

Parkburn Limited

Report and financial statements

**For the period 1 October 1999 to
31 March 2001**

Registered No.: SC133821



Parkburn Limited

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Directors and advisers

Directors

C. Cornes (appointed 20 March 2000)
N.C. Crabb (appointed 20 March 2000)
P.J. Smyth

Secretary and registered office

Mr. P.J. Smyth
The Ca'd'oro
45 Gordon Street
Glasgow.
G1 3PE

Solicitors

Harper Macleod
The Ca'd'oro
45 Gordon Street
Glasgow.
G1 3PE

Registered Number

SC 133821

Registered Auditors

PricewaterhouseCoopers
Erskine House
68-73 Queen Street
Edinburgh.
EH2 4NH

Bankers

Lloyds TSB
95 High Street
Newport
Shropshire.
TF10 7AZ

Directors' report for the period 1 October 1999 to 31 March 2001

The directors present their report and the audited financial statements for the period 1 October 1999 to 31 March 2001.

The Company was dormant until 20 March 2000 on which date, 2,500,000 £1 Ordinary Shares were issued to facilitate the acquisition of shares in Mining (Scotland) Limited.

Principal activities

On 23 March 2000, Parkburn Limited acquired 63.65% of the share capital of Mining (Scotland) Limited. The principal activities of the newly formed group are the production and sale of coal.

Review of business and future developments**Overall position**

The consolidated profit and loss account for the year is set out on page 8.

The newly formed Group returned an operating profit of £5.3 million with Group turnover at £139 million. This was primarily due to an exceptional performance from opencast operations returning an operating profit of £17.5 million offsetting the operating loss incurred by the deep mine operations of £12.1 million.

Deep mine operations

Coal production was predominantly achieved by single face longwall production from the Kincardine reserves and supplemented up to November 2000 by short face panel extraction in Longannet where the last remaining panels were subject to extensive faulting. The difficult geological conditions in the remnant of the Longannet workings seriously affected production targets with the premature finish of S89 face on 4 May 2000 due to a roof collapse.

Over the period of November 2000 through to March 2001, two face production was achieved in the Kincardine reserves with the commencement of D4 face panel which was the first longwall face in the new reserves of 250 metres in length, thus establishing the standard production face length for future coal extraction.

Despite the difficult geological conditions affecting production during the year major resources were invested in turning the mine operation towards full retreat panel extraction through development drivage and increased efficiency of coal conveying by the reduction in length of the main Longannet cable belt from its original 7km to 1.4km.

Development of face replacement headroom remained a key target and led to the commencement of the first 250m retreat panel commencing in D2 on 4 October 2001.

On 25 March 2002, the Longannet Mine suffered a catastrophic flood resulting in its closure.

Directors' report for the period 1 October 1999 to 31 March 2001 (continued)**Deep Mine operations (continued)**

The closure of the deep mine operations resulted in an exceptional loss to the Group of £7m after receipt of £27.6m of subsidy under the UK Coal Operating Aid Scheme. On 29 March 2002, the operating company, The Scottish Coal (Deep Mine) Company Limited, was put into liquidation. Further exceptional losses arising as a result of the liquidation will be included in the accounts to 31 March 2002.

Opencast operations

Market pressure caused by cheap imports in the early part of the period had a detrimental affect on the results, but this pressure eased significantly during the period providing more favourable market conditions for the foreseeable future, although other improvements arose from the continuing attention to the cost base. One new site was opened towards the end of the period at Spireslack.

The Group continued to progress planning applications and three further sites commenced operations in the year 2001/2002. These more than replaced the existing capacity at sites coming to the end of their lives and resulted in an increased output in 2001/2002.

Post balance sheet events

On 4 July 2001 the Group signed a term loan agreement with The Royal Bank of Scotland for £30 million, the loan being available for draw down from the date of signing the agreement up to 31 May 2002. The loan is repayable in ten quarterly instalments commencing 31 December 2002. The funds are being made available to finance the start up of new opencast sites on a self operate basis.

On 14 November 2001 the Group announced that, due to serious geological problems affecting the Scottish Coal (Deep Mine) Company Limited, production from D4 face was to be abandoned and that a single face strategy was to be adopted. In November 2001, redundancy notices were issued to 157 employees reducing manpower levels from 518 to 361 in order to re-align resources to the downsized operation. Major reductions were also implemented on the contracting labour resources from around 325 to 100.

Following flooding of the Longannet deep mine in March 2002, the operating company, The Scottish Coal (Deep Mine) Company Limited, was put into liquidation.

Other post balance sheet events of the Group are disclosed in note 30.

Employees

It is the policy of the Group to consult and discuss with employees on matters likely to affect their interests and to improve communications with all employees across the Group. This is being achieved through corporate presentations to both unions and employees. Progress is being reviewed on a regular basis with the intention of enhancing the quality of information.

Directors' report for the period 1 October 1999 to 31 March 2001 (continued)**Employees (continued)**

The Group continues to encourage and develop every employee to realise their full potential with equal opportunity for all.

