

Parkburn Limited

Report and financial statements

For the year ended 29 March 2003

Registered No.: SC133821



Parkburn Limited

Report and financial statements for the year ended 29 March 2003

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Directors and advisers

Directors

C. Cornes
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 LLP
Erskine House
68-73 Queen Street
Edinburgh.
EH2 4NH

Bankers

Lloyds TSB
95 High Street
Newport
Shropshire.
TF10 7AZ

Directors' report for the year ended 29 March 2003

The directors present their report and the audited financial statements for the year ended 29 March 2003.

Principal activities

The principal activities of the Group are the production and sale of coal. There have been no changes to the principal activities during the year.

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

The consolidated profit and loss account for the year is set out on page 7.

Operating profits for the year of £12.2m were reduced against £19.0m produced by continuing operations in the previous year. There were operating losses from the discontinued Deep Mine activity of £13.2m after receipt of £13.6m of subsidy under the UK Coal Operating Aid Scheme in the previous year.

Opencast operations

Coal production for the year at 4.3 million tonnes was reduced on the previous years level of 4.7 million tonnes, additionally sales revenues were adversely affected by a reduction in price. The weak dollar resulted in a reduced cost of imported coal, which had a knock on effect on sales prices.

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

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.

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.

Directors' report for the year ended 29 March 2003 (continued)**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, and associated legislation.

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

Directors

The names of the present directors appear on page 1.

The directors who served during the year and their interests in the shares of the Company at 29 March 2003, are listed on page 33.

Charitable donations and political contributions

The contributions made by the Group during the year for charitable purposes were £50,875 (30 March 2002: £3,591).

There were no donations to political parties.

Derivatives and other financial instruments

The Group's position is not to trade in derivatives and only to use these instruments where they reduce risk.

The Group has identified risks in relation to the price of gas oil and the sterling/dollar relationship to the extent it affects the international coal price. The Group has entered into certain swap arrangements in order to mitigate these risks.

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.

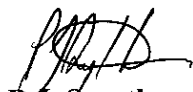
The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 29 March 2003. The directors also confirm that applicable accounting 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.

Director's report for the year ended 29 March 2003 (continued)**Auditors**

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 24 February 2003 and the board appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP, as auditors to the company, will be proposed at the annual general meeting.

By order of the Board



P.J. Smyth
Company Secretary
20 June 2003

Independent auditors' report to the members of Parkburn Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The responsibilities of directors 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 responsibilities of directors in the directors' report.

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. This report, including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 the remuneration and transactions of directors 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 only 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 judgments 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 company and the group affairs at 29 March 2003 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
20 June 2003

Consolidated profit and loss account for the year ended 29 March 2003

	Notes	2003 Continuing Operations £'000	2002 Continuing Operations £'000	2002 Discontinued Operations £'000	2002 Total £'000
Turnover	2	116,930	133,366	21,589	154,955
Cost of sales		97,528	107,080	47,914	154,994
Gross profit/(loss)		19,402	26,286	(26,325)	(39)
UK coal operating aid scheme		-	-	13,559	13,559
Net operating expenses	3	(7,154)	(7,276)	(419)	(7,695)
Total operating expenses		(7,154)	(7,276)	(419)	(7,695)
Operating profit/(loss)		12,248	19,010	(13,185)	5,825
Exceptional credit / (costs) arising from termination of deep mine operations	4	-	-	2,104	2,104
Profit/(loss) on ordinary activities before interest		12,248	19,010	(11,081)	7,929
Interest receivable	7	346			192
Interest payable and similar charges	8	(3,606)			(4,554)
Profit on ordinary activities before taxation	9	8,988			3,567
Tax credit on profit on ordinary activities	10	1,335			1,624
Profit on ordinary activities after taxation		10,323			5,191
Minority interest	12	(3,956)			(2,089)
Retained profit for the year	22	6,367			3,102

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

**Statement of total recognised gains and losses for the year ended
29 March 2003**

	2003 £'000	2002 £'000
Profit for the financial year after taxation	6,367	3,102
Prior year adjustment	-	9,641
Total gains recognised since last annual report	<u>6,367</u>	<u>12,743</u>

The prior year adjustment during 2002 related to the implementation of FRS 19.

