Miller Argent (South Wales) Limited

Directors' report and financial statements

Registered number 4261274

31 December 2014

Directors' report and financial statements

Contents

Strategic report

The directors have pleasure in presenting their Strategic Report together with the accounts of the company for the year ended 31 December 2014.

Principal activities, risks and uncertainties

The principal activity of the Company is the reclamation of derelict land in East Merthyr, South Wales through the operation of a surface coal mine.

Market

Demand for coal from the UK power generation market remained strong throughout 2014, contributing approximately 30% of total UK electricity supplied. Market coal prices reduced by c.8%, driven down by excess global supply mainly due to the impact of cheap shale gas in the US. The medium term prospects for coal prices are expected to be challenging until the global economy recovers and the supply demand imbalance is corrected. Despite the significant contribution of coal to the UK's energy mix, government energy policy continues to favour renewables, gas and nuclear over coal. We remain of the view, however, that coal has an important role to play going forward in ensuring continuity of base load supply at affordable prices.

Currently, our largest customer is RWE npower to whom we supply coal for use at Aberthaw Power Station. The quality and reliability of our output has enabled us to agree a number of supplementary contracts with RWE and to strengthen further our customer base. During the year we supplied additional coals to Tata's Port Talbot steel works and also to the Cement industry. In September 2014, we commenced the build of a 400 tonne per hour coal washing plant. This investment will enable the company to increase the supply of metallurgical coals to Tata at Port Talbot, provide capacity to strengthen our customer base and increase our market options.

Operations

The 1,000 acre Ffos-y-fran scheme is reclaiming derelict and unstable land, whilst at the same time recovering over 11m tonnes of coal reserves using surface mining techniques. Amongst the major benefits provided by the scheme will be the reclamation of over 1,000 acres of unstable and derelict land at no cost to the public purse, the removal and treatment of three potentially hazardous waste tips, has already been completed which has relieved the local community in Merthyr Tydfil of a major liability. The scheme provides employment for over 200 people, the majority of whom reside locally. The joint venture continues to work closely with the local Council to maximise the economic and amenity benefits for the wider area – over £5.0m has been contributed by the company to a Community Fund since the project commenced coaling in 2007. To date, we have recovered over 5.4m tonnes of coal which represents around 50% of the anticipated coal to be realised from the scheme.

Safety on site is of paramount importance. Our safety record is good and compares favourably with the sector. This is the key priority and we devote considerable resource to improved safety measures thus ensuring a safe working environment for all our employees.

Risk management

The principal risk is sales and finding suitable markets for our coal in the future. RWE npower's power station at Aberthaw and Tata's Port Talbot steelworks are our key customers for the future. Our mine plan is fully costed and regularly reviewed and includes appropriate allowances for contingencies such as adverse weather. The most significant variable cost is fuel and we hedge the majority of our medium-term fuel requirements. Full account has been taken for funding the restoration obligation in the future costs and cash flows

Results and Dividends

The company has performed well in difficult conditions with coal dispatches from the Ffos-y-fran Land Reclamation Scheme of 953,000 tonnes (2013: 505,000 tonnes). As part of a group reconstruction the mining trade was transferred from the Ffos-y-fran Limited Partnership to Miller Argent (South Wales) Limited at the end of July 2013. It should be noted that the 2013 comparative figures relate to the period 1 August 2013 to 31 December 2013. There were no dividends paid.

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Directors and directors' interests

The directors of the company during the year and up to the date of this report were:

M I Freeman	Resigned 30th July 2014
K M Miller	Resigned 31st March 2015
B J Llewellyn	
J T Poyner	
A J S Prower	
S Tillman	
D Borland	
P G Freeman	Resigned 30th July 2014
G J Taylor	
N A Brown	
M Carruthers	Appointed 31st March 2015
P F Hazell	Appointed 30th July 2014

None of the directors had any beneficial interest in the ordinary shares of the company at any time during the year.