It is also the policy of the Group to give full consideration to suitable applicants for the employment of disabled persons and for employees who become disabled to continue in their employment by retraining for suitable alternative positions within the Group.

Health and safety

Within the Group, we continue to raise health and safety awareness. The directors believe that the Group has complied with the requirements of the Health and Safety at Work Act 1974, the Mines and Quarries Act 1954, the Quarries Regulations 1999 and MASHAM 1992.

The Group continued to develop the skills base to further enhance a safe and efficient environment within the workplace.

Dividends and appropriations

No dividends were paid or proposed in the period.

Directors

The names of the present directors appear on page 1.

The directors who served during the period and their interests in the shares of the Company at 31 March 2001, are listed on page 33.

Charitable donations and political contributions

The contributions made by the Group during the period for charitable purposes were £100,895.

There were no donations to political parties.

Going concern

The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year.

**Directors' report for the period 1 October 1999 to
31 March 2001 (continued)****Statement of directors' responsibilities (continued)**

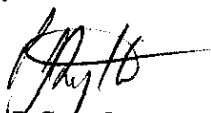
The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 March 2001. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors

The Auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution to reappoint the Auditors, will be proposed at the Annual General Meeting.

By order of the Board



P.J. Smyth
Company Secretary
16 August 2002

Independent auditors' report to the members of Parkburn Limited

We have audited the financial statements on pages 8 to 32, which have been prepared under the historical cost convention and the accounting policies set out on pages 12 to 14.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on pages 4 and 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the chairman's statement and the directors' report.

Basis of audit opinion

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

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

**Independent auditors' report to the members of Parkburn Limited
(continued)**

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and Group at 31 March 2001 and of the loss and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, reading "PricewaterhouseCoopers", written in a cursive style.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh
16 August 2002

**Consolidated profit and loss account for the period 1 October 1999
to 31 March 2001**

	Notes	2001 £'000
Turnover	2	<u>138,802</u>
Cost of sales		151,750
Exceptional cost of sales	3	<u>3,500</u>
Total cost of sales		<u>155,250</u>
Gross loss		(16,448)
UK coal operating aid scheme		27,617
Net operating expenses	4	(4,520)
Exceptional operating expenses	4	<u>(1,308)</u>
Total operating expenses		<u>(5,828)</u>
Operating profit		5,341
Exceptional costs arising from termination of deep mine operations	7	<u>(6,968)</u>
Loss on ordinary activities before interest		(1,627)
Interest receivable	8	680
Interest payable and similar charges	9	<u>(5,456)</u>
Loss on ordinary activities before taxation	10	(6,403)
Tax credit on loss on ordinary activities	11	<u>473</u>
Loss on ordinary activities after taxation	20	(5,930)
Minority interest	13	<u>1,953</u>
Retained loss for the year		<u>(3,977)</u>

All amounts above relate to continuing operations.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

There are no comparative figures for the previous year as the Company was dormant.

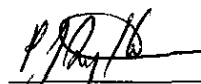
Statement of total recognised gains and losses for the period 1 October 1999 to 31 March 2001

	Notes	2001 £'000
Loss for the financial year after taxation		(5,930)
Consideration from amendment to acquisition agreement and the completion statement	21	805
Total loss since last annual report		<u>(5,125)</u>

Balance sheets as at 31 March 2001

		Group		Company	
		2001	30	2001	30
			September		September
			1999		1999
	Notes	£'000	£'000	£'000	£'000
ASSETS					
Fixed assets					
Intangible assets	14	10,588	-	-	-
Tangible assets	15	39,528	-	-	-
Investments	16	-	-	3,628	-
		50,116	-	3,628	-
Current assets					
Stocks	17	2,899	-	-	-
Debtors: amounts falling due after more than one year	18	16,029	-	-	-
Debtors: amounts falling due within one year	18	23,176	-	-	-
		42,104	-	-	-
Total assets		92,220	-	3,628	-
LIABILITIES					
Capital and reserves					
Called up share capital	19	2,500	-	2,500	-
Profit and loss account	20	(5,125)	-	-	-
Shareholders (deficit)/funds	21	(2,625)	-	2,500	-
Minority interest	22	(4,293)	-	-	-
Provisions for liabilities and charges	23	45,051	-	-	-
Creditors: amounts falling due after more than one year	24	27,552	-	1,077	-
Creditors: amounts falling due within one year	25	26,535	-	51	-
		99,138	-	1,128	-
Total funds employed		92,220	-	3,628	-

The financial statements on pages 8 to 32 were approved by the Board of directors on 16 August 2002 and were signed on its behalf by:



