UK COAL PLC Annual Report and Accounts 2003

UK COAL PLC
Annual Report and Accounts 2003

Contents

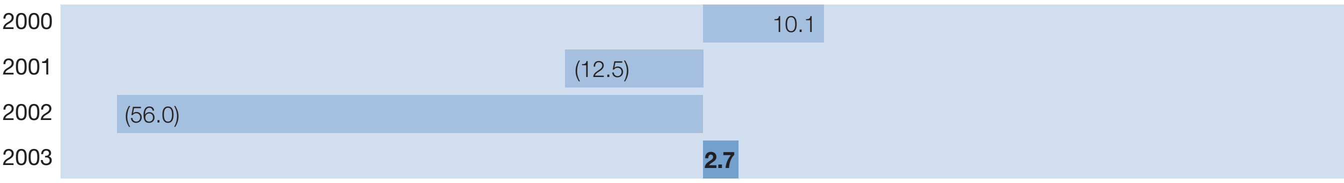
Company Profile

UK COAL is Britain's biggest producer of coal with substantial land and property interests. Employing 6,000 people, the Group has 20 deep and surface mine sites in the UK which, in 2003, produced nearly 18 million tonnes of coal. With almost 2,000 individual property units and over 50,000 acres under management, UK COAL's property interests were valued in 2002 at £174 million.

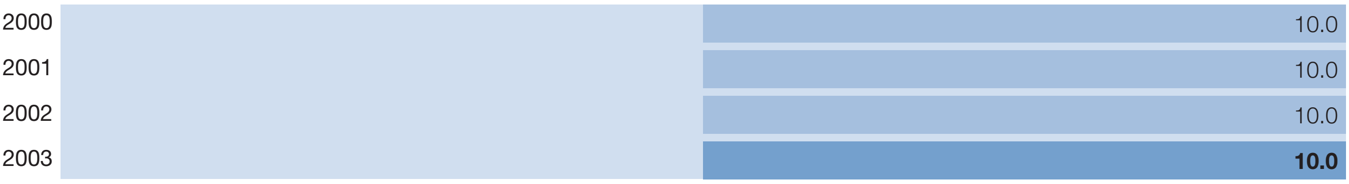
The Board's policy remains to match production to sales, maintain investment at ongoing operations, optimise income from the property portfolio and to maximise the return of cash to shareholders.

Financial and Operating Highlights

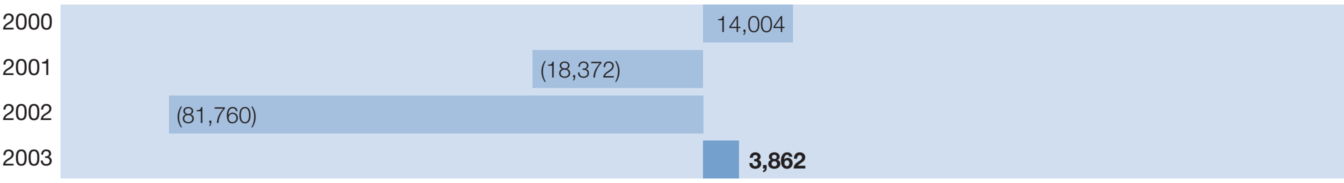
Earnings/(Loss) per Share (pence)



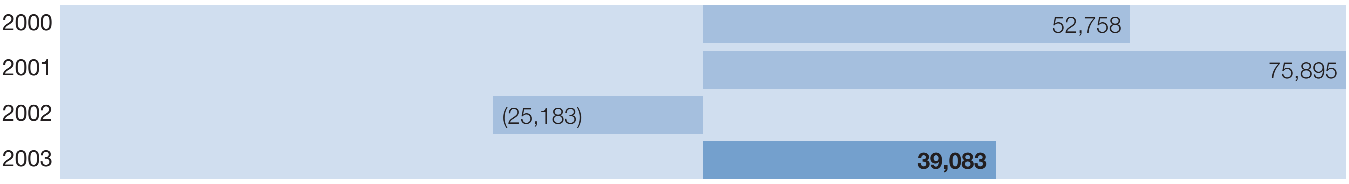
Dividend per Share (pence)



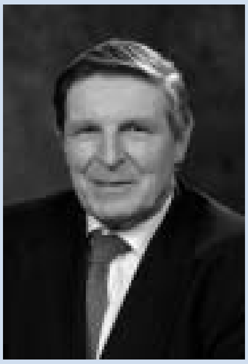
Profit/(Loss) after taxation and operating exceptionals (£'000)



Cash Inflow/(Outflow) before use of liquid resources, financing and dividends (£'000)



Chairman's Statement



The year saw continued steady progress with further gains from efficiency and cost reduction measures. Lower international coal prices at the time of sales contract negotiations and a disappointing performance from the Selby Complex (where production will end in the summer of 2004) offset the gains achieved.

David Jones
Chairman

Results

Turnover for the year was £563.9 million (2002: £596.6 million). The profit on ordinary activities after tax was £3.9 million (2002: loss £81.8 million), including a net operating exceptional gain of £4.4 million (2002: net exceptional loss £88.4 million).

UK COAL has carried out its annual review of cost provisions for shaft treatment, the remediation of operational land, the restoration of spoil heaps and pumping. The net value of provisions created and released, excluding exceptional redundancy and concessionary fuel items, resulted in a net provision charge of £7.5 million, which has increased the cost of sales in the year (2002: net release of £21.1 million which reduced cost of sales). Coal Investment Aid income of £3.5 million was recognised in the period (2002: nil).

Net cash inflow from operations at £46.0 million (2002: £8.9 million) benefited from a reduction in coal stocks equating to £19.3 million, (2002: coal stock increase £20.3 million). Cash flow has also benefited from the receipt of £8.4 million in respect of the sale of UK COAL's claim against TXU in Administration.

The cash inflow before use of liquid resources, financing and dividends of £39.1 million (2002: net outflow of £25.2 million) reflects proceeds from property sales which increased to £9.7 million (2002: £2.2 million) and reduced capital expenditure of £19.1 million (2002: £40.5 million). Capital expenditure which includes significant investment on new coal face equipment at Daw Mill and Kellingley Collieries will increase in 2004 to circa £50 million.

Dividend

Taking into account the net cash inflow in the period, the improved performance of Daw Mill Colliery, and the future needs of the business during the Selby Complex closure, the Board has decided to recommend to shareholders maintenance of the final dividend at 5.0 pence per share, bringing the total dividend for the year to 10.0 pence per share (2002: 10.0 pence per share). Subject to approval at the AGM on 27 April 2004, the dividend will be paid on 18 June 2004 to shareholders on the register on 21 May 2004.

Environmental Legislation

The implementation of two significant pieces of environmental legislation impacting potential coal use continues to be the subject of extensive discussion.

Government decisions are expected by May 2004 on which route is to be pursued to implement the Large Combustion Plant Directive (LCPD) by 2008.

The Government is undertaking further analysis before deciding whether to opt for a National Emission Reduction Plan (NERP), which we have warned will substantially reduce the market available for the UK coal industry, or prescribed Emission Limit Values (ELV) to reduce sulphur emissions. We, together with other coal producers, have campaigned for the introduction of ELVs that will encourage generators to equip their stations with flue-gas desulphurisation plant, produce a better environmental outcome and preserve the potential market for UK mined coal in power stations.

The Government has also issued the draft National Allocation Plan indicating how they intend to implement the EU Emissions Trading Scheme from January 2005. This scheme will involve the trading, across Europe, of CO_2 emission allowances. The draft allocations for coal burning power stations in the UK would allow average annual consumption of around 38 million tonnes of coal from 2005 to 2007, before any trading of allowances is taken into account.

Directors

Having succeeded John Robinson as Chairman following the AGM in April, I wish to thank him for the contribution he made since joining the Company in 1997. Thanks also go to Brian Staples, who resigned with effect from 31 December 2003, and to Robert Shrager, who has informed the Board that he will not be seeking re-election at the AGM, having been a non-Executive Director with the Company for the past 10 years. I am pleased to welcome new members to the Board – non-Executive Directors Peter Hazell and James Murray who bring significant experience in the property sector and will assist in further developing the property strategy – and, with effect from 1 March 2004, Christopher Mawe, who has joined the Company as Finance Director. Melvin Garness, Commercial Director and Company Secretary gave the Board notice in October 2003 of his intention to retire from the Board in October 2004.

Outlook

The sharp rise in world coal prices in September 2003, offset to some degree by the reduced value of the US$, has been maintained. However, with forward contracted sales of 90% of production in 2004 and 50% of planned output in 2005 there will be limited benefit from the current high international prices over the next two years.

Costs for 2004 will be affected by increases in line with inflation and the effect of geological problems at Rossington and Welbeck, resulting in revised mining plans, which are expected to add around 3% to unit costs.

The Company continues to focus on its extensive property portfolio, with proceeds from sales and rental income both showing increases.

We have had a slow start to production in 2004, but expect to recover this later in the year. The continued efforts to reduce unit costs with our Project 105 initiatives and the closure of the loss-making Selby complex of mines, augur well for the future. In addition the year ahead should see further progress in adding value to the Company's property assets.

David Jones
Chairman

Operating and Financial Review

Coal sales in the UK for the year at 18.9 million tonnes were at similar levels to 2002, but average income of £1.12p per gigajoule was 7p per gigajoule lower than achieved in the previous year as a consequence of the low international prices at the time of contract negotiations.

Gordon McPhie
Chief Executive

Coal burn for power generation yet again exceeded industry and governmental forecasts with 34% of the UK's electricity produced from coal (2002: 32%). UK power stations consumed some 53.2 million tonnes of coal during 2003 (2002: 47.7 million tonnes).

During the year, the price of internationally traded coal almost doubled in US$ terms, ending 2003 on a record high. However, with most of our sales tied to contracts negotiated or agreed earlier, the Company was unable to capitalise on the increase in international prices.

Mining

Coal output for the Group was 17.9 million tonnes (2002: 19.5 million tonnes) in the UK and 1.7 million tonnes (2002: 2.4 million tonnes) in Australia.

The reduction in deep mine production, down to 14.8 million tonnes (2002: 15.2 million tonnes), was largely due to the ongoing poor performance of the Selby Complex, where output of 3.6 million tonnes was a million tonnes less than in the previous year, reflecting ongoing geological and engineering difficulties. The Selby mines will cease production by the summer of 2004.

Daw Mill continued to make good progress, producing an annual output of 2.2 million tonnes. During the last quarter of the year, the colliery achieved an average weekly output of 60,000 tonnes.

Flexible working arrangements have been introduced at Maltby Colliery where, in December, a new British and European record for driving underground roadways was established.

Surface mine production of 3.1 million tonnes (2002: 4.3 million tonnes) reflected the completion of coaling at long-standing sites and increasing difficulty in securing new planning consents for replacement capacity. Planning applications submitted in the year but still awaiting decision by the Mineral Planning Authorities totalled some 2.7 million tonnes.

Geological problems at Ellington, Rossington and Welbeck, together with poor performance at Selby and increased surface mine costs resulted in total operating costs for the mining operations in 2003 only being reduced to £1.16p per gigajoule (2002: £1.18p per gigajoule). Operating costs of circa £1.09p per gigajoule were achieved at the eight ongoing deep mines in the last quarter of 2003.

Coal Investment Aid

Applications for Coal Investment Aid, relating to the accessing of coal reserves at the eight ongoing deep mines, were submitted to the Department of Trade and Industry in line with the scheme outlined in the Energy Review White Paper.

The Company was offered some £36.5 million in aid for schemes at all eight ongoing collieries in respect of investment for the period June 2003 to December 2004. The Company has now accepted offers of aid worth £35.4 million.

Production

	2003 (mt)	2002 (mt)
Deep Mines		
Ongoing Mines		
Daw Mill	**2.2**	0.8
Ellington	**0.6**	0.7
Harworth	**1.2**	1.2
Kellingley	**1.6**	1.6
Maltby	**1.4**	1.4
Rossington	**0.9**	0.7
Thoresby	**1.5**	1.5
Welbeck	**1.6**	1.7
Sub total:	**11.0**	9.6
Closed or Closing Mines		
Clipstone*	**0.2**	0.3
Prince of Wales**	**–**	0.7
Riccall ++	**0.9**	1.3
Stillingfleet ++	**1.6**	1.9
Wistow +	**1.1**	1.4
Sub total:	**3.8**	5.6
Deep Mines total:	**14.8**	15.2
Surface Mines Total	**3.1**	4.3
Total UK Production	**17.9**	19.5
Gloucester Coal (Australia)	**1.7**	2.4
Total Production	**19.6**	21.9

* Ceased production 17 April 2003 ** Ceased production 30 August 2002 + Ceasing production March 2004 (Selby Mines) ++ Ceasing production July 2004 (Selby Mines)

Health and Safety

The improvement in safety continued with a reduction in major injury accidents from 55 to 48 in the year. Disappointingly, the major injury rate per 100,000 shifts worked increased slightly to 3.35 compared with 3.25 in 2002. The overall injury rate improved from 35.07 (per 100,000 man shifts) in 2002 to 34.73 in 2003. All sites have seen an improvement in days lost from work due to accidents.

Property

Proceeds from property sales were £9.7 million (2002: £2.2 million), generating a profit of 5.8 million (2002: 2.0 million). The major area of activity has been the Tetron Point development at Swadlincote in South Derbyshire where further sales are anticipated in 2004.

Rental income in the year was £3.8 million (2002: £3.4 million) generating an operating profit of £1.1 million (2002: £0.9 million).

A valuation of the land and property assets was conducted by Fuller Peiser in 2002 when it concluded that the overall market value of the Group's property interests before rehabilitation, aftercare costs and clawback had increased to £174.0 million (£95.6 million in excess of book value). Whilst there has been no overall updated valuation since then, the Asfordby Business Park, which is classified as an investment property, has been revalued by Fuller Peiser. As at December 2003, this property was valued at £6.7 million (2002: £6.5 million), the increase in value being credited to revaluation reserve.

The strategy of creating added value by seeking planning permissions to develop former surface mines and collieries, converting brownfield sites to clean compacted areas suitable for development, and actively managing the property portfolio and agricultural holdings, has been maintained.

Australia

Gloucester Coal, the Group's mining activity in New South Wales, achieved sales of 1.9 million tonnes in the year, compared with 2.4 million tonnes in 2002 when coal extraction from the Stratford Mine deposit was completed.

Production began at the extension to the Bowens Road site and in March 2003 production also started at the new Duralie site which, together with Bowens Road, will produce an annual combined tonnage of some 2.0 million tonnes of coking and thermal coals.

The movement in the year of the A$/US$ exchange rate from 56 cents to the 75 cents at the year end caused a significant shortfall in revenues on the Japanese US$ denominated coking coal contracts which were agreed when the exchange rate was at its lower level. These contracts will be renewed in April 2004 for 12 months; agreements have been reached with significant price increases, and currency rates have been fixed for circa 65% of the income.

Gloucester Coal incurred a loss in the year of £4.2 million (2002: loss £0.7 million). The increased revenue from sales post April 2004 will ensure the company returns to profitability during the year.

Discussions are ongoing with parties who have expressed interest in making offers for Gloucester Coal.

Balance Sheet

Capital employed in fixed assets (excluding surface mine development and restoration costs) was reduced, with fixed asset additions of £23.0 million (2002: £35.9 million) compared to a depreciation charge for the year of £52.6 million (2002: £59.3 million).

Whilst Group output fell the buoyant market conditions enabled coal sales to remain the same as the previous year at 18.9 million tonnes with a reduction in stock levels.

The year-end bank balance was similar to last year at £60.4 million (2002: £60.9 million). The bank balance includes funds deposited to cover insurance requirements of £32.9 million (2002: £37.4 million) and funds deposited with the Coal Authority as security for subsidence obligations of £24.0 million (2002: £23.2 million).

Bank borrowings reduced by the end of the year to £7.2 million (2002: £28.4 million)

Hire purchase and finance lease liabilities were £23.9 million (2002: £25.5 million) in respect of surface and underground equipment. Asset financing has been secured from Lloyds UDT Leasing for a facility of up to £19.5 million and from Barclays Asset Finance of up to £8 million respectively for plant and equipment for new coal faces at Daw Mill and Kellingley collieries.

The Group's banking facility agreement of 24 September 2002 provided facilities of £63.3 million for a period of 2 years; £25.0 million of this was for letters of credit to the Coal Authority as security for shaft treatment and subsidence liability, and £38.3 million as a revolving credit facility. During the year the Coal Authority agreed to reduce the value of the letters of credit to £16.0 million in respect of subsidence and shaft treatment, principally as a result of reduced mining activity. Since the year end the Coal Authority has released these remaining letters of credit in exchange for accepting a charge on certain properties owned by UK COAL, with the agreement of the Company's main lenders. As a result, the Company no longer has a requirement for this facility and the banking group has cancelled the letter of credit facility and has increased the revolving credit facility from £38.3 million to £50.0 million.

The net pension deficit under FRS 17 "Retirement Benefits" transitional arrangements is £102.7 million (2002: £108.1 million). Whilst there has been an improvement in equity markets during 2003, salary increases, particularly for the staff members of the National Association of Colliery Overmen, Deputies and Shotfirers (NACODS) and the British Association of Colliery Management (BACM) have increased the liability which has offset the gains in the equity markets. We anticipate future salary increases will be more in line with inflation increases.

The actuarial valuation at 31 December 2003 reviewing funding levels for the two main pension schemes is underway but will not be completed until later in the year and new funding levels will come into effect in 2005.

The shareholders agreed at the Annual General Meeting on 29th April 2003 to approve a cancellation of the Share Premium Account. The cancellation was subsequently approved by the High Court and the balance on the Share Premium Account of £291.0 million as at 11 December 2003 has been transferred in its entirety to the profit and loss account. The funds have been used to eliminate goodwill arising on consolidation and has created additional distributable reserves.

Gordon McPhie
Chief Executive

An electric shearer being put through its paces in the Silkstone seam at Kellingley Colliery. A sister machine has been ordered for delivery in 2004.

Mining

Production

Overall UK production of 17.9 million tonnes (2002: 19.5 million tonnes) was achieved. This was affected by a disappointing performance at the Selby Complex in the run up to closure and geological problems at Ellington, Welbeck and Rossington collieries. Daw Mill performed well improving production by 1.4 million tonnes.

Steady progress has been made on improving efficiency at the eight ongoing mines, where unit operating costs of circa £1.09 a gigajoule were achieved in the last quarter.

Unit costs for 2004 will be influenced by increases in line with inflation and the effect of the revised mining plans at Rossington and Welbeck, expected to add around 3% to unit costs.

A seismic survey system has been introduced to provide better information on colliery reserves to enable distressed areas to be avoided, thus reducing risk and increasing the reserve base.

Deep Mines:

Deep mine production of 14.8 million tonnes (2002: 15.2 million tonnes) included an improved performance at the company's eight ongoing collieries, where output of 11.0 million tonnes was achieved compared to 9.6 million tonnes the previous year.

Daw Mill performed well producing 2.2 million tonnes. Output was limited in the first half when the colliery suffered from poor geological conditions but recovered, producing 60,000 tonnes a week over the last quarter. With the order now placed for an additional set of coal face equipment which will reduce down-time between one face exhausting and its replacement starting, Daw Mill is better placed to achieve consistently good performances.

At Maltby, where more flexible working practices have been introduced a better overall performance has been achieved. A British and European record for roadway development was established in the run-up to Christmas. In the space of seven days, men accessing a new panel of coal drove 312.5 metres of new roadways in an injury-free seven days, a feat never achieved before.

Thoresby, Harworth, Maltby and Kellingley collieries maintained output levels, with production at Rossington 15 per cent higher than the previous year. Thoresby switched the focus of its operations during the year from the now exhausted North West reserves in the Parkgate seam to the reserves formerly assigned to the former Ollerton Colliery. A programme to develop new roadways and install infrastructure to enable the reserves to be worked is now well established.

