

Company Registration Number 2649340

UK COAL PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2002



24 Directors' Report

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2002. These will be laid before the Annual General Meeting to be held on 29 April 2003. The notice of the Annual General Meeting is enclosed with this report.

Principal activities

The principal activities of the Group comprise surface and underground coal mining and property activities. The consolidated profit and loss account for the year is set out on page 37.

Review of business

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

Changes in fixed assets

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

Land and Property

UK Land and Buildings Valuation

During the year, surveyors Fuller Peiser prepared open market and asset valuations for our UK land and buildings assets, in accordance with the RICS Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors. Market values are assessed based on existing conditions, planning allocations and consents. A summary of the valuation of UK land and buildings (excluding operating colliery land and buildings) is shown below.

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

The costs deducted from market values largely comprise the costs of restoration and closure, remediation and aftercare included within the provisions for liabilities and charges disclosed in the annual Group financial statements. In the Group financial statements, the UK freehold land and buildings (net book value at 31 December 2002, £78.4 million) comprises the disposal points, surface mines, closed collieries and other operational properties. Land and buildings at operating collieries, which are excluded from the above valuation, are included in the total value of Mines and surface works in the financial statements, which also includes the value of underground equipment and development.

Based on the above, the directors are of the opinion that there is a surplus on valuation of £95.6 million over the book value of land and buildings. The valuation excludes any taxation or clawback liability that would be incurred on sale of these land and building assets at the estimated market value.

The valuation assumes a willing buyer and seller, and a reasonable period for the sale to take place. It should be noted, however, that a proportion of the assets are in operational use and their value cannot be realised without an impact on the core activities of the business.

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

Premises at the Asfordby Business Park in north-east Leicestershire have now been substantially let, and the development now falls within the classification "investment properties" (market value £6.5 million) resulting in a revaluation reserve in the balance sheet of £4.8 million, that being the excess of market value over book value.

Directors

The directors who served during the year were Gordon McPhie, Melvin Garness, Patrick O'Brien, John Robinson, Robert Shrager, Brian Staples and Garold Spindler. David Jones was appointed to the Board on 1 January 2003 and will offer himself for re-appointment at the Annual General Meeting. All directors are subject to re-election every

three years. Patrick O'Brien and Robert Shrager will retire by rotation in accordance with the Articles of Association and will offer themselves for re-election 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.

Charitable donations

The contributions made by the Group during the year for charitable purposes were £140,000 (2001: £191,000). No political donations were made in 2002 (2001: Nil).

Employees

The Group's policy is to consult and discuss with employees on matters likely to affect their interests. A newspaper is produced and distributed free to all employees every month.

Information on matters of concern to employees is given periodically to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

Disabled persons

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

Health and Safety at Work Act 1974

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

Corporate Governance

In June 1999 the Committee on Corporate Governance published the Combined Code. The Board supports the highest standards in corporate governance and describes below how the principles set out in the Combined Code have been applied by the Company.

Throughout the year ended 31 December 2002 the Company has complied with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange.

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls.

The Board confirms that procedures necessary to implement the guidance contained in the Combined Code have been established as follows.

Board and Committees

Board and Committee structure

The Board of UK COAL PLC is responsible for the Company's objectives, policies and stewardship of the Company's resources. It is responsible to the shareholders for the overall management of the Group. There are three executive and currently five non-executive directors, reducing to four when John Robinson retires at the Annual General Meeting. The offices of Chairman and Chief Executive are held separately. The Chairman is a non-executive director and has no involvement in the day to day running of the Group. The senior independent non-executive director is Robert Shrager.

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

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

The Board considers that the non-executive directors bring strong independent judgement, and considerable knowledge and experience to the Board's deliberations. Apart from Garold Spindler who provides consultancy

services to the company, the non-executive directors have no financial or contractual interests in the Company, other than interests in ordinary shares as disclosed in the Remuneration Report.

Nomination Committee

The Nomination Committee comprises the non-executive directors and the Chief Executive. It is chaired by John Robinson. The Committee meets as required to select and propose to the Board suitable candidates for appointment as executive or non-executive directors.

Remuneration Committee

The work and composition of the Remuneration Committee are set out in the Remuneration Report.

Audit Committee

The Audit Committee is comprised of all the non-executive directors apart from the Chairman. It is chaired by Robert Shrager. The Chairman, the Commercial Director (responsible for the Group's financial affairs), the Group Internal Audit Manager and the external auditors are invited to attend meetings. The minutes of meetings 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 Internal Audit department has a direct reporting line to the Committee.

