UK COAL PLC
Annual Report & Accounts 2005

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UK COAL is Britain's biggest producer of coal, supplying around 7% of the country's energy needs for electricity generation.

The Group has five ongoing deep mines located in Central and Northern England with substantial reserves and employs 4,000 people.

It has one active surface mine and has received planning permission for a further three sites. Total surface mining coal reserves, including projects being worked and in planning, are approximately 97 million tonnes.

With substantial land and property interests, UK COAL regenerates brownfield sites, develops business parks on former mine sites and manages a substantial agricultural portfolio of land and buildings.

UK COAL's property interests were valued at 31 December 2005, at £274 million.

UK COAL owns a power generation business utilising waste gas from mines to generate electricity, and has received planning permission for the development of the Group's first wind farm.

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FINANCIAL AND OPERATING SUMMARY

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- Full year operating loss before Exceptional Items £21.9 million (2004: £27.0 million)
- Exceptional Items relating to closure, reorganisation and rationalisation, net of Investment Aid receivable £31.4 million (2004: £10.1 million)
- Loss for the year £62.2 million (2004: £33.5 million)
- Debt at 31 December 2005 £95.5 million including leasing but excluding cash held in respect of insurance and surface damage liabilities (31 December 2004: £48.0 million)
- £58.8 million increase in the value of the property portfolio (excluding investment properties), to £181.5 million in excess of book value
- Value of investment properties increased to £17.8 million (31 December 2004: £6.7 million)
- Prices increasing reflecting improved market conditions. Selling price per Gigajoule £1.35 (2004: £1.18)
- Deep mine cost per Gigajoule before Exceptional Items £1.49 (2004: £1.34)
- Surface mine cost per Gigajoule before Exceptional Items £1.31 (2004: £1.10)
- Market conditions remain strong, proportion of non contracted output increased
- Progress made reorganising deep mines and improving productivity
- Total deep mine production at 9.0 million tonnes reflects closure of Selby complex in 2004 (2004: 12.0 million tonnes)
- Surface mine planning consent received for 2 sites totalling 1.2 million tonnes*
- Surface mine production at 1.0 million tonnes reflects lack of planning consents (2004: 2.0 million tonnes)
- Property occupancy increased and rental income grown to £4.8 million (2004: £3.9 million)
- Property proceeds of £15.0 million (2004: £4.3 million) from sale of land where value has been obtained, generating profits of £9.6 million (2004: £2.8 million)
- Planning application for first wind farm approved. Progressing applications in respect of a further eight wind farms

* includes 987,000 tonnes obtained in February 2006

CHAIRMAN'S STATEMENT

"In the final quarter of 2005, it was demonstrated that the deep mines could produce coal economically over an extended period and this, together with the profitability of our other businesses, makes me optimistic that the Group will improve its performance in 2006."

OPERATIONS

As expected, 2005 proved to be a transitional year for UK COAL, especially in the deep mine business, where the mining conditions required the Group to announce the closure or mothballing of three collieries, although options are being reviewed to continue mining at Harworth. Geological problems elsewhere, especially at Daw Mill, caused lower than expected production. I am confident that the actions taken in the year to address these issues were the correct ones to secure the Group's future. In the final quarter of 2005, it was demonstrated that the deep mines could produce coal economically over an extended period and this, together with the profitability of our other businesses, makes me optimistic that the Group will improve its performance in 2006.

At the start of 2005, management had identified two deep mines as being high risk, where geological problems might not permit economic production of coal. Costs incurred in attempting to overcome these problems and in subsequently closing or mothballing the mines, along with the unexpected closure of Ellington due to flooding, resulted in large exceptional costs which have impacted performance.

At the ongoing deep mines, however, production recovered in the final four months of the year, after issues caused by longer than anticipated face gaps in the first half of the year were resolved.

We are pleased with progress in surface mining, where we have been granted permission to extract 257,000 tonnes at Stony Heap and 987,000 tonnes at Stobswood North, and remain hopeful this signals a change in planning decisions. Production at the surface mining operations was 1.0 million tonnes (2004: 2.0 million tonnes), reflecting the constraints imposed by the existing planning permissions.

There was a successful disposal of Monckton, the Group's coking business, in June 2005. The total proceeds were £13.1 million, returning a profit on sale of £3.1 million.

We continue to develop the Group's extensive property portfolio, with a strategy of increasing occupancy in the business parks, developing existing brownfield sites and maximising planning consents on our agricultural land. Overall rentals rose by some 24%. A revaluation of the portfolio was carried out at 30 June 2005 and updated at the year end. This showed an increase, on a like for like basis, of 34% on the value at the end of 2004, and is some £181.5 million more than the book value of the properties.

Harworth Power's profitability decreased slightly compared to 2004 as a result of lower Emission Trading credits. Methane capture rates grew as a result of the development of improved techniques. It was pleasing that planning permission was granted for the first wind farm the Group is to develop. Applications on a further eight wind farms will be submitted in 2006.

FINANCIAL RESULTS

Detailed reviews of both the operations and the financial results are set out in the Operating and Financial Review. The Group made an operating loss before Exceptional Items of £21.9 million (2004: £27.0 million), with the Group returning to profitability in the final quarter of 2005. Exceptional Items amounted to £31.4 million (2004: £10.1 million) and principally related to the closure and mothballing of mines including redundancy costs and curtailment gains, offset by credits relating to income under the Coal Investment Aid Scheme and the profit on sale of Monckton.

As a result of the loss for the year of £62.2 million (2004: £33.5 million), the Group has net liabilities of £14.7 million (2004: net assets of £56.8 million). If the Group's properties were included at their revalued amounts, the Group would have net assets of £166.8 million. The Group increased borrowings during the year to fund the rationalisation of the deep mines operations, and to invest in the ongoing mines. As a consequence borrowings, including finance leases, rose to £96.5 million (2004: £48.3 million).

DIVIDEND

Following the expenditure on rationalisation and investment in deep mines, and consequent increase in borrowings, the Board is not recommending the payment of a final dividend (2004: 1p per share). Future dividends will be dependent on a return to profitability and a reduction in the borrowings of the Group.

DIRECTORS AND EMPLOYEES

Patrick O'Brien resigned from the Board on 28 November 2005. Patrick has served the Group in senior positions for many years, latterly as Director of Surface Mine operations and will continue to be employed until March 2006. Graham Menzies will be stepping down from the Board on 9 March 2006. Graham joined UK COAL in 2004 and has made a significant contribution in his role as Senior Independent Director and Chairman of the Remuneration Committee. I would like to take this opportunity to thank Patrick and Graham for their contributions and wish them well in the future.

We have been through a year which has unfortunately required a large number of redundancies from the workforce. The decision to make redundancies is never taken before all other avenues have been investigated. I would like to thank all our employees, both serving and former, for their hard work and commitment to the Group during 2005.

OFFER FOR THE COMPANY

The Board was approached during the early part of 2005 by a consortium headed by Alchemy Partners LLP regarding a possible offer for the Company. This unsolicited approach proved an unhelpful distraction to management. Following highly tentative discussions, the consortium indicated in November 2005 that it would not be making any formal offer.

UK ENERGY POLICY

At the end of last year the Government announced it would conduct a review of the UK's energy policy. The Department of Trade and Industry is leading the review, and has launched a public consultation to consider the Government's goals of reducing CO_2 emissions, maintaining secure energy supplies, promoting competitive markets, and making energy affordable for all.

CHAIRMAN'S STATEMENT

continued

"I believe the current political and market conditions herald a brighter future for coal as it is recognised that the country's needs must be supported by domestic production. UK COAL is well positioned to benefit from the changes this will bring."

The energy review will be taking into account all the circumstances surrounding UK energy policy — including the role of domestically mined coal in the energy mix. UK COAL currently provides around 7% of the country's energy needs for electricity generation and will be actively engaging with the energy review process. UK COAL makes an important contribution to supporting policy objectives on security, diversity of supply and price stability, in coal markets that have recently seen dramatic variations which are unhelpful to business and domestic electricity consumers alike. The Group will be making the strongest possible case for a long-term, healthy and competitive coal industry in the UK, which allows UK COAL to fulfil its social obligations, provides customers with a hedge against price volatility and allows expensive investment in port and rail capacity to be deferred. The review will conclude in April with final policy proposals expected in late summer.

The energy review represents an important opportunity to influence Government policy for years to come. UK COAL has already made a start in leading the debate by hosting a policy meeting in Parliament with MPs, Peers and the Energy Minister, Malcolm Wicks MP. Over the next few weeks, UK COAL will be responding to the review consultation and building the strongest possible base of support in Parliament for the coal industry in the UK.

OUTLOOK

The actions taken in 2005 leave the Group well placed for the coming year and this is supported by the performance in the final quarter of 2005 and the first weeks of 2006. As noted above, we continue to talk to the Government on several key issues affecting the Group. I believe the current political and market conditions herald a brighter future for coal as it is recognised that the country's needs must be supported by domestic production. UK COAL is well positioned to benefit from the changes this will bring.

David Jones
Chairman
2 March 2006

OPERATING AND FINANCIAL REVIEW

". . . with the Group returning to profitability in the last quarter of 2005."

INTRODUCTION

UK COAL PLC and its subsidiaries ("UK COAL" or "the Group") is the largest coal producer in the UK. It operates both underground collieries and surface mines, actively manages and develops a large property portfolio and runs a power generation business from renewable and waste gas sources. This Operating and Financial Review ("OFR") is prepared by the executive directors and reviewed by the Board of directors of UK COAL PLC ("the Company"). It describes the activities of the Group for the year ended 31 December 2005, together with the future prospects, and aims to improve the quality of both financial and non-financial information given to shareholders.

SUMMARY FINANCIAL PERFORMANCE

UK COAL promised, and has delivered, an operating turnaround. Considerable expenditure was incurred on rationalising the operations and the decision to close or mothball three collieries, identified as high risk at the start of the year, was announced. Operating losses before Exceptional Items were reduced to £21.9 million (2004: £27.0 million) with the Group returning to profitability in the last quarter of 2005. Exceptional Items were £31.4 million (2004: £10.1 million), resulting in a pre-interest loss of £53.3 million (2004: £37.1 million).

Net finance costs were £8.8 million (2004: £5.1 million), the increase principally the consequence of higher borrowings as a result of the losses incurred. The charge within finance costs reflecting the unwinding of discounts amounted to £5.1 million (2004: £5.9 million).

Revenue in the year reduced to £341.2 million (2004: £433.8 million), reflecting the lower production in both the deep and surface mine operations, following colliery closures in 2004 and 2005 and the sale of Monckton. Total coal production amounted to 10.0 million tonnes (2004: 14.0 million tonnes).

The property portfolio, which consists of agricultural property, land held for development and business parks, generated rental income in the year of £4.8 million (2004: £3.9 million) and operating profit of £16.4 million (2004: £4.6 million), which includes a revaluation surplus of £4.5 million. Total disposal proceeds in the year were £15.0 million (2004: £4.3 million) with a profit on disposal of £9.6 million (2004: £2.8 million).

During the year The Monckton Coke & Chemical Company Limited ("Monckton") was disposed of for gross proceeds of £13.1 million and a profit on sale of £3.1 million.

At 31 December 2005 there was an unprovided deferred tax asset of £66.9 million (2004: £38.6 million). Further details on taxation can be found in note 10 to the financial statements.

THE BUSINESS

Divisions

The Group's activities are managed in four distinct segments: underground coal mining (known as "deep mining"); surface coal mining; property activities; and power generation. The Group is now based entirely in the UK and the vast majority of its sales are to UK customers (a breakdown of sales by geographical area is given in note 2 to the financial statements). A detailed assessment of the performance and future prospects of each of these sectors is given below.

Markets

Despite the advent of the EU Emissions Trading Scheme at the start of 2005, coal consumption in the UK in 2005 has remained strong. Record prices of other competing fuels, especially gas, have enabled coal fired power stations to run at consistently high load factors with the result that coal burn in the electricity sector has increased slightly over the previous year.

International coal prices have steadily fallen from the 2004 peak of $77.56 per tonne, to an average in 2005 of $60.66 per tonne to the price in January 2006 of $54.54 per tonne, a fall of 29.7%. The forward curve for 2006 and 2007 has, however, strengthened. Coal sourced on the international market is traded actively, but does not provide the same level of security over supply and price as indigenously mined coal. With its coal reserves, UK COAL is able to offer longer term contracts at prices which provide a hedge against the volatility of the spot market.

As noted in the Chairman's Statement, the Government is currently conducting an Energy Review, seeking views on the medium and long term energy policy issues. Since the last Energy White Paper, published in 2003, fossil fuel prices have risen sharply, and are projected to rise further; the UK has become a net gas importer sooner than expected and is now forecast to import around three quarters of our primary energy requirements by 2020. Against this background, UK COAL, which currently supplies approximately 7% of the country's energy needs for electricity, will be lobbying extensively to ensure indigenous coal has a future role to play in the energy market, offering security of supply and price stability in an uncertain energy world.

Electricity Supply Industry

In 2005:

- UK power stations consumed some 52 million tonnes* (2004: 51 million tonnes) of coal;
- Steam coal imports increased by 24% from 30 million tonnes to 37 million tonnes*.

The fuel mix for electricity generation for 2004 and 2005 is shown in the following table:

	2005* **%**	2004 %
Coal	**34**	33
Gas	**39**	40
Nuclear	**19**	19
Oil, hydro & renewables	**8**	8
Total	**100**	100

* 2005 numbers based on provisional numbers from the Dti.

From 1 January 2005, UK power stations were required to participate within the EU Emissions Trading Scheme. The establishment of this scheme is a major step forward in EU policy to reduce carbon emissions. The effect on coal consumption will be dependent on the price of carbon allowances together with the relative prices of coal and gas.

During 2005, total coal sales to the power station market were 9.1 million tonnes (2004: 13.0 million tonnes) reflecting lower than expected production. UK COAL successfully resolved the outstanding *force majeure* issue with Drax. The contract cover with all customers, for the five years from, and including, 2006, is 29.5 million tonnes.

As noted above, the spot price of coal on the commodity exchanges demonstrates huge volatility. UK COAL believes there is an appetite among its customers for price certainty and secure supply, which it is able to satisfy. However, any future contracts must be based on sales prices which allow UK COAL to recover the investment needed to mine the coal, develop further faces and provide adequate risk adjusted returns. The Group will be concentrating its efforts on ensuring any new contracts fulfil these requirements and will focus less on the short-term international prices or projected forward prices, which have proved to be a poor predictor of the outturn.

OPERATING AND FINANCIAL REVIEW

continued

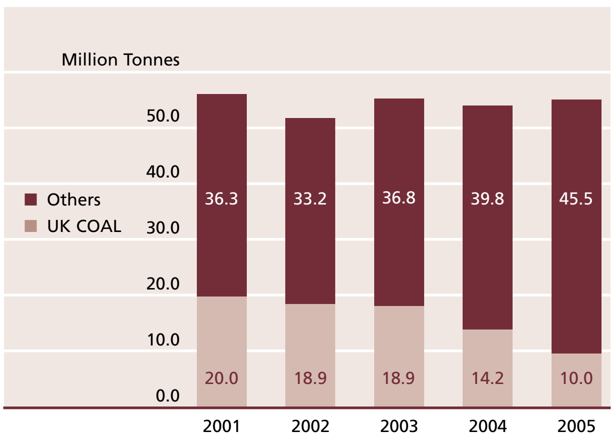
Industrial and Domestic

In the industrial market, a number of contracts have been renewed taking into account the increased prices of competing international supplies. This process will continue into 2006 as existing contracts come to an end.

Sales volumes into both the industrial and domestic markets at 0.9 million tonnes (2004: 1.2 million tonnes) showed a decrease on the previous year, in a declining market. Prices, however, have shown a significant improvement, benefiting from the rise in price of competing fuels. In this sector, UK COAL increased its prices by around 25% during 2005.

Source: MCIS
Basis: <1%S, CIF NW Europe, 6000 Kcal / Kg NAR (25.122 GJ/Tonne)

UK STEAM COAL MARKET



Customers

The Group has three major customer profiles: for coal, for property and for electricity. Details of coal sold by customer type is summarised as follows:

	2005		2004	
	Tonnes (m)	**%**	Tonnes (m)	%
Electricity Supply Industry	**9.1**	**91.0**	13.0	91.6
Large industrial	**0.1**	**1.0**	0.2	1.4
Small industrial	**0.2**	**2.0**	0.2	1.4
Other	**0.6**	**6.0**	0.8	5.6
Total	**10.0**	**100.0**	14.2	100.0

The directors do not foresee any material change in the mix of the Group's coal sales in the coming period.

The Group's rental income derives from a large number of individual leases with concerns ranging from companies leasing units on the business parks, to individuals renting small parcels of agricultural land.

Harworth Power provides supplies of electricity both internally and to the local distribution network.

REVIEW OF OPERATIONS

A detailed review of each of the operating segments of the Group is set out in the following paragraphs. A summary of the Group's results, by segment is set out below. A more detailed segmental analysis is given in note 2 to the financial statements.

	2005			2004		
	Operating Profit/(loss) £000	**Exceptional Items within cost of sales £000**	**Total £000**	Operating Profit/(loss) £000	Exceptional Items within cost of sales £000	Total £000
Deep Mining	**(31,789)**	**(46,649)**	**(78,438)**	(30,262)	(14,669)	(44,931)
Surface Mining	**3,347**	**(2,504)**	**843**	4,065	(4,323)	(258)
Property	**16,418**	**–**	**16,418**	4,600	–	4,600
Harworth Power	**3,362**	**–**	**3,362**	4,239	–	4,239
Other	**4,482**	**–**	**4,482**	(700)	–	(700)
Operating loss	**(4,180)**	**(49,153)**	**(53,333)**	(18,058)	(18,992)	(37,050)
Finance costs			**(8,761)**			(5,148)
Loss from continuing operations			**(62,094)**			(42,198)
Discontinued operations			**–**			8,667
Loss before tax			**(62,094)**			(33,531)

OPERATING AND FINANCIAL REVIEW

continued

"However, the performance in the final quarter was encouraging and demonstrated the deep mines can operate profitably."

DEEP MINING

Development and Performance

The Group operates five ongoing deep mines, situated in Nottinghamshire, Yorkshire and the West Midlands. During the year the Group has closed one mine and announced the decision to mothball two others. Production amounted to 9.0 million tonnes (2004: 12.0 million tonnes). The results for the deep mines operations for the two years ended 31 December 2005 may be summarised as follows:

	2005 £000	2004 £000
Revenue	**299,028**	364,848
Operating loss before Exceptional Items	**(46,430)**	(39,164)
Exceptional Items within cost of sales	**(46,649)**	(14,669)
Coal Investment Aid	**14,641**	8,902
Operating loss	**(78,438)**	(44,931)

The year ended 31 December 2005 was, as expected, a transitional year for the deep mine operations, which lost £46.4 million before Exceptional Items included within cost of sales and Coal Investment Aid (2004: loss of £39.2 million). Exceptional Items within cost of sales amounted to £46.6 million (2004: £14.7 million), resulting in a loss after Exceptional Items of £78.4 million (2004: loss of £44.9 million). However, the performance in the final quarter was encouraging and demonstrates the deep mines can operate profitably. This improved performance was maintained during January 2006.

Several fundamental operational issues were identified during 2004, and a great deal of time and effort, both by management and the workforce, was expended in addressing and resolving these issues. The actions taken included the following:

- New wage structures introduced at four of the ongoing collieries. These eliminate daily bonuses, guarantee increases in machine available times, have increased the certainty of earnings for individuals and allowed the Group to plan working time more effectively, with reduced threat of industrial disputes;

- The launch of a structured daily maintenance programme, which predicts component failure and allows proactive planned replacement, replacing reactive unscheduled repair during expensive downtime;

- The introduction of better budgetary techniques improving project management and cost control and, ultimately, the profitability of the mines; and

- Utilisation of new techniques in ground control, including polyurethane injection, which help to control adverse face conditions and accommodate faster face advance.

These risks continue to be reduced by utilising the latest seismic technology. Success has been achieved in increasing production at the five ongoing deep mines. However, it was necessary to close or mothball three mines in 2005, the main details are summarised below:

- In January 2005 Ellington Colliery suffered a sudden ingress of water at its working face, resulting in the loss of that face and equipment. If mining continued, UK COAL could not guarantee the safety of its workforce and this, allied to the cost of pumping, recovery of equipment and development of a new face, resulted in the decision to close Ellington during January;

- Following the introduction of many of the operational changes noted above, the output and financial performance at Harworth Colliery improved substantially in the early part of 2005. Unfortunately, high methane levels, together with extremely difficult geological conditions, meant that extraction of further reserves could not be carried out economically. The decision was taken to mothball Harworth, and the seam will be abandoned once the current coal panel is exhausted during the first quarter of 2006. Options are being pursued, which will allow mining to continue at Harworth following the development of improved ground control techniques: this is, however, dependent on securing a combination of appropriate finance; proceeds from customers sufficient to recover the development and coal extraction costs and to provide a risk adjusted return; and continued flexibility from the workforce; and

- Rossington Colliery encountered difficult conditions in 2004. In an effort to keep the mine open a plan, which utilised advancing longwall panels, together with revised shift patterns, was adopted. Advancing longwall panels are rarely used in current mining practice, because of inherent problems controlling cycle times and gate roads. This approach proved unable to provide returns sufficiently high enough to maintain production and cover the substantial investment the mine required. As a result the decision was taken to close, and possibly mothball, the colliery.

The decision to close or mothball a mine is never taken lightly. The costs to the individuals and to the communities in which mines are located are carefully considered. However, there has to be a reasonable prospect of an economic return before investment of the substantial sums needed to develop new faces.

Ongoing mines

Face gaps at the ongoing mines in 2005 totalled 33 weeks, compared to 23 weeks in 2004. Management expended considerable effort in the year on controlling and managing these face gaps, however, total face gaps lasted some 18 weeks more than planned. The majority of the downtime occurred in the second quarter of the year, with some over runs into the third quarter, which affected unit costs.

