</u> |

The Group has three reportable operating segments:

- Coal
- Estates
- Renewables

How these reportable operating segments have been identified is included within the principal accounting policies on page 40.

Although the renewables segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be separately reported, as it is closely monitored by the CODM as a potential growth area and is expected to materially contribute to Group revenue in the future.

The Group monitors EBITDA before revaluations from a group perspective, which is calculated as follows:-

| EBITDA before revaluations:                      | 2010<br>£000  | 2009<br>£000  |
|--------------------------------------------------|---------------|---------------|
| Operating profit/(loss)                          | 33,097        | (6,188)       |
| Depreciation and amortisation                    | 23,856        | 19,031        |
| Fair value (gains)/loss on investment properties | (8,789)       | 3,700         |
|                                                  | <u>48,164</u> | <u>16,543</u> |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 1 Operating segments (cont)

The segment results for the 52 weeks ended 27 March 2010 are as follows:-

|                                 | Coal<br>£000   | Estates<br>£000 | Renewables<br>£000 | Total<br>£000  |
|---------------------------------|----------------|-----------------|--------------------|----------------|
| <b>Continuing operations</b>    |                |                 |                    |                |
| Revenue from external customers | 229,383        | 330             | 178                | 229,891        |
| <b>Total revenue</b>            | <b>229,383</b> | <b>330</b>      | <b>178</b>         | <b>229,891</b> |
| <b>Operating profit/segment</b> | <b>24,400</b>  | <b>8,623</b>    | <b>74</b>          | <b>33,097</b>  |
| Finance costs (note 6)          |                |                 |                    | (4,608)        |
| <b>Profit before tax</b>        |                |                 |                    | <b>28,489</b>  |
| Tax charge                      |                |                 |                    | (7,252)        |
| <b>Profit for the period</b>    |                |                 |                    | <b>21,237</b>  |

The segment results for the 52 weeks ended 28 March 2009 are as follows:-

|                                        | Coal<br>£000   | Estates<br>£000 | Renewables<br>£000 | Total<br>£000   |
|----------------------------------------|----------------|-----------------|--------------------|-----------------|
| <b>Continuing operations</b>           |                |                 |                    |                 |
| Revenue from external customers        | 144,458        | 119             | 20                 | 144,597         |
| <b>Total revenue</b>                   | <b>144,458</b> | <b>119</b>      | <b>20</b>          | <b>144,597</b>  |
| <b>Operating (loss)/profit/segment</b> | <b>(1,901)</b> | <b>(4,143)</b>  | <b>(144)</b>       | <b>(6,188)</b>  |
| Finance costs (note 6)                 |                |                 |                    | (6,059)         |
| <b>Loss before tax</b>                 |                |                 |                    | <b>(12,247)</b> |
| Tax credit                             |                |                 |                    | 3,127           |
| <b>Loss for the period</b>             |                |                 |                    | <b>(9,120)</b>  |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 1 Operating segments (cont)

|                                   |               |        |
|-----------------------------------|---------------|--------|
| Coal includes the following:-     |               |        |
|                                   | <b>2010</b>   | 2009   |
|                                   | <b>£000</b>   | £000   |
| Depreciation (note 11)            | <b>9,864</b>  | 7,935  |
| Amortisation (note 11)            | <b>13,974</b> | 11,078 |
| Coal purchased from third parties | <b>34,299</b> | 5,135  |

|                                    |             |      |
|------------------------------------|-------------|------|
| Renewables includes the following: | <b>2010</b> | 2009 |
|                                    | <b>£000</b> | £000 |
| Depreciation (note 11)             | <b>18</b>   | 18   |

Segment assets consist primarily of property, plant and equipment, inventories and trade and other receivables. Unallocated assets comprise of deferred taxation and cash and cash equivalents.

Segment liabilities consist primarily of trade and other payables, retirement benefit obligations and provisions. Unallocated liabilities comprise taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment, surface mine development and deferred stripping and restoration assets (note 11).

The segment assets and liabilities at 27 March 2010 and capital expenditure for the period then ended are as follows:-

|                                      | <b>Coal</b>     | <b>Estates</b> | <b>Renewables</b> | <b>Totals</b>   | <b>Unallocated</b> | <b>Total</b>    |
|--------------------------------------|-----------------|----------------|-------------------|-----------------|--------------------|-----------------|
|                                      | <b>£000</b>     | <b>£000</b>    | <b>£000</b>       | <b>£000</b>     | <b>£000</b>        | <b>£000</b>     |
| <b>Assets and liabilities</b>        |                 |                |                   |                 |                    |                 |
| Segment assets                       | 138,888         | 36,577         | 1,144             | 176,609         | 35,021             | 211,630         |
| <b>Total segment assets</b>          | <b>138,888</b>  | <b>36,577</b>  | <b>1,144</b>      | <b>176,609</b>  | <b>35,021</b>      | <b>211,630</b>  |
| Segment liabilities                  | (120,490)       | -              | -                 | (120,490)       | (63,781)           | (184,271)       |
| <b>Capital expenditure (note 11)</b> | <b>40,385</b>   | <b>-</b>       | <b>-</b>          | <b>40,385</b>   | <b>-</b>           | <b>40,385</b>   |
| <b>Provisions – (note 19)</b>        | <b>(67,285)</b> | <b>-</b>       | <b>-</b>          | <b>(67,285)</b> | <b>-</b>           | <b>(67,285)</b> |

Segment assets and liabilities are reconciled to Group assets and liabilities as follows:-

|                                     | <b>Assets</b>  | <b>Liabilities</b> |
|-------------------------------------|----------------|--------------------|
|                                     | <b>£000</b>    | <b>£000</b>        |
| Segment assets/(liabilities)        | 176,609        | (120,490)          |
| Unallocated:                        |                |                    |
| Deferred taxation (note 9)          | 28,976         | (3,326)            |
| Cash and cash equivalents (note 16) | 6,045          | -                  |
| Current borrowings (note 17)        | -              | (11,019)           |
| Non-current borrowings (note 17)    | -              | (49,436)           |
| <b>Total</b>                        | <b>211,630</b> | <b>(184,271)</b>   |

**Scottish Resources Group Limited**  
**Financial statements for the period ended 27 March 2010**

**Notes to the consolidated financial statements**  
**For the 52 weeks ended 27 March 2010**

**1 Operating segments (cont)**

The segment assets and liabilities at 28 March 2009 and capital expenditure for the period then ended are as follows:-

|                                      | Coal<br>£000    | Estate<br>£000 | Renewables   | Totals<br>£000  | Unallocated<br>£000 | Total<br>£000   |
|--------------------------------------|-----------------|----------------|--------------|-----------------|---------------------|-----------------|
| <b>Assets and liabilities</b>        |                 |                |              |                 |                     |                 |
| Segment assets                       | 123,484         | 25,048         | 1,162        | 149,694         | 31,486              | 181,180         |
| <b>Total segment assets</b>          | <b>123,484</b>  | <b>25,048</b>  | <b>1,162</b> | <b>149,694</b>  | <b>31,486</b>       | <b>181,180</b>  |
| Segment liabilities                  | (98,735)        | -              | -            | (98,735)        | (68,862)            | (167,597)       |
| <b>Capital expenditure (note 11)</b> | <b>43,964</b>   | <b>-</b>       | <b>-</b>     | <b>43,964</b>   | <b>-</b>            | <b>43,964</b>   |
| <b>Provisions – (note 19)</b>        | <b>(60,646)</b> | <b>-</b>       | <b>-</b>     | <b>(60,646)</b> | <b>-</b>            | <b>(60,646)</b> |

Segment assets and liabilities are reconciled to Group assets and liabilities as follows:-

|                                  | Assets<br>£000 | Liabilities<br>£000 |
|----------------------------------|----------------|---------------------|
| Segment assets/(liabilities)     | 149,694        | (98,735)            |
| Unallocated:                     |                |                     |
| Deferred taxation (note 9)       | 31,486         | (1,436)             |
| Current borrowings (note 17)     | -              | (33,691)            |
| Non-current borrowings (note 17) | -              | (33,735)            |
| <b>Total</b>                     | <b>181,180</b> | <b>(167,597)</b>    |

The Group's three business segments operate in one geographical area which is the UK.

**Disclosure of information on major customers**

In the periods set out below, certain customers, all within Coal operating segment, accounted for greater than 10% of the Group's total revenues:

|            | 2010<br>£000 | 2010<br>% revenue | 2009<br>£000 | 2009<br>% revenue |
|------------|--------------|-------------------|--------------|-------------------|
| Customer 1 | 56,674       | 24.7%             | 27,684       | 19.3%             |
| Customer 2 | 52,355       | 22.8%             | 25,873       | 18.0%             |
| Customer 3 | 39,470       | 17.2%             | 22,640       | 15.8%             |
| Customer 4 | 30,389       | 13.2%             | 21,471       | 15.0%             |

Amounts outstanding as at each period end in respect of these material customers were as follows:-

|            | 2010<br>£000 | 2009<br>£000 |
|------------|--------------|--------------|
| Customer 1 | 1,468        | 1,386        |
| Customer 2 | 1,117        | 1,051        |
| Customer 3 | 1,685        | 2,878        |
| Customer 4 | 286          | 649          |
|            | <b>4,556</b> | <b>5,964</b> |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 2 Operating expenses

|                         | 2010  | Restated<br>2009 |
|-------------------------|-------|------------------|
|                         | £000  | £000             |
| Administrative expenses | 7,895 | 5,359            |

### 3 Profit/(loss) before tax

|  | 2010 | 2009 |
|--|------|------|
|  | £000 | £000 |

Profit/(loss) before tax is stated after charging/(crediting):

#### Charged to cost of sales:

|                                                                                        |         |         |
|----------------------------------------------------------------------------------------|---------|---------|
| Depreciation of property, plant and equipment – owned assets                           | 4,903   | 4,890   |
| Depreciation of property, plant and equipment - under finance leases                   | 4,979   | 3,063   |
| Amortisation: surface mine development, deferred stripping costs and restoration asset | 13,974  | 11,078  |
| Staff costs (note 5)                                                                   | 37,866  | 28,717  |
| Hire of plant and machinery                                                            | 11,274  | 10,472  |
| Operating lease payments                                                               | 9,855   | 5,105   |
| Inventory charged to cost of sales                                                     | (3,698) | (1,242) |
| Costs of coal purchased from third parties                                             | 34,299  | 5,135   |

#### Charged separately in the income statement:

|                                                                           |         |       |
|---------------------------------------------------------------------------|---------|-------|
| Net (increase)/reduction in fair value of investment properties (note 12) | (8,789) | 3,700 |
| Loss on sale of business                                                  | -       | 146   |
| Profit on disposal of operating property, plant & equipment               | (103)   | -     |

#### Charged to operating expenses:

|                      |       |       |
|----------------------|-------|-------|
| Staff costs (note 5) | 3,481 | 2,686 |
|----------------------|-------|-------|

The loss on sale of business of £146,000 in the 52 weeks ended 28 March 2009 relates to a reduction in the deferred consideration for the business sale as recorded in the 2008 financial statements.

