COMPANY REGISTRATION NO. 04261274 (England and Wales)

MERTHYR (SOUTH WALES) LIMITED
FORMERLY MILLER ARGENT (SOUTH WALES) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

MERTHYR (SOUTH WALES) LIMITED

COMPANY INFORMATION

Director	D S Lewis
Company number	04261274
Registered office	Cwmbargoed Disposal Point Fochriw Road Cwmbargoed Merthyr Tydfil CF48 4AE
Auditor	UHY Hacker Young Lanyon House Mission Court Newport South Wales United Kingdom NP20 2DW

MERTHYR (SOUTH WALES) LIMITED

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MERTHYR (SOUTH WALES) LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The director presents the strategic report for the year ended 31 December 2017.

Fair review of the business
The results are presented on page 6. The director is satisfied with the company's performance during the year. The company's activities consist of selling coal. The total tonnage of coal sales in the year was 671,653 (2016: 864,823).

GP% which is one of the company's key areas of operating effectiveness was 30.0% for the year ended 31 December 2017 compared to 27.2% for the year ended 31 December 2016. The improvement is due to increases in world coal prices and efficiency in mining costs principally excavation and haulage costs.

Overall profit before tax was £13.8m (2016: £11.3m) and profit for the year was £15.2m (2016: £8.4m). The balance sheet on page 8 shows that the company's net assets are £14.1m (2015: £18.4m).

Principal risks and uncertainties
The company's principal activity is the reclamation of direct land to the east of Merthyr Tydfil, South Wales, through the operation of a surface coal mine. The principal risks and uncertainties faced by the company are documented below:

Market
Demand for Ffos-y-Fran coal remains buoyant from a wide range of industrial customers who are increasingly finding difficulties in sourcing coal following the reduction in UK production. International prices have also provided a positive back drop, with API2 averaging $84.5 per tonne for 2017, and $90.7 for the first 8 months of 2018. The trend of higher international pricing seems to be continuing due to lack of investment in new coal producing capacity and a pick-up in demand, principally from Asia and the Far East.

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 reclamation of over 1000 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 Merthyr Tydfil of a major liability. The scheme provides employment for up to 190 people, the majority of whom reside locally. The company continues to work closely with the local council to maximise the economic and amenity benefits for the wider area - over £6.5m has been contributed by the company to a Community Fund since the project commenced coaling in 2007.

Safety on site is paramount importance. This is key priority and we devote considerable resource to improving safety measures thus ensuring a safe working environment for all our employees.

Risk management
The principle risk for the company is to achieve sales for the product at satisfactory pricing levels. Currently these remain positive and are likely to be so for the foreseeable future.

The UK Steel and Cement sectors provide our key customer base. 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. Coal prices and fuel costs are currently providing a natural hedge. Full account has been taken for funding the restoration obligation in the future costs and cash flows.

On behalf of the board

D S Lewis
Director
25 October 2018

DIRECTOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The director presents his annual report and financial statements for the year ended 31 December 2017.

Change of name
On 15 February 2018 the company changed its name from Miller Argent (South Wales) Limited to Blackstone (South Wales) Limited. On 9 July 2018 the company changed its name to Merthyr (South Wales) Limited.

Director
The director who held office during the year and up to the date of signature of the financial statements was as follows:

D S Lewis	
Mrs J H Lewis	(Resigned 1 June 2018)

Results and dividends
The results for the year are set out on page 6 and are discussed in the Strategic Report on page 1.

Auditor
The auditor, UHY Hacker Young, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

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

On behalf of the board

D S Lewis
Director
25 October 2018

DIRECTOR'S RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

The director is responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MERTHYR (SOUTH WALES) LIMITED

Opinion

We have audited the financial statements of Merthyr (South Wales) Limited (the 'company') for the year ended 31 December 2017 which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The director is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the director's report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the director's report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of director
As explained more fully in the director's responsibilities statement, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the director is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
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.

