

Parkburn Limited

**Report and financial statements
for the year ended 27 March 2004**

Registered No.: SC133821



Parkburn Limited

Report and financial statements for the year ended 27 March 2004

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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 27 March 2004

The directors present their report and the audited financial statements for the year ended 27 March 2004.

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.

Continuing operations produced an operating profit for the year of £10.5m against £12.2m in the previous year.

Opencast operations

Coal production for the year at 4.3 million tonnes was in line with the previous year, although sales revenues were adversely affected by a reduction in sales price. The world coal price had been very low from summer 2001 until autumn 2003, at which point it increased dramatically preventing a further deterioration in profits. In light of the forward commitment on sales contracts, the Group will not fully benefit from these higher prices until 2005/6.

The directors are satisfied that the Group 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 27 March 2004 (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 27 March 2004, are listed on page 33.

Charitable donations and political contributions

The contributions made by the Group during the year for charitable purposes were £38,889 (29 March 2003: £50,875).

There were no donations to political parties.

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 27 March 2004. 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.

Directors' report for the year ended 27 March 2004 (continued)

Auditors

The auditors PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the annual general meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'P.J. Smyth', with a stylized flourish at the end.

P.J. Smyth
Company Secretary
25 June 2004

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 into 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 affairs of the Company and the Group at 27 March 2004 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
25 June 2004

Consolidated profit and loss account for the year ended 27 March 2004

	Notes	2004 £'000	2003 £'000
Turnover	2	114,053	116,930
Cost of sales		<u>97,080</u>	<u>97,528</u>
Gross profit		16,973	19,402
Net operating expenses	3	<u>(6,440)</u>	<u>(7,154)</u>
Operating profit		10,533	12,248
Interest receivable	6	448	346
Interest payable and similar charges	7	<u>(5,497)</u>	<u>(3,606)</u>
Profit on ordinary activities before taxation	8	5,484	8,988
Tax (charge) / credit on profit on ordinary activities	9	<u>(1,554)</u>	<u>1,335</u>
Profit on ordinary activities after taxation		3,930	10,323
Minority interest	11	<u>(1,657)</u>	<u>(3,956)</u>
Retained profit for the year	21	<u>2,273</u>	<u>6,367</u>

All amounts relate to continuing operations.

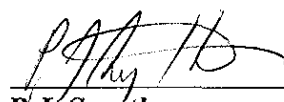
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The Group has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

Balance sheets as at 27 March 2004

		Group		Company	
	Notes	2004 £'000	2003 £'000	2004 £'000	2003 £'000
ASSETS					
Fixed assets					
Intangible assets	12	8,977	9,554	-	-
Tangible assets	13	62,013	65,269	-	-
Investments	14	-	-	3,628	3,628
		<u>70,990</u>	<u>74,823</u>	<u>3,628</u>	<u>3,628</u>
Current assets					
Stocks	15	29,902	25,264	-	-
Debtors: amounts falling due after more than one year	16	22,094	27,868	-	-
Debtors: amounts falling due within one year	16	15,703	17,022	-	-
Cash at bank and in hand		<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
		67,700	70,155	-	-
Creditors: amounts falling due within one year	17	<u>(34,621)</u>	<u>(38,769)</u>	-	-
Net current assets		<u>33,079</u>	<u>31,386</u>	<u>1</u>	<u>1</u>
Total assets less current liabilities		104,069	106,209	3,629	3,629
Creditors: amounts falling due after more than one year	18	(40,742)	(42,972)	(1,136)	(1,132)
Provisions for liabilities and charges	19	(41,146)	(44,986)	-	-
Net Assets		<u>22,181</u>	<u>18,251</u>	<u>2,493</u>	<u>2,497</u>
Capital and reserves					
Called up share capital	20	2,501	2,501	2,501	2,501
Profit and loss account	21	14,707	12,434	(8)	(4)
Shareholders funds	22	17,208	14,935	2,493	2,497
Minority Interest	23	4,973	3,316	-	-
Total funds employed		<u>22,181</u>	<u>18,251</u>	<u>2,493</u>	<u>2,497</u>

The financial statements on pages 7 to 33 were approved by the Board of Directors on 25 June 2004 and were signed on its behalf by:


P.J. Smyth
 Director

Consolidated cash flow statement for the year ended 27 March 2004

	Notes	2004 £'000	2003 £'000
Net cash inflow from operating activities	24	18,456	15,090
Returns on investments and servicing of finance			
Interest received		89	109
Interest paid		(3,080)	(3,606)
Net cash outflow from returns on investments and servicing of finance		(2,991)	(3,497)
Taxation		-	(408)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(4,704)	(6,199)
Sale of tangible fixed assets		2,557	694
Purchase of intangible fixed asset		-	(100)
Net cash outflow from capital expenditure and financial investment		(2,147)	(5,605)
Net cash inflow before financing		13,318	5,580
Financing			
Issue of shares	22	-	1
Issues of shares by group companies to minority shareholders	23	-	13
Advance under coal supply contract		(6,242)	(3,168)
Payments under finance leases		(6,122)	(5,500)
Drawdown of term bank loan		6,000	12,500
Repayment of term bank loan		(2,500)	(6,000)
Net cash outflow from financing		(8,864)	(2,154)
Increase in cash	25	4,454	3,426

Notes to the financial statements for the year ended 27 March 2004**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, balance sheet and cash flow statement include the financial statements of the Company and its subsidiary undertakings made up to 27 March 2004. 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 27 March 2004
(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 27 March 2004 (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 27 March 2004 (continued)

1. Principal accounting policies (continued)

Financial instruments

As part of its business operations, the Group is exposed to risks arising from fluctuations in interest rates, foreign exchange rates, gas oil prices and coal prices. The Group's policy is not to trade in derivative financial instruments (derivatives) but to use derivatives to manage exposures of this type.

The Group's policy is to recognise the financial effect of the derivative in the same period as the associated hedged item.

Deferred taxation

Deferred taxation is provided on an undiscounted basis 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.

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:-

	2004 £'000	2003 £'000
United Kingdom	<u>114,053</u>	<u>116,930</u>

3. Net operating expenses

	2004 £'000	2003 £'000
Administrative expenses	7,820	7,859
Amortisation of intangible assets	577	577
Less: other operating income	<u>(1,957)</u>	<u>(1,282)</u>
Total operating expenses	<u>6,440</u>	<u>7,154</u>

Notes to the financial statements for the year ended 27 March 2004 (continued)

4. Employee information

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

	2004 Number	2003 Number
Mining operations	630	646
Administrative staff	45	39
	<u>675</u>	<u>685</u>
	2004 £'000	2003 £'000
Staff costs		
Wages and salaries	21,739	20,551
Social security costs	2,277	1,980
Pensions (note 29)	1,051	1,006
	<u>25,067</u>	<u>23,537</u>

5. Directors' emoluments

The directors did not receive any remuneration from the Company or any of its subsidiaries in 2004 and 2003.

6. Interest receivable

	2004 £'000	2003 £'000
Capital reduction on early repayment of advance under coal supply contract	359	-
From short-term deposits	50	109
Other interest	39	-
Increase in discount on provisions (note 19)	-	237
	<u>448</u>	<u>346</u>

During the year the Group settled the advance under coal supply contract. The gain arising on settlement reflects the discount obtained for early settlement of £359,000.

**Notes to the financial statements for the year ended 27 March 2004
(continued)**

7. Interest payable and similar charges

	2004	2003
	£'000	£'000
On unwinding of discount on provisions (see note 19)	2,152	-
On bank loans and overdrafts	1,887	2,120
On DTI deferred consideration	265	262
On hire purchase contracts	967	1,190
Other	226	34
	<u>5,497</u>	<u>3,606</u>

8. Profit on ordinary activities before taxation

	2004	2003
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation		
Tangible fixed assets under finance leases	4,271	3,502
Tangible owned fixed assets	7,550	6,197
Gain on sale of tangible fixed asset	(859)	(102)
Amortisation of intangible fixed assets	577	577
Auditors remuneration for:		
Audit Group	66	75
Audit Company	4	4
Other services	34	30
Hire of plant and machinery	5,943	7,669
Operating lease charges – plant and machinery	<u>2,944</u>	<u>3,748</u>

Notes to the financial statements for the year ended 27 March 2004 (continued)

9. Tax on profit on ordinary activities

	2004 £'000	2003 £'000
United Kingdom corporation tax at 30%	-	-
Adjustment in respect of previous periods	3	2
Deferred tax credit	(1,557)	1,333
Total tax (charge)/credit	(1,554)	1,335

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:-

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	5,484	8,988
Standard rate of corporation tax at 30% (2003: 30%)	(1,645)	(2,696)
Adjustments:		
(a) Prior year adjustments in respect of under provisions	-	2
(b) Expenses not deductible for tax purposes	(232)	(267)
(c) Losses for which no relief currently available	(51)	-
(d) Accelerated capital allowances and other timing Differences	1,928	2,963
Tax credit for year	-	2

There are no factors identified which will affect the future tax charges.