P.J. Smyth
Director

Consolidated cash flow statement for the year ended 31 March 2001

	Notes	2001 £'000
Net cash outflow from operating activities	26	<u>(20,264)</u>
Returns on investments and servicing of finance		
Interest received		680
Interest paid		<u>(1,776)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(1,096)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets		(2,428)
Sale of tangible fixed assets		43
Acquisitions and disposals		
Cost of business acquired	29	(4,936)
Net cash acquired on acquisitions		13,196
Consideration from amendment to acquisition agreement	21	805
Net cash outflow from capital expenditure and financial investment		<u>6,680</u>
Net cash outflow before financing		<u>(14,680)</u>
Financing		
Issue of shares	19	2,500
Advance under coal supply contract	28	3,262
Payments under finance leases		<u>(1,804)</u>
Net cash inflow from financing		<u>3,958</u>
Decrease in cash	28	<u>(10,722)</u>

Notes to the financial statements for the period 1 October 1999 to 31 March 2001**1. Principal accounting policies**

The financial statements are prepared in accordance with applicable Accounting Standards in the United Kingdom.

A summary of important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention. Long-term debtors, creditors and long-term provisions have been discounted to reflect their net present value.

Basis of consolidation

The consolidated profit and loss account, balance sheet and cash flow statement include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2001. The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the date control passes. Intra-Group sales and profit are eliminated fully on consolidation.

Goodwill and intangible assets

Goodwill arising represents the excess of fair value of the net assets acquired. In accordance with FRS10, the existing balance of the goodwill reserve is set against the consolidated profit and loss account reserve. Any future goodwill arising will be capitalised in the year of acquisition and amortised on a systematic basis over its useful economic life. The carrying value of goodwill and other intangible assets will be reviewed as necessary for impairment and a write-down in carrying value is made where impairment is identified.

Tangible fixed assets and depreciation

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Freehold land is not depreciated. The cost, less estimated residual value, of other tangible fixed assets is written off by equal instalments over their expected useful lives as indicated below:

	Years
Freehold buildings	50
Mines and surface works	Up to 20
Plant, machinery and equipment	8 to 12
Motor vehicles	3 to 5

Leasehold land and buildings are amortised over 50 years or, if shorter, the period of the lease.

Notes to the financial statements for the period 1 October 1999 to 31 March 2001 (continued)**1. Principal accounting policies (continued)****Tangible fixed assets and depreciation (continued)**

Mine drivages are capitalised if they have a working life of more than 5 years. The cost of boreholes and seismic surveys to prove new seams or new areas of reserves at the deep mine is capitalised as mines and surface works.

Depreciation on major projects to access new seams or new areas of reserves at the deep mine is not charged until full production commences. Coal extracted prior to the commencement of production is credited against the cost of the project.

Investments

Investments are stated at cost less any provisions for impairment.

Leases and hire purchase contracts

Tangible fixed assets acquired under finance leases and hire purchase contracts are capitalised at the estimated fair value at the date of inception of each lease or contract. The total finance charges are allocated over the period of the lease in such a way as to give a constant periodic rate of charge on the remaining balance of the obligation for each accounting period. Rentals paid under operating leases are charged to income as incurred.

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Appropriate provisions are made for obsolescence and redundant stores.

Work in progress represents the cost of transferring both sub-soil and muck to the tip above ground. These costs are expensed over the life of the site on a coal extraction basis.

Deferred opencast expenditure

Other than recoverable land purchase costs, opencast expenditure incurred prior to the commencement of working opencast sites is deferred and charged to the profit and loss account over the coaling life of the site on a coal extraction basis.

Notes to the financial statements for the period 1 October 1999 to 31 March 2001 (continued)**1. Principal accounting policies (continued)****Restoration and closure costs**

Opencast - 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 unit of production basis over the life of a site.

Deep Mine - Closure costs relating to shaft treatment and surface restoration are recognised as a provision on 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. Provision for other closure costs is made when there is a demonstrable commitment to the colliery closure.

Concessionary fuel

Provision is made over the service lives of employees for the estimated liability arising from the obligation to provide concessionary fuel benefits to retired employees and their dependants.

Pension costs

The Group contributes, in respect of those employees transferred direct from The British Coal Corporation, to two pension schemes providing benefits based on final pensionable pay; the Industry Wide Staff Superannuation Scheme for non-industrial staff, officials and weekly paid staff and the Industry Wide Mineworkers' Pension Scheme for other industrial employees. The assets of the schemes are held separately from those of the Group, being funds administered by Trustees to the schemes. The costs of the schemes are determined by a qualified actuary on the basis of triennial valuations, and are charged to the profit and loss account so as to spread the cost of pensions over the employees' service lives with the Group.

The Group operates a defined contribution scheme for the majority of staff not transferred from The British Coal Corporation. Pension costs are expensed as incurred.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

2. Segmental and geographical analysis

The directors consider that all operations arise from coal mining. All net assets are located in the United Kingdom. A geographical analysis of turnover is as follows:-

	2001 £'000
United Kingdom	138,802
	<u>138,802</u>

3. Exceptional cost of sales

	2001 £'000
Write down in carrying value of fixed assets	<u>3,500</u>

The write down in fixed assets represents the reduction in the recoverability of The Scottish Coal (Deep Mine) Company Limited assets following the decision to restructure operations on a single retreat face production base.