Mr Paul Byett (Senior Statutory Auditor)
for and on behalf of UHY Hacker Young

25 October 2018

Chartered Accountants
Statutory Auditor

Newport
South Wales

MERTHYR (SOUTH WALES) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £	2016 £
Turnover	3	56,081,788	51,918,014
Cost of sales (2016: exceptional credit of £1.9m, notes 4 and 5)		(39,251,042)	(37,818,272)
Gross profit		16,830,746	14,099,742
Administrative expenses		(1,381,735)	(1,622,790)
Other operating income		-	360,000
Operating profit	4	15,449,011	12,836,952
Interest receivable and similar income	8	1,332	421
Interest payable and similar expenses	9	(2,032,105)	(1,569,000)
Profit before taxation		13,418,238	11,268,373
Taxation	10	(2,744,053)	(2,853,300)
Profit for the financial year		10,674,185	8,415,073

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

MERTHYR (SOUTH WALES) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	£	£
Profit for the year	10,674,185	8,415,073
Other comprehensive income	-	-
Total comprehensive income for the year	10,674,185	8,415,073

MERTHYR (SOUTH WALES) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Notes	2017 £	2017 £	2016 £	2016 £
Fixed assets					
Intangible assets	12		3,399,649		4,260,615
Tangible assets	15		47,573,070		54,555,995
Investments	13		10		10
			50,972,729		58,816,620
Current assets					
Stocks	19	1,783,111		1,890,749	
Debtors	17	31,169,770		12,622,592	
Cash at bank and in hand		8,958,250		19,176,890	
		41,911,131		33,690,231	
Creditors: amounts falling due within one year	18	(20,739,424)		(17,819,654)	
Net current assets			21,171,707		15,870,577
Total assets less current liabilities			72,144,436		74,687,197
Creditors: amounts falling due after more than one year	20		(2,332,752)		(1,779,850)
Provisions for liabilities	26		(55,731,047)		(54,500,895)
Net assets			14,080,637		18,406,452
Capital and reserves					
Called up share capital	25		402		402
Profit and loss reserves			14,080,235		18,406,050
Total equity			14,080,637		18,406,452

The financial statements were approved by the board of directors and authorised for issue on 25 October 2018 and are signed on its behalf by:

D S Lewis
Director

Company Registration No. 04261274

MERTHYR (SOUTH WALES) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital	Profit and loss reserves	Total
		£	£	£
Balance at 1 January 2016		402	19,272,600	19,273,002
Year ended 31 December 2016:				
Profit and total comprehensive income for the year		-	8,415,073	8,415,073
Dividends	11	-	(9,281,623)	(9,281,623)
Balance at 31 December 2016		402	18,406,050	18,406,452
Year ended 31 December 2017:				
Profit and total comprehensive income for the year		-	10,674,185	10,674,185
Dividends	11	-	(15,000,000)	(15,000,000)
Balance at 31 December 2017		402	14,080,235	14,080,637

1 Accounting policies

Company information

Merthyr (South Wales) Limited is a private company limited by shares incorporated in England and Wales. The registered office is Cwmbargoed Disposal Point, Fochriw Road, Cwmbargoed, Merthyr Tydfil, CF48 4AE.

1.1 Accounting convention

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

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

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

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

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

The financial statements of the company are consolidated in the financial statements of Gwent Holdings Limited. These consolidated financial statements are available from its registered office, Llanover House, Llanover Road, Pontypridd, Rct, United Kingdom, CF37 4DY

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as an individual entity and not about its group.

Merthyr (South Wales) Limited is a wholly owned subsidiary of Gwent Holdings Limited and the results of Merthyr (South Wales) Limited are included in the consolidated financial statements of Gwent Holdings Limited which are available from Llanover House, Llanover Road, Pontypridd, Rct, United Kingdom, CF37 4DY

1.2 Going concern

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

1 Accounting policies **(Continued)**

1.3 Turnover

Turnover relates to amounts derived from coal sales and other services. Turnover is recognised at the fair value of the consideration received or receivable, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

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

1.4 Intangible fixed assets other than goodwill

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

1.5 Tangible fixed assets

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

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Land and buildings	Coal extraction basis
Plant and machinery	3-15 years
Deferred stripping costs	Not depreciated
Mining projects	Coal extraction basis
Restoration asset	Coal extraction basis

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

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 recognised 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.

1.6 Fixed asset investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses are recognised immediately in profit or loss.

