

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 2018

MERTHYR (SOUTH WALES) LIMITED

COMPANY INFORMATION

Directors	Mr D Lewis Mr L Jones	(Appointed 2 July 2018)
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

CONTENTS

	Page
Strategic report	1
Directors' report	2
Directors' responsibilities statement	3
Independent auditor's report	4 - 5
Profit and loss account	6
Statement of comprehensive income	7
Balance sheet	8
Statement of changes in equity	9
Notes to the financial statements	10 - 25

MERTHYR (SOUTH WALES) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report for the year ended 31 December 2018.

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 759,434 (2017: 671,653).

GP% which is one of the company's key areas of operating effectiveness was 37.0% for the year ended 31 December 2018 compared to 30.0% for the year ended 31 December 2017. 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 £14.6m (2017: £13.8m) and profit for the year was £11.7m (2017: £10.7m). The balance sheet on page 8 shows that the company's net assets are £14.3m (2017: £14.1m).

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

Mr D Lewis

Director

20 December 2019

MERTHYR (SOUTH WALES) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their annual report and financial statements for the year ended 31 December 2018.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr D Lewis

Mrs J Lewis

Mr L Jones

(Resigned 1 June 2018)

(Appointed 2 July 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

UHY Hacker Young have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointment as auditor in the absence of an Annual General Meeting.

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

Mr D Lewis

Director

20 December 2019

MERTHYR (SOUTH WALES) LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MERTHYR (SOUTH WALES) LIMITED

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 2018 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 2018 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 directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have 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 directors are 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MERTHYR (SOUTH WALES) LIMITED

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

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 directors' 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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are 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 directors are 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 directors 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**

20 December 2019

**Chartered Accountants
Statutory Auditor**

Newport
South Wales

MERTHYR (SOUTH WALES) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Turnover	3	53,441,627	56,081,788
Cost of sales (including exceptional credit of £3.8m (notes 5))		(33,677,116)	(39,085,238)
Gross profit		19,764,511	16,996,550
Administrative expenses		(2,082,445)	(1,381,735)
Operating profit	4	17,682,066	15,614,815
Interest receivable and similar income	8	-	1,332
Interest payable and similar expenses	9	(3,061,661)	(2,197,909)
Profit before taxation		14,620,405	13,418,238
Tax on profit	10	(2,950,774)	(2,744,053)
Profit for the financial year		11,669,631	10,674,185

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 2018

	2018	2017
	£	£
Profit for the year	11,669,631	10,674,185
Other comprehensive income	-	-
Total comprehensive income for the year	<u>11,669,631</u>	<u>10,674,185</u>

MERTHYR (SOUTH WALES) LIMITED**BALANCE SHEET****AS AT 31 DECEMBER 2018**

		2018		2017	
	Notes	£	£	£	£
Fixed assets					
Intangible assets	12		2,558,789		3,399,649
Tangible assets	13		35,545,262		47,573,070
Investments	14		10		10
			<u>38,104,061</u>		<u>50,972,729</u>
Current assets					
Stocks	18	1,657,252		1,783,111	
Debtors	17	65,979,703		31,169,770	
Cash at bank and in hand		8,233,603		8,958,250	
		<u>75,870,558</u>		<u>41,911,131</u>	
Creditors: amounts falling due within one year	19	(45,196,993)		(20,739,424)	
Net current assets			<u>30,673,565</u>		<u>21,171,707</u>
Total assets less current liabilities			68,777,626		72,144,436
Creditors: amounts falling due after more than one year	20		(1,642,571)		(2,332,752)
Provisions for liabilities	23		(52,884,787)		(55,731,047)
Net assets			<u>14,250,268</u>		<u>14,080,637</u>
Capital and reserves					
Called up share capital	26		402		402
Profit and loss reserves			14,249,866		14,080,235
Total equity			<u>14,250,268</u>		<u>14,080,637</u>

The financial statements were approved by the board of directors and authorised for issue on 20 December 2019 and are signed on its behalf by:

Mr D Lewis
Director

Company Registration No. 04261274

MERTHYR (SOUTH WALES) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Profit and loss reserves	Total
Notes	£	£	£
Balance at 1 January 2017	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
Year ended 31 December 2018:			
Profit and total comprehensive income for the year	-	11,669,631	11,669,631
Dividends	11	(11,500,000)	(11,500,000)
Balance at 31 December 2018	402	14,249,866	14,250,268

MERTHYR (SOUTH WALES) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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. 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 directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

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.