10. Loss 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 (2003: £4,000).

Notes to the financial statements for the year ended 27 March 2004 (continued)

11. Minority interests

	2004 £'000	2003 £'000
Profit on ordinary activities after taxation	3,930	10,323
Add back goodwill amortisation	557	557
	<u>4,487</u>	<u>10,880</u>
Minority interest	<u>(1,657)</u>	<u>(3,956)</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% until September 2003, at which point it reduced to 35.41%. The minority interest has been apportioned on a time basis.

12. Intangible assets

Group	Licences £'000	Goodwill £'000	Total £'000
Cost			
At 29 March 2003 and 27 March 2004	100	11,145	11,245
Amortisation			
At 29 March 2003	20	1,671	1,691
Provided	20	557	577
At 27 March 2004	40	2,228	2,268
Net book value			
At 27 March 2004	60	8,917	8,977
At 29 March 2003	80	9,474	9,554

The Company has no intangible assets.

Notes to the financial statements for the year ended 27 March 2004 (continued)

13. 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 29 March 2003	21,243	3,413	38,134	27,725	90,515
Additions	42	-	7,600	2,621	10,263
Disposals	(521)	-	(2,143)	-	(2,664)
At 27 March 2004	20,764	3,413	43,591	30,346	98,114
Depreciation					
At 29 March 2003	1,553	2,353	13,189	8,151	25,246
Provided during the year	205	75	6,285	5,256	11,821
Disposals	(74)	-	(892)	-	(966)
At 27 March 2004	1,684	2,428	18,582	13,407	36,101
Net book value					
At 27 March 2004	19,080	985	25,009	16,939	62,013
At 29 March 2003	19,690	1,060	24,945	19,574	65,269

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

	2004 £'000	2003 £'000
Cost	29,887	25,443
Aggregate depreciation	10,067	6,142
	19,820	19,301

The Company has no tangible fixed assets.

Notes to the financial statements for the year ended 27 March 2004 (continued)

14. Fixed assets investments – Group undertakings

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

				£'000	
At 27 March 2004 and 29 March 2003				<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		
			At 27 March 2004 %	At 29 March 2003 %	
Mining (Scotland) Limited	Scotland	Ordinary 50p shares	64.59	60.95	

The following companies are subsidiaries of Mining (Scotland) Limited and the % of shares held by that company at 27 March 2004 and 29 March 2003.

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
Alba Resource Recovery 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 27 March 2004 (continued)

14. Fixed assets investments – Group undertakings (continued)

Alba Resource Recovery Limited operates in Scotland. Its principal business is the recycling of waste.

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.

15. Stocks and work in progress

Group	2004 £'000	2003 £'000
Coal stocks	4,523	5,153
Spares and consumables	1,415	1,493
Work in progress	23,964	18,618
	<u>29,902</u>	<u>25,264</u>

The Company has no stock and work in progress.

16 Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due after more than one year				
Restoration and closure asset	11,050	15,270	-	-
Deferred tax asset (see note 19)	11,044	12,598	-	-
	<u>22,094</u>	<u>27,868</u>	-	-
Amounts falling due within one year				
Restoration and closure asset	1,867	1,802	-	-
Trade debtors	11,745	13,659	-	-
Corporation tax recoverable	9	9	-	-
Other debtors	23	93	-	-
Prepayments and accrued income	2,059	1,459	-	-
	<u>15,703</u>	<u>17,022</u>	-	-

Notes to the financial statements for the year ended 27 March 2004 (continued)

17. Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Bank loan and overdraft	911	5,365	-	-
Loan advance under coal supply contract (see note 18)	-	3,600	-	-
Obligations under finance leases (see note 18)	6,310	5,756	-	-
Trade creditors	12,291	10,398	-	-
Other taxation and social security	800	731	-	-
Other creditors	787	363	-	-
H M Customs & Excise	1,351	2,531	-	-
Term Loan (see note 18)	5,000	2,000	-	-
Accruals and deferred income	7,171	8,025	-	-
	34,621	38,769	-	-

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

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

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
DTI deferred consideration	4,593	4,593	-	-
Term loan	22,500	22,000	-	-
Advance under coal supply contract	-	3,001	-	-
Obligations under finance leases	6,678	7,795	-	-
Other creditors	1,129	1,132	1,136	1,132
Retentions	5,842	4,451	-	-
	40,742	42,972	1,136	1,132

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 £30m, of which £27.5m was outstanding at 27 March 2004. 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.