Geological problems reduced the output of Ellington Colliery, where ingress of water retarded production on the longwall coal face. The bord and pillar system of mining has been discontinued to reduce costs.

At the Selby Complex, which will close in 2004, output of 3.6 million tonnes was a million tonnes less than the previous year, mainly due to ongoing geological and engineering difficulties.

There has been strong interest shown by the workforce in retraining, facilitated by the government's Selby Coalfield Task Force initiative. As of January, work was ongoing with 1,230 men seeking advice and guidance. Approximately 550 men had undergone specific training for new jobs when they leave the industry. A wide variety of agencies continue to offer assistance with supplementary training programmes.

Plans are well in place for the decommissioning of the mine sites with a view to redevelopment. Preliminary discussions have taken place with the Local Authority on potential alternative uses for the surface areas, one of which, Gascoigne Wood, has the benefit of a connection to the East Coast main line.

It is envisaged that around 240 Selby miners who wish to remain in the industry will transfer to Kellingley Colliery, where the introduction of flexible working will facilitate increased production.

Richard Gladders steers the high-powered coal cutting shearer along a 295-metre long face at Daw Mill Colliery, where output in the last quarter of 2003 averaged 60,000 tonnes a week.

Surface Mines

Surface mine production of 3.1 million tonnes (2002: 4.3 million tonnes) reflected the completion of coaling at long-standing sites and the increasing difficulty in securing new planning consents for replacement capacity.

New extensions to existing sites commenced in the year at Maidens Hall and Stobswood East, near Morpeth, Northumberland, and at Grange Farm, Wakefield, providing access to two million tonnes of capacity. However, coaling was completed in the Autumn on the main Stobswood site, and at the Burnfoot Moor site in Ayrshire. Restoration works on these sites is now progressing.

Planning applications submitted in the year totalled 2.7 million tonnes, and are awaiting the decision of the Mineral Planning Authorities.

Schemes which would access a total of 3.5 million tonnes of reserves have been identified for submission for planning consent in 2004.

Crouch Mining, a major contractor in the UK's opencast sector, went into administration in December following a period of trading losses and cash flow pressures. To enable work to continue uninterrupted on three UK COAL sites contracted to Crouch Mining – Burnfoot Moor, Stobswood and Ferry Moor – UK COAL purchased certain equipment owned by Crouch to complete work on those sites. UK COAL has now incorporated the work programmes at those sites within its own mining and restoration programmes.

Coal Investment Aid:

Detailed plans for a two-year investment programme were finalised during the summer of 2003. UK COAL applied to the Department of Trade and Industry for aid in respect of all eight ongoing collieries and, on 28 November, was advised of offers totalling £36.5 million, for the purchase of new equipment and the development of roadways, accessing around 70 million tonnes of reserves over a two year period.

Offers in respect of Daw Mill, Harworth, Kellingley, Maltby and Thoresby Collieries, amounting to £26.6 million were accepted in December. Decisions on offers in respect of Ellington, Rossington and Welbeck Collieries, where geological features resulted in a re-examination of mining plans, were delayed.

In February 2004, offers in respect of Welbeck and Rossington Collieries were accepted while the prospects for ongoing viable operations at Ellington continued to be the subject of an internal review process.

The schemes for which the Department of Trade and Industry made Investment Aid offers, were as follows:

- **Daw Mill** Investment Aid of £9.7 million has been accepted in line with the application for aid for projects costing £35.5 million in the first two years, during which time, over 15 million tonnes of coal will be accessed. The projects include the development of over 3,200 metres of underground roadways, and the purchase of equipment for a new coal face.
- **Harworth Colliery** Investment Aid of £4.7 million has been accepted in line with the application for aid for projects costing £15.4 million in the first two years. The projects include the development of a new 320-metre long retreat face and driving 6,000 metres of underground roadways. Around 8 million tonnes of coal is accessible in the area being developed.
- **Kellingley Colliery** Investment Aid of £7.2 million has been accepted in line with applications for aid for schemes costing £25.6 million in the first two years. The projects involve driving around 20,000 metres of new underground roadways to gain access to, and open up, 10 million tonnes of coal reserves.
- **Maltby Colliery** Investment Aid of £2.4 million has been accepted in line with the application for aid for projects costing £11.6 million in the first two years. The projects include 5,000 metres of new underground roadways. Around 8 million tonnes of coal is available in the area being accessed at Maltby, where the introduction of new flexible working practices has enhanced the opportunity for viable longer-term operations.

Coal from the first of 15 seams being recovered from the Southfield surface mine site near Darlington.

- **Thoresby Colliery** Investment Aid of £2.9 million has been accepted in line with the application for aid for projects costing £10.8 million in the first two years. The projects include the refurbishment of equipment and repair of roadways into the Ollerton reserves; 2,000 metres of new underground roadways and the purchase of equipment. Over 9 million tonnes of coal is available in the area being accessed.
- **Rossington Colliery** Investment Aid of £3.3 million has been accepted in line with applications for aid for schemes costing £15.3 million in the first two years. The projects involve driving 1,400 metres of underground roadways to access nearly 6 million tonnes of reserves, surface seismic surveys and boreholes and improvements to the colliery infrastructure, services and equipment. However, as geological faulting will result in a production gap, mining plans at Rossington have been revised to mitigate the effect. The revised plans will entail reduced output in 2004 and 2005 and working a production face on the advance system of mining before returning to the normal retreat system.
- **Welbeck Colliery** Investment Aid of £5.2 million has been accepted in line with applications for aid for schemes costing £17.9 million in the first two years. The project involves driving nearly 8,000 metres of new underground roadways to access nearly 9 million tonnes of reserves, two in-seam seismic surveys and improvements to the colliery infrastructure, services and mining equipment. However, geological faulting has resulted in a change of mining plans, which will entail a short-term move to advance mining before returning to the normal retreat system, thus reducing output in 2004.

Health and Safety:

The year saw a continuing reduction in major injury accidents with a total of 48 for the year compared with 55 in 2002, though the major injury rate per 100,000 shifts increased slightly at 3.35 compared with 3.25 in 2002. The overall injury rate improved from 35.07 in 2002 to 34.73 in 2003. All sites have seen an improvement in days lost due to accidents, with 59% of all days worked being ‘accident free’.

UK COAL has continued to implement the health surveillance policy for all deep mine employees, and is working with both the Medical Research Council and Business Healthcare to reduce the incidence of hand arm vibration.

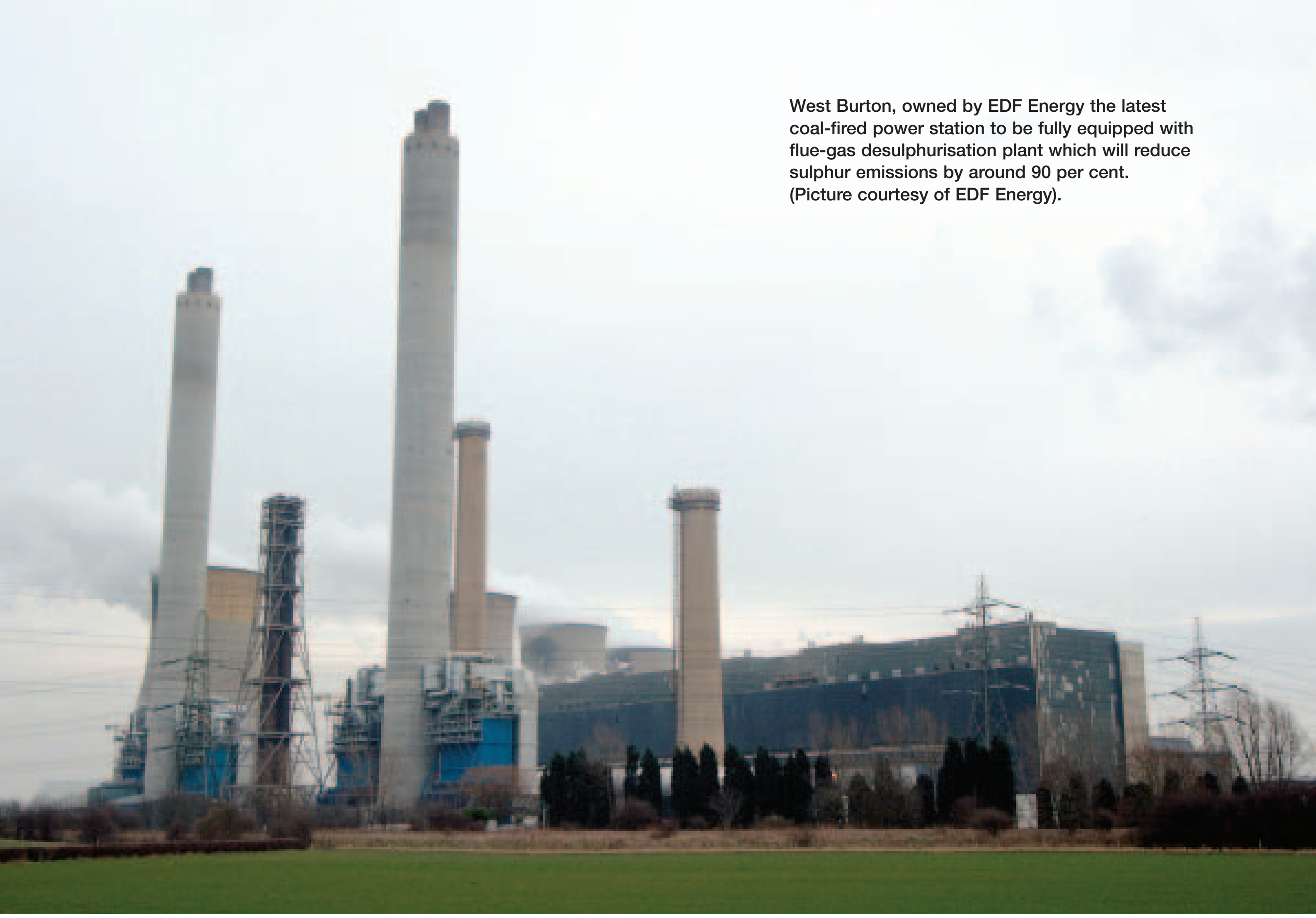
The company continues to improve the competence of senior and middle management via the NEBOSH Certificate, this gives staff a thorough understanding of the principles and importance of managing health and safety on a day to day basis.

Environment

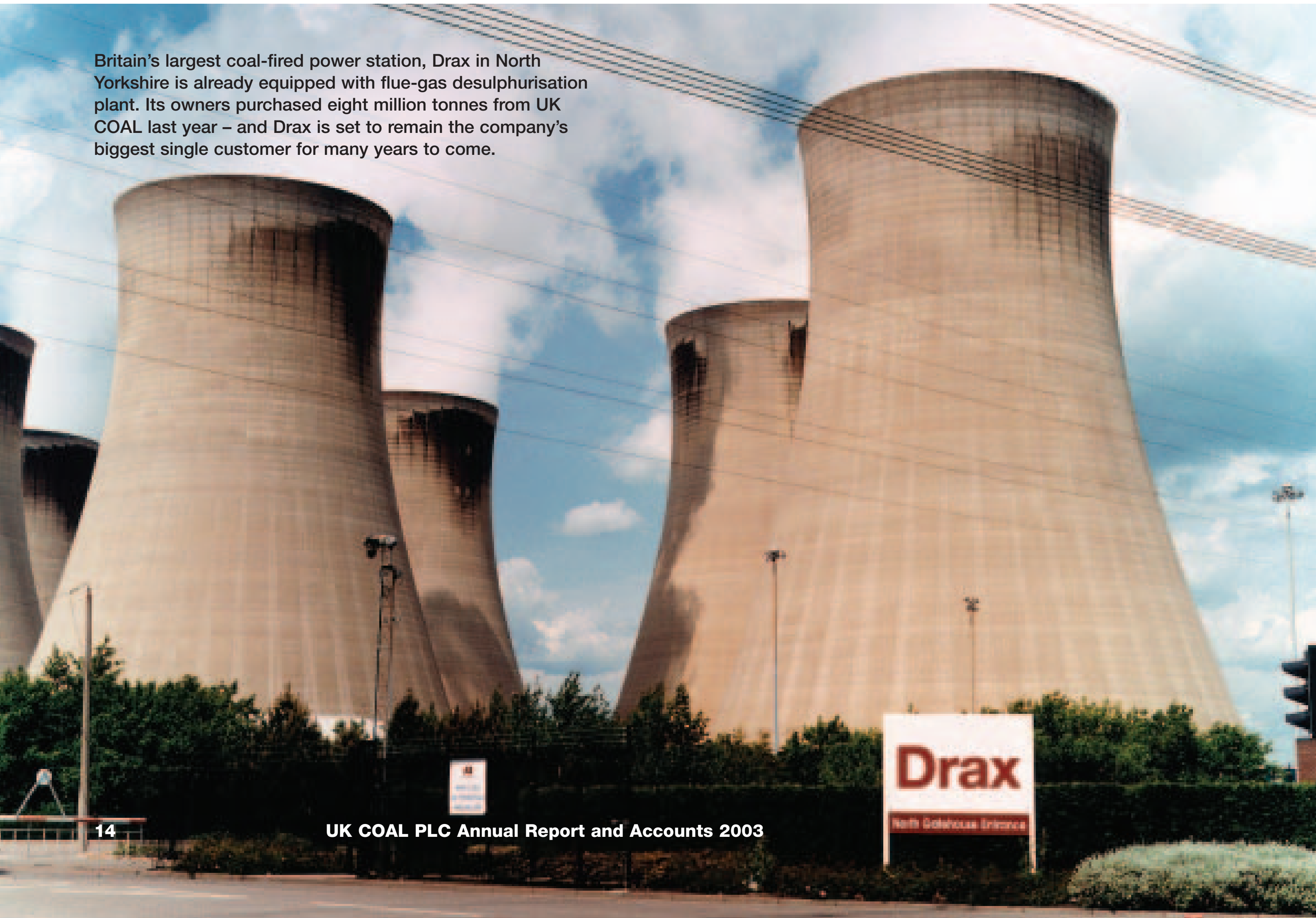
For almost a decade the Company has operated a management system with the aim of maintaining a high level of awareness among all its employees, which in turn enables control over our impact on the environment.

Over the past five years, progressive implementation of the international standard ISO 14001 has seen certification being achieved at most of our main operational sites, a total of 13 locations.

For the fifth year in succession, the Company has participated in the Regional Index of Environmental Engagement established by Business in the Community for the Yorkshire and Humber Region. Overall 142 businesses and other organisations took part and once again, UK COAL was ranked in the top quartile with an overall improvement on the score of the previous year.



West Burton, owned by EDF Energy the latest coal-fired power station to be fully equipped with flue-gas desulphurisation plant which will reduce sulphur emissions by around 90 per cent. (Picture courtesy of EDF Energy).



Britain's largest coal-fired power station, Drax in North Yorkshire is already equipped with flue-gas desulphurisation plant. Its owners purchased eight million tonnes from UK COAL last year – and Drax is set to remain the company's biggest single customer for many years to come.

Customers and Markets

Electricity Supply Industry

Demand for coal for power generation was buoyant through the year, and UK COAL sold fuel to virtually all of the UK generators. During the year over five million tonnes of additional and spot business was secured, the most we have achieved in a 12 month period.

Sales to Drax power station were greater than anticipated, redressing the shortfall of the previous year, and resulting in total sales to the electricity supply industry of 16.8 million tonnes (2002: 16.5 million tonnes). Total coal sales in 2003 were steady at 18.9 million tonnes (2002: 18.9 million tonnes).

In 2003,

- coal produced 34% of total UK electricity generation (2002: 32%);
- UK power stations consumed some 53.2 million tonnes (2002: 47.7 million tonnes), the highest burn since 1996.
- coal imports increased by 16% from 22.2 million tonnes to 25.8 million tonnes;
- international coal prices hit record highs at the end of the year.

The fuel mix for electricity generation in 2003 compared to the previous year was:

	2003	2002
Coal:	34 per cent;	32 per cent
Gas:	36 per cent;	38 per cent
Nuclear:	22 per cent;	23 per cent
Oil, hydro & renewables:	8 per cent.	7 per cent.

After the turmoil of the market place in the previous year, 2003 was considerably more stable. There was some recovery in wholesale electricity prices, and towards the end of the year Drax power station, which accounted for around 50% of UK COAL sales to the generation sector, successfully completed its financial restructuring. During the year an agreement was negotiated with EdF Energy covering supplies to their Midlands stations through to 2006, and in total some 11.0 million tonnes of additional contract cover was secured for future years.

In the last quarter of 2003, international coal prices hit unprecedented high levels. However, virtually all of UK COAL sales were supplied under pre-existing contracts or at prices agreed before this trend became apparent.

Sulphur content is becoming increasingly significant as a determinant of sales volumes for our relatively high sulphur coals, with the available market becoming concentrated at stations fitted with flue gas desulphurisation (FGD) plant. As further FGD capacity is commissioned over the next few years this situation will ease initially; however, the size of market beyond 2007 will be determined by the Government's decision on the implementation route for the Large Combustion Plants Directive (LCPD).

Industrial and Domestic

Sales into the Industrial and Domestic sectors, at 2.1 million tonnes, showed a ten percent decline on the previous year, reflecting a continuation of the long term trend in these markets.

A mild end to the winter followed by one of the warmest summers on record made 2003 another challenging year for the domestic solid fuel market. The sector has also had to contend with continued conversion of local authority housing to other fuels, often reducing local demand for solid fuel at very short notice. Despite an aggressive approach from importers keen to dispose of surplus products, domestic sales were 380,000 tonnes.

Industrial coal sales were nearly 1.7 million tonnes, including substantial sales to Alcan with whom the supply contract was renewed through to September 2004. Contracts have also been renewed with most other major industrial buyers. Sales to Coalite have continued, albeit at reduced levels, during and after that company's period in Administration.

With increases in gas prices and the volatility of oil prices, sales of Industrial graded coals have been encouraging. With improved production from Daw Mill Colliery, UK COAL has maintained market share despite strong competition from imports.

Of the 18.9 million tonnes of coal sold by UK COAL last year, over 88 per cent was supplied to customers by rail.


Utilising methane gas extracted from mines for safety reasons, either for power generation or flares, is reducing greenhouse gases and earning the Company further carbon credits.

Monckton Coke and Chemical Company

Monckton sales of £17.0 million (2002: £15.9 million) were achieved due to high customer demand for coke at improved prices.

Continued control of costs allied to improved coke prices and productivity resulted in an operating profit of £0.3 million (2002: loss of £0.6 million).

Lionheart Heating Services

Lionheart Heating Services made a loss on the year of £0.6 million (2002: £0.16 million operating profit). The management structure has been changed within Lionheart in 2004 and action has been taken to rationalise regional offices to allow Lionheart to achieve its potential.

Harworth Power

Sales increased to £4.0 million (2002: £1.35 million) with a profit of £0.8 million (2002: £0.1 million).

Generation and renewables development continued to make progress during the year with the installation of a further two 1.4 Mw mines gas generation units, bringing the total complement to twelve. These engines can produce 4,000 Mwh of electricity for colliery use while significantly reducing the emission of greenhouse gases to the atmosphere.

Agreement was also received from the Health & Safety Executive for the erection of seven flares to reduce greenhouse gasses. Two flares are now operational; a further five will be commissioned in early 2005. All these activities will produce further carbon credits for the Company through reducing greenhouse gases.

Harworth Power will continue to utilise Company assets and expertise to further develop renewable energy sources in 2004.

Emissions Trading

During 2002, the Company successfully bid in the UK Emissions Trading Scheme (ETS), a government-backed scheme designed to reduce the volume of greenhouse gases emitted into the atmosphere. By utilising methane produced as part of the mining process, UK COAL has reduced the amount of electricity purchased within the Group, and also significantly reduced emissions to the atmosphere to help meet the target compliance under the ETS while, in the process, qualifying for payments in 2003 amounting to £3.5 million.

More than 40 acres of UK COAL's Tetron Point industrial and commercial development at Swadlincote in South Derbyshire has been sold, with 30 acres under offer and a further 40 acres available for development.