The write down was arrived at by comparing future cashflows, discounted by a prudent factor of 20%, with fixed asset carrying values.

4. Net operating expenses

	2001 £'000
Administrative expenses	(5,012)
Amortisation of goodwill	(557)
Less: other operating income	<u>1,049</u>
Net operating expenses	(4,520)
Exceptional administrative expenses	<u>(1,308)</u>
Total operating expenses	<u>(5,828)</u>

The exceptional item relates to the write off the Group's investments in Scottish Coal Contracts Limited as a result of the sale of its principal contract.

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

5. Employee information

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

	2001 Number
Mining operations	613
Administrative staff	<u>58</u>
	<u>671</u>
	£'000
Staff costs	
Wages and salaries	21,314
Social security costs	1,833
Pensions (note 33)	2,041
Other post retirement benefits (note 34)	<u>29</u>
	<u>25,217</u>

6. Directors' emoluments

The Directors did not receive any remuneration from the Company or any of its subsidiaries.

7. Exceptional costs arising from termination of deep mine operations

	2001 £'000
Credit arising from write down of all assets and liabilities in The Scottish Coal (Deep Mine) Company Limited (SCDM)	19,766
Provision of inter company loans held by other Group companies in SCDM	(16,020)
SCDM liabilities retained by other Group companies	<u>(10,714)</u>
	<u>(6,968)</u>

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

8. Interest receivable

	2001 £'000
From short-term deposits	<u>680</u>

9. Interest payable and similar charges

	2001 £'000
On unwinding of discount on provisions (note 23)	3,680
On bank loans and overdrafts	1,167
On DTI deferred consideration	372
On DTI additional consideration	237
On deferred supplier payments	-
	<u>5,456</u>

10. Loss on ordinary activities before taxation

	2001 £'000
Loss on ordinary activities before taxation is stated after charging:	
Depreciation	
Tangible owned fixed assets	9,549
Leasehold land	2
Amortisation of goodwill	557
Auditors remuneration for:	
Audit	102
Other services	34
Hire of plant and machinery	4,195
Operating lease charges	<u>1,415</u>

11. Tax on loss on ordinary activities

	2001 £'000
United Kingdom corporation tax credit	<u>473</u>

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

12. Profit for the year

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The profit of Parkburn Limited for the period was nil.

13. Minority interests

	2001 £'000
Loss on ordinary activities after taxation	(5,930)
Add back goodwill amortisation	557
	<u>(5,373)</u>
Minority interest is 36.35%	<u>1,953</u>

14. Intangible assets

	2001 £'000
At 1 October 1999	-
Goodwill arising on acquisition of shares in Mining (Scotland) Limited (see note 29)	11,145
Amortisation in the period	<u>(557)</u>
At 31 March 2001	<u>10,588</u>

**Notes to the financial statements for the period 1 October 1999
to 31 March 2002 (continued)**

15. Tangible fixed assets

Group	Land and buildings £'000	Mines and surface works £'000	Plant and machinery £'000	Total £'000
Cost				
On acquisition of Mining (Scotland) Limited	19,087	28,201	22,649	69,937
Additions	1,679	-	16,579	18,258
Disposals	(10)	-	(82)	(92)
Write down of deep mine assets	(1,161)	(18,150)	(15,118)	(34,429)
Transfers/reclassification	(151)	(6,638)	(310)	(7,099)
At 31 March 2001	19,444	3,413	23,718	46,575
Depreciation				
On acquisition of Mining (Scotland) Limited	457	7,730	8,524	16,711
Provided during the year	517	2,455	6,579	9,551
Disposals	-	-	(49)	(49)
Write down of deep mine assets	(388)	(4,315)	(8,163)	(12,866)
Transfers/write down	702	(4,100)	(2,902)	(6,300)
At 31 March 2001	1,288	1,770	3,989	7,047
Net book value				
At 31 March 2001	18,156	1,643	19,729	39,528
On acquisition of Mining (Scotland) Limited	18,630	20,471	14,125	53,226

Land and buildings, both heritable and freehold, acquired from The British Coal Corporation were fair valued in 1994 at open market value by D.M. Hall, an independent firm of chartered surveyors.

In accordance with normal accounting practices, the directors do not include an amount in fixed assets valuing reserves of coal. However, the Group's opencast coal reserves have been previously valued by Johnson, Poole and Bloomer and Wardell Armstrong, independent firms of mineral resource engineers, at a combined indicative amount of £69 million at open market value for existing use. The directors believe that there has been no material change to that valuation at 31 March 2001.

The Company does not own any tangible fixed assets.

Assets held under finance leases and capitalised in Plant and Machinery

	2001 £'000
Cost	17,749
Aggregate depreciation	1,279
	16,470

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

16. Fixed assets investments – Group undertakings

Fixed asset investments relate to the Company's investment in Mining (Scotland) Limited.