Notes to the financial statements for the year ended 27 March 2004 (continued)

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

	2004 £'000	2003 £'000
In the first year (see note 17)	5,000	2,000
In the second to fifth years	22,500	22,000
	<u>27,500</u>	<u>24,000</u>

The loan advance under coal supply contract was repaid in full during this year.

	2004 £'000	2003 £'000
In the first year (see note 17)	-	3,600
In the second to fifth years	-	3,001
	<u>-</u>	<u>6,601</u>

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

	2004 £'000	2003 £'000
In the first year (see note 17)	6,310	5,756
In the second to fifth years	6,678	7,795
	<u>12,988</u>	<u>13,551</u>

19. Provisions for liabilities and charges

Group	As at 29 March 2003 £'000	Released in year £'000	Utilised in year £'000	Unwinding of discount £'000	As at 27 March 2004 £'000
Restoration, closure and claims costs					
- opencast	44,575	(3,761)	(2,220)	2,152	40,746
- surface damage	411	-	(11)	-	400
TOTAL	<u>44,986</u>	<u>(3,761)</u>	<u>(2,231)</u>	<u>2,152</u>	<u>41,146</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 27 March 2004 (continued)

19. 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:-

	2004 £'000	2003 £'000
Capital allowances	8,905	10,124
On provisions and other items	2,139	2,474
Total asset	<u>11,044</u>	<u>12,598</u>

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

	2004 £'000	2003 £'000
On provisions and other items	7,735	8,110
Total asset	<u>7,735</u>	<u>8,110</u>

Notes to the financial statements for the year ended 27 March 2004 (continued)

19. Provisions for liabilities and charges (continued)

Company

No deferred taxation has been provided in the company accounts (2003: nil).

There are no unprovided amounts of deferred taxation for timing differences in the company accounts (2003: nil).

20. Share capital

Group and Company	2004 £'000	2003 £'000
Authorised non-equity share capital		
2,501,000 (2003: 2,501,000) "A" Ordinary shares of £1 each	2,501	2,501
101,728 (2003: 101,728) "B" Ordinary shares of 1p each	1	1
	<u>2,502</u>	<u>2,502</u>
Issued, called up and fully paid		
2,500,002 (2003: 2,500,002) "A" Ordinary shares of £1 each	2,500	2,500
101,728 (2003: 101,728) "B" Ordinary shares of 1p each	1	1
	<u>2,501</u>	<u>2,501</u>

The "B" Ordinary shares have no voting rights, carry no dividend and provide no rights in a winding up.

21. Reserves

	Profit and loss account £'000
Group	
At 29 March 2003	12,434
Profit for the year after minority interest	<u>2,273</u>
At 27 March 2004	<u>14,707</u>
Company	
At 29 March 2003	(4)
Loss for the period	<u>(4)</u>
At 27 March 2004	<u>(8)</u>

Notes to the financial statements for the year ended 27 March 2004 (continued)

22. Reconciliation of movements in shareholders' funds

Group	2004 £'000	2003 £'000
Issue of shares	-	1
Profit for period	2,273	6,367
Opening shareholders' funds	14,935	8,567
Closing shareholders' funds	17,208	14,935

Company	2004 £'000	2003 £'000
Issue of Shares	-	1
Loss for period after minority interest	(4)	(4)
Opening shareholders' funds	2,497	2,500
Closing shareholders' funds	2,493	2,497

23. Minority interest

	2004 £'000	2003 £'000
Increase of minority interest	-	13
Profit for year apportioned to minority interest (see note 11)	1,657	3,956
Opening Minority interest	3,316	(653)
Closing Minority interest	4,973	3,316

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

	2004 £'000	2003 £'000
Operating profit	10,533	12,248
Depreciation of tangible fixed assets	11,821	9,699
Gain on sale of fixed asset	(859)	(102)
Amortisation of intangible assets	577	577
Increase in stocks	(4,638)	(7,931)
Decrease in debtors	5,523	2,026
Increase in creditors	1,491	6,235
Decrease in provisions	(5,992)	(7,662)
Net cash inflow from operating activities	18,456	15,090