Disclosure of information to auditor

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

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board:

D W Borland
Director

29 September 2015
Cwmbargoed Disposal Point
Fochriw Road
Merthyr Tydfil
GLAMORGAN CF48 4AE

Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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 whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

KPMG LLP

Independent auditor's report to the members of Miller Argent (South Wales) Limited

We have audited the financial statements of Miller Argent (South Wales) Limited for the year ended 31 December 2014 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and the profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following 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.

Hugh Harvie (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

30 September 2015

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Profit and Loss Account
for the year ended 31 December 2014

	Notes	**2014**	2013
		£	£
Turnover		**54,889,217**	21,916,577
Cost of sales		**(44,086,761)**	(17,799,146)
Gross profit		**10,802,456**	4,117,431
Administrative expenses		**(1,599,342)**	(599,989)
Operating profit		**9,203,114**	3,517,442
Profit on disposal of fixed assets		**27,197**	5,274
Profit before interest		**9,230,311**	3,522,716
Interest payable	*4*	**(3,238,740)**	(2,219,339)
Profit on ordinary activities before tax		**5,991,571**	1,303,377
Tax on profit on ordinary activities	*5*	**(2,695,963)**	-
Profit for the financial year	*2*	**3,295,608**	1,303,377

There are no recognised gains or losses other than the profit in the year.

All amounts derive from continuing operations.

The notes on pages 8 to 16 form part of these financial statements.

Balance sheet
at 31 December 2014

	Notes	**2014**	2013
		£	£
Fixed assets			
Investments		**10**	10
Intangible assets	*6*	**7,215,419**	8,278,247
Tangible fixed assets	*7*	**74,898,253**	91,059,436
		82,113,682	99,337,693
Current assets			
Stocks	*8*	**1,011,825**	938,018
Debtors	*9*	**7,218,428**	7,276,158
Cash at bank and in hand		**3,429,489**	3,992,632
		11,659,742	12,206,808
Creditors: amounts falling due within one year	*10*	**(8,148,982)**	(9,172,302)
Net current assets		**3,510,760**	3,034,506
Total assets		**85,624,442**	102,372,199
Creditors: amounts falling due after more than one year	*11*	**(8,420,387)**	(25,444,855)
Provisions for liabilities and charges	*12*	**(61,974,000)**	(64,992,897)
Net assets		**15,230,055**	11,934,447
Capital and reserves			
Called up share capital	*13*	**402**	402
Profit and loss account	*14*	**15,229,653**	11,934,045
Shareholders's funds		**15,230,055**	11,934,447

The notes on pages 8 to 16 form part of these financial statements.

These financial statements were approved by the board of directors on 29 September 2015 and were signed on its behalf by:

D W Borland
Director

Notes
(forming part of the financial statements)

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared under the historic cost convention and in accordance with applicable accounting standards.

Under FRS 1 the company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The directors have prepared cash flow forecasts which indicate that the company will continue to be cash generative enabling it to meet its day to day liabilities as they fall due for payment for a period of at least twelve months from the date of approval of these financial statements. The shareholders loans at 31 December 2014 of £5.2m are not repayable until the company has sufficient funds to do so.

In light of the foregoing, and after making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual financial statements.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Tangible fixed assets

The cost of tangible fixed assets comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Provision is made for impairment when identified.

Depreciation is provided to write off the cost of an asset over its useful economic life as follows:

Plant and machinery:	3-15 years
Buildings:	Coal extraction basis
Mining Projects:	Coal extraction basis
Restoration asset	Coal extraction basis

Intangible fixed assets

Intangible fixed assets represent mining rights and are amortised on a coal extraction basis.

Notes *(continued)*

1. Accounting policies (continued)

Deferred stripping costs

Stripping costs incurred during the production stage of operations are deferred and included within fixed assets. The amount of stripping cost deferred is based on the ratio of overburden removed to coal extraction. Stripping costs incurred in the period are deferred to the extent the current period ratio exceeds the life of mine ratio. Such deferred costs are charged against profits to the extent that, in subsequent periods, the ratio is below the life of mine ratio.

Mining Projects

Mining projects include the costs of site establishment and costs incurred prior to commencement of operations and costs transferred from intangible fixed assets.