	£'000
At 1 October 1999	-
Acquisition of Mining (Scotland) Limited shares	<u>3,628</u>
At 31 March 2001	<u>3,628</u>

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of shares held Group and Company %
Mining (Scotland) Limited	Scotland	Ordinary 50p shares	63.65

The following companies are subsidiaries of Mining (Scotland) Limited and the % of shares held by that company.

The Scottish Coal Company Limited	Scotland	Ordinary £1 shares	100
The Scottish Coal (Deep Mine) Company Limited	Scotland	Ordinary £1 shares	100
Game Fisheries Limited	Scotland	Ordinary 6 ² / ₃ p shares	100
Scottish Coal Contracts Limited	Scotland	Ordinary £1 shares	100
Mining (Scotland) Trustees (UK) Limited	Scotland	"A" Ordinary shares	74
Mining (Scotland) Trustees Jersey Limited	Jersey	"A" Ordinary shares	74

Mining (Scotland) Limited is a holding company.

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

The Scottish Coal (Deep Mine) Company Limited operated in Scotland. Its principal activity was the deep mine production and sale of coal (Company now in liquidation).

Game Fisheries Limited operates in Scotland. Its principal activity is the management of lochs and farming on a small scale.

Scottish Coal Contracts Limited operates principally in England. Its principal business activity is the production of coal.

Notes to the financial statements for the period 1 October 1999 to 31 March 2001 (continued)

16. Fixed assets investments – Group undertakings (continued)

Mining (Scotland) Trustees (UK) Limited operates as the trustee of the Mining (Scotland) Limited Profit Sharing Scheme and holds the “free” shares which were allocated to each of the employee participants in the scheme.

Mining (Scotland) Trustees Jersey Limited was constituted as trustee of an option granted by certain shareholders permitting the trustee to acquire shares for employees as directed by such employees.

17. Stocks and work in progress

	2001	30 September 1999
	£'000	£'000
Coal stocks	1,109	-
Spares and consumables	99	-
Work in progress	1,691	-
	<u>2,899</u>	<u>-</u>

18. Debtors

	Group		Company	
	2001	30 September 1999	2001	30 September 1999
	£'000	£'000	£'000	£'000
Amounts falling due after more than one year				
Deferred opencast expenditure	9,040	-	-	-
Restoration and closure asset	6,989	-	-	-
	<u>16,029</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts falling due within one year				
Deferred opencast expenditure	5,520	-	-	-
Restoration and closure asset	2,950	-	-	-
Trade debtors	12,780	-	-	-
Other debtors	559	-	-	-
HM Customs & Excise	810	-	-	-
Prepayments and accrued income	557	-	-	-
	<u>23,176</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

19. Share capital

	2001	30 September 1999
	£'000	£'000
Authorised non-equity share capital		
2,501,000 (1999:1,000) Ordinary shares of £1 each	<u>2,500</u>	-
Issued, called up and fully paid		
2,500,002 (1999:2) Ordinary shares of £1 each	<u>2,500</u>	-

On 20 March 2000, the Company issued 2,500,000 shares of £1 in contemplation of the purchase of an interest in Mining (Scotland) Limited.

20. Share premium and reserves

Group	Profit and loss account £'000
At 30 September 1999	-
Consideration from amendment to acquisition agreement	400
Consideration from completion statement settlement	405
Loss for the period before minority interest	<u>(5,930)</u>
At 31 March 2001	<u>(5,125)</u>
Company	
At 30 September 1999	-
Profit for the period	<u>-</u>
At 31 March 2001	<u>-</u>

21. Reconciliation of movements in shareholders' funds

Group	2001 £'000
Loss for the period	(5,930)
Consideration from completion statement settlement	405
Consideration from amendment to acquisition agreement	400
Issue of shares	<u>2,500</u>
Movement in shareholders' deficit	<u>(2,625)</u>
Opening shareholders' funds	-
Closing shareholders' deficit	<u>(2,625)</u>

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

22. Minority interest

	2001 £'000
Minority interest arising on acquisition of Mining (Scotland) Limited shares	2,340
Loss for year apportioned to minority interest (see note 13)	1,953
At 31 March 2001	<u>4,293</u>

23. Provisions for liabilities and charges

Group	As at 1 October 1999 £'000	Created in year £'000	Released in year £'000	Utilised in year £'000	Unwinding of discount £'000	As at 31 March 2001 £'000
Concessionary fuel	-	3,280	(3,280)	-	-	-
Restoration, closure and claims costs						
- Opencast	-	50,392	(6,800)	(3,402)	3,625	43,815
- Deep Mine	-	1,342	(1,326)	(66)	50	-
Opencast dragline decommissioning	-	291	-	-	-	291
Deep Mine						
- surface damage	-	1,090	(69)	(76)	-	945
- pension underfunding	-	1,340	(1,052)	(288)	-	-
- employer and public liabilities	-	1,214	(1,026)	(193)	5	-
Mining (Scotland) Limited	-	1,000	(1,000)	-	-	-
TOTAL	-	59,949	(14,553)	(4,025)	3,680	45,051