Executive Management Committee

The Executive Management Committee was established to manage and co-ordinate all strategic and key operational issues. Its membership is comprised of the following:

Chief Executive	Gordon McPhie
Commercial Director	Melvin Garness
Managing Director of Deep Mines	Alec Galloway
Managing Director of Surface Mines	Patrick O'Brien
Marketing Director (Industrial & Domestic Sales)	Ken Le Geyt
Marketing Director (Generator Sales)	Nigel Yaxley
Managing Director of Human Resources	Norman Haslam

On 3 March 2003, the executive management structure of the Group was changed to combine deep and surface mine activities and to separately recognise the Property business and other businesses. Recruitment has been initiated for a Managing Director for the Property business.

Relations with shareholders

The Company maintains ongoing dialogue with institutional shareholders through regular presentations and meetings to outline the Company's trading environment and objectives.

Private investors are encouraged to attend the AGM and have the opportunity to question the Board.

Internal control

Risk Assessment

The Board is of the opinion that there is an ongoing process for identifying, evaluating and managing the significant risks of the Group, and that this process has been in place throughout the year under review. An updated strategic risk assessment was reviewed by the Board on 28 February 2002, and a report on operational risk and controls was considered by the Board in June 2002.

The above assessment supplements ongoing dialogue between the Board and directors and managers responsible for monitoring risks at an operational level. The board receives reports from the following: Internal Audit, Environmental Audit, Health & Safety management, and from the manager responsible for handling employer and public liability claims. These reports identify areas of risk exposure, recommendations made and actions implemented. They also highlight new areas of legislation that will impact on the risk profile of the group, and provide positive assurance of procedures that are working and assisting in the attainment of business objectives.

Operational and financial risk management is delegated to directors and managers who are responsible for the day-to-day management of the business. The following controls are embedded in the procedures of the relevant business units:

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

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

Environmental Management – there is an Environmental Policy, reviewed and approved by the Board in July 2001, and a company-wide Environmental Management System. Site procedures are audited by in-house teams and external experts to ensure continued compliance. Underground and surface readings for emissions, including gas, dust, noise and water are taken, analysed and reported. Where appropriate, action plans to reduce emissions are designed and followed through to completion. Compliance with Waste Management regulations is monitored, and a programme to encourage re-cycling and waste minimisation has been initiated.

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

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

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

Financial – these are considered under the following headings:

- **Cost budgeting** – There is an annual budget setting process with final budgets approved by the Board of Directors. Costs are monitored on a monthly basis against budgets and forecasts. Quarterly Operational Review meetings are held with senior management to discuss financial issues.
- The deep mines business unit is structured into regions to improve local accountability for costs and to ensure that significant operational and cost issues are discussed at regional and Head Office levels. It is anticipated that this regional structure will encourage the adoption of best practices across each of the deep mines, and hence improve operational and financial control.
- **Treasury** – The terms of reference for the Treasury section are approved and kept under review by the Board. The Treasury section is responsible for placing deposits, for arranging borrowings and for making payments. These transactions are subject to director or senior management authorisation.
- **Insurance Risk** – There is insurance cover for all employer liability and public liability claims, limiting the company's exposure to £250,000 per claim. All claims are subject to expert assessment and challenge and, where appropriate, independent medical and legal opinion.
- **Capital spend** – Capital needs assessments are carried out at business unit level, but direct Board approval of all major capital projects is required. The Investment Committee comprises the executive directors and the Managing Director of Deep Mines. The Procurement Director and the Head of Engineering are invited to attend meetings and other senior management executives are invited where appropriate. The Investment Committee reviews and recommends for approval capital projects >£100,000 prior to final approval being obtained from the Board.

Assurance Procedures

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

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

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

Going concern

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

Treasury policy and liquidity

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

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

Supplier payment policy

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

The Group had 38 days purchases outstanding at 31 December 2002 (2001: 38 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2002. The Company has no trade creditors.

Ethical policy

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

Quality and Integrity of Personnel

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

Substantial shareholdings

The directors have been notified of the following substantial shareholdings as at 5 March 2003:

	Amount of shares	% of issued share capital
Millgate Capital Inc.	14,600,000	10.01
Fidelity Investments	14,579,900	9.99
Credit Suisse First Boston	5,963,683	4.09
Global Asset Management	4,528,600	3.10
Legal & General Investment Management	4,432,988	3.03

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 21 May 2002. 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 29 April 2003.

Directors' responsibilities

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

The directors consider that in preparing the financial statements on pages 37 to 63 the Company and Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and have followed all applicable accounting standards.

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

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

It is the responsibility of the directors to maintain the integrity of the company website. It is accepted that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors have general responsibility for taking such steps as is reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors

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

During the year PricewaterhouseCoopers' fees amounted to £241,000 (2001: £301,000) for audit assignments, and £401,000 (2001: £260,000) for non-audit assignments. The latter comprised advice in respect of tax and compliance services, forensic services, Coal Operating Aid and balance sheet restructuring.