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

1 Accounting policies **(Continued)**

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.

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 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.

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the profit and loss account in other administrative expenses.

1.10 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.

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

1 Accounting policies

(Continued)

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.

1.11 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.

1.12 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.

1.13 Retirement benefits

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

1.14 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 profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are 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. As discussed further in notes 5 and 23 the provision was re-assessed during the year and as a consequence the estimate was reduced by approximately £4.8m, of which £3.8m has been credited to the profit and loss account with the remainder credited to the restoration asset (see note 13). This is regarded as an exceptional item, refer to note 5.

Restoration asset

A restoration asset was created for an amount equivalent 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.

Deferred 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:

	2018	2017
	£	£
Turnover analysed by class of business		
Coal sales	41,885,912	39,396,290
Washing services	9,189,135	10,686,761
Other	2,366,580	5,998,737
	<u>53,441,627</u>	<u>56,081,788</u>

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

3	Turnover and other revenue		(Continued)
		2018	2017
		£	£
	Other significant revenue		
	Interest income	-	1,332
		<u> </u>	<u> </u>

All turnover relates to the UK by origin and destinations.

4	Operating profit		
		2018	2017
		£	£
	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	107,776	80,789
	Depreciation of owned tangible fixed assets	8,231,487	8,502,955
	Depreciation of tangible fixed assets held under finance leases	1,689,508	751,133
	Profit on disposal of tangible fixed assets	-	(89,242)
	Amorisation of intangible assets	840,860	860,966
	Cost of stocks recognised as an expense	17,308,164	22,809,109
	Exceptional items	(3,822,675)	-
		<u> </u>	<u> </u>

5 Exceptional item

Restoration provision/asset

A discussed in note 23 during the year the directors reassessed the restoration provision and as a result reduced it by £4.8m to £52.5m; this followed an internal re-evaluation as well as a review by independent consultants. £1.0m was credited to the restoration asset (see note 13); this represents the proportion of remaining reserves, the remainder of the adjustment, £3.8m was credited to the profit and loss account.

6 Employees

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

		2018	2017
		Number	Number
	Site operatives	129	119
	Management and administration	26	27
		<u> </u>	<u> </u>
		<u> </u>	<u> </u>

MERTHYR (SOUTH WALES) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

6	Employees	(Continued)	
	Their aggregate remuneration comprised:		
		2018	2017
		£	£
	Wages and salaries	5,540,236	5,940,742
	Social security costs	640,576	565,147
	Pension costs	147,123	139,984
		<u>6,327,935</u>	<u>6,645,873</u>
		<u><u>6,327,935</u></u>	<u><u>6,645,873</u></u>
7	Directors' remuneration		
		2018	2017
		£	£
	Remuneration for qualifying services	240,000	240,000
		<u>240,000</u>	<u>240,000</u>
		<u><u>240,000</u></u>	<u><u>240,000</u></u>
	Remuneration disclosed above include the following amounts paid to the highest paid director:		
		2018	2017
		£	£
	Remuneration for qualifying services	240,000	240,000
		<u>240,000</u>	<u>240,000</u>
		<u><u>240,000</u></u>	<u><u>240,000</u></u>
8	Interest receivable and similar income		
		2018	2017
		£	£
	Interest income		
	Interest on bank deposits	-	1,332
		<u>-</u>	<u>1,332</u>
		<u><u>-</u></u>	<u><u>1,332</u></u>
	Investment income includes the following:		
	Interest on financial assets not measured at fair value through profit or loss	-	1,332
		<u>-</u>	<u>1,332</u>
		<u><u>-</u></u>	<u><u>1,332</u></u>

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

9 Interest payable and similar expenses

	2018	2017
	£	£
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	(11,612)	-
Other finance costs:		
Interest on finance leases and hire purchase contracts	186,521	165,804
Unwinding of discount on provisions	2,333,741	1,548,000
Other interest	553,011	484,105
	<u>3,061,661</u>	<u>2,197,909</u>