Balance sheets as at 29 March 2003

		Group 2003	2002	Company 2003	2002
	Notes	£'000	£'000	£'000	£'000
ASSETS					
Fixed assets					
Intangible assets	13	9,554	10,031	-	-
Tangible assets	14	65,269	66,827	-	-
Investments	15	-	-	3,628	3,628
		<u>74,823</u>	<u>76,858</u>	<u>3,628</u>	<u>3,628</u>
Current assets					
Stocks	16	25,264	17,333	-	-
Debtors: amounts falling due after more than one year	17	27,868	27,696	-	-
Debtors: amounts falling due within one year	17	17,022	17,878	-	-
Cash at bank and in hand		1	-	1	-
		<u>70,155</u>	<u>62,907</u>	<u>1</u>	<u>-</u>
Creditors: amounts falling due within one year	18	(38,769)	(34,107)	-	(51)
Net current assets		<u>31,386</u>	<u>28,800</u>	<u>1</u>	<u>(51)</u>
Total assets less current liabilities		<u>106,209</u>	<u>105,658</u>	<u>3,629</u>	<u>3,577</u>
Creditors: amounts falling due after more than one year	19	(42,972)	(44,859)	(1,132)	(1,077)
Provisions for liabilities and charges	20	(44,986)	(52,885)	-	-
Net Assets		<u>18,251</u>	<u>7,914</u>	<u>2,497</u>	<u>2,500</u>
Capital and reserves					
Called up share capital	21	2,501	2,500	2,501	2,500
Profit and loss account	22	12,434	6,067	(4)	-
Shareholders funds	23	14,935	8,567	2,497	2,500
Minority Interest	24	3,316	(653)	-	-
Total funds employed		<u>18,251</u>	<u>7,914</u>	<u>2,497</u>	<u>2,500</u>

The financial statements on pages 7 to 33 were approved by the Board of directors on 20 June 2003 and were signed on its behalf by:


P.J. Smyth
Director

Consolidated cash flow statement for the year ended 29 March 2003

	Notes	2003 £'000	2002 £'000
Net cash inflow/(outflow) from operating activities	25	<u>15,090</u>	<u>(1,121)</u>
Returns on investments and servicing of finance			
Interest received		109	192
Interest paid		<u>(3,606)</u>	<u>(3,783)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(3,497)</u>	<u>(3,591)</u>
Taxation		(408)	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(6,199)	(15,179)
Sale of tangible fixed assets		694	656
Purchase of intangible fixed asset		<u>(100)</u>	<u>-</u>
Net cash outflow from capital expenditure and financial investment		<u>(5,605)</u>	<u>(14,523)</u>
Net cash inflow/(outflow) before financing		<u>5,580</u>	<u>(19,235)</u>
Financing			
Issue of shares	23	1	-
Issues of shares by group companies to minority shareholders	24	13	-
Advance under coal supply contract		(3,168)	-
Payments under finance leases		(5,500)	(4,668)
Drawdown of term bank loan		12,500	17,500
Repayment of term bank loan		<u>(6,000)</u>	<u>-</u>
Net cash (outflow)/inflow from financing		<u>(2,154)</u>	<u>12,832</u>
Increase/(decrease) in cash	26	<u>3,426</u>	<u>(6,403)</u>

Notes to the financial statements for the year ended 29 March 2003

1. Principal accounting policies

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

A summary of the principal 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.

The directors consider that the going concern basis of preparation continues to be appropriate based on cash flow forecasts and available facilities.

Basis of consolidation

The consolidated profit and loss account, the statement of total recognised gains and losses, balance sheet and cash flow statement include the financial statements of the Company and its subsidiary undertakings made up to 29 March 2003. 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.

Licences are capitalised at purchase cost and amortised over a useful economic life of 5 years.

**Notes to the financial statements for the year ended 29 March 2003
(continued)****1. Principal accounting policies (continued)****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.