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

- The Audit Committee reviews the audit appointment periodically. As noted above, such a review was rigorously performed in 2002.
- The Audit Committee has also approved the introduction of a group policy under which the external auditors will not, as a general rule, provide consulting services. The external auditors will provide audit related services such as regulatory and statutory reporting as well as formalities relating to shareholder and other circulars.
- The external auditors may undertake due diligence reviews and provide assistance on tax matters given their knowledge of the Group's businesses. Such provision will, however, be assessed on a case by case basis so that the best placed adviser is retained. The Audit Committee will monitor the application of the policy in this regard and will keep the policy under review.
- The Audit Committee reviews on an annual basis all fees paid for audit, and related and unrelated consultancy fees, with a view to assessing reasonableness of fees, value of delivery, and any independence issues that may have arisen or may potentially arise in the future.
- The auditors report to the directors and the Audit Committee confirming their independence in accordance with Auditing Standards.

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 4 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board


M. Garness
Company Secretary
6 March 2003

30 Remuneration Report

The Remuneration Committee

Constitution

The members of the Remuneration Committee are Brian Staples, Robert Shrager and Garold Spindler. The Committee is chaired by Brian Staples. David Jones was appointed as a non-executive director on 1 January 2003 and is a member of the Committee. The other non-executives are invited to attend but are not on the Committee itself. The Committee may request that the Chief Executive attends meetings to discuss executive directors' remuneration but he was not and will not be present for discussion on his own remuneration. The Committee is responsible for determining and keeping under review the remuneration packages of the executive directors and certain other senior executives.

The Board determines the fees payable to the non-executive directors. Neither the Chairman nor the other non-executive directors receive any pension or other benefits from the Company, nor do they participate in any of the bonus or incentive schemes or share option schemes. Garold Spindler provided consultancy services to the Company, (details of which are provided on page 33).

Directors' Remuneration Policy

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

In order to meet that policy, the executive directors' remuneration is composed of a basic salary, an annual performance bonus in conjunction with a discretionary Bonus Share Matching Plan and a Long Term Incentive Plan.

The executive directors' remuneration for 2002 was as follows*:

	Salary £	Bonus Share Matching Plan £	LTIP £
G McPhie	306,000	112,302	nil
M Garness	173,210	63,568	nil
P S O'Brien	175,570	64,434	nil

Performance-related pay for the period represented 36.7% of fixed pay for all executive directors.

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

The Committee has recently appointed Watson Wyatt LLP to review and provide independent advice to the Committee on the remuneration of its executive directors, and in particular on the appropriate mix of fixed and performance-related pay, and the performance criteria for and design of the Bonus Share Matching Plan and the LTIP.

The Company has adopted a policy to seek shareholder approval of executive remuneration, and in particular to put forward all new incentive schemes proposed for shareholder approval at the Annual General Meeting. No such incentive schemes were introduced in 2002.

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

Basic Salary

Basic salary for 2002 was set at prior year salary plus 2%, which was consistent with the salary increases to the general workforce.

Bonus Share Matching Plan

A Bonus Share Matching Plan was introduced in 2000 to provide the executive directors with an incentive based on strategic financial and business targets of the Company. It is also intended to encourage executive directors and senior executives to stay with the Group and to identify with the interests of shareholders by investing their own funds from their annual bonus in the Company.

The participants in the Bonus Share Matching Plan may elect to take 50 per cent of the annual bonus in cash. The after tax amount of the bonus remaining after that election is used to acquire shares, which must be held for a minimum of three years (called the restricted period). At the same time a matching award of one share for every three basic shares awarded is made. These must also be held for a minimum of three years, but are subject to an extra condition that the director must remain in post throughout the restricted period. The Committee decided that to encourage executive directors to participate in the Bonus Share Matching Plan at its introduction, no performance conditions should be attached to the matching shares. However, to reflect this fact, the initial ratio of matching shares to basic shares has been held at a low level.

In assessing the level of bonus for 2002, the Remuneration Committee had regard to predetermined measures including dividends to shareholders, revenue and capital cash costs reductions, and increasing earnings before interest, tax, depreciation and amortisation. The bonus payments made to executive directors in 2002 are set out on page 30. Annual bonuses and benefits in kind are not pensionable.

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). TSR was selected as an appropriate measure to reflect the increase in shareholder value over the relevant period.

Under the terms of the LTIP, a discretionary, performance related salary award of shares (up to a maximum value of 75% of the Chief Executive's salary per annum, 60% for other directors' salary per annum) is conditionally allocated to each director. The director shall not sell, transfer, pledge, assign or otherwise dispose of all or any of the shares which are the subject of an award or any interest therein until the shares are issued.

