

**Parkburn Limited**

**Report and financial statements**

**for the year ended 26 March 2005**

**Registered No.: SC133821**



# **Parkburn Limited**

## **Report and financial statements for the year ended 26 March 2005**

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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 26 March 2005**

The directors present their report and the audited financial statements for the year ended 26 March 2005.

**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 loss for the year of £1.1m against a profit of £10.5m in the previous year.

**Opencast operations**

Coal production for the year at 4.1 million tonnes (mt) was 0.2 mt less than the previous year and 0.6mt below budget. The shortfall arose from delays to the opening of new sites and coaling areas caused by a combination of an extremely wet Autumn / Winter, a shortage of plant and equipment and the receivership of a contractor (J. Fenton and Sons (Contractors) Limited). The sites are now fully operational.

Sales prices were in line with expectations, although, in light of the forward commitment on sales contracts and the shortfall in production the company was unable to benefit from the increased world prices in the year.

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.

**Post balance sheet event**

The Company completed the sale of Glenmuckloch and Grievehill to ATH Resources Plc on 10th June 2005 for the sum of £18m. The transaction will result in a book profit of circa £14.6m which will be fully covered by brought forward capital tax losses such that no tax liability will arise.

**Directors' report for the year ended 26 March 2005 (continued)****Employees**

It is the policy of the Group to consult on and discuss with employees 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.

**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 26 March 2005, are listed on page 33.

**Charitable donations and political contributions**

The contributions made by the Group during the year for charitable purposes were £42,837 (27 March 2004: £38,889).

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 26 March 2005. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

**Directors' report for the year ended 26 March 2005 (continued)****Statement of directors' responsibilities**

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

**Auditors**

The auditors PricewaterhouseCoopers 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



**P.J. Smyth**  
**Company Secretary**  
**24 June 2005**

**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 26 March 2005 and of the loss 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  
24 June 2005**

**Consolidated profit and loss account for the year ended 26 March 2005**

|                                                             | Notes | 2005<br>£'000         | 2004<br>£'000  |
|-------------------------------------------------------------|-------|-----------------------|----------------|
| <b>Turnover</b>                                             | 2     | <b>118,729</b>        | 114,053        |
| Cost of sales                                               |       | <u>112,782</u>        | <u>97,080</u>  |
| <b>Gross profit</b>                                         |       | <b>5,947</b>          | 16,973         |
| Net operating expenses                                      | 3     | <u>(7,018)</u>        | <u>(6,440)</u> |
| <b>Operating (loss)/profit</b>                              |       | <b>(1,071)</b>        | 10,533         |
| Interest receivable                                         | 6     | <b>146</b>            | 448            |
| Interest payable and similar charges                        | 7     | <u>(3,576)</u>        | <u>(5,497)</u> |
| <b>(Loss)/profit on ordinary activities before taxation</b> | 8     | <b>(4,501)</b>        | 5,484          |
| Tax credit / (charge) on profit on ordinary activities      | 9     | <u>890</u>            | <u>(1,554)</u> |
| <b>(Loss)/profit on ordinary activities after taxation</b>  |       | <b>(3,611)</b>        | 3,930          |
| Minority interest                                           | 11    | <u>1,081</u>          | <u>(1,657)</u> |
| <b>Retained (loss) / profit for the year</b>                | 21    | <u><b>(2,530)</b></u> | <u>2,273</u>   |

All amounts relate to continuing operations.

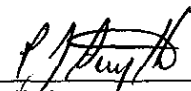
There is no difference between the (loss)/profit on ordinary activities before taxation and the retained (loss)/profit for the year stated above, and their historical cost equivalents.

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

## Balance sheets as at 26 March 2005

|                                                                |       | Group           |                 | Company        |                |
|----------------------------------------------------------------|-------|-----------------|-----------------|----------------|----------------|
|                                                                | Notes | 2005<br>£'000   | 2004<br>£'000   | 2005<br>£'000  | 2004<br>£'000  |
| <b>ASSETS</b>                                                  |       |                 |                 |                |                |
| <b>Fixed assets</b>                                            |       |                 |                 |                |                |
| Intangible assets                                              | 12    | 8,400           | 8,977           | -              | -              |
| Tangible assets                                                | 13    | 64,982          | 62,013          | -              | -              |
| Investments                                                    | 14    | -               | -               | 3,628          | 3,628          |
|                                                                |       | <u>73,382</u>   | <u>70,990</u>   | <u>3,628</u>   | <u>3,628</u>   |
| <b>Current assets</b>                                          |       |                 |                 |                |                |
| Stocks                                                         | 15    | 41,543          | 29,902          | -              | -              |
| Debtors: amounts falling due after more than one year          | 16    | 31,607          | 22,094          | -              | -              |
| Debtors: amounts falling due within one year                   | 16    | 13,136          | 15,703          | -              | -              |
| Cash at bank and in hand                                       |       | <u>1</u>        | <u>1</u>        | <u>1</u>       | <u>1</u>       |
|                                                                |       | <u>86,287</u>   | <u>67,700</u>   | <u>1</u>       | <u>1</u>       |
| <b>Creditors: amounts falling due within one year</b>          | 17    | <u>(57,868)</u> | <u>(34,621)</u> | <u>-</u>       | <u>-</u>       |
| <b>Net current assets</b>                                      |       | <u>28,419</u>   | <u>33,079</u>   | <u>1</u>       | <u>1</u>       |
| <b>Total assets less current liabilities</b>                   |       | <u>101,801</u>  | <u>104,069</u>  | <u>3,629</u>   | <u>3,629</u>   |
| <b>Creditors: amounts falling due after more than one year</b> | 18    | <u>(33,121)</u> | <u>(40,742)</u> | <u>(1,140)</u> | <u>(1,136)</u> |
| <b>Provisions for liabilities and charges</b>                  | 19    | <u>(50,110)</u> | <u>(41,146)</u> | <u>-</u>       | <u>-</u>       |
| <b>Net Assets</b>                                              |       | <u>18,570</u>   | <u>22,181</u>   | <u>2,489</u>   | <u>2,493</u>   |
| <b>Capital and reserves</b>                                    |       |                 |                 |                |                |
| Called up share capital                                        | 20    | 2,501           | 2,501           | 2,501          | 2,501          |
| Profit and loss account                                        | 21    | 12,177          | 14,707          | (12)           | (8)            |
| Shareholders funds                                             | 22    | 14,678          | 17,208          | 2,489          | 2,493          |
| Minority Interest                                              | 23    | 3,892           | 4,973           | -              | -              |
| <b>Total funds employed</b>                                    |       | <u>18,570</u>   | <u>22,181</u>   | <u>2,489</u>   | <u>2,493</u>   |