Deferred opencast expenditure

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

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 against income as incurred.

Notes to the financial statements for the year ended 29 March 2003 (continued)

1. Principal accounting policies (continued)

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.

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 a site.

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 Coal 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 contributions to this scheme are expensed as incurred.

Turnover

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

Notes to the financial statements for the year ended 29 March 2003 (continued)

1. Principal accounting policies (continued)

Deferred taxation

Deferred taxation is provided in respect of all timing differences that have originated but not reversed by the balance sheet date, where there is an obligation to pay more or less in the future as a result of the reversal of those timing differences. Previously deferred tax was only provided to the extent that it was probable that such a liability would become payable.

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:-

	2003 Continuing Operations £'000	2002 Continuing Operations £'000	2002 Discontinued Operations £'000	2002 Total £'000
United Kingdom	116,930	133,366	21,589	154,955

3. Net operating expenses

	2003 Continuing Operations £'000	2002 Continuing Operations £'000	2002 Discontinued Operations £'000	2002 Total £'000
Administrative expenses	7,859	8,001	419	8,420
Amortisation of intangible assets	577	557	-	557
Less: other operating income	(1,282)	(1,282)	-	(1,282)
Total operating expenses	7,154	7,276	419	7,695

4. Exceptional credit arising from termination of deep mine operations

	2003 £'000	2002 £'000
Credit arising from write down of all assets and liabilities in The Scottish Coal (Deep Mine) Company Limited (SCDM)	-	15,761
Cost of SCDM employee termination costs	-	(1,178)
Provision of inter company loans held by other Group companies in SCDM	-	(10,718)
SCDM liabilities retained by other Group companies	-	(1,388)
Provision for reorganisation costs (principally employee termination costs)	-	(373)
	-	2,104

Notes to the financial statements for the year ended 29 March 2003 (continued)

5. Employee information

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

	2003 Continuing Operations Number	2002 Continuing Operations Number	2002 Discontinued Operations Number	2002 Total Number
Mining operations	646	593	346	939
Administrative staff	39	33	41	74
	685	626	387	1,013

	2003 Continuing Operations £'000	2002 Continuing Operations £'000	2002 Discontinued Operations £'000	2002 Total £'000
Staff costs				
Wages and salaries	20,551	17,417	12,944	30,361
Social security costs	1,980	1,642	1,039	2,681
Pensions (note 30)	1,006	676	1,411	2,087
Other post retirement benefits	-	-	228	228
	23,537	19,735	15,622	35,357

6. Directors' emoluments

The Directors did not receive any remuneration from the Company or any of its subsidiaries in 2003 and 2002.

7. Interest receivable

	2003 £'000	2002 £'000
From short-term deposits	109	192
Increase in discount on provisions (note 20)	237	-
	346	192

8. Interest payable and similar charges

	2003 £'000	2002 £'000
On unwinding of discount on provisions	-	771
On bank loans and overdrafts	2,120	2,220
On DTI deferred consideration	262	356
On hire purchase contracts	1,190	1,207
Other	34	-
	3,606	4,554

Notes to the financial statements for the year ended 29 March 2003 (continued)

9. Profit on ordinary activities before taxation

	2003 Continuing Operations £'000	2002 Continuing Operations £'000 Restated	2002 Discontinued Operations £'000 Restated	2002 Total £'000 Restated
Profit on ordinary activities before taxation is				
Stated after charging:				
Depreciation				
Tangible fixed assets under finance leases	3,502	3,979	-	3,979
Tangible owned fixed assets	6,197	4,735	2,298	7,033
Leasehold land	-	-	2	2
Gain on sale of fixed asset	(102)	-	-	-
Amortisation of intangible assets	577	557	-	557
Auditors remuneration for:				
Audit	75	91	-	91
Other services	30	16	-	16
Hire of plant and machinery	7,669	4,299	1,012	5,311
Operating lease charges – plant and machinery	3,748	1,680	785	2,465