These shares are issued three years from the date of grant of award, and are contingent on the Group achieving a pre-determined level of performance as measured by the Remuneration Committee against the percentage growth in the Company's Total Shareholder Return (TSR). The director must remain in the post throughout the three-year period (subject to exceptions as set out in the LTIP) in order to be entitled to this award.

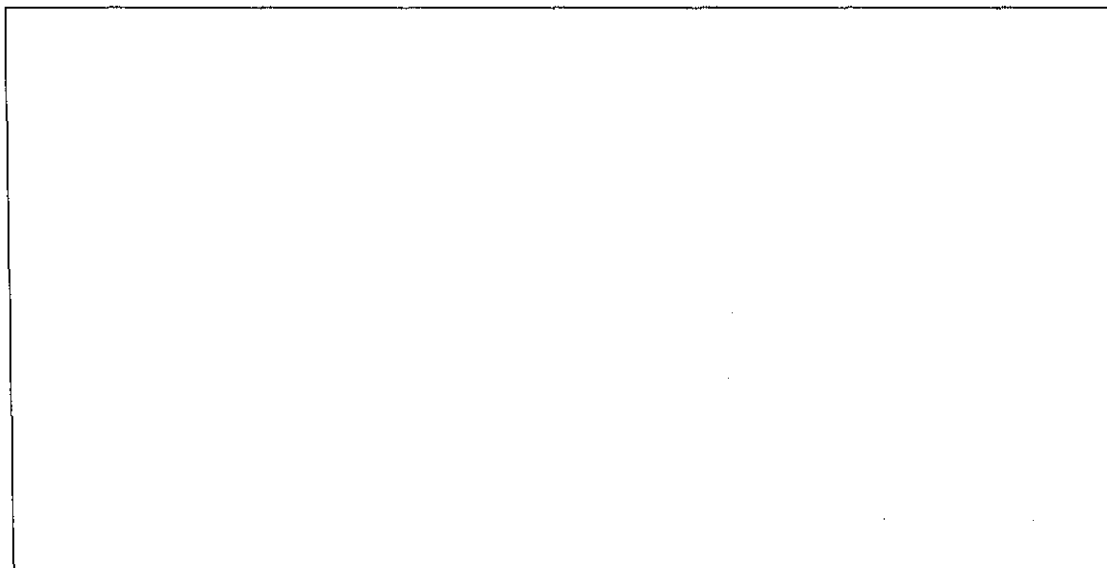
The Committee may in its absolute discretion allow a participant to elect to defer the measurement of performances for a maximum of two years. The Committee shall determine the extent that the award is capable of realisation in accordance with the table below:

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

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

No awards were made under the LTIP for 2002.

Total Shareholder Returns



The above graph shows the Company's TSR in comparison with the TSR of the FTSE Small Cap Index for the five financial years ended 31 December 2002.

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

Other Terms and Conditions of Service

Executive directors have 12 month rolling service contracts, which are terminable on 12 months' prior written notice. Non-executive directors have 3 year contracts, which are terminable on 3 months' prior written notice. The Committee has adopted this policy as it considers these contract terms and notice periods appropriate given the skills and expertise of the directors. It is the Company's policy not to enter into service contracts that provide for more than 12 months' written notice.

Although there is no specific provision for liquidated damages in the directors' service contracts, should the Company terminate the contract of a director, Company policy is for compensation for loss of office to be limited to the amounts payable under these notice periods.

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

Directors' Service Contracts

Director	Date of contract	Contract expiry date
John Robinson	21 September 2000	20 September 2003
Gordon McPhie	18 May 1993	Rolling 12 month contract
Melvin Garness	29 December 1994	Rolling 12 month contract
Patrick O'Brien	21 December 1995	Rolling 12 month contract
Robert Shrager	14 July 2000	13 July 2003
Garold Spindler	23 October 2001	22 October 2004
Brian Staples	30 November 2002	29 November 2005
David Jones	1 January 2003	31 December 2005

*Directors' emoluments**

	Fees or Salary	Bonus Share Matching Plan (note 3)	Benefits in kind (note 4)	Total 2002	Total 2001
	£	£	£	£	£
J H Robinson	110,000	—	—	110,000	110,000
G A McPhie	306,000	112,302	18,503	436,805	416,262
M Garness (note 1)	173,210	63,568	21,128	257,906	258,164
P S O'Brien	175,570	64,434	19,655	259,659	255,901
R N Shrager	24,000	—	—	24,000	24,000
B Staples	24,000	—	—	24,000	24,000
G Spindler (note 2)	24,000	—	—	24,000	4,537
	836,780	240,304	59,286	1,136,370	1,092,864