	Quarter 1	**Quarter 2**	**Quarter 3**	**Quarter 4**	**Total**
Face Gaps *(weeks)*	3	23	7	–	33
Tonnes *(000)*	2,090	1,357	1,610	2,480	7,537
Cost per *Gj (£)*	1.27	1.89	1.78	1.35	

Production at the ongoing mines was lower in the second and third quarters due to face gaps. At Daw Mill, the largest of the Group's mines, production was reduced due to the need to resolve floor heave, which was not anticipated when the developments were designed. Production and efficiency increased sharply at all mines in September following the ramp up of new faces and holiday periods in July and August. Cost per Gigajoule ("Gj") is a key measure of how efficiently the mines are operating. This improved significantly in the last quarter and provides a good platform for the start of 2006.

OPERATING AND FINANCIAL REVIEW

continued

Investment Aid

During the year ended 31 December 2005, the Group credited £17.1 million (2004: £8.9 million) to the income statement arising from claims under the Government's Coal Investment Aid Scheme, of which £4.4 million (2004: £0.3 million) was released from the deferred creditor in the balance sheet. The deferred creditor at 31 December 2005 was £14.0 million (2004: £14.0 million).

£2.5 million was written off the Investment Aid debtor during the year. This related to amounts owed to UK COAL as reimbursement for investments made at collieries which had to be closed or mothballed. These amounts are included as Exceptional Items. Despite having made the investment and safeguarded jobs, the Dti has indicated that if investment is made which is lost due to geological or other unforeseen events, it may be repayable. This is a situation which has to be resolved before the Group will claim under any further aid scheme. As a result, future investments will be considered assuming no aid is available, and the viability of collieries will be assessed on this basis.

Cash received in respect of Investment Aid amounted to £18.5 million and the debtor at 31 December 2005 was £7.3 million (2004: £11.1 million).

The Investment Aid Scheme is now in its final year. The Group has entered into dialogue with the Government over the form and extent of a replacement scheme. Management of UK COAL believes that any replacement for the Coal Investment Aid Scheme must be in a significantly different form, preferably including Government guarantees or with a more appropriate view of risk, in order to help with major investment in collieries.

Production

The production tonnages for the two years ended 31 December 2005 may be summarised as follows:

	2005 Million tonnes	2004 Million tonnes
Daw Mill	**2.0**	3.0
Kellingley	**2.0**	0.9
Maltby	**1.1**	1.4
Thoresby	**1.4**	1.1
Welbeck	**1.0**	0.9
Harworth	**0.8**	0.9
Rossington	**0.5**	0.6
Ellington	**0.2**	0.5
Riccall	–	1.2
Stillingfleet	–	1.4
Wistow	–	0.1
Total deep mines	**9.0**	12.0

Exceptional Items

The Deep Mine operations incurred several exceptional costs during the year, principally relating to the mothballing of Harworth and Rossington, the closure of Ellington and the additional mining costs relating to the *force majeure* event at Kellingley. It is possible that further such costs will be incurred in 2006 but at present it is not possible to quantify them. Other redundancy costs relate to the reorganisation and rationalisation of the head office to reflect the reduced scale of activities within the Group and redundancies made following reorganisations of ongoing collieries. The Exceptional Items within the deep mine operations may be summarised as follows:

	Stores stock £000	**Asset impairment £000**	**Closure costs £000**	**Redundancy £000**	**Other* £000**	**Total £000**
Harworth	(1,685)	(967)	–	(8,913)	–	(11,565)
Rossington	(933)	(5,634)	–	(3,331)	(4,843)	(14,741)
Kellingley	–	–	–	–	(7,708)	(7,708)
Ellington	(14)	–	(5,635)	(3,077)	–	(8,726)
Other	(2,064)	–	249	(6,924)	4,830	(3,909)
Total	**(4,696)**	**(6,601)**	**(5,386)**	**(22,245)**	**(7,721)**	**(46,649)**

* Other costs refers to the additional labour costs incurred at Rossington and Kellingley consequent to the revised mining plans following invocation of the force majeure clause of the Drax contract, offset by curtailment gains on post retirement benefits, relating to redundancies during 2005.

The Exceptional Items are discussed in greater detail in notes 3 and 4 to the financial statements.

Future Prospects
In the final quarter of 2005, the deep mines operated profitably. The tonnage extracted in the fourth quarter was encouraging, and tonnes per manshift, while at a five year high, have the potential to be increased further.

There is only one scheduled face gap in 2006, for four weeks in March at Maltby Colliery. Apart from this, and in the absence of unforeseen problems, continuous production at all mines should be possible.

The reserves available in the deep mine operations are critical to the long term prospects of the Group. New advances in seismic exploration, allowing 3-D representations of seams, provide better definition of the reserves at the remaining mines. These techniques have already been put into use at Daw Mill and Kellingley, and the seismic interpretation has improved understanding of the reserves.

The Group's latest estimate of its deep mine coal reserves is set out in the following table:

	Coal (million tonnes)
Reserve	64
Resource	119
Mineral Potential	90
Total	273

Reserve: Proven reserves which are accessible using the broad infrastructure in place at the current time, and which are in the current mining plan.

Resource: Proven reserves, however these require substantial development and other costs to allow accessibility and are not currently in any mining plan.

Mineral Potential: Coal that has been assessed (although possibly not to the same extent as Reserve and Resource coal) but UK COAL does not have any licences or planning permission to extract the deposits.

These figures must be treated with caution; they are based on the Group's best estimate at the current time. A number of factors may cause the actual production to vary significantly from these estimates. These factors include, but are not limited to:

- Ongoing seismic surveying of reserves — these could result in either an increase or a decrease to the production estimates;
- Geological problems — despite the improved seismic surveying being carried out, there remains a risk that a coal face is subject to unforeseen geological problems that makes production unsustainable;
- Sales price of future coal and cost increases; these could render production plans uneconomic or could allow extraction from areas previously believed to be unviable; and
- Government support — this could allow investment into new areas of mines not included in current plans.

Harworth Insurance Company Limited
Harworth Insurance is the Group's captive insurance company and provides insurance services for Group companies to cover risks which are either uninsurable on the open market or where premiums are at uneconomic levels. These principally relate to deep mining operations.

Centechnology (UK) Limited
During 2005, the Group established a new trading subsidiary, Centechnology (UK) Limited, to supply skilled labour to fulfil mining and other associated requirements. Centechnology (UK) Limited will add flexibility to UK COAL's labour and will allow the Group to earn revenue externally when there is spare capacity.

OPERATING AND FINANCIAL REVIEW

continued

“UK COAL owns approximately 97 million tonnes of surface coal reserves situated under its owned land, which, at current prices, should be capable of economic extraction.”

“Planning permission for coaling has been difficult to obtain in previous years, however, UK COAL believes this attitude is changing, and is confident that in future, schemes can be progressed.”

SURFACE MINING

Development and Performance

With the completion of coaling at Orgreave in January 2006, the Group is currently operating only one surface mine, Maidens Hall, in Northumberland. In addition, there are 33 sites (2004: 38 sites) at which mining has been completed, and which are subject to restoration and rehabilitation, in accordance with the terms of the planning permission.

The results for the surface mine operations for the two years ended 31 December 2005 are summarised as follows:

	2005 £000	2004 £000
Revenue	**25,203**	45,028
Operating profit before Exceptional Items	**3,347**	4,065
Exceptional Items within cost of sales	**(2,504)**	(4,323)
Operating profit/(loss)	**843**	(258)

The Surface Mining operations produced a profit, before Exceptional Items, of £3.3 million (2004: £4.1 million). After Exceptional Items of £2.5 million (2004: £4.3 million) this resulted in an operating profit of £0.8 million (2004: loss of £0.3 million). £10.8 million (2004: £8.1 million) was spent on restoration and rehabilitation projects in the year. Exceptional costs were in respect of redundancy payments and the write down of redundant assets.

Production amounted to 1.0 million tonnes (2004: 2.0 million tonnes), the reduction compared to 2004 being due to the completion of coaling at four sites, with no replacements being available as a result of the lack of planning consents to mine new sites. Unit costs were £1.31 per Gj (2004: £1.10 per Gj). This rise reflects the inefficiencies which result from operating a limited number of sites.

Future Prospects
UK COAL owns approximately 97 million tonnes of surface coal reserves situated under its owned land, which, at current prices, should be capable of economic extraction. With the import of coal potentially restrained by port and rail capacity in the country, these reserves should form an important national resource. Planning permission for coaling has been difficult to obtain in previous years, however, UK COAL believes this attitude is changing, and is confident that in future, schemes can be progressed. The Group is continuing its efforts to obtain planning permission based on improvements in the environmental acceptability of brownfield site regeneration. The end result will be not only additional domestic production but also sites restored to a standard and at a cost prohibitive without prior mining.

The Group has significant surface mining plant, equipment and expertise and is actively looking at additional sites in England, Scotland and Wales in order that these resources may be used efficiently. Planning Approval was received for one site, Stony Heap in 2005 and a further site at Stobswood North in 2006. A Public Inquiry has been held on the Group's proposals for Long Moor, following which a decision is still awaited. Applications to mine at four sites with reserves of 4.4 million tonnes were submitted to the respective Mineral Planning Authorities during 2005 and appeals have been lodged against the decision to reject coaling at two further sites, these should be heard at Public Inquiries during the first half of 2006. Applications to mine in excess of four million tonnes at a further six separate sites will be lodged during the coming year. At 31 December 2005, surface mining reserves with planning consent amounted to 2.7 million tonnes (2004: 3.2 million tonnes).

A summary of activity is set out in the table below:

Site	Tonnage Remaining (000 tonnes)
Maidens Hall Extension	920
Cutacre	1,500
Stony Heap	257
Stobswood North	987
Sites with Planning	**3,664**
Sharleston Colliery	360
Steadsburn	1,000
Long Moor	725
Lodge House	1,000
Potland	2,000
Sites in Planning	**5,085**
Chesterfield Canal	400
Dawley Road	650
White Lea	1,000
Blair House	1,000
Bradley	500
Minorca	800
Sites to come into Planning	**4,350**

OPERATING AND FINANCIAL REVIEW

continued

"Income at the Group's business parks grew by some 32% in the year from higher occupancy, rent reviews and new leases."

"The valuation exceeds the amount recorded in the books by £181.5 million."

PROPERTY

Development and Performance

Significant progress in the property business has been made during 2005:

- Strong increase in property valuation — 34% on like for like basis
- Increase in profit on sale of assets to £9.6 million from £2.8 million
- Growth in commercial rental income of 32% to £2.1 million
- Growth in agricultural rental income of 18% to £2.7 million
- Received planning permissions on an additional 140 acres for commercial development with a further 80 acres submitted and awaiting decisions

The results for the property operations for the two years ended 31 December 2005 are summarised as follows:

	2005 £000	2004 £000
Revenue	**4,841**	3,912
Profit on sale of assets	**9,611**	2,760
Operating profit*	**16,418**	4,600
Valuation (including Investment Properties)	**274,169**	208,626

* Operating profit in 2005 includes £4.5 million in respect of revaluation of investment properties and the profit on sale of assets.

Income derived from the Group's property portfolio may be summarised by type of rental as follows:

	2005		2004	
	Rental income £000	**%**	Rental income £000	%
Agricultural land	**2,701**	**55.8**	2,296	58.7
Business parks	**2,140**	**44.2**	1,616	41.3
Total	**4,841**	**100.0**	3,912	100.0

Agricultural Land
Agricultural land continues to be managed on a tenancy basis to selected occupiers. The portfolio comprises in excess of 600 individual tenancies, on which income rose by 18% in the year, in what continues to be a difficult market. This growth was achieved by a combination of rent reviews, increased land usage and additional income from land returned from surface mining use following restoration.

Business Parks
Income at the Group's business parks grew by some 32% in the year, from higher occupancy, rent reviews and new leases. Asfordby and Whitemoor both had an occupancy rate of around 95% at the year end. During 2005 the new lease at Mid Cannock and the first lease at Gascoigne Wood contributed to the year on year profit increase. A new development at Bilsthorpe is proceeding well; the first 20,000 sq ft building was completed during 2005 and is under offer for lease.

Investment Properties
Asfordby Business Park was classed as an investment property in 2003. Whitemoor Business Park and the Group's land at Mid Cannock, a vacant site leased for 50 years, have been classed as such during 2005. In accordance with accounting standards, £4.6 million of gains on the initial recognition of investment properties have been taken to reserves, while £4.5 million of gains on subsequent revaluations have been recognised in the income statement. Future movements in the value of the investment properties will similarly be taken to the consolidated income statement. At 31 December 2005, investment properties were valued at £17.8 million, compared to £6.7 million at 31 December 2004.

Development Properties
During 2005, the Group received planning permission for commercial use on 140 acres of land, including 80 acres at phase 2 of Waverley AMP. This represents a significant step forward in the development of these sites. A further 15 acres has been allocated for mixed development in the Gedling Local Plan. During the year, applications were made to Selby District Council for permission to use the Stillingfleet, Riccall, Wistow and Gascoigne Wood sites for alternative purposes. Unfortunately, these applications have been rejected. We will, however, appeal these decisions and dialogue continues with Selby District Council about how these sites can be developed to meet both parties' respective goals.

Profits from property sales amounted to £9.6 million (2004: £2.8 million), arising from partial disposals at Tetron Point, Houghton Main, Denby Hall and Waverley AMP. These sales generated proceeds of £15.0 million (2004: £4.3 million). These disposals relate to land where we believe we have extracted full added value opportunities.

We have continued to add value through development of our portfolio and in 2005 we spent £7.8 million on various projects to improve and add value to our existing properties. The major areas of spend were:

- Continued infrastructure works at Tetron Point;
- Site preparation and building works at Bilsthorpe;
- Infrastructure works at Denby;
- Contribution to infrastructure costs at Waverley AMP;
- Compaction costs at Waverley (Orgreave); and
- Planning and consultation costs at Waverley (Orgreave) and Prince of Wales.

(see page 19 for site descriptions)

OPERATING AND FINANCIAL REVIEW

continued

Valuation

Land Category	Dec 04 £000	Jun 05 £000	Dec 05 £000	Like for like basis Dec 04 to Dec 05 £000
Business Parks	17,410	18,960	19,210	55%
Development Properties				
Commercial with Planning	34,004	33,140	30,060	17%
Other commercial or residential	91,406	115,167	114,992	24%
Agricultural	59,086	92,991	92,157	57%
Total excluding investment properties	**201,906**	**260,258**	**256,419**	**35%**
Investment Properties	6,720	17,750	17,750	24%
Total	**208,626**	**278,008**	**274,169**	**34%**

A full independent property valuation of all properties was carried out at 30 June 2005, with an update at the year end, in accordance with the "RICS Appraisal and Valuation Standards" published by the Royal Institution of Chartered Surveyors. This follows the limited update to the 2002 valuation carried out at 31 December 2004.

The gross valuation (excluding investment properties) has increased by 29.8% to £256.4 million (31 December 2004: £197.6 million), the major reason being the uplift in the agricultural valuation (including residential properties) since 2002 and the planning consents obtained since that date. The valuation is before the deduction of rehabilitation and restoration costs of £66.4 million (31 December 2004: £77.2 million), which are provided in the accounts and relate mainly to working surface mines and sites in aftercare. On a like for like basis, taking into account disposals and development expenditure, the property portfolio (excluding investment properties) has shown a gain of £67.0 million (35%). The valuation has declined slightly since the half year; the result of sales in the second half but on a like for like basis shows no movement. The valuation exceeds the amount recorded in the books by £181.5 million (31 December 2004: £126.3 million).

The valuation of the non agricultural properties was undertaken by NAI Fuller Peiser acting in the capacity of external valuers. The basis of value is market value, but subject to a number of assumptions, the most important of which are:

- The sites will be cleared of redundant buildings, levelled and prepared ready for development;
- The values are on the basis that no material environmental contamination exists on the subject or adjoining sites, or where this is present the sites will be remediated by UK COAL to a standard consistent with the intended use; and
- No deduction or adjustment has been made in relation to clawback provisions, or other taxes which may be payable.

It should be noted that changes, such as planning approvals, could have a material effect on future valuations.

The agricultural land in the north of England and Scotland was valued by Bell Ingram with the remaining land valued by Smiths Gore. Both valuations used market value subject to existing tenancies and were based on existing use.

Description of major properties within the portfolio

	Description of property	Location	Valuation Band
Business Parks (including investment properties)			
Gascoigne Wood	160 acre rail connected former coal dispatch site with 8 miles of sidings and 100 acres subject to a planning application for reuse of 250,000 sq. ft. buildings. Sidings currently let, and site preparation under way.	Sherburn, Selby, North Yorkshire	3
Asfordby	70 acre rail connected former colliery converted to business park comprising 230,000 sq. ft. Annual income £0.7 million plus service charge. 95% occupancy.	Melton Mowbray, Leicestershire	3
Mid Cannock	21 acre rail connected former coal disposal point with new access road. Let on 50 year lease from April 2005.	Cannock, Staffordshire	2
Harworth HQ	22 acre site with 54,000 sq. ft. offices and 110,000 sq. ft. storage and workshops area. 2,500 sq. ft. currently let with 7,500 sq. ft. available	Harworth, Doncaster, South Yorkshire	2
Bilsthorpe	50 acre rail connected former colliery with outline consent for B2, B8. Phase 1, which benefits from East Midland Development Agency funding, to construct 75,000 sq. ft. is under way.	Bilsthorpe, North Nottinghamshire	1
Whitemoor	50 acre former satellite mine shaft site. 22 acres converted to business park providing 70,000 sq. ft. Annual income £227k plus service charge. 95% occupancy.	Barlby, Selby	1
Development properties Commercial with Planning			
Waverley AMP	130 acre decontaminated and compacted former surface mine with B1, B2, B8 consent. Joint Venture with Yorkshire Forward to create Advanced Manufacturing Park. 5 plots already sold (23 acres sold in 2005). AMP land adjoins Waverley (Orgreave) site. 70 acres remaining.	Catcliffe, off the Sheffield Parkway, Junction 33 M1, Rotherham	4
Tetron Point (Nadins)	270 acre restored surface mine site. B2, B8 consent on remaining 40 acres of development area. 12 acres sold in 2005. Remaining land approved for golf course development.	Swadlincote, South Derbyshire	2
Denby (Kirk)	Decontaminated and compacted former colliery and surface mine with 60 acres. B1, B2, B8 consent. 9 acres sold in 2005. 51 acres remaining.	Ripley, Derbyshire	2
Seymour	75 acre rail connected former coal stocking site. 40 acres forms part of Markham Employment Growth Zone with outline planning consent for B1, B2, B8.	Mastin Moor, Chesterfield, Derbyshire	1
Other projects			
Waverley (Orgreave)	Decontaminated 600 acre surface mine. Coal production ended in 2005. Currently partially compacted and restored with completion due in 2007. 250 acre development footprint. Master planning under way. Planning submitted for initial 55 acre Highfield Commercial development area.	Catcliffe, off the Sheffield Parkway, Junction 33 M1, Rotherham	6
Prince of Wales	300 acre former colliery site. Surface demolition completed. Master planning in progress. Rail line and siding adjoining site.	Off Junction 32 M62, Pontefract, West Yorkshire	4
Bennerley	Rail connected former coal disposal point, part restored with long-term consent for storage on 30 acres. Good access to A610 and Junction 26 M1.	Awsworth, Broxtowe, Nottinghamshire	2
Cutacre agriculture	50 acre approved development area following completion of surface mine activities in 2010.	Off Junction 4 M61, Bolton, Greater Manchester	2
Lounge	100 acre former coal disposal point with rail connection.	Adjoining A42, Ashby de la Zouch, Leicestershire	1
Ellington/Lynemouth	Closed colliery and associated land. Potential housing development and community centre.	Ellington and Lynemouth, Northumberland	1
Yorkshire Main	47 acre restored tip washing scheme with 20 acres allocated for employment uses. Remediation awaiting outcome of final scheme use.	Edlington, Doncaster, South Yorkshire	1
Gedling	310 acre restored former tip washing scheme. 15 acres allocated for mixed development including housing.	Gedling, Nottinghamshire	1
Agricultural			
Cutacre development	900+ acres approved surface mine which will be worked till 2010. 16 dwellings.	Off Junction 4 M61, Bolton, Greater Manchester	1
Stockley Hill	590 acres arable, grassland, woodlands. 10 dwellings.	Standish, Wigan	1
Stobswood	1,638 acres completed surface mine, currently in restoration. 2 dwellings.	West of Widdrington Station, Northumberland	1
Maidens Hall	2,300 acres operating surface mine, partially restored. 20 dwellings.	South West of Red Row, Northumberland	1

Valuation Bands	
£50m to £60m	6
£20m to £50m	5
£10m to £20m	4
£7.5m to £10m	3
£5m to £7.5m	2
£2.5m to £5m	1

Future Prospects

The Group is currently managing around 40 separate property projects. In the short term, it is the intention of management to maintain, and enhance where possible, the current income streams while adding value by:

- Completing master planning at our key development sites;
- Completing construction and letting of development properties;
- Commencement of master planning at appropriate sites;
- Constructing new buildings at existing business parks, where demand for pre-let accommodation is strong;
- Continuing the process of securing planning at sites where there is the opportunity to create value through new commercial development;
- Exploiting the agricultural portfolio for surface mining, residential development and possible disposals of surplus land and properties; and
- Continuing infrastructure works and disposal programme at appropriate development sites.

OPERATING AND FINANCIAL REVIEW

continued

"Planning permission was received in the year for the operation of three wind turbines at the Royal Oak site in County Durham, generating some 3.9 MW."

HARWORTH POWER

Development and Performance

The results for Harworth Power for the two years ended 31 December 2005 are summarised as follows:

	2005 £000	2004 £000
External revenue	**862**	76
Inter company revenue	**2,868**	3,881
Total revenue	**3,730**	3,957
Emissions Trading credits	**2,446**	2,972
Methane costs (to Deep Mining)	**(475)**	–
Other costs	**(2,341)**	(2,690)
Operating profit	**3,360**	4,239

During the year, Harworth Power made an operating profit of £3.4 million (2004: £4.2 million), achieved by the generation of 104,526 MWh of electricity (2004: 104,234 MWh). The fall in profit arises from a decrease in credits from the UK Emissions Trading Scheme to £2.4 million (2004: £3.0 million), together with the introduction by the deep mines of charges for methane, amounting to £0.5 million in 2005 (2004: £nil).

Planning permission was received in the year for the operation of three wind turbines at the Royal Oak site in County Durham, generating some 3.9 MW. It is anticipated that construction will commence during 2006, with the expectation that the wind farm will commence operations during the first half of 2007. Harworth Power has a total installed capacity of 32 MW (2004: 32 MW).