Property

Harworth Estates

Harworth Estates, UK Coal's property arm, has maintained its strategy of creating added value by seeking planning permissions to develop former surface mines and collieries, converting brownfield sites to clean compacted areas suitable for development and actively managing its property portfolio and agricultural holdings.

Proceeds from property sales were £9.7 million (2002: £2.2 million), generating a profit of £5.8 million (2002: £20 million). The major area of activity has been the Tetron Point development at Swadlincote, South Derbyshire where further sales are anticipated.

Rental income from properties in the year was £3.8 million (2002: £3.4 million) generating an operating profit of £1.1 million (2002: £0.9 million).

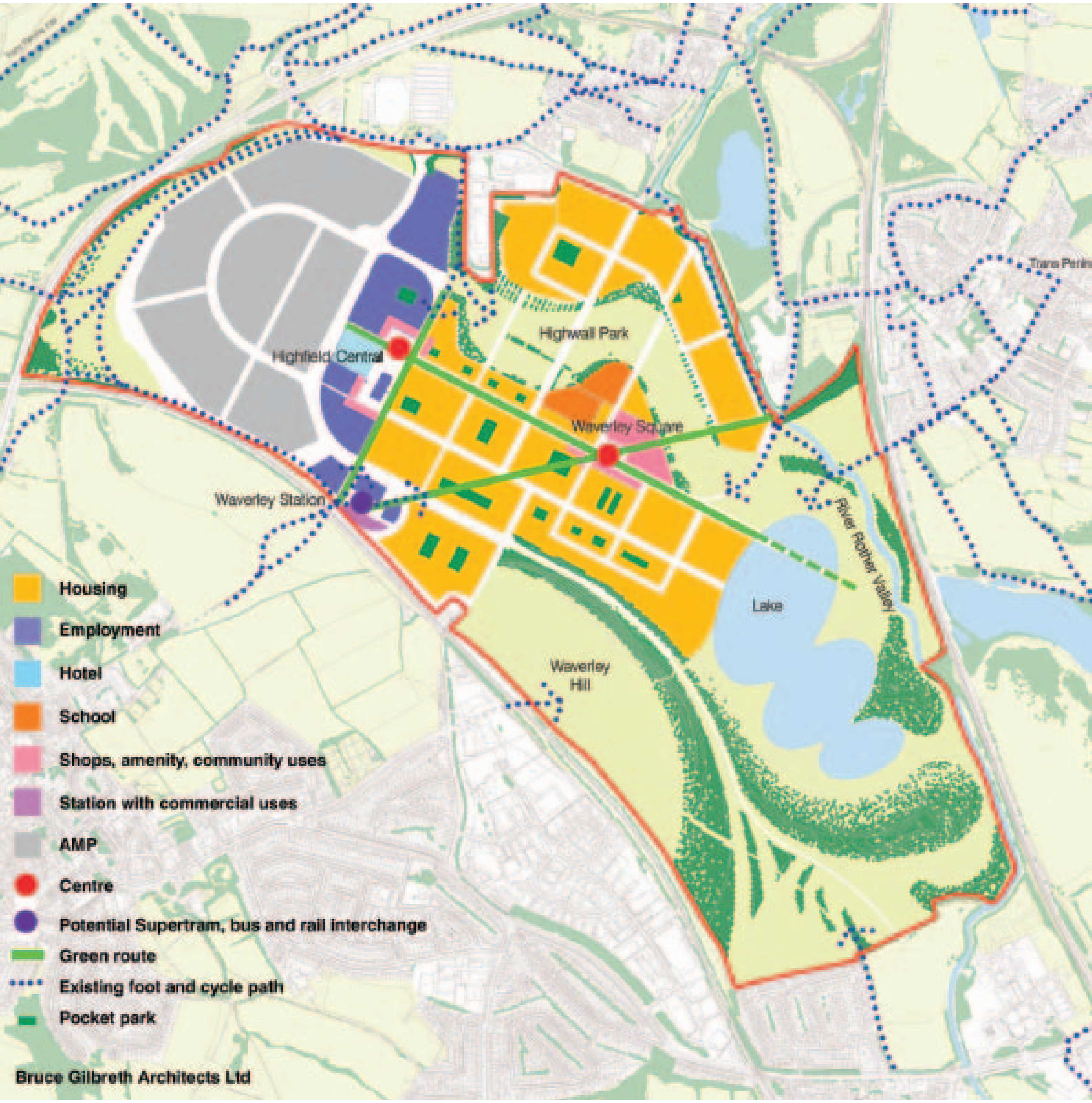
During the year 50 acres of land received planning permission for various types of development, the majority of which were detailed consents.

The initial occupier on the Company's 100 acre Advanced Manufacturing Park (AMP) joint venture with Yorkshire Forward has commenced building construction. This is a building for Sheffield University and Boeing, whose presence is expected to attract other high-tech businesses to the strategically located site between Rotherham and Sheffield adjacent to the M1. To be fully developed over a seven-year period, the site is destined to attract new businesses that will generate 4,500 jobs. Harworth Estates is seeking to finalise terms in the coming year on a number of other plots on the first phase of the site, and anticipates planning consent for the 80 acre balance of the park.

Running in parallel with the Advanced Manufacturing Park is the Company's proposed master plan for the redevelopment of the adjacent Orgreave/Waverley surface mine site, the largest brownfield site in South Yorkshire, where it is proposed to develop a "new community" on UK COAL owned former industrial and surface mine land. The scheme is to develop around 3,500 new homes and a range of other facilities including schools, a park, sports pitches and lakes on the 730 acre former surface mine site now being restored.

The Company is continuing to progress the promotion of a number of other sites including a number of brownfield regeneration projects through the planning system to enable additional value to be added to the portfolio.

A schematic view of the 'new community' of 3,700 homes planned for the 730-acre Orgreave/Waverley site close to both Sheffield and Rotherham, indicating the proposed location of housing development, a new school and employment and recreational areas.



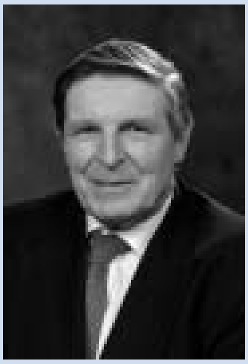
Demand for units at the Business Parks remains strong, with the converted buildings at the former Asfordby mine in north east Leicestershire being almost fully occupied. Consideration is being given to the construction of new purpose-built unit on a pre-let basis. As at December 2003 this site, now classified as an investment property, was valued at £6.7 million (2002: £6.5 million).

Further growth in Business Parks is being promoted at other locations, including locations within the Selby Complex of mines once production ceases there this summer.

The current status of existing development sites is as follows:

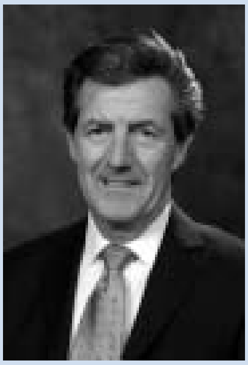
Site	**Allocation (acres)**	**Use**	**Outline Permission (acres)**	**Detailed Permission (acres)**	**Sold/ Leased (acres)**
Tetron Point	110	Employment/ Leisure	Granted – 110	Granted – 43	43 sold
Waverley Phase 1	20	Employment	Granted – 20	Granted – 10	1.5 Lsd
Waverley Phase 2	80	Employment	Submitted		
Rockingham	2	Residential	Granted – 2	Granted – 2	2 sold
Houghton Main	58	Employment	Granted – 58		
Denby Hall	60	Employment	Granted – 60		
Rockingham	35	Employment	Granted – 18		
Bilsthorpe	40	Employment	Submitted		
Donisthorpe	0.2	Residential	Submitted		
Arkwright	1.5	Residential	Granted – 1.5		
Dordon	0.5	Residential	Submitted		

Board of Directors



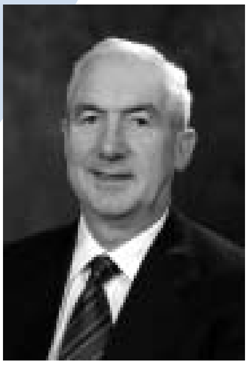
David Jones,
aged 61, was appointed to the Board as a Non-executive Director from 1 January 2003. He succeeded John Robinson as Chairman following the Annual General Meeting on 29 April 2003. He has extensive experience in the electricity supply industry and was Chief Executive at The National Grid Company plc until March 2001. He is currently Chairman of Teesside Power Ltd and a Non-executive Director of Bull Information Systems.

Gordon McPhie,
aged 52, was appointed Chief Executive on 4 July 2001, having been on the Board since the Company's flotation in 1993. An engineering graduate of Durham University, he qualified as a Chartered Accountant with Deloitte Haskins & Sells in London, and from 1980 to 1992, worked for the Davy Corporation plc, holding senior accounting and financial positions in major group subsidiary companies.

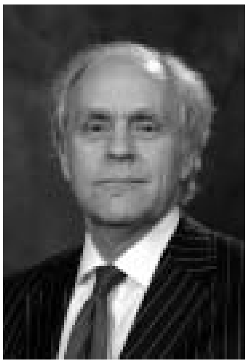


Melvin Garness,
aged 58, is Commercial Director and Company Secretary. He was promoted to the Board in 1994, and is responsible for the Group's commercial and administrative requirements. On the appointment of Gordon McPhie as Chief Executive, he took over responsibility for the financial affairs of the Group. He has announced his plan to retire from the Board in October 2004.

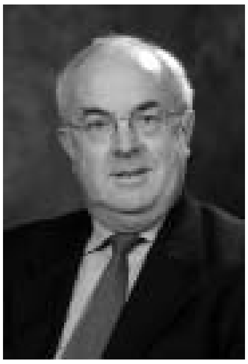
Christopher Mawe,
aged 42, has been appointed Finance Director from 1 March 2004. Previously Group Finance Director of Carclo plc where he has overseen the restructuring of the Group. He has held a number of finance positions with subsidiaries of the IMI Group, having qualified as a Chartered Accountant in 1990 with Coopers & Lybrand.



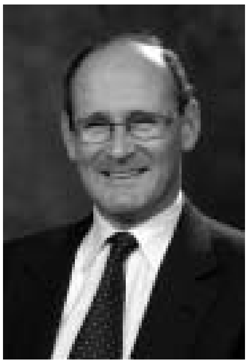
Patrick O'Brien,
aged 61, is the Executive Director responsible for deep and surface mine operations having being promoted to the Board in 1995. For many years, Mr. O'Brien was Managing Director responsible for surface mine operations, and following management restructuring in 2003, was appointed Director of Mining, embracing both surface and deep mines.



Peter Hazell,
aged 55, Chairman of property developers the Argent Group joined the Board on 22 September 2003 as a Non-executive Director. A member of the Competition Commission, he was previously UK Managing Partner of PricewaterhouseCoopers and spent his early career at Coopers & Lybrand and Deloitte Haskins & Sells. He will become Chairman of the Audit Committee on the retirement from the Board of Robert Shrager at the Annual General Meeting.



James Murray,
aged 57, a Non-executive Director of Wolseley plc and Chairman of its Audit Committee, joined the Board on 22 September 2003 as a Non-executive Director. He previously held a number of senior positions at Land Securities plc serving as its Finance Director between 1991 and 2001.



Robert Shrager,
aged 55, joined the Board as a Non-executive Director in June 1994, and will retire as a Board Member following the Annual General Meeting in April, having completed 10 years' service. He is Chairman of Courts Plc, the international furniture retailing group, and The Food Doctor Limited, a nutrition consultancy. He is also a Non-executive Director of Matalan PLC.

Garold Spindler,
aged 56, joined the Board as a Non-executive Director in October 2001. He has considerable experience in the coal industry, particularly in the United States, where his most recent position was as President of the coal companies for Cyprus Amax Coal Company, the second largest coal business in the US.

Company Information and Advisors

Chairman
David Jones ■

Chief Executive
Gordon McPhie ■ +

Executive Directors
Melvin Garness
Patrick O'Brien
Christopher Mawe +

Non-Executive Directors
Robert Shrager ◆ ■ ●
Garold Spindler ◆ ■ ●
James Murray ◆ ■ +
Peter Hazell ◆ ● +

Secretary and Registered Office
Melvin Garness
Harworth Park
Blyth Road
Harworth
Doncaster
South Yorkshire
DN11 8DB

Company Registered No.
2649340

◆ Audit Committee
■ Nomination Committee
+ Property Committee
● Remuneration Committee

Auditors
PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Stockbrokers and Financial Advisers
Cazenove & Co.
20 Moorgate
London
EC2R 6DA

Credit Suisse First Boston
(Europe) Limited
One Cabot Square
London
E14 4QJ

Solicitors
Freshfields
65 Fleet Street
London
EC4Y 1HS

Registrars
Lloyds TSB Registrars
54 Pershore Road South
Birmingham
B30 1BR

Bankers
The Bank of Nova Scotia
Scotia House
33 Finsbury Square
London
EC2A 1BB

ING Bank NV
60 London Wall
London
EC2M 5TQ

Lloyds TSB PLC
6-7 Park Row
Leeds
LS1 1NX

Directors' Report

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2003. These will be laid before the Annual General Meeting to be held on 27 April 2004. The notice of the Annual General Meeting is enclosed with this report.

Principal activities

The principal activities of the Group comprise surface and underground coal mining and property activities. The consolidated profit and loss account for the year is set out on page 42.

Review of business

The Chairman's Statement and the Operating and Financial Review give an outline of the Group's business during the year and comment on the current trading position.

Changes in fixed assets

The movements in fixed assets during the year are set out in notes 13 to 15 to the financial statements.

Land and Property

UK Land and Buildings Valuation

During 2002 chartered surveyors Fuller Peiser prepared an open market valuation for the Group's UK land and buildings assets, in accordance with the 'RICS Appraisal and Valuation Manual' published by the Royal Institution of Chartered Surveyors. Market values were assessed based on existing conditions, planning allocations and consents, as at the valuation date.

A summary of the valuation (as at 31 December 2002) of UK land and buildings (excluding operating colliery land and buildings) is shown below.

	Market Value before deduction of Costs £	Rehabilitation and Aftercare Costs deducted £	Market Value after deduction of Costs £
Disposal Points	13,207,192	3,514,323	9,692,869
Surface Mines	132,069,819	30,739,331	101,330,488
Closed Collieries	17,445,783	4,545,783	12,900,000
Other Operational Properties	11,249,824	1,786,824	9,463,000
Total	173,972,618	40,586,261	133,386,357

The costs deducted from market values comprised the costs of restoration and closure, remediation and aftercare included within the provisions for liabilities and charges disclosed in the financial statements. The UK freehold land and buildings (net book value at 31 December 2002: £78.4 million) comprised the disposal points, surface mines, closed collieries and other operational properties covered by Fuller Peiser's valuation (subject to property disposals during 2003). Land and buildings at operating collieries, which were excluded from the above valuation, are included in the total value of 'Mines and surface works' in the financial statements, which also includes the value of underground equipment and development.

Based on the above, the directors were of the opinion that there was, as at 31 December 2002, a surplus on valuation of £95.6 million over the book value of land and buildings. The valuation excluded any taxation or clawback liability that would be incurred on sale of these land and building assets at the estimated market value.

The valuation also assumed a willing buyer and seller, and a reasonable period for the sale to take place. It should be noted, however, that a proportion of the assets were (and remain) in operational use and that their value could not be realised until operational use has been completed.

Directors’ Report continued

There has been no further valuation of the UK freehold land and buildings since December 2002 except for the Investment Property. Land disposals have taken place during 2003 and proceeds from sales of £9.7 million are recorded in the financial statements.

In accordance with the Companies Act 1985 and FRS 15, the directors will continue to adopt a policy of including these land and buildings assets at the lower of cost and net realisable value.

Premises at the Asfordby Business Park in north-east Leicestershire are now substantially let, and the development is classified as “investment properties”. These premises were revalued by Fuller Peiser as at 31 December 2003 at a market value of £6.7 million (2002: £6.5 million) resulting in a revaluation reserve in the balance sheet of £5.0 million (2002: £4.8 million), that being the excess of market value over historic cost.

Directors

The directors who served during the year were Melvin Garness, Peter Hazell, David Jones, Gordon McPhie, James Murray, Patrick O’Brien, John Robinson, Robert Shrager, Garold Spindler and Brian Staples. Upon the retirement of John Robinson at the Annual General Meeting on 29 April 2003 David Jones was appointed non-executive Chairman of the Company. Peter Hazell and James Murray were appointed to the Board on 22 September 2003 and they will offer themselves for re-appointment at the Annual General Meeting. Christopher Mawe was appointed to the Board on 1 March 2004 and will also offer himself for re-appointment at the Annual General Meeting. Brian Staples retired from the Board on 31 December 2003. Robert Shrager will retire from the Board at the Annual General Meeting on 27 April 2004.

All continuing directors are subject to re-election every three years. Gordon McPhie and Melvin Garness will retire by rotation in accordance with the Articles of Association and will offer themselves for re-election at the Annual General Meeting. Melvin Garness gave the Board notice in October 2003 of his intention to retire from the Board in October 2004.

All executive directors have service contracts terminable by the Company on not more than twelve months’ notice; for all non-executive directors the notice period is three months. There are no directors on fixed term contracts. There are no contractual clauses that give any of the directors an entitlement to compensation exceeding his due payment in lieu of notice.

Charitable donations

The contributions made by the Group during the year for charitable purposes were £27,000 (2002: £140,000). No political donations were made in 2003 (2002: £Nil). Donations made were predominantly to associations and charities involved with the coal industry and local communities.

Employees

The Group’s policy is to consult and discuss with employees on matters likely to affect their interests. A newspaper is produced and distributed free to all employees every month. Information on matters of concern to employees is given periodically to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group’s performance.

Disabled persons

It is the Group’s policy to give full consideration to suitable applications for the employment of disabled persons. Opportunities also exist for employees of the Group who become disabled, to continue in their employment or to be trained for other positions within the Group.

Health and Safety at Work Act 1974

The Company has complied with the terms of the above Act.

Corporate Governance

The Board supports the highest standards in corporate governance and the following sections of this report explain how the Company has applied the principles set out in the Code of Best Practice contained in the Combined Code on Corporate Governance, issued by the UK Listing Authority. The Board confirms that the Company has complied with the code provisions set out in Section 1 of the Combined Code throughout the year ended 31 December 2003.

The section of this report headed 'Internal Control' records the measures implemented by the Board to maintain a sound system of internal control within the Group.

In July 2003 the UK Listing Authority updated the Combined Code following a review of the role and effectiveness of non-executive directors by Sir Derek Higgs and a review of audit committees by a group led by Sir Robert Smith. The Revised Combined Code applies to the Company with effect from its 2004 financial year and the Board considers that, building upon the structures and procedures which it has already adopted (in order to comply with the previous Combined Code), it is able to comply with the principles and provisions of the new Code. The Company's 2004 Annual Report will consider in more detail the Company's implementation of the Revised Combined Code.

Board and Committees

Board and Committee structure

The Board of UK COAL PLC is responsible for the Company's objectives and policies and for the stewardship of the Company's resources. The Board is responsible to the shareholders for the overall management of the Group. There are four executive directors (following the appointment of Christopher Mawe as Executive Finance Director on 1 March 2004) and four independent non-executive directors. The offices of Chairman and Chief Executive are held separately. The Chairman has no involvement in the day-to-day running of the Group. The senior independent non-executive director is Robert Shrager. This position will be held by Garold Spindler when Robert Shrager retires from the Board.

The Board considers that the non-executive directors bring strong independent judgement and considerable knowledge and experience to the Board's deliberations. The non-executive directors have no financial or contractual interests in the Company, other than interests in ordinary shares as disclosed in the Directors' remuneration report.