10. Tax on profit on ordinary activities

	2003 £'000	2002 £'000
United Kingdom corporation at 30%	-	-
Adjustment in respect of previous periods	2	-
Deferred tax credit	1,333	1,624
	<u>1,335</u>	<u>1,624</u>

The difference between the tax credit on ordinary activities for the year, reported in the profit and loss account, and the tax credit that would result from applying a relevant standard rate of tax to the loss on ordinary activities before tax, is explained as follows:-

	2003 £'000	2002 £'000 Restated
Profit on ordinary activities before tax	8,988	3,567
Standard rate of corporation tax at 30% (2001: 30%)	(2,696)	(1,070)
Adjustments:		
(a) Prior year adjustments in respect of under provisions	2	-
(b) Expenses/(income) not deductible/taxable for tax purposes	(267)	1,834
(c) Losses for which no relief currently available	-	(1,754)
(d) Accelerated capital allowances and other timing differences	2,963	(6,474)
(e) Utilisation of losses	-	1,318
(f) Other	-	6,146
Tax credit for year	<u>2</u>	<u>-</u>

Notes to the financial statements for the year ended 29 March 2003 (continued)

10. Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges:

The Scottish Coal (Deep Mine) Company Limited has been placed into liquidation, which will significantly reduce the amount of the Group's trading losses in future periods.

11. 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 loss of Parkburn Limited for the year was £4,000 (2002: Nil).

12. Minority interests

	2003 £'000	2002 £'000
Profit / (loss) on ordinary activities after taxation	10,323	5,191
Add back goodwill amortisation	557	557
	<u>10,880</u>	<u>5,748</u>
Minority interest	<u>(3,956)</u>	<u>(2,089)</u>

The minority interest in Mining (Scotland) Limited amounted to 36.35% up to the end of December 2002. Thereafter the minority interest increased to 39.05%. The minority interest has been apportioned on a time basis.

13. Intangible assets

Group	2003 £'000 Licences	2003 £'000 Goodwill	2003 £'000 Total	2002 £'000 Goodwill
Opening Balance	-	10,031	10,031	10,588
Additions	100	-	100	-
Amortisation in the period	(20)	(557)	(577)	(557)
Closing Balance	<u>80</u>	<u>9,474</u>	<u>9,554</u>	<u>10,031</u>

The Company has no intangible assets.

Notes to the financial statements for the year ended 29 March 2003 (continued)

14. Tangible fixed assets

Group	Land and buildings	Mines and surface works	Plant, machinery and motor vehicles	Deferred opencast expenditure	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 30 March 2002	20,565	3,413	34,578	23,971	82,527
Additions	986	-	4,221	3,526	8,733
Disposals	(80)	-	(653)	-	(733)
Reallocation	(228)	-	-	228	-
At 29 March 2003	21,243	3,413	38,134	27,725	90,527
Depreciation					
At 30 March 2002	1,418	2,062	7,991	4,229	15,700
Provided during the year	143	291	5,351	3,914	9,699
Disposals	-	-	(141)	-	(141)
Reallocation	(8)	-	-	8	-
At 29 March 2003	1,553	2,353	13,189	8,151	25,258
Net book value					
At 29 March 2003	19,690	1,060	24,945	19,574	65,269
At 30 March 2002	19,147	1,351	26,587	19,742	66,827

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.

Assets held under finance leases and capitalised in Plant and Machinery

	2003 £'000	2002 £'000
Cost	25,443	22,806
Aggregate depreciation	6,142	2,822
	19,301	19,984

The Company has no tangible fixed assets.

Notes to the financial statements for the year ended 29 March 2003 (continued)

15. Fixed assets investments – Group undertakings

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

£'000

At 29 March 2003 and 30 March 2002

3,628

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of shares held Group and Company	
			At 29 March 2003 %	At 30 March 2002 %
Mining (Scotland) Limited	Scotland	Ordinary 50p shares	60.95	63.65

The following companies are subsidiaries of Mining (Scotland) Limited and the % of shares held by that company at 29 March 2003 and 30 March 2002.

The Scottish Coal Company Limited	Scotland	Ordinary £1 shares	100
Castlebridge Plant 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.