Restoration and closure costs

The total costs of reinstatement of soil excavation and of surface restoration are recognized as a provision at site commissioning when the obligation arises. 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 included in the interest charge for the year. An asset is created for an amount equivalent to the initial provision. This is charged to the profit and loss account on a coal extraction basis over the life of the site.

Pension costs

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Pension contributions to this scheme are expensed as incurred.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences (including past trading losses) which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts derived from coal sales, exclusive of Value Added Tax.

Notes (*continued*)

2. Profit for the financial year

The profit for the financial year is stated after charging:

	2014	2013
	£	£
Depreciation	**9,091,739**	4,565,392
Management charges	**500,000**	208,333
Auditors remuneration in respect of:		
Audit of these financial statements	**13,000**	6,500
Other services relating to taxation	**7,000**	5,000

3. Staff numbers and costs

The average number of persons including directors employed during the year, analysed by category was as follows:

	2014	2013
Site operatives	**121**	50
Management and administration	**31**	13
	152	63

	2014	2013
	£	£
Wages and salaries	**5,455,500**	2,420;192
Social security costs	**817,165**	361,370
Other pension costs	**136,471**	52,717
	6,409,136	2,834,279

For the period ended 31 December 2013, staff costs and average employee numbers relates to the period from 1 August 2013 to 31 December 2013.

The aggregate emoluments of the highest paid director were £239,372 (2013: £14,966).

Notes *(continued)*

4. Interest

	2014	2013
	£	£
Interest payable	**(1,507,784)**	(1,446,690)
Interest receivable	**16,616**	16,094
Unwind of discount on restoration provision	**(1,747,572)**	(788,743)
	(3,238,740)	(2,219,339)

5. Taxation

Analysis of tax charge in the year

	2014	2013
	£	£
Corporation tax		
Current year	**1,471,963**	-
Adjustment for prior period	**(750,000)**	-
	721,963	-
Deferred tax	**1,974,000**	-
	2,695,963	-

5. Taxation *(continued)*

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2013: lower) than the standard rate of corporation tax in the UK at 21.5%. The differences are explained below:

	2014	2013
	£	£
Current tax reconciliation		
Profit on ordinary activities before tax	**5,991,571**	1,303,377
Current tax at 21.5% (2013:23.75%)	**1,288,188**	309,552
Effects of:		
Permanent differences	**254,840**	-
Timing differences	**(71,065)**	-
Group relief at below effective rate for nil consideration	**-**	(309,552)
Adjustment for prior period	**(750,000)**	-
Total current tax	**721,963**	-

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the company's future current tax charge accordingly. The deferred tax at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

6. Intangible fixed assets – mining rights

	2014	2013
	£	£
At the start of the year	**8,278,247**	8,609,663
Amortisation	**(1,062,828)**	(331,416)
At end of year	**7,215,419**	8,278,247

Notes (continued)

7. Tangible fixed assets

Cost	Land and buildings	Mining projects	Deferred stripping costs	Plant and machinery	Restoration asset	Total
At the start of the year	9,299,255	30,760,108	19,124,133	29,807,698	54,539,443	143,530,637
Additions	-	491,492	-	3,423,075	-	3,914,567
Deferral reversal	-	-	(2,629,000)	-	-	(2,629,000)
Disposals	-	-	-	(133,413)	-	(133,413)
Adjustment as a result of asset re-measurement	-	-	-	-	(6,740,469)	(6,740,469)
Adjustment as a result of provision re-measurement	-	(1,600,000)	-	-	-	(1,600,000)
At the end of year	**9,299,255**	**29,651,600**	**16,495,133**	**33,097,360**	**47,798,974**	**136,342,322**
Depreciation						
At the start of the year	**(3,551,374)**	**(14,481,421)**	-	**(12,697,735)**	**(21,740,671)**	**(52,471,201)**
Charge for year	(771,187)	(2,058,337)	-	(2,480,332)	(3,781,883)	(9,091,739)
Disposals	-	-	-	118,871	-	118,871
At the end of year	**(4,322,561)**	**(16,539,758)**	-	**(15,059,196)**	**(25,522,554)**	**(61,444,069)**
Net Book Value (NBV)						
At the end of year	**4,976,694**	**13,111,842**	**16,495,133**	**18,038,164**	**22,276,420**	**74,898,253**
At the start of the year	5,747,881	16,278,687	19,124,133	17,109,963	32,798,772	91,059,436