Future Prospects

Extraction of methane from existing sites is expected to continue into the foreseeable future. Generation is forecast to increase with the installation of new engines at mine sites where methane capture is being improved. Capital will be invested where adequate returns are available, principally in the installation of new engines at mine sites.

The UK Emissions Trading Scheme finishes at the end of 2006, reducing the incentive to invest in certain emissions reduction projects. UK COAL is actively involved in discussions as to the form of any replacement scheme.

The Group will submit further applications in respect of eight wind farms, generating 80 MW from 74 turbines during 2006. Provided the applications are successful, commissioning of these farms would be phased during 2007 and 2008.

The Group has identified other opportunities to generate additional power utilising renewable energy sources. It is evaluating the commercial strengths and risks of these schemes and the level of investment needed and will make investment in those schemes that match the returns required by the Group.

MONCKTON

Monckton, which produces coke and high quality coking products, was sold during June 2005. Monckton made an operating profit of £1.4 million during the six months to June 2005 (2004: £0.3 million for twelve months).

Monckton was sold for a consideration of £13.1 million, with £8.3 million received in the year and the remainder to be paid in instalments ending June 2007. The terms of the sale grant UK COAL a royalty on future sales, in addition to opening a sales channel for suitable products at favourable prices.

CAPITAL STRUCTURE

The Group had net liabilities of £14.7 million at 31 December 2005, compared to net assets of £56.8 million at 31 December 2004, a reduction of £71.5 million. It should be noted that the Group's properties have been valued at an amount which is £181.5 million higher than their book value. If the properties were included at their revalued amounts, therefore, the Group would have net assets of £166.8 million excluding provisions for any clawback or taxation liabilities.

The major movements in the balance sheet are summarised in the following paragraphs:

- Property, plant and equipment have decreased by £36.2 million in the year, the result of additions of £27.5 million being offset by depreciation/impairment of £54.2 million, disposals of £8.9 million and transfers to investment properties of £1.9 million.
- Two further properties have been included as investment properties in the year in accordance with the Group's accounting policy.
- The Group has reduced its inventories by some £5.5 million, a reflection of lower activity levels in both deep and surface mines together with provisions against stores stocks for closed or mothballed mines.
- The Group makes provisions in respect of redundancies where there is an obligation at the balance sheet date. Provisions are also made in respect of employer and public liability claims; surface damage; surface and deep mine restoration and rehabilitation costs including shaft capping where appropriate; and pumping costs at closed sites. A table containing detailed financial information is set out in note 23 to the financial statements.
- Retirement benefit obligations have increased by £5.2 million. This movement may be summarised as follows:

	Pension £m	Concessionary Fuel £m	Total £m
1 January 2005	(114.5)	(22.6)	(137.1)
Employer's current service costs	(12.8)	(0.5)	(13.3)
Expected return on assets	16.1	–	16.1
Interest on deficit	(18.1)	(0.8)	(18.9)
Net actuarial losses	(10.3)	(4.0)	(14.3)
Gains on curtailments	2.2	3.0	5.2
Employer's contributions	19.4	0.6	20.0
31 December 2005	**(118.0)**	**(24.3)**	**(142.3)**

Net actuarial losses represent the difference between the actuarial gains (actual returns over those expected from the schemes' assets), and actuarial losses (losses as a result of changes in assumptions used to value the liabilities). The retirement benefit obligations position noted above should be read in conjunction with note 25 to the financial statements. The retirement benefit obligation valuations are subject to a number of uncertainties, including, but not limited to, the estimation of future rates of return from the pension schemes assets and the actuarial assumptions underpinning the liabilities, including life expectancy, inflation and salary increases.

OPERATING AND FINANCIAL REVIEW

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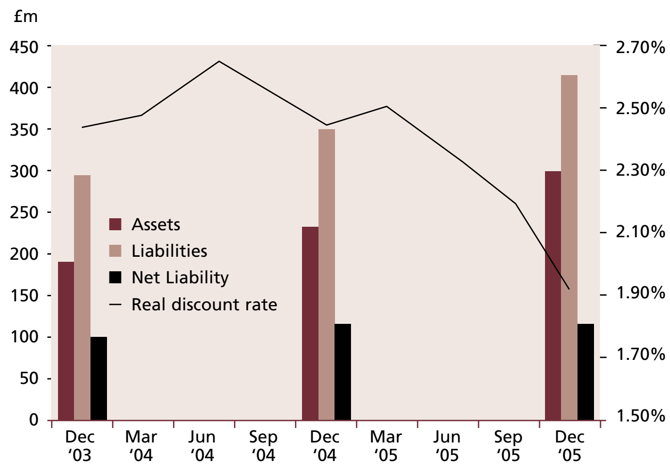
- The pension deficit has recorded a modest increase of £3.5 million, the result of an increase in the value of liabilities of £73.3 million, largely reflecting lower bond yields, outweighing the investment returns of £53.1 million and contributions of £16.7 million (net of benefits paid). The discount rate used is determined by reference to AA rated corporate bond yields, which are at a historic low. The asset and liability valuation is shown in the graph below, with the increase in liabilities arising mainly from the reduction in real discount rates.

UK COAL PLC — Assets & Liabilities on IAS19 basis



- During the year ended 31 December 2005, additional contributions amounting to £6.5 million were paid to the pension schemes. It is anticipated these additional contributions will continue, and the deficit will reduce over a ten year period.

CASH FLOW AND FUNDING

Net cash at 31 December 2005 and 31 December 2004 is summarised as follows:

	2005 £000	2004 £000
Cash deposited to cover insurance requirements	**25,447**	29,747
Subsidence security fund	**26,769**	25,544
Other cash balances	**1,004**	326
Cash and cash equivalents	**53,220**	55,617
Debt	**(75,295)**	(12,225)
Finance leases and hire purchase contracts	**(21,246)**	(36,106)
Borrowings	**(96,541)**	(48,331)
Net (borrowings)/funds	**(43,321)**	7,286

- As a requirement of the Financial Services Authority and The Coal Authority, cash is held to match provisions in respect of employer and public liabilities and surface damage and shaft treatment liabilities. At the year end, cash held for such purposes was £52.2 million (2004: £55.3 million).

The Group has increased its borrowings by £48.2 million in the year. The major items are summarised as follows:

- Capital expenditure amounted to £18.7 million; receipts from the sale of property, plant and equipment were £15.9 million;
- Receipts from the sale of Monckton in the year were £8.3 million; a further £4.8 million will be recovered in 2006 and 2007;
- Repayment of finance leases were £19.8 million;
- Coal Investment Aid received of £18.5 million;
- Additional payments to pension schemes of £6.5 million;
- Redundancy payments amounted to £16.1 million; and
- Other payments were £31.3 million in relation to the restoration of former surface mines and deep mines, surface damage claims, and insurance settlements.

At 31 December 2005, the Group had committed banking facilities of £105.5 million, consisting of £74.0 million on its syndicated revolving credit facility, which expires in July 2007, £21.5 million on a property and development loan expiring in 2008, and £10.0 million overdraft facility. Since the year end, the Group has negotiated an increase in its banking facilities to £143.0 million, plus leasing.

CONTINGENT LIABILITY

No amounts in relation to the ongoing proceedings concerning early retirement, pension related redundancy payments for employees transferred to the Group on privatisation have been provided in the financial statements. The contingent liability should be noted as, if UK COAL loses its case, the effect on the results and cash resources could be significant. Full details are set out in note 31 to the accounts.

ACCOUNTING POLICIES

The Group's accounting policies are set out in detail in note 1 to the financial statements and they should be read to gain a complete understanding of how the Group accounts for particular items. Particular attention is drawn to the policies on pensions and provisions as these are areas which involve the use of judgement or the making of significant estimates by the Directors.

UK COAL has adopted IFRS in these financial statements. A reconciliation of the Group's results and net assets under UK GAAP, as previously reported, to IFRS is set out in note 35 to the financial statements.

The financial statements have been prepared on the going concern basis, which assumes the Group will continue in operational existence for the foreseeable future. If this were not the case, then adjustments would have to be made to reduce the balance sheet value of assets to their recoverable amount, to provide for further liabilities which might then arise, and to reclassify property, plant and equipment and long term liabilities as current assets and liabilities.

TREASURY MANAGEMENT

The Group holds a number of financial instruments including cash and liquid resources, borrowings and other items such as trade creditors and accruals that arise directly from its operations. The Group does not trade in financial instruments.

The terms of reference for the Treasury department are approved and kept under review by the Board. Overall Group strategy for liquidity is to maintain a secure line of credit sufficient to cover forecast cash flows for the 18 month rolling forecast. 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. The Board regularly reviews financial instruments and the treasury function is subject to periodic internal audits. Key risks associated with financial instruments are: interest rate risk (risks that borrowings may be subject to unfavourable interest rate movements); foreign currency risk (risk that purchases or sales in foreign currencies may be subject to unfavourable exchange rate movements) and liquidity risk (risk that the Group's cash flow and facilities will not be sufficient to meet its obligations as they fall due).

The Group's strategy includes maintaining committed facilities which provide adequate cover over anticipated peak borrowing requirements.

The Group's treasury operation is also responsible for managing cash requirements and obtaining optimal returns from its cash deposits. Cash forecasts are prepared as part of the normal budgeting process and these forecasts are regularly updated during the year. For the short term, these forecasts are produced on a daily basis to identify periodic fluctuations in cash requirements and thus enable the Group to remain within its available facilities. Surplus cash is deposited on short term money markets to obtain the best returns available at the time.

DISTRIBUTIONS TO AND RECEIPTS FROM MEMBERS

The directors did not declare an interim dividend and are not proposing a final dividend (2004: interim 5.0p; final 1.0p).

During the year the Company issued 2,355,250 shares (2004: 164,427) following the exercise of options under the share save scheme, generating £1,672,000 (2004: £122,000).

EMPLOYEES

The Group's average number of employees during 2005 was 4,320 (2004: 5,348). It is the policy of the Group to recruit high calibre individuals and offer them challenging roles supported by appropriate training and rewards. Furthermore, the Group is committed to consult and discuss with employees all matters likely to affect their interests. As noted above, working practices are being reviewed at all our deep mines in conjunction with, and subject to the agreement of, the workforce and unions. Every effort is made to redeploy staff into other suitable positions, should their job become redundant. A newspaper is produced and distributed free to all employees regularly, and information on any 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.

HEALTH AND SAFETY

The health and safety of our employees continues to be of prime importance with regular health screenings and safety training given to all employees in mining operations. 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 ill health caused by work. All directors are familiar with, and have been issued with a copy of, the HSC guidance: "Directors' Responsibilities for Health and Safety". Group representatives sit on Health & Safety Commission working parties and are involved in the development of new legislation. There is a Health & Safety Manager (supported by competent Health & Safety professionals) with a direct reporting line to the Board who receive regular updates on the Group Safety Performance and Health & Safety strategy. There are extensive local policies and procedures and all employees are subject to ongoing health surveillance. 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 is an integral part of the management accountability process. 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.

UK COAL promotes a healthy environment and a high standard of safety for all its employees and others who may be affected by its activities. Health and Safety statistics continue to demonstrate a year on year improvement in accident numbers and rates. In 2005, 34 (30 Deep Mines and 4 Surface Mines) major injury accidents were required to be reported to the Health and Safety Commission compared to 46 in 2004. In the deep mine sector the overall reportable injury rate reduced to 27.0 accidents per 100,000 manshifts (2004: 29.5 accidents per 100,000 manshifts).

OPERATING AND FINANCIAL REVIEW

continued

"However, management believes it demonstrates that the safety regime in UK COAL compares favourably with the best in the world."

The Group incident rate per 1,000 employees was 64 (2004: 70) with a Deep Mine rate of 69 (2004: 77) and a Surface Operations incident rate of 26 (2004: 16). UK COAL has benchmarked itself against statistics from other countries with significant mining interests. The results showed a mortality rate in UK COAL of approximately 1 per 100 million tonnes of coal extracted, while the United States of America showed a rate of 2, and South Africa a rate of 3. These results must be treated with caution due to the varying methods used in calculating rates, the differing profiles of the industries, and the variations in the regulatory disclosure regimes across the globe. However, management believes it demonstrates that the safety regime in UK COAL compares favourably with the best in the world. The Group will continue through the direction of management and the involvement and commitment of our employees to target further improvements in 2006.

The Group carries out extensive health surveillance in order to enhance its development of risk control strategies. The health of our employees, within an ageing workforce, is key to the success of the business. Health surveillance covers both work and lifestyle issues.

Health and Safety is an integral part of the management accountability process through all levels of the Company structure. Health and Safety reporting occurs daily through the companies' central data capture system, through management and accountability meetings and at Board meetings. Training is provided to all employees and persons who work on our sites and is refreshed when appropriate. Health and Safety training is in the main a standards-based process and the programmes ensure all persons are updated with current best practice. The training is appropriate to the risks involved.

All sites have appropriate emergency arrangements. The deep mines are members of the Approved National Mine Rescue Scheme.

ENVIRONMENTAL POLICY

The Environmental Policy commitments of the Group are to:

- prevent pollution and comply with environmental legislation, and any environmental agreements with external organisations;
- obtain progressive certification of environmental management systems to international standards;
- set and regularly review objectives and targets to achieve continual improvement in environmental performance, including a reduction in the use of natural resources;
- use the principles of sustainable development to design new mines and restore completed mines to include long term environmental or community benefits;
- provide access to contact us about environmental issues, and give a prompt response;
- provide awareness training for employees;
- require contractors and suppliers to adopt good environmental practice and to give awareness training;
- encourage the efficient use of coal with minimum emissions; and
- maximise the use of other natural resources recovered with the coal.

The Board decision to extend coverage of ISO 14001, the international standard on environmental management, to all mining sites has resulted in a more detailed analysis being undertaken of environmental risk management on all our sites. Following external auditing, certification to ISO 14001 at our remaining mining sites was achieved in early 2005. Our Environmental Policy is reviewed by the Board annually, and both our in house auditors and external experts audit the system to ensure continued compliance. Monitoring and analysis of emissions to air, water and land, as well as the use of natural resources are carried out, and where appropriate, programmes to reduce emissions, or to reduce the use of natural resources are designed and implemented. As new legislative regulations on waste and resources are introduced, our programmes to encourage reduction, reuse and recycling continue to show positive benefits to the environment and improve the Group's profitability.

The Group's commitment to reducing greenhouse gas emissions continues, and is improved through projects such as the use of methane gas from deep mines to generate electricity, and where this is not feasible we flare the methane. 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 liaises with our suppliers through the purchasing function to look at ways of encouraging environmentally sustainable practices throughout the supply chain. The Environment Manager is a member of the local Practitioner Group of Business in the Environment ("BiE"), which meets regularly with like-minded companies to share good environmental practice. BiE is proactive in the region in the promotion and reporting of the performance of companies against a set of environmental criteria.

The success of the policies is judged internally by the use of internal Key Performance Indicators based on established criteria provided by DEFRA. These have been introduced throughout the ongoing mining sites where appropriate reduction programmes and data collection will help us achieve our objectives. Specific environmental success stories in 2005 included, from ongoing mines, a 9% reduction in townswater use, and a 10% reduction in waste sent to landfill sites, compared to 2004.

SOCIAL AND COMMUNITY ISSUES

The Group's deep mines operate at the heart of the communities in which they are based, and it remains the Group's philosophy to help those communities, and those of former collieries, by supporting suitable projects. Charitable donations amounted to £30,000 in the year ended 31 December 2005 (2004: £39,000) and the directors expect this level to be sustained in 2006. The Group has for many years provided sponsorship to the award-winning and renowned Grimethorpe Colliery Band and this support will continue in the coming year.

Garold Spindler
Chief Executive

Christopher Mawe
Finance Director

BOARD OF DIRECTORS

COMPANY INFORMATION AND ADVISERS

David Jones

Garold Spindler

Christopher Mawe

DAVID JONES
Chairman (63)
Was appointed to the Board as a non-executive director in January 2003 and became Chairman in 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 United Utilities.

GAROLD SPINDLER
Chief Executive (58)
Joined the Board as a non-executive director in October 2001. He was appointed Chief Executive during October 2004. 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.

CHRISTOPHER MAWE
Executive Director (44)
Was appointed Finance Director in March 2004 and assumed additional responsibility for sales and marketing and Harworth Power from 1 December 2005. He was previously Group Finance Director of Carclo plc and has held a number of senior finance positions with IMI plc, having qualified as a Chartered Accountant in 1990 with Coopers & Lybrand.

A Audit Committee
N Nomination Committee
P Property Committee
R Remuneration Committee

CHAIRMAN
David Jones N

CHIEF EXECUTIVE
Garold Spindler N P

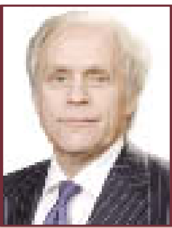
EXECUTIVE DIRECTOR
Christopher Mawe P

NON-EXECUTIVE DIRECTORS
Peter Hazell A N P R
Graham Menzies A N P R
James Murray A N P R

SECRETARY AND REGISTERED OFFICE
Richard Cole
Harworth Park
Blyth Road
Harworth
Doncaster
South Yorkshire
DN11 8DB

COMPANY REGISTERED NO.
2649340

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



Peter
Hazell

James
Murray

Graham
Menzies

PETER HAZELL

Non-executive Director (57)
Chairman of property developers the Argent Group joined the Board in September 2003 as a non-executive director. He is also a non-executive director of Brit Insurance and Smith & Williamson. 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 is Chairman of the Audit Committee. He will be appointed Senior Independent Director when Graham Menzies steps down from the Board.

JAMES MURRAY

Non-executive Director (59)
A non-executive director of Wolseley plc and Chairman of its Audit Committee, joined the Board in 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. He is Chairman of the Property Committee.

GRAHAM MENZIES

Non-executive Director (58)
Chief Executive of Senior plc, the international engineering group, joined the Board in June 2004 as a non-executive director. He is also a non-executive director at Heywood Williams plc. He was previously Chief Executive with Adwest Automotive plc and for six years was a non-executive director of St Ives plc. He became Chairman of the Remuneration Committee when Garold Spindler was appointed Chief Executive and has also been appointed as the Senior Independent Director. Due to other business commitments he will be stepping down from the Board on 9 March 2006.

STOCKBROKERS AND FINANCIAL ADVISERS

Dresdner Kleinwort
Wasserstein
20 Fenchurch Street
London
EC3P 3DB

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

Barclays Bank PLC
6 East Parade
Leeds
LS1 2UX

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

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2005. These will be laid before the Annual General Meeting to be held on 2 May 2006. Details of all resolutions to be proposed at the 2006 Annual General Meeting are set out in the notice calling the meeting, which is enclosed with this report.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group comprise surface and underground coal mining, property activities and power generation. The consolidated income statement for the year is set out on page 39.

The Chairman's Statement and the Operating and Financial Review on pages 2 to 25 give an outline of the Group's business during the year and comment on the current trading position and outlook for 2006.

DIVIDENDS PER ORDINARY SHARE

There was no interim dividend paid during the year. The directors are not recommending the payment of a final dividend.

LAND AND PROPERTY

The Group's land and property were revalued in the year. The valuations, full details of which are set out in the Operating and Financial Review, show an increase over the book value of £181.5 million.

DIRECTORS

The directors who served during the year were Peter Hazell, David Jones, Christopher Mawe, Graham Menzies, James Murray, Patrick O'Brien, and Garold Spindler. Patrick O'Brien resigned from the Board on 28 November 2005 and Graham Menzies has resigned from the Board effective from 9 March 2006.

All continuing directors are subject to re-election every three years. David Jones and Peter Hazell will retire by rotation in accordance with the Articles of Association and will offer themselves for re-election at the Annual General Meeting. Both directors standing are recommended by the Board for reappointment at the Annual General Meeting.

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.

The interests of the directors in the shares of the Company are shown in the report on directors' remuneration. The biographical details of the current directors are shown on pages 26 and 27.

CHARITABLE DONATIONS

The contributions made by the Group during the year for charitable purposes were £30,000 (2004: £39,000). No political donations were made in 2005 (2004: £Nil). Charitable 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 regularly. 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 employment by 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

UK COAL is committed to maintaining high standards of health and safety in every area of the business. The Company has complied with the terms of the Health and Safety at Work Act 1974.

TREASURY POLICY AND LIQUIDITY

The Group maintains a secure line of credit sufficient to cover forecast cash requirements for the 18 month rolling forecast. The Group only enters into hedging transactions required to cover the operations of the business. The principal function of the financial instruments held by the Group is to provide security, raise funds and mitigate some interest rate risks.

SUPPLIER PAYMENT POLICY

The Group does not follow any specific external code or standard on payment practice. Its policy is normally to pay suppliers according to terms of business agreed with them on entering into binding contracts and to keep to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts.

The Group had 55 days' purchases outstanding at 31 December 2005 (2004: 59 days) based on the average daily amount invoiced by suppliers during the year.

ETHICAL POLICY

UK COAL 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.

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

The directors have been notified of the following substantial shareholdings as at 1 March 2006:

Company	Date of Notification	Number of shares	% of issued share capital
Fidelity Investments	4 April 2005	13,280,175	8.94
Morgan Stanley Securities Ltd	11 November 2005	8,947,130	6.02
Phoenix Asset Management Partners Ltd	18 March 2005	5,974,990	4.02
Artemis Investment Management Ltd	27 January 2005	5,707,899	3.84
WL Ross & Co LLC	25 August 2005	5,555,283	3.74
Allianz AG	17 February 2006	5,446,684	3.67
Audley European Opportunities Master Fund Ltd	31 January 2006	4,808,750	3.24
Legal & General	5 February 2004	4,457,955	3.00

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 26 April 2005. 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 2 May 2006.

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 the 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 39 to 82, the Company and the 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 misstatement 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

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

By order of the Board

Richard Cole
Company Secretary
1 March 2006

CORPORATE GOVERNANCE

The Company recognises the importance of, and is committed to, high standards of Corporate Governance and the following sections explain how the Company has applied the main and supporting principles set out in the Combined Code on Corporate Governance, issued by the UK Listing Authority. The Board confirms that the Company has complied with the provisions set out in the Combined Code throughout the year ended 31 December 2005.