The Board usually meets monthly and has adopted a schedule of matters specifically reserved to itself for decision. The Board has delegated specific responsibilities to the Nomination, Remuneration, Audit and Property committees, as described below. Each committee has terms of reference that the whole Board has approved. Board and Committee papers are circulated in advance of each meeting so that all directors are fully briefed. Papers are supplemented by reports and presentations to ensure that Board members are supplied in a timely manner with the information they need.

All directors have access to the advice and services of the Company Secretary. The Board has established a procedure under which any director, wishing to do so in furtherance of his duties, may take independent advice at the Company's expense.

Nomination Committee

The Nomination Committee comprises David Jones (Chairman), Robert Shrager, Garold Spindler, James Murray and Gordon McPhie. The Committee meets as required to select and propose to the Board suitable candidates for appointment as executive or non-executive directors.

Remuneration Committee

The work and composition of the Remuneration Committee are set out in the Directors' remuneration report.

Audit Committee

The Audit Committee comprises Robert Shrager (Chairman), Peter Hazell, Garold Spindler and James Murray. Peter Hazell will be appointed Chairman on Robert Shrager's retirement. The Chairman, the Finance Director, the Commercial Director, the Group Internal Audit Manager and the external auditors are invited to attend meetings. The minutes of meetings of the Committee are circulated to all directors. The Committee meets at least four times a year to review the Company's accounting and financial reporting practices, the work of the internal and external auditors and compliance with policies, procedures and applicable legislation. The Group Internal Audit Manager has a direct reporting line to the Committee.

Directors' Report continued

Property Committee

The Property Committee was established in 2003 to review and recommend to the Board strategic options that may enhance the property portfolio and to review the most advantageous use of property assets to ensure long-term maximisation of both rental income and sales proceeds. The Committee comprises James Murray (Chairman), Peter Hazell, Gordon McPhie and Christopher Mawe.

Executive Management Committee

The Executive Management Committee was established to manage and co-ordinate all strategic and key operational issues. Its membership is as follows:

Chief Executive	Gordon McPhie
Finance Director	Christopher Mawe
Commercial Director	Melvin Garness
Director of Mining	Patrick O'Brien
Strategy and Technical Director	Alec Galloway
Managing Director of Human Resources	Norman Haslam
Marketing Director	Nigel Yaxley

Relations with shareholders

The Company maintains ongoing dialogue with institutional shareholders through regular presentations and meetings to outline the Company's trading environment and objectives. Private investors are encouraged to attend the Annual General Meeting and have the opportunity to question the Board.

Internal control

Risk Assessment

The Board is of the opinion that there is an ongoing process for identifying, evaluating and managing the significant risks of the Group, and that this process has been in place throughout the year under review. An updated strategic risk assessment was reviewed by the Board on 1 March 2004.

The updated assessment supplements ongoing dialogue between the Board and directors and managers responsible for monitoring risks at an operational level. The board receives regular reports from the Internal Audit, Environmental Audit and Health & Safety Management departments. These reports identify areas of risk exposure, recommendations made and actions implemented. They also highlight new areas of legislation that will impact on the risk profile of the group, and provide positive assurance of procedures that are working and assisting in the attainment of business objectives. Operational and financial risk management is delegated to directors and managers who are responsible for the day-to-day management of the business. The following controls are embedded in the procedures of the relevant business units:

Operational – detailed mining production and development plans are agreed on an annual basis and updated each quarter. Quarterly Operational Review meetings are held with senior management to discuss performance against plan and to decide and implement any actions required. There are company-wide and local procedures to which compliance is monitored.

Health & Safety – the directors are fully supportive of Government initiatives set out in the Health & Safety Commission document entitled "Revitalising Health & Safety", which sets targets for the reduction of notifiable incidents and illnesses at work. All directors are familiar with the HSC guidance: "Directors' Responsibilities for Health and Safety". Company representatives sit on Health & Safety Commission working parties and are involved in the development of new legislation. There is a Health & Safety Manager with a direct reporting line to the Board, and a Health & Safety Strategy is in place. There are extensive local policies and procedures. Safety inductions are a requirement for all staff and contractors working on sites. Risk assessments are carried out for all new works to be undertaken. There are ongoing planned safety audits and the results of these are reviewed and signed-off by site managers. These are supplemented by regular visits from officers of the appropriate regulatory authorities. In addition, Health & Safety accountability meetings are held on site and at Head Office. Clear reporting lines for incidents and safety breaches are in place up to Board level. Ongoing risks over health claims are mitigated by Health & Safety policies and by health monitoring.

Environmental Management – there is an Environmental Policy, reviewed and approved by the Board in July 2003, and a company-wide Environmental Management System. Site procedures are audited by in-house teams and external experts to ensure continued compliance. Underground and surface readings for emissions, including gas, dust, noise and water are taken, analysed and reported. Where appropriate, action plans to reduce emissions are designed and followed through to completion. Compliance with waste management regulations is monitored, and a programme to encourage re-cycling and waste minimisation has been initiated.

The company is actively involved in taking green energy projects from innovation to completion. Current projects include the use of methane gas from deep mines to generate electricity. This assists in the UK meeting its responsibilities to reduce greenhouse gas emissions under the Kyoto agreement, as well as reducing power costs on the Group's sites.

The Environment department is liaising with our suppliers through the purchasing function to look at ways of encouraging green practices throughout the supply chain.

The Environment Engineer is a member of the local Environment Practitioner Group – "Business in the Environment" (BiE), and is proactive in promoting and reporting performance against a set of environmental criteria.

Financial – these controls are considered under the following headings:

- **Cost budgeting** – There is an annual budget setting process with final budgets approved by the Board of Directors. Costs are monitored on a monthly basis against budgets. Quarterly Operational Review meetings are held with senior management to discuss financial issues.
- **Treasury** – The terms of reference for the Treasury department are approved and kept under review by the Board. The Treasury department is responsible for placing deposits, for arranging borrowings and for making payments. These transactions are subject to director or senior management authorisation.
- **Insurance Risk** – There is insurance cover for all employer liability and public liability claims, limiting the company's exposure to £250,000 per claim. All claims are subject to expert assessment and challenge and, where appropriate, independent medical and legal opinion.
- **Capital spend** – Capital needs assessments are carried out at business unit level, but direct Board approval of all major capital projects is required. The Investment Committee comprises the executive directors and the Strategy and Technical Director. The Procurement Director and the Head of Engineering are invited to attend meetings and other senior management executives are invited where appropriate. The Investment Committee reviews projects with a cost in excess of £100,000.

Assurance Procedures

Assurance is provided by the in-house team of Internal Auditors, Health & Safety Auditors and Environmental Auditors. This resource is supplemented by HM Inspectorate of Mines (Health & Safety) and other Health & Safety Commission personnel, legal advisors and professional claims handlers (Insurance and Claims Management), and external environmental consultants (Environmental Management).

Reports are prepared and summarised at management level for reporting to the Board as either standing or intermittent agenda items.

There is a fully constituted audit committee with a remit to review internal audit reports and corporate governance matters. The internal audit plan is based on the annual assessment of risks as reviewed by the board and is not limited to financial systems. Reports are designed to give a full opinion of the risk and control profile of each audited system.

Going concern

Following a thorough review of projections and cashflow forecasts the directors are satisfied that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. The accounts have therefore been prepared on the going concern basis.

Directors' Report continued

Treasury policy and liquidity

Overall group strategy for liquidity is to maintain a secure line of credit sufficient to cover forecast cash flows for the 12 month rolling forecast.

The principal function of the financial instruments held by the Group is to provide security, raise funds and effectively mitigate interest rate risks.

Supplier payment policy

Individual operating companies within the Group are responsible for establishing appropriate policies for payment of their suppliers. The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group policy that, provided a supplier is complying with the relevant terms and conditions, including satisfactory supply of goods, services and the prompt and complete submission of all specified documentation, payment will be made according to the agreed terms and conditions. It is Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

The Group had 45 days' purchases outstanding at 31 December 2003 (2002: 38 days) based on the average daily amount invoiced by suppliers during the year.

Ethical policy

UK Coal PLC is committed to working with our employees, customers, suppliers and contractors to promote responsible working and trading practices. It also provides assistance to the wider community by way of financial support for charitable and other local causes.

Quality and Integrity of Personnel

It is the Company's policy to employ the highest calibre of management and staff and encourage the highest standards of personal integrity. Recruitment procedures are designed to identify and reward high calibre individuals. Bonus schemes are in operation to improve productivity and control costs.

Substantial shareholdings

The directors have been notified of the following substantial shareholdings as at 4 March 2004:

	Number of shares	**% of issued share capital**
Millgate Capital Inc.	14,350,000	9.83
Fidelity Investments	11,600,900	7.94
Barclays Bank	4,545,634	3.11
Global Asset Management	4,528,600	3.10
Legal & General	4,457,955	3.05

Purchase of own shares

The Directors are authorised to make market purchases of the Company's own shares under an authority granted at the Annual General Meeting held on 29 April 2003. No such purchases were made during the year. The Directors will seek renewal of this authority at the Annual General Meeting to be held on 27 April 2004.

Share Premium Account

Authorisation was given at the Annual General Meeting on 29 April 2003 for the cancellation of the Company's Share Premium Account. The cancellation was approved by an order of the High Court on 10 December 2003 and was effective, upon filing of the order with the Registrar of Companies, on 11 December 2003. The cancelled amount of the Share Premium Account, as at 11 December 2003, was £291.0 million. This amount has been transferred to the profit and loss account.

Directors' responsibilities

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 42 to 75 the Company and Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and have followed all applicable accounting standards.

The directors have responsibility for ensuring that the Company and Group keep accounting records, which disclose with reasonable accuracy the financial position of the Company and Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material mis-statement or loss.

It is accepted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

The auditors throughout 2003 have been PricewaterhouseCoopers LLP. During the course of 2002, the audit contract was put out to competitive tender as part of an overall review of audit service. PricewaterhouseCoopers LLP were re-appointed because of their knowledge and expertise of the industry, their service record and their reputation within their profession.

During the year PricewaterhouseCoopers LLP's fees amounted to £245,000 (2002: £241,000) for audit assignments, and £313,000 (2002: £401,000) for non-audit assignments. The latter comprised advice in respect of tax and compliance services, balance sheet restructuring advice and advice on conversion to International Financial Reporting Standards.

The Board recognises the importance of safeguarding auditor objectivity and has taken steps to ensure that auditor independence is not compromised:

- The Audit Committee reviews the audit appointment periodically. As noted above, such a review was rigorously performed in 2002.
- The Audit Committee has also approved the introduction of a group policy under which the external auditors will not, as a general rule, provide consulting services. The external auditors will provide audit-related services such as regulatory and statutory reporting as well as formalities relating to shareholder and other circulars.
- The external auditors may undertake due diligence reviews and provide assistance on tax matters given their knowledge of the Group's businesses. Such provision will, however, be assessed on a case by case basis so that the best placed adviser is retained. The Audit Committee will monitor the application of the policy in this regard and will keep the policy under review.

Directors' Report continued

- The Audit Committee reviews on a regular basis all fees paid for audit, and related and unrelated consultancy fees, with a view to assessing reasonableness of fees, value of delivery, and any independence issues that may have arisen or may potentially arise in the future.
- The auditors report to the directors and the Audit Committee confirming their independence in accordance with Auditing Standards.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

Melvin Garness
Company Secretary

4 March 2004

Remuneration Report

Introduction

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report provides details of UK COAL's remuneration policy. The second part provides details of the remuneration, service contracts and share interests of all the directors for the year ended 31 December 2003. The directors confirm that this report has been drawn up in accordance with the Directors' Remuneration Report Regulations 2002 and the Combined Code on Corporate Governance.

The Remuneration Committee

Responsibility for reviewing Group remuneration strategy and policy, recommending any changes and approving individual remuneration packages for executive directors rests with the Remuneration Committee. The Committee consists exclusively of non-executive directors and meets on at least two occasions each year. The members in 2003 were: Brian Staples (committee chairman), Robert Shrager, Garold Spindler and Peter Hazell. Garold Spindler was appointed committee chairman on 1 January 2004 upon the retirement of Brian Staples. The Committee may seek any information it requires from any employee or director, and all employees and directors are required to co-operate with any request made by the Committee. The Remuneration Committee also meets without management and receives information and independent executive remuneration advice from an external consultancy firm, Watson Wyatt LLP, whose appointment was made by the Remuneration Committee. Watson Wyatt LLP does not provide any other service to the Company. Executive directors do not participate in discussions relating to their remuneration.

Any changes to the remuneration strategy require shareholder approval at the Annual General Meeting. There are no changes proposed to the remuneration policy this year. The Committee will review the policy on a regular basis and recommend changes as and when appropriate in forthcoming years.

There are no special provisions for payments to directors on a change of control.

The Remuneration Committee have terms of reference, approved by the Board, which are available on the company website.

Directors' Remuneration Policy

The policy of the Committee recognises that the Company requires high quality and committed executive directors, and other senior executives in order to deliver appropriate levels of performance. The Committee therefore conducts its work to determine the appropriate remuneration levels and structure consistent with the need to attract, motivate and retain executive directors of the high quality required by the Company's interests.

The Remuneration Committee appointed Watson Wyatt LLP in 2003 to review and provide independent advice on the remuneration of its executive directors, and in particular on the appropriate mix of fixed and performance-related pay, and the performance criteria for the Bonus Share Matching Plan. The executive directors' remuneration is composed of a base salary, an annual performance bonus in conjunction with a discretionary Bonus Share Matching Plan and a Long Term Incentive Plan (LTIP).

The executive directors' emoluments for 2003 were as follows*:

	Base Salary £	Bonus Share Matching Plan £
Gordon McPhie	313,956	141,054
Melvin Garness	180,000	81,216
Patrick O'Brien	200,000	84,240

The bonus performance-related pay for the period represented 44.9% of fixed pay for Gordon McPhie, 45.1% of fixed pay for Melvin Garness and 42.1% of fixed pay for Patrick O'Brien.

The Company also provides executive directors with car benefits, pension contributions to a defined contribution pension scheme and health insurance. Bonus payments and benefits in kind are not pensionable.

Remuneration Report continued

The company has adopted a policy to seek shareholder approval of executive remuneration and in particular to put forward all new incentive schemes proposed for shareholder approval at the Annual General Meeting. No such incentive schemes were introduced in 2003.

The following paragraphs demonstrate how the three main constituents of the director remuneration packages are calculated. Where reference is made to objective measures of company performance, a following section sets out the outcomes on which the proposed bonuses are based.

Base Salaries

Executive directors' salaries were reviewed in April 2003 and this review took into account individual performance and market competitiveness. Base salary for 2003 was set at prior year salary plus 2.6% for Gordon McPhie; this salary increase was consistent with the salary increases to the general workforce. Patrick O'Brien's base salary was increased by 13.9% to include a promotional increase to £200,000 and Melvin Garness' salary was increased to £180,000, which was a 3.9% increase on base salary plus the consolidation of his director's fees from the Australian business.

Bonus Share Matching Plan

A Bonus Share Matching Plan was introduced in 2000 to encourage executive directors and senior executives to stay with the Group and to identify with the interests of shareholders by investing their own funds from their annual bonus in the Company. The participants in the Bonus Share Matching Plan may elect to take 50 per cent of the annual bonus in cash. The after-tax amount of the bonus remaining after that election is used to acquire shares, which must be held for a minimum of three years (the restricted period). At the same time a matching award of one share for every three basic shares acquired is made. These must also be held for a minimum of three years, but are subject to an extra condition that the director must remain in post throughout the restricted period. The Committee decided that to encourage executive directors to participate in the Bonus Share Matching Plan at its introduction, no performance conditions should be attached to the matching shares. However, to reflect this fact, the ratio of matching shares to basic shares has been held at a low level, one matching share for each three shares acquired.

The annual bonus provides an incentive opportunity in the range of 0% to 80% (Chief Executive) and 0% to 75% (for other executive directors) of base salary. At the start of the incentive year (1 January), based on the Company's business priorities, the Remuneration Committee sets both the performance measures and targets. These targets ensure that incentives at the higher end of the range are payable only for demonstrably superior Company and individual performance.

For the executive directors the financial performance measures for the 2003 incentive year were profit before tax (20% of available bonus), cost per gigajoule (20% of available bonus), cashflow (40% of available bonus) and other personal targets (20% of available bonus). In respect of 2003 the Chief Executive achieved 56.2% of his target, the Commercial Director achieved 60.2% of his target and the Director of Mining achieved 56.2% of his target. The Remuneration Committee will, from time to time as deemed appropriate, review the targets to ensure that they conform to circumstances and strategic direction. Annual bonuses and benefits in kind are not pensionable.

Long Term Incentive Plan

A Long Term Incentive Plan was introduced in 2000 for executive directors and senior executives, to provide incentives in the form of shares over periods of between 3 and 5 years, provided that the Company meets demanding targets for Total Shareholder Return (TSR).

Under the terms of the LTIP, a discretionary, performance related award of shares (up to a maximum value of 75% of the Chief Executive's base salary, 60% for other executive directors) is conditionally allocated to each director. The director may not sell or otherwise dispose of any part of his entitlement under the LTIP until the shares (or the relevant percentage of them) are vested in him upon the maturity of the award.

These shares are issued three years from the date of grant of award, contingent upon the Group achieving the pre-determined levels of performance set out in the table below, performance being measured as the percentage growth in the company's Total Shareholder Return (TSR). The director must remain in the post throughout the three-year period (subject to exceptions as set out in the plan) in order to be entitled to this award.

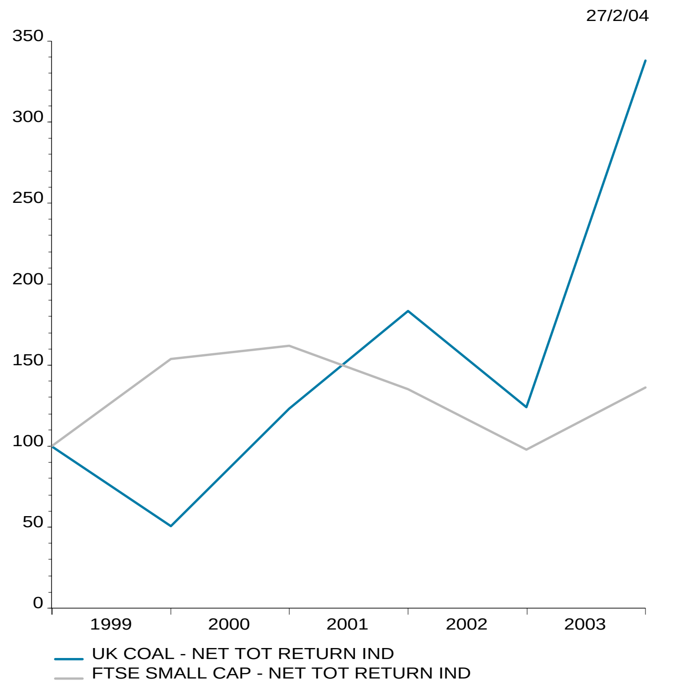
The committee may in its absolute discretion allow a participant to elect to defer the measurement for a maximum of two years. The committee shall determine the extent that the award is capable on realisation in accordance with the table below:

Growth in Total Shareholder Return	**% of Award capable of realisation**		
	3 years	**4 years**	**5 years**
Below 75%	NIL	NIL	NIL
75% or above	30	15	10
100% or above	50	30	20
150% or above	100	75	50

For TSR increases within these bands, shares are allocated on a straight-line basis as shown.

For all future issues under the scheme re-testing will not be allowed.

Performance Graph



The above graph shows the Company's total shareholder return performance listing in comparison with the TSR of the FTSE Small Cap Index for the five financial years ended 31 December 2003.

UK Coal is included in the FTSE Small Cap Index, which has therefore been selected as the most appropriate index against which to compare UK COAL's return to shareholders in the absence of any more specific sector index.

In the event of a change of control, vesting of shares under the LTIP is not automatic and would depend upon the extent to which the performance conditions had been satisfied within the period six months prior to that date.