In accordance with FRS12 a brief description of the nature of the Company's obligations, the expected timing of resulting outflows of economic benefit and an indication of the uncertainties surrounding each of the above provisions is provided below:

Concessionary fuel provides for retirement benefits payable to employees in the form of heating coal provided by external coal retailers. The amounts payable are defined in employee terms and conditions and are subject to a qualifying period of service. The costs of the concessionary fuel benefits are determined by a qualified actuary on the basis of triennial valuations. Benefits are payable as an annuity. Further details are set out in note 34.

Restoration, closure and claims costs

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

Notes to the financial statements for the period 1 October 1999 to 31 March 2001 (continued)**23. Provisions for liabilities and charges (continued)**

Payments against aftercare liabilities, which follow completion of coaling on individual sites, are expected to be over the next 10 years. Claims provisions relate to opencast operations where sites owned by the Group are mined by external contractors. Where mining conditions vary from those specified in the contract, the external contractors may believe they are entitled to claim for further costs incurred. The Group is now primarily self-operating sites and the exposure to contractor claims is substantially reduced. Certain claims have now been settled and it is considered that the remaining liability is immaterial and therefore the provision is combined with the restoration and closure costs.

Deep Mine relate to shaft treatment and pit top provisions made to meet the Group's liability to fill and cap all mine shafts and return pit top areas to a condition consistent with the required planning permission. No transfer of economic benefits will arise until decommissioning is completed. The current pit top provision reflects existing planning permissions which require pit areas to be restored to former use, usually agricultural. The Group will, where possible, seek planning permission for development use, which may reduce the expected cost.

Dragline decommissioning provision relates to the dismantling of the dragline following completion of an individual site.

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

Pension underfunding provision relates to the Group's liability to meet funding requirements in respect of employees retiring on ill health grounds.

Employer and public liabilities relate respectively to existing claims by employees and the general public incurred during the course of mining operations. All amounts are expected to be paid in full on settlement of the claim, usually within a 12 month period of claim submission, to the extent of the excess under the Group insurance policies. The amounts remain subject to settlement with the individual claimants.

Holding company provision related to the DTI clawback agreement applying to potential future sales of land and property acquired at privatisation.

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

23. Provisions for liabilities and charges (continued)

Deferred taxation

No deferred taxation assets/(liabilities) have been recognised in the Company or the Group financial statements, however the amount not recognised of the total potential asset is as follows:

	Deferred tax asset not recognised 2001 £'000	30 September 1999 £'000
Group		
Tax effect of timing differences:-		
Capital allowances	1,706	-
On provisions and other items	20,611	-
	<u>22,317</u>	-
Company		
Tax effect of timing differences:-		
On provisions and other items	1,943	-

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

	Group		Company	
	2001	30 September 1999	2001	30 September 1999
	£'000	£'000	£'000	£'000
DTI deferred consideration	4,593	-	-	-
Advance under coal supply contract	9,769	-	-	-
Obligations under finance leases	10,412	-	-	-
Other creditors	1,077	-	1,077	-
Retentions	1,701	-	-	-
	<u>27,552</u>	-	<u>1,077</u>	-

The DTI deferred consideration is constituted by a promissory note and secured by way of floating charge over the assets of the Company and of its subsidiary, The Scottish Coal Company Limited, as well as a prior ranking fixed charge over one opencast site. Interest is charged at 2% above LIBOR.

Notes to the financial statements for the period 1 October 1999 to 31 March 2001 (continued)

24. Creditors: amounts falling due after more than one year (continued)

The advance under the coal supply contract is secured by a prior ranking fixed charge over five opencast sites owned by The Scottish Coal Company Limited, and by a floating charge over the assets of The Scottish Coal (Deep Mine) Company Limited. This will be repaid in the period 2001 to 2004.

Obligations under finance leases and hire purchase agreement are repayable over varying years by monthly or quarterly instalments as follows:-

	2001	30 September 1999
	£'000	£'000
In the next year (see note 25)	3,614	-
In the second to fifth years	10,412	-
	<u>14,026</u>	<u>-</u>

25. Creditors: amounts falling due within one year

	Group		Company	
	2001	30 September 1999	2001	30 September 1999
	£'000	£'000	£'000	£'000
Bank loan and overdraft	2,387	-	-	-
Trade creditors	9,918	-	-	-
Other taxation and social security	693	-	-	-
Other creditors	2,518	-	-	-
Obligations under finance leases	3,614	-	-	-
Retentions	3,675	-	-	-
Accruals and deferred income	3,730	-	51	-
	<u>26,535</u>	<u>-</u>	<u>51</u>	<u>-</u>

The overdraft facility is secured by fixed and floating charges over the assets of the Company and its subsidiaries, The Scottish Coal Company Limited and The Scottish Coal (Deep Mine) Company Limited. Interest is charged at 2% above Royal Bank of Scotland base rate.