### 4 Exceptional operating expenses

The exceptional costs of £100,557 in the 52 weeks ended 27 March 2010 were in respect of a health and safety incident at one of the sites.

In the 52 weeks ended 28 March 2009, professional fees in respect of the transition to IFRS and other projects of £267,015 are considered exceptional and one-off in nature.

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 5 Employee information

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

|                      | 2010       | 2009       |
|----------------------|------------|------------|
|                      | Number     | Number     |
| Mining operations    | 862        | 678        |
| Land and renewables  | 6          | 5          |
| Administrative staff | 90         | 69         |
|                      | <b>958</b> | <b>752</b> |

Total staff costs for the Group were:

|                                                    | 2010          | 2009          |
|----------------------------------------------------|---------------|---------------|
|                                                    | £000          | £000          |
| <b>Staff costs (including executive directors)</b> |               |               |
| Wages and salaries                                 | 35,933        | 27,321        |
| Social security costs                              | 3,721         | 2,930         |
| Other pension costs                                | 1,693         | 1,152         |
|                                                    | <b>41,347</b> | <b>31,403</b> |

|                                                   | 2010         | 2009         |
|---------------------------------------------------|--------------|--------------|
|                                                   | £000         | £000         |
| <b>Key management (including directors)</b>       |              |              |
| Aggregate emoluments                              | 968          | 583          |
| Sums paid to third party for directors' services  | 524          | 580          |
| Defined contribution pension scheme contributions | 60           | 37           |
|                                                   | <b>1,552</b> | <b>1,200</b> |

|                                                   | 2010       | 2009       |
|---------------------------------------------------|------------|------------|
|                                                   | £000       | £000       |
| <b>Highest paid director</b>                      |            |            |
| Aggregate emoluments                              | 284        | 214        |
| Defined contribution pension scheme contributions | 20         | 14         |
|                                                   | <b>304</b> | <b>228</b> |

Key management is considered to be the Board of Directors including non-executive directors.

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 6 Finance income and costs

|                                                  | 2010           | 2009           |
|--------------------------------------------------|----------------|----------------|
|                                                  | £000           | £000           |
| Interest expense:                                |                |                |
| Bank borrowings                                  | (1,085)        | (2,232)        |
| Hire purchase agreements and finance leases      | (2,182)        | (1,307)        |
| Unwinding of discount on provisions (note 19)    | (447)          | (977)          |
| Pension charges – interest on obligations        | (2,733)        | (2,860)        |
| Pension charges – expected return on plan assets | 2,214          | 2,503          |
| Other interest                                   | -              | (341)          |
| Finance costs                                    | <u>(4,233)</u> | <u>(5,214)</u> |

Included within other interest are bank fees and interest to HM Revenue & Customs. Note 7 below details the exceptional finance costs which totals £375,000k for the 52 weeks ended 27 March 2010 (£845,000k for the 52 weeks ended 28 March 2009).

### 7 Exceptional finance costs

The costs relate to bank charges and interest in respect of the restructuring of the Group's borrowing facilities. A new revolving credit facility was entered into with Lloyds Banking Group in March 2010, resulting in exceptional one-off break fees.

### 8 Auditors' remuneration

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

|                                            | 2010       | 2009       |
|--------------------------------------------|------------|------------|
|                                            | £000       | £000       |
| Auditors' remuneration for:                |            |            |
| Audit of Company and consolidated accounts | 103        | 84         |
| Audit of subsidiary accounts               | 37         | 36         |
| Taxation services                          | 37         | 55         |
| Advisory services                          | 557        | 8          |
| Other services                             | 81         | 91         |
|                                            | <u>815</u> | <u>274</u> |

Advisory services were incurred in the 52 weeks ended 27 March 2010 primarily for transaction services in relation to a financial project, the costs of which has been deferred and are currently included within prepayments as at 27 March 2010.

Other services are in respect of pensions advisory services, IT services and IFRS conversion advice.

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 9 Tax

|                                                   | 2010         | 2009           |
|---------------------------------------------------|--------------|----------------|
|                                                   | £000         | £000           |
| <b>Analysis of charge/(credit) in the period</b>  |              |                |
| Current tax:                                      |              |                |
| UK corporation tax on profits for the period      | 650          | 676            |
| Deferred tax:                                     |              |                |
| Origination and reversal of temporary differences | 6,602        | (3,803)        |
| <b>Taxation charge/(credit)</b>                   | <b>7,252</b> | <b>(3,127)</b> |

The tax for the period is different to the standard rate of corporation tax in the UK of 28% (2009:28.02%). The differences are explained below:

|                                                         | 2010          | 2009            |
|---------------------------------------------------------|---------------|-----------------|
|                                                         | £000          | £000            |
| <b>Profit/(loss) before taxation</b>                    | <b>28,489</b> | <b>(12,247)</b> |
| Profit/(loss) before taxation multiplied by the         |               |                 |
| rate of corporation tax in the UK of 28% (2009: 28.02%) | 7,977         | (3,432)         |
| Effects of:                                             |               |                 |
| Expenses not deductible for tax purposes                | 117           | 232             |
| Adjustments in respect of prior years – deferred tax    | (12)          | (94)            |
| Capital gains covered by brought forward losses         | -             | 16              |
| Non taxable element of revaluation movement             | (823)         | 335             |
| Impact of reclassification of assets as non qualifying  | -             | (193)           |
| Deferred tax movement not recognised                    | (7)           | 9               |
| <b>Total taxation charge/(credit)</b>                   | <b>7,252</b>  | <b>(3,127)</b>  |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 9 Tax (cont)

#### Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2009: 28%). Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The gross amounts are as follows:

|                                                                  | 2010          | 2009          |
|------------------------------------------------------------------|---------------|---------------|
|                                                                  | £000          | £000          |
| Deferred tax asset - to be recovered after more than 12 months   | 28,976        | 31,486        |
| Deferred tax liability - to be settled after more than 12 months | (3,326)       | (1,436)       |
| <b>Net deferred tax asset</b>                                    | <b>25,650</b> | <b>30,050</b> |

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

|                                                                        | 2010    | 2009   |
|------------------------------------------------------------------------|---------|--------|
|                                                                        | £000    | £000   |
| At 28 March 2009                                                       | 30,050  | 25,609 |
| Amounts( charged)/credited to the consolidated income statement        | (6,602) | 3,803  |
| Amounts credited to the consolidated statement of comprehensive income | 2,202   | 638    |
| At 27 March 2010                                                       | 25,650  | 30,050 |

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

|                                 | Investment<br>property<br>revaluation | Total |
|---------------------------------|---------------------------------------|-------|
|                                 | £000                                  | £000  |
| Deferred tax liabilities        |                                       |       |
| At 29 March 2008                | 2,318                                 | 2,318 |
| Charged to the income statement | (882)                                 | (882) |
| At 28 March 2009                | 1,436                                 | 1,436 |
| Charged to the income statement | 1,890                                 | 1,890 |
| At 27 March 2010                | 3,326                                 | 3,326 |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 9 Tax (cont)

|                                            | Retirement<br>benefit<br>obligation | Capital<br>allowances | Tax<br>losses | Other        | Total         |
|--------------------------------------------|-------------------------------------|-----------------------|---------------|--------------|---------------|
|                                            | £000                                | £000                  | £000          | £000         | £000          |
| Deferred tax assets                        |                                     |                       |               |              |               |
| At 29 March 2008                           | 1,140                               | 24,639                | 749           | 1,399        | 27,927        |
| (Charged)/credited to the income statement | -                                   | (8,962)               | 12,000        | (117)        | 2,921         |
| Credited directly to SOCIE                 | 638                                 | -                     | -             | -            | 638           |
| <b>At 28 March 2009</b>                    | <b>1,778</b>                        | <b>15,677</b>         | <b>12,749</b> | <b>1,282</b> | <b>31,486</b> |
| Charged to the income statement            | -                                   | (1,979)               | (3,178)       | 445          | (4,712)       |
| Credited directly to SOCIE                 | 2,202                               | -                     | -             | -            | 2,202         |
| <b>At 27 March 2010</b>                    | <b>3,980</b>                        | <b>13,698</b>         | <b>9,571</b>  | <b>1,727</b> | <b>28,976</b> |

SOCIE relates to changes in other comprehensive income within the 'statement of comprehensive income'.

The deferred tax assets are expected to be utilised against profits on disposals of assets and forecast trading profits. The Group did not recognise deferred tax assets of £13,072 (2009: £13,000) in respect for timing differences on provisions and other items.

Based on current projections, the Group does not expect to pay any material cash tax until at least financial year 2012/13 due to the availability of brought forward trading losses, capital losses and mineral extraction allowances.

The other column above relates to deferred tax in relation to differences in the rehabilitation asset and provision and IFRS holiday pay.

### 10 Dividends

No dividends have been paid or proposed in relation to either the periods ended 2010 or 2009.

# Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

## 11 Property, plant and equipment

|                                   | Operating<br>properties<br>£000 | Plant and<br>equipment<br>£000 | Surface mine<br>development<br>£000 | Deferred<br>stripping<br>costs and<br>restoration<br>assets<br>£000 | Total<br>£000  |
|-----------------------------------|---------------------------------|--------------------------------|-------------------------------------|---------------------------------------------------------------------|----------------|
| <b>Cost - current year</b>        |                                 |                                |                                     |                                                                     |                |
| At 28 March 2009                  | 17,850                          | 72,745                         | 42,899                              | 47,108                                                              | 180,602        |
| Additions                         | 1,254                           | 17,253                         | 5,208                               | 16,670                                                              | 40,385         |
| Disposals                         | -                               | (3,544)                        | -                                   | -                                                                   | (3,544)        |
| Transfer to investment properties | (2,857)                         | -                              | -                                   | -                                                                   | (2,857)        |
| <b>At 27 March 2010</b>           | <b>16,247</b>                   | <b>86,454</b>                  | <b>48,107</b>                       | <b>63,778</b>                                                       | <b>214,586</b> |

### Depreciation and amortisation

|                         |              |               |               |               |               |
|-------------------------|--------------|---------------|---------------|---------------|---------------|
| At 28 March 2009        | 2,648        | 32,621        | 29,951        | 11,317        | 76,537        |
| Charge for the period   | 145          | 9,737         | 4,693         | 9,281         | 23,856        |
| Disposals               | -            | (2,804)       | -             | -             | (2,804)       |
| <b>At 27 March 2010</b> | <b>2,793</b> | <b>39,554</b> | <b>34,644</b> | <b>20,598</b> | <b>97,589</b> |

### Net book amount

|                         |               |               |               |               |                |
|-------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>At 27 March 2010</b> | <b>13,454</b> | <b>46,900</b> | <b>13,463</b> | <b>43,180</b> | <b>116,997</b> |
|-------------------------|---------------|---------------|---------------|---------------|----------------|

|                          | Operating<br>properties<br>£000 | Plant and<br>equipment<br>£000 | Surface mine<br>Development<br>£000 | Deferred<br>stripping<br>costs and<br>restoration<br>assets<br>£000 | Total<br>£000  |
|--------------------------|---------------------------------|--------------------------------|-------------------------------------|---------------------------------------------------------------------|----------------|
| <b>Cost - prior year</b> |                                 |                                |                                     |                                                                     |                |
| At 29 March 2008         | 17,397                          | 52,231                         | 40,806                              | 31,162                                                              | 141,596        |
| Additions                | 466                             | 25,353                         | 2,199                               | 15,946                                                              | 43,964         |
| Disposals                | (119)                           | (4,839)                        | -                                   | -                                                                   | (4,958)        |
| Transfers                | 106                             | -                              | (106)                               | -                                                                   | -              |
| <b>At 28 March 2009</b>  | <b>17,850</b>                   | <b>72,745</b>                  | <b>42,899</b>                       | <b>47,108</b>                                                       | <b>180,602</b> |

### Depreciation and amortisation

|                         |              |               |               |               |               |
|-------------------------|--------------|---------------|---------------|---------------|---------------|
| At 29 March 2008        | 2,015        | 29,874        | 25,335        | 4,855         | 62,079        |
| Charge for the period   | 633          | 7,320         | 4,616         | 6,462         | 19,031        |
| Disposals               | -            | (4,573)       | -             | -             | (4,573)       |
| <b>At 28 March 2009</b> | <b>2,648</b> | <b>32,621</b> | <b>29,951</b> | <b>11,317</b> | <b>76,537</b> |

### Net book amount

|                         |               |               |               |               |                |
|-------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>At 28 March 2009</b> | <b>15,202</b> | <b>40,124</b> | <b>12,948</b> | <b>35,791</b> | <b>104,065</b> |
|-------------------------|---------------|---------------|---------------|---------------|----------------|

## **Notes to the consolidated financial statements**

### **For the 52 weeks ended 27 March 2010**

#### **11 Property, plant and equipment (cont)**

Deferred stripping costs and restoration assets net book amount (NBA) includes deferred stripping costs NBA of £17,683,000 (2009: £10,566,000) and restoration NBA of £25,497,000 (2009: £25,225,000). These are depreciated over the estimated recoverable reserves.

Assets held under finance leases and capitalised in plant and equipment have the following net book amounts:

|                        | <b>2010</b>    | <b>2009</b> |
|------------------------|----------------|-------------|
|                        | <b>£000</b>    | <b>£000</b> |
| Cost                   | <b>41,504</b>  | 28,035      |
| Aggregate depreciation | <b>(9,285)</b> | (4,271)     |
| Net book amount        | <b>32,219</b>  | 23,764      |

Leased terms have been discussed and are detailed within the financial liabilities note 20(c).

#### **12 Investment properties**

|                                                       | <b>2010</b>   | <b>2009</b> |
|-------------------------------------------------------|---------------|-------------|
|                                                       | <b>£000</b>   | <b>£000</b> |
| <u>At valuation</u>                                   |               |             |
| Opening balance                                       | <b>26,210</b> | 29,910      |
| Fair value gain/(loss) – through the income statement | <b>8,789</b>  | (3,700)     |
| Fair value loss – through revaluation reserve         | <b>(135)</b>  | -           |
| Transfers between asset categories                    | <b>2,857</b>  | -           |
| Closing balance                                       | <b>37,721</b> | 26,210      |

The last external valuation, by DTZ, an independent firm with relevant experience of valuations of this nature, was undertaken in March 2010. A Directors' valuation was performed in 2009.

Key assumptions within the basis of fair value are:

- the sites will be cleared of redundant buildings, levelled and prepared ready for development
- the values are on a basis that no material environmental contamination exists on the subject or adjoining sites, or where this is present, the sites will be re-mediated to a standard consistent with the intended use, the costs for such re-mediation being separately provided for
- no deduction or adjustment has been made in relation to claw-back provisions, or other taxes which may be payable in certain events.

Had the above Investment properties been carried at cost, rather than fair value, their carrying value would be £7,201,000 (2009: £5,706,000).

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to £225,904 (2009: £46,761). Direct operating expenses arising on the Investment Property in the year amounted to £Nil (2009: £Nil).

All properties are subject to floating charges to secure bank borrowings.

## **Notes to the consolidated financial statements**

### **For the 52 weeks ended 27 March 2010**

#### **13 Investments**

##### **Subsidiaries**

The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affect the results and financial position of the Group. All Group companies have year-end dates coinciding with the parent company.

| <u><b>Name of undertaking</b></u> | <u><b>Country of<br/>incorporation</b></u> | <u><b>Shares</b></u> | <u><b>% of<br/>Ownership</b></u> |
|-----------------------------------|--------------------------------------------|----------------------|----------------------------------|
| SRGH Limited                      | Scotland                                   | Ordinary £1 shares   | 100                              |
| The Scottish Coal Company Limited | Scotland                                   | Ordinary £1 shares   | 100                              |
| Castlebridge Plant Limited        | Scotland                                   | Ordinary £1 shares   | 100                              |
| SRG Estates Limited               | Scotland                                   | Ordinary £1 shares   | 100                              |

SRGH Limited operates principally in Scotland. It currently does not trade and acts as a holding company for the Group's subsidiaries. This company was incorporated on 18 March 2010.

The Scottish Coal Company Limited operates principally in Scotland. Its principal business activity is surface mining and the sale of coal.

Castlebridge Plant Limited operates principally in Scotland. Its principal business is plant ownership and maintenance with primarily all activities supporting The Scottish Coal Company Limited operations.

SRG Estates Limited operates principally in Scotland. Its principal business is to manage, regenerate, develop and sell property and land assets owned by the Group.

#### **14 Inventories**

|                        | <b>2010</b>   | <b>2009</b> |
|------------------------|---------------|-------------|
|                        | <b>£000</b>   | <b>£000</b> |
| Coal stocks            | <b>6,296</b>  | 2,597       |
| Spares and consumables | <b>3,852</b>  | 4,204       |
|                        | <b>10,148</b> | 6,801       |

In addition to the above, the Group held consignment stock amounting to £1,011,718 (2009: £507,094) on behalf of suppliers. Consignment stock is held for fast moving stock items and the stocking requirement is reviewed annually with suppliers. There is no obligation to purchase stock items that may not be required.

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 15 Trade and other receivables - current

|                                                     | 2010          | 2009          |
|-----------------------------------------------------|---------------|---------------|
|                                                     | £000          | £000          |
| Trade receivables                                   | 7,909         | 8,370         |
| Less: provision for impairment of trade receivables | (320)         | (186)         |
| Net trade receivables                               | 7,589         | 8,184         |
| Other receivables                                   | 480           | 1,587         |
| Prepayments and accrued income                      | 3,674         | 2,847         |
|                                                     | <b>11,743</b> | <b>12,618</b> |

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

The ageing of trade receivables is as follows:

|                                 | 2010         | 2009         |
|---------------------------------|--------------|--------------|
|                                 | £000         | £000         |
| Not past due date               | 7,401        | 7,624        |
| Less than 30 days past due date | 34           | -            |
| 31-60 days past due date        | 3            | 399          |
| 61-90 days past due date        | 150          | 147          |
| Over 90 days past due date      | 321          | 200          |
|                                 | <b>7,909</b> | <b>8,370</b> |

As of 27 March 2010, there were provisions against trade receivables of £320,000 (2009: £186,000), aged as follows:

|                                 | 2010       | 2009       |
|---------------------------------|------------|------------|
|                                 | £000       | £000       |
| Not past due date               | -          | -          |
| Less than 30 days past due date | -          | -          |
| 31-60 days past due date        | -          | -          |
| 61-90 days past due date        | 75         | -          |
| Over 90 days past due date      | 245        | 186        |
|                                 | <b>320</b> | <b>186</b> |

**Notes to the consolidated financial statements**  
**For the 52 weeks ended 27 March 2010**

**15 Trade and other receivables – current (cont)**

As of 27 March 2010, trade receivables of £188,000 (2009: £560,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

|                                 | 2010       | 2009       |
|---------------------------------|------------|------------|
|                                 | £000       | £000       |
| Less than 30 days past due date | 34         | -          |
| 31-60 days past due date        | 3          | 399        |
| 61-90 days past due date        | 75         | 147        |
| Over 90 days past due date      | 76         | 14         |
|                                 | <b>188</b> | <b>560</b> |

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

|                                                           | 2010       | 2009       |
|-----------------------------------------------------------|------------|------------|
|                                                           | £000       | £000       |
| At 28 March 2009                                          | 186        | 322        |
| Provisions for impairment of receivables                  | 134        | 107        |
| Receivables written off during the year as un-collectable | -          | (243)      |
| At 29 March 2010                                          | <b>320</b> | <b>186</b> |

The creation and releases of the provision for impaired receivables have been included in 'other operating income and expenses' in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of any additional recoveries. The other classes within trade and other receivables do not contain impaired assets.