THE BOARD OF DIRECTORS

The Company is headed by a Board of directors, comprising the Chairman, two executive directors and three non-executive directors, each determined by the Board to be independent. The offices of Chairman and Chief Executive are held separately, and both officers have clearly defined roles and responsibilities.

The Chairman is responsible for the running of the Board including, but not limited to, ensuring that a fixed schedule of matters is exclusively retained for the Board's review and approval, and that a framework exists to allow the clear and timely dissemination of relevant information to all directors for such review to occur. The Chief Executive is responsible for running the Group's business and for implementing the Board's strategies and policies. The Senior Independent Director is Graham Menzies, who is stepping down from the Board on 9 March 2006, at which time Peter Hazell will be appointed as Senior Independent Director.

The Board of the Company is responsible for setting the Group's objectives and policies and for the stewardship of the Group's resources. The Board is responsible to the shareholders for the overall management of the Group.

The Board considers its 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. Non-executive directors are offered the opportunity to attend meetings with major shareholders and would attend them if requested by major shareholders.

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The appointment and removal of the Company Secretary are matters for the Board as a whole. 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.

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors.

The interests of the directors in the shares of the Company are shown in the Directors' Remuneration Report. The biographical details of the current directors are shown on pages 26 and 27.

ATTENDANCE AT BOARD MEETINGS

Attendance by individual directors at meetings of the Board and its Committees during the year ended 31 December 2005 is shown in the table below.

	Board		Audit		Remuneration		Nomination		Property	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
D H Jones	9	9	–	–	–	–	1	1	–	–
G R Spindler	9	9	–	–	–	–	1	1	2	2
P F Hazell	9	9	4	4	5	5	1	1	2	2
C Mawe	9	9	–	–	–	–	–	–	2	2
G R Menzies	9	8	4	4	5	5	1	1	2	2
J I K Murray	9	9	4	4	5	5	1	1	2	2
P S O'Brien	8	8	–	–	–	–	–	–	–	–

COMMITTEES

The Group's governance structure ensures that all decisions are made by the most appropriate people, in such a way that the decision-making process itself does not unnecessarily delay progress. 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; these can be found on the Company's website. 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.

Nomination Committee

The Nomination Committee leads the process for Board appointments by making recommendations to the Board about filling Board vacancies and appointing additional persons to the Board. The Committee also considers and makes recommendations to the Board on its composition, balance and membership and on the reappointment by shareholders of any director under the retirement by rotation provisions in the Company's Articles of Association.

The Committee's members are the non-executive directors and the Chairman, together with the Chief Executive. Although the Chairman is also chairman of the Committee, he will not chair the Committee when it deals with the appointment of a successor to the chairmanship. The

Nomination Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the roles and capabilities required for a particular appointment.

The Committee uses external search consultants to advise on Board and senior management appointments.

The Board initially appoints all new directors, having first considered recommendations made to it by the Nomination Committee. Following such appointment, the director is required to retire and seek reappointment at the next Annual General Meeting. There is a process of rotation, which ensures that approximately one third of all directors are required to retire and seek reappointment at each Annual General Meeting and that all directors are required to be reappointed no less than every three years.

The Nomination Committee considers succession planning for appointments to the Board and to senior management positions so as to maintain an appropriate balance of skills and experience both on the Board and in the Company.

Remuneration Committee

The composition and work of the Remuneration Committee are described in the Directors' Remuneration Report.

Audit Committee and Auditors

The Audit Committee comprises Peter Hazell (Chairman), Graham Menzies and James Murray. The Board is satisfied that Peter Hazell has recent and relevant financial experience and that all members of the Committee are independent non-executive directors. The Chairman, the Chief Executive, the Finance 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 Audit Committee also reviews the half-year and annual financial statements before submission to the Board and periodically reviews the scope, remit and effectiveness of the internal audit function and the effectiveness of the Group's internal control systems. It also reviews "whistle-blowing" arrangements by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties. The terms of reference of the Audit Committee are available to shareholders on request and are also available on the Company's website. The Group Internal Audit Manager has a direct reporting line to the Committee.

The auditors throughout 2005 have been PricewaterhouseCoopers LLP.

Fees to PricewaterhouseCoopers LLP

	2005	2004
	£000	£000
Audit fees	**329**	288
Audit related fees	**115**	98
Tax compliance and advice services	**174**	120
	618	506

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

- The Audit Committee reviews the audit appointment periodically;
- It is Group policy that the external auditors will not, as a general rule, provide consulting services. The external auditors 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 monitors the application of the policy in this regard and keeps the policy under review;
- The Audit Committee reviews on a regular basis all fees paid in respect of the audit, and all 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; and
- The auditors report to the directors and the Audit Committee confirming their independence in accordance with Auditing Standards.

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, Christopher Mawe, Graham Menzies and Garold Spindler.

OTHER MEETINGS

In accordance with best practice, the Chairman has regular meetings with the non-executive directors without the executive directors being present.

A meeting of the non-executive directors, chaired by the Senior Independent Director (without the Chairman), takes place at least annually to appraise the Chairman's performance.

DIRECTORS' DEVELOPMENT

All directors receive formal induction training on joining the Company and access to further training is made available. The Company provides the necessary internal and external resources to enable directors to develop and update their knowledge and capabilities.

PERFORMANCE EVALUATION

The Board has conducted a self evaluation of its performance and effectiveness and has both identified and addressed matters requiring attention. The Chairman is leading a thorough examination and evaluation of the way in which all members of the Board interact with each other to ensure that the Board, and directors, continues to perform in an effective manner.

CORPORATE GOVERNANCE

continued

EXECUTIVE MANAGEMENT COMMITTEE

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

Chief Executive	Garold Spindler
Finance Director	Christopher Mawe
Production Director	Bill Tinsley
Human Resources and Communications Director	Norman Haslam
Company Secretary	Richard Cole

RELATIONS WITH SHAREHOLDERS

The Company maintains ongoing dialogue with institutional shareholders through regular presentations and meetings to outline the Group's trading environment and objectives and also offers them the opportunity to meet non-executive directors. Private investors are encouraged to attend the Annual General Meeting where they have the opportunity to question the Board.

INTERNAL CONTROL RISK ASSESSMENT

There is an ongoing process for identifying, evaluating and managing the significant risks of the Group, which process has been in place throughout the year under review. The Board has reviewed the effectiveness of the Group's system of internal controls. An updated strategic risk assessment was reviewed by the Board on 1 March 2006.

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 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 that procedures 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 month. Quarterly Operational Review meetings are held with senior management to discuss performance against plan and to decide and implement any actions required. There are Group-wide and local procedures to which compliance is monitored.

Health & Safety — Full details of the health and safety policies and practices of the Group are set out in the Operating and Financial Review.

ENVIRONMENTAL MANAGEMENT

Full details of the environmental policies and practices of the Group are set out in the Operating and Financial Review.

FINANCIAL — **these controls are considered under the following headings:**

- *Cost budgeting* — The annual budget setting process includes a detailed review of each business unit and final budgets are approved by the Board. Costs and performance are monitored on a monthly basis against budgets. Monthly 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* — The Company holds insurance cover for all employer liability and public liability claims, which is issued by its captive insurance company, and which limits the Group'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 expenditure* — Board approval of all major capital projects is required. Smaller capital projects are approved by the Investment Committee which is chaired by the Finance Director and comprises the executive directors. Senior 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 the HM Inspectorate of Mines (Health & Safety) and other Health & Safety Commission personnel, legal advisers 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.

The audit committee reviews 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 give an opinion of the risk and control profile of each audited system.

GOING CONCERN

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

ANNUAL GENERAL MEETING

The Board encourages shareholders to exercise their right to vote at the Annual General Meeting. The notice calling the meeting and related papers are sent to shareholders at least 20 working days before the meeting and separate resolutions are proposed on each substantially separate issue.

Shareholders are encouraged to participate through a question and answer session and individual directors or, where appropriate, the chairman of the relevant committee, respond to those questions directly. Shareholders have the opportunity to talk informally to the directors before and after the formal proceedings.

DIRECTORS' 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 2005. 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 the Chairman and 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 2005 were: Graham Menzies (committee chairman), James Murray and Peter Hazell. 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 Group. Neither the Chairman nor the executive directors participate in discussions relating to their remuneration.

The Remuneration Committee has terms of reference, approved by the Board, which are available on the Company's 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 to further the Company's interests. The executive directors' remuneration comprises a base salary, an annual performance bonus, participation in a Long Term Incentive Plan, a car or car allowance, pension contributions to a defined contribution pension scheme and health insurance. Bonus payments and benefits in kind are not pensionable.

The Company is required to seek shareholder approval for this report, and to put forward any new incentive schemes for shareholder approval at the Annual General Meeting. No such incentive schemes are proposed for 2006.

The following paragraphs explain the operation of the main constituents of the remuneration policy.

CHAIRMAN
The Chairman receives fees commensurate with his duties, which 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. The Chairman's fee has been reviewed by the Committee and with effect from 1 January 2006 it has been increased to £120,000 per annum.

EXECUTIVE DIRECTORS
BASE SALARIES
Executive directors' salaries have been reviewed by the Remuneration Committee. Garold Spindler's base salary has been increased from £336,050 to £344,115 from 1 January 2006. The percentage increase was in line with that of the general workforce. Following a review of information from Watson Wyatt on equivalent positions, and in line with a change in his responsibilities, Christopher Mawe's base salary was increased to £238,000 with effect from 1 December 2005.

ANNUAL BONUS AND BONUS SHARE MATCHING PLAN
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), the Remuneration Committee sets both the performance measures and targets based on the Company's business priorities. These targets ensure that incentives at the higher end of the range are payable only for demonstrably superior Company and individual performance.

In respect of 2005, Garold Spindler received a bonus of £117,210, Christopher Mawe received a bonus of £106,875 and Patrick O'Brien received a bonus of £39,938.

The bonus for the period represented 34.9% of basic pay for Garold Spindler, 55.1% of basic pay for Christopher Mawe and 18.8% basic pay for Patrick O'Brien.

Annual bonuses are not pensionable.

A Bonus Share Matching Plan was introduced in 2000, and permits executive directors and senior executives to invest their own funds from their annual bonus in the Company. The plan was not operated in 2005 and the Committee will review its operation in 2006. For 2003, and previous years, participants in the Bonus Share Matching Plan could elect to take up to 50% of the annual bonus in cash. The after-tax amount of the bonus remaining after that election was used to acquire shares, which had to 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 was made. These also had to be held for a minimum of three years, but were 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.

DIRECTORS' REMUNERATION REPORT

continued

However, to reflect this fact, the ratio of matching shares to basic shares was held at a low level: one matching share for each three shares acquired.

LONG TERM INCENTIVE PLAN

A Long Term Incentive Plan ("LTIP") 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"). In 2005, an award of 86,037 shares was made to Christopher Mawe. In review of the award granted in October 2004, no award was made to Garold Spindler in 2005. It is currently intended to make further awards in 2006.

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 per annum) 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) have vested 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 predetermined levels of performance set out in the table below, performance being measured as the percentage growth in the Company's TSR. The director must remain in post throughout the three-year period (subject to exceptions as set out in the plan) in order to be entitled to this award. For all awards granted in 2005 and thereafter, in order for any part of an award to vest, the Company must have achieved earnings per share growth at least equal to the increase in the RPI plus 3% per annum. If this test is not met than the award will lapse. If the test is met then the proportion of the award vesting will be determined in accordance with the Company's TSR performance over the period, as set out below.

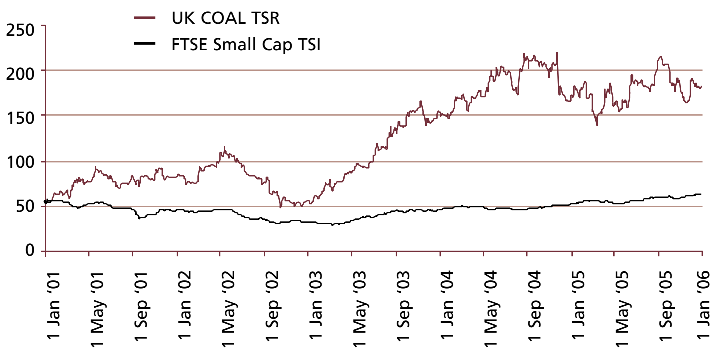
The Committee may, in its absolute discretion, allow a participant to elect to defer the measurement of TSR for a maximum of two years. However, the Remuneration Committee resolved that from 1 January 2004 there would be no deferral on any further awards.

The Committee determines the extent to which an award is capable on realisation in accordance with the table below:

Percentage of Award capable of realisation

Growth in Total Shareholder Return	**3 years**	**4 years**	**5 years**
Below 75%	Nil	Nil	Nil
75%–100%	30	15	10
100%–150%	50	30	20
150% or above	100	75	50

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



The above graph shows the Company's Total Shareholder Return performance in comparison with the TSR of the FTSE Small Cap Index for the five financial years ended 31 December 2005.

UK COAL is included in the FTSE Small Cap Index, which has 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.

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 no more than one year is appropriate. It is the Company's policy not to enter into service contracts that provide written notice of more than one year.

In respect of Garold Spindler, Chief Executive, employment will continue until terminated by the Company giving the executive not less than twelve months' written notice, or by the executive giving the Company not less than six months' written notice. There is a termination clause in the Chief Executive's contract that states that the Company, at its sole discretion, may terminate his employment at any time by paying a sum in lieu of notice equal to the basic salary which he would have been entitled to receive under the notice period as earlier stated.

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

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 of 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.

NON-EXECUTIVE DIRECTORS

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 reappointment 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. With effect from 1 January 2006, the base fee for non-executive directors was increased from £24,000 to £30,000 per annum. The additional fee for chairing a committee remains at £5,000.

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

DIRECTORS' SERVICE CONTRACTS

	Contract Date	**Unexpired Term (as at 31/12/05)**	**Notice Period**
David Jones	13.12.05	3 years	3 months
Garold Spindler (i)	30.09.04	Rolling 1 year	1 year
Christopher Mawe	31.10.03	Rolling 1 year	1 year
Peter Hazell	12.09.03	9 months	3 months
James Murray	12.09.03	9 months	3 months
Graham Menzies	13.05.04	1 year 5 months	3 months

(i) Garold Spindler's employment contract contains a provision for compensation payable upon early termination. Other directors' employment contracts do not contain provisions for compensation payable upon early termination.

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 by application to the Company Secretary.

DIRECTORS' REMUNERATION REPORT

continued

DIRECTORS' EMOLUMENTS FOR THE YEAR ENDED 31 DECEMBER 2005*

	Salary/Fees £000	Allowances £000	Annual Bonus £000	Benefits in Kind (note 5) £000	**Total 2005 £000**	Total 2004 £000
David Jones	110	–	–	–	**110**	115
Garold Spindler[1]	336	121	117	–	**574**	166
Patrick O'Brien[2]	195	–	40	17	**252**	224
Christopher Mawe[3]	194	4	107	7	**312**	167
Peter Hazell[4]	29	–	–	–	**29**	27
James Murray[4]	29	–	–	–	**29**	29
Graham Menzies[4]	29	–	–	–	**29**	15
	922	125	264	24	**1,335**	743

1 Garold Spindler received £20,000 in lieu of a car (2004: £4,000) and £101,000 in lieu of a pension contribution (2004: £20,000) which are included in allowances above. He also received £63,000 in respect of relocation expenses (2004: £37,000), which is not included in the numbers above. The comparative numbers for 2004 relate to his service as a non-executive director for the period ended 17 October 2004, and his appointment as Chief Executive thereafter.

2 Patrick O'Brien resigned as a director on 28 November 2005 and therefore the fees and salaries noted above are for the period he acted as a director of the Company. Following his resignation, his salary and benefits in kind for the remainder of 2005 amounted to £19,000. He will remain in employment until 31 March 2006 when he will receive a severance payment of £237,000 representing 9 months of his contractual entitlement (and including his redundancy entitlement).

3 Christopher Mawe received £4,000 (2004: £3,000) in lieu of a car, included in allowances above.

4 Peter Hazell, James Murray and Graham Menzies were paid a base fee of £24,000 per annum. Each non-executive director who chaired a committee received an additional fee of £5,000 per annum. Remuneration paid was for duties as non-executives only.

5 Benefits in kind comprise car benefits and health insurance.

No directors waived emoluments in respect of the year ended 31 December 2005.

PENSION CONTRIBUTIONS*

Patrick O'Brien and Christopher Mawe were members of the UK COAL money purchase pension scheme during the year, and pension contributions in respect of each of them were made at the rate of 30% of base salary. The money purchase scheme does not provide additional post-retirement benefits (including contingent death benefits).

Pension contributions on behalf of executive directors were as follows:

	Pension Contributions 2005 £000	Pension Contributions 2004 £000
Garold Spindler	**Nil**	Nil
Patrick O'Brien (i)	**58**	62
Christopher Mawe	**56**	28
	114	90

(i) Patrick O'Brien resigned as a director on 28 November 2005 and for the month of December, a pension contribution of £5,000 was made on his behalf.

LONG TERM INCENTIVE PLAN AND BONUS SHARE MATCHING PLAN*

Long Term Incentive Plan

	Interest at 1 Jan 2005	Interest awarded during the year (i)	Interest lapsed during the year	Interest matured during the year	Interest at 31 Dec 2005 (ii)	Vesting date	End of performance period
Garold Spindler							
Executive LTIP 2004	203,125	–	–	–	203,125	19.10.07	31.12.06
Total	**203,125**	**–**	**–**	**–**	**203,125**		
Patrick O'Brien (resigned 28 November 2005)							
Executive LTIP 2003	219,463	–	–	–	219,463	31.03.06	31.12.07
Executive LTIP 2004	103,000	–	–	–	103,000	05.07.07	31.12.06
Total	**322,463**	**–**	**–**	**–**	**322,463**		
Christopher Mawe							
Executive LTIP 2004	85,000	–	–	–	85,000	05.07.07	31.12.06
Executive LTIP 2005	–	86,037	–	–	86,037	07.11.08	31.12.07
Total	**85,000**	**86,037**	**–**	**–**	**171,037**		

(i) The market value of the shares awarded, as at the date of award, 7 November 2005 was £1.32.
(ii) The exercise price of all outstanding awards is £nil.

Bonus Share Matching Plan

	Interest at 1 Jan 2005	Shares allocated during the year	Matching awards	Interest lapsed during the year	Interest matured during the year (i)	Interest at 31 Dec 2005	Share price at date of allocation	Vesting date
Patrick O'Brien (resigned 28 November 2005)								
Bonus Matching 02	23,201	–	7,734	–	(30,935)	–		
Bonus Matching 03	29,738	–	9,912	–	–	39,650	65.0p	10.03.06
Bonus Matching 04	17,365	–	5,788	–	–	23,153	143.0p	10.03.07
Total	**70,304**	**–**	**23,434**	**–**	**(30,935)**	**62,803**		

(i) The interest vested on 30 November 2005. The market price of the shares on this date was £1.375.

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.

	Beneficial interest in ordinary shares at 31 December 2005	Beneficial interest in ordinary shares at 31 December 2004
David Jones	10,000	10,000
Garold Spindler (i)	283,200	283,200
Christopher Mawe (i)	–	–
Peter Hazell	–	–
James Murray	–	–
Graham Menzies	5,050	5,050

(i) For the purpose 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 Employee Benefit Trust.

There have been no changes in directors' interests in shares between the end of the year and 1 March 2006.

DIRECTORS' INTERESTS IN SHARE OPTIONS*

The market value of the Company's shares during the year ranged from 106p to 163p. The market value on 31 December 2005 was 138p. 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 2005.

This report has been approved by the Board for submission to shareholders at the Annual General Meeting to be held on 2 May 2006 and signed on behalf of the Board by Graham Menzies.

By order of the Board

Graham Menzies
Chairman, Remuneration Committee
1 March 2006

* Denotes auditable elements of the Remuneration Report.