Notes to the financial statements for the year ended 27 March 2004 (continued)

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

	2004 £'000	2003 £'000
Increase in cash in the period	4,454	3,426
Cash outflow/(inflow) from reduction/increase in debt	3,664	(366)
Change in net debt resulting from cash flow	8,118	3,060
Other non-cash items		
Interest on DTI deferred consideration	(265)	(263)
Movement in net debt in the period	7,853	2,797
Net debt at 29 March 2003	(55,297)	(58,094)
Net debt at 27 March 2004	(47,444)	(55,297)

26. Analysis of net debt

	At 29 March 2003 £'000	Cash Flow £'000	Other non- cash charges £'000	At 27 March 2004 £'000
Cash at bank	1	-	-	1
Bank overdraft	(5,365)	4,454	-	(911)
Bank loan	(24,000)	(3,500)	-	(27,500)
DTI deferred consideration				
- principal	(4,593)	-	-	(4,593)
- accrued interest	(1,188)	-	(265)	(1,453)
	(5,781)	-	(265)	(6,046)
Hire purchase agreements	(13,551)	563	-	(12,988)
Advance loan under coal supply contract				
- principal	(6,601)	6,601	-	-
Total	(55,297)	8,118	(265)	(47,444)

27. Contingent liabilities

	2004 £'000	2003 £'000
Indemnities for performance bonds	12,343	8,153
Guarantees in favour of The Coal Authority	1,742	1,632
Other guarantees	1,516	1,718
	15,601	11,503

Notes to the financial statements for the year ended 27 March 2004 (continued)

27. 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.

28. 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:

	2004 £'000	2003 £'000
Plant and machinery		
Expiring within 1 year	1,230	84
Expiring within 1 - 2 years	1,071	1,730
Expiring during 2 to 5 years	1,305	1,117
	<u>3,606</u>	<u>2,931</u>

29 Pension schemes

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

	2004 £'000	2003 £'000
Defined benefit schemes	247	310
Defined contribution schemes	804	696
	<u>1,051</u>	<u>1,006</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 27 March 2004 (continued)

29. 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 is 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 27 March 2004 (continued)

29. Pension schemes (continued)

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

Assumptions	2004		2003		2002	
	IWMPS	IWCSSS	IWMPS	IWCSSS	IWMPS	IWCSSS
Valuation Method	Projected Unit		Projected Unit		Projected Unit	
Rate of increase in salaries	2.75%	2.75%	2.5%	2.5%	3.5%	3.5%
Rate of increase in pensions in payment	2.25%	2.5%	2.0%	2.25%	2.25%	2.5%
Rate of increase in pensions in deferment	2.75%	2.75%	2.5%	2.5%	2.75%	2.75%
Discount rate	5.5%	5.5%	5.5%	5.5%	6.25%	6.25%
Inflation assumption	2.75%	2.75%	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:-

	2004		2003		2002	
	IWMPS	IWCSSS	IWMPS	IWCSSS	IWMPS	IWCSSS
Long term expected rate of return :						
Equities	7%	7%	7%	7%	7%	7%
Bonds	5.5%	5.5%	-	-	-	-
Value of Assets						
£000's:						
Equity	9,063	7,806	9,767	8,347	13,801	11,358
Bonds	3,132	2,664	-	-	-	-
Total market value of assets	12,195	10,470	9,767	8,347	13,801	11,358

Notes to the financial statements for the year ended 27 March 2004 (continued)

29. Pension schemes (continued)

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

	2004		2003		2002	
	IWMPS	IWCSSS	IWMPS	IWCSSS	IWMPS	IWCSSS
	£000	£000	£000	£000	£000	£000
Balance Sheet						
Total Market Value of Assets	12,195	10,470	9,767	8,347	13,801	11,358
Present Value of Scheme Liabilities	18,062	17,930	16,555	16,231	14,739	14,053
Deficit	(5,867)	(7,460)	(6,788)	(7,884)	(938)	(2,695)
Related deferred tax asset	1,760	2,238	2,036	2,365	281	808
Net pension liability	(4,107)	(5,222)	(4,752)	(5,519)	(657)	(1,887)