Further information on credit risk is provided in note 20.

**16 Cash and cash equivalents**

|                 | 2010         | 2009     |
|-----------------|--------------|----------|
|                 | £000         | £000     |
| Bank balance    | 5,745        | -        |
| Restricted cash | 300          | -        |
|                 | <b>6,045</b> | <b>-</b> |

Restricted cash is cash used as collateral against a bond obligation.

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 17 Financial liabilities - borrowings

|                                                     | 2010          | 2009          |
|-----------------------------------------------------|---------------|---------------|
|                                                     | £000          | £000          |
| <b><u>Current</u></b>                               |               |               |
| <b>Borrowings due within one year or on demand:</b> |               |               |
| Secured - bank loans                                | -             | 19,000        |
| Secured - bank overdrafts                           | -             | 7,767         |
| Finance lease and hire purchase obligations         | 11,019        | 6,924         |
|                                                     | <b>11,019</b> | <b>33,691</b> |
| <b><u>Non-current</u></b>                           |               |               |
| <b>Borrowings due after more than one year:</b>     |               |               |
| Secured - bank loans                                | 25,960        | 11,500        |
| Finance lease and hire purchase obligations         | 23,476        | 22,235        |
|                                                     | <b>49,436</b> | <b>33,735</b> |

The Group entered into a new banking facility with Lloyds Banking Group from March 2010. The Group replaced the existing bank and term debt (which had comprised a £12.5 million overdraft and a £30.5 million term loan facility) with a new facility which now comprises a revolving credit facility of £40 million less any amount by which the bond facility utilisation exceeds £2.5 million, committed until 31 March 2013, a £5 million overdraft facility and a £5 million bonding/guarantee facility. The revolving credit facility includes interest initially at LIBOR plus 2.75% but this will be adjusted by EBITDA in future months. Lloyds Banking Group holds a floating charge over the entire assets of Scottish Resources Group.

The maturity profile of the carrying amount of financial liabilities is set out below:

|                                             | Within<br>1 year<br>£000 | 2-5 years<br>£000 | More than<br>5 years<br>£000 | Total<br>£000 |
|---------------------------------------------|--------------------------|-------------------|------------------------------|---------------|
| <b>At 27 March 2010</b>                     |                          |                   |                              |               |
| Secured - bank loans                        | -                        | 25,960            | -                            | 25,960        |
| Finance lease and hire purchase obligations | 11,019                   | 22,726            | 750                          | 34,495        |
| Total borrowings                            | <b>11,019</b>            | <b>48,686</b>     | <b>750</b>                   | <b>60,455</b> |
| <b>At 28 March 2009</b>                     |                          |                   |                              |               |
| Bank overdraft                              | 7,767                    | -                 | -                            | 7,767         |
| Secured - bank loans                        | 19,000                   | 11,500            | -                            | 30,500        |
| Finance lease and hire purchase obligations | 6,924                    | 22,235            | -                            | 29,159        |
| Total borrowings                            | <b>33,691</b>            | <b>33,735</b>     | <b>-</b>                     | <b>67,426</b> |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 17 Financial liabilities – borrowings (cont)

The effective interest rates at the balance sheet date were as follows:

|                                              | 2010 | 2009 |
|----------------------------------------------|------|------|
| Bank borrowings                              | 4.9% | 6.3% |
| Finance leases and hire purchase obligations | 6.1% | 6.4% |

The carrying amount of the Group's borrowings are denominated in sterling.

The minimum lease payments under finance leases and hire purchase obligations fall due as follows:

|                                                              | 2010    | 2009    |
|--------------------------------------------------------------|---------|---------|
|                                                              | £000    | £000    |
| Within 1 year                                                | 13,134  | 8,656   |
| Later than one year and not later than five years            | 24,994  | 24,783  |
| Later than five years                                        | 1,522   | -       |
|                                                              | 39,650  | 33,439  |
| Future finance charges on hire purchase and finance leases   | (5,155) | (4,280) |
| Present value of hire purchase and finance lease liabilities | 34,495  | 29,159  |

### 18 Trade and other payables

|                                    | 2010   | 2009   |
|------------------------------------|--------|--------|
|                                    | £000   | £000   |
| <b>Current</b>                     |        |        |
| Trade payables                     | 19,018 | 15,736 |
| Other taxation and social security | 4,343  | 5,411  |
| Other payables                     | 331    | 302    |
| Accruals and deferred income       | 15,308 | 10,288 |
|                                    | 39,000 | 31,737 |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 19 Provisions

Provisions have been analysed as follows:

|                         | Surface<br>damage<br>£000 | Restoration<br>and<br>rehabilitation<br>£000 | Other<br>£000 | Total<br>£000 |
|-------------------------|---------------------------|----------------------------------------------|---------------|---------------|
| At 28 March 2009        | 86                        | 55,938                                       | 4,622         | 60,646        |
| Released in the period  | -                         | (1,212)                                      | -             | (1,212)       |
| Utilised in the period  | -                         | (2,149)                                      | -             | (2,149)       |
| Unwinding of discount   | -                         | 447                                          | -             | 447           |
| Increase in provision   | -                         | 9,553                                        | -             | 9,553         |
| <b>At 27 March 2010</b> | <b>86</b>                 | <b>62,577</b>                                | <b>4,622</b>  | <b>67,285</b> |

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

**(i) Surface damage**

Surface damage provision relates to the Group's liability to repair subsidence damage arising from the Group's past mining operations. Surface damage claims can be lodged by the public up to six years after mining, and payment will occur once a claim is settled. The volume and size of claims varies according to the nature of surface development (e.g. agricultural or residential area). Costs are estimated based on historic claims experience following a detailed assessment of the nature of the damage foreseen and agreed with the Coal Authority.

**(ii) Restoration and closure costs of surface mines**

Restoration and closure costs of surface mines relate to the total costs of reinstatement, of soil excavation and of surface restoration such as topsoil replacement and landscaping. Restoration costs are payable in part progressively during the coaling, and in full following completion of the individual sites.

The amount provided represents the present value of the expected costs. Costs are charged to the provision as incurred and the unwinding of the discount is disclosed under finance costs. An asset is created for an amount equivalent to the initial provision. This is charged to the income statement on a coal extraction basis over the life of a site.

Annually, the restoration obligation is reviewed and any change in provision is reflected in a change in the restoration asset.

**(iii) Other**

Other provisions include amounts in respect of certain obligations arising as a result of past events. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligations at the balance sheet date and are discounted to present value where the effect is material.

## Notes to the consolidated financial statements

### For the 52 weeks ended 27 March 2010

#### 20 Financial instruments

##### (a) Overview

This note provides details of the Group's financial instruments. Except where otherwise stated, the disclosures provided in this note exclude:

- Interests in subsidiaries which are accounted for in accordance with IAS 27 'Consolidated and Separate Financial Statements';
- Retirement benefit assets and obligations in accordance with IAS 19 'Employee Benefits';
- Contracts for contingent consideration in a business combination;
- Financial instruments, contracts and obligations under share based payment transactions.

Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments, provisions, prepayments and deferred grant income) are not financial liabilities or financial assets. Accordingly, provisions and amounts payable or receivable in respect of corporation tax, sales tax (including UK Value Added Tax), payroll tax and other taxes are excluded from the disclosures provided in this note.

##### (b) Carrying values of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities

|                                                  | Other<br>balance<br>sheet note | Carrying value<br>2010<br>£000 | 2009<br>£000 | Fair value<br>2010<br>£000 | 2009<br>£000 |
|--------------------------------------------------|--------------------------------|--------------------------------|--------------|----------------------------|--------------|
| <b>Financial assets</b>                          |                                |                                |              |                            |              |
| Loans and receivables:                           |                                |                                |              |                            |              |
| - Current assets                                 |                                |                                |              |                            |              |
| - Trade receivables, net of impairment           | 15                             | 7,589                          | 8,184        | 7,589                      | 8,184        |
| - Other receivables                              | 15                             | 480                            | 1,587        | 480                        | 1,587        |
| Total financial assets                           |                                | 8,069                          | 9,771        | 8,069                      | 9,771        |
| <b>Financial liabilities</b>                     |                                |                                |              |                            |              |
| Financial liabilities measured at amortised cost |                                |                                |              |                            |              |
| - Non-current and current liabilities            |                                |                                |              |                            |              |
| - Trade payables                                 | 18                             | 19,018                         | 15,736       | 19,018                     | 15,736       |
| - Other payables                                 | 18                             | 331                            | 302          | 331                        | 302          |
| - Borrowings                                     | 17                             | 60,455                         | 67,426       | 60,455                     | 67,426       |
| Total financial liabilities                      |                                | 79,804                         | 83,464       | 79,804                     | 83,464       |
| Net financial liabilities                        |                                | (71,735)                       | (73,693)     | (71,735)                   | (73,693)     |

## Notes to the consolidated financial statements

### For the 52 weeks ended 27 March 2010

#### 20 Financial instruments (cont)

##### (b) Carrying values of financial assets and financial liabilities (cont)

The fair value of financial assets and liabilities shown above are determined as follows:-

- The carrying value of trade receivables and other receivables is considered to be a reasonable approximation of fair value. Given the short time to maturity, no specific assumptions on discount rates have been made. The effect of credit losses not already reflected in the carrying value as impairment losses is assumed to be immaterial.
- The carrying value of trade payables and other payables is considered to be a reasonable approximation of fair value. Given the relatively short average time to maturity, no specific assumptions on discount rates have been made.
- The fair value of the discounted-rate finance lease obligations has been by determining by discounting future forecast cash flows at an estimate of the market interest rate for the debt at 27 March 2010, being 6.1% (2009: 6.4%).
- The carrying value of fixed rate hire purchase and finance lease liabilities is considered to be a reasonable approximation of fair value taking account of the amounts involved in the context of total financial liabilities and the fixed interest rates relative to market interest rates at the balance sheet date.