The financial statements on pages 7 to 33 were approved by the Board of Directors on 24 June 2005 and were signed on its behalf by:

  
 P.J. Smyth  
 Director

**Consolidated cash flow statement for the year ended 26 March 2005**

|                                                                              | Notes | 2005<br>£'000   | 2004<br>£'000  |
|------------------------------------------------------------------------------|-------|-----------------|----------------|
| <b>Net cash inflow from operating activities</b>                             | 24    | <u>1,409</u>    | <u>18,456</u>  |
| <b>Returns on investments and servicing of finance</b>                       |       |                 |                |
| Interest received                                                            |       | 76              | 89             |
| Interest paid                                                                |       | <u>(3,138)</u>  | <u>(3,080)</u> |
| <b>Net cash outflow from returns on investments and servicing of finance</b> |       | <u>(3,062)</u>  | <u>(2,991)</u> |
| <b>Capital expenditure and financial investment</b>                          |       |                 |                |
| Purchase of tangible fixed assets                                            |       | (10,054)        | (4,704)        |
| Sale of tangible fixed assets                                                |       | <u>1,397</u>    | <u>2,557</u>   |
| <b>Net cash outflow from capital expenditure and financial investment</b>    |       | <u>(8,657)</u>  | <u>(2,147)</u> |
| <b>Net cash inflow before financing</b>                                      |       | <u>(10,310)</u> | <u>13,318</u>  |
| <b>Financing</b>                                                             |       |                 |                |
| Advance under coal supply contract                                           |       | -               | (6,242)        |
| Payments under finance leases                                                |       | (6,737)         | (6,122)        |
| Drawdown of term bank loan                                                   |       | -               | 6,000          |
| Repayment of term bank loan                                                  |       | <u>(5,000)</u>  | <u>(2,500)</u> |
| <b>Net cash outflow from financing</b>                                       |       | <u>(11,737)</u> | <u>(8,864)</u> |
| <b>Increase in cash</b>                                                      | 25    | <u>(22,047)</u> | <u>4,454</u>   |

## Notes to the financial statements for the year ended 26 March 2005

### 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 26 March 2005. 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 26 March 2005  
(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 26 March 2005 (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 26 March 2005 (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:-

|                | 2005<br>£'000  | 2004<br>£'000  |
|----------------|----------------|----------------|
| United Kingdom | <u>118,729</u> | <u>114,053</u> |

### 3. Net operating expenses

|                                   | 2005<br>£'000  | 2004<br>£'000  |
|-----------------------------------|----------------|----------------|
| Administrative expenses           | (6,182)        | (7,535)        |
| Charge for pension deficit        | (1,713)        | (285)          |
| Amortisation of intangible assets | (577)          | (577)          |
| Less: other operating income      | 1,454          | 1,957          |
| Total operating expenses          | <u>(7,018)</u> | <u>(6,440)</u> |

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 4. Employee information

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

|                       | 2005<br>Number | 2004<br>Number |
|-----------------------|----------------|----------------|
| Mining operations     | 782            | 630            |
| Administrative staff  | 57             | 45             |
|                       | <u>839</u>     | <u>675</u>     |
|                       | 2005<br>£'000  | 2004<br>£'000  |
| Staff costs           |                |                |
| Wages and salaries    | 25,576         | 21,739         |
| Social security costs | 2,570          | 2,277          |
| Pensions (note 29)    | 1,143          | 1,051          |
|                       | <u>29,289</u>  | <u>25,067</u>  |

### 5. Directors' emoluments

The directors did not receive any remuneration from the Company or any of its subsidiaries in 2005 and 2004.