INDEPENDENT AUDITORS' REPORT

We have audited the Group and parent company financial statements of UK COAL PLC for the year ended 31 December 2005 which comprise the consolidated income statement, consolidated statements of recognised income and expense, the Group and parent company balance sheets, the Group and parent company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited 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 consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its loss and cash flows for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005 and cash flows for the year then ended; and

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
East Midlands
1 March 2006

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December

	Notes	2005 £000	2004 £000
CONTINUING OPERATIONS			
Revenue	2	**341,214**	433,818
Cost of sales	3	**(412,606)**	(470,787)
Gross loss		**(71,392)**	(36,969)
Coal Investment Aid	4	**14,641**	8,902
Appreciation in fair value of investment properties	15	**4,530**	–
Profit on disposal of property, plant and equipment		**10,074**	3,317
Profit on sale of business	5	**3,100**	–
Other operating income and expenses	6	**(14,286)**	(12,300)
Operating loss		**(53,333)**	(37,050)
Interest payable and similar charges	8	**(11,753)**	(9,753)
Interest receivable	8	**2,992**	4,605
Net finance costs	8	**(8,761)**	(5,148)
Loss before tax		**(62,094)**	(42,198)
Tax	10	**–**	–
Loss for the year from continuing activities		**(62,094)**	(42,198)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations		**(72)**	(1,626)
Profit on disposal of discontinued operations		**–**	10,293
Total (loss)/profit from discontinued operations		**(72)**	8,667
Loss for the year		**(62,166)**	(33,531)
Attributable to:			
Equity holders of the parent		**(62,166)**	(33,480)
Minority interest		**–**	(51)
		(62,166)	(33,531)
Loss per share	13	**p**	p
From continuing operations:			
Basic and diluted		**(41.9)**	(29.0)
From discontinued operations:			
Basic and diluted		**–**	6.0
From total operations:			
Basic and diluted		**(41.9)**	(23.0)

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
(Loss)/profit for the year	**(62,166)**	(33,531)	**(22,878)**	2,737
Actuarial losses on defined benefit pension schemes	**(10,286)**	(14,025)	**–**	–
Actuarial (loss)/gain on concessionary fuel reserve	**(3,995)**	2,307	**–**	–
Accrual for Long Term Incentive Plan liabilities	**173**	(211)	**173**	(211)
Net (losses)/gains not recognised in income statement	**(14,108)**	(11,929)	**173**	(211)
Total recognised (expense)/income for the year	**(76,274)**	(45,460)	**(22,705)**	2,526
Attributable to:				
Equity holders of the parent	**(76,274)**	(45,409)	**(22,705)**	2,526
Minority interest	**–**	(51)	**–**	–
	(76,274)	(45,460)	**(22,705)**	2,526

BALANCE SHEETS

at 31 December

	Notes	**Group 2005 £000**	Group 2004 £000	**Company 2005 £000**	Company 2004 £000
ASSETS					
Non current assets					
Property, plant and equipment	14	**322,050**	358,232	–	–
Investment properties	15	**17,750**	6,720	–	–
Investments in subsidiaries	16	–	–	**473,224**	473,198
Trade and other receivables	17	**4,728**	4,131	–	20,154
		344,528	369,083	**473,224**	493,352
Current assets					
Inventories	18	**42,168**	47,641	–	–
Trade and other receivables	19	**63,312**	62,358	**137,168**	146,390
Cash and cash equivalents	20	**53,220**	55,617	**425**	283
		158,700	165,616	**137,593**	146,673
LIABILITIES					
Current liabilities					
Financial liabilities					
— Borrowings	21	**(55,575)**	(12,225)	**(52,395)**	(13,120)
Trade and other payables	22	**(104,927)**	(106,871)	**(144,220)**	(190,187)
Obligations under hire purchase and finance leases	21	**(7,411)**	(10,998)	–	–
Provisions	23	**(52,320)**	(46,837)	–	–
		(220,233)	(176,931)	**(196,615)**	(203,307)
Net current liabilities		**(61,533)**	(11,315)	**(59,022)**	(56,634)
Non current liabilities					
Financial liabilities					
— Borrowings	21	**(19,720)**	–	–	–
— Derivative financial instruments	24	**(55)**	–	–	–
Obligations under hire purchase and finance leases	21	**(13,835)**	(25,108)	–	–
Provisions	23	**(121,778)**	(138,812)	–	–
Retirement benefit obligations	25	**(142,338)**	(137,059)	–	–
		(297,726)	(300,979)	–	–
Net (liabilities)/assets		**(14,731)**	56,789	**414,202**	436,718
EQUITY					
Capital and reserves					
Ordinary shares	26	**1,485**	1,462	**1,485**	1,462
Share premium	27	**1,771**	122	**1,771**	122
Revaluation reserve	28	**4,565**	–	–	–
Capital redemption reserve	28	**257**	257	**257**	257
Fair value reserve	28	**4,530**	–	–	–
Retained earnings	27	**(27,339)**	54,948	**410,689**	434,877
(Deficit)/surplus on total shareholders' equity		**(14,731)**	56,789	**414,202**	436,718

The financial statements on pages 39 to 82 were approved by the Board of directors on 1 March 2006 and were signed on its behalf by:

G R Spindler
Chief Executive

C Mawe
Finance Director

CASH FLOW STATEMENTS

for the year ended 31 December

	Group 2005 £000	Group 2004 £000	**Company 2005 £000**	Company 2004 £000
Cash flows from operating activities				
(Loss)/profit for the year	**(62,166)**	(33,531)	**(22,878)**	2,737
Depreciation/impairment of property, plant and equipment	**50,119**	55,336	–	–
Fair value appreciation in investment properties	**(4,530)**	–	–	–
Net interest receivable/(payable) and amortisation of discount on provisions	**8,376**	5,148	**3,750**	(316)
Net charge/(credit) for share-based remuneration	**173**	(211)	**173**	(211)
Net credit for surface mine development and restoration costs	**(3,356)**	(1,649)	–	–
Profit on disposal of property, plant and equipment	**(10,074)**	(3,317)	–	–
Profit on sale of interests in businesses	**(3,100)**	(10,293)	–	(2,292)
Decrease in provisions	**(23,676)**	(29,200)	–	–
Tax	**72**	–	**72**	–
Dti contributions to redundancy payments	–	5,200	–	–
Operating cash flows before movements in working capital	**(48,162)**	(12,517)	**(18,883)**	(82)
Decrease in stocks	**2,004**	10,828	–	–
(Increase)/decrease in receivables	**(1,551)**	24,589	**29,376**	26,828
Decrease in payables	**(5,936)**	(5,524)	**(45,967)**	(37,874)
Cash (used in)/generated from operations	**(53,645)**	17,376	**(35,474)**	(11,128)
Tax paid	**(72)**	–	**(72)**	–
Financing cost	**(738)**	–	–	–
Interest paid	**(5,744)**	(4,006)	**(4,276)**	(1,650)
Cash (used in)/generated from operating activities	**(60,199)**	13,370	**(39,822)**	(12,778)
Cash flows from investing activities				
Interest received	**2,992**	4,605	**526**	1,966
Net receipt from insurance and security provision funds	**3,075**	3,675	–	–
Disposal of businesses	**8,844**	19,571	–	19,441
Proceeds on disposal of property, plant and equipment	**15,861**	6,382	–	–
Net purchase of shares in subsidiaries	–	–	**(26)**	–
Purchase of property, plant and equipment	**(18,688)**	(51,370)	–	–
Cash generated from/(used in) investing activities	**12,084**	(17,137)	**500**	21,407
Cash flows from financing activities				
Proceeds from issue of share capital	**1,672**	122	**1,672**	122
New bank loans raised	**63,464**	5,067	**39,275**	5,896
Purchase of treasury shares	–	(43)	–	(43)
Proceeds from new finance leases	**4,939**	22,185	–	–
Repayments of obligations under hire purchase and finance leases	**(19,799)**	(9,986)	–	–
Dividends paid to shareholders	**(1,483)**	(14,573)	**(1,483)**	(14,573)
Cash generated from/(used in) financing activities	**48,793**	2,772	**39,464**	(8,598)
Effects of exchange rate differences	–	(63)	–	–
Increase/(decrease) in cash	**678**	(1,058)	**142**	31
At 1 January				
Cash	**326**	1,384	**283**	252
Cash equivalents	**55,291**	58,966	–	–
	55,617	60,350	**283**	252
Reduction in cash equivalents (net receipt from insurance and security funds)	**(3,075)**	(3,675)	–	–
Increase/(decrease) in cash	**678**	(1,058)	**142**	31
	53,220	55,617	**425**	283
At 31 December				
Cash	**1,004**	326	**425**	283
Cash equivalents	**52,216**	55,291	–	–
Cash and cash equivalents (Note 20)	**53,220**	55,617	**425**	283

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

1 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS (as endorsed by the EU). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties in accordance with IAS 40 'Investment Property'.

IFRS — First time adoption

The rules for first time adoption of IFRS are set out in IFRS 1 'First time adoption of International Financial Reporting Standards'. In preparing the financial statements, these rules have been applied to the amounts previously reported under UK GAAP. IFRS 1 generally requires full retrospective application of the standards and interpretations in force at the first reporting date. However, IFRS 1 allows certain optional exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. UK COAL's decisions in respect of these exemptions are as follows:

UK COAL has adopted IFRS 5 'Non current Assets Held for Sale and Discontinued Operations' with effect from 1 January 2005, with no restatement of comparative information for 2004.

UK COAL has opted to continue to measure property, plant and equipment (excluding investment property) at historical cost, less accumulated depreciation, in the consolidated balance sheet.

UK COAL has elected to recognise all cumulative actuarial gains and losses in respect of retirement benefit schemes in reserves on transition rather than recognising certain of them through the consolidated income statement prospectively over a period of time.

UK COAL has, in recognising fair values of share-based payments to employees, chosen to apply the exemption only to include those awards made after 7 November 2002 which had not vested at 31 December 2003 in its calculations at the date of transition.

UK COAL has assumed cumulative translation differences for foreign operations to be zero at the date of transition. This related to the Australian subsidiary, Gloucester Coal, at the date of transition. At 31 December 2004 and 31 December 2005, UK COAL had no foreign subsidiaries.

UK COAL has not retrospectively applied IFRS 3 'Business Combinations' to business combinations that occurred before the date of transition.

UK COAL has elected to adopt IAS 32 'Financial instruments: Disclosure and presentation' and IAS 39 'Financial instruments: Recognition and measurement' with effect from 1 January 2005. This allows the recognition of derivatives for the first time in the accounting period ending 31 December 2005 and does not require comparative figures to be restated. The comparative numbers were prepared under UK GAAP. No significant adjustments to the comparative numbers would be required for them to comply with IAS 32 and IAS 39.

A number of IFRS Standards and Interpretations are not yet mandatory but can be adopted early under their respective transition arrangements. UK COAL has adopted early IFRS 6 'Exploration for and Evaluation of Mineral Resources' and the amendment to IAS 19 'Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures'.

In preparing the 2005 financial statements, UK COAL has not applied the following pronouncements for which adoption is not mandatory until the year ending 31 December 2006 or 31 December 2007 and which have not yet been endorsed by the EU:

IFRIC 4 'Determining whether an Arrangement contains a Lease'
IFRIC 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'
IFRIC 6 'Liabilities arising from participating in a specific market — waste electrical and electronic equipment'
IFRIC 7 'Applying the restatement approach under IAS29 — Financial reporting in hyperinflationary economies'
IFRIC 8 'Scope of IFRS 2'
IFRS 7 'Financial Instruments: Disclosures'

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

Consolidation

The consolidated financial information incorporates the financial statements of UK COAL PLC and its subsidiaries.

Subsidiaries are entities over which UK COAL has power to govern the financial and operating policies. Control is presumed to exist where UK COAL owns more than half of the voting rights unless in exceptional circumstances it can be demonstrated that ownership does not constitute control. The consolidated financial information includes all the assets, liabilities, revenues, expenses and cash flows of the parent and its subsidiaries after eliminating intercompany balances and transactions. The results of subsidiaries sold or acquired are included in the consolidated income statement up to, or from, the date control passes.

UK COAL uses the purchase method of accounting to consolidate subsidiaries. On acquisition, the identifiable assets, liabilities and contingent liabilities being acquired are measured at their fair values at the date of acquisition. Accounting policies are changed where necessary to bring them into line with those adopted by UK COAL. The interest of minority shareholders is stated as the minority's proportion of the fair values of the identifiable assets, liabilities and contingent liabilities recognised.

Intangible assets — Goodwill

Goodwill represents the difference between the cost and the fair value of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is separately disclosed in intangible assets. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment charges.

Prior to 1998, goodwill was eliminated against reserves in the year of acquisition as then permitted under UK GAAP. Such goodwill was not reinstated under subsequent UK accounting standards or on transition to IFRS.

Property, plant and equipment

The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in accordance with agreed specifications. Freehold land is not depreciated. Other property, plant and equipment is stated at historical cost less accumulated depreciation.

Colliery assets

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.

Mines and surface works

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. Depreciation is charged on a tonnage-extracted basis over the estimated life of the recoverable reserves. Subsequent additions to mines and surface works are accounted for at cost, and depreciated over their useful lives.

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 mined, is capitalised within property, plant and equipment and charged to the income statement over the recoverable reserves of the scheme. Expenditure on sites not expected to be worked within ten years is written off.

Seismic and geological mapping costs

Expenditure on seismic and geological mapping costs which increases the value of the reserves by identifying additional reserves over and above those previously recognised, or increases the value of the existing known reserves by providing information which enables reserve estimates to be increased, is capitalised. This expenditure is amortised on a unit of production basis over the shorter of 4 years or the life of the associated reserves. If the information does not fulfil either of these criteria, the cost is charged to the income statement as incurred.

1 ACCOUNTING POLICIES continued

Other assets

The cost, less estimated residual value, of other property, plant and equipment is written off on a straight-line basis over the asset's expected useful life. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively. Heavy surface mining and other plant and equipment is depreciated at varying rates depending upon its expected usage. Indicative expected useful lives are set out below.

Freehold land	not depreciated
Freehold buildings	25 to 50 years
Mines and surface works	
Heavy mining equipment	8 to 20 years
Plant and machinery	
Plant and equipment	3 to 15 years
Motor vehicles	3 to 5 years

Impairment

Property, plant and equipment and finite life intangible assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Goodwill and other indefinite life intangibles are tested for impairment annually.

The carrying value of cash 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 at the cost of capital taking into account appropriate risk; provision is made for any impairment identified. Cash generating units comprise individual mines or groups of mines depending upon the nature of the income streams derived from each.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the present value of expected future cash flows of the relevant cash generating unit) or 'fair value less costs to sell'. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount UK COAL could receive for the cash generating unit in an arm's length transaction.

Future cash flows are based on:

— estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
— anticipated production levels and costs; and
— anticipated coal prices.

The impairment testing is carried out under the principles described in IAS 36 'Impairment of assets' which includes a number of restrictions on the future cash flows that can be recognised in respect of restructurings and improvement related to capital expenditure.

Property

Rental income

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

Disposal of land and buildings

Profits and losses on the 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. Net proceeds on disposal reflect purchase consideration less clawback liability as described below. Net carrying value includes original cost less accumulated depreciation and an appropriate amount of any additional enhancement expenditure incurred.

Property clawback

Under the terms of the privatisation Sale and Purchase Agreement, the Department of Trade and Industry is entitled to a percentage 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 properties acquired at privatisation. The percentage applied is on a declining scale until 31 March 2015 when it reduces to zero. 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 of Trade and Industry. A liability for clawback in respect of property disposals is recognised only when an actual disposal occurs. A liability for clawback on a deemed disposal as a result of granting a lease is recognised over the life of the lease on a cash received basis.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

1 ACCOUNTING POLICIES continued

Properties in the course of development

Directly attributable costs incurred in the course of developing a property are capitalised as part of the cost of the property. Amortisation of these costs is carried out in accordance with the policy for each class of property.

Investment properties

Investment properties comprise freehold land and buildings. Investment properties are carried at fair value in accordance with IAS 40 'Investment Properties'. Fair value has been determined by obtaining an independent valuation prepared in accordance with the Appraisal and Valuation Standards (Fifth Edition) published by the Royal Institution of Chartered Surveyors.

Properties are recognised as investment properties when held for long-term rental yields, and after consideration has been given to a number of factors including length of lease, quality of tenant and covenant, value of lease, management intention for future use of property, planning consents and percentage of property leased. Investment properties are revalued annually by professional external surveyors and included in the balance sheet at their fair value. The valuations are based on the market value of the properties. Gains or losses arising from changes in the fair values of assets are recognised in the consolidated income statement. In accordance with IAS 40, investment properties are not depreciated. The difference between the book value of the investment property and the first valuation on recognition as an investment property is taken to reserves in accordance with IAS 40. Properties held for use in the business or in the course of restoration, renovation or held for development or sale, are not recognised as investment properties and are held at depreciated historical cost.

Coal Investment Aid

Coal Investment Aid is received as a contribution towards qualifying expenditure, as defined by the Department of Trade and Industry, incurred by UK COAL. If the expenditure has been charged in the consolidated income statement then the related Investment Aid is credited to the consolidated income statement in the same period. Where the Investment Aid relates to the purchase of property, plant and equipment the Investment Aid is held on the consolidated balance sheet as deferred income and is credited to the consolidated income statement over the lives of the assets to which it relates.

Hire purchases and leases — as lessee

Leases which transfer substantially all the risks and rewards of ownership to UK COAL 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 written off according to the depreciation rate of the applicable asset category. 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 the operating leases are charged to the consolidated income statement as incurred.

Hire purchases and leases — as lessor

The Group grants leases over land and buildings in the course of its property business. These do not substantially transfer the risks and rewards of ownership to the lessee, and therefore they are accounted for as operating leases.

Financial instruments

UK COAL recognises financial instruments when it becomes party to the contractual provisions of the instrument. It derecognises financial instruments when the contractual right to receive the cash flows of a financial asset expire or it has transferred the financial asset and the economic benefit of the cash flows. It derecognises financial liabilities when the obligation specified in the contract is discharged, cancelled or expires.

Financial instruments are used to support UK COAL's trading operations. Interest is charged to the consolidated income statement as incurred or earned. Issue costs of debt instruments are charged to the consolidated income statement over the term of the debt.

From time to time, UK COAL holds derivative financial instruments ('derivatives') to manage exposure to fluctuations in foreign currency exchange rates, commodity prices and interest rates. Derivatives are designated as hedges when applicable 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 consolidated income statement 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.

UK COAL has applied IAS 32 'Financial instruments: Disclosure and presentation' and IAS 39 'Financial instruments: Recognition and measurement' with effect from 1 January 2005.

1 ACCOUNTING POLICIES continued

Under IAS 32 and IAS 39 financial instruments are recorded initially at cost. Subsequent measurement depends on the designation of the instrument, as follows:

a) UK COAL measures financial assets/liabilities held for trading or short-term gain, including derivatives and embedded derivatives other than hedging instruments, at fair value and movements in fair value are credited/charged to the consolidated income statement in the period.

b) UK COAL measures any held to maturity investments, those with a fixed maturity date, at amortised cost.

c) UK COAL measures loans and receivables/payables, non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market, at amortised cost. These are included in current assets/liabilities except for instruments that mature after more than 12 months (included in non-current assets/liabilities).

d) UK COAL measures available-for-sale financial assets, which are designated for sale but not classified in any of the other categories, at fair value. Movements in fair values are recognised directly in equity and they are included in non-current assets unless the intention is to dispose of them within 12 months.

Foreign currencies

The functional currency for UK COAL is sterling. Transactions in other currencies are translated at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities are translated at year end exchange rates and the resulting exchange rate differences are included in the consolidated income statement within the results of operating activities if arising from trading activities and within finance cost/income if arising from financing.

For consolidation purposes, income and expense items are included in the consolidated income statement at average rates, and assets and liabilities are translated at year end exchange rates. Where foreign operations are disposed of, the cumulative exchange differences of that foreign operation are recognised in the consolidated income statement when the gain or loss on disposal is recognised.

Inventories

Inventories are valued at the lower of cost and net realisable value. Values of spares and consumables are based on the average purchase prices. Appropriate provisions are made for slow-moving and obsolete stock. Coal is recognised as stock when delivered to the surface and is valued at the average cost of extraction.

Cash and cash equivalents

In the preparation of UK COAL's cash flow statement, cash and cash equivalents represent short-term, liquid investments which are readily realisable. Cash held to match liabilities which is subject to restriction is included in cash and cash equivalents in the consolidated balance sheet.

Restoration and closure costs

Surface mines

The total cost of reinstatement of soil excavation is recognised as a provision on site commissioning when the obligation arises. The amount provided represents the discounted net present value of the expected costs. Costs are charged to the provision as incurred and the unwinding of the discount is included within finance costs. An asset is created within property, plant and equipment at an amount equal to the initial provision. This is depreciated on a unit of production basis over the recoverable reserves of the scheme.

Rehabilitation costs, which will be incurred after coal extraction and restoration of the site, are provided for over the recoverable reserves of the scheme on a unit extraction basis and represent the discounted net present value of the liability incurred at the balance sheet date. Costs are charged to the provision as incurred and the unwinding of the discount is included within finance costs.

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 discounted net present value of the expected costs. Costs are charged to the provision as incurred and the unwinding of the discount is included within finance costs for the year. An equivalent asset is created within property, plant and equipment at an amount equal to the initial provision.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

1 ACCOUNTING POLICIES continued

Costs of restoring spoil heaps 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 colliery closure costs is made when there is a demonstrable commitment to the colliery closure.

Pumping costs

Pumping costs are provided where there is a 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 is calculated using the discounted net present value of future estimated costs. Pumping costs on continuing operations are expensed as incurred.

Ground and groundwater contamination

A provision is established for the estimated costs of rectifying ground and groundwater contamination when 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 detailed mining plans taking into account surface and geological conditions. The provision is calculated based on claims expected and submitted and using historical settlement experience in respect of each colliery, location of mining activity and type of property affected or likely to be affected. The provision made represents the discounted net present value of the expenditure required to settle the current or estimated prospective obligation.

Employer and public liability claims

UK COAL has established a Department of Trade and Industry 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 expenditure expected to be required to settle the obligation.

Redundancy

Provision is made for redundancy costs when there is a demonstrable commitment to terminate the employment of either an employee or group of employees. 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 to redundancy costs have been firmly committed by third parties, these contributions are credited to the consolidated income statement in the same period to the extent that the related redundancy cost has been recognised.

Exceptional Items

Items that are both material and non-recurring and whose significance is sufficient to warrant separate disclosure and identification within the financial statements are referred to as Exceptional Items and disclosed within their relevant income statement category. Items that may give rise to classification as Exceptional Items include, but are not limited to, significant and material restructuring and reorganisation programmes, asset impairments, profits or losses on the disposal of businesses and income from the Department of Trade and Industry in relation to Investment Aid.

Property-related transactions, including changes in the fair value of investment properties, and profits and losses arising on the disposal of property assets are not included in the definition of Exceptional Items as they are expected to recur, but are separately disclosed on the face of the consolidated income statement, where material.

Revenue

Revenue comprises sales of coal (excluding intra-Group sales), property rental income, and other external sales, including power.

Coal transactions

Revenue is recognised when delivery of the product or service has been made and when the customer has a legally binding obligation to settle under the terms of the contract and has assumed all significant risks and rewards of ownership.

A large proportion of production is sold under medium to long-term contracts. Revenue is only recognised on individual sales when all of the significant risks and rewards of ownership have been transferred to a third party. In most instances, revenue is recognised when the product is delivered to the location specified by the customer, which is typically when dispatched, where the customer pays the transportation costs.

1 ACCOUNTING POLICIES continued

Service transactions

Rental income is recognised during the period in which rents due to the Group accrue. Sales of power are recognised when electricity is transferred into the local distribution network.

Segment reporting

The Group manages its business primarily by reference to business segments, and this is adopted in the accounting policies as the primary segment. Deep mining comprises the underground mining operations of the Group. Surface mining incorporates all mining activities at ground level, together with the plant hire operations of the Group. The Power division represents that portion of the Group which generates power, either for internal or external sale. The Property division maintains, develops and rents the Group's property portfolio. Any activities not falling into any of these categories is included in the "other" segment. Following the sale of its Australian subsidiary in 2004, the Group is now entirely based in the United Kingdom. Its secondary segments are defined as the United Kingdom, Europe (other than the United Kingdom) and each continent.

Coal sales are transferred between segments at a price which reflects the calorific value and marketability of the product being transferred. Methane is sold to Harworth Power at a price reflecting the calorific value of the gas extracted. Electricity is sold by Harworth Power at prices reflecting prevailing market rates.