The Group does not consider that the fair value of financial instruments would change materially from that shown above as a result of any reasonable change to the assumptions made in determining the fair values shown above.

IFRS 7 fair value hierarchy has been applied and it was determined that the Group's financial assets would fall within level 3 as determined by the standard as none are measured using market observable data.

##### (c) Nature and extent of risks arising from financial instruments

The Group's use of financial instruments exposes it to a variety of financial risks, principally:

- Market risk
- Credit risk
- Liquidity risk

This note presents qualitative information about the Group's exposure to each of the above risks, including the Group's objectives, policies and processes for measuring and managing risk: there have been no significant changes to these matters during the 52 weeks ended 27 March 2010. This note also provides summary quantitative data about the Group's exposure to each risk. In addition, information on the Group's management of capital is provided in note (d) of this section on financial instruments.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to reduce exposure to commodity price risk and interest rate movements. The Group does not generally hold or issue derivative financial instruments for speculative purposes.

## Notes to the consolidated financial statements

### For the 52 weeks ended 27 March 2010

#### 20 Financial instruments (cont)

##### (c) Carrying values of financial assets and financial liabilities (cont)

Risk management is carried out by Group finance under policies which identify, evaluate and hedge financial risks in close co-operation with the Group's operating units. The Board provides guidance on overall risk management, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

##### (i) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and commodity prices will affect the Group's financial performance and/or financial position. The objective of the Group's management of market risk is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group may enter into derivative financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. The Group will seek to apply hedge accounting in the future in order to reduce volatility in the consolidated income statement.

##### *Foreign exchange risk*

The Group did not enter into significant foreign currency transactions in the 52 weeks ended 28 March 2009. In the 52 weeks ended 27 March 2010, the Group agreed two separate contracts for the importation of coal, priced and paid in US dollars. Contractual obligations under the contracts were settled as they fell due using short-term forward purchase contracts. In addition, it is exposed to foreign currency exchange rates thereby affecting underlying sales contract pricing and cost base (in particular gasoil and coal purchase costs).

|                                                                 | 2010         | 2009 |
|-----------------------------------------------------------------|--------------|------|
|                                                                 | £000         | £000 |
| Foreign exchange differences recognised in the income statement | <u>(233)</u> | -    |

##### *Cash flow and fair value interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk principally through its borrowings and any interest rate derivatives. It has a mixture of fixed-rate borrowings (where the fair value is exposed to changes in market interest rates) and floating-rate borrowings (where the future cash flows are exposed to changes in market interest rates).

The Group's objective with regards to interest rate risk is to minimise the risk of changes in interest rates significantly affecting future cash flows and/or profit. To provide some certainty as to the level of interest cost, it is the Group's policy to manage interest rate exposure through the use of fixed and floating rate debt. Derivative financial instruments are also used where appropriate to generate the desired interest rate profile.

The principal amount of the outstanding interest rate swaps at 27 March 2010 was £Nil (28 March 2009).

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 20 Financial instruments (cont)

#### (c) Carrying values of financial assets and financial liabilities (cont)

The maturity profile of the gross amount of financial liabilities is as set out below:

|                                           | Effective<br>interest<br>rate<br>% | 1 year or<br>less<br>£000 | 1 - 5<br>years<br>£000 | More<br>than 5<br>years<br>£000 | Total<br>£000 |
|-------------------------------------------|------------------------------------|---------------------------|------------------------|---------------------------------|---------------|
| <b>As at 27 March 2010</b>                |                                    |                           |                        |                                 |               |
| Bank debt                                 | 4.9%                               | -                         | 21,772                 | -                               | 21,772        |
| Finance lease & hire purchase obligations | 6.1%                               | 13,134                    | 24,994                 | 1,522                           | 39,650        |
|                                           |                                    | <b>13,134</b>             | <b>46,766</b>          | <b>1,522</b>                    | <b>61,422</b> |
|                                           | Effective<br>interest<br>rate<br>% | 1 year or<br>less<br>£000 | 1 - 5<br>years<br>£000 | More<br>than 5<br>years<br>£000 | Total<br>£000 |
| <b>As at 28 March 2009</b>                |                                    |                           |                        |                                 |               |
| Bank debt                                 | 6.3%                               | 28,453                    | 12,225                 | -                               | 40,678        |
| Finance lease & hire purchase obligations | 6.4%                               | 8,656                     | 24,783                 | -                               | 33,439        |
|                                           |                                    | <b>37,109</b>             | <b>37,008</b>          | <b>-</b>                        | <b>74,117</b> |

The Group does not account for any fixed rate financial assets and liabilities at fair value through the income statement, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit, loss or the carrying value of financial instruments that are not cash flow hedges.

The impact of a change of 2% on all relevant floating interest rates on annualised interest payable on balances outstanding at the balance sheet date was:

|                                     | 2010<br>£000 | 2009<br>£000 |
|-------------------------------------|--------------|--------------|
| Interest rates 2% lower             |              |              |
| - Decrease in net finance charges   | 415          | 765          |
| - Increase in net tax charge        | (116)        | (214)        |
| - Increase in profit after taxation | 299          | 551          |
| Interest rates 2% higher            |              |              |
| - Increase in net finance charges   | (415)        | (765)        |
| - Decrease in net tax charge        | 116          | 214          |
| - Decrease in profit after taxation | (299)        | (551)        |

## Notes to the consolidated financial statements

### For the 52 weeks ended 27 March 2010

#### 20 Financial instruments (cont)

##### (c) Carrying values of financial assets and financial liabilities (cont)

The above sensitivity analysis is based on the following methods and assumptions:

- All relevant floating interest rates (including Bank of England base rate and LIBOR) change by 2%.
- The change is calculated by working out an annualised interest charge on the amounts outstanding at the balance sheet date and comparing this to the same charge re-calculated for a change of 2% in the interest rate. While this provides some indication of the impact on future profit and cash flows from changes in interest rates, it does not necessarily indicate the extent to which the profit/(loss) for the 52 weeks ended 27 March 2010 and the 52 weeks ended 28 March 2009 would have differed had the interest rates applying during those years been different.
- The impact of changes in interest rates on items that are not financial instruments (for example, provisions and pension assets/obligations) is excluded.

A 2% increase or decrease represents management's assessment of the reasonably possible changes in interest rates, which is attributable to the Group's exposure to interest rates on its variable rate borrowings.

#### *Price risk*

The Group is exposed to fluctuations in coal and diesel prices. The price of coal impacts on revenue and earnings. The Group has mitigated this risk in the past by the use of long-term fixed price customer contracts. These contracts, with the increase in coal prices, worked to the Group's disadvantage in the past and the Group's strategy has been to move to shorter term fixed price contracts or longer term contracts linked to international prices and which may contain fix, floors, caps and collars. In addition a number of the Group's coal contracts have RPI indexation and fuel pass through clauses. The Group may use derivative instruments to fix, swap, cap and collar its exposure to future coal price movements.

There were two coal price hedges taken out during the prior period (52 weeks ended 28 March 2009) and they were both disposed of in December 2008 for £5.1m following concerns over counterparty credit risk. The net receipts were credited to the income statement. There are no coal price hedges in place as at the 2010 balance sheet date.

The Group uses significant volumes of gas oil per annum and therefore a US\$10 movement in the price of oil would significantly impact our cost base.

The Group may hedge a proportion of its fuel usage in the derivative market. There are no derivative hedges in place as the Group believe that hedging at current forward prices is not economical and costs of derivative lines of credit are prohibitive at present.

The Group also manages diesel price exposure by taking out fixed price supply agreements. At date of approval of the accounts, the Group had fixed price agreements for approximately 8% of 2010/11 estimated fuel consumption.

In addition, a proportion of our sales contracts have fuel escalation clauses which will partially offset the increases in diesel costs.

## Notes to the consolidated financial statements

### For the 52 weeks ended 27 March 2010

#### 20 Financial instruments (cont)

##### (c) Carrying values of financial assets and financial liabilities (cont)

##### (ii) *Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed by Group finance and the sales department, and arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures to amounts due from outstanding receivables and committed transactions.

The Group's objective is to minimise credit risk to an acceptable level whilst not overly restricting the Group's ability to generate revenue and profit. It is the Group's policy to invest assets safely and profitably. The management monitors credit risk closely and considers that its current policy of credit checks meets its objective of managing the exposure to credit risk.

Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event other parties fail to perform their obligations under financial instruments.

In determining whether a financial asset is impaired, the Group takes account of:

- The fair value of the asset at the balance sheet date and where applicable, the historic fair value of the asset;
- In the case of receivables, the counterparty's typical payment patterns.

The movement in the provision for impairment of trade and other receivables is shown in note 15.

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

##### (iii) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's objective in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The funding policy is to finance the Group through a mixture of bank, lease and hire purchase debt.

Prudent liquidity risk management requires maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. The Group only takes into account existing or renewing facilities and new facilities where these have received credit approval.

The maturity profile of the gross amount of financial liabilities is set out in part (i) of this note.

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 20 Financial instruments (cont)

#### (d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. For details of the Group's current capital position refer to note 22.

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

#### (e) Defaults and breaches

The Group has not defaulted on any obligations during the periods ended 27 March 2010 and 28 March 2009.