Castlebridge Plant Limited operates principally in Scotland. Its principal business is plant hire.

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

Notes to the financial statements for the year ended 29 March 2003 (continued)

15. Fixed assets investments – Group undertakings (continued)

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

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.

16. Stocks and work in progress

Group	2003 £'000	2002 £'000
Coal stocks	5,153	4,307
Spares and consumables	1,493	743
Work in progress	18,618	12,283
	<u>25,264</u>	<u>17,333</u>

The Company has no stock and work in progress.

17. Debtors

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Amounts falling due after more than one year				
Restoration and closure asset	15,270	16,431	-	-
Deferred tax asset (see note 20)	12,598	11,265	-	-
	<u>27,868</u>	<u>27,696</u>	<u>-</u>	<u>-</u>
Amounts falling due within one year				
Restoration and closure asset	1,802	3,962	-	-
Trade debtors	13,659	11,371	-	-
Corporation tax recoverable	9	-	-	-
Other debtors	93	80	-	-
HM Customs & Excise	-	1,162	-	-
Prepayments and accrued income	1,459	1,303	-	-
	<u>17,022</u>	<u>17,878</u>	<u>-</u>	<u>-</u>

Notes to the financial statements for the year ended 29 March 2003 (continued)

18. Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank loan and overdraft	5,365	8,790	-	-
Loan advance under coal supply contract (see note 19)	3,600	3,169	-	-
Trade creditors	10,398	7,582	-	-
Other taxation and social security	731	1,634	-	-
Other creditors	363	406	-	-
UK corporation tax	-	402	-	-
Obligations under finance leases (see note 19)	5,756	4,900	-	-
H M Customs & Excise	2,531	-	-	-
Term Loan (see note 19)	2,000	-	-	-
Accruals and deferred income	8,025	7,224	-	51
	38,769	34,107	-	51

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

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

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
DTI deferred consideration	4,593	4,593	-	-
Term Loan	22,000	17,500	-	-
Advance under coal supply contract	3,001	6,600	-	-
Obligations under finance leases	7,795	11,617	-	-
Other creditors	1,132	1,077	1,132	1,077
Retentions	4,451	3,472	-	-
	42,972	44,859	1,132	1,077

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

The term loan facility is for £24m. The loan is repayable in 12 half yearly instalments commencing 31 December 2003. Interest is charged at 2% above LIBOR. The loan is secured by both prior ranking fixed charges and floating charges. The repayments due in the first year of £6m will be met by further drawdowns to be made in the same year.

Notes to the financial statements for the year ended 29 March 2003 (continued)

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

	2003 £'000	2002 £'000
In the first year (see note 18)	2,000	-
In the second to fifth years	22,000	17,500
	<u>24,000</u>	<u>17,500</u>

The loan advance under the coal supply contract is repayable over the period January 2002 to January 2005. The loan is secured by a prior ranking charge over five opencast sites. Interest accrues from 1st January 2003 at a rate of 7.475%.

	2003 £'000	2002 £'000
In the next year (see note 18)	3,600	3,169
In the second to fifth years	3,001	6,600
	<u>6,601</u>	<u>9,769</u>

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

	2003 £'000	2002 £'000
In the next year (see note 18)	5,756	4,900
In the second to fifth years	7,795	11,617
	<u>13,551</u>	<u>16,517</u>

20. Provisions for liabilities and charges

Group	As at 30 March 2002 £'000	Created in year £'000	Released in year £'000	Utilised in year £'000	Change in discount £'000	As at 29 March 2003 £'000
Restoration, closure and claims costs						
- Opencast	51,940	226	-	(7,354)	(237)	44,575
- surface damage	945	-	(528)	(6)	-	411
TOTAL	<u>52,885</u>	<u>226</u>	<u>(528)</u>	<u>(7,360)</u>	<u>(237)</u>	<u>44,986</u>

In accordance with FRS12 a brief description of the nature of the Group'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:

Notes to the financial statements for the year ended 29 March 2003 (continued)

20. Provisions for liabilities and charges (continued)

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 are payable in part progressively during the coaling, and in full following completion of the individual sites. 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.