1 Accounting policies **(Continued)**

1.7 Impairment of fixed assets

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

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

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

1.8 Stocks

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

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

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

1.9 Cash and cash equivalents

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

1.10 Financial instruments

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

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

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

Basic financial assets

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

1 Accounting policies **(Continued)**

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

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

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

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

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

Basic financial liabilities
Basic financial liabilities, including creditors and loans from fellow group companies, are initially recognised at transaction price. Financial liabilities classified as payable within one year are not amortised.

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

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

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

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

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

1 Accounting policies **(Continued)**

1.12 Derivatives

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

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

1.13 Taxation

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

Current tax

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

Deferred tax

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.14 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

1.15 Employee benefits

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

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

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

1 Accounting policies **(Continued)**

1.16 Retirement benefits

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

1.17 Leases

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

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

2 Judgements and key sources of estimation uncertainty

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

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

Critical judgements

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

Restoration provisions

The restoration provision is based on managements best estimate of the cash flow expected in order to restore the mine in accordance with the planning consent. Changes to any of the factors included in the estimate can have a significant impact on the overall expected cost; in particular the overall cost is significantly impacted by the cost of fuel.

Restoration asset

A restoration asset was created for an amount equipment to the initial provision. The asset is amortised on a unit of production basis. The carrying value of the restoration asset is therefore susceptible to the same uncertainties as the provision. The amortisation charge is affected by estimates of remaining reserves.

Other assets amortised on the unit of production basis

Mining rights (Intangible) and Mining Projects (Tangible) are also amortised on a unit of production basis, therefore the amortisation of these assets is also affected by the estimate of future recoverable reserves.

Deffered stripping

As disclosed in section 1 above costs are deferred to the extent that the current ratio of overburden to coal exceeds the ratio expected in the company's life of mine (LOM) projections and costs are released when the current ratio is below the LOM rate. These ratios are derived from extensive geographical survey and bore-hole testing, however the asset can clearly be significantly affected by managements judgement and estimate of future coal recovery and much shift.

3 Turnover and other revenue

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

	2017	2016
	£	£
Turnover analysed by class of business		
Coal sales	56,081,788	51,918,014
Washing services	10,686,761	9,087,114
Other	5,998,737	3,606,255
	56,081,788	51,918,014
Analysis per statutory database	**72,767,286**	**64,611,383**
Statutory database analysis does not agree to the trial balance by:	**16,685,498**	**12,693,369**

	2017	2016
	£	£
Other significant revenue		
Interest income	1,332	421

All turnover relates to the UK by origin and destinations.

4 Operating profit

	2017	2016
Operating profit for the year is stated after charging/(crediting):	£	£
Fees payable to the company's auditor for the audit of the company's financial statements	80,789	40,627
Depreciation of owned tangible fixed assets	8,502,955	8,822,809
Depreciation of tangible fixed assets held under finance leases	751,133	784,185
Profit on disposal of tangible fixed assets	(89,242)	(209,098)
Amortisation of intangible assets	860,966	1,960,071
Cost of stocks recognised as an expense	22,974,913	21,357,704
Exceptional items (note 5)	-	(1,878,211)

5 Exceptional items

Derivative liability expense

During 2015 the company entered a number of fuel forward contracts covering 2016 to 2018. At 31 December 2016 the fair value of the contracts was calculated by an independent third party as an asset of £16,119 (2015: liability of £1,862,092). Th e movement of £1,878,211 credit, was recognised in cost of sales in the year to 31 December 2016 in accordance with S ection 12 of FRS 102 "Other Financial Instruments".

6 Employees

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

	2017 Number	2016 Number
Site operatives	119	123
Management and administration	27	30
	146	153

Their aggregate remuneration comprised:

	2017 £	2016 £
Wages and salaries	5,940,742	6,408,474
Social security costs	565,147	687,780
Pension costs	139,984	147,706
	6,645,873	7,243,960

7 Director's remuneration

	2017 £	2016 £
Remuneration for qualifying services	240,000	390,000

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2017 £	2016 £
Remuneration for qualifying services	240,000	240,000

8 Interest receivable and similar income

	2017 £	2016 £
Interest income		
Interest on bank deposits	1,332	421

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	1,332	421

9 Interest payable and similar expenses

	2017	2016
	£	£
Other finance costs:		
Unwinding of discount on provisions (note 26)	1,548,000	1,569,000
Interest on corporation tax	97,720	-
Other interest charges	386,385	-
	2,032,105	1,569,000