10 Taxation

	2018	2017
	£	£
Current tax		
UK corporation tax on profits for the current period	3,301,726	3,312,808
	<u>3,301,726</u>	<u>3,312,808</u>
Deferred tax		
Origination and reversal of timing differences	(410,071)	(448,026)
Changes in tax rates	59,119	(64,833)
Adjustment in respect of prior periods	-	(55,896)
	<u>(350,952)</u>	<u>(568,755)</u>
Total deferred tax	(350,952)	(568,755)
	<u>(350,952)</u>	<u>(568,755)</u>
Total tax charge	<u>2,950,774</u>	<u>2,744,053</u>

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:

	2018	2017
	£	£
Profit before taxation	14,620,405	13,418,238
	<u>14,620,405</u>	<u>13,418,238</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	2,777,877	2,583,011
Tax effect of expenses that are not deductible in determining taxable profit	232,016	(52,818)
Permanent capital allowances in excess of depreciation	-	213,860
Effect of changes in tax rate	(59,119)	-
	<u>2,950,774</u>	<u>2,744,053</u>
Taxation charge for the year	<u>2,950,774</u>	<u>2,744,053</u>

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

11 Dividends

	2018	2017
	£	£
Final paid	11,500,000	15,000,000

12 Intangible fixed assets

	Mining rights
	£
Cost	
At 1 January 2018 and 31 December 2018	8,609,663
Amortisation and impairment	
At 1 January 2018	5,210,014
Amortisation charged for the year	840,860
At 31 December 2018	6,050,874
Carrying amount	
At 31 December 2018	2,558,789
At 31 December 2017	3,399,649

MERTHYR (SOUTH WALES) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

13	Tangible fixed assets	Land and buildings	Plant and machinery	Deferred stripping costs	Mining projects	Restoration asset	Total
		£	£	£	£	£	£
	Cost						
	At 1 January 2018	9,300,414	46,177,290	11,308,131	29,881,269	37,578,312	134,245,416
	Additions	-	593,358	-	-	-	593,358
	Deferral reversal	-	-	(1,693,797)	-	-	(1,693,797)
	Disposals	-	-	-	-	(1,006,374)	(1,006,374)
	At 31 December 2018	9,300,414	46,770,648	9,614,334	29,881,269	36,571,938	132,138,603
	Depreciation and impairment						
	At 1 January 2018	6,418,903	26,316,486	-	22,760,133	31,176,824	86,672,346
	Depreciation charged in the year	634,406	5,952,409	-	1,813,394	1,520,786	9,920,995
	At 31 December 2018	7,053,309	32,268,895	-	24,573,527	32,697,610	96,593,341
	Carrying amount						
	At 31 December 2018	2,247,105	14,501,753	9,614,334	5,307,742	3,874,328	35,545,262
	At 31 December 2017	2,881,511	19,860,804	11,308,131	7,121,136	6,401,488	47,573,070

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

13 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.

	2018 £	2017 £
Plant and machinery	3,501,150	5,412,733
Depreciation charge for the year in respect of leased assets	1,689,508	751,133

14 Fixed asset investments

	Notes	2018 £	2017 £
Investments in subsidiaries	15	10	10

Movements in fixed asset investments

	Shares in group undertakings	
	£	£
Cost or valuation		
At 1 January 2018 & 31 December 2018		10
Carrying amount		
At 31 December 2018		10
At 31 December 2017		10

15 Subsidiaries

Details of the company's subsidiaries at 31 December 2018 are as follows:

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

The registered office address for all of the above is Cwmbargoed Disposal Point Fochriw Road, Cwmbargoed, Merthyr Tydfil, Wales, CF48 4AE.