#### (f) Income, expense, gains and costs

The following items of income, expense, gains and losses in respect of financial instruments have been recognised in the financial statements.

|                                                                 | 2010           | 2009           |
|-----------------------------------------------------------------|----------------|----------------|
|                                                                 | £000           | £000           |
| <b>Interest income and expense</b>                              |                |                |
| Interest expense for financial assets and financial liabilities | (3,786)        | (4,237)        |
|                                                                 | <u>(3,786)</u> | <u>(4,237)</u> |

The net finance costs reported in the consolidated income statement includes amounts that arise on non-financial liabilities. The net cost presented above can be reconciled to the net finance costs reported in the consolidated income statement as follows:

|                                                             | 2010           | 2009           |
|-------------------------------------------------------------|----------------|----------------|
|                                                             | £000           | £000           |
| <b>Reconciliation to net finance costs:</b>                 |                |                |
| Net cost presented above                                    | (3,786)        | (4,237)        |
| Unwinding of discount on provisions                         | (447)          | (977)          |
| Group restructuring finance charges                         | (375)          | (845)          |
| Net finance costs reported in consolidated income statement | <u>(4,608)</u> | <u>(6,059)</u> |

## **Notes to the consolidated financial statements**

### **For the 52 weeks ended 27 March 2010**

#### **21 Retirement benefit obligations – defined benefit schemes**

##### **(a) Defined contribution pension schemes**

The majority of employees are members of a defined contribution scheme. Pension assets are held separately from those of the Group. The pension cost charge represents contributions payable by the Group to the scheme. The Group has no liability other than to pay their contributions when due. No contributions were outstanding at the year-end (2009: £nil).

|                              | <b>2010</b>  | 2009  |
|------------------------------|--------------|-------|
|                              | <b>£000</b>  | £000  |
| Defined scheme contributions | <b>1,693</b> | 1,152 |

##### **(b) Defined benefit obligations**

The balance sheet amounts in respect of retirement benefit obligations (before deferred taxation) are:

|                       | <b>2010</b>   | 2009  |
|-----------------------|---------------|-------|
|                       | <b>£000</b>   | £000  |
| Industry-wide schemes | <b>14,205</b> | 6,352 |

Contributions to defined benefit schemes during the year amounted to £3,215,000 (2009: £3,120,000).

#### **Industry-wide schemes**

The Group has two closed defined benefit schemes:

- the Industry Wide Coal Staff Superannuation Scheme (IWCSSS)
- the Industry Wide Mineworkers' Pension Scheme (IWMPS)

both of which commenced on privatisation following the Coal Industry Act 1994.

Actuarial valuations of each scheme were undertaken by the Scheme Actuary at 31 December 2006 using a projected unit method. The main assumption underlying both schemes is a long-term gross investment return on scheme assets of 5.1%, which will exceed the annual rate of increase in pensionable salaries and price inflation by 1.2% and 2.2% respectively.

The aggregate market value of the assets of The Scottish Coal Company Limited sub-fund at the valuation date was £21.9 million for the IWMPS and £23.3 million for the IWCSSS. The aggregate funding level on an ongoing basis was 80% and 72% respectively.

The Actuary's report on the valuation as at 31 December 2006 estimates that the employer contribution rates needed to fully fund the future benefit accrual on the ongoing basis were calculated as 32.5% for the IWMPS and 33.3% for the IWCSSS. This valuation is the first to be carried out under the new statutory Scheme Specific Funding regime. The regime requires the scheme trustees to put in place a recovery plan to eliminate any funding shortfall, over a period agreed with the employer. Recovery Plans were subsequently agreed in October 2008 between the Group and the Trustees of both Schemes that set out the following key terms:

## Notes to the consolidated financial statements

### For the 52 weeks ended 27 March 2010

#### 21 Retirement benefit obligations – defined benefit schemes (cont)

- With regard to the IWMPs, the payment of 24% of pensionable earnings plus a level amount of £76,000 per month from 1 October 2008 until 30 September 2013;
- With regard to the IWCSSS, the payment of 24.1% of pensionable earnings plus a level amount of £120,333 per month from 1 October 2008 until 30 September 2013.

The deficits relate to the entire sub-funds for both IWMPs and IWCSSS of the Scottish Coal Company Limited; this includes some members who were previously employed by the Scottish Coal (Deep Mine) Company Limited.

Full actuarial valuations of each scheme were carried out by the Scheme Actuary at 31 December 2006 using the projected unit method and updated to 27 March 2010, with the following principal assumptions for both schemes:-

|                                                     | 2010  | 2009  |
|-----------------------------------------------------|-------|-------|
| Rate of price inflation                             | 3.45% | 2.80% |
| Rate of increase in salaries                        | 4.45% | 3.80% |
| Rate of increase in pensions in payment             | 3.45% | 2.80% |
| Discount rate                                       | 5.60% | 6.60% |
| IWCSS scheme:                                       |       |       |
| Life expectancy of current pensioners (from age 60) | 23.9  | 23.8  |
| Life expectancy of future pensioners (from age 60)  | 24.9  | 24.9  |
| IWMP Scheme:                                        |       |       |
| Life expectancy of current pensioners (from age 60) | 22.2  | 22.1  |
| Life expectancy of future pensioners (from age 60)  | 23.2  | 23.1  |

Long term expected rate of return on scheme assets are set out on the following page:-

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 21 Retirement benefit obligations – defined benefit schemes (cont)

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

|                                     | 2010                                       |               | 2009                                       |               |
|-------------------------------------|--------------------------------------------|---------------|--------------------------------------------|---------------|
|                                     | Long term<br>expected<br>rate of<br>return | Value<br>£000 | Long term<br>expected<br>rate of<br>return | Value<br>£000 |
| Equities                            | 8.2%                                       | 16,099        | 8.7%                                       | 11,499        |
| Bonds                               | 5.1%                                       | 22,711        | 4.2%                                       | 19,969        |
| Alternatives                        | 8.2%                                       | 5,816         | 8.7%                                       | 3,111         |
| Property                            | 7.9%                                       | -             | 8.1%                                       | 985           |
| Cash                                | 0.5%                                       | 538           | 0.5%                                       | 171           |
| Total market value of assets        |                                            | 45,164        |                                            | 35,735        |
| Present value of scheme liabilities |                                            | (59,369)      |                                            | (42,087)      |
| Deficit                             |                                            | (14,205)      |                                            | (6,352)       |
| Related deferred tax asset          |                                            | 3,980         |                                            | 1,778         |
| Net pension liability               |                                            | (10,225)      |                                            | (4,574)       |

The expected return on plan assets is based on long-term market expectations at the beginning of the period.

(i) The amounts recognised in the consolidated income statement are:

|                                                         | 2010<br>£000 | 2009<br>£000 |
|---------------------------------------------------------|--------------|--------------|
| Current service cost (including employee contributions) | 371          | 348          |
| Less: employee contributions                            | (102)        | (90)         |
| Current service cost (net of employee contributions)    | 269          | 258          |
| Interest cost                                           | 2,733        | 2,860        |
| Expected return on plan assets                          | (2,214)      | (2,503)      |
|                                                         | 788          | 615          |

The current service cost and the interest cost less expected return on plan assets is included in administrative expenses and finance costs, respectively.

(ii) Movements in the present value of defined benefit obligations:

|                                                         | 2010<br>£000 | 2009<br>£000 |
|---------------------------------------------------------|--------------|--------------|
| Opening defined benefit obligation                      | 42,087       | 43,247       |
| Current service cost (including employee contributions) | 371          | 348          |
| Interest cost                                           | 2,733        | 2,860        |
| Actuarial gains/(losses)                                | 16,227       | (2,651)      |
| Benefits paid                                           | (2,049)      | (1,717)      |
| Closing defined benefit obligation                      | 59,369       | 42,087       |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 21 Retirement benefit obligations – defined benefit schemes (cont)

#### (iii) Change in plan assets:

|                                      | 2010     | 2009    |
|--------------------------------------|----------|---------|
|                                      | £000     | £000    |
| Opening fair value of plan assets    | 35,735   | 39,173  |
| Expected return on plan assets       | 2,214    | 2,503   |
| Actuarial gains/(losses)             | 6,049    | (7,344) |
| Employer contributions               | 3,113    | 3,030   |
| Member contributions                 | 102      | 90      |
| Benefits paid                        | (2,049)  | (1,717) |
| Closing fair value of plan assets    | 45,164   | 35,735  |
| Funding status/net amount recognised | (14,205) | (6,352) |

#### (v) Cumulative actuarial gains and losses recognised in the SOCIE:

|                                    | 2010     | 2009    |
|------------------------------------|----------|---------|
|                                    | £000     | £000    |
| At 28 March 2009                   | (3,184)  | 1,509   |
| Net actuarial losses in the period | (10,178) | (4,693) |
| At 27 March 2010                   | (13,362) | (3,184) |

#### (vi) Experience gains and losses:

|                                                                | 2010     | 2009    |
|----------------------------------------------------------------|----------|---------|
|                                                                | £000     | £000    |
| Actual return less expected return on schemes' assets          | 6,049    | (7,344) |
| Experience losses arising on schemes' liabilities              | (2,320)  | (1)     |
| Changes in assumptions underlying present value of liabilities | (13,907) | 2,652   |
| Net actuarial loss                                             | (10,178) | (4,693) |

#### (vii) History of experience gains and losses:

|                                                                | 2010     | 2009     | 2008     | 2007     | 2006     |
|----------------------------------------------------------------|----------|----------|----------|----------|----------|
|                                                                | £000     | £000     | £000     | £000     | £000     |
| Difference between expected and actual return on scheme assets | 6,049    | (7,344)  | (2,049)  | (729)    | 4,010    |
| Percentage of scheme assets                                    | 13.4%    | 20.6%    | 5.2%     | 2.0%     | 11.7%    |
| Experience losses on schemes' liabilities                      | (2,320)  | (1)      | (1,759)  | (60)     | (171)    |
| Percentage of scheme liabilities                               | 4.0%     | 0.0%     | 4.1%     | 0.1%     | 0.3%     |
| Present value of scheme liabilities                            | (59,369) | (42,087) | (43,247) | (49,505) | (49,805) |
| Fair value of scheme assets                                    | 45,164   | 35,735   | 39,173   | 37,343   | 34,301   |
| Funding deficit                                                | (14,205) | (6,352)  | (4,074)  | (12,162) | (15,504) |

The contribution expected to be paid to the schemes during the year ending 2011 is approximately £3,013,000.