10 Taxation

	2017	2016
	£	£
Current tax		
UK corporation tax on profits for the current period	3,312,808	3,384,698
Deferred tax		
Origination and reversal of timing differences	(448,026)	(531,398)
Changes in tax rates	(64,833)	-
Adjustment in respect of prior periods	(55,896)	-
Total deferred tax	(568,755)	(531,398)
Total tax charge	2,744,053	2,853,300

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

	2017	2016
	£	£
Profit before taxation	13,418,238	11,268,373
Expected tax charge based on the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	2,583,011	2,253,675
Tax effect of expenses that are not deductible in determining taxable profit	(52,818)	(72,205)
Permanent capital allowances in excess of depreciation	213,860	485,562
Other non-reversing timing differences	-	186,268
Taxation charge for the year	2,744,053	2,853,300

11 Dividends

	2017	2016
	£	£
Final paid	15,000,000	9,281,623

12 Intangible fixed assets

	Mining rights
	£
Cost	
At 1 January 2017 and 31 December 2017	8,609,663
Amortisation and impairment	
At 1 January 2017	4,349,048
Amortisation charged for the year	860,966
At 31 December 2017	5,210,014
Carrying amount	
At 31 December 2017	3,399,649
At 31 December 2016	4,260,615

13 Fixed asset investments

	Notes	2017	2016
		£	£
Investments in subsidiaries	**14**	10	10

Movements in fixed asset investments

	Shares in group undertakings
	£
Cost or valuation	
At 1 January 2017 & 31 December 2017	10
Carrying amount	
At 31 December 2017	10
At 31 December 2016	10

14 Subsidiaries

Details of the company's subsidiaries at 31 December 2017 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct	% Held Indirect
Ffos-y-fran (Commoners) Limited	England and Wales	Dormant	Ordinary	100.00	
Merthyr (Nominee No 1) Limited	England and Wales	Dormant	Ordinary	100.00	

15 Tangible fixed assets

	Land and buildings	Plant and machinery	Deferred stripping costs	Mining projects	Restoration asset	Total
	£	£	£	£	£	£
Cost						
At 1 January 2017	9,300,414	43,423,818	12,275,112	29,881,269	37,578,312	132,458,925
Additions	-	3,280,566	-	-	-	3,280,566
Deferral reversal	-	-	(966,981)	-	-	(966,981)
Disposals	-	(527,094)	-	-	-	(527,094)
At 31 December 2017	9,300,414	46,177,290	11,308,131	29,881,269	37,578,312	134,245,416
Depreciation and impairment						
At 1 January 2017	5,818,356	21,495,597	-	21,043,521	29,545,454	77,902,928
Depreciation charged in the year	600,547	5,305,559	-	1,716,612	1,631,370	9,254,088
Eliminated in respect of disposals	-	(484,670)	-	-	-	(484,670)
At 31 December 2017	6,418,903	26,316,486	-	22,760,133	31,176,824	86,672,346
Carrying amount						
At 31 December 2017	2,881,511	19,860,804	11,308,131	7,121,136	6,401,488	47,573,070
At 31 December 2016	3,482,058	21,928,220	12,275,111	8,837,748	8,032,858	54,555,995

15 Tangible fixed assets **(Continued)**

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

	2017	2016
	£	£
Plant and machinery	5,412,733	2,243,525
Depreciation charge for the year in respect of leased assets	751,133	784,185

16 Financial instruments

	2017	2016
	£	£
Carrying amount of financial assets		
Instruments measured at fair value through profit or loss	-	16,119

17 Debtors

	2017	2016
Amounts falling due within one year:	£	£
Trade debtors	8,537,150	11,812,850
Unpaid share capital	402	402
Amounts due from parent undertakings	22,065,341	-
Derivative financial instruments	-	16,119
Other debtors	-	17,943
Prepayments and accrued income	566,877	775,278
	31,169,770	12,622,592

18 Creditors: amounts falling due within one year

		2017	2016
	Notes	£	£
Obligations under finance leases	21	2,292,209	1,161,694
Amounts due to parent undertaking	22	3,199,790	3,199,790
Trade creditors		1,030,122	1,803,869
Corporation tax		3,312,808	5,151,101
Other taxation and social security		1,361,128	1,915,767
Other creditors		14,165	-
Accruals and deferred income		9,529,202	4,587,433
		20,739,424	17,819,654