All-Employee Share Scheme

In order to encourage share ownership, the Company currently provides an all-employee share scheme, the Sharesave Scheme. The scheme is approved by the Inland Revenue and provides for eligible employees to acquire the Company's shares with the proceeds of a weekly or monthly savings contract. The contract period is three or five years. The executive directors can participate in this scheme.

Remuneration Report continued

Other Terms and Conditions of Service

The executive directors' service contracts, including arrangements for early termination, are carefully considered by the Remuneration Committee and are designed to recruit, retain and motivate directors of the quality required to manage the Company. The Remuneration Committee considers that a notice period of one year is appropriate. It is the Company's policy not to enter into service contracts that provide for more than one years written notice.

The executive directors' service contracts do not contain provisions for compensation in the event of early termination. When calculating termination payments, the Remuneration Committee takes into account a variety of factors including individual and Company performance, the obligation of the director to mitigate his own loss (for example by gaining new employment), the director's age and his length of service. Although there is no specific provision for liquidated damages should the Company terminate the contract of a director, compensation for loss of office is limited to the amounts payable under these notice periods.

The executive directors' service contracts provide that any payments made pursuant to these provisions will be made less any deductions the employer is required to make and shall be in full and final settlement of any claims the executive director may have against the employer or any associated company arising out of the termination of employment except for any personal injury claim, any claim in respect of accrued pension rights or statutory employment protection claims.

The Board aims to recruit non-executive directors of a high calibre with broad commercial and other relevant experience. Non-executive directors are appointed for an initial three-year period. The terms of their engagement are set out in a letter of appointment. The initial appointment and any subsequent re-appointment is subject to election or re-election by shareholders at the Annual General Meeting. The letters of appointment contain three-month notice periods. Compensation for loss of office is limited to the amounts payable under these notice periods. The Board considers these notice periods appropriate given the skills and expertise of the directors.

Non-executive directors are paid a basic fee. Additional fees are payable for chairing a committee. Watson Wyatt LLP reviewed the level of directors' fees in 2003 and as a result of this review basic fees remained unchanged for the year.

Non-executive directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.

There are no other liabilities in respect of directors' service contracts that require disclosure. Copies of directors' service contracts and agreements are available to shareholders for inspection at the Company's registered office.

Directors' Service Contracts

	Contract Date	Unexpired term (as at 31 Dec 2003)	Notice period	Compensation payable upon early termination (iii)
David Jones	17.12.02	2 years	3 months	n/a
Gordon McPhie	18.05.93	Rolling 1 year	1 year	n/a
Melvin Garness (i)	29.12.94	Rolling 1 year	1 year	n/a
Patrick O'Brien	21.12.95	Rolling 1 year	1 year	n/a
Christopher Mawe (i)	31.10.03	Rolling 1 year	1 year	n/a
Robert Shrager (ii)	14.07.94	4 months	3 months	n/a
Garold Spindler	23.10.01	10 months	3 months	n/a
Peter Hazell	12.09.03	2 yrs 9 months	3 months	n/a
James Murray	12.09.03	2 yrs 9 months	3 months	n/a

(i) On 22nd October 2003 Melvin Garness gave notice of his intention to retire from the Board in October 2004. Christopher Mawe was appointed Executive Financial Director with effect from 1 March 2004.

(ii) Robert Shrager will stand down as a non-executive director at the Annual General Meeting on 27 April 2004.

(iii) The directors' employment contracts do not contain provisions for compensation payable upon early termination.

*Directors' emoluments for the year ended 31 December 2003**

	Salary/Fees (note 5) £	Bonus Share Matching Plan (note 6) £	Benefits in kind (note 7) £	Total 2003 £	Total 2002 £
David Jones[1, 2]	82,015	–	–	**82,015**	0
John Robinson[2]	36,667	–	–	**36,667**	110,000
Gordon McPhie	313,956	141,054	20,409	**475,419**	436,805
Melvin Garness[3]	180,000	81,216	21,244	**282,460**	257,906
Patrick O'Brien	200,000	84,240	18,943	**303,183**	259,659
Robert Shrager[2]	29,000	–	–	**29,000**	24,000
Brian Staples[2]	29,000	–	–	**29,000**	24,000
Garold Spindler[2, 4]	34,000	–	–	**34,000**	24,000
Peter Hazell[2]	6,643	–	–	**6,643**	–
James Murray[2]	8,028	–	–	**8,028**	–
	919,309	306,510	60,596	**1,286,415**	1,136,370

1 John Robinson was the Chairman of the Company until the Annual General Meeting on 29 April 2003. Remuneration was paid until that date. David Jones' fees were increased from £24,000 per annum to £110,000 per annum on his appointment as Chairman. The Chairman receives fees commensurate with his duties. These duties include: Managing the business of the Board and its committees, maximising long-term shareholder value by reviewing short term performance, risk management and long-term development of the Group, ensuring that corporate governance is in line with best practice, ensuring a management succession process is in place and working, making recommendations on the remuneration of all other non-executive directors and agreeing with the Chief Executive the most appropriate role of the Chairman vis-à-vis stakeholders including government, shareholders, the financial community, customers, competitors, partners potential and actual, trade unions, employees, the media and the wider community.

2 Each non-executive director, other than John Robinson, David Jones and Garold Spindler, is paid a fee of £24,000 per annum. Each non-executive director who chairs a committee receives an additional fee of £5,000 per annum.

3 Melvin Garness's base salary in 2003 was increased to include fees from Gloucester Coal (2002: £10,840).

4 The fees shown above for Garold Spindler relate to services as a director of the Company. He received higher fees than the other non-executive directors for additional time commitments in attending meetings but did not receive any payments for consultancy services during the year (2002: £33,000).

5 Remuneration paid to non-executive directors was for duties as non-executives only.

6 Under the terms of the Bonus Share Matching Plan, the executive directors have elected to receive 50% of their annual bonus in the form of cash, the balance (after deduction in tax) to be paid in shares. The total amount of the bonus (including cash and share elements) is disclosed in the table above. Of the proportion payable in cash, 50% of the entitlement of Melvin Garness and Patrick O'Brien has been paid in the form of additional pension contributions, as disclosed below.

7 Benefits in kind comprise car benefits and health insurance.

No directors waived emoluments in respect of the year ended 31 December 2003

Remuneration Report continued

*LTIP Grant 16 May 2000**

The Total Shareholder Return (TSR) over the performance period was 141% resulting in the vesting, during the year ended 31 December 2003, of 91% of the shares available for award.

	Basic share award 16 May 2000	Notional dividends re-invested	Total shares available for award	Total shares Awarded (91%) (i)	Share price at date of allocation	Share price at vesting date 16 May 2003	Gain per share at vesting date 16 May 2003	Gain to participant on total shares awarded (ii)
Gordon McPhie	310,478	188,471	498,949	454,044	31.5p	85.0p	53.5p	242,914
Melvin Garness	258,400	156,848	415,248	377,876	31.5p	85.0p	53.5p	202,164
Patrick O'Brien	258,400	156,848	415,248	377,876	31.5p	85.0p	53.5p	202,164

(i) Of the total shares awarded 41% were sold by the trustees to meet the directors' tax liabilities.

(ii) The gain under the Long Term Incentive Plan is the gain made by each participant. The share price at the vesting date is deducted from the share price at the date of allocation and multiplied by the total shares awarded under the scheme.

*Pension contributions**

All the executive directors were members of the UK COAL money purchase pension scheme throughout the year. The money purchase scheme does not provide additional post-retirement benefits (including contingent death benefits). The executive directors receive 30% of base salary.

Pension contributions on behalf of executive directors were as follows:

	Pension contributions 2003 £	Pension contributions 2002 £
Gordon McPhie	**93,590**	91,350
Melvin Garness (i)	**74,679**	64,364
Patrick O'Brien (i)	**79,837**	68,300

(i) The pension contributions for Melvin Garness and Patrick O'Brien include £20,304 (2002: £15,892) and £21,060 (2002: £16,108) respectively taken from the annual bonus entitlement.

*Long Term Incentive Plan and Bonus Share Matching Plan**

1. Long Term Incentive Plan*

	Interests at 1 Jan 2003	Interests awarded during the year	Interest matured during year	Interests at 31 Dec 2003	Share price at date of allocation	Earliest vesting date	End of latest performance period (i)
Gordon McPhie							
Executive LTIP 2000	310,478	nil	310,478	**nil**	31.5p	16.05.2003	15.05.2005
Executive LTIP 2001	375,000	nil	nil	**375,000**	60.0p	18.10.2004	18.10.2006
Executive LTIP 2002	nil	nil	nil	**nil**			
Executive LTIP 2003	nil	478,125	nil	**478,125**	48.0p	31.03.2006	31.03.2008
Total	685,478	478,125	310,478	**853,125**			
Melvin Garness							
Executive LTIP 2000	258,400	nil	258,400	**nil**	31.5p	16.05.2003	15.05.2005
Executive LTIP 2001	159,187	nil	nil	**159,187**	60.0p	18.10.2004	18.10.2006
Executive LTIP 2002	nil	nil	nil	**nil**			
Executive LTIP 2003	nil	216,513	nil	**216,513**	48.0p	31.03.2006	31.03.2008
Total	417,587	216,513	258,400	**375,700**			
Patrick O'Brien							
Executive LTIP 2000	258,400	nil	258,400	**nil**	31.5p	16.05.2003	15.05.2005
Executive LTIP 2001	169,187	nil	nil	**169,187**	60.0p	18.10.2004	18.10.2006
Executive LTIP 2002	nil	nil	nil	**nil**			
Executive LTIP 2003	nil	219,463	nil	**219,463**	48.0p	31.03.2006	31.03.2008
Total	427,587	219,463	258,400	**388,650**			

(i) As set out above, the Committee may allow a participant to elect to defer the measurement of performance for an award for a maximum of two years. This column shows the date of vesting if such deferral were permitted.

2. Bonus Share Matching Plan*

	Interests at 1 Jan 2003	Shares allocated during year	Matching Award	Interests at 31 Dec 2003	Share price at date of allocation	Vesting date
Gordon McPhie						
Bonus Matching 2001	34,827	nil	11,609	**46,436**	70.5p	13.03.2004
Bonus Matching 2002	41,141	nil	13,713	**54,854**	102.0p	03.04.2005
Bonus Matching 2003	nil	51,831	17,277	**69,108**	65.0p	10.03.2006
Total	75,968	51,831	42,599	**170,398**		
Melvin Garness						
Bonus Matching 2001	28,986	nil	9,662	**38,648**	70.5p	13.03.2004
Bonus Matching 2002	21,830	nil	7,236	**29,066**	102.0p	03.04.2005
Bonus Matching 2003	nil	29,338	9,779	**39,117**	65.0p	10.03.2006
Total	50,816	29,338	26,677	**106,831**		
Patrick O'Brien						
Bonus Matching 2001	28,986	nil	9,662	**38,648**	70.5p	13.03.2004
Bonus Matching 2002	23,201	nil	7,734	**30,935**	102.0p	03.04.2005
Bonus Matching 2003	nil	29,738	9,912	**39,650**	65.0p	10.03.2006
Total	52,187	29,738	27,308	**109,233**		

Remuneration Report continued

*Directors' interests in ordinary shares**

The directors' beneficial interests in ordinary shares of the Company and its subsidiaries at the end of the financial year were as set out below. None of the directors had an interest in shares of the Company's subsidiaries during the year:

	Interest in ordinary shares at 31 December 2003 (or on resignation) Beneficial (i)	Interest in ordinary shares at 31 December 2002 Beneficial
David Jones	**10,000**	nil
John Robinson (resigned 29 Apr 2003)	**32,500**	32,500
Gordon McPhie	**449,645**	129,928
Melvin Garness	**128,172**	98,834
Patrick O'Brien	**380,939**	128,255
Christopher Mawe (appointed 1 Mar 2004)	**nil**	–
Robert Shrager	**nil**	nil
Brian Staples (resigned 31 Dec 2003)	**20,000**	20,000
Garold Spindler	**283,200**	283,200
Peter Hazell (appointed 22 Sep 2003)	**nil**	nil
James Murray (appointed 22 Sep 2003)	**nil**	nil

(i) Beneficial interest includes shares owned and shares taken by way of bonus entitlement under the Bonus Shares Matching Plan.

(ii) For the purposes of the Companies Act 1985 each of the executive directors is deemed to have an additional interest in the ordinary shares held by the trustee of the Bonus Share Matching Plan.

(iii) Executive directors' shareholdings have increased principally by awards made under the Bonus Share Matching Plan and maturity of the Long Term Incentive Plan.

There have been no changes in directors' interests in shares between the end of the year and 4 March 2004.

*Directors' interests in share options**

The number of share options held by the Directors under the UK COAL Sharesave Scheme was as set out below. No other directors held share options.

	Options as at 1 Jan 2003	Lapsed during the year	Granted during the year	Options as at 31 Dec 2003	Exercise price	Earliest normal exercise date	Expiry date
Gordon McPhie	6,690	–	–	**6,690**	71.0p	1 Jan 2005	1 Jul 2005
Patrick O'Brien	6,690	–	–	**6,690**	71.0p	1 Jan 2005	1 Jul 2005

The market value of the Company's shares during the year ranged from 48.5p to 134.5p. The market value on 31 December 2003 was 126.0p. These figures are derived from the Daily Official List of the London Stock Exchange.

External appointments

None of the executive directors held positions as non-executive directors with other companies during 2003.

This report has been approved by the Board for submission to shareholders at the Annual General Meeting to be held on 27 April 2004 and signed on behalf of the Board by Garold Spindler.

By order of the Board

Garold Spindler
Chairman, Remuneration Committee
4 March 2004

* Denotes auditable elements of the Remuneration Report

Independent auditors' report

Independent auditors' report to the members of UK COAL PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report 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 whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

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 and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report 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.

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 31 December 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
East Midlands
4 March 2004

Consolidated Profit and Loss Account

For the year ended 31 December

	Notes	Before Operating Exceptional Items £'000	Operating Exceptional Items £'000	**Group 2003 £'000**	Before Operating Exceptional Items £'000	Operating Exceptional Items £'000	Group 2002 £'000
Turnover	2	563,854	–	**563,854**	596,602	–	596,602
Cost of sales before exceptional items		(558,982)	–	**(558,982)**	(570,887)	–	(570,887)
Exceptional cost of sales							
Impairment in value of colliery assets	3	–	–	**–**	–	(20,191)	(20,191)
Net closure and redundancy costs	3	–	(1,983)	**(1,983)**	–	(55,643)	(55,643)
Amounts recovered / (provided) against TXU	3	–	6,467	**6,467**	–	(6,358)	(6,358)
Provision against other amounts receivable	3	–	(1,681)	**(1,681)**	–	(9,309)	(9,309)
Cost of sales		(558,982)	2,803	**(556,179)**	(570,887)	(91,501)	(662,388)
Gross profit/(loss)		4,872	2,803	**7,675**	25,715	(91,501)	(65,786)
Coal Investment Aid	3	–	3,522	**3,522**	–	–	–
Other operating income & expenses	4	(11,359)	–	**(11,359)**	(13,686)	–	(13,686)
Total other operating income and expenses		(11,359)	3,522	**(7,837)**	(13,686)	–	(13,686)
Operating (loss)/profit		(6,487)	6,325	**(162)**	12,029	(91,501)	(79,472)
Profit on sale of land and buildings		5,830	–	**5,830**	2,033	–	2,033
(Loss)/profit on ordinary activities before interest and taxation		(657)	6,325	**5,668**	14,062	(91,501)	(77,439)
Interest receivable and similar income	6	3,141	–	**3,141**	5,181	–	5,181
Interest payable and similar charges	7	(3,486)	–	**(3,486)**	(2,854)	–	(2,854)
Unwinding of discount on provisions	24	(6,570)	–	**(6,570)**	(7,999)	–	(7,999)
Net interest payable and similar charges		(6,915)	–	**(6,915)**	(5,672)	–	(5,672)
(Loss)/profit on ordinary activities before taxation		(7,572)	6,325	**(1,247)**	8,390	(91,501)	(83,111)
Taxation	9	7,007	(1,898)	**5,109**	(1,791)	3,142	1,351
(Loss)/profit on ordinary activities after taxation		(565)	4,427	**3,862**	6,599	(88,359)	(81,760)
Equity minority interest		138	–	**138**	82	–	82
(Loss)/profit for the financial year		(427)	4,427	**4,000**	6,681	(88,359)	(81,678)
Dividend	11	(14,591)	–	**(14,591)**	(14,584)	–	(14,584)
(Loss sustained)/profit for the year		(15,018)	4,427	**(10,591)**	(7,903)	(88,359)	(96,262)
(Loss)/earnings per ordinary share	12	(0.3p)	3.0p	**2.7p**	4.6p	(80.6p)	(56.0p)

All amounts above relate to continuing operations. There is no material difference between the loss on ordinary activities before taxation and the loss sustained for the year stated above, and their historical cost equivalents.

Statement of Total Recognised Gains and Losses

For the year ended 31 December

	2003 £000	2002 £000
Profit/(loss) for the financial year	**4,000**	(81,678)
Exchange adjustments	**4,721**	(355)
Surplus arising on revaluation of tangible property assets	**220**	4,814
Total recognised gains and losses for the financial year	**8,941**	(77,219)

Balance Sheets

As at 31 December

	Notes	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
ASSETS					
Fixed assets					
Tangible fixed operating assets	13	**393,148**	427,211	–	–
Investment properties	14	**6,720**	6,500	–	–
Investments – in subsidiaries	15	**–**	–	**491,213**	491,213
– other	15	**27**	38	–	–
		399,895	433,749	**491,213**	491,213
Current assets					
Stocks	16	**59,496**	79,152	–	–
Debtors: amounts falling due after one year	17	**637**	8,873	**20,154**	20,154
Debtors: amounts falling due within one year	18	**81,772**	73,143	**173,218**	199,264
Cash at bank and in hand	30	**60,350**	60,893	**252**	–
		202,255	222,061	**193,624**	219,418
Total assets		**602,150**	655,810	**684,837**	710,631
LIABILITIES					
Capital and reserves					
Called up share capital	19	**1,460**	1,458	**1,460**	1,458
Share premium account	21	**2**	290,872	**2**	290,872
Revaluation reserve	21	**5,034**	4,814	**–**	–
Capital redemption reserve	21	**257**	257	**257**	257
Profit and loss account	21	**215,489**	(69,638)	**439,329**	164,174
Shareholders' funds, attributable to equity interests	22	**222,242**	227,763	**441,048**	456,761
Equity minority interest		**262**	331	**–**	–
Capital employed		**222,504**	228,094	**441,048**	456,761
Provisions for liabilities and charges	24	**226,987**	258,699	**–**	–
Creditors: amounts falling due after more than one year	25	**15,302**	22,790	**–**	–
Creditors: amounts falling due within one year	26	**137,357**	146,227	**243,789**	253,870
		379,646	427,716	**243,789**	253,870
Total funds employed		**602,150**	655,810	**684,837**	710,631

The financial statements on pages 42 to 75 were approved by the board of directors on 4 March 2004 and were signed on its behalf by:

G A McPhie Director **M Garness** Director

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2003 £000	2002 £000
Operating activities			
Net cash inflow from continuing operating activities		**46,026**	8,918
Returns on investments and servicing of finance			
Interest paid on bank borrowings		**(1,171)**	(401)
Interest paid on hire purchase and finance leases		**(1,933)**	(1,853)
Financing costs		**(203)**	(636)
Interest received		**2,577**	5,181
Inland Revenue interest received		**564**	–
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(166)**	2,291
Taxation		**3,967**	36
Capital expenditure and financial investment			
Development expenditure		**(3,778)**	(35)
Purchase of fixed assets		**(15,300)**	(40,475)
Receipts from sale of fixed assets		**10,410**	4,082
		(8,668)	(36,428)
Acquisitions and disposals			
Purchase of trade and assets	23	**(2,076)**	–
Cash inflow/(outflow) before use of liquid resources financing and dividends		**39,083**	(25,183)
Equity dividends paid		**(14,521)**	(14,529)
Cash inflow/(outflow) before use of liquid resources and financing		**24,562**	(39,712)
Management of liquid resources			
Cash deposited in subsidence security fund		**(792)**	(2,664)
Cash expended/(deposited) to cover insurance requirements		**4,471**	(2,075)
Other cash security deposits		**(2,053)**	–
		1,626	(4,739)
Net cash inflow/(outflow) before financing		**26,188**	(44,451)
Financing			
Issue of ordinary share capital		**128**	–
(Repayment)/drawdown of bank borrowings		**(21,343)**	27,994
Hire purchase and finance lease capital repaid		**(8,690)**	(12,975)
Increase in finance lease debt		**4,737**	8,414
Net cash (outflow)/inflow from financing		**(25,168)**	23,433
Increase/(decrease) in cash	30	**1,020**	(21,018)

Reconciliation of Operating Loss to Net Cash Inflow from Operating Activities

For the year ended 31 December

	2003 £000	2002 £000
Continuing Activities		
Operating loss	**(162)**	(79,472)
Depreciation on tangible fixed assets	**52,616**	59,299
Exceptional impairment	**–**	20,191
Net charge for surface mine development and restoration assets	**7,045**	11,413
Loss/(profit) on disposal of plant and machinery	**138**	(296)
Decrease/(increase) in stocks	**19,711**	(7,286)
(Increase)/decrease in debtors	**(2,851)**	12,332
Decrease in creditors	**(35,271)**	(7,263)
DTI contributions to redundancy payments	**4,800**	–
Net cash inflow from continuing operating activities	**46,026**	8,918

Exceptional operating cash flows

Included within net cash inflow from continuing operating activities are amounts of £11.9 million paid in respect of redundancy payments, £8.4 million received in respect of the sale of UK COAL's claim against TXU (in Administration) and £0.6 million paid in settling long-term contracts.