1. Mr M Garness received fees of A\$ 30,000 (£10,840) from Gloucester Coal in both 2002 and 2001, and these are included in the fees above.
2. The fees shown above for Mr G Spindler relate to his services as a director of the Company. In addition to these fees, Mr Spindler received £33,000 for consultancy services in 2002 (2001: £14,300).
3. Under the terms of the Bonus Share Matching Plan, the directors have elected to receive 50% of their annual bonus in the form of cash, the balance (after deduction of tax) to be paid in shares. The total amount of the bonus (including cash and share elements) is disclosed in the table above. Of the proportion payable in cash, 50% of the entitlement of Mr M Garness and Mr P S O'Brien has been paid in the form of additional pension contributions, as disclosed below.
4. Benefits in kind comprise car benefits and health insurance.

No directors waived emoluments in respect of the year ended 31 December 2002.

*Pension contributions**

During the year the Company made contributions on behalf of the executive directors into money purchase pension schemes as follows:

	Pension Contributions	
	2002	2001
	£	£
G A McPhie	91,350	69,646
M Garness	64,364	63,196
P S O'Brien	68,300	66,621
	224,014	199,463

The pension contributions for Mr M Garness and Mr P S O'Brien include £15,892 (2001: £18,704) and £16,108 (2001: £19,879) respectively taken from the annual bonus entitlement.

*Long Term Incentive Plan and Bonus Share Matching Plan****1. Long Term Incentive Plan***

	Interests at 1 January 2002	Shares allocated during year	Interests at 31 December 2002	Share Price at date of allocation	Earliest vesting date	End of latest performance ¹ period
G A McPhie						
Executive LTIP 2000	310,478	nil	310,478	31.5	16.05.2003	16.05.2005
Executive LTIP 2001	375,000	nil	375,000	60.0	18.10.2004	18.10.2006
Executive LTIP 2002	nil	nil	nil			
Total	685,478	nil	685,478			

M Garness

Executive LTIP 2000	258,400	nil	258,400	31.5	16.05.2003	16.05.2005
Executive LTIP 2001	159,187	nil	159,187	60.0	18.10.2004	18.10.2006
Executive LTIP 2002	nil	nil	nil			
Total	417,587	nil	417,587			

P S O'Brien

Executive LTIP 2000	258,400	nil	258,400	31.5	16.05.2003	16.05.2005
Executive LTIP 2001	169,187	nil	169,187	60.0	18.10.2004	18.10.2006
Executive LTIP 2002	nil	nil	nil			
Total	427,587	nil	427,587			

¹ As set out above, the Committee may allow a participant to elect to defer the measurement of performance for an award for a maximum of two years. This column shows the date of vesting if such deferral were permitted.

2. Bonus Share Matching Plan*

	Interests at 1 January 2002	Shares allocated during year	Matching Award	Interests at 31 December 2002	Share price at date of allocation (pence)	Vesting date
G A McPhie						
Bonus Matching 2001	34,827	nil	11,609	46,436	70.5p	13.03.2004
Bonus Matching 2002	nil	41,141	13,713	54,854	102.0p	03.04.2005
Total	34,827	41,141	25,322	101,290		
M Garness						
Bonus Matching 2001	28,986	nil	9,662	38,648	70.5p	13.03.2004
Bonus Matching 2002	nil	21,830	7,236	29,066	102.0p	03.04.2005
Total	28,986	21,830	16,898	67,714		
P S O'Brien						
Bonus Matching 2001	28,986	nil	9,662	38,648	70.5p	13.03.2004
Bonus Matching 2002	nil	23,201	7,734	30,935	102.0p	03.04.2005
Total	28,986	23,201	17,396	69,583		

*Directors' interests in ordinary shares**

The directors' interests as defined by the Companies Act 1985 in shares of the Company and its subsidiaries are as follows:

	Interest in ordinary shares at 31 December 2002 Beneficial	Interest in ordinary shares at 31 December 2001 Beneficial
G A McPhie	130,258	88,787
M Garness	99,008	77,004
P S O'Brien	128,441	105,054
J H Robinson	32,500	32,500
B Staples	20,000	20,000
R N Shrager	Nil	Nil
G Spindler	283,200	Nil
D H Jones (appointed 1 January 2003)	Nil	Nil

There have been no changes in directors' interests in shares between the end of the year and 5 March 2003.

*Directors' interests in share options**

	At 31 December 2001	Lapsed during the year	Number of options		Option price (pence)	Date from which exercisable	Expiry date
			Granted during the year	At 31 December 2002			
G A McPhie							
Savings-related	6,690	–	–	6,690	71	1 January 2005	1 July 2005
P S O'Brien							
Savings-related	6,690	–	–	6,690	71	1 January 2005	1 July 2005

The market value of the Company's shares during the year ranged from 44.5p to 116.5p. The market value on 31 December 2002 was 51.0p.