19 Stocks

	2017	2016
	£	£
Coal stocks	1,668,909	1,816,640
Other stocks	114,202	74,109
	1,783,111	1,890,749

20 Creditors: amounts falling due after more than one year

	Notes	2017	2016
		£	£
Obligations under finance leases	21	2,332,752	1,779,850

21 Finance lease obligations

	2017	2016
Future minimum lease payments due under finance leases:	£	£
Within one year	2,292,209	1,161,694
In two to five years	2,332,752	1,779,850
	4,624,961	2,941,544

Finance lease payments represent rentals payable by the company for certain items of plant and machinery. Leases include purchase options at the end of the lease period, and no restrictions are placed on the use of the assets. The average lease term is 3.7 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

22 Loans and overdrafts

	2017	2016
	£	£
Loans from parent undertaking	3,199,790	3,199,790
Payable within one year	3,199,790	3,199,790

Loans from parent undertaking are unsecured. No interest is charged on the parent company loan. The parent company loan is due on demand.

23 Deferred taxation

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

	Liabilities 2017	Liabilities 2016
Balances:	**£**	**£**
Accelerated capital allowances	4,066,959	5,126,165
Other timing differences	(3,283,157)	(3,773,608)
	783,802	1,352,557

There were no deferred tax movements in the year.

The deferred tax liability set out above is expected to reverse over the life of the asset and relates to accelerated capital allowances that are expected to mature within the same period.

24 Retirement benefit schemes

	2017	2016
Defined contribution schemes	**£**	**£**
Charge to profit or loss in respect of defined contribution schemes	139,984	147,706

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

25 Share capital

	2017	2016
	£	**£**
Ordinary share capital		
Issued and not fully paid		
1 Ordinary A share of £1 each	1	1
1 Ordinary B share of £1 each	1	1
400 Ordinary C shares of £1 each	400	400
	402	402

26 Provisions for liabilities

	Notes	2017 £	2016 £
Operating provisions		54,947,245	53,148,338
Deferred tax liabilities	23	783,802	1,352,557
		55,731,047	54,500,895

Movements on provisions apart from retirement benefits and deferred tax liabilities:

	Operating provisions £
At 1 January 2017	53,148,338
Additional provisions in the year	250,907
Unwinding of discount on restoration costs	1,548,000
At 31 December 2017	54,947,245

The provision relates to the costs of returning land disturbed during mining activities including aftercare costs. Restorations will commence while mining operations are ongoing and the provision is expected to be largely utilised over the next 10 years.

27 Operating lease commitments

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

	2017 £	2016 £
Within one year	18,385	41,011
Between two and five years	17,421	35,806
	35,806	76,817

28 Controlling party

The company is a wholly owned subsidiary of Merthyr Holdings Limited, Formerly, Miller Argent Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

Merthyr Holdings Limited is owned by Gwent Investments Limited which is 100% owned by Gwent Holdings Limited, the ultimate parent undertaking. Both Gwent Investments Limited and Gwent Holdings Limited are registered in England & Wales.

Gwent Holdings Limited is the parent of the smallest and largest group of which the company is a member for which group accounts are prepared.

The ultimate controlling party is Mrs J H Lewis by virtue of their shareholding in Gwent Holdings Limited.

29 Related party transactions

Remuneration of key management personnel
The remuneration of key management personnel is as follows.

	2017	2016
	£	£
Aggregate compensation	1,056,382	1,249,561

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including directors.

Transactions with related parties
During the year ending 31 December 2016, the company has paid dividends to Merthyr Holdings Limited totalling £32,387,319 (2016: £9,281,623).

At the year end, a balance due to Merthyr Holdings Limited was outstanding totalling £3,199,790 (2016: £3,199,790). Merthyr Holdings Limited is the immediate parent company.

At the year end, a balance was outstanding due from Gwent Investments Limited, an intermediate parent company totalling £3,704,302 (2016: £nil)

The company has taken advantage of the exemption not to disclose transactions with related parties being a wholly owned member of a group. Consolidated accounts of the ultimate parent company, Gwent Holdings Limited are available on request.