### 6. Interest receivable

|                                                                            | 2005<br>£'000 | 2004<br>£'000 |
|----------------------------------------------------------------------------|---------------|---------------|
| Capital reduction on early repayment of advance under coal supply contract | -             | 359           |
| From short-term deposits                                                   | -             | 50            |
| Other interest                                                             | 76            | 39            |
| Increase in discount on provisions (note 19)                               | 70            | -             |
|                                                                            | <u>146</u>    | <u>448</u>    |

**Notes to the financial statements for the year ended 26 March 2005  
(continued)**

**7. Interest payable and similar charges**

|                                                      | 2005<br>£'000 | 2004<br>£'000 |
|------------------------------------------------------|---------------|---------------|
| On unwinding of discount on provisions (see note 19) | 438           | 2,152         |
| On bank loans and overdrafts                         | 2,344         | 1,887         |
| On DTI deferred consideration                        | -             | 265           |
| On hire purchase contracts                           | 787           | 967           |
| Other                                                | 7             | 226           |
|                                                      | <u>3,576</u>  | <u>5,497</u>  |

**8. Profit on ordinary activities before taxation**

|                                                                            | 2005<br>£'000 | 2004<br>£'000 |
|----------------------------------------------------------------------------|---------------|---------------|
| Profit on ordinary activities before taxation is<br>stated after charging: |               |               |
| Depreciation                                                               |               |               |
| Tangible fixed assets under finance leases                                 | 3,889         | 4,271         |
| Tangible owned fixed assets                                                | 6,614         | 7,550         |
| Gain on sale of tangible fixed asset                                       | (178)         | (859)         |
| Amortisation of intangible fixed assets                                    | 577           | 577           |
| Auditors remuneration for:                                                 |               |               |
| Audit Group                                                                | 79            | 66            |
| Audit Company                                                              | 4             | 4             |
| Other services                                                             | 36            | 34            |
| Hire of plant and machinery                                                | 8,301         | 5,943         |
| Operating lease charges – plant and machinery                              | <u>2,739</u>  | <u>2,944</u>  |

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 9. Tax on (loss) /profit on ordinary activities

|                                           | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------------------|---------------|---------------|
| United Kingdom corporation tax at 30%     | -             | -             |
| Adjustment in respect of previous periods | -             | 3             |
| Deferred tax credit                       | 890           | (1,557)       |
| Total tax credit / (charge)               | 890           | (1,554)       |

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:-

|                                                                 | 2005<br>£'000 | 2004<br>£'000 |
|-----------------------------------------------------------------|---------------|---------------|
| Profit on ordinary activities before tax                        | (4,501)       | 5,484         |
| Standard rate of corporation tax at 30% (2004: 30%)             | 1,350         | (1,645)       |
| Adjustments:                                                    |               |               |
| (a) Expenses not deductible for tax purposes                    | (255)         | (232)         |
| (b) Losses for which no relief currently available              | -             | (51)          |
| (c) Accelerated capital allowances and other timing Differences | (1,095)       | 1,928         |
| Tax credit for year                                             | -             | -             |

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 (2004: £4,000).

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 11. Minority interests

|                                                       | 2005<br>£'000  | 2004<br>£'000  |
|-------------------------------------------------------|----------------|----------------|
| (Loss) / profit on ordinary activities after taxation | (3,611)        | 3,930          |
| Add back goodwill amortisation                        | 557            | 557            |
|                                                       | <u>(3,054)</u> | <u>4,487</u>   |
| Minority interest                                     | <u>1,081</u>   | <u>(1,657)</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<br>£'000 | Goodwill<br>£'000 | Total<br>£'000 |
|------------------------------------|-------------------|-------------------|----------------|
| <b>Cost</b>                        |                   |                   |                |
| At 27 March 2004 and 26 March 2005 | 100               | 11,145            | 11,245         |
| <b>Amortisation</b>                |                   |                   |                |
| At 27 March 2004                   | 40                | 2,228             | 2,268          |
| Provided                           | 20                | 557               | 577            |
| At 26 March 2005                   | 60                | 2,785             | 2,845          |
| <b>Net book value</b>              |                   |                   |                |
| At 26 March 2005                   | 40                | 8,360             | 8,400          |
| At 27 March 2004                   | 60                | 8,917             | 8,977          |

The Company has no intangible assets.

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 13. Tangible fixed assets

| Group                    | Land and<br>buildings | Mines and<br>surface works | Plant,<br>machinery<br>and motor<br>vehicles | Deferred<br>opencast<br>expenditure | Total          |
|--------------------------|-----------------------|----------------------------|----------------------------------------------|-------------------------------------|----------------|
|                          | £'000                 | £'000                      | £'000                                        | £'000                               | £'000          |
| <b>Cost</b>              |                       |                            |                                              |                                     |                |
| At 27 March 2004         | 20,764                | 3,413                      | 43,591                                       | 30,346                              | 98,114         |
| Additions                | 179                   | -                          | 8,021                                        | 6,491                               | 14,691         |
| Disposals                | (68)                  | -                          | (1,909)                                      | -                                   | (1,977)        |
| <b>At 26 March 2005</b>  | <b>20,875</b>         | <b>3,413</b>               | <b>49,703</b>                                | <b>36,837</b>                       | <b>110,828</b> |
| <b>Depreciation</b>      |                       |                            |                                              |                                     |                |
| At 27 March 2004         | 1,684                 | 2,428                      | 18,582                                       | 13,407                              | 36,101         |
| Provided during the year | 162                   | 78                         | 6,534                                        | 3,729                               | 10,503         |
| Disposals                | (22)                  | -                          | (736)                                        | -                                   | (758)          |
| <b>At 26 March 2005</b>  | <b>1,824</b>          | <b>2,506</b>               | <b>24,380</b>                                | <b>17,136</b>                       | <b>45,846</b>  |
| <b>Net book value</b>    |                       |                            |                                              |                                     |                |
| <b>At 26 March 2005</b>  | <b>19,051</b>         | <b>907</b>                 | <b>25,323</b>                                | <b>19,701</b>                       | <b>64,982</b>  |
| At 27 March 2004         | 19,080                | 985                        | 25,009                                       | 16,939                              | 62,013         |