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

16 Financial instruments

	2018	2017
	£	£
Carrying amount of financial assets		
Debt instruments measured at amortised cost	65,536,160	30,602,893
	<u> </u>	<u> </u>
Carrying amount of financial liabilities		
Measured at amortised cost	42,757,499	18,398,240
	<u> </u>	<u> </u>

17 Debtors

	2018	2017
	£	£
Amounts falling due within one year:		
Trade debtors	6,882,088	8,537,150
Unpaid share capital	402	402
Amounts due from parent undertakings	58,571,855	22,065,341
Other debtors	81,815	-
Prepayments and accrued income	443,543	566,877
	<u> </u>	<u> </u>
	<u>65,979,703</u>	<u>31,169,770</u>

18 Stocks

	2018	2017
	£	£
Coal stocks	1,558,758	1,668,909
Other stocks	98,494	114,202
	<u> </u>	<u> </u>
	<u>1,657,252</u>	<u>1,783,111</u>

19 Creditors: amounts falling due within one year

		2018	2017
	Notes	£	£
Obligations under finance leases	21	1,667,724	2,292,209
Amounts due to parent undertaking	22	3,199,790	3,199,790
Trade creditors		2,503,688	1,030,122
Amounts due to group undertakings		20,130,549	-
Corporation tax		3,702,607	3,312,808
Other taxation and social security		379,458	1,361,128
Other creditors		10	14,165
Accruals and deferred income		13,613,167	9,529,202
		<u> </u>	<u> </u>
		<u>45,196,993</u>	<u>20,739,424</u>

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

20 Creditors: amounts falling due after more than one year

	Notes	2018 £	2017 £
Obligations under finance leases	21	1,642,571	2,332,752

21 Finance lease obligations

		2018 £	2017 £
Future minimum lease payments due under finance leases:			
Within one year		1,667,724	2,292,209
In two to five years		1,642,571	2,332,752
		<u>3,310,295</u>	<u>4,624,961</u>

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

		2018 £	2017 £
Loans from parent undertaking		3,199,790	3,199,790
Payable within one year		<u>3,199,790</u>	<u>3,199,790</u>

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

23 Provisions for liabilities

	Notes	2018 £	2017 £
Operating provisions		52,451,937	54,947,245
Deferred tax liabilities	24	432,850	783,802
		<u>52,884,787</u>	<u>55,731,047</u>

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

23 Provisions for liabilities (Continued)

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

	Operating provisions £
At 1 January 2018	54,947,245
Reversal of provision	(4,829,049)
Unwinding of discount on restoration costs	2,333,741
	<hr/>
At 31 December 2018	52,451,937
	<hr/> <hr/>

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.

24 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 2018 £	Liabilities 2017 £
Balances:		
Accelerated capital allowances	2,263,036	4,066,959
Other timing differences	(1,830,186)	(3,283,157)
	<hr/>	<hr/>
	432,850	783,802
	<hr/> <hr/>	<hr/> <hr/>
		2018 £
Movements in the year:		
Liability at 1 January 2018		783,802
Credit to profit or loss		(410,071)
Effect of change in tax rate - profit or loss		59,119
		<hr/>
Liability at 31 December 2018		432,850
		<hr/> <hr/>

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.

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

25 Retirement benefit schemes

	2018	2017
	£	£
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	147,123	139,984
	<u>147,123</u>	<u>139,984</u>

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.

26 Share capital

	2018	2017
	£	£
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
	<u>402</u>	<u>402</u>

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:

	2018	2017
	£	£
Within one year	14,432	18,385
Between two and five years	6,492	17,421
	<u>20,924</u>	<u>35,806</u>

28 Related party transactions

Transactions with related parties

The company has taken advantage of the exemption, under the terms of FRS 102, section 33.1A, not to disclose related party transactions with wholly owned subsidiaries within the group.

MERTHYR (SOUTH WALES) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

28 Related party transactions

(Continued)

During the year ending 31 December 2017, the company has paid dividends to Merthyr Holdings Limited totalling £11,500,000 (2017: £15,000,000).

At the year end, a balance due to Merthyr Holdings Limited was outstanding totalling £3,199,790 (2017: £3,199,790). Merthyr Holdings Limited is the immediate parent company.

At the year end, a balance was outstanding due to Gwent Investments Limited, an intermediate parent company totalling £20,130,549 (2017: £8,690,614).

At the year end, a balance was outstanding due from Gwent Holdings Limited, the ultimate parent company totalling £58,571,855 (2017: £30,755,955).

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.

29 Ultimate 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.

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