This report has been approved by the Board for submission to shareholders at the Annual General Meeting to be held on 29 April 2003, and signed on behalf of the Board by B Staples.

By order of the Board

B Staples

Chairman, Remuneration Committee
6 March 2003

* Denotes auditable elements of the Remuneration Report.

36 Auditors Report

Independent auditors' report to the members of UK COAL PLC

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

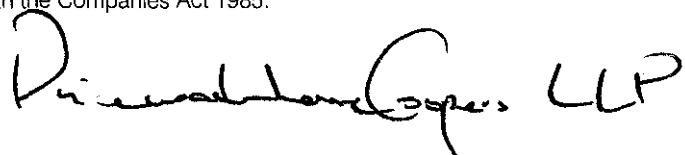
Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2002 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Nottingham
6 March 2003



37 Consolidated Profit and Loss Account

For the year ended 31 December

	Notes	Before Exceptional Items £000	Exceptional Items £000	Group 2002 £000	Group 2001 £000
Turnover	2	596,602	–	596,602	662,499
Cost of sales before exceptional items		(570,887)	–	(570,887)	(671,090)
Exceptional cost of sales					
Prince of Wales Colliery Went Edge write-down	3	–	–	–	(15,771)
Impairment in value of colliery assets	3	–	(20,191)	(20,191)	–
Net closure and redundancy costs	3	–	(55,643)	(55,643)	–
Provision against amounts receivable	3	–	(15,667)	(15,667)	–
Cost of sales		(570,887)	(91,501)	(662,388)	(686,861)
Gross profit/(loss)		25,715	(91,501)	(65,786)	(24,362)
Exceptional other operating income					
– UK Coal Operating Aid Scheme		–	–	–	21,658
Other operating income & expenses	4	(13,686)	–	(13,686)	(20,640)
Total other operating income and expenses		(13,686)	–	(13,686)	1,018
Operating profit/(loss)		12,029	(91,501)	(79,472)	(23,344)
Profit on sale of land and buildings		2,033	–	2,033	1,857
Profit/(loss) on ordinary activities before interest and taxation		14,062	(91,501)	(77,439)	(21,487)
Interest receivable and similar income	6	5,181	–	5,181	5,644
Interest payable and similar charges	7	(2,854)	–	(2,854)	(2,697)
Unwinding of discount on provisions	23	(7,999)	–	(7,999)	(7,944)
Net interest payable and similar charges		(5,672)	–	(5,672)	(4,997)
Profit/(loss) on ordinary activities before taxation		8,390	(91,501)	(83,111)	(26,484)
Taxation	9	(1,791)	3,142	1,351	8,112
Profit/(loss) on ordinary activities after taxation		6,599	(88,359)	(81,760)	(18,372)
Equity minority interest		82	–	82	96
Profit/(loss) for the financial year		6,681	(88,359)	(81,678)	(18,276)
Dividend	11	(14,584)	–	(14,584)	(14,584)
Loss sustained for the year		(7,903)	(88,359)	(96,262)	(32,860)
Earnings/(loss) per ordinary share	12	4.6p	(60.6p)	(56.0p)	(12.5p)

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

Statement of Total Recognised Gains and Losses

For the year ended 31 December

	2002 £000	2001 £000
Loss for the financial year	(81,678)	(18,276)
Exchange adjustments	(355)	(785)
Surplus arising on revaluation of tangible property assets	4,814	–
Total recognised gains and losses for the financial year	(77,219)	(19,061)

38 Balance Sheets

As at 31 December

	Notes	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
ASSETS					
Fixed assets					
Tangible fixed operating assets	13	427,211	485,787	-	-
Investment properties	14	6,500	-	-	-
Investments – in subsidiaries	15	-	-	491,213	595,920
– other	15	38	40	-	-
		433,749	485,827	491,213	595,920
Current assets					
Stocks	16	79,152	71,866	-	-
Debtors: amounts falling due after one year	17	8,873	8,318	20,154	20,154
Debtors: amounts falling due within one year	18	73,143	86,055	199,264	171,221
Cash at bank and in hand	29	60,893	77,181	-	35,444
		222,061	243,420	219,418	226,819
Total assets		655,810	729,247	710,631	822,739
LIABILITIES					
Capital and reserves					
Called up share capital	19	1,458	1,458	1,458	1,458
Share premium account	21	290,872	290,872	290,872	290,872
Revaluation reserve	21	4,814	-	-	-
Special reserve account	21	-	18,919	-	191,847
Capital redemption reserve	21	257	257	257	257
Profit and loss account	21	(69,638)	8,060	164,174	59,054
Shareholders' funds, attributable to					
equity interests	22	227,763	319,566	456,761	543,488
Equity minority interest		331	416	-	-
Capital employed		228,094	319,982	456,761	543,488
Provisions for liabilities and charges	23	258,699	257,408	-	-
Creditors: amounts falling due after more than one year	24	22,790	20,066	-	-
Creditors: amounts falling due within one year	25	146,227	131,791	253,870	279,251
		427,716	409,265	253,870	279,251
Total funds employed		655,810	729,247	710,631	822,739