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

|                        | 2005<br>£'000 | 2004<br>£'000 |
|------------------------|---------------|---------------|
| Cost                   | 29,197        | 29,887        |
| Aggregate depreciation | (10,873)      | (10,067)      |
|                        | <b>18,324</b> | <b>19,820</b> |

The Company has no tangible fixed assets.

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 14. Fixed assets investments – Group undertakings

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

|                                    |                                          |                            | £'000                                                        |                    |
|------------------------------------|------------------------------------------|----------------------------|--------------------------------------------------------------|--------------------|
| At 26 March 2005 and 27 March 2004 |                                          |                            | 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 26 March 2005 %                                           | At 27 March 2004 % |
| Mining (Scotland) Limited          | Scotland                                 | Ordinary 50p shares        | 64.59                                                        | 64.59              |

The following companies are subsidiaries of Mining (Scotland) Limited and the % of shares held by that company at 26 March 2005 and 27 March 2004.

|                                           |          |                                                 |     |
|-------------------------------------------|----------|-------------------------------------------------|-----|
| The Scottish Coal Company Limited         | Scotland | Ordinary £1 shares                              | 100 |
| Castlebridge Plant Limited                | Scotland | Ordinary £1 shares                              | 100 |
| Game Fisheries Limited                    | Scotland | Ordinary 6 <sup>2</sup> / <sub>3</sub> p shares | 100 |
| Scottish Coal Contracts Limited           | Scotland | Ordinary £1 shares                              | 100 |
| Scottish Biofuel 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 26 March 2005 (continued)

### 14. Fixed assets investments – Group undertakings (continued)

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

Scottish Biofuel Limited operates in Scotland. Its principal business is trading in biomass.

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                  | 2005<br>£'000 | 2004<br>£'000 |
|------------------------|---------------|---------------|
| Coal stocks            | 5,356         | 4,523         |
| Spares and consumables | 2,593         | 1,415         |
| Work in progress       | 33,594        | 23,964        |
|                        | <u>41,543</u> | <u>29,902</u> |

The Company has no stock and work in progress. In addition to the above the group held consignment stock amounting to £528,000 (2004: £74,000) on behalf of suppliers.

# Notes to the financial statements for the year ended 26 March 2005 (continued)

## 16. Debtors

|                                                     | Group         |               | Company  |          |
|-----------------------------------------------------|---------------|---------------|----------|----------|
|                                                     | 2005          | 2004          | 2005     | 2004     |
|                                                     | £'000         | £'000         | £'000    | £'000    |
| <b>Amounts falling due after more than one year</b> |               |               |          |          |
| Restoration and closure asset                       | 19,524        | 11,050        | -        | -        |
| Prepayments and accrued income                      | 150           | -             | -        | -        |
| Deferred tax asset (see note 19)                    | 11,933        | 11,044        | -        | -        |
|                                                     | <b>31,607</b> | <b>22,094</b> | <b>-</b> | <b>-</b> |
| <b>Amounts falling due within one year</b>          |               |               |          |          |
| Restoration and closure asset                       | 3,184         | 1,867         | -        | -        |
| Trade debtors                                       | 7,793         | 11,745        | -        | -        |
| Corporation tax recoverable                         | 9             | 9             | -        | -        |
| Other debtors                                       | 31            | 23            | -        | -        |
| Prepayments and accrued income                      | 2,119         | 2,059         | -        | -        |
|                                                     | <b>13,136</b> | <b>15,703</b> | <b>-</b> | <b>-</b> |

## 17. Creditors: amounts falling due within one year

|                                                | Group         |               | Company  |          |
|------------------------------------------------|---------------|---------------|----------|----------|
|                                                | 2005          | 2004          | 2005     | 2004     |
|                                                | £'000         | £'000         | £'000    | £'000    |
| Bank overdraft                                 | 22,958        | 911           | -        | -        |
| Obligations under finance leases (see note 18) | 5,994         | 6,310         | -        | -        |
| Trade creditors                                | 15,325        | 12,291        | -        | -        |
| Other taxation and social security             | 1,079         | 800           | -        | -        |
| Other creditors                                | 1,005         | 787           | -        | -        |
| H M Customs & Excise                           | 1,872         | 1,351         | -        | -        |
| Term Loan (see note 18)                        | -             | 5,000         | -        | -        |
| Accruals and deferred income                   | 9,635         | 7,171         | -        | -        |
|                                                | <b>57,868</b> | <b>34,621</b> | <b>-</b> | <b>-</b> |

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.