Reconciliation of Net Cash Flow to Movement in Net Funds

	At 1 January 2003 £000	Cash flow £000	Exchange adjustment £000	Other non cash changes £000	At 31 December 2003 £000
Net cash at bank	**301**	1,020	63	–	**1,384**
Liquid resources	**60,592**	(1,626)	–	–	**58,966**
Bank borrowings	**(28,386)**	21,343	–	(181)	**(7,224)**
Hire purchase and finance leases	**(25,473)**	3,953	–	(2,387)	**(23,907)**
	7,034	24,690	63	(2,568)	**29,219**

Major non-cash transactions

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £2,387,000 (2002 : £7,336,000).

Notes to the Accounts

For the year ended 31 December 2003

1 Accounting policies

The financial statements are prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the most significant 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 as modified by revaluation of investment properties in accordance with SSAP19 "Accounting for Investment Properties".

Long-term debtors and long-term provisions are discounted to reflect their net present value.

Consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2003. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

Trading accounts within the Group are made up to a convenient week ending date around the 31 December each year. For 2003 trading is shown for the 52 week period ended on 27 December 2003 (2002: 52 week period).

Goodwill and intangible assets

Goodwill arising on acquisition represents the excess of fair value of the consideration given over the fair value of the net assets acquired. Goodwill arising is 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 is reviewed as necessary for impairment and a write-down in carrying value is made where impairment is identified.

Tangible fixed operating assets and depreciation

Freehold land is not depreciated. Mineral rights are depreciated on a depletion basis related to coal extraction. The cost, less estimated residual value, of other tangible fixed operating assets is written off by equal instalments over their expected useful lives. Heavy mining and other plant and equipment is depreciated at varying rates depending upon its expected usage. Indicative rates are as follows:

Freehold buildings	– 50 years
Mines and surface works	
Heavy mining equipment	– 8 to 20 years
Mine development	– see policy below
Plant and machinery	
Plant and equipment	– 3 to 15 years
Motor vehicles	– 3 to 5 years
Surface mine development and restoration assets	– see policy below

Mine development

The purpose of mine development is to establish secure working conditions and infrastructure to allow the safe and efficient extraction of recoverable reserves. Depreciation on mine development is not charged until full production commences or the assets are put to use. On commencement of full production, depreciation is charged on a tonnage-extracted basis over the estimated life of the recoverable reserves. Coal extracted prior to the commencement of full production is credited against the cost of mine development.

1 Accounting policies (continued)

Surface mine development and restoration assets

Expenditure incurred prior to the commencement of working surface mine sites net of any residual value and taking into account the likelihood of the site being developed is capitalised, within tangible fixed assets and charged to the profit and loss account over the coaling life of the site. Expenditure on sites not expected to be worked within ten years is written off as incurred.

Seismic and geological mapping costs

Where costs have been incurred in the production of information which increases the value of the reserves by identifying additional reserves over and above those previously recognised, or increasing the value of the existing known reserves by providing information which enables reserve estimates to be increased, then this cost is capitalised and amortised on a unit of production basis over the life of the associated reserves. If the information does not fulfil either of the above criteria the cost is charged to the profit and loss account as incurred.

Colliery valuation

Assets acquired on the privatisation of British Coal in 1994 were valued at the discounted net recoverable amount based on future mining plans in accordance with the accounting guidance existing at that time. Subsequent additions to mines and surface works are accounted for at cost. Depreciation is provided on a straight-line basis and accelerated if necessitated by the mining plans. The carrying value of Income Generating Units (taking into account related liabilities and allocated central net assets) is tested for impairment on a regular basis by comparison with expected relevant future cash flows discounted for cost of capital and taking into account appropriate risk, and provision is made for any impairment identified.

Income Generating Units comprise individual mines or groups of mines depending upon the nature of the income streams derived from each.

Coal Investment Aid Scheme

Coal Investment Aid is received as a contribution towards expenditure incurred by the company. If the actual expenditure has been charged to cost of sales in the profit and loss account then the Investment Aid is accounted for in the same period as the actual expenditure to which it relates and is identified as an exceptional item in the profit and loss account. Where the Investment Aid relates to the purchase of fixed assets the Investment Aid is held on the balance sheet as deferred income and is credited to profit and loss account over the life of the assets to which it relates.

Property

Depreciation

Freehold land is not depreciated. Freehold buildings, except investment properties, are depreciated over 50 years, being their estimated useful lives.

Rental Income

Rental income from investment properties and from other leased property assets is included within turnover and costs incurred in generating this income are included within cost of sales.

Disposal of land and buildings

Profits and losses on disposal of land and buildings represent the difference between the net proceeds and the net carrying value at the date of sale. Sales are accounted for when legal completion of the sale has occurred and all conditions relating to the sale have been satisfied. Net proceeds reflect purchase consideration less clawback as described below and net carrying value includes appropriate enhancement expenditure.

1 Accounting policies (continued)

Property clawback
Under the terms of the privatisation Sale and Purchase Agreement the Department for Trade and Industry is entitled to a proportion of any property gain (above certain thresholds and after deducting an amount representing corporation tax thereon) accruing or treated as accruing to UK COAL as a result of the disposal or deemed disposal of certain property held at privatisation. These entitlements are in place on a declining scale until 31 March 2015. If properties are disposed of, or are deemed to have been disposed of during this period, a part of the relevant gain will become payable to the Department for Trade and Industry. A liability for clawback in respect of property disposals is recognised only when an actual or a deemed disposal occurs.

Investment properties
Investment properties are revalued annually by professional external surveyors and included in the balance sheet at their open market value. In accordance with SSAP 19, depreciation is not provided on investment properties. This is a departure from the Companies Act 1985 which requires all tangible assets to be depreciated. In the opinion of the directors this departure is necessary for the financial statements to give a true and fair view and comply with applicable accounting standards which require properties to be included in the financial statements at open market value. Had the provisions of the act been followed the depreciation charge for the year on investment properties would not have been material.

Properties in the course of development
Directly attributable costs that are incurred in the course of developing a property are capitalised as part of the cost of the property.

Investments
Investments are stated at cost less provision for impairment.

Stocks
Stocks have been valued at the lower of cost and net realisable value. Appropriate provisions are made for slow-moving and obsolete stock.

Cash and liquid resources
In the preparation of the Group's cash flow statement, cash is defined as cash held or on deposit and overdraft balances repayable on demand. Liquid resources include short-term deposits and other investment instruments used by the Group to manage its overall cash position.

Restoration and closure costs
Surface mines – The total costs of reinstatement of soil excavation and of surface restoration are recognised as a provision on site commissioning when the obligation arises. The amount provided represents the present value of the expected costs. Costs are charged to the provision as incurred and the unwinding of the discount included in the interest charge for the year. A tangible fixed asset is created for an amount equivalent to the initial provision. This is charged to the profit and loss account on a unit of production basis over the life of a site.

Deep mines – Closure costs relating to shaft treatment and pit top restoration are recognised as a provision on a discounted basis at colliery commissioning stage or on acquisition. 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. A tangible fixed asset is created for an amount equivalent to the initial provision except where the associated collieries are already recorded at their recoverable amount. Costs of restoring spoil heaps, where acquired as part of a colliery

1 Accounting policies (continued)

portfolio, are provided for on acquisition to the extent that an obligation has been incurred and, thereafter, on a unit of production basis as the additional obligation arises. Provision for other closure costs is made when there is a demonstrable commitment to the colliery closure.

Pumping costs – Pumping costs are mainly provided in respect of the legal requirement to continue pumping activities at certain mines (following closure) and at other pumping facilities for a period into the future. The provision is based on current experience and present value projections of future costs. Pumping costs on continuing operations are expensed as incurred.

Ground and groundwater contamination – A provision is established for ground and groundwater contamination from the point at which a legal or constructive obligation is identified and can be quantified.

Surface damage

Provision is made for the estimated cost of settlement of surface damage claims based on tonnage of coal. Provision is made for the estimated cost of settlement of surface damage claims based on tonnage of coal with the historical settlement experience in respect of each colliery. The provision made represents the present value of the expenditure required to settle the obligation.

Employer and public liability claims

The Group has established a DTI-approved insurance subsidiary (Harworth Insurance Company Limited). Provision is made for the estimated value of both known and incurred but not reported third party claims on an actuarially determined basis. Where these claims are expected to be settled over a longer period of time, the provision made represents the present value of the expenditures expected to be required to settle the obligation.

Concessionary fuel

Provision is made for the estimated liability arising from the obligation to provide concessionary fuel benefits to retired employees. The costs of the concessionary fuel benefits 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 the benefits over the employees working lives with the Group.

Redundancy

Redundancy costs are provided for where employees have been informed of their future redundancy at the balance sheet date. The full amount of redundancy payments including amounts in respect of ex-gratia payments are provided where this has been communicated to employees.

Where contributions towards redundancy costs have been firmly committed by third parties at the balance sheet date, these contributions are credited to the profit and loss account.

Pension provision

Pension provision for the Group's employees is made through a number of pension schemes. The Group contributes, in respect of those employees who transferred direct from British Coal Corporation, to two schemes providing benefits based on final pensionable pay; the Industry-wide Staff Superannuation Scheme for non-industrial staff, officials and weekly paid employees 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 working lives with the Group.

For the majority of other employees, the Group operates defined contribution schemes with pension costs charged to profit as incurred.

Additional disclosures required under the transitional rules of FRS 17 are provided in note 27 to the accounts.

1 Accounting policies (continued)

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, with the following exceptions:

- Deferred taxation assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted;
- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets; and
- Provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Hire purchases and leases

Leases which transfer substantially all the risks and rewards of ownership to the company are treated as finance leases. All other leases are treated as operating leases. Assets held under hire purchase and finance lease arrangements are capitalised and the outstanding capital obligations are included in creditors. Interest is allocated to accounting periods during the hire purchase or lease term to reflect a constant rate of charge on the remaining balance of the obligation. Costs in respect of operating leases are charged to the profit and loss account as incurred.

Turnover

Turnover comprises sales of coal and manufactured fuel, excluding intra-group sales.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities are translated at year-end exchange rates (or at a contractual rate if applicable) and the resulting exchange rate differences are dealt with in the determination of profit for the financial period.

For consolidation purposes the assets, liabilities and profit and loss account of overseas subsidiaries are translated at the year-end exchange rate. Differences arising on translation to sterling of assets and liabilities of subsidiaries denominated in foreign currencies are taken direct to profit and loss account reserve and reported in the statement of total recognised gains and losses.

Derivatives and other financial instruments

Financial instruments are utilised to support and raise finances for the Group's trading operations. Interest is charged or taken to profit as incurred or earned, except that finance costs, including issue costs, of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount of debt.

The Group is party to derivative financial instruments (derivatives) primarily to manage exposure to fluctuations in foreign currency exchange rates and interest rates. Derivatives are designated as hedges and treated as such from the inception of the relevant contracts. Gains or losses on hedging instruments are recognised when the hedged transaction occurs. Gains or losses arising from cancellation of hedging instruments due to the termination of the underlying transaction are taken to the profit and loss account immediately. Amounts payable or receivable in respect of interest rate swap agreements are recognised as adjustments to the interest expense over the period of the contracts.

Emissions Trading Scheme

Income arising from carbon reductions as part of the Emissions Trading scheme is credited to the profit and loss account for the year in which the credits are achieved within the line "Other operating income" to the extent that it is virtually certain that the income entitlement is established. Surplus credits are not valued and are therefore not recognised in the accounts until such time as they are sold to third parties. Further details are given in notes 2 and 28.

2 Segmental and geographical analysis

	2003 £000	2002 £000
Turnover		
Continuing operations:		
Coal sales – Deep Mines	**447,351**	445,087
Coal sales – Surface Mines	**66,236**	96,305
UK Mining	**513,587**	541,392
Surface mine contract mining and associated activities	**3,856**	4,724
Manufactured fuel and combined heat and power	**16,965**	15,908
Australia – coal sales	**25,633**	31,145
Property activities	**3,813**	3,433
	563,854	596,602

All turnover with the exception of Australia originates in the United Kingdom.

Geographical analysis by destination

	2003 £000	2002 £000
United Kingdom	**530,287**	557,874
Europe	**9,525**	7,583
Asia – Pacific	**24,042**	31,145
	563,854	596,602

(Loss)/profit before taxation

	2003 £000	2002 £000
Continuing operations:		
Coal sales – Deep Mines (Note a)	**(8,552)**	(5,904)
Coal sales – Surface Mines	**668**	16,461
Exceptional items (Note 3)	**6,325**	(91,501)
UK Mining	**(1,559)**	(80,944)
Other associated activities	**738**	(2,270)
Manufactured fuel and combined heat and power	**360**	(635)
Emissions trading	**3,230**	4,153
Australia – coal sales	**(3,992)**	1,834
– hedging losses	**–**	(2,517)
Property activities – rentals and other property activities	**1,061**	907
– profit on sales	**5,830**	2,033
Net interest payable and similar charges	**(6,915)**	(5,672)
(Loss) before taxation	**(1,247)**	(83,111)

All (losses)/profits before taxation with the exception of Australia arise in the United Kingdom.

Notes to the Accounts continued

For the year ended 31 December 2003

2 Segmental and geographical analysis (continued)

	2003 £000	2002 £000
Net assets/(liabilities)		
Continuing operations:		
Deep Mines	**128,946**	149,298
Surface Mines	**(13,729)**	12
UK Mining	**115,217**	149,310
Other associated activities	**(10,553)**	(15,049)
Manufactured fuel and combined heat and power	**(1,664)**	(1,107)
Australia	**10,312**	11,916
Property activities	**88,023**	83,256
	201,335	228,326
Unallocated net assets/(liabilities):		
Dividend payable	**(7,299)**	(7,292)
Net funds and finance leases	**28,468**	7,060
	222,504	228,094

All net assets/(liabilities) with the exception of Australia relate to United Kingdom activities.

Note a: Includes the effect of net increase of provisions of £7.5 million (2002: net release of provisions of £21.1 million).

3 Exceptional items

Exceptional items comprise the following:

	Note	2003 £000	2002 £000
Impairment	a	**–**	(20,191)
Net redundancy and closure cost			
Redundancy	b	**(2,672)**	(60,378)
Stores equipment and asset write-back/(write-off)	c	**689**	(9,765)
DTI contribution	d	**–**	10,000
Concessionary fuel	e	**–**	4,500
		(1,983)	(55,643)
Amounts recovered/(provided) against TXU debtor	f	**6,467**	(6,358)
Provision against other amounts recoverable	g	**(1,681)**	(9,309)
Coal Investment Aid	h	**3,522**	–
		6,325	(91,501)

Notes

a Following the announcement of the closure of mining operations at Selby, the carrying value and estimated useful economic lives of the mines and surface works were reviewed, giving rise to an impairment in value in 2002.

b Costs predominantly associated with the closure of the Selby mines and surface works and head office reorganisation (2002: Costs predominantly associated with the closure of Prince of Wales Colliery and the closure of the Selby mines and surface works).

c Equipment and stores at Clipstone and Selby, and a claim accrual provided for in 2002, released in 2003.

d Government contribution to redundancy costs arising at Selby mines.

3 Exceptional items (continued)

e Reduction in liability to provide concessionary fuel deliveries.

f A major customer, TXU Europe Energy Trading Ltd, with which UK COAL had a contract for fuel deliveries up to March 2009, went into administration in November 2002. UK COAL agreed with the administrator to fix the Company's liability in respect of claims at £28 million covering unpaid invoices for fuel delivered (£6.4 million provided at December 2002) and future losses under the contract. In 2003 UK COAL sold its claim under an agreement providing an immediate payment to UK COAL of £8.4 million with the two parties to the agreement sharing equally in distributions above 40% and below 30% down to a minimum of 15% (giving UK COAL a minimum of 22.5% of the final agreed debt). When TXU goes into liquidation, while the level of distribution is uncertain, the Board are confident that the gross level of debt agreed with the administrator will be accepted by the liquidator and accordingly, the profit and loss account includes, as an exceptional item, the minimum amount payable under the agreement for the sale of the debt, £6.3 million (which is 22.5% of £28 million).

g Provision against fuel debtor and amounts settled in relation to long-term contracts (2002: provision against certain amounts recoverable under long-term contracts where settlement is dependent on future planning permission and contract negotiations).

h Coal Investment Aid receivable under the Government Aid Scheme.

4 Other operating income and expenses

	2003 £000	2002 £000
Administrative expenses	**16,286**	18,164
Other operating income	**(4,927)**	(4,478)
Other operating income & expenses	**11,359**	13,686

Due to the nature of the Group's business, distribution expenses are treated as a part of cost of sales.

Administrative expenses include £0.7 million (2002: £3.0 million) in respect of fees payable to Bain & Co., the consultants engaged to assist with Project 105.

5 Employee information

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

	2003 number	2002 number
Deep mines operations	**4,686**	5,431
Surface mines operations	**566**	582
Other businesses	**126**	128
Administration	**685**	761
	6,063	6,902

Staff costs (including executive directors)

Wages and salaries	**182,874**	205,937
Social security costs	**16,210**	15,570
Pension and post retirement benefit costs	**16,002**	12,340
	215,086	233,847

Pension and post retirement benefit costs in 2002 were reduced through the release of part of the concessionary fuel costs provided for in earlier periods.

Directors' remuneration and interests

Detailed information relating to directors' remuneration and their interests in share options is indicated by* on pages 33 to 40 and forms part of these financial statements.

6 Interest receivable and similar income

	2003 £000	2002 £000
Interest receivable from short-term deposits	**2,577**	5,181
Interest receivable from Inland Revenue	**564**	–
	3,141	5,181

7 Interest payable and similar charges

	2003 £000	2002 £000
On bank loans, overdrafts and other loans repayable within 5 years	**1,171**	401
Amortisation of loan issue costs (FRS4)	**384**	545
On finance leases and hire purchase, repayable within 5 years	**1,931**	1,908
	3,486	2,854

8 Loss on ordinary activities before taxation

	2003 £000	2002 £000
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation – tangible owned assets	**46,344**	50,661
Depreciation – assets held under hire purchase and finance leases	**6,272**	8,638
Net charge for surface mine development and restoration assets	**7,045**	11,413
Loss/(profit) on disposal of tangible fixed assets – plant and equipment	**138**	(296)
Profit on disposal of tangible fixed assets – land and buildings	**(5,830)**	(2,033)
Auditors remuneration (Company £35,000 2002: £35,000)	**245**	241
Rent receivable	**(3,814)**	(3,433)

Auditors remuneration

It is the Group's practice to employ PricewaterhouseCoopers LLP on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally tax advice and due diligence reporting on potential acquisitions, or where they are awarded assignments on a competitive basis.