The financial statements on pages 37 to 63 were approved by the board of directors on 6 March 2003 and were signed on its behalf by:


G A McPhie Director


M Garness Director

39 Consolidated Cash Flow Statement

For the year ended 31 December

Notes	2002 £000	2001 £000
Operating activities		
Net cash inflow from continuing operating activities	8,918	115,497
Returns on investments and servicing of finance		
Interest paid on bank borrowings	(401)	(157)
Interest paid on hire purchase and finance leases	(1,853)	(1,729)
Financing costs	(636)	
Interest received	5,181	5,644
Net cash inflow from returns on investments and servicing of finance	2,291	3,758
Taxation	36	(481)
Capital expenditure and financial investment		
Development expenditure	(35)	(9,980)
Purchase of fixed assets	(40,475)	(37,243)
Receipts from sale of fixed assets	4,082	4,344
	(36,428)	(42,879)
Cash (outflow)/inflow before financing and dividends	(25,183)	75,895
Equity dividends paid	(14,529)	(14,573)
Cash (outflow)/inflow before use of liquid resources and financing	(39,712)	61,322
Management of liquid resources		
Cash deposited in subsidence security fund	(2,664)	(20,567)
Cash deposited to cover insurance requirements	(2,075)	(1,849)
Net cash (outflow)/inflow before financing	(44,451)	38,906
Financing		
Drawdown/(repayment) of bank borrowings	27,994	(896)
Hire purchase and finance lease capital repaid	(12,975)	(8,609)
Increase in debt	8,414	-
Net cash inflow/(outflow) from financing	23,433	(9,505)
(Decrease)/increase in cash	29 (21,018)	29,401

40 Reconciliation of Operating Loss to Net Cash Inflow from Operating Activities

For the year ended 31 December

	2002 £000	2001 £000
Continuing Activities		
Operating loss	(79,472)	(23,344)
Depreciation on tangible fixed assets	59,299	59,419
Exceptional impairment	20,191	-
Went Edge write-off	-	15,771
Net charge for surface mine development and restoration assets	11,413	9,135
(Profit) on disposal of plant and machinery	(296)	(246)
(Increase)/decrease in stocks	(7,286)	5,817
Decrease in debtors	12,332	13,877
Decrease in creditors	(7,263)	(18,274)
Decrease in Coal Operating Aid receivable	-	53,342
Net cash inflow from continuing operating activities	8,918	115,497

Reconciliation of Net Cash Flow to Movement in Net Funds

	At 1 January 2002 £000	Cash flow £000	Exchange adjustment £000	Other non cash changes £000	At 31 December 2002 £000
Net cash at bank	21,328	(21,018)	(9)	-	301
Liquid resources	55,853	4,739	-	-	60,592
Bank borrowings	(492)	(27,994)	9	91	(28,386)
Hire purchase and finance leases	(22,698)	4,561	-	(7,336)	(25,473)
	53,991	(39,712)	-	(7,245)	7,034

Major non-cash transactions

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £7,336,000 (2001: £12,135,000).

41 Notes to the Accounts

For the year ended 31 December 2002

1 Accounting policies

The financial statements are prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the most significant accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by revaluation of investment properties in accordance with SSAP19 "Accounting for Investment Properties". Long-term debtors and long-term provisions are discounted to reflect their net present value.

Consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings and its associates made up to 31 December 2002. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

Trading accounts within the Group are made up to a convenient week ending date around the 31 December each year. For 2002 trading is shown for the 52 week period ended on 28 December 2002 (2001: 52 week period).

Goodwill and intangible assets

Goodwill arising on acquisition represents the excess of fair value of the consideration given over the fair value of the net assets acquired. Goodwill arising is capitalised in the year of acquisition and amortised on a systematic basis over its useful economic life. The carrying value of goodwill and other intangible assets is reviewed as necessary for impairment and a write-down in carrying value is made where impairment is identified.