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.

Deferred taxation

Group

Deferred taxation assets recognised in the accounts comprises:-

	2003 £'000	2002 £'000
Capital allowances	10,124	7,154
On provision and other items	2,474	4,111
Total asset	<u>12,598</u>	<u>11,265</u>

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

	2003 £'000	2002 £'000
Capital allowances	-	-
On provision and other items	8,110	8,333
Total asset	<u>8,110</u>	<u>8,333</u>

Notes to the financial statements for the year ended 29 March 2003 (continued)

20. Provisions for liabilities and charges (continued)

Company

No deferred taxation has been provided in the company accounts (2002: nil).

There are no unprovided amounts of deferred taxation for timing differences in the company accounts (2002:nil).

21. Share capital

Group and Company	2003 £'000	2002 £'000
Authorised non-equity share capital		
2,501,000 (2002: 2,501,000) "A" Ordinary shares of £1 each	2,501	2,501
101,728 (2002: nil)"B" Ordinary shares of 1p each	1	-
	<u>2,502</u>	<u>2,501</u>
Issued, called up and fully paid		
2,500,002 (2002: 2,500,002) "A" Ordinary shares of £1 each	2,500	2,500
101,728 (2002: nil)"B" Ordinary shares of 1p each	1	-
	<u>2,501</u>	<u>2,500</u>

During the year 101,728 "B" class Ordinary shares were issued and fully paid up. The deferred Ordinary and "B" Ordinary shares have no voting rights, carry no dividend and provide no rights in a winding up.

22. Reserves

Group	Profit and loss account £'000
At 30 March 2002	6,067
Profit for the year after minority interest	<u>6,367</u>
At 29 March 2003	<u>12,434</u>
Company	
At 30 March 2002	-
Loss for the period	<u>(4)</u>
At 29 March 2003	<u>(4)</u>

Notes to the financial statements for the year ended 29 March 2003 (continued)

23. Reconciliation of movements in shareholders' funds

Group	2003 £'000	2002 £'000
Issue of shares	1	-
Profit for period after minority interest	6,367	3,102
Opening shareholders' funds	8,567	5,465
Closing shareholders' funds	14,935	8,567

Company	2003 £'000	2002 £'000
Issue of Shares	1	-
Profit for period after minority interest	(4)	-
Opening shareholders' funds	2,500	2,500
Closing shareholders' funds	2,497	2,500

24. Minority interest

	2003 £'000	2002 £'000
Increase of minority interest	(13)	-
Profit for year apportioned to minority interest (see note 12)	(3,956)	(2,089)
Opening Minority interest	653	2,742
Closing Minority interest	(3,316)	653

25. Reconciliation of operating profit to net cash flow from operating activities

	2002 £'000	2002 £'000
Operating profit	12,248	5,825
Exceptional credit arising from termination of deep mine operations	-	2,104
Depreciation of tangible fixed assets	9,699	11,012
Gain on sale of fixed asset	(102)	
Amortisation of intangible assets	577	557
Write down of fixed assets	-	(2,069)
Increase in stocks	(7,931)	(14,434)
Decrease/(increase) in debtors	2,026	(9,664)
Increase/(decrease) in creditors	6,235	(1,515)
(Decrease)/increase in provisions	(7,662)	7,063
Net cash outflow from operating activities	15,090	(1,121)

**Notes to the financial statements for the year ended 29 March 2003
(continued)**

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

	2003 £'000	2002 £'000
Increase/(decrease) in cash in the period	3,426	(6,403)
Cash outflow from increase in debt	(366)	(17,500)
Change in net debt resulting from cash flow	3,060	(23,903)
Other non-cash items		
Interest on DTI deferred consideration	(263)	(356)
Hire purchase agreements		
Movement in net debt in the period	2,797	(14,378)
Net debt at 30 March 2002	(58,094)	(43,716)
Net debt at 29 March 2003	(55,297)	(58,094)