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

**26. Reconciliation of operating profit to net cash flow from
operating activities**

	2001 £'000
Operating profit	5,341
Depreciation of tangible fixed assets	9,551
Amortisation of goodwill	557
Write down of fixed assets	799
Investment write off in Scottish Coal Contracts Limited	1,308
Decrease in stocks	1,259
Increase in debtors	(22,780)
Decrease in creditors	(5,500)
Decrease in provisions	(10,799)
Net cash outflow from operating activities	<u>(20,264)</u>

27. Reconciliation of net cash flow to movements in net debt

	2001 £'000
Decrease in cash in the period	(10,722)
Cash inflow from increase in debt	<u>(3,262)</u>
Change in net debt resulting from cash flow	(13,984)
Other non-cash items	
DTI deferred consideration	(4,593)
Interest on DTI deferred consideration	(569)
Loan under coal supply agreement	(10,544)
Overdrafts held by The Scottish Coal (Deep Mine) Company Limited	<u>8,335</u>
Movement in net debt in the period	(21,355)
Net debt at 30 September 1999	<u>-</u>
Net debt at 31 March 2001	<u>(21,355)</u>

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

28. Analysis of net debt

	At 1 October 1999	On acquisition of Mining (Scotland) Limited	Cash Flow	Other non- cash charges	At 31 March 2001
	£'000	£'000	£'000	£'000	£'000
Cash at bank	-	15,196	(15,196)	-	-
Bank loan and overdraft	-	(2,000)	(8,722)	8,335	(2,387)
DTI deferred consideration					
- principal	-	(4,593)	-	-	(4,593)
- accrued interest	-	(197)	-	(372)	(569)
	-	(4,790)	-	-	(5,162)
Advance loan under coal supply contract					
- principal	-	(10,544)	(3,262)	-	(13,806)
Total	-	(2,138)	(27,180)	7,963	(21,355)

29. Acquisitions

On 10 January 2001, the Group entered into an Agreement with Miller Group Limited and Miller Mining Limited to acquire Miller Mining (UK) Limited (subsequently renamed Scottish Coal Contracts Limited). The consideration paid for the assets and liabilities was £1,308,000.

The following assets and liabilities were acquired:-

	Book Value £'000
Work in progress	2,007
Stocks	100
Debtors	1,455
Other debtors	545
Trade creditors	(1,017)
Accruals	(307)
Corporate tax payable	(1,475)
	<u>1,308</u>

In the opinion of the directors, the above represents the fair value of the assets.

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

29. Acquisitions (continued)

On 23 March 2000, Parkburn Limited acquired 63.65% of share capital of Mining (Scotland) Limited. The consideration paid for the assets and liabilities was £3,628,000. The fair value of Mining (Scotland) Limited's identifiable assets and liabilities at the date of acquisition were as follows:-

	Book Value £'000
Tangible fixed assets	53,226
Stocks	5,081
Debtors	28,519
Cash	15,196
Provisions	(58,663)
Creditors	(55,169)
	<u>(11,810)</u>
Percentage of share capital purchased	63.65%
Fair value of net liabilities purchased	(7,517)
Consideration	<u>3,628</u>
Goodwill arising on acquisition	<u>11,145</u>

30. Post balance sheet events

The Scottish Coal (Deep Mine) Company Limited

The Group's tranche two application for operating aid for the Longannet deep mine activity for the period from 1 January 2001 through to 31 December 2001 was approved by the European Commission in May 2001. A further application was approved by the European Commission in respect of eligible costs under tranches one and two which had been excluded from the original applications. Consequently £23.5m was received during the period May 2001 to December 2001.

The Longannet Deep Mine suffered a catastrophic flood and less than a week later on 29 March 2002, the operating company, The Scottish Coal (Deep Mine) Company Limited, was put into liquidation. An exceptional cost of £6,968,000 has been recognised in the profit and loss account in relation to the closure of the deep mine.

Scottish Coal Contracts Limited

On 21 July 2001 the Group sold its main contract at St. Aidans, Yorkshire to Taylor Woodrow Construction Limited. The remaining business consists of small plant hires.

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

31. Contingent liabilities

	2001 £'000
Indemnities for performance bonds	5,482
Guarantees in favour of The Coal Authority	1,923
Other guarantees	1,330
	<u>8,735</u>

The performance bonds and guarantees in favour of The Coal Authority consist of restoration and aftercare agreements entered into in the normal course of business. Other guarantees relate to property transactions entered into in the normal course of business.

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

32. Operating leases

Commitments under leases to pay rentals during the year following the year of these financial statements are given in the total below, analysed according to the period in which the lease expires.