Employee Benefits

Pension obligations

The Group operates defined contribution schemes in respect of all employees who joined after the privatisation date in 1994. The cost of this is charged to the consolidated income statement as incurred.

The Group also operates pension schemes providing benefits based on final pensionable pay. 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 assets of the Schemes are held separately from those of UK COAL, being funds administered by Trustees of the Schemes. A qualified actuary updates the costs of the Schemes annually under the provisions of IAS 19, and carries out a full valuation triennially. UK COAL accounts for pensions and similar benefits under IAS 19 'Employee benefits'. In respect of defined benefit plans, obligations are measured at discounted present value and plan assets are recorded at fair value. Service costs are charged systematically over the service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the consolidated statement of recognised income and expense.

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 annually by a qualified actuary. The arrangement is unfunded so no assets are held directly to meet the obligations. The regular service cost and interest on the scheme liabilities are charged to the consolidated income statement. Actuarial gains and losses are charged to the consolidated statement of recognised income and expense, representing the difference between actual and expected performance.

Share-based payments

The fair value of the share plans is recognised as an expense in the consolidated income statement over the expected vesting period of the grant. The fair value of the share plans is determined at the date of grant, taking into account any market based vesting conditions attached to the award. Non-market based vesting conditions (e.g. earnings per share targets) are taken into account in estimating the number of awards likely to vest. The estimate of the number of awards likely to vest is reviewed regularly and the expense charged adjusted accordingly. The fair value of employee share option plans is calculated using an industry accepted simulation model.

Taxation

The charge for current tax is based on the results for the year adjusted for items that are either not subject to taxation or for expenditure which cannot be deducted in computing the tax charge. The tax charge is calculated using taxation rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary imbalances in the tax charge arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle deferred taxation is recognised in respect of all taxable temporary differences but 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 property, plant and equipment 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

1 ACCOUNTING POLICIES continued

Deferred tax is calculated 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. Deferred tax is charged or credited in the income statement, except where it applies to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Emissions Trading Scheme

Income arising from reductions in carbon emissions to the atmosphere as part of the UK Emissions Trading Scheme is credited to the consolidated income statement within other operating income in the year in which the credits are earned to the extent that it is virtually certain that the income entitlement is established. Surplus credits above this entitlement are not valued and are therefore not recognised in the financial statements until such time as they are sold to third parties.

Borrowing costs

Borrowing costs are capitalised and written off over the term of the associated borrowings.

Significant judgements

Management exercises significant judgement in the determination of the provisions required in respect of restoration and closure costs. Amounts provided are based on management experience and historical out turns, together with such external expert assistance as is deemed appropriate.

Key assumptions and estimates

Amounts in the financial statements that are subject to significant estimates are as follows:

(a) Post-retirement benefit obligations. These are subject to actuarial estimates of, among other items, rate of return on investments, rate of salary increases, rate of price inflation and post-retirement life expectancy. Details of the significant estimates used are set out in note 25.

(b) Mine development costs. Capitalised mine development costs (deep and surface mines) are amortised over the expected tonnage of coal to be extracted in the future. If the amount of coal expected to be extracted varies, this will impact on the amount of the asset which should be carried in the balance sheet.

(c) Restoration and closure provisions. Provisions are established in the balance sheet in proportion to the expected coal to be extracted from a site. If that expected tonnage varies, then the provision may be under or over stated. The provisions are disclosed in note 23.

2 SEGMENTAL REPORTING

Revenue

Revenue from continuing operations arises from:	2005 £000	2004 £000
Sale of goods	**334,355**	428,865
Rendering of services	**6,859**	4,953
	341,214	**433,818**

Primary reporting format — business segments

Year ended 31 December 2005	Deep Mining £000	Surface Mining £000	Property £000	Harworth Power £000	Other £000	Total £000
Continuing operations						
Revenue — gross	312,191	59,278	4,841	3,730	11,280	391,320
Revenue — intra-Group	(13,163)	(34,075)	–	(2,868)	–	(50,106)
Revenue	299,028	25,203	4,841	862	11,280	341,214
Gross (loss)/profit before Exceptional Items within cost of sales	(37,337)	6,048	6,754	916	1,380	(22,239)
Exceptional Items within cost of sales	(46,649)	(2,504)	–	–	–	(49,153)
Gross (loss)/profit	(83,986)	3,544	6,754	916	1,380	(71,392)
Coal Investment Aid	14,641	–	–	–	–	14,641
Appreciation in fair value of properties	–	–	4,530	–	–	4,530
Profit on sale of property, plant and equipment	305	158	9,611	–	–	10,074
Profit on disposal of business	–	–	–	–	3,100	3,100
Other operating income and expenses	(9,398)	(2,859)	(4,477)	2,446	2	(14,286)
Operating (loss)/profit from continuing operations	(78,438)	843	16,418	3,362	4,482	(53,333)
Interest expense						(11,753)
Interest income						2,992
Loss before tax						(62,094)
Tax (relating to discontinued operations)						(72)
Loss for the year						(62,166)
Segmental assets	318,531	71,297	125,167	8,357	–	523,352
Segmental liabilities	(377,444)	(106,213)	(10,061)	(330)	–	(494,048)
Unallocated liabilities						
— Net debt and finance leases						(44,035)
Net liabilities						(14,731)
Other segmental items						
Capital expenditure	17,533	7,730	2,226	26	–	27,515
Impairment	6,601	500	–	–	–	7,101
Depreciation	37,114	8,794	–	919	270	47,097

NOTES TO THE ACCOUNTS
For the year ended 31 December 2005

2 SEGMENTAL REPORTING continued

Year ended 31 December 2004	**Deep Mining £000**	**Surface Mining £000**	**Property £000**	**Harworth Power £000**	**Other £000**	**Total £000**
Continuing operations						
Revenue — gross	381,819	86,616	3,912	3,957	19,954	496,258
Revenue — intra-Group	(16,971)	(41,588)	–	(3,881)	–	(62,440)
Revenue	364,848	45,028	3,912	76	19,954	433,818
Gross (loss)/profit before Exceptional Items within cost of sales	(27,225)	7,041	1,685	1,267	(745)	(17,977)
Exceptional Items within cost of sales	(14,669)	(4,323)	–	–	–	(18,992)
Gross (loss)/profit	(41,894)	2,718	1,685	1,267	(745)	(36,969)
Coal Investment Aid	8,902	–	–	–	–	8,902
Profit on disposal of property, plant and equipment	58	499	2,760	–	–	3,317
Other operating income and expenses	(11,997)	(3,475)	155	2,972	45	(12,300)
Operating (loss)/profit from continuing activities	(44,931)	(258)	4,600	4,239	(700)	(37,050)
Discontinued operations						
Revenue — external					9,092	9,092
Segment result					(1,626)	(1,626)
Profit on disposal of businesses					10,293	10,293
Total profit from discontinued operations					8,667	8,667
Interest expense						(9,753)
Interest income						4,605
Loss for the year						(33,531)
Segmental assets	353,448	84,095	96,824	5,482	10,495	550,344
Segmental liabilities	(351,322)	(129,207)	(4,548)	(3,274)	(12,489)	(500,840)
Unallocated assets						
— Net funds and finance leases						7,285
Net assets						56,789
Other segmental items						
Capital expenditure	48,050	9,597	1,261	285	24	59,217
Impairment	2,256	4,323	–	–	–	6,579
Depreciation	41,071	13,304	–	677	758	55,810

2 SEGMENTAL REPORTING continued

Secondary format — geographic segments

The Group manages its business segments on a global basis. Following the sale of the Australian subsidiary in 2004, the Group is now entirely based in the United Kingdom. The United Kingdom is the home of the parent company. An analysis of revenue by destination, together with capital expenditure and segment assets is given in the following table:

	Revenue		Segment assets		Capital expenditure	
	2005	2004	**2005**	2004	**2005**	2004
	£000	£000	**£000**	£000	**£000**	£000
Continuing operations						
United Kingdom	**333,272**	423,867	**523,352**	550,344	**27,515**	59,018
Europe	**7,942**	9,951	–	–	–	–
	341,214	433,818	**523,352**	550,344	**27,515**	59,018
Discontinued operations						
United Kingdom	**–**	2,874	–	–	–	–
Asia–Pacific (Australia)	–	6,218	–	–	–	199
	341,214	442,910	**523,352**	550,344	**27,515**	59,217

3 COST OF SALES

	Notes	**2005** **£000**	2004 £000
Exceptional Items within cost of sales			
Redundancy	4a	**(24,249)**	(6,277)
Selby post coaling	4b	**249**	(6,223)
Ellington post coaling	4c	**(5,635)**	–
Ellington impairment	4d	–	(3,109)
Stores equipment	4e	**(4,696)**	–
Impairment of assets at Harworth	4f	**(967)**	–
Impairment of assets at Rossington	4g	**(5,634)**	–
Recovery costs at Kellingley and Rossington	4h	**(12,551)**	–
Surface mine equipment	4i	**(500)**	(4,323)
Pension obligation in respect of companies disposed of in prior years	4j	–	(1,299)
Amount recovered against TXU debt	4k	–	2,239
Costs incurred following approach for Company	4l	**(350)**	–
Post retirement benefits	4m	**5,180**	–
		(49,153)	(18,992)
Other cost of sales		**(363,453)**	(451,795)
Total cost of sales		**(412,606)**	(470,787)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

4 EXCEPTIONAL ITEMS

		2005 £000	2004 £000
Exceptional Items within cost of sales		**(49,153)**	(18,992)
Other Exceptional Items			
Coal Investment Aid	4n	**17,143**	8,902
Amount provided against Coal Investment Aid claim	4o	**(2,502)**	–
Profit on disposal of business	4p	**3,100**	–
Total Exceptional Items		**(31,412)**	(10,090)
Operating loss before Exceptional Items		**(21,921)**	(26,960)
Net charge for Exceptional Items		**(31,412)**	(10,090)
Operating loss		**(53,333)**	(37,050)

a Costs for redundancies announced during the year at deep mines collieries (other than the Selby Complex), surface mining operations and head office reorganisation, including senior management (2004: costs predominantly associated with the closure of the Selby mines and surface works and head office reorganisation).

b Costs incurred between cessation of coaling and commencement of restoration work at Selby not provided at December 2002 when the impairment in value was recognised.

c Costs incurred at Ellington Colliery following the cessation of mining operations in January 2005.

d Following the announced closure of Ellington Colliery, the carrying value and estimated useful economic lives of the mine and surface works have been reviewed giving rise to an impairment in value of £2,256,000 and a write down in the value of stores stocks of £853,000.

e Write down in value of redundant stores equipment.

f Following the announcement to mothball Harworth Colliery, the assets of the colliery were reviewed, giving rise to an impairment in value of £967,000 and a write down in the value of stores stocks of £1,685,000 (included within item 4e).

g Following the the announcement of the mothballing of Rossington Colliery, the carrying value and estimated useful economic lives of the mine and surface works have been reviewed giving rise to an impairment in value of £5,634,000 and a write down in the value of stores stocks of £933,000 (included within item 4e).

h Additional labour costs incurred at Rossington and Kellingley consequent to the revised mining plans following invocation of the force majeure clause of the Drax contract.

i Write down in value of redundant surface mine equipment.

j Pension obligations in respect of Blenkinsopp Collieries Ltd which went into liquidation after UK COAL disposed of its interest in a previous year.

k Additional monies credited to the income statement as UK COAL’s entitlements, under the agreement selling its claim against TXU, becoming clearer as resolution of the agreement progresses.

l Costs incurred following an approach from a consortium looking to acquire the Company. It comprises fees from property advisers, lawyers and financial advisers.

m Reduction in the Group’s liability to provide post retirement benefits in respect of staff leaving UK COAL’s employment during the financial year 2005.

n Coal Investment Aid receivable under the Government Aid Scheme. Includes £1.8 million relating to the accelerated release of Investment Aid relating to assets impaired at Harworth and Rossington.

o Claims for Coal Investment Aid which are being challenged following closure or mothballing of collieries or revised coaling approaches.

p Profit on disposal of Monckton business.

5 DISPOSAL OF SUBSIDIARY

On 17 June 2005 the Group disposed of its wholly owned subsidiary, The Monckton Coke & Chemical Company Limited, for a consideration (before transaction costs) of £12.0 million plus an incremental adjustment in respect of working capital in the sum of £1.1 million. £8.3 million of the proceeds were received in the year, with the remainder to be paid in instalments ending June 2007.

	£000
Property, plant and equipment	5,557
Inventories	3,469
Trade and other receivables	4,314
Cash and cash equivalents	(844)
Trade and other payables	(1,222)
Provisions	(1,588)
	9,686
Profit on disposal	3,100
Cash consideration, net of transaction costs	12,786

6 OTHER OPERATING INCOME AND EXPENSES

	2005 £000	2004 £000
Administrative expenses	**(18,874)**	(17,315)
Other operating income	**4,588**	5,015
Other operating income and expenses	**(14,286)**	(12,300)

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

7 EMPLOYEE INFORMATION

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

	2005 number	2004 number
Deep mines operations	**3,400**	4,075
Surface mines operations	**342**	554
Other businesses	**77**	82
Administration	**501**	637
	4,320	5,348

Total staff costs for the Group were:	2005 £000	2004 £000
Staff costs (including executive directors)		
Wages and salaries	**143,271**	170,387
Social security costs	**13,588**	16,045
Pension and post retirement benefit costs	**13,419**	16,068
	170,278	202,500

Wages and salary costs exclude termination benefits which are set out in note 4a.

Key management compensation

	2005 £000	2004 £000
Salaries and short term employee benefits	**1,570**	1,475
Post employment benefits	**201**	412
Termination benefits	**462**	370
Share based payments	**67**	2,240
	2,300	**4,497**

The compensation details above are for members of the Executive Management Committee during the year. Current members of the Executive Management Committee are given on page 32.

Directors' remuneration and interests

Detailed information relating to directors' remuneration and their interests in share options is indicated by * on pages 36 and 37 and forms part of these financial statements.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2005

8 NET FINANCE COSTS

	2005 £000	2004 £000
Interest payable on bank borrowings	**(4,018)**	(1,731)
Amortisation of issue costs of bank loans	**(344)**	(446)
Interest payable on hire purchase agreements and finance leases	**(1,877)**	(1,691)
Discounting of non current receivables	**(391)**	–
Unwinding of discounts on provisions	**(5,123)**	(5,885)
Interest payable and similar charges	**(11,753)**	(9,753)
Interest receivable	**2,992**	4,605
Net interest payable	**(8,761)**	(5,148)

9 LOSS BEFORE TAX

	2005 £000	2004 £000
Loss before tax is stated after charging/(crediting):		
Depreciation of property, plant and equipment — owned assets	**36,296**	38,106
Depreciation of property, plant and equipment — under finance leases	**6,722**	10,651
Net credit for surface mine development and restoration assets	**(3,356)**	(1,649)
Profit on disposal of property, plant and equipment — land and buildings	**(9,610)**	(2,760)
Profit on disposal of property, plant and equipment — plant and equipment	**(464)**	(557)
Repairs and maintenance	**60,004**	69,296
Rent receivable (excluding investment properties)	**(2,140)**	(2,865)
Rent receivable — investment properties	**(2,701)**	(1,047)
Staff costs (note 7)	**170,278**	202,500
Inventories		
— cost of inventories recognised as an expense	**41,361**	45,980
— write down of inventories	**4,696**	1,628
Operating expense for investment property:		
— for properties where rental received	**797**	693
Impairment of receivables (notes 3 and 4)	**2,502**	(2,239)

During the year the Group obtained the following services from its auditor, PricewaterhouseCoopers LLP, at costs as detailed below:

	2005 £000	2004 £000
Statutory audit	**329**	288
Assurance related work	**115**	98
Tax advice and compliance services	**174**	120
	618	506

The parent company incurred £35,000 (2004: £35,000) of the fees in relation to the statutory audit.

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 assurance related work, where they are awarded assignments on a competitive basis. The Audit Committee reviews non audit assignments quarterly, and approves all assignments above a set threshold cost.

10 TAXATION

	Group 2005 £000	Group 2004 £000
Current tax		
— continuing operations	–	–
— discontinued operations	**(72)**	–
Deferred tax	**(72)**	–
— continuing operations	–	–
— discontinued operations	–	–
Taxation	**(72)**	–

The tax for the period is higher (2004: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Group 2005 £000	Group 2004 £000
Group tax reconciliation		
Loss before taxation	**(62,094)**	(42,198)
Loss before taxation multiplied by rate of corporation tax in the UK of 30% (2004: 30%)	**18,628**	12,659
Effects of:		
Expenses not deducted for tax purposes	**3,923**	154
Adjustments to overseas taxation in respect of prior period	**(72)**	–
Deferred tax movements not recognised	**(22,551)**	(12,813)
Total taxation charge	**(72)**	–

The deferred tax asset has not been recognised owing to uncertainty as to its recoverability. If the deferred tax asset were recognised, the asset would be £66.9 million, as set out below:

	2005 Total amount provided £000	**2005 Total potential asset £000**	2004 Total amount provided £000	2004 Total potential asset/(liability) £000
Group property, plant and equipment timing differences	**–**	**21,554**	(28,118)	(25,298)
Other timing differences	**–**	**26,117**	25,252	25,252
Losses	**–**	**19,191**	2,866	38,634
Deferred tax asset	**–**	**66,862**	–	38,588

11 (LOSS)/PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, the Company's income statement has not been included separately in these financial statements. The loss for the financial year was £22,878,000 (2004: profit of £2,737,000).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

12 DIVIDENDS

	2005 per share	2005 £000	2004 per share	2004 £000
Final — paid re 2003			5.0p	7,299
Final — paid re 2004	**1.0p**	**1,483**		
Interim — paid	–	–	5.0p	7,303
	1.0p	**1,483**	10.0p	14,602

The directors are not proposing a final dividend in respect of the year ended 31 December 2005.

13 LOSS PER SHARE

Loss per share has been calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue and ranking for dividend during the year.

In calculating diluted loss per share, the weighted average number of ordinary shares is adjusted for the diluting effect of share options being potentially issuable under the Group's employee share option plans. If the inclusion of these dilutive shares would reduce the diluted loss per share, they are disregarded.

	2005 £000	2004 £000
Loss from continuing operations	**(62,094)**	(42,198)
(Loss)/earnings from discontinued operations	**(72)**	8,667
Total loss	**(62,166)**	(33,531)

Weighted average number of shares used for basic loss per share calculation	**148,366,638**	146,079,661
Dilutive effect of share options	**208,059**	1,295,771
Weighted average number of shares used for diluted loss per share calculation	**148,574,697**	147,375,432

At the year end there were no share options outstanding which could dilute earnings per share in the future.

14 PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings £000	Mines and surface works £000	Plant and machinery £000	Surface mine development and restoration assets £000	Total £000
Cost:					
At 1 January 2005	82,934	812,549	121,560	62,628	1,079,671
Additions	820	17,599	269	8,827	27,515
Disposals	(301)	(26,520)	(3,885)	(43,268)	(73,974)
Transfer to investment properties	(1,014)	–	–	(1,000)	(2,014)
Monckton assets sold	(1,134)	(64)	(14,971)	–	(16,169)
At 31 December 2005	81,305	803,564	102,973	27,187	1,015,029
Depreciation:					
At 1 January 2005	7,015	575,276	85,234	53,914	721,439
Impairment	–	6,601	500	–	7,101
Charge for year	319	36,808	5,891	4,079	47,097
Disposals	(62)	(26,437)	(3,592)	(41,876)	(71,967)
Transfer to investment properties	(79)	–	–	–	(79)
Monckton assets sold	(775)	(64)	(9,773)	–	(10,612)
At 31 December 2005	6,418	592,184	78,260	16,117	692,979
Net book value:					
At 31 December 2005	74,887	211,380	24,713	11,070	322,050
Cost:					
At 1 January 2004	88,375	841,988	146,204	106,164	1,182,731
Exchange adjustment	(113)	–	(402)	(536)	(1,051)
Additions	1,262	47,850	2,258	7,847	59,217
Disposals	(977)	(77,289)	(12,382)	(25,587)	(116,235)
Disposed of with sale of subsidiary	(5,613)	–	(14,118)	(25,260)	(44,991)
At 31 December 2004	82,934	812,549	121,560	62,628	1,079,671
Depreciation:					
At 1 January 2004	7,004	609,798	92,046	80,735	789,583
Exchange adjustment	(2)	–	(185)	(168)	(355)
Impairment	–	2,256	4,323	–	6,579
Charge for year	629	40,488	7,640	7,053	55,810
Disposals	(567)	(77,266)	(11,275)	(25,730)	(114,838)
Transfer to investment properties	(49)	–	(7,315)	(7,976)	(15,340)
At 31 December 2004	7,015	575,276	85,234	53,914	721,439
Net book value:					
At 31 December 2004	75,919	237,273	36,326	8,714	358,232

Assets under finance leases, disclosed under plant and machinery and mines and surface workers, have the following net book amounts:

	2005 £000	2004 £000
Cost	**58,033**	59,415
Aggregate depreciation	**(27,713)**	(21,268)
Net book amount	**30,320**	38,147

Certain land and buildings are subject to a fixed charge to cover borrowings against those assets. Other property, plant and equipment is subject to a floating charge to cover either liabilities due to the Coal Authority or bank borrowings.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2005

14 PROPERTY, PLANT AND EQUIPMENT continued
The Group rents out agricultural land and buildings under operating leases. These land and buildings, disclosed under land and buildings, are not currently depreciated as it is considered the net book amount is less than the realisable amount. The net book amounts of these land and buildings are:

	2005 £000	2004 £000
Cost	**77,056**	83,194
Aggregate depreciation	**(5,207)**	(5,644)
Net book amount	**71,849**	77,550

15 INVESTMENT PROPERTIES

	2005 £000	2004 £000
At valuation — Group		
At 1 January	**6,720**	6,720
Transfers from property, plant and equipment	**1,935**	–
Fair value on initial recognition as investment properties	**4,565**	–
Increase in valuation	**4,530**	–
At 31 December	**17,750**	6,720

The investment properties comprise three business parks, all of which have rental income. The properties were valued during the year, in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors, by Fuller Peiser LLP, an independent firm with relevant experience of valuations of this nature.

Certain of the Group's borrowings are secured by a fixed charge over the investment properties.