The Audit Committee reviews non-audit assignments annually, and approves all assignments above a set threshold cost.

During the year PricewaterhouseCoopers LLP earned the following fees:

	2003 £000	2002 £000
Statutory audit	**245**	241
Due diligence and other audit-related work	**109**	135
Tax advice and compliance services	**204**	266
	558	642

9 Taxation

	2003 £000	2002 £000
On ordinary activities		
United Kingdom corporation tax at 30% (2002: 30%)	**(1,898)**	–
Adjustment in respect of prior years	**(5,109)**	–
Overseas taxation	**–**	3
Total current tax on ordinary activities	**(7,007)**	3
Deferred tax		
Origination and reversal of timing differences	**–**	2,514
Adjustment in respect of prior years	**–**	(726)
Total deferred tax on ordinary activities	**–**	1,788
On exceptional items		
United Kingdom corporation tax at 30% (2002: 30%)	**1,898**	–
Origination and reversal of timing differences	**–**	(3,142)
Total tax on exceptional items	**1,898**	(3,142)
Total current tax	**(5,109)**	3
Total deferred tax	**–**	(1,354)
Tax credit on loss on ordinary activities	**(5,109)**	(1,351)

The tax credit of £5.1 million arose as a result of the Group reaching agreement with the Inland Revenue on the open issues relating to prior years.

Group tax reconciliation

	2003 £000	2002 £000
Loss before taxation	**(1,247)**	(83,111)
Tax credit thereon at 30%	**374**	24,933
Less: Total current tax credit/(charge)	**5,109**	(3)
Difference	**(4,735)**	24,936
Explained by:		
Expenses not deducted for tax purposes	**(3,818)**	(1,697)
Fixed asset timing differences	**–**	8,915
Other timing differences	**–**	3,924
Utilised tax losses	**–**	13,566
Australian losses – no tax relief recognised	**1,257**	225
Adjustment in respects of prior years	**(5,109)**	–
Overseas tax	**–**	3
Deferred tax movements not recognised	**2,935**	–
	(4,735)	24,936

Deferred taxation

	2003 Total amount provided (note 24) £000	2003 Total potential asset/ (liability) £000	2002 Total amount provided £000	2002 Total potential asset/(liability) £000
Group Fixed asset timing differences	**(21,877)**	**(21,131)**	(34,205)	(29,615)
Other timing differences	**21,877**	**30,295**	34,205	39,279
Losses	**–**	**13,781**	–	16,216
Deferred tax asset	**–**	**22,945**	–	25,880

The unrecognised deferred tax asset is recoverable against future profits of the Group.

10 Loss for the financial year

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included separately in these financial statements. The loss for the financial year was £1,251,000 (2002: Loss £72,143,000).

11 Dividends

	2003 per share	**2003 £000**	2002 per share	2002 £000
Interim	**5.0p**	**7,292**	5.0p	7,292
Final	**5.0p**	**7,299**	5.0p	7,292
	10.0p	**14,591**	10.0p	14,584

The number of shares in issue at 31 December 2003 was 145,988,490 (2002: 145,847,454).

Subject to approval at the AGM, the final dividend of 5.0 pence per share (2002: 5.0 pence per share) will be paid on 18 June 2004 to shareholders on the register at 21 May 2004. The total dividend recommended for the year is 10.0 pence per share (2002: 10.0 pence per share).

12 (Loss)/earnings per share

Earnings/(loss) per share have been based on the weighted average number of shares in issue and ranking for dividend, being 145,887,376 (2002: 145,847,454) and on the profit/(loss) after taxation and minority interests.

There is no difference between basic and diluted earnings per share.

13 Tangible fixed operating assets

	Freehold land and buildings £000	Mines and surface works £000	Plant and machinery £000	Surface mine development and restoration assets £000	Total £000
Group					
Cost					
At 1 January 2003	88,409	843,934	139,866	96,204	1,168,413
Exchange adjustment	793	–	1,997	4,369	7,159
Additions	3	15,761	5,720	12,252	33,736
Assets aquired (note 23)	–	–	1,500	–	1,500
Disposals	(871)	(17,707)	(6,926)	(2,573)	(28,077)
Reclassification of Australian assets	41	–	4,047	(4,088)	–
At 31 December 2003	88,375	841,988	146,204	106,164	1,182,731
Depreciation					
At 1 January 2003	6,329	585,380	87,558	61,935	741,202
Exchange adjustment	12	–	1,172	906	2,090
Charge for year	693	42,079	9,844	17,894	70,510
Disposals	(30)	(17,661)	(6,528)	–	(24,219)
At 31 December 2003	7,004	609,798	92,046	80,735	789,583
Net book value					
At 31 December 2003	**81,371**	**232,190**	**54,158**	**25,429**	**393,148**
At 31 December 2002	82,080	258,554	52,308	34,269	427,211

The net book value of tangible fixed assets includes £5.3 million (2002: £0.9 million) in respect of assets held under hire purchase contracts and £31.9 million (2002: £28.4 million) in respect of assets held under finance leases.

The Freehold land and buildings net book value comprises £77.0 million of UK land and buildings and £4.4 million of Australian land and buildings.

14 Investment properties

	£000
At 1 January 2003	6,500
Increase in value of investment properties	220
At 31 December 2003	**6,720**

The investment property valuation was undertaken by Fuller Peiser. The investment property comprises Asfordby Business Park, which has been substantially let and is valued at £6.7 million as at 31 December 2003 on an open market value basis.

Notes to the Accounts continued

For the year ended 31 December 2003

15 Fixed asset investments

	£000
Group	
Other investments at 1 January 2003	38
Less disposals	(11)
At 31 December 2003	**27**

	£000
Company	
Cost or valuation	
At 1 January 2003 and 31 December 2003	**491,213**

Interests in principal Group undertakings:

	Activity	Description of shares held	Group %	Proportion of nominal value of issued share capital held by Company %
Coal Resources Ltd	Surface mining	Ordinary	100	–
Gloucester Coal Ltd	Surface mining	Ordinary	97	–
Harworth Group Ltd	Holding company	Ordinary	100	24
Harworth Guarantee Co. Limited	Holding company	*	*	*
Harworth Insurance Company Limited	Insurance	Ordinary	100	100
Harworth Mining Ltd	Underground mining	Ordinary	100	–
Harworth Power Limited	Power generation	Ordinary	100	–
Mining Services Ltd	Surface mining and plant operations	Ordinary	100	–
The Monckton Coke & Chemical Company Limited	Manufactured fuel and power generation	Ordinary	100	–
UK Coal Australia Pty Limited	Investment holding company	Ordinary	100	100
UK Coal Holdings Ltd	Holding company	Ordinary	100	74
UK Coal Mining Ltd	Underground and surface mining	Ordinary	100	–

* Harworth Guarantee Co. Limited is a private company, limited by guarantee, with no share capital.

With the exception of UK Coal Australia Pty Limited and Gloucester Coal Ltd, which are incorporated and registered in Australia, all of the above companies are incorporated in England and Wales. All companies operated principally in their country of incorporation and all are included in the consolidation. On 1 January 2003, Mining Services Ltd acquired the business and net assets of Harworth Plant & Equipment Ltd and UK Coal Mining Ltd acquired the business and net assets of UK Coal (Deep Mines) Ltd. The companies listed above include all those that materially affect the amount of profit or loss and the assets of the Group.

The Group owns 97% of the fully paid ordinary shares in Gloucester Coal Ltd, and the company does not have any other types of share.

Gloucester Coal Ltd is listed on the Australian Stock Exchange. The market value of the Group's investment in Gloucester Coal Ltd at 31 December 2003 was £13.5 million. The principal place of business of Gloucester Coal Ltd is at Level 5, Citadel Towers (Tower B), 799 Pacific Highway, Chatswood, NSW 2067.

Gloucester Coal Ltd's principal activities comprised the production and marketing of coal from the Duralie and Bowen's Road North surface mines.

16 Stocks

	Group 2003	Group 2002
Coal stocks	**29,612**	48,917
Spares and consumables	**29,884**	30,235
	59,496	79,152

17 Debtors: amounts falling due after one year

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Amounts owed by subsidiary undertakings	**–**	–	**20,154**	20,154
Other debtors	**637**	673	**–**	–
Government contributions to redundancy payments	**–**	8,200	**–**	–
	637	8,873	**20,154**	20,154

18 Debtors: amounts falling due within one year

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Trade debtors	**56,103**	57,450	**–**	–
Other debtors	**6,719**	3,231	**3,382**	3,537
Prepayments and accrued income	**13,750**	10,662	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**169,836**	195,727
Government contributions to redundancy payments	**5,200**	1,800	**–**	–
	81,772	73,143	**173,218**	199,264

19 Share capital

	2003 No. of shares	**2003 £000**	2002 No. of shares	2002 £000
Authorised share capital				
At 1 January and 31 December 2003				
Ordinary shares of 1p each	**250,000,000**	**2,500**	250,000,000	2,500
Issued and fully paid				
Ordinary shares of 1p each				
At 1 January 2003	**145,847,454**	**1,458**	145,847,454	1,458
Issued during year	**141,036**	**2**	–	–
At 31 December 2003	**145,988,490**	**1,460**	145,847,454	1,458

Notes to the Accounts continued

For the year ended 31 December 2003

20 Share Options in UK COAL PLC

At 31 December 2003 up to 3,359,347 (2002: 4,059,699) ordinary shares were reserved against the exercise of options by certain directors and employees under share option schemes as below. Options are normally exercisable within 6 months of the initial exercise date for share save options, and within 10 years of the issue date for executive options.

	Exercise Price Per share £	No. of ordinary shares 2003	2002
Exercisable from 2000	2.00 – 4.08	**90,000**	100,000
Exercisable from 2000	3.08 – 4.34	**9,000**	9,000
Exercisable from 2003	0.95	**439,847**	595,118
Exercisable from 2004	0.71	**2,820,500**	3,355,581
		3,359,347	4,059,699

During the year 141,036 shares were issued following exercise of options under the sharesave scheme and 559,316 share options either lapsed or were relinquished.

Long Term Incentive Plan

During the year 543,321 (2002: 91,060) shares were reserved for senior management against the award of shares under the Long Term Incentive Plan approved by shareholders at the AGM in May 2000.

	Exercise Price Per share £	No. of ordinary shares 2003	2002
Exercisable from 2004	0.60	**236,222**	236,222
Exercisable from 2005	0.90	**91,060**	91,060
Exercisable from 2006	0.48	**543,321**	–

21 Share premium and reserves

	Share premium account 2003 £000	Revaluation reserve 2003 £000	Capital redemption reserve 2003 £000	Profit and loss account 2003 £000
Group				
At 1 January 2003	290,872	4,814	257	(69,638)
Premium on shares issued up to 10 December 2003	125	–	–	–
Transferred to profit & loss account	(290,997)	–	–	290,997
Increase in valuation	–	220	–	–
Loss sustained for the year	–	–	–	(10,591)
Exchange differences	–	–	–	4,721
Premium on shares issued after 10 December 2003	2	–	–	–
At 31 December 2003	**2**	**5,034**	**257**	**215,489**
Company				
At 1 January 2003	290,872	–	257	164,174
Premium on shares issued up to 10 December 2003	125	–	–	–
Transferred to profit & loss account	(290,997)	–	–	290,997
Loss sustained for the year	–	–	–	(15,842)
Premium on shares issued after 10 December 2003	2	–	–	–
At 31 December 2003	**2**	**–**	**257**	**439,329**

Cumulative goodwill written off to reserves amounts to £172.9 million (2002: £172.9 million).

At the Annual General Meeting on 29 April 2003, shareholders passed a resolution approving a cancellation of the Company's share premium account. Following confirmation of the cancellation by the High Court and registration with the Registrar of Companies on 11 December 2003 the full value of the share premium account at that date (£291.0 million) has been transferred to the profit and loss account.

22 Reconciliation of movements in shareholders' funds

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Profit/(loss) for the financial year.	**4,000**	(81,678)	**(1,251)**	(72,143)
Dividends (note 11)	**(14,591)**	(14,584)	**(14,591)**	(14,584)
Exchange differences	**4,721**	(355)	**–**	–
Surplus on revaluation	**220**	4,814	**–**	–
Shares issued during the year	**129**	–	**129**	–
Movement in shareholders' funds	**(5,521)**	(91,803)	**(15,713)**	(86,727)
Opening shareholders' funds	**227,763**	319,566	**456,761**	543,488
Closing shareholders' funds	**222,242**	227,763	**441,048**	456,761

23 Acquisition of trade and assets

On 18 December 2003, the Group acquired the trade and certain of the assets of a surface mining contractor employed on three of the Group's surface mining sites with the objective of undertaking, up to completion of restoration , the surface mining operations on those sites. Being so close to the year end, these surface mining operations did not have any material effect on the Group's trading results.

	Provisional fair value £'000
Plant and equipment	1,500
Additional restoration and redundancy provisions	(4,055)
Net liabilities assumed	**(2,555)**

The net liabilities assumed were satisfied by cash consideration of £2.0 million and release of creditors and retentions amounting to £4.6 million.

24 Provisions for liabilities and charges

	As at 1-Jan 2003 £000	Created in year £000	Released in year £000	Utilised in year £000	Unwinding of discount £000	**At 31-Dec 2003 £000**
Group						
Employer and public liabilities	29,529	5,580	–	(11,779)	1,099	**24,429**
Surface damage	23,839	6,798	–	(9,497)	715	**21,855**
Concessionary fuel	25,074	–	(325)	(559)	890	**25,080**
Claims	975	–	(975)	–	–	**–**
Restoration & closure costs – surface mines	84,417	9,997	(4,572)	(18,302)	2,533	**74,073**
Restoration & closure costs – deep mines						
shaft treatment and pit top	25,913	5	(3,406)	(277)	776	**23,011**
spoil heaps	5,573	–	(432)	(25)	167	**5,283**
pumping costs	10,169	–	(986)	–	65	**9,248**
Ground/groundwater contamination	10,867	–	(423)	–	325	**10,769**
Gas plant decommissioning	153	158	–	(311)	–	**–**
Redundancy	42,190	3,097	(170)	(11,878)	–	**33,239**
	258,699	25,635	(11,289)	(52,628)	6,570	**226,987**

The net provision created/released of £14.3 million (2002: £34.8 million) included £2.7 million (2002: £55.9 million) in respect of exceptional items and £11.6 million (2002: release of £21.1 million) in respect of non-exceptional items. The latter includes £4.1 million created (note 23) (2002: £nil) on acquisition of the assets of a surface mining contractor that is off-set by an equivalent amount credited to the profit and loss account within cost of sales as a result of the same acquisition, resulting in no profit and loss impact.

24 Provisions for liabilities and charges (continued)

Changes to provisions that arise as a result of redundancy programmes are treated as exceptional items in the profit and loss account, consistent with the nature of the underlying event, which is usually the closure of a mine. Other provision changes relate to revisions in estimates arising in the ordinary course of business and are charged/credited within the appropriate caption in the profit and loss account.

During the year exceptional items of £2.7 million were charged to the profit and loss account in respect of redundancies.

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:

Employer and public liabilities relate respectively to existing claims by employees and the general public incurred during the course of mining operations. All amounts are expected to be paid in full on settlement of the claim, usually within a twelve-month period. The amounts remain subject to settlement with the individual claimants and are estimated based on historical experience.

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

Concessionary fuel provides for retirement benefits payable to employees in the form of heating coal provided by external coal retailers. The amounts payable are defined in employee terms and conditions and are subject to a qualifying period of service. The costs of the concessionary fuel benefits are determined by a qualified actuary on the basis of triennial valuations. Benefits are payable as an annuity. Further details are set out in note 27.

Claims provisions relate to surface mine 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 be entitled, under the relevant contract, to claim further costs incurred. The provision relates to existing claims, and to estimates based on known mining conditions that have been encountered for which a claim is expected. Claims are settled with individual contractors, generally at the completion of a surface mining site. All claims provisions are based on historical experience and contract rates but remain subject to negotiation between the Group and the contractor.

Restoration and closure costs – Surface mines

Relate to the total costs of reinstatement of soil excavation and of surface restoration such as topsoil replacement and landscaping. Restoration costs will be payable when individual sites are completed and payments against aftercare liabilities will extend beyond the life of each contract, usually six years.

Restoration and closure costs – Deep mines

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

Spoil heaps provisions relate to the costs payable to bring spoil heaps to a condition consistent with required planning permission and to complete approved restoration schemes. An element of spoil heap restoration is ongoing, although the majority of costs will be incurred on decommissioning of a colliery. The existing planning permission of spoil heaps could not be achieved without large quantities of fill material and soils being imported. These provisions assume that, following the closure of a mine, a revised restoration scheme would be agreed with the Mineral Planning Authority.

24 Provisions for liabilities and charges (continued)

Pumping costs are mainly provided in respect of the legal requirement to continue pumping activities at certain mine sites (following closure) and at other pumping facilities for a period into the future. The provision is based on current experience and present value projections of future costs. Pumping costs on continuing operations are expensed as incurred.

Ground/groundwater contamination provisions relate to the Group's legal or constructive obligation to address ground and groundwater pollutants at its operating sites. The provision is based on estimates of volumes of contaminated soil and the historical contract costs of ground contamination treatment. These costs will usually be incurred on the decommissioning of a site.

Gas plant decommissioning provision covers the costs of decommissioning plant and equipment at Monckton Coke & Chemical Company, which became obsolete on the commissioning of the Combined Heat and Power Plant in 1998. The provision is based on current cost payable to external contractors.

Redundancy provision represents the current estimated future costs of redundancy and ex-gratia payments to be made where this has been communicated to those employees concerned.

25 Creditors: amounts falling due after more than one year

	Group 2003 £000	Group 2002 £000
Hire purchase and finance lease liabilities	**15,106**	18,256
Retentions	**196**	4,534
	15,302	22,790

26 Creditors: amounts falling due within one year

	Group		**Company**	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Trade creditors	**50,791**	55,209	**–**	–
Other taxation and social security	**18,374**	13,697	**–**	–
Hire purchase and finance lease liabilities	**8,801**	7,217	**–**	–
Bank borrowings*	**7,224**	28,386	**7,224**	28,584
Amounts owed to subsidiary undertakings	**–**	–	**227,111**	217,374
Dividends payable	**7,471**	7,401	**7,471**	7,401
Accruals and deferred income	**44,696**	33,191	**1,983**	501
Corporation tax	**–**	1,126	**–**	10
	137,357	146,227	**243,789**	253,870

*Bank borrowings are stated after deduction of FRS4 issue costs of £375,000 (2002: £556,000).

27 Pension Schemes and other retirement benefits

The Group operates both defined benefit and defined contribution schemes for its employees.

The majority of the employees within defined benefit schemes are members of industry wide schemes being 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.

The most recent actuarial valuation of both of the above schemes was at 31 December 2000. The valuations of both schemes used the Projected Unit Method and were carried out by The Government Actuary Department, professionally qualified actuaries.

Pension costs payable by the Group in respect of both defined contribution and defined benefit schemes are shown below:

	2003 £000	2002 £000
Defined benefit schemes	**13,359**	14,285
Defined contribution schemes	**1,995**	1,919
	15,354	16,204

Actuarial valuations of each scheme were undertaken on 31 December 2000 using the Projected Unit Method. The main assumption underlying both schemes is a long term gross yield on scheme assets of 7% which will exceed the annual rate of increase in pensionable salaries and price inflation by 2.25% and 3.75% respectively. Pensions are expected to increase in line with price inflation. The aggregate market value of the assets at the valuation date was £65.0 million for the IWCSSS and £123.0 million for the IWMPS. The aggregate funding level on an ongoing basis is 87% and 101% respectively.