Obligations under operating leases:

	2001 £'000
Plant and machinery	
Expiring within 1 year	43
Expiring during 2 to 5 years	1,240
	<u>1,283</u>

33. Pension schemes

The pension costs charged represent contributions payable by the Group in respect of defined contribution and defined benefit schemes, as follows:-

	2001 £'000
Defined benefit schemes	1,978
Defined contribution schemes	63
	<u>2,041</u>

**Notes to the financial statements for the period 1 October 1999
to 31 March 2001 (continued)**

33. Pension schemes (continued)

The majority of those employees within defined benefit schemes are members of industry-wide schemes; either the Industry Wide Coal Staff Superannuation Scheme (IWCSSS) or the Industry Wide Mineworkers' Pension Scheme (IWMPS), both of which commenced on privatisation following the Coal Industry Act 1994.

Although the schemes are administered and investments made on an industry-wide basis, each scheme comprises separate sections for each participating employer. The Company is represented on the Committee of Management of each scheme. Each Committee of Management comprises equal numbers of employer and trade union nominees, with the Chairman of each Committee of Management (nominated by a Co-ordinator Company representing the interests of participating employers) having a casting vote on the many issues on which a majority vote is sufficient.

Each Committee of Management appointed an actuary who determined the initial employer contribution rates of 9.75% and 15% for the IWMPS and the IWCSSS, respectively, with equivalent employee rates of 5.25% and 6% (with the member's contribution rate for the IWCSSS subject to a reduction of 1% of pensionable payroll which, until 5 April 2009, is paid by The British Coal Staff Superannuation Scheme).

Employers' contribution rates are reviewed on triennial actuarial valuations when a contribution rate is set which is specific to each employer. It is possible that the employers' contribution rate to both schemes will increase over time, particularly in light of each scheme's ageing membership profile. If the actuarial valuation of an employer's part of the scheme reveals a deficit, the employer may become liable to pay extra deficit contributions.

Actuarial valuations of each scheme were undertaken by the Government Actuary's Department on 31 December 2000 using the projected unit method. The main assumption underlying both schemes is a long-term gross investment return on scheme assets of 7%, which will exceed the annual rate of increase in pensionable salaries and price inflation by 2.25% and 3.75% respectively. Pensions are expected to increase in line with price inflation. The aggregate market value of the assets of The Scottish Coal Company Limited sub-fund at the valuation date was £12 million for the IWCSSS and £14.5 million for the IWMPS. The aggregate funding level on an ongoing basis was 87% and 94% respectively.

The Actuary's draft report on the valuation as at 31 December 2000 estimates that the employer rates of both schemes will increase to meet the valuation on the ongoing basis. The estimated new rates are 11.9% for the IWMPS and 18.5% for the IWCSSS. The Pensions Act 1995 Minimum Funding Requirement provisions require the ratio of assets to liabilities to be assessed on a prescribed basis. Under this valuation, both schemes are under provided at 80% and 89% respectively. A revised schedule of contributions to the IWCSSS sufficient to meet 90% MFR level by 31 March 2003 and 100% by 31 March 2007 has been agreed. A revised schedule is still to be agreed for the IWMPS.

Notes to the financial statements for the period 1 October 1999 to 31 March 2001 (continued)**33. Pensions schemes (continued)**

The majority of employees who are not members of the Industry Wide Schemes are members of defined contribution schemes, where the Company has no liability other than to pay its contributions on a regular basis.

34. Post retirement benefits other than pensions

The Group has a commitment to provide concessionary fuel benefits to retired employees. At retirement upon attaining the age of 62 and having been employed for a minimum of 15 years, employees become entitled to a retirement fuel allowance. At 31 March 2001 there were 375 employees who will be eligible for this allowance. As at 31 March 2001, the estimated liability of providing this allowance in future years amounted to £3,020,000.

35. Related party disclosures

Colin Cornes and Patrick Smyth, non-executive directors of the Company are directors of Parkhill Estates Limited. Fees expensed for Parkhill for management services amount to £447,000 in the financial period and at the balance sheet date, the total outstanding liability was £106,000.

The Company has taken advantage of the FRS8 exemption from disclosing transactions or balances with other Group entities.

35. Related party disclosures

There were no other related party transactions during the financial year.

None of the directors had a material interest in any contract, other than a service contract with the Company.

36. Ultimate controlling party

The directors consider C. Cornes to be the ultimate controlling party.

Directors' interests

The directors who served during the period and their interests in the shares of the Company at the end of the period were:

	At 31 March 2001 Ordinary shares of £1 each	30 September 1999 Ordinary shares of £1 each
Colin Cornes (appointed 20 March 2000)	2,500,001 ⁽¹⁾ 1 ⁽²⁾	- 1 ⁽²⁾
Patrick Smyth	-	-
James Butler (resigned 29 October 1999)	-	-
John Thompson (resigned 30 March 2000)	-	1
Niall Crabb (appointed 20 March 2000)	-	-

(1) Held in the Colin Cornes No. 3 Personal Settlement Trust.

(2) Held by Parkhill Estates Limited.