	2004	2003	2002
	£000	£000	£000
Net assets			
Net assets per balance sheet	22,181	18,251	7,914
Less SSAP 24 pension asset	(885)	(76)	-
Net assets excluding SSAP 24 pension asset	21,296	18,175	7,914
Less FRS 17 pension liability	(9,329)	(10,271)	(2,544)
Net assets including FRS 17 pension liability	11,967	7,904	5,370
Reserves			
Profit and loss reserve per balance sheet	14,707	12,434	6,067
Less SSAP 24 pension asset	(885)	(76)	-
Profit and loss reserve excluding SSAP 24 pension asset	13,822	12,358	6,067
Less FRS 17 pension liability	(9,329)	(10,271)	(2,544)
Profit and loss reserve including FRS 17 pension liability	4,493	2,087	3,523

Notes to the financial statements for the year ended 27 March 2004 (continued)

29. Pension schemes (continued)

	2004		2003	
	IWMPS £000	IWCSSS £000	IWMPS £000	IWCSSS £000
<u>Analysis of amount charged to operating profit</u>				
Current service cost (net of employee contributions)	57	258	58	260
Past service cost	-	-	-	-
Total operating charge	57	258	58	260
<u>Analysis of the amount credited to other finance income</u>				
Expected return on pension scheme assets	691	590	853	712
Interest on pension scheme liabilities	(894)	(890)	(901)	(879)
Net loss	(203)	(300)	(48)	(167)
<u>Analysis of amount recognised in STRGL</u>				
Actual return/(loss) less expected return on pension scheme assets	1,524	1,357	(4,578)	(3,786)
Experience losses arising on the scheme liabilities	(81)	(21)	(349)	(103)
Changes in assumptions underlying the present value of liabilities	(1,144)	(871)	(1,397)	(1,268)
Actuarial gain/(loss) in pension scheme	299	465	(6,324)	(5,157)
Surplus set aside for members	-	-	-	-
Actuarial gain/(loss) recognised in STRGL	299	465	(6,324)	(5,157)
<u>Movement in deficit during the year</u>				
Deficit at beginning of year	(6,788)	(7,884)	(938)	(2,695)
Current service cost (including employee contributions)	(75)	(343)	(77)	(346)
Contributions	900	602	599	481
Past service costs	-	-	-	-
Other finance income	(203)	(300)	(48)	(167)
Actuarial gain/(loss)	299	465	(6,324)	(5,157)
Deficit at end of year	(5,867)	(7,460)	(6,788)	(7,884)
<u>Actual gain/(loss) less expected return on pension scheme assets as percentage of scheme assets</u>				
Experience (losses) arising on the scheme liabilities as a percentage of present value of scheme liabilities	(0.4%)	(0.1%)	(2.1%)	(0.6%)
Actuarial gain/(loss) recognised in STRGL as a percentage of present value of scheme liabilities	1.7%	2.6%	(38.2%)	(31.8%)

**Notes to the financial statements for the year ended 27 March 2004
(continued)****29. 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.

30. Financial Instruments

As part of its business operations, the Group is exposed to risks arising from fluctuations in interest rates, gas oil prices, exchange rates and coal prices. The Group's policy is not to trade in derivative financial instruments (derivatives) but to use derivatives to manage exposures of this type.

The Group's exposure to interest rate risk arising from the floating rate term loan facility has been hedged through the use of an interest rate swap.

The Group's exposure to fluctuations in the gas oil price has been hedged through use of a UK sterling gas oil index swap.

The Group has entered into a number of coal supply contracts where the price is determined by reference to an international coal marker price and US dollar / sterling relationship. In order to mitigate its exposure to foreign exchange risk and movements in the international coal marker price the Group has entered into a series of swap transactions, only where a sales contract is exposed to international prices to fix its exposure.

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 £396,694 (2003: £466,210), in the financial year and at the balance sheet date, the total outstanding liability was £51,513 (2003: £39,859).

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.

Notes to the financial statements for the year ended 27 March 2004 (continued)

32. Ultimate controlling party

Parkburn Limited is controlled by Colin Cornes.

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 27 March 2004 "A" Ordinary shares of £1 each	29 March 2003 "A" Ordinary shares of £1 each
Colin Cornes	2,500,001 ⁽¹⁾ 1 ⁽²⁾	2,500,001 ⁽¹⁾ 1 ⁽²⁾
	At 27 March 2004 "B" Ordinary shares of 1p each	29 March 2003 "B" Ordinary shares of 1p each
Patrick Smyth	101,728 ⁽³⁾	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.