16 INVESTMENTS IN SUBSIDIARIES

	£000
Company	
Cost	
At 1 January 2005	473,198
Additions in year	50
Less disposed of during the year	(24)
At 31 December 2005	473,224

Investments in Group undertakings are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings. The directors consider that, to give full particulars of all subsidiary undertakings, would lead to a statement of excessive length. A list of principal subsidiary undertakings is given below. A full list of subsidiary undertakings will be annexed to the Company's next annual return.

Particulars of the principal Group undertakings at 31 December 2005, are as follows:

	Activity	**Description of shares held**	**Proportion of nominal value of issued share capital held by Company %**
Harworth Group Limited	Holding company	Ordinary	–
Harworth Insurance Company Limited	Insurance	Ordinary	100
Harworth Power Limited	Power generation	Ordinary	–
Mining Services Limited	Surface mining and plant operations	Ordinary	–
UK Coal Holdings Limited	Holding company	Ordinary	100
UK Coal Mining Limited	Underground and surface mining	Ordinary	–
Centechnology (UK) Limited	Mining Services	Ordinary	–
EOS Limited	Property company	Ordinary	–

The Group owns 100% of the issued share capital and voting rights of all the above companies.

All of the above companies are incorporated in England and Wales; they are all included in the Group's consolidated results.

17 TRADE AND OTHER RECEIVABLES — NON CURRENT

Amounts classed as non current are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Amounts owed by subsidiary undertakings	**–**	–	**–**	20,154
Coal Investment Aid	**2,373**	3,623	**–**	–
Other debtors	**2,355**	508	**–**	–
	4,728	4,131	**–**	20,154

Non current receivables have been discounted using a rate of 4.8%.

18 INVENTORIES

	Group	
	2005	2004
	£000	£000
Coal stocks	**15,344**	17,428
Spares and consumables	**26,824**	30,213
	42,168	47,641

The Group consumed £41.4 million (2004: £46.0 million) of inventories during the year.

Stores stock with a book value of £4.7 million were written off in the year. These have been included as Exceptional Items within cost of sales.
All the above stocks are subject to floating charges as security for the bank borrowings.

19 TRADE AND OTHER RECEIVABLES — CURRENT

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Trade debtors	**56,624**	57,412	**–**	–
Less: provision for impairment of receivables	**(7,502)**	(9,096)	**–**	–
Trade debtors — net	**49,122**	48,316	**–**	–
Other debtors	**4,062**	3,705	**2,181**	3,305
Coal Investment Aid	**4,952**	7,500	**–**	–
Prepayments and accrued income	**5,176**	2,837	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**134,987**	143,085
	63,312	62,358	**137,168**	146,390

Due to the nature of the Group's activities, a substantial amount of the Group's sales are to a limited number of customers within the power generation sector. While this concentration provides an increased credit risk, due to the financial strength of the power sector, management does not believe this is significant.

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Cash deposited to cover insurance requirements	**25,447**	29,747	**–**	–
Subsidence security fund	**26,769**	25,544	**–**	–
Other cash balances	**1,004**	326	**425**	283
	53,220	55,617	**425**	283

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

21 FINANCIAL LIABILITIES — BORROWINGS

Current	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Bank loans and overdrafts due within one year or on demand:				
Secured	**55,575**	12,225	**52,395**	13,120
Unsecured	–	–	–	–
	55,575	12,225	**52,395**	13,120
Finance lease obligations	**7,411**	10,998	–	–
	62,986	23,223	**52,395**	13,120

Non current	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Bank loans and overdrafts				
Secured	**19,720**	–	–	–
Unsecured	–	–	–	–
	19,720	–	–	–
Finance lease obligations	**13,835**	25,108	–	–
	33,555	25,108	–	–

Bank loans and overdrafts due within one year or on demand are stated after deduction of unamortised borrowing costs of £556,000 (2004: £441,000). Non current bank loans and overdrafts are stated after deduction of unamortised borrowing costs of £280,000 (2004: £nil). The Group's Revolving Credit Facility comprises one month rolling drawdowns, and are thus disclosed under amounts falling due within one year. The facility is, however, committed until 2007.

The bank loans and overdrafts are secured by way of fixed and floating charges over certain assets of the Group.

The exposure of the Group to interest rate changes when borrowings reprice is as follows:

	Within 1 year £000	**1–5 years £000**	**More than 5 years £000**	**Total £000**
31 December 2005				
Total borrowings	82,706	13,661	174	96,541
Effect of interest rate swaps	(17,000)	17,000	–	–
	65,706	30,661	174	96,541
31 December 2004				
Total borrowings	23,223	24,759	349	48,331

The effective interest rates at the balance sheet date were as follows.

	2005	2004
Bank overdraft	**5.5%**	5.8%
Bank borrowings	**6.1%**	6.1%
Finance leases	**6.6%**	6.8%

The carrying amount of the Group's borrowings are denominated in sterling.

The minimum lease payments under finance leases fall due as follows:

	2005 £000	2004 £000
Not later than one year	**8,733**	16,268
Later than one year, but not more than five years	**15,310**	23,825
More than five years	**186**	372
	24,229	40,465
Future finance charges on finance leases	**(2,983)**	(4,359)
Present value of finance lease liabilities	**21,246**	36,106

22 TRADE AND OTHER PAYABLES — CURRENT

	Group		Company	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Trade payables	**40,651**	53,692	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**143,060**	189,104
Other taxation and social security	**20,828**	10,418	**–**	–
Accruals and deferred income	**43,448**	42,761	**1,160**	1,083
	104,927	106,871	**144,220**	190,187

23 PROVISIONS

	At 1 Jan 2005 £000	Provided in year £000	Released in year £000	Subsidiary sold £000	Utilised in year £000	Unwinding of discount £000	At 31 Dec 2005 £000
Group							
Employer and public liabilities	20,780	3,300	(332)	–	(6,685)	935	**17,998**
Surface damage	22,652	6,016	(3,345)	–	(4,015)	680	**21,988**
Claims	1,026	559	–	–	(47)	–	**1,538**
Restoration & closure costs of surface mines	77,207	530	(2,828)	–	(10,863)	2,316	**66,362**
Restoration & closure costs of deep mines:							
— shaft treatment and pit top	23,324	6,560	(3,114)	–	(8,934)	658	**18,494**
— spoil heaps	5,389	275	–	–	(797)	162	**5,029**
— pumping costs	8,130	790	–	–	(4)	69	**8,985**
Ground/groundwater contamination	11,043	–	(281)	(1,582)	–	303	**9,483**
Redundancy	16,098	26,394	(2,145)	–	(16,126)	–	**24,221**
	185,649	44,424	(12,045)	(1,582)	(47,471)	5,123	**174,098**

Provisions have been analysed between current and non current as follows:

	2005	2004
	£000	£000
Current	**52,320**	46,837
Non current	**121,778**	138,812
	174,098	185,649

Provisions are expected to be settled within the timescales set out in the following table. It should be noted that these are based on the information available at the time the financial statements were prepared and are subject to a number of estimates and uncertainties, as noted below.

	Within 1 year £000	1–2 years £000	2–5 years £000	More than 5 years £000	Total £000
Employer and public liabilities	9,026	3,613	3,704	1,655	17,998
Surface damage	4,837	4,398	9,675	3,078	21,988
Claims	1,538	–	–	–	1,538
Restoration & closure costs of surface mines	15,846	11,907	33,945	4,664	66,362
Restoration & closure costs of deep mines:					
— shaft treatment and pit top	2,584	220	2,628	13,062	18,494
— spoil heaps	337	50	150	4,492	5,029
— pumping costs	–	–	–	8,985	8,985
Ground/groundwater contamination	–	–	–	9,483	9,483
Redundancy	18,152	6,069	–	–	24,221
	52,320	26,257	50,102	45,419	174,098

The total of provisions created net of provisions released was £32.4 million (2004: £24.6 million). This included £29.6 million (2004: £6.3 million) in respect of Exceptional Items and £2.8 million (2004: £18.3 million) in respect of non exceptional items.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

23 PROVISIONS FOR LIABILITIES AND CHARGES continued

A brief description of the nature of the Group's obligations and an indication of the uncertainties surrounding each of the above provisions is provided below:

Employer and public liabilities — Provisions are made for current and estimated obligations in respect of claims made by employees and the general public relating to accident or disease as a result of the business activities of the Group.

Surface damage — Provision is made for the Group's liability to compensate for subsidence damage arising from past mining operations. Claims can be lodged by the public up to six years after the date of relevant damage. The estimate is based on historical claims experience following a detailed assessment of the nature of damage foreseen.

Claims — Where surface mine sites owned by the Group are mined by external contractors and mining conditions vary from those specified in the contract, the external contractors may be entitled to claim further costs incurred. Claims are settled with individual contractors, generally at the completion of a surface mining site. All claims provisions are based on known mining conditions encountered, historical experience and contracted rates.

Restoration and closure costs of surface mines — Provisions are made for the total costs of reinstatement of soil excavation and for surface restoration such as topsoil replacement and landscaping. Costs become payable after coal mining has been completed. Further liabilities for after care can extend after restoration, for a period of up to six years.

Restoration and closure costs of 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 liabilities 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 are made for 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.

Pumping costs — There is a legal requirement to continue pumping activities at certain mine sites following closure and for a period into the future. The provision is based on current experience and the net present value of future cost projections. Pumping costs on continuing operations are expensed as incurred.

Ground/groundwater contamination — Provisions are made for 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.

Redundancy — Provision is made for current estimated future costs of redundancy and ex gratia payments to be made where this has been communicated to those employees concerned.

24 FINANCIAL INSTRUMENTS

The Group's overall strategy and policy in respect of treasury and liquidity is set out in the Directors' Report and the Operating and Financial Review.

Strategies, Objectives and Policies

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 for the purposes of calculating the covenant was 26% (2004: 28%).

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.

24 FINANCIAL INSTRUMENTS continued

Emissions Trading

During the year the Group has sold nil tCO_2e (tonnes of carbon dioxide equivalents) (2004: 26,000 tCO_2e) allowances for cash consideration of £nil (2004: £76,000) under the rules of the UK Emissions Trading Scheme. At 31 December 2005 the Group held 157,187 tCO_2e (2004: 59,924 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 UK carbon credit market.

Foreign currency risk

No foreign exchange contracts were entered into during 2005 and the Group does not have any material foreign currency exposure.

Interest rate swaps

The principal amount of the outstanding interest rate swaps at 31 December 2005 was £17 million (2004: £nil). At 31 December 2005 the fixed interest rate was 4.65% and the floating rate was 4.60%. Its fair value, assessed by reference to market values, is set out below.

	Assets £000	**Liabilities £000**
At 31 December 2005		
Fair value	–	55

Fair value of non derivative financial assets and liabilities

Fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The carrying amounts of short term borrowings approximate to their fair value.

Maturity profile of financial liabilities — borrowings

The maturity profile of the carrying amount of financial liabilities is set out below:

Group		**2005**			2004	
	Debt £000	**Finance leases £000**	**Total £000**	Debt £000	Finance leases £000	Total £000
Within 1 year	**55,575**	**7,411**	**62,986**	12,225	10,998	23,223
Between 1 and 2 years	–	**5,641**	**5,641**	–	9,674	9,674
Between two and five years	**19,720**	**8,020**	**27,740**	–	15,084	15,084
Over 5 years	–	**174**	**174**	–	350	350
	75,295	**21,246**	**96,541**	12,225	36,106	48,331

The Company had no financial liabilities at 31 December 2004 or 31 December 2005.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

24 FINANCIAL INSTRUMENTS continued

Borrowing facilities

The Group had the following, uncommitted facilities available at 31 December 2005, all of which were at floating interest rates.

	2005	2004
	£000	£000
Expiring within 1 year	**10,000**	10,000
Expiring between 1 and 2 years	**74,000**	–
Expiring between 2 and 5 years	**21,500**	50,000
	105,500	60,000

Since the year end, the Group has received a further three year £37.5 million loan facility.

Interest Rate Risk of financial liabilities — borrowings

	2005		2004	
	Weighted average fixed interest rate	**Principal**	Weighted average fixed interest rate	Principal
	%	**£000**	%	£000
Floating interest rate		**58,295**		14,144
Fixed interest rate	**5.71%**	**38,246**	6.80%	34,187
		96,541		48,331

Floating interest rates for liabilities are:

	2005	2004
	Principal	Principal
	£000	£000
LIBOR +1.25%	**3,000**	6,962
LIBOR +1.50%	**55,295**	7,182
	58,295	14,144

Financial assets

The financial assets of the Group at 31 December 2004 and 31 December 2005 were all floating rate sterling assets and earned interest based on the LIBID rate prevailing at the time of deposit for the maturity profile required.

Fair value

	31 December 2005		31 December 2004	
	Book value	**Fair value**	Book value	Fair value
	£000	**£000**	£000	£000
Cash	**53,220**	**53,220**	55,617	55,617
Other financial assets	**4,728**	**4,728**	4,131	3,393
Debt	**(75,295)**	**(74,406)**	(12,225)	(12,225)
Finance leases and hire purchase contracts	**(21,246)**	**(19,118)**	(36,106)	(33,255)
Trade and other payables	**(104,927)**	**(104,925)**	(106,871)	(106,856)
Provisions	**(174,098)**	**(174,098)**	(185,649)	(185,649)
Other financial liabilities	**(55)**	**(55)**	–	–

Debt at 31 December 2005 is net of unamortised borrowing costs of £836,000 (2004: £441,000).

The Group has entered into an interest rate swap which expires in 2008, to fix the interest rate on £17 million of its borrowings at 4.65%. These are currently subject to a floating interest rate charge. Cash flows arise from this transaction quarterly and any profits or losses are recognised in the consolidated income statement as they arise.

25 RETIREMENT BENEFIT OBLIGATIONS

Defined Contribution Pension Schemes

The Group operates defined contribution pension schemes in respect of all employees who joined after the privatisation date in 1994. Contributions to defined contribution schemes amounted to £1.7 million (2004: £2.1 million).

Defined Benefit Obligations

The balance sheet amounts in respect of retirement benefit obligations are:

	2005	2004
	£000	£000
Industry Wide Schemes	**116,730**	113,181
Blenkinsopp	**1,299**	1,299
Concessionary Fuel	**24,309**	22,579
	142,338	137,059

Contributions to defined benefit schemes during the year amounted to £19.3 million (2004: £16.9 million).

Industry Wide Schemes

The Group operates pension schemes providing benefits based on final pensionable pay. 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. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuations were at 31 December 2003. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. The main assumptions underlying the valuations of the UK COAL sections of each scheme were as follows:

	2005	2004
Discount rate	**4.70% p.a.**	5.25% p.a.
Rate of return on investments	**7.00% p.a.**	7.00% p.a.
Rate of salary increases	**2.70% p.a.**	2.75% p.a.
Rate of price inflation	**2.70% p.a.**	2.75% p.a.
Rate of return on equities	**7.00% p.a.**	7.00% p.a.

Pensions in payment are assumed to increase in line with price inflation.
Post retirement mortality has been estimated using applicable standard mortality tables. Normal health and ill health pensioners have been rated up by between one and three years and by five years respectively.

The overall expected rate of return on assets is based on a historical view of the yields from equities and the rates prevailing on applicable bonds at the balance sheet date.

The amounts recognised in the balance sheet are as follows:

	2005	2004
	£000	£000
Fair value of plan assets	**301,540**	231,744
Present value of funding obligations	**(418,270)**	(344,925)
Net liability recognised in the balance sheet	**(116,730)**	(113,181)

None of the pension schemes own any shares in the Company.

A deferred tax asset of £35.0 million (2004: £34.0 million) would offset the gross deficit if the Group generates sufficient taxable profits before the deficit is accounted for.

The amounts recognised in the income statement are:

	2005	2004
	£000	£000
Current service cost	**(12,802)**	(13,043)
Interest cost	**(18,053)**	(15,815)
Expected return on plan assets	**16,109**	13,740
Effect of curtailment or settlement	**2,191**	1,808
	(12,555)	(13,310)

The above amounts are charged to cost of sales, except for the interest cost, which is included in administrative expenses. A further £10.3 million (2004: £14.0 million) has been charged to the consolidated statement of recognised income and expense in the year. This represents the net effect of experience and actuarial gains and losses on the schemes in the year.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

25 RETIREMENT BENEFIT OBLIGATIONS continued

Change in assets

	2005 £000	2004 £000
Fair value of plan assets at 1 January	**231,744**	193,324
Expected return on plan assets	**16,109**	13,740
Actuarial gains on assets	**36,975**	10,171
Employer contributions	**19,292**	16,889
Plan participants' contributions	**3,903**	4,677
Benefits paid	**(6,483)**	(7,057)
Fair value of plan assets at 31 December	**301,540**	231,744

The major categories of the schemes' assets are as follows:

	2005 £000	2004 £000
Equity securities	**256,060**	193,262
Debt securities	**45,480**	38,482
	301,540	231,744

The actual return on plan assets was £53.1 million (2004: £23.9 million)

Change in defined benefit obligation

	2005 £000	2004 £000
Present value of defined benefit obligation at 1 January	**(344,925)**	(296,059)
Current service cost	**(12,802)**	(13,043)
Interest cost	**(18,053)**	(15,815)
Plan participants' contributions	**(3,903)**	(4,677)
Curtailment gain	**2,191**	1,808
Actuarial loss	**(47,261)**	(24,196)
Benefits paid	**6,483**	7,057
Present value of defined benefit obligation at 31 December	**(418,270)**	(344,925)

Analysis of the movement of the balance sheet liability

	2005 £000	2004 £000
1 January	**(113,181)**	(102,735)
Total expense as above	**(12,555)**	(13,310)
Contributions	**19,292**	16,889
Net actuarial losses from participants gains recognised in the year	**(10,286)**	(14,025)
31 December	**(116,730)**	(113,181)

Cumulative actuarial gains and losses recognised in equity

	2005 £000	2004 £000
1 January	**(14,025)**	–
Net actuarial losses in the year	**(10,286)**	(14,025)
31 December	**(24,311)**	(14,025)

Experience gains and losses

	2005 £000	2004 £000
Actual return less expected return on schemes' assets	**36,975**	10,171
Experience losses arising on schemes' liabilities	**(5,242)**	(7,074)
Changes in assumptions underlying present value of liabilities	**(42,019)**	(17,122)
Net actuarial loss	**(10,286)**	(14,025)

25 RETIREMENT BENEFIT OBLIGATIONS continued

History of experience gains and losses

	2005	2004	2003*	2002*
	£000	£000	£000	£000
Actual return less expected return on schemes' assets	**36,975**	10,171	19,694	(53,260)
Percentage of year end scheme assets	**12%**	4%	10%	36%
Experience (losses)/gains arising on schemes' liabilities	**(5,242)**	(7,074)	5,650	1,396
Percentage of the present value of schemes' liabilities	**1%**	2%	2%	1%

* The amounts for 2002 and 2003 are those disclosed under FRS17, as reported in prior years.

The contribution expected to be paid to the schemes during the year ending 31 December 2006 amounts to £20.7 million.

Blenkinsopp

Blenkinsopp is a section of the industry wide mineworkers scheme covering the pension arrangements of the various companies comprising parts of the former British Coal. Blenkinsopp Collieries Limited was sold by UK COAL in 1998, however it has since gone into liquidation and the retirement liabilities have reverted to UK COAL. The liability of £1.3 million (2004: £1.3 million) has been calculated on an ongoing basis.

Concessionary fuel

The Group operates a Concessionary Fuel arrangement in the UK. An actuarial valuation was carried out by an independent actuary at 31 December 2005. The major assumptions used by the actuary were:

	2005	2004
Discount rate	**4.70%**	5.30%
Inflation assumption	**2.70%**	2.80%
Coal price inflation	**2.70%**	1.80%

The amounts recognised in the balance sheet are as follows:

	2005	2004
	£000	£000
Net liability recognised in the balance sheet	**(24,309)**	(22,579)

The arrangement is unfunded so no assets are held directly to meet the emerging liabilities. A deferred tax asset of £7.3 million (2004: £6.8 million) would offset the gross deficit if the Group generates sufficient taxable profits before the deficit is accounted for.

The amounts recognised in the income statement are:

	2005	2004
	£000	£000
Current service cost	**(489)**	(636)
Interest cost	**(795)**	(1,296)
Effect of curtailment or settlement	**2,989**	–
	1,705	(1,932)

The above amounts are charged to cost of sales, except for the interest cost, which is included in administrative expenses. A further loss of £4.0 million (2004: gain of £2.3 million) has been charged to the consolidated statement of recognised income and expense in the year. This represents the net effect of experience and actuarial gains and losses on the scheme in the year.

Analysis of the movement of the balance sheet liability

	2005	2004
	£000	£000
Concessionary Fuel reserve at 1 January	**(22,579)**	(23,444)
Current service cost	**(489)**	(636)
Benefits paid to former employees during the year	**560**	490
Interest cost	**(795)**	(1,296)
Actuarial (loss)/gain	**(3,995)**	2,307
Gains on curtailments	**2,989**	–
Concessionary Fuel reserve at 31 December	**(24,309)**	(22,579)

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

25 RETIREMENT BENEFIT OBLIGATIONS continued

Cumulative actuarial gains and losses recognised in equity

	2005 £000	2004 £000
1 January	**2,307**	–
Net actuarial (loss)/profit in the year	**(3,995)**	2,307
31 December	**(1,688)**	2,307

Experience gains and losses

	2005 £000	2004 £000
Experience gains on Concessionary Fuel reserve	–	3,186
Changes in assumptions underlying present value of liabilities	**(3,995)**	(879)
Total amount recognised in statement of income and expense	**(3,995)**	2,307

History of experience gains and losses

	2005 £000	2004 £000	2003* £000	2002* £000
Experience gains on Concessionary Fuel reserve	–	3,186	4,297	829
Percentage of Concessionary Fuel reserve	**0%**	14%	17%	3%

The amounts for 2002 and 2003 are those disclosed under FRS17, as reported in prior years.

26 CALLED UP SHARE CAPITAL

Group and Company

	2005 Number of shares	2005 £000	2004 Number of shares	2004 £000
Authorised share capital				
At 1 January and 31 December 2005				
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	**146,152,917**	**1,462**	145,988,490	1,460
Issued during the year	**2,355,250**	**23**	164,427	2
At 31 December	**148,508,167**	**1,485**	146,152,917	1,462

Potential issues of ordinary shares

At 31 December 2005, the number of ordinary shares reserved against the exercise of options by directors and employees under share option schemes was zero (2004: 2,564,073).