## Notes to the financial statements for the year ended 26 March 2005 (continued)

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

|                                  | 2005<br>£'000 | Group<br>2004<br>£'000 | 2005<br>£'000 | Company<br>2004<br>£'000 |
|----------------------------------|---------------|------------------------|---------------|--------------------------|
| DTI deferred consideration       | 4,593         | 4,593                  | -             | -                        |
| Term loan                        | 22,500        | 22,500                 | -             | -                        |
| Obligations under finance leases | 4,894         | 6,678                  | -             | -                        |
| Other creditors                  | 1,134         | 1,129                  | 1,140         | 1,136                    |
| Retentions                       | -             | 5,842                  | -             | -                        |
|                                  | <b>33,121</b> | <b>40,742</b>          | <b>1,140</b>  | <b>1,136</b>             |

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 £35m, of which £22.5m was outstanding at 26 March 2005. £12.5m is available for drawdown in June 2005. The first two repayments of £2.5m are due in June and December 2006. Thereafter the balance is repayable in 6 half yearly instalments of £5m commencing June 2007. Interest is payable at 2% above LIBOR. The loan is secured by both prior ranking fixed charges and floating charges.

|                                 | 2005<br>£'000 | 2004<br>£'000 |
|---------------------------------|---------------|---------------|
| In the first year (see note 17) | -             | 5,000         |
| In the second to fifth years    | 22,500        | 22,500        |
|                                 | <b>22,500</b> | <b>27,500</b> |

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

|                                 | 2005<br>£'000 | 2004<br>£'000 |
|---------------------------------|---------------|---------------|
| In the first year (see note 17) | 5,994         | 6,310         |
| In the second to fifth years    | 4,894         | 6,678         |
|                                 | <b>10,888</b> | <b>12,988</b> |

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 19. Provisions for liabilities and charges

| Group                                    | As at<br>27 March<br>2004 | Released<br>in year | Created<br>in year | Utilised<br>in year | Unwinding<br>of discount | Increase in<br>Discount | As at<br>26<br>March<br>2005 |
|------------------------------------------|---------------------------|---------------------|--------------------|---------------------|--------------------------|-------------------------|------------------------------|
|                                          | £'000                     | £'000               | £'000              | £'000               | £'000                    | £'000                   | £'000                        |
| Restoration, closure and<br>claims costs | 40,746                    | (5,735)             | 17,230             | (2,899)             | 438                      | -                       | 49,780                       |
| Provision for surface damage             | 400                       | -                   | -                  | -                   | -                        | (70)                    | 330                          |
| <b>TOTAL</b>                             | <b>41,146</b>             | <b>(5,735)</b>      | <b>17,230</b>      | <b>(2,899)</b>      | <b>438</b>               | <b>(70)</b>             | <b>50,110</b>                |

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:

#### 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.

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 19. Provisions for liabilities and charges (continued)

#### Deferred taxation

##### Group

Deferred taxation assets recognised in the accounts comprises:-

|                               | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------|---------------|---------------|
| Capital allowances            | 9,797         | 8,905         |
| On provisions and other items | 2,136         | 2,139         |
| Total asset                   | <u>11,933</u> | <u>11,044</u> |

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

|                               | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------|---------------|---------------|
| On provisions and other items | 7,839         | 7,735         |
| Total asset                   | <u>7,839</u>  | <u>7,735</u>  |

##### Company

No deferred taxation has been provided in the company accounts (2004: nil).

There are no unprovided amounts of deferred taxation for timing differences in the company accounts (2004: nil).

### 20. Share capital

| Group and Company                                          | 2005<br>£'000 | 2004<br>£'000 |
|------------------------------------------------------------|---------------|---------------|
| <b>Authorised non-equity share capital</b>                 |               |               |
| 2,501,000 (2004: 2,501,000) "A" Ordinary shares of £1 each | 2,501         | 2,501         |
| 101,728 (2004: 101,728) "B" Ordinary shares of 1p each     | 1             | 1             |
|                                                            | <u>2,502</u>  | <u>2,502</u>  |
| <b>Issued, called up and fully paid</b>                    |               |               |
| 2,500,002 (2004: 2,500,002) "A" Ordinary shares of £1 each | 2,500         | 2,500         |
| 101,728 (2004: 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.

**Notes to the financial statements for the year ended 26 March 2005  
(continued)**

**21. Reserves**

|                                           | Profit and loss<br>account<br>£'000 |
|-------------------------------------------|-------------------------------------|
| <b>Group</b>                              |                                     |
| At 27 March 2004                          | 14,707                              |
| Loss for the year after minority interest | <u>(2,530)</u>                      |
| <b>At 26 March 2005</b>                   | <u><b>12,177</b></u>                |
| <b>Company</b>                            |                                     |
| At 27 March 2004                          | (8)                                 |
| Loss for the period                       | <u>(4)</u>                          |
| <b>At 26 March 2005</b>                   | <u><b>(12)</b></u>                  |

**22. Reconciliation of movements in shareholders' funds**

|                                    | 2005<br>£'000        | 2004<br>£'000        |
|------------------------------------|----------------------|----------------------|
| <b>Group</b>                       |                      |                      |
| (Loss) / profit for period         | (2,530)              | 2,273                |
| Opening shareholders' funds        | 17,208               | 14,935               |
| <b>Closing shareholders' funds</b> | <u><b>14,678</b></u> | <u><b>17,208</b></u> |

|                                         | 2005<br>£'000       | 2004<br>£'000       |
|-----------------------------------------|---------------------|---------------------|
| <b>Company</b>                          |                     |                     |
| Loss for period after minority interest | (4)                 | (4)                 |
| Opening shareholders' funds             | 2,493               | 2,497               |
| <b>Closing shareholders' funds</b>      | <u><b>2,489</b></u> | <u><b>2,493</b></u> |