27. Analysis of net debt

	At 30 March 2002 £'000	Cash Flow £'000	Other non- cash charges £'000	At 29 March 2003 £'000
Cash at bank	-	1	-	1
Bank overdraft	(8,790)	3,425	-	(5,365)
Bank loan	(17,500)	(6,500)	-	(24,000)
DTI deferred consideration				
- principal	(4,593)	-	-	(4,593)
- accrued interest	(925)	-	(263)	(1,188)
	(5,518)	-	(263)	(5,781)
Hire purchase agreements	(16,517)	2,966	-	(13,551)
Advance loan under coal supply contract				
- principal	(9,769)	3,168	-	(6,601)
Total	(58,094)	3,060	(263)	(55,297)

28. Contingent liabilities

	2003 £'000	2002 £'000
Indemnities for performance bonds	8,153	1,063
Guarantees in favour of The Coal Authority	1,632	1,584
Other guarantees	1,718	1,905
	11,503	4,552

Notes to the financial statements for the year ended 29 March 2003 (continued)

28. Contingent liabilities (continued)

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.

29. 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:

	2003 £'000	2002 £'000 Restated
Plant and machinery		
Expiring within 1 year	84	1,501
Expiring within 1 - 2 years	1,730	172
Expiring during 2 to 5 years	1,117	1,880
	<u>2,931</u>	<u>3,553</u>

30. Pension schemes

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

	2003 Continuing Operations £'000	2002 Continuing Operations £'000	2002 Discontinued Operations £'000	2002 Total £'000
Defined benefit schemes	310	327	1,268	1,595
Defined contribution schemes	696	349	143	492
	<u>1,006</u>	<u>676</u>	<u>1,411</u>	<u>2,087</u>

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.

Notes to the financial statements for the year ended 29 March 2003 (continued)

30. Pension schemes (continued)

Although the schemes are administered and investments made on an industry-wide basis, each scheme comprises separate sections for each participating employer. The Group 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 at 29 March 2002 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 2.35% and 2.35% 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 £11.5 million for the IWCSSS and £14.0 million for the IWMPs. The aggregate funding level on an ongoing basis was 89% and 96% respectively.

The Actuary's draft report on the valuation as at 29 March 2002 estimates that the employer rates of both schemes will increase to meet the valuation on an ongoing basis. The estimated new rates are 33% 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 77% and 78% respectively. A revised schedule of contributions to the IWCSSS and IWMPs are being discussed.

The above deficits relate to the entire sub-funds for both IWMPs and IWCSSS of The Scottish Coal Company Limited, this includes some members who were previously employed by The Scottish Coal (Deep Mine) Company Limited. Mining Scotland Limited and The Scottish Coal Company Limited are investigating whether they are responsible for the liability associated with these sub-funds.

Notes to the financial statements for the year ended 29 March 2003 (continued)

30. Pension schemes (continued)

The financial assumptions used to calculate scheme liabilities under FRS17 are:-

Assumptions	As at 29 March 2003		As at 30 March 2002	
	IWMPS	IWCSSS	IWMPS	IWCSSS
Valuation Method	Projected Unit		Projected Unit	
Rate of increase in salaries	2.5%	2.5%	3.5%	3.5%
Rate of increase in pensions in payment	2.0%	2.25%	2.25%	2.5%
Rate of increase in pensions in deferment	2.5%	2.5%	2.75%	2.75%
Discount Rate	5.5%	5.5%	6.25%	6.25%
Inflation assumption	2.5%	2.5%	2.75%	2.75%

Under the projected unit method, where schemes are closed to new entrants (as in IWMPS and IWCSSS) the current service cost will increase as members approach retirement.