Following actuarial valuations undertaken as at 31 December 2000, revised contribution rates were applied from April 2002. For members of the IWMPS, employer contribution rates are 11.2% (1997 valuation – 10.9%) of earnings and for members of the IWCSSS, employer contributions are 19.45% (1997 valuation – 17.5%) with the employer's contribution incorporating a 3.35% deficiency contribution, estimated to be payable for 10 years to eliminate the deficiency.

A review of the IWMPS in accordance with minimum funding requirements regulations was carried out in 2003. This review resulted in a funding level of 83%. As a result employer contributions were increased to 14.2% of earnings plus monthly contributions of £253,000. Included within prepayments is an amount of £1.3 million (2002:£nil) being excess cash conrtributions over the regular profit and loss account charge.

Additional disclosures required for defined benefit schemes under FRS 17 "Retirement Benefits" transitional arrangements are given below:

	2003 %	2002 %	2001 %
Principal actuarial assumptions			
Rate of increase in pensionable salaries	**2.75**	3.25	4.0
Rate of increase in pensions in payment	**2.75**	2.25	2.5
Discount rate	**5.25**	5.5	6.0
Inflation assumption	**2.75**	2.25	2.5

The financial obligations of incapacity benefits are included within the assumptions used in valuing the scheme liabilities for the defined benefit schemes. Both schemes hold full insurance cover in respect of death-in-service benefits.

27 Pension Schemes and other retirement benefits (continued)

The assets of the scheme and the expected rate of return were:

	Long-term rate of return expected 2003 %	**IWMPS Value 2003 £000**	**IWCSSS Value 2003 £000**
Equities	**7**	**113,905**	**62,876**
Bonds	**5.25**	**9,431**	**7,112**
Total market value of assets		**123,336**	**69,988**
Present value of scheme liabilities		**(169,003)**	**(127,056)**
Gross deficit in the schemes		**(45,667)**	**(57,068)**

	Long-term rate of return expected 2002 %	IWMPS Value 2002 £000	IWCSSS Value 2002 £000
Equities	6	96,343	53,493
Total market value of assets		96,343	53,493
Present value of scheme liabilities		(151,557)	(106,366)
Gross deficit in the schemes		(55,214)	(52,873)

	Long-term rate of return expected 2001 %	IWMPS Value 2001 £000	IWCSSS Value 2001 £000
Equities	6	114,141	61,879

A deferred tax asset of £30.8 million (2002: £32.4 million) would offset the gross deficit if the Group generates sufficient taxable profits before the deficit is accounted for.

Movement in deficit in year

	IWMPS 2003 £000	**IWCSSS 2003 £000**	**Total 2003 £000**
Deficit at beginning of year	**(55,214)**	**(52,873)**	**(108,087)**
Current service cost (including employee contributions)	**(13,762)**	**(7,584)**	**(21,346)**
Contributions	**12,441**	**7,403**	**19,844**
Past service costs	**–**	**–**	**–**
Other financial income	**(2,590)**	**(2,643)**	**(5,233)**
Actuarial gain	**13,458**	**(1,371)**	**12,087**
	(45,667)	**(57,068)**	**(102,735)**

27 Pension Schemes and other retirement benefits (continued)

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

	IWMPS 2003 £000	IWCSSS 2003 £000	Total 2003 £000
Amounts to be included within operating profit:			
Current service costs	**9,993**	**5,865**	**15,858**
Past service costs	**–**	**–**	**–**
Total to be included within operating profit	**9,993**	**5,865**	**15,858**
Amounts to be included as other finance costs:			
Expected return on scheme assets	**6,037**	**3,384**	**9,421**
Interest on scheme liabilities	**(8,627)**	**(6,027)**	**(14,654)**
Total to be included as net finance charge	**(2,590)**	**(2,643)**	**(5,233)**
Amounts to be included in the consolidated statement of total recognised gains and losses:			
Difference between actual and expected return on scheme assets	**12,401**	**7,293**	**19,694**
Experience gains arising on scheme liabilities	**3,681**	**1,969**	**5,650**
Effects of changes in assumptions in present value of scheme liabilities	**(2,624)**	**(10,633)**	**(13,257)**
Total actuarial gains and losses to be recognised in STRGL	**13,458**	**(1,371)**	**12,087**

History of experience gains and losses:

Difference between actual and expected return on scheme assets:	
amount (£'000)	19,694
percentage of scheme assets	10.2%
Experience gains and losses on scheme liabilities:	
amount (£'000)	5,650
percentage of present value of scheme liabilities	1.9%
Total amounts included in consolidated statement of total recognised gains and losses:	
amount (£'000)	12,087
percentage of present value of scheme liabilities	4.1%

27 Pension Schemes and other retirement benefits (continued)

	IWMPS 2002 £000	IWCSSS 2002 £000	Total 2002 £000
Amounts to be included within operating profit:			
Current service cost	9,722	6,452	16,174
Past service costs	–	–	–
Total to be included within operating profit	9,722	6,452	16,174
Amounts to be included as other finance costs:			
Expected return on scheme assets	7,143	3,900	11,043
Interest on scheme liabilities	(8,400)	(5,356)	(13,756)
Total to be included as net finance charge	(1,257)	(1,456)	(2,713)
Amounts to be included in the consolidated statement of total recognised gains and (losses):			
Difference between actual and expected return on scheme assets	(34,739)	(18,521)	(53,260)
Experience gains arising on scheme liabilities	6,372	(4,976)	1,396
Effects of changes in assumptions in present value of scheme liabilities	(4,340)	(3,479)	(7,819)
Total actuarial gains and losses to be recognised in STRGL	(32,707)	(26,976)	(59,683)

History of experience gains and losses:

Difference between actual and expected return on scheme assets:	
amount (£'000)	(53,260)
percentage of scheme assets	35.5%
Experience gains and losses on scheme liabilities:	
amount (£'000)	1,396
percentage of present value of scheme liabilities	0.5%
Total amounts included in consolidated statement of total recognised gains and losses:	
amount (£'000)	(59,683)
percentage of present value of scheme liabilities	23.1%

	2003 Group £000	2002 Group £000
Net assets		
Net assets per balance sheet	**222,504**	228,094
Less SSAP 24 pension asset	**(1,262)**	–
Net assets excluding SSAP 24 pension asset	**221,242**	228,094
Less FRS 17 pension liability	**(102,735)**	(108,087)
Net assets including FRS 17 pension liability	**118,507**	120,007
Reserves		
Profit and loss reserve/(deficit) per balance sheet	**214,489**	(69,638)
Less SSAP 24 pension asset	**(1,262)**	–
Profit and loss reserve/(deficit) excluding SSAP 24 pension asset	**213,227**	(69,638)
Less FRS 17 pension liability	**(102,735)**	(108,087)
Profit and loss reserve/(deficit) including FRS17 pension liability	**110,492**	(177,725)

27 Pension Schemes and other retirement benefits (continued)

Other retirement benefits

The Group has a commitment to provide concessionary fuel benefits to retired ex-British Coal employees. At retirement upon attaining the age of 62, and having been employed for a minimum of 10 years, employees become entitled to a retirement fuel allowance. Employees with a minimum of 10 years employment who have attained the age of 50 and whose employment is terminated by redundancy are also eligible for this fuel allowance. 1,005 former workers and widows already receive this benefit and there are 2,357 current employees who may become members eligible for this allowance.

The most recent actuarial valuation of the above schemes was at 31 December 2003. The valuation of the scheme used the projected unit method and was carried out by William M Mercer Ltd, a professionally qualified actuary.

Additional disclosures required for other retirement benefits under FRS 17 "Retirement Benefits" transitional arrangements are given below:

	2003	2002	2001
Principal actuarial assumptions			
Average retirement age	**50 years**	50 years	50 years
Rate of leaving service	**2.50%**	2.50%	2.50%
Coal price inflation	**1.85%**	1.40%	1.50%
Discount rate	**5.40%**	5.50%	5.80%
Inflation	**2.85%**	2.40%	2.50%

Concessionary fuel is an unfunded retirement benefit and as such there are no assets in the scheme. The net liability relating to this unfunded benefit is shown below:

	2003 **£000**	2002 £000
Gross present value of scheme liabilities	**(23,444)**	(25,598)

A deferred tax asset of £7.0 million (2002: £7.7 million) would offset the gross deficit if the Group generates sufficient taxable profits before the deficit is accounted for.

The present value of scheme liabilities of £23,444,000 (2002: £25,598,000) compares to a provision per Note 24 of £25,080,000 (2002: £25,074,000).

The latest updated actuarial valuation at 31 December 2003 revealed a surplus in the provision of £1,636,000 (2002: £3,976,000 before the exceptional provision release of £4,500,000)

This surplus is accounted for under the rules of SSAP 24, during the transitional phase of FRS17, and will be released over the remaining service lives of the employees to which it relates.

27 Pension Schemes and other retirement benefits (continued)

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

	2003 Group £000	2002 Group £000
Net assets		
Net assets per balance sheet	**222,504**	228,094
Add back SSAP 24 provision (Note 24)	**25,080**	25,074
Net assets excluding SSAP 24 provision	**247,584**	253,168
Less FRS 17 concessionary fuel reserve	**(23,444)**	(25,598)
Net assets including FRS 17 concessionary fuel reserve	**224,140**	227,570
Reserves		
Profit and loss reserve/(deficit) per balance sheet	**214,489**	(69,638)
Add back SSAP 24 provision (Note 24)	**25,080**	25,074
Profit and loss reserve/(deficit) excluding SSAP 24 provision	**239,569**	(44,564)
Less FRS 17 concessionary fuel reserve	**(23,444)**	(25,598)
Profit and loss reserve/(deficit) including FRS17 concessionary fuel reserve	**216,125**	(70,162)

	2003 £000	2002 £000
Amounts to be included within operating profit:		
Current service cost	**842**	876
Past service cost	**–**	–
	842	876
Amounts to be included as other finance costs:		
Expected return on scheme assets	**–**	–
Interest on scheme liabilities	**(1,415)**	(1,386)
	(1,415)	(1,386)
Amounts to be included in the consolidated statement of total recognised gains and losses:		
Experience gains arising on scheme liabilities	**4,297**	829
Effects of changes in assumptions in present value of scheme liabilities	**(431)**	(985)
Total actuarial gains and losses to be recognised in STRGL	**3,866**	(156)
Movement in reserve during the year		
Concessionary fuel reserve at 1 January 2003	**(25,598)**	(23,765)
Current service cost	**(842)**	(876)
Benefits paid to former employees during the year	**545**	585
Interest on liabilities	**(1,415)**	(1,386)
Actuarial gains and losses recognised in STRGL	**3,866**	(156)
Concessionary fuel reserve at 31 December 2003	**(23,444)**	(25,598)

27 Pension Schemes and other retirement benefits (continued)

	2003	2002
History of experience gains and losses:		
Experience gains and losses on concessionary fuel reserve:		
amount (£'000)	4,297	829
percentage of present value of scheme liabilities	17%	3%
Total amounts included in consolidated statement of total recognised gains and losses:		
amount (£'000)	3,866	(156)
percentage of present value of scheme liabilities	15%	1%

28 Derivatives and other financial instruments

Strategies, Objectives and Policies

The Group's overall strategy and policy in respect of treasury and liquidity are set out in the Directors' report.

The Group's financial instruments include cash and liquid resources, borrowings, derivative financial instruments (derivatives) and other items such as trade debtors, trade creditors etc. that arise directly from its operations.

The treasury department manages the financial instruments within parameters set and reviewed by the Board. The Board regularly reviews financial instruments. The Group does not trade in these financial instruments. The treasury function is subject to periodic internal audits. Key risks associated with financial instruments are interest rate risk (risk that borrowings will be subject to unfavourable interest rate movements), foreign currency risk (risk that Australian sales in US dollars will be subject to unfavourable exchange rate fluctuations) and liquidity risk (risk that the Group's cash flow and facilities will be insufficient to meet obligations).

Group policy includes:

The Group's strategy includes maintaining committed facilities which provide adequate cover over peak anticipated borrowing requirements. The existing banking agreements include covenants on interest cover, EBITDA and net asset levels and a maximum gearing of 50%. At year end the Group's net gearing ratio was nil. For the purpose of the disclosures which follow, short term debtors and creditors which arise directly from the Group's operations have been excluded as permitted under FRS13.

Consequently these disclosures focus on the financial instruments which play a role in the financial risk profile of the Group on a medium to long-term basis.

The Group's policy is not to trade in derivatives and only to use these instruments where it reduces risk from contracted sales.

Coal swaps

The Group has entered into coal supply contracts where the price is in part determined by reference to an international coal marker price. In order to provide protection against a sudden fall in the international coal marker price the Group has entered into a series of coal swap transactions. The Group only enters into swap transactions where it has a sales contract that exposes it to international coal prices and then uses swaps to fix a proportion of this exposure.

The maturity of the swap transactions are such that they match closely the anticipated revenue receivable under these coal contracts.

Emissions Trading

During the year the Group has sold 25,000 tco_2e (2002: 37,000 tco_2e) (tonnes of carbon dioxide equivalents) allowances for cash consideration of £108,750 (2002: £273,000) under the rules of the UK Emissions Trading Scheme. At 31 December 2003 the Group held 101,666 tco_2e (2002: 199,610 tco_2e) allowances over and above those required allowances to meet its annual obligation under the scheme rules.

These have not been attributed a book value or fair value as there is no readily ascertainable market value due to the embryonic status of the carbon credit market.

Liquidity risk

The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term trade creditors and accruals at 31 December 2003 is set out below:

28 Derivatives and other financial instruments (continued)

	Debt £000	Finance leases and hire purchase contracts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	7,599	8,801	520	16,920
Between 1 and 2 years	–	8,251	168	8,419
Between 2 and 5 years	–	6,855	81	6,936
Over 5 years	–	–	–	–
	7,599	23,907	769	32,275

Other financial liabilities relate to retentions on contracts.

The comparative data as at 31 December 2002 is set out below:

	Debt £000	Finance leases and hire purchase contracts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	28,942	7,217	1,592	37,751
Between 1 and 2 years	–	7,615	220	7,835
Between 2 and 5 years	–	10,641	4,173	14,814
Over 5 years	–	–	50	50
	28,942	25,473	6,035	60,450

Interest rate risk

The Group's trading operations are financed through a mixture of retained profits, liquid resources, borrowings and deferred payment terms. The interest rate profile of the financial liabilities of the Group after taking account of interest rate swaps at 31 December 2003 is set out below:

	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average fixed interest rate %	Weighted average period for which no interest is paid Months	Weighted average period for which rate is fixed Months
Currency							
Sterling	9,723	21,783	769	32,275	7.4%	18	40

The floating interest rates for Sterling liabilities are: £7,598,938 at LIBOR plus 1.875 % and £2,124,499 at LIBOR plus 1.5%.

28 Derivatives and other financial instruments (continued)

At 31 December 2002:

	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average fixed interest rate %	Weighted average period for which no interest is paid Months	Weighted average period for which rate is fixed Months
Currency							
Sterling	31,713	22,702	6,035	60,450	7.7	33	47

The interest rate profile of the financial assets of the Group after taking account of interest rate swaps at 31 December 2003 is set out below:

	2003 £000	2002 £000
Currency		
Sterling	**59,899**	60,592
Australian Dollars	**451**	301
At 31 December	**60,350**	60,893
Floating rate	**60,350**	60,893
No interest	**27**	38
At 31 December	**60,377**	60,931

The floating rate cash earns interest based on the relevant national LIBID rates prevailing at the time of deposit for the maturity profile required.

Foreign currency risk

The foreign exchange contracts entered into by the Australian trading operations all finished during 2003. No replacement contracts have been entered into as at the balance sheet date. The Group will continue to monitor its foreign currency exposure with a view to hedging a proportion of its future sales using forward foreign exchange contracts if appropriate.

Borrowing facilities

The Group had the following un-drawn, committed borrowing facilities available on 31 December:

	2003 £000	2002 £000
Expiring within 1 year	**30,734**	–
Expiring between 1 and 2 years	**–**	9,391
	30,734	9,391

Fair value

A year-end comparison of current and book values of the Group’s financial instruments by category is set out below. Where available market rates have been used to determine current values. Where market rates are not available current values have been calculated by discounting cash flows at prevailing interest and exchange rates.

28 Derivatives and other financial instruments (continued)

	2003 Book value £000	**2003 Fair value £000**	2002 Book value £000	2002 Fair value £000
Cash	60,350	60,350	60,893	60,893
Investments	27	27	38	38
Debt	(7,599)	(7,599)	(28,942)	(28,942)
Finance leases and hire purchase contracts	(23,907)	(22,661)	(25,473)	(23,957)
Coal swaps	–	(3,666)	–	(328)
Other financial liabilities	(769)	(742)	(6,035)	(5,534)

Debt at 31 December 2003 is before deduction of FRS4 unamortised costs of £375,000 (2002: £556,000).

Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged itself is recognised. Unrecognised gains and losses on instruments used for hedging are set out below:

Unrecognised gains and losses on hedges

	Gains £000	**(Losses) £000**	**Net gains/ (losses) £000**
At 1 January 2003	22	(350)	(328)
(Gains)/losses arising in the previous year recognised in 2003 profit and loss account	(325)	5,007	4,682
Transfer from gains to losses	303	(303)	–
Gains/(losses) arising pre 1 January 2003 that were not recognised in 2003 profit and loss account	–	(6,187)	(6,187)
Arising in 2003	–	(1,833)	(1,833)
At 31 December 2003	–	(3,666)	(3,666)
Of which:			
Gains and losses expected to be recognised in profit and loss account in less than 1 year	–	(3,666)	(3,666)
Gains and losses expected to be recognised in profit and loss account in more than 1 year	–	–	–
At 31 December 2003	–	(3,666)	(3,666)

Unrecognised gains and losses in this table reflect the movements between the rates applicable at date of entering the hedge contracts and those ruling at 31 December 2003.

29 Capital commitments

	2003 £000	2002 £000
Contracted but not provided	**9,377**	4,485

30 Cash at bank and in hand

	2003 £000	2003 Change in year £000	2002 £000	2002 Change in year £000
Monies deposited to cover insurance requirements	**32,890**	**(4,471)**	37,361	2,075
Subsidence security fund	**24,023**	**792**	23,231	2,664
Other security funds	**2,053**	**2,053**	–	–
Other cash balances	**1,384**	**1,083***	301	(21,027)*
	60,350	**(543)**	60,893	(16,288)

*Includes £63,000 (2002: £9,000) of exchange differences.

Included within the cash balance of £60.4 million (2002 : £60.9 million) are amounts totalling £32.9 million (2002: £37.4 million) held by the Group's insurance subsidiary and £24.0 million (2002: £23.2 million) deposited as security for subsidence liabilities.

31 Contingent liabilities

Guarantees have been given in the normal course of business for performance bonds of £5.7 million (2002: £5.7 million) to cover the performance of work under a number of Group contracts.

Letters of credit at the year end amounted to £16.0 million (2002: £25.0 million), which was available to meet part of the Group's subsidence and shaft treatment obligations. These letters of credit have subsequently been cancelled.

At 31 December 2003, the Group had the following operating lease commitments:

	2003 £000	2002 £000
Annual commitments in one year or less	**32**	22

32 Related party transactions

The Group has taken advantage of the exemption under Financial Reporting Standard 8, (Related Party Disclosures) not to disclose transactions between Group undertakings of which 90% or more of the voting rights are controlled in the Group.

During the year, Mr G Spindler, a non-executive director, charged the Group £nil (2002: £33,000) for consultancy services of which an amount of £nil (2002: £1,100) was owed to Mr Spindler at 31 December 2003.

Shareholders Notes

UK COAL PLC

Harworth Park | Blyth Road | Harworth | Doncaster | South Yorkshire | DN11 8DB

Tel 01302 751 751 | Fax 01302 752 420 | **www.ukcoal.com**