8. Stocks

	2014	2013
	£	£
Coal Stocks	**897,871**	821,444
Other Stocks	**113,954**	116,574
	1,011,825	938,018

Notes (continued)

9. Debtors

	2014	2013
	£	£
Trade debtors	**4,740,026**	5,287,073
Prepayments	**2,459,957**	1,970,600
Other debtors	**18,043**	18,083
Unpaid capital	**402**	402
	7,218,428	7,276,158

10. Creditors: amounts falling due within one year

	2014	2013
	£	£
Trade creditors	**1,022,513**	696,915
VAT	**539,938**	906,079
Accruals	**5,114,568**	6,819,308
Corporation tax	**1,471,963**	750,000
	8,148,982	9,172,302

11. Creditors: amounts falling due after more than one year

	2014	2013
	£	£
Intercompany loans	**3,260,064**	3,260,145
Shareholder loans	**5,160,323**	22,184,710
	8,420,387	25,444,855

12. Provisions for liabilities and charges

	Deferred Tax	Provision for liabilities and charges	Total
	£	£	£
At beginning of year	-	64,992,897	**64,992,897**
Reduction in provision	-	(6,740,469)	**(6,740,469)**
Unwind of discount on restoration costs	-	1,747,572	**1,747,572**
Charge to profit and loss for the year	1,974,000	-	**1,974,000**
At end of year	**1,974,000**	**60,000,000**	**61,974,000**

12. Provisions for liabilities and charges (continued)

The provision relates to the costs of returning land disturbed during mining activities including aftercare costs. Restoration will commence while mining operations are ongoing and the provision is expected to be largely utilized over the next 11 years. During the year the fundamental assumptions of the buildup of the restoration provision were reviewed. This resulted in a reduction of the provision of £6.7m.

The elements of deferred taxation are as follows:

	2014	2013
	£	£
Difference between accumulated depreciation, amortisation and capital allowances	**2,051,600**	-
Other timing differences	**(77,600)**	-
	1,974,000	-

13. Share capital

	2014	2013
	£	£
Issued share capital		
1 £1 'A' ordinary share	**1**	1
1 £1 'B' ordinary share	**1**	1
400 £1 'C' ordinary shares	**400**	400
	402	402

14. Reserves

	2014	2013
	£	£
At the start of the year	**11,934,045**	-
Profit for the period	**3,295,608**	1,303,377
Capital contribution	**-**	10,630,668
	15,229,653	11,934,045

Notes (continued)

15. Reconciliation of movements in shareholders' funds

	2014 £	2013 £
At the start of the year	**11,934,447**	402
Profit for the year	**3,295,608**	1,303,377
Capital contribution	-	10,630,668
Closing shareholders' funds	**15,230,055**	11,934,447

16. Commitments

The company has commitments under non-cancellable operating leases to make payments in the year to 31 December 2015 as follows:

	Plant 2014 £	2013 £
Leases expiring:		
Within one year	-	50,000
Between two and five years	**219,168**	97,056
	219,168	147,056

17. Related party transactions

The company is jointly controlled by Miller Mining Limited and Argent Estates Limited. During the year to 31 December 2014, Miller Mining Limited invoiced management fees and directly attributable costs of £270,758 (2013: £249,923). The Miller Group Limited recharged directly attributable costs of £709,422 (2013: £401,795). Argent Estates Limited invoiced management fees and directly attributable costs of £250,353 (2013: £126,065). Shareholder loans owed to Miller Mining Limited and Argent Estates of £5.2m (2013: £22.2m) were outstanding at the year end.

18. Related undertakings

In addition to the parties identified in note 17 the remaining related undertakings are as follows:

Subsidiary undertakings	Country of registration or incorporation	Shares held Class	%
Ffos-y-fran (Commoners) Limited	England and Wales	Ordinary	100
Miller Argent (Nominee No 1) Limited	England and Wales	Ordinary	100