**23. Minority interest**

|                                                                            | 2005<br>£'000       | 2004<br>£'000       |
|----------------------------------------------------------------------------|---------------------|---------------------|
| (Loss) / profit for year apportioned to minority interest<br>(see note 11) | (1,081)             | 1,657               |
| Opening Minority interest                                                  | 4,973               | 3,316               |
| <b>Closing Minority interest</b>                                           | <u><b>3,892</b></u> | <u><b>4,973</b></u> |

## Notes to the financial statements for the year ended 26 March 2005 (continued)

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

|                                           | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------------------|---------------|---------------|
| Operating (loss) / profit                 | (1,071)       | 10,533        |
| Depreciation of tangible fixed assets     | 10,503        | 11,821        |
| Gain on sale of fixed asset               | (178)         | (859)         |
| Amortisation of intangible assets         | 577           | 577           |
| Increase in stocks                        | (11,641)      | (4,638)       |
| Decrease in debtors                       | (6,056)       | 5,523         |
| Increase in creditors                     | 680           | 1,491         |
| Decrease in provisions                    | 8,595         | (5,992)       |
| Net cash inflow from operating activities | <u>1,409</u>  | <u>18,456</u> |

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

|                                             | 2005<br>£'000   | 2004<br>£'000   |
|---------------------------------------------|-----------------|-----------------|
| (Decrease) / increase in cash in the period | (22,047)        | 4,454           |
| Cash outflow from reduction in debt         | 7,100           | 3,664           |
| Change in net debt resulting from cash flow | <u>(14,947)</u> | <u>8,118</u>    |
| Other non-cash items                        |                 |                 |
| Interest on DTI deferred consideration      | -               | (265)           |
| Movement in net debt in the period          | <u>(14,947)</u> | <u>7,853</u>    |
| Net debt at 27 March 2004                   | <u>(47,444)</u> | <u>(55,297)</u> |
| Net debt at 26 March 2005                   | <u>(62,391)</u> | <u>(47,444)</u> |

### 26. Analysis of net debt

|                            | At 27 March 2004<br>£'000 | Cash Flow<br>£'000 | At 26 March<br>2005<br>£'000 |
|----------------------------|---------------------------|--------------------|------------------------------|
| Cash at bank               | 1                         | -                  | 1                            |
| Bank overdraft             | (911)                     | (22,047)           | (22,958)                     |
| Bank loan                  | (27,500)                  | 5,000              | (22,500)                     |
| DTI deferred consideration |                           |                    |                              |
| - principal                | (4,593)                   | -                  | (4,593)                      |
| - accrued interest         | (1,453)                   | -                  | (1,453)                      |
|                            | (6,046)                   | -                  | (6,046)                      |
| Hire purchase agreements   | (12,988)                  | 2,100              | (10,888)                     |
| Total                      | <u>(47,444)</u>           | <u>(14,947)</u>    | <u>(62,391)</u>              |

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 27. Contingent liabilities

|                                            | 2005<br>£'000 | 2004<br>£'000 |
|--------------------------------------------|---------------|---------------|
| Indemnities for performance bonds          | 13,958        | 12,343        |
| Guarantees in favour of The Coal Authority | 1,937         | 1,742         |
| Other guarantees                           | 1,741         | 1,516         |
|                                            | <u>17,636</u> | <u>15,601</u> |

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

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

### 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:

|                              | 2005<br>£'000 | 2004<br>£'000 |
|------------------------------|---------------|---------------|
| Plant and machinery          |               |               |
| Expiring within 1 year       | 1,071         | 1,230         |
| Expiring within 1 - 2 years  | 1,028         | 1,071         |
| Expiring during 2 to 5 years | 673           | 1,305         |
|                              | <u>2,772</u>  | <u>3,606</u>  |

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 29 Pension schemes

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

|                              | 2005<br>£'000 | 2004<br>£'000 |
|------------------------------|---------------|---------------|
| Defined benefit schemes      | 229           | 247           |
| Defined contribution schemes | 914           | 804           |
|                              | <u>1,143</u>  | <u>1,051</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.

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 31 December 2003 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 3.87% and 3.87% respectively. Pensions are expected to increase in line with price inflation.

The aggregate market value of the assets of The Scottish Coal Company Limited sub-fund at the valuation date was £12.3 million for the IWMPS and £10.5 million for the IWCSSS. The aggregate funding level on an ongoing basis was 67% and 81% respectively.

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 29. Pension schemes (continued)

The Actuary's draft report on the valuation as at 31 December 2003 estimates that the employer rates of both schemes will increase to meet the valuation on an ongoing basis. The estimated new rates are 15.45% for the IWMPS and 17.25% 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 60% and 60% respectively.