**Notes to the consolidated financial statements**  
**For the 52 weeks ended 27 March 2010**

**22 Called up share capital**

|                                                 | 2010              |               | 2009              |               |
|-------------------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                 | No. of            |               | No. of            |               |
|                                                 | shares            | £000          | shares            | £000          |
| <b>Issued and fully paid up share capital:-</b> |                   |               |                   |               |
| Ordinary "A" shares of 50p each                 | 32,298,851        | 16,149        | 32,298,851        | 16,149        |
| Ordinary "B" shares of 50p each                 | 7,701,149         | 3,851         | 7,701,149         | 3,851         |
| Ordinary "C" shares of 1p each                  | 1,345,091         | 13            | 1,345,091         | 13            |
| Deferred ordinary shares of £1 each             | 100,000           | 100           | 100,000           | 100           |
|                                                 | <b>41,445,091</b> | <b>20,113</b> | <b>41,445,091</b> | <b>20,113</b> |

Each of the holders of the "A" and "B" shares is entitled to one vote per share except that the holders of "B" shares are not entitled to vote at any general meeting of the Company in respect of, in aggregate, more than 15% of the votes capable of being cast at such meeting, notwithstanding the actual percentage of the total issued share capital carrying rights to vote at such meeting represented by the issued "B" shares. Various restrictions on transfers are attached to the "A" and "B" classes of share. The "A" and "B" rank pari passu in respect of dividend rights and for distribution on the winding up of the company.

The deferred ordinary and "C" ordinary shares have no voting rights, carry no dividend and provide no rights in a winding up.

With effect from the 1 October 2009, the concept of authorised share capital was abolished in the Companies Act 2006. It is proposed that the Shareholders will pass a written resolution in due course to remove its authorised share capital.

**Movement in share capital during the period was as follows:**

|                          | 2010              |               | 2009              |               |
|--------------------------|-------------------|---------------|-------------------|---------------|
|                          | No. of            |               | No. of            |               |
|                          | shares            | £000          | shares            | £000          |
| At 28 March 2009         | 41,445,091        | 20,113        | 41,445,091        | 20,113        |
| Issued during the period | -                 | -             | -                 | -             |
| At 27 March 2010         | <b>41,445,091</b> | <b>20,113</b> | <b>41,445,091</b> | <b>20,113</b> |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 23 Reconciliation of operating profit/(loss) to net cash flow from operating activities

|                                                                                           | 2010          | 2009          |
|-------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                           | £000          | £000          |
| <b>Cash flows from operating activities</b>                                               |               |               |
| Operating profit/(loss) for the period                                                    | 33,097        | (6,188)       |
| Net fair value (appreciation)/reduction in investment properties                          | (8,789)       | 3,700         |
| Loss on sale of subsidiary                                                                | -             | 146           |
| Profit on disposal of operating property, plant & equipment                               | (103)         | -             |
| Depreciation of property, plant and equipment                                             | 9,882         | 7,953         |
| Amortisation of surface mine development, deferred stripping costs and restoration assets | 13,974        | 11,078        |
| Operating cash flows before movements in working capital                                  | 48,061        | 16,689        |
| Increase in stocks                                                                        | (3,347)       | (544)         |
| Decrease /(increase) in receivables                                                       | 335           | (4,840)       |
| Increase in payables                                                                      | 7,263         | 7,403         |
| Decrease in provisions                                                                    | (3,361)       | (1,991)       |
| Difference between pension charge and cash contributions                                  | (2,844)       | (2,772)       |
| <b>Cash generated from operating activities</b>                                           | <b>46,107</b> | <b>13,945</b> |

### 24 Reconciliation of net cash flow to movements in net debt

|                                           | 2010         | 2009           |
|-------------------------------------------|--------------|----------------|
|                                           | £000         | £000           |
| <b>At 27 March 2010</b>                   |              |                |
| Opening cash and cash equivalent          | (7,767)      | (560)          |
| Increase/(decrease) in cash in the period | 13,812       | (7,207)        |
| Closing cash and cash equivalent          | <b>6,045</b> | <b>(7,767)</b> |

### Analysis of net debt

|                                          | 2009     | Cash flow | Non-cash changes | 2010     |
|------------------------------------------|----------|-----------|------------------|----------|
|                                          | £000     | £000      | £000             | £000     |
| Bank overdraft/cash and cash equivalents | (7,767)  | 13,812    | -                | 6,045    |
| Bank loan due within one year            | (19,000) | 19,000    | -                | -        |
| Bank loan due after one year             | (11,500) | (14,460)  | -                | (25,960) |
| Finance leases and HP agreements         | (38,267) | 18,352    | -                | (19,915) |
| Total                                    | (67,426) | 26,348    | (13,332)         | (54,410) |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 25 Commitments and contingent liabilities

#### Capital commitments

|                                            | 1 year or<br>less<br>£000 | 1-5<br>years<br>£000 | More<br>than 5<br>years<br>£000 | Total<br>£000 |
|--------------------------------------------|---------------------------|----------------------|---------------------------------|---------------|
| Capital commitments                        | 19,736                    | 0                    | 0                               | 19,736        |
|                                            |                           |                      | <b>2010</b>                     | 2009          |
|                                            |                           |                      | <b>£000</b>                     | £000          |
| Indemnities for restoration bonds          |                           |                      | <b>38,219</b>                   | 38,146        |
| Guarantees in favour of the Coal Authority |                           |                      | <b>1,207</b>                    | 1,199         |
| Other guarantees                           |                           |                      | <b>4,100</b>                    | 6,600         |
|                                            |                           |                      | <b>43,526</b>                   | 45,945        |

The restoration bonds and guarantees in favour of The Coal Authority consist of restoration and aftercare agreements entered into in the normal course of business. Other guarantees are for parent company guarantees in the restoration bonds.

The Group may be subject to various claims and legal actions in the ordinary course of business, for which provision is made in the financial statements, where appropriate, on the basis of the information currently available. The Directors do not expect that the outcome of such issues will materially affect the financial position.

### 26 Operating lease arrangements

#### (i) As lessor

Future minimum lease payments receivable by the Group under non-cancellable operating leases, all of which relate to property rentals, are as follows:

|                                              | <b>2010</b> | 2009 |
|----------------------------------------------|-------------|------|
|                                              | <b>£000</b> | £000 |
| Within one year                              | <b>315</b>  | 350  |
| Later than one year and less than five years | <b>16</b>   | 88   |
| After five years                             | <b>27</b>   | 31   |
|                                              | <b>358</b>  | 469  |

#### (ii) As lessee

Future minimum lease payments payable by the Group under non-cancellable operating leases, are as follows:

|                                              | <b>Land and buildings</b> |      | <b>Plant and machinery</b> |        |
|----------------------------------------------|---------------------------|------|----------------------------|--------|
|                                              | <b>2010</b>               | 2009 | <b>2010</b>                | 2009   |
|                                              | <b>£000</b>               | £000 | <b>£000</b>                | £000   |
| Lease expiring:                              |                           |      |                            |        |
| Within one year                              | <b>132</b>                | 145  | <b>10,282</b>              | 9,234  |
| Later than one year and less than five years | <b>238</b>                | 312  | <b>11,568</b>              | 19,141 |
| After five years                             | <b>17</b>                 | 36   | <b>479</b>                 | -      |
|                                              | <b>387</b>                | 493  | <b>22,329</b>              | 28,375 |

## Notes to the consolidated financial statements

For the 52 weeks ended 27 March 2010

### 27 Related party transactions

|                          |                                                    | 2010                                   |                                                 | 2009                                   |                                                 |
|--------------------------|----------------------------------------------------|----------------------------------------|-------------------------------------------------|----------------------------------------|-------------------------------------------------|
|                          |                                                    | Value of sales/<br>(purchases)<br>£000 | Receivable/<br>(payable) at<br>year end<br>£000 | Value of sales/<br>(purchases)<br>£000 | Receivable/<br>(payable) at<br>year end<br>£000 |
| <u>Related party</u>     | <u>Nature of transaction</u>                       |                                        |                                                 |                                        |                                                 |
| Bridgetown Plant Ltd (1) | Plant hire, management services and labour charges | (1,020)                                | (324)                                           | (578)                                  | (493)                                           |
| Vogue Holdings (1)       | Property rental                                    | (157)                                  | (60)                                            | (79)                                   | -                                               |
| Parkhill Estates (1)     | Labour and management services                     | (630)                                  | (246)                                           | (720)                                  | (524)                                           |
| Palmaris Capital plc (2) | Management services                                | (14)                                   | (6)                                             | (15)                                   | (3)                                             |
| Alarm Protection Ltd (3) | Security                                           | (239)                                  | (5)                                             | (251)                                  | (23)                                            |
| Pendle (UK) Ltd (4)      | Consultancy                                        | (103)                                  | -                                               | (160)                                  | -                                               |

- (1) Companies are related through the interest of Colin Cornes.  
(2) Company is related through the interests of R. Greg Melgaard  
(3) Company is related through the interest of Colin Cornes and Patrick Smyth  
(4) Company is related through the interest of Brian Staples.

The payable balances are included within trade payables and recoverable balances within trade receivables.

### 28 Post balance sheet events

The UK Government announced on 22 June 2010 that the corporate tax rate will be reduced from 28% to 24% over the period to 2014. In accordance with the IFRS provisions, the rate of 28% is still used as a basis for calculation of the deferred taxes shown. The estimated impact of applying the new corporate tax rate would be a reduction to the deferred tax assets of £2.3million, of which £1.9 million would be charged to the income statement and £0.4 million would be charged to other comprehensive income.

### 29 Ultimate parent undertaking

Parkburn Limited, a company registered in Scotland at 45 Gordon Street, Glasgow, G1 3PE, is the ultimate parent undertaking with, as at 27 March 2010, a 71.1% (2009:71.1%) holding in the total issued voting ordinary share capital of Scottish Resources Group Limited. Colin Cornes has a controlling interest in the share capital of the ultimate parent undertaking and is considered to be the ultimate controlling party.

## **Company independent auditors' report to the members of Scottish Resources Group Limited**

We have audited the parent company financial statements (the "financial statements") of Scottish Resources Group Limited for the 52 weeks ended 27 March 2010 which comprise the balance sheet and the related notes. 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).