	Exercise Price per share £	Number 2005	Number 2004
Exercisable from 2000	2.00–4.08	–	80,000
Exercisable from 2000	3.08–4.34	–	6,000
Exercisable from 2004	0.71	–	2,478,073
		–	2,564,073

During the year 2,355,250 shares were issued following exercise of options under the share save scheme and 208,823 share options either lapsed or were relinquished.

Long Term Incentive Plan

A Long Term Incentive Plan ("LTIP") was introduced in 2000, for executive Directors and senior executives. Details of the plan are set out in the Directors' Remuneration Report. During the year 124,527 (2004: 978,290) shares were reserved against the award of shares under the LTIP. The shares are awarded at an exercise price of £nil. The number of shares outstanding at 31 December 2005 is as follows:

	Number 2005	Number 2004
Exercisable from 2006	**625,294**	841,978
Exercisable from 2007	**628,012**	754,003
Exercisable from 2008	**124,527**	–

26 CALLED UP SHARE CAPITAL continued

The awards granted in the year were valued using a Monte Carlo simulation utilising the Black Scholes methodology as follows:

Grant date	7 November 2005
Share price at grant date	£1.32
Exercise price	£nil
Number of employees	2
Shares under option	124,527
Vesting period (years)	3
Expected volatility	36%
Option life (years)	3
Expected life (years)	2.15
Risk-free rate	4.36%
Possibility of ceasing employment before vesting	5% p.a.
Fair value per option	£0.29

The expected volatility is based on historical volatility over the last nine years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to 31 December 2005 is shown below:

	2005 Number	2004 Number
Outstanding at 1 January	1,595,981	2,488,078
Granted	124,527	978,290
Exercised	(18,686)	(703,374)
Expired	(323,989)	(1,167,013)
Outstanding at 31 December	1,377,833	1,595,981

Bonus Share Matching Plan

A Bonus Share Matching Plan was introduced in 2000, for executive directors and senior executives. Details of the plan are set out in the Directors' Remuneration Report. A reconciliation of option movements over the year to 31 December 2005 is shown below:

	2005 Number	2004 Number
Outstanding at 1 January	184,243	289,878
Allocated	–	63,182
Matching award	–	117,645
Expired	–	(40,682)
Interests matured	(60,001)	(245,780)
Outstanding at 31 December	124,242	184,243

Of the outstanding shares, 78,767 vest in 2006 and 45,475 vest in 2007.

The total charge for the year relating to employee share based payment plans was £0.2 million (2004: credit of £0.2 million), all of which related to equity settled share based payment transactions.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

27 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary shares £000	Share premium account £000	Other reserves (note 28) £000	Retained earnings £000	Total £000	Minority interest £000	Total equity £000
Group							
At 1 January 2004	1,460	2	257	114,634	116,353	262	116,615
New shares issued	2	120	–	–	122	–	122
Loss in the year	–	–	–	(33,480)	(33,480)	(51)	(33,531)
Dividends	–	–	–	(14,602)	(14,602)	–	(14,602)
Actuarial losses on post retirement benefits	–	–	–	(11,718)	(11,718)	–	(11,718)
Accrual for Long Term Incentive Plan liabilities	–	–	–	157	157	–	157
Shares purchased to fulfil Long Term Incentive Plan liabilities	–	–	–	(43)	(43)	–	(43)
Sale of business	–	–	–	–	–	(211)	(211)
At 31 December 2004	**1,462**	**122**	**257**	**54,948**	**56,789**	**–**	**56,789**
New shares issued	23	1,649	–	–	1,672	–	1,672
Loss in the year	–	–	–	(62,166)	(62,166)	–	(62,166)
Dividends	–	–	–	(1,483)	(1,483)	–	(1,483)
Actuarial losses on post retirement benefits	–	–	–	(14,281)	(14,281)	–	(14,281)
Accrual for Long Term Incentive Plan liabilities	–	–	–	173	173	–	173
Initial recognition of investment properties	–	–	4,565	–	4,565	–	4,565
Fair value gain on revaluation of investment properties	–	–	4,530	(4,530)	–	–	–
At 31 December 2005	**1,485**	**1,771**	**9,352**	**(27,339)**	**(14,731)**	**–**	**(14,731)**

	Ordinary shares £000	Share premium account £000	Other reserves (note 28) £000	Retained earnings £000	Total £000	Minority interest £000	Total equity £000
Company							
At 1 January 2004	1,460	2	257	446,628	448,347	–	448,347
New shares issued	2	120	–	–	122	–	122
Profit in the year	–	–	–	2,737	2,737	–	2,737
Dividends	–	–	–	(14,602)	(14,602)	–	(14,602)
Accrual for Long Term Incentive Plan liabilities	–	–	–	157	157	–	157
Shares purchased to fulfil Long Term Incentive Plan liabilities	–	–	–	(43)	(43)	–	(43)
At 31 December 2004	**1,462**	**122**	**257**	**434,877**	**436,718**	**–**	**436,718**
New shares issued	23	1,649	–	–	1,672	–	1,672
Loss in the year	–	–	–	(22,878)	(22,878)	–	(22,878)
Accrual for Long Term Incentive Plan liabilities	–	–	–	173	173	–	173
Dividends	–	–	–	(1,483)	(1,483)	–	(1,483)
At 31 December 2005	**1,485**	**1,771**	**257**	**410,689**	**414,202**	**–**	**414,202**

28 OTHER RESERVES

	Revaluation reserve £000	Capital redemption reserve £000	Fair value reserve £000	Total £000
Group				
At 1 January 2004 and at 31 December 2004	–	257	–	257
Initial recognition of investment properties	4,565	–	–	4,565
Fair value gain on revaluation of investment properties	–	–	4,530	4,530
At 31 December 2005	**4,565**	**257**	**4,530**	**9,352**

	Revaluation reserve £000	Capital redemption reserve £000	Fair value reserve £000	Total £000
Company				
At 1 January 2004, 31 December 2004 and 31 December 2005	–	257	–	257

Cumulative goodwill written off against reserves was £163.7 million (2004: £163.7 million).

29 CAPITAL AND OTHER FINANCIAL COMMITMENTS

Group	**2005 £000**	2004 £000
Contracts placed for future capital expenditure not provided in the accounts	**10,532**	7,743

The Group has an obligation to construct an additional unit at one of its investment properties. It is estimated this will cost approximately £3 million.

30 OPERATING LEASE COMMITMENTS

Group

The minimum lease payments due to the Group under non cancellable operating leases, all of which relate to property rentals, are as follows:

	2005 £000	2004 £000
Leases expiring:		
Within one year	**285**	1,153
Later than one year and less than five years	**6,064**	4,890
After five years	**23,310**	7,645
	29,659	13,688

The minimum lease payments due by the Group under non cancellable operating leases, all of which relate to rights over land usage, are as follows:

	2005 £000	2004 £000
Leases expiring:		
Within one year	**–**	–
Later than one year and less than five years	**456**	689
After five years	**660**	726
	1,116	1,415

The Company had no interest in any operating leases (2004: £nil).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2005

31 CONTINGENT LIABILITIES

Guarantees have been given in the normal course of business for performance bonds of £2.1 million (2004: £2.2 million) to cover the performance of work under a number of Group contracts.

In our Report and Accounts for the year ended 31 December 2004, we referred to a claim against the Company to determine whether the Company may be required to provide certain early retirement pension related benefits on redundancy. Neither the legal analysis of the merits of the claim nor the difficulties inherent in quantifying any financial cost to the Company have changed, and therefore no provision has been made in the accounts. As reported in our interim accounts for the period ended 30 June 2005, the Board considers, on the basis of legal and actuarial advice, that the cost to the Company is estimated to be between zero and £40 million (31 December 2004: between zero and £30 million). However, the complexities of the legal issues involved, and the difficulties in quantifying financial exposure, mean there remains a possibility that the cost to the Company may exceed £40 million.

The increase in the range of estimated cost is principally the result of redundancies announced since 31 December 2004, and a better estimate of pensionable salary which could require top up by the Company to pensions in payment and already paid by the former British Coal Corporation.

The hearing date for the case has been re-scheduled and is now expected to be heard in the High Court during July 2006. The Company continues to vigorously defend the claim.

32 RELATED PARTY TRANSACTIONS

Group

During the year, the Group made various payments to industry wide, defined benefit pension schemes. Details of these transactions are set out in note 25 to the financial statements.

Key management compensation is disclosed in note 7.

Company

The Group centrally manages its financing arrangements. Amounts are transferred within the Group, dependent on the operational needs of individual companies. The directors do not consider it meaningful to set out the gross amounts of transfers between individual companies. Details of the Company's cash and indebtedness are set out in notes 20 and 21 and amounts due from or owed to subsidiary undertakings are set out in notes 17, 19 and 22.

33 POST-BALANCE SHEET EVENTS

On 15 February 2006, the Group secured an additional £37.5 million, three year loan facility, at an initial rate of LIBOR plus 1.6% of which £30 million was drawn down immediately. At the same time, a three year interest rate swap on £30 million at a fixed rate of 4.79% was entered into.

34 GOVERNMENT GRANTS

The Group has received support from the government, Coal Investment Aid, in order to provide assistance towards investment in the industry. Details of how this Aid is treated is set out in note 1 to the financial statements. Amounts credited to the income statement are as follows:

	2005	2004
	£000	£000
Revenue Aid	**12,708**	8,594
Release of deferred income	**4,435**	308

As disclosed in note 4, £2.5 million was written off the Coal Investment Aid debtor in the year, relating to claims being challenged in respect of collieries closing or being mothballed.

The Group has received £0.6 million from the East Midlands Development Agency towards the building of one of its business parks. A further £0.7 million is expected to be received during 2006. The full amount will be treated as deferred income and released to income in line with depreciation on the building.

35 RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS

UK COAL PLC is now required to prepare its financial statements under IFRS; the statements for the year ended 31 December 2004 were prepared under UK GAAP. A reconciliation of the Company's net assets at 31 December 2004 and 1 January 2004 and retained earnings for the year ended 31 December 2004 under UK GAAP to the corresponding amounts under IFRS is set out below:

	31 December 2004		1 January 2004
	Retained earnings £000	**Net Assets £000**	Net Assets £000
Under UK GAAP	**(6,260)**	**435,235**	441,048
Dividends	**(5,816)**	**1,483**	7,299
Share based payments	**211**	–	–
Under IFRS	**(11,865)**	**436,718**	448,347

The Company previously accrued for final dividends ahead of declaration at the AGM. IAS 10 does not follow this principle and, as a result, the accrual for the dividend at the year end has been removed. A similar adjustment amounting to £7,299,000 was made in the transition balance sheet at 1 January 2004.

The following additional reconciliations are set out below:

1. The Group's loss for the year ended 31 December 2004 — Note 35A
2. The Group's net assets at 31 December 2004 — Note 35B
3. The Group's net assets at 1 January 2004 (the date of transition to IFRS) — Note 35C

These were all set out in a document "Restatement of Financial Information for 2004 under International Accounting Standards and International Financial Reporting Standards", which was sent to all shareholders with the interim results. This document may also be found on the Company's website.

NOTE 35A

Consolidated income statement reconciliation for the year ended 31 December 2004

	UK GAAP in IFRS format £000	IAS 16 Property, plant and equipment £000	IAS 19 Defined benefit pension schemes £000	IAS 19 Concessionary fuel £000
Continuing operations				
Turnover	433,818			
Cost of sales (excluding Exceptional Items)	(450,815)	328	192	(1,687)
Exceptional cost of sales	(29,797)			
Gross loss	(46,794)	328	192	(1,687)
Other operating income and expenses	(11,707)			
Coal Investment Aid	8,902			
Profit on disposal of land and buildings	2,760			
Operating loss	(46,839)	328	192	(1,687)
Net interest receivable	737			
Unwinding of discount on provisions	(5,885)			
Net finance costs	(5,148)			
Loss before tax	(51,987)	328	192	(1,687)
Tax	–			
Loss for the year from continuing operations	(51,987)	328	192	(1,687)
Discontinued operations				
Loss for the year from discontinued operations	(1,626)			
Profit on disposal of businesses	1,983			
Total profit from discontinued operations	357	–	–	–
Loss for the year	(51,630)	328	192	(1,687)
Attributable to:				
Equity holders of the parent	(51,579)	328	192	(1,687)
Minority interest	(51)			
	(51,630)	328	192	(1,687)
Loss per share	**p**	**p**	**p**	**p**
From continuing operations:				
Basic and diluted	(35.6)	0.2	0.1	(1.2)
From discontinued operations:				
Basic and diluted	0.3	–	–	–
From total operations:				
Basic and diluted	(35.3)	0.2	0.1	(1.2)

Reference to Note 35D*	a	b	c
Adjustments recognised in the year ended 31 December 2004	328	192	(1,687)

* Note 35D — Explanation of adjustments.

IAS 19 Holiday pay £000	IFRS 2 Share-based payments £000	IAS 21 The effects of changes in foreign exchange rates £000	IFRS 1 First time adoption of IFRS £000	IFRS 3 Business combinations £000	Effect of adoption of IFRS £000	Restated under IFRS £000
					–	433,818
(64)					(1,231)	(452,046)
				10,805	10,805	(18,992)
(64)	–	–	–	10,805	9,574	(37,220)
4	211				215	(11,492)
					–	8,902
					–	2,760
(60)	211	–	–	10,805	9,789	(37,050)
					–	737
					–	(5,885)
					–	(5,148)
(60)	211	–	–	10,805	9,789	(42,198)
					–	–
(60)	211	–	–	10,805	9,789	(42,198)
					–	(1,626)
		(854)	9,164		8,310	10,293
–	–	(854)	9,164	–	8,310	8,667
(60)	211	(854)	9,164	10,805	18,099	(33,531)
(60)	211	(854)	9,164	10,805	18,099	(33,480)
					–	(51)
(60)	211	(854)	9,164	10,805	18,099	(33,531)
p	**p**	**p**	**p**	**p**	**p**	**p**
(0.0)	0.1	–	–	7.4	6.6	(29.0)
–	–	(0.6)	6.3	–	5.7	6.0
(0.0)	0.1	(0.6)	6.3	7.4	12.3	(23.0)

d	**e**	**f**	**g**	**h**	**Total**
(60)	211	(854)	9,164	10,805	18,099

NOTE 35B

Consolidated balance sheet reconciliation at 31 December 2004

	UK GAAP in IFRS format £000	Adjustments recognised on transition £000	IAS 16 Property, plant and equipment £000
Assets			
Non-current assets			
Property, plant and equipment	357,904	–	328
Investment property	6,720	–	
Trade and other receivables	4,131	–	
	368,755	–	328
Current assets			
Inventories	47,641	–	
Trade and other receivables	67,007	(1,262)	
Cash and cash equivalents	55,617	–	
	170,265	(1,262)	–
Liabilities			
Current liabilities			
Bank overdrafts and loans	(12,225)	–	
Trade and other payables	(108,228)	7,277	
Obligations under hire purchase and finance leases	(10,998)	–	
Provisions	(46,837)	–	
	(178,288)	7,277	–
Net current liabilities	(8,023)	6,015	–
Non-current liabilities			
Trade and other payables	(44)	–	
Obligations under hire purchase and finance leases	(25,108)	–	
Provisions — reclassification of Blenkinsopp retirement benefits	(1,299)	–	
Provisions — concessionary fuel reserve	(24,835)	25,080	
Provisions — other	(138,812)	(10,805)	
Retirement benefit obligations — reclassification of Blenkinsopp retirement benefits	–	–	
Retirement benefit obligations — concessionary fuel reserve	–	(23,444)	
Retirement benefit obligations — defined benefit schemes	–	(102,735)	
	(190,098)	(111,904)	–
Net assets	170,634	(105,889)	328
Equity			
Capital and reserves			
Ordinary shares	1,462	–	
Share premium	122	–	
Revaluation reserve	5,034	(5,034)	
Capital redemption reserve	257	–	
Retained earnings	163,759	(100,855)	328
Equity attributable to equity holders of the parent	170,634	(105,889)	328
Minority interest	–	–	–
Total equity	170,634	(105,889)	328

Reference to Note 35D*	**i**
Adjustments recognised on transition	–
Adjustments recognised in the year ended 31 December 2004	328
Total adjustments at 31 December 2004	328

* Note 35D — Explanation of adjustments.

IAS 19 Defined benefit pension schemes £000	IAS 19 Concessionary fuel £000	IAS 19 Holiday pay £000	IAS 10 Events after the balance sheet date £000	IFRS 3 Business combinations £000	Effect of adoption of IFRS £000	Restated under IFRS £000
					328	358,232
					–	6,720
					–	4,131
–	–	–	–	–	328	369,083
					–	47,641
(3,387)					(4,649)	62,358
					–	55,617
(3,387)	–	–	–	–	(4,649)	165,616
					–	(12,225)
		(60)	(5,816)		1,401	(106,827)
					–	(10,998)
					–	(46,837)
–	–	(60)	(5,816)	–	1,401	(176,887)
(3,387)	–	(60)	(5,816)	–	(3,248)	(11,271)
					–	(44)
					–	(25,108)
1,299					1,299	–
	(245)				24,835	–
				10,805	–	(138,812)
(1,299)					(1,299)	(1,299)
	865				(22,579)	(22,579)
(10,446)					(113,181)	(113,181)
(10,446)	620	–	–	10,805	(110,925)	(301,023)
(13,833)	620	(60)	(5,816)	10,805	(113,845)	56,789
					–	1,462
					–	122
					(5,034)	–
					–	257
(13,833)	620	(60)	(5,816)	10,805	(108,811)	54,948
(13,833)	620	(60)	(5,816)	10,805	(113,845)	56,789
–	–	–	–	–	–	–
(13,833)	620	(60)	(5,816)	10,805	(113,845)	56,789

j	k	l	m	n	Total
(103,997)	1,636	(22)	7,299	(10,805)	(105,889)
(13,833)	620	(60)	(5,816)	10,805	(7,956)
(117,830)	2,256	(82)	1,483	–	(113,845)

NOTE 35C

Consolidated balance sheet reconciliation at 1 January 2004

	UK GAAP in IFRS format £000	IAS 19 Defined benefit pension schemes £000
Assets		
Non-current assets		
Property, plant and equipment	393,148	
Investment property	6,720	
Available-for-sale financial assets	27	
Trade and other receivables	637	
	400,532	–
Current assets		
Inventories	59,496	
Trade and other receivables	81,772	(1,262)
Cash and cash equivalents	60,350	
	201,618	(1,262)
Liabilities		
Current liabilities		
Bank overdrafts and loans	(7,224)	
Trade and other payables	(121,332)	
Obligations under hire purchase and finance leases	(8,801)	
Provisions	(46,303)	
	(183,660)	–
Net current assets	17,958	(1,262)
Non-current liabilities		
Trade and other payables	(196)	
Obligations under hire purchase and finance leases	(15,106)	
Provisions — concessionary fuel reserve	(25,080)	
Provisions — other	(155,604)	
Retirement benefit obligations — concessionary fuel reserve	–	
Retirement benefit obligations — defined benefit schemes	–	(102,735)
	(195,986)	(102,735)
Net assets	222,504	(103,997)
Equity		
Capital and reserves		
Ordinary shares	1,460	
Share premium	2	
Revaluation reserve	5,034	
Capital redemption reserve	257	
Retained earnings	215,489	(103,997)
Equity attributable to equity holders of the parent	222,242	(103,997)
Minority interest	262	
Total equity	222,504	(103,997)

IAS 19 Concessionary fuel £000	IAS 19 Holiday pay £000	IAS 40 Investment properties £000	IAS 10 Events after the balance sheet date £000	IFRS 3 Business combinations £000	Total adjustments recognised on transition £000	Restated under IFRS £000
					–	393,148
					–	6,720
					–	27
					–	637
–	–	–	–	–	–	400,532
					–	59,496
					(1,262)	80,510
					–	60,350
–	–	–	–	–	(1,262)	200,356
					–	(7,224)
	(22)		7,299		7,277	(114,055)
					–	(8,801)
					–	(46,303)
–	(22)	–	7,299	–	7,277	(176,383)
–	(22)	–	7,299	–	6,015	23,973
					–	(196)
					–	(15,106)
25,080					25,080	–
				(10,805)	(10,805)	(166,409)
(23,444)					(23,444)	(23,444)
					(102,735)	(102,735)
1,636	–	–	–	(10,805)	(111,904)	(307,890)
1,636	(22)	–	7,299	(10,805)	(105,889)	116,615
					–	1,460
					–	2
		(5,034)			(5,034)	–
					–	257
1,636	(22)	5,034	7,299	(10,805)	(100,855)	114,634
1,636	(22)	–	7,299	(10,805)	(105,889)	116,353
					–	262
1,636	(22)	–	7,299	(10,805)	(105,889)	116,615

NOTE 35D

Explanation of adjustments

Impact on 2004 consolidated income statement	STD	Note 35A Reference	£000
Reduction in depreciation charge on certain freehold properties arising from a requirement to revise residual values to reflect current prices	IAS 16	a	328
Decrease in defined benefit pension scheme cost	IAS 19	b	192
Increase in charge made for concessionary fuel	IAS 19	c	(1,687)
Increase in holiday pay accrual	IAS 19	d	(60)
Change in the basis of recognising share-based awards to employees	IFRS 2	e	211
Adjustments to the gain on sale of subsidiaries for foreign exchange movements	IAS 21	f	(854)
Adjustment to the gain on sale of subsidiaries for goodwill	IFRS 1	g	9,164
Elimination of goodwill impairment charge made in 2004; this is now charged directly to reserves in the transition balance sheet	IFRS 3	h	10,805
Reduction in consolidated loss before tax			**18,099**

Impact on 2004 consolidated balance sheet	STD	Note 35B Reference	£000
Reduction in depreciation charge on certain freehold properties arising from a requirement to revise residual values to reflect current prices	IAS 16	i	328
Recognition on the balance sheet of defined benefit pension scheme net assets and liabilities	IAS 19	j	(117,830)
Decrease in provision for concessionary fuel reserve	IAS 19	k	2,256
Provision created for holiday pay	IAS 19	l	(82)
Removal of the proposed final dividend as a liability at the year end	IAS 10	m	1,483
Reduction in consolidated net assets			**(113,845)**

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