The assets in the scheme and expected rates of return were:-

	As at 29 March 2003		As at 30 March 2002	
	IWMPS	IWCSSS	IWMPS	IWCSSS
Long term rate of return on equities expected	7%	7%	7%	7%

IWMPS membership profile as at 29 March 2003:-

	Number at 29 March 2003	Average age at 29 March 2003	Total salary/pension pa at 29 March 2003 £000
Active	15	50.75	417
Deferred	369	42.5	1,007
Pensioner	268	47	431
Assets' (£'000)	9,767		

Notes to the financial statements for the year ended 29 March 2003 (continued)

30. Pension schemes (continued)

IWCSSS membership profile as at 29 March 2003

	Number at 29 March 2003	Average age at 29 March 2003	Total salary/pension pa at 29 March 2003 £000
Active	57	44	1,484
Deferred	217	45.5	700
Pensioner	69	44.75	308
Assets (£'000)	8,347		

The following disclosures show the effect on the primary financial statements if FRS 17 was accounted for in full:

	As at 29 March 2003		As at 30 March 2002	
	IWMPS £000	IWC SSS £000	IWMPS £000	IWC SSS £000
Balance Sheet				
Total Market Value of Assets	9,767	8,347	13,801	11,358
Present Value of Scheme Liabilities	16,555	16,231	14,739	14,053
Deficit	(6,788)	(7,884)	(938)	(2,695)
Related deferred tax asset	2,036	2,365	281	808
Net pension liability	(4,752)	(5,519)	(657)	(1,887)

Notes to the financial statements for the year ended 29 March 2003 (continued)

30. Pension schemes (continued)

	Year ending 29 March 2003	
	IWMPS £000	IWCSSS £000
<u>Analysis of amount charged to Operating Profit</u>		
Current service cost (net of employee contributions)	58	260
Past service cost	-	-
Total operating charge	58	260
<u>Analysis of the amount credited to other finance income</u>		
Expected return on pension scheme assets	853	712
Interest on pension scheme liabilities	(901)	(879)
Net loss	(48)	(167)
<u>Analysis of amount recognised in STRGL</u>		
Actual loss less expected return on pension scheme assets	(4,578)	(3,786)
Experience gains and losses arising on the scheme liabilities	(349)	(103)
Changes in assumptions underlying the present value of liabilities	(1,397)	(1,268)
Actuarial loss in pension scheme	(6,324)	(5,157)
Surplus set aside for members	-	-
Actuarial loss recognised in STRGL	(6,324)	(5,157)
Actual loss less expected return on pension scheme assets as percentage of scheme assets	46.9%	45.4%
Experience gains and losses arising on the scheme liabilities as a percentage of present value of scheme liabilities	2.1%	0.6%
Actuarial loss recognised in STRGL as a percentage of present value of scheme liabilities	38.2%	31.8%
<u>Movement in deficit during the year</u>		
Deficit at beginning of year	(938)	(2,695)
Current service cost (including employee contributions)	(77)	(346)
Contributions	599	481
Past service costs	-	-
Other finance income	(48)	(167)
Actuarial loss	(6,324)	(5,157)
Deficit at end of year	(6,788)	(7,884)

**Notes to the financial statements for the year ended 29 March 2003
(continued)****30. Pension schemes (continued)**

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

No contributions were outstanding at the year end.

31. Related party disclosures

Colin Cornes and Patrick Smyth, non-executive directors of the Company are directors of Parkhill Estates Limited. Fees charged by Parkhill Estates Limited for management services amount to £466,210 (2002: £671,000), in the financial year and at the balance sheet date, the total outstanding liability was £39,859 (2002: £47,000).

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

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.

32. Ultimate controlling party

Parkburn Limited is controlled by Colin Cornes.

Notes to the financial statements for the year ended 29 March 2003 (continued)

33. 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 29 March 2003 "A" Ordinary shares of £1 each	30 March 2002 "A" Ordinary shares of £1 each
Colin Cornes (appointed 20 March 2000)	2,500,001 ⁽¹⁾ 1 ⁽²⁾	2,500,001 ⁽¹⁾ 1 ⁽²⁾
Niall Crabb (resigned 6 December 2002)	-	-

	At 29 March 2003 "B" Ordinary shares of 1p each	30 March 2002 "B" Ordinary shares of 1p each
Patrick Smyth	101,728 ⁽³⁾	-

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

(2) Held by Parkhill Estates Limited.

(3) Shares held by DHP Trustee Company Limited under a nominee agreement.

Options over "B" shares were granted and exercised in the year.