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' Responsibilities Statement (set out on pages 29 to 30), the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

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

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 27 March 2010 ;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

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

## **Company independent auditors' report to the Members of Scottish Resources Group Limited**

### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

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

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

### **OTHER MATTER**

We have reported separately on the Group financial statements of Scottish Resources Group Limited for the 52 weeks ended 27 March 2010.

**Caroline Roxburgh (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
28 June 2010

**Scottish Resources Group Limited**  
**Financial statements for the period ended 27 March 2010**

**Company balance sheet as at 27 March 2010**

|                                                      | <u>Note</u> | <b>2010</b><br><b>£000</b> | 2009<br>£000 |
|------------------------------------------------------|-------------|----------------------------|--------------|
| <b>ASSETS</b>                                        |             |                            |              |
| <b>Fixed assets</b>                                  |             |                            |              |
| Investments                                          | 2           | -                          | 27,699       |
|                                                      |             | -                          | 27,699       |
| <b>Current assets</b>                                |             |                            |              |
| Debtors                                              | 3           | 151,017                    | 454          |
|                                                      |             | 151,017                    | 454          |
| <b>Creditors: amounts falling due after one year</b> | 4           | (51,053)                   | (43,428)     |
| <b>Net current assets/(liabilities)</b>              |             | 99,964                     | (42,974)     |
| <b>Provisions for liabilities</b>                    | 5           | (4,622)                    | (4,622)      |
| <b>Net assets/(liabilities)</b>                      |             | 95,342                     | (19,897)     |
| <b>Capital and reserves</b>                          |             |                            |              |
| Called up share capital                              | 7           | 20,113                     | 20,113       |
| Share premium account                                | 8           | 26,046                     | 26,046       |
| Profit and loss account                              | 8           | 49,183                     | (66,056)     |
| <b>Total shareholders' funds/(deficit)</b>           | 8           | 95,342                     | (19,897)     |

The financial statements in pages 86 to 91 were approved by the Board of Directors on 25 June 2010 and were signed on its behalf by:-

..... Nick Guest, Finance Director

..... Don Nicolson, Chief Executive

The accompanying notes form an integral part of this balance sheet.

## **Notes to the company's financial statements**

### **For the 52 weeks ended 27 March 2010**

#### **1 Principal accounting policies**

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the Company separate financial statements have been prepared in accordance with UK GAAP.

A summary of the principal accounting policies is set out below. These policies have been consistently applied to all years presented unless otherwise stated.

#### **Basis of accounting**

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. Long-term debtors, creditors and long-term provisions have been discounted to reflect their net present value. The Group operates a 4,4,5 weeks quarterly reporting cycle for its financial reporting, with reporting periods ending on a Saturday. Accordingly this set of annual results has been prepared for the 52 weeks ended 27 March 2010. The comparative period is for the 52 weeks ended 28 March 2009.

No profit and loss account is presented by the Company as permitted by section 408 of the Companies Act 2006.

The Company is not required to prepare a cash flow statement under FRS 1 (revised 1996).

#### **Investments**

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

#### **Taxation**

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement (either the profit and loss account or the statement of total recognised gains and losses) as the related pre-tax item.

In accordance with FRS 19, "Deferred Taxation", deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

## Notes to the company's financial statements

### For the 52 weeks ended 27 March 2010

#### 1 Principal accounting policies (cont)

##### Financial instruments

The accounting policy of the Company under FRS 25 "Financial Instruments: Disclosure and Presentation" and FRS 26 "Financial Instruments: Measurement" for financial instruments is the same as the accounting policy for the Group under IAS 32 "Financial instruments: Recognition and Measurement" and IAS 39 "Financial Instruments: Recognition and Measurement". Therefore for details of the Company's accounting policy for financial instruments refer to pages 69 to 75.

#### 2 Investments

|                         |          |
|-------------------------|----------|
|                         | £000     |
| <b>Cost</b>             |          |
| At 28 March 2009        | 27,699   |
| Disposals               | (27,699) |
| <b>At 27 March 2010</b> | <b>-</b> |

The Company disposed of all of its subsidiaries to SRGH Limited, a new intermediate holding company, for a consideration of £150,000,000 on 26 March 2010. As this was settled by way of an intercompany loan, the gain on this disposal of £122,300,775 has been treated as unrealised profit on disposals.

#### 3 Debtors

|                                     | 2010<br>£000   | 2009<br>£000 |
|-------------------------------------|----------------|--------------|
| Amounts due from group undertakings | 150,000        | -            |
| Prepayments and accrued income      | 1,017          | -            |
| Deferred consideration              | -              | 454          |
|                                     | <b>151,017</b> | <b>454</b>   |

Amounts due from group undertakings have no interest charged and there is no repayment date on this balance.

#### 4 Creditors: amounts falling due after more than one year

|                                       | 2010<br>£000  | 2009<br>£000  |
|---------------------------------------|---------------|---------------|
| Amounts owed to group undertakings    | 51,016        | 43,428        |
| Other taxes and social security costs | 37            | -             |
|                                       | <b>51,053</b> | <b>43,428</b> |

Amounts owed to group undertakings are charged interest at an annual rate of 6% and there is no repayment date on securitisation on such balances.

## Notes to the company's financial statements

For the 52 weeks ended 27 March 2010

### 5 Provisions for liabilities

|                  | 2010  | 2009  |
|------------------|-------|-------|
|                  | £000  | £000  |
| Other provisions | 4,622 | 4,622 |

Other provisions include amounts in respect of certain land obligations arising as a result of past events. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

### 6 Deferred tax asset

The deferred tax liability recognised can be analysed as follows:

|                               | 2010 | 2009 |
|-------------------------------|------|------|
|                               | £000 | £000 |
| On provisions and other items | -    | -    |

The un-provided amounts of deferred taxation assets for timing differences are as follows:

|             | 2010 | 2009 |
|-------------|------|------|
|             | £000 | £000 |
| Losses      | 566  | 566  |
| Total asset | 566  | 566  |

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**7 Called up share capital**

|                                     | 2010              |               | 2009              |               |
|-------------------------------------|-------------------|---------------|-------------------|---------------|
|                                     | No. of<br>shares  | £000          | No. of<br>shares  | £000          |
| <b>Issued and fully paid:-</b>      |                   |               |                   |               |
| Ordinary "A" shares of 50p each     | 32,298,851        | 16,149        | 32,298,851        | 16,149        |
| Ordinary "B" shares of 50p each     | 7,701,149         | 3,851         | 7,701,149         | 3,851         |
| Ordinary "C" shares of 1p each      | 1,345,091         | 13            | 1,345,091         | 13            |
| Deferred ordinary shares of £1 each | 100,000           | 100           | 100,000           | 100           |
|                                     | <b>41,445,091</b> | <b>20,113</b> | <b>41,445,091</b> | <b>20,113</b> |

Each of the holders of the "A" and "B" shares is entitled to one vote per share except that the holders of "B" shares are not entitled to vote at any general meeting of the Company in respect of, in aggregate, more than 15% of the votes capable of being cast at such meeting, notwithstanding the actual percentage of the total issued share capital carrying rights to vote at such meeting represented by the issued "B" shares. Various restrictions on transfers are attached to the "A" and "B" classes of share. The "A" and "B" rank pari passu in respect of dividend rights and for distribution on the winding up of the company.

The deferred ordinary and "C" ordinary shares have no voting rights, carry no dividend and provide no rights in a winding up.

With effect from the 1 October 2009, the concept of authorised share capital was abolished in the Companies Act 2006. It is proposed that the Shareholders will pass a written resolution in due course to remove its authorised share capital..

**Movement in share capital during the period was as follows:**

|                          | 2010              |               | 2009              |               |
|--------------------------|-------------------|---------------|-------------------|---------------|
|                          | No. of<br>shares  | £000          | No. of<br>shares  | £000          |
| At 28 March 2009         | 41,445,091        | 20,113        | 41,445,091        | 20,113        |
| Issued during the period | -                 | -             | -                 | -             |
| At 27 March 2010         | <b>41,445,091</b> | <b>20,113</b> | <b>41,445,091</b> | <b>20,113</b> |

## Notes to the company's financial statements

For the 52 weeks ended 27 March 2010

### 8 Statement of changes in shareholders' equity

|                                | Equity<br>shares<br>capital<br>£000 | Share<br>premium<br>account<br>£000 | Profit<br>and loss<br>account<br>£000 | Total<br>Equity<br>£000 |
|--------------------------------|-------------------------------------|-------------------------------------|---------------------------------------|-------------------------|
| At 28 March 2009               | 20,113                              | 26,046                              | (66,056)                              | (19,897)                |
| Profit in the financial period | -                                   | -                                   | 115,239                               | 115,239                 |
| <b>At 27 March 2010</b>        | <b>20,113</b>                       | <b>26,046</b>                       | <b>49,183</b>                         | <b>95,342</b>           |

### 9 Reconciliation of movement in shareholders' funds

|                                   | 2010<br>£000 | 2009<br>£000 |
|-----------------------------------|--------------|--------------|
| Profit for the financial period   | 115,239      | (6,802)      |
| Net change in shareholders' funds | 115,239      | (6,802)      |
| Opening shareholders' funds       | (19,897)     | (13,095)     |
| Closing shareholders' funds       | 95,342       | (19,897)     |

### 10 Profit for the financial year of the parent entity

As permitted by section 230 of the Companies Act 2006, the Company's income statement has not been included separately in these financial statements. The profit for the financial period was £115,238,727 (2009: £6,802,538 loss).

### 11 Related party transactions

The Company has taken advantage of the exemption under FRS 8, "Related Party Disclosures" from having to provide related party disclosures in its own financial statements when those statements are presented within the consolidated financial statements of its Group. Details of related party disclosures provided by the Group can be found on page 83.

### 12 Ultimate parent undertaking

Parkburn Limited, a company registered in Scotland at 45 Gordon Street, Glasgow, G1 3PE, is the ultimate parent undertaking with, as at 27 March 2010, a 71.1% (2009:71.1%) holding in the total issued voting ordinary share capital of Scottish Resources Group Limited. Colin Cornes has a controlling interest in the share capital of the ultimate parent undertaking and is considered to be the ultimate controlling party.