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. The Directors of The Scottish Coal Company Limited and the Mining (Scotland) Group are currently investigating whether either company or the Group are responsible for the liability associated with these sub-funds. While these investigations are ongoing Mining (Scotland) Limited has provided for the deficit of payments of the amounts charged in the financial statement under SSAP 24. At this time the Directors of The Scottish Coal Company Limited are of the opinion that no additional liability is likely to fall to be met by the Company.

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

| Assumptions                               | 2005           |        | 2004           |        | 2003           |        | 2002           |        |
|-------------------------------------------|----------------|--------|----------------|--------|----------------|--------|----------------|--------|
|                                           | IWMPS          | IWCSSS | IWMPS          | IWCSSS | IWMPS          | IWCSSS | IWMPS          | IWCSSS |
| Valuation method                          | Projected Unit |        | Projected Unit |        | Projected Unit |        | Projected Unit |        |
| Rate of increase in salaries              | 3.0%           | 3.0%   | 2.75%          | 2.75%  | 2.5%           | 2.5%   | 3.5%           | 3.5%   |
| Rate of increase in pensions in payment   | 3.0%           | 3.0%   | 2.25%          | 2.5%   | 2.0%           | 2.25%  | 2.25%          | 2.5%   |
| Rate of increase in pensions in deferment | 3.0%           | 3.0%   | 2.75%          | 2.75%  | 2.5%           | 2.5%   | 2.75%          | 2.75%  |
| Discount rate                             | 5.5%           | 5.5%   | 5.5%           | 5.5%   | 5.5%           | 5.5%   | 6.25%          | 6.25%  |
| Inflation assumption                      | 3.0%           | 3.0%   | 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.

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 29. Pension schemes (continued)

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

|                                     | 2005   |        | 2004   |        | 2003  |        | 2002   |        |
|-------------------------------------|--------|--------|--------|--------|-------|--------|--------|--------|
|                                     | IWMPS  | IWCSSS | IWMPS  | IWCSSS | IWMPS | IWCSSS | IWMPS  | IWCSSS |
| Long term expected rate of return : |        |        |        |        |       |        |        |        |
| Equities                            | 7%     | 7%     | 7%     | 7%     | 7%    | 7%     | 7%     | 7%     |
| Bonds                               | 5.5%   | 5.5%   | 5.5%   | 5.5%   | -     | -      | -      | -      |
| Value of assets £000's              |        |        |        |        |       |        |        |        |
| Equity                              | 6,948  | 5,964  | 9,063  | 7,806  | 9,767 | 8,347  | 13,801 | 11,358 |
| Bonds                               | 6,632  | 5,633  | 3,132  | 2,664  | -     | -      | -      | -      |
| Total market value of assets        | 13,580 | 11,597 | 12,195 | 10,470 | 9,767 | 8,347  | 13,801 | 11,358 |

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

|                                                            | 2005    |          | 2004    |          | 2003    |          | 2002    |         |
|------------------------------------------------------------|---------|----------|---------|----------|---------|----------|---------|---------|
|                                                            | IWMPS   | IWCSSS   | IWMPS   | IWCSSS   | IWMPS   | IWCSSS   | IWMPS   | IWCSSS  |
|                                                            | £000    | £000     | £000    | £000     | £000    | £000     | £000    | £000    |
| <b>Balance sheet</b>                                       |         |          |         |          |         |          |         |         |
| Total market value of assets                               | 13,580  | 11,597   | 12,195  | 10,470   | 9,767   | 8,347    | 13,801  | 11,358  |
| Present value of scheme liabilities                        | 19,556  | 22,887   | 18,062  | 17,930   | 16,555  | 16,231   | 14,739  | 14,053  |
| Deficit                                                    | (5,976) | (11,290) | (5,867) | (7,460)  | (6,788) | (7,884)  | (938)   | (2,695) |
| Related deferred tax asset                                 | 1,793   | 3,387    | 1,760   | 2,238    | 2,036   | 2,365    | 281     | 808     |
| Net pension liability                                      | (4,183) | (7,903)  | (4,107) | (5,222)  | (4,752) | (5,519)  | (657)   | (1,887) |
|                                                            |         |          |         |          |         |          |         |         |
|                                                            |         |          |         | 2005     | 2004    | 2003     | 2002    |         |
|                                                            |         |          |         | £000     | £000    | £000     | £000    |         |
| <b>Net assets</b>                                          |         |          |         |          |         |          |         |         |
| Net assets per balance sheet                               |         |          |         | 18,570   | 22,181  | 18,251   | 7,914   |         |
| Less SSAP 24 pension asset                                 |         |          |         | (211)    | (885)   | (76)     | -       |         |
| Net assets excluding SSAP 24 pension asset                 |         |          |         | 18,359   | 21,296  | 18,175   | 7,914   |         |
| Less FRS 17 pension liability                              |         |          |         | (12,086) | (9,329) | (10,271) | (2,544) |         |
| Net assets including FRS 17 pension liability              |         |          |         | 6,273    | 11,967  | 7,904    | 5,370   |         |
|                                                            |         |          |         |          |         |          |         |         |
| <b>Reserves</b>                                            |         |          |         |          |         |          |         |         |
| Profit and loss reserve per balance sheet                  |         |          |         | 12,177   | 14,707  | 12,434   | 6,067   |         |
| Less SSAP 24 pension asset                                 |         |          |         | (211)    | (885)   | (76)     | -       |         |
| Profit and loss reserve excluding SSAP 24 pension asset    |         |          |         | 11,966   | 13,822  | 12,358   | 6,067   |         |
| Less FRS 17 pension liability                              |         |          |         | (12,086) | (9,329) | (10,271) | (2,544) |         |
| Profit and loss reserve including FRS 17 pension liability |         |          |         | (120)    | 4,493   | 2,087    | 3,523   |         |

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 29. Pension schemes (continued)

|                                                                                                                             | 2005          |                | 2004          |                |
|-----------------------------------------------------------------------------------------------------------------------------|---------------|----------------|---------------|----------------|
|                                                                                                                             | IWMPS<br>£000 | IWCSSS<br>£000 | IWMPS<br>£000 | IWCSSS<br>£000 |
| <u>Analysis of amount charged to operating profit</u>                                                                       |               |                |               |                |
| Current service cost (net of employee contributions)                                                                        | 26            | 236            | 57            | 258            |
| Past service cost                                                                                                           | -             | -              | -             | -              |
| Total operating charge                                                                                                      | 26            | 236            | 57            | 258            |
| <u>Analysis of the amount credited to other finance income</u>                                                              |               |                |               |                |
| Expected return on pension scheme assets                                                                                    | 811           | 695            | 691           | 590            |
| Interest on pension scheme liabilities                                                                                      | (976)         | (981)          | (894)         | (890)          |
| Net loss                                                                                                                    | (165)         | (286)          | (203)         | (300)          |
| <u>Analysis of amount recognised in STRGL</u>                                                                               |               |                |               |                |
| Actual return less expected return on pension scheme assets                                                                 | 425           | 363            | 1,524         | 1,357          |
| Experience gains / (losses) arising on the scheme liabilities                                                               | 91            | (426)          | (81)          | (21)           |
| Changes in assumptions underlying the present value of liabilities                                                          | (1,232)       | (3,720)        | (1,144)       | (871)          |
| Actuarial (loss) / gain in pension scheme                                                                                   | (716)         | (3,783)        | 299           | 465            |
| Surplus set aside for members                                                                                               | -             | -              | -             | -              |
| Actuarial (loss) / gain recognised in STRGL                                                                                 | (716)         | (3,783)        | 299           | 465            |
| <u>Movement in deficit during the year</u>                                                                                  |               |                |               |                |
| Deficit at beginning of year                                                                                                | (5,867)       | (7,460)        | (6,788)       | (7,884)        |
| Current service cost (including employee contributions)                                                                     | (35)          | (322)          | (75)          | (343)          |
| Contributions                                                                                                               | 807           | 561            | 900           | 602            |
| Past service costs                                                                                                          | -             | -              | -             | -              |
| Other finance income                                                                                                        | (165)         | (286)          | (203)         | (300)          |
| Actuarial (loss) / gain                                                                                                     | (716)         | (3,783)        | 299           | 465            |
| Deficit at end of year                                                                                                      | (5,976)       | (11,290)       | (5,867)       | (7,460)        |
| <u>Actual gain less expected return on pension scheme assets as percentage of scheme assets</u>                             |               |                |               |                |
|                                                                                                                             | 3.1%          | 3.1%           | 12.5%         | 13.0%          |
| <u>Experience gains / (losses) arising on the scheme liabilities as a percentage of present value of scheme liabilities</u> |               |                |               |                |
|                                                                                                                             | 0.5%          | (1.9%)         | (0.4%)        | (0.1%)         |
| <u>Actuarial (loss) / gain recognised in STRGL as a percentage of present value of scheme liabilities</u>                   |               |                |               |                |
|                                                                                                                             | (3.7%)        | (16.5%)        | 1.7%          | 2.6%           |

**Notes to the financial statements for the year ended 26 March 2005  
(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.

**31. Post balance sheet event**

The Company completed the sale of Glenmuckloch and Grievehill to ATH Resources Plc on 10th June 2005 for the sum of £18m. The transaction will result in a book profit of circa £14.6m which will be fully covered by brought forward capital tax losses such that no tax liability will arise.

**32. 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 £380,466 (2004: £396,694), in the financial year and at the balance sheet date, the total outstanding liability was £34,663 (2004: £51,513).

Colin Cornes provided an interest free loan to the Company amounting to £1,132,000 as at 26<sup>th</sup> March 2005 (2004 £1,132,000).

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.

## Notes to the financial statements for the year ended 26 March 2005 (continued)

### 33. Ultimate controlling party

Parkburn Limited is controlled by Colin Cornes.

### 34. 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 26 March<br>2005                          | 27 March<br>2004                             |
|---------------|----------------------------------------------|----------------------------------------------|
|               | "A" Ordinary<br>shares of £1<br>each         | "A" Ordinary<br>shares of £1<br>each         |
| Colin Cornes  | 2,500,001 <sup>(1)</sup><br>1 <sup>(2)</sup> | 2,500,001 <sup>(1)</sup><br>1 <sup>(2)</sup> |
|               |                                              |                                              |
|               | At 26 March<br>2005                          | 27 March<br>2004                             |
|               | "B" Ordinary<br>shares of 1p<br>each         | "B" Ordinary<br>shares of 1p<br>each         |
| Patrick Smyth | 101,728 <sup>(3)</sup>                       | 101,728 <sup>(3)</sup>                       |

(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.