Tangible fixed operating assets and depreciation

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

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

Mine development

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

Surface mine development and restoration assets

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

For the year ended 31 December 2002

Colliery valuation

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

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

Following the decision and announcement of the closure of mining operations at Selby, the carrying value and estimated useful economic lives of mines and surface works has been reviewed. With the reduced number of collieries the Board has moved from a portfolio basis of colliery valuation to an individual colliery basis. Impairments in value arising predominantly at the Selby site, charged in the current year, are described in notes 3 and 13. In addition, the remaining estimated useful economic life of the Selby mines and surface works was revised to be 20 months from 1 July 2002. Together, these items reduced the ongoing depreciation charge in the second half of the year by £5.8 million (estimated ongoing annual reduction of £6.5 million.)

Investment properties

Investment properties are stated at open market value and are not depreciated. In accordance with Statement of Standard Accounting Practice 19, revaluations are conducted annually with any surpluses or deficits being transferred to the revaluation reserve.

Transfers of property from tangible fixed operating assets to investment properties are made at the lower of cost and estimated net realisable value as at the date of transfer.

Investments

Investments are stated at cost less provision for impairment.

Associated undertakings

Associated undertakings are companies in which the group has a participating interest, which is held for the long-term and over whose operating and financial policies it exercises a significant influence. The consolidated profit and loss account includes the Group's share of profits less losses of associated undertakings. The consolidated balance sheet includes interests in associated undertakings at the value of the Group's share of the net assets of those undertakings, adjusted for any impairment in value identified by the directors.

Stocks

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

Long-term contracts

Attributable profit on long-term contracts is recognised progressively throughout the contract life.

Turnover on long-term contracts comprises the value of work done being costs incurred plus attributable profit. Other turnover is recognised as services or goods are supplied.

Cash and liquid resources

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

Restoration and closure costs

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

For the year ended 31 December 2002

Deep mines – Closure costs relating to shaft treatment and pit top restoration are recognised as a provision on a discounted basis at colliery commissioning stage or on acquisition. The amount provided represents the present value of the expected costs. Costs are charged to the provision as incurred and the unwinding of the discount is included in the interest charge for the year. A tangible fixed asset is created for an amount equivalent to the initial provision except where the associated collieries are already recorded at their recoverable amount. Costs of restoring spoil heaps, where acquired as part of a colliery portfolio, are provided for on acquisition to the extent that an obligation has been incurred and, thereafter, on a unit of production basis as the additional obligation arises. Provision for other closure costs is made when there is a demonstrable commitment to the colliery closure.

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

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

Surface damage

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

Employer and public liability claims

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

Concessionary fuel

Provision is made for the estimated liability arising from the obligation to provide concessionary fuel benefits to retired employees. The costs of the concessionary fuel benefits are determined by a qualified actuary on the basis of triennial valuations, and are charged to the profit and loss account so as to spread the cost of the benefits over the employees working lives with the Group.

Redundancy

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

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

Pension provision

Pension provision for the Group's employees is made through a number of pension schemes. The Group contributes, in respect of those employees who transferred direct from British Coal Corporation, to two schemes providing benefits based on final pensionable pay; the Industry-wide Staff Superannuation Scheme for non-industrial staff, officials and weekly paid employees and the Industry-wide Mineworkers Pension Scheme for other industrial employees. The assets of the Schemes are held separately from those of the Group, being funds administered by Trustees to the Schemes. The costs of the Schemes are determined by a qualified actuary on the basis of triennial valuations, and are charged to the profit and loss account so as to spread the cost of pensions over the employees working lives with the Group.

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

Additional disclosures required under the transitional rules of FRS 17 are provided in note 26 to the accounts.

For the year ended 31 December 2002

Deferred taxation

Deferred taxation arises when items are recognised for tax purposes in periods that differ from the period in which the items are recognised for accounting purposes. The Group provides for deferred taxation to the extent that there is a reasonable probability that such taxation will become payable in the foreseeable future.

Deferred taxation assets are recognised where there is reasonable probability that such assets will be realised in the foreseeable future.

Hire purchases and leases

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

Turnover

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

Foreign currencies

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

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

Derivatives and other financial instruments

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

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

Emissions Trading Scheme

Income arising from carbon reductions as part of the Emissions Trading scheme are credited to the profit and loss account for the year in which the credits are achieved within the line "Other operating income" to the extent that it is virtually certain that the income entitlement is established. Surplus credits are not valued and are therefore not recognised in the accounts until such time as they are sold to third parties. Further details are given in notes 2 and 27.

For the year ended 31 December 2002

2 Segmental and geographical analysis

	2002	2001
	£000	£000
Turnover		
Continuing operations:		
Coal sales – Deep Mines	445,087	488,924
Coal sales – Surface Mines	96,305	101,806
Surface mine contract mining and associated activities	4,724	10,598
Manufactured fuel and combined heat and power	15,908	18,046
Australia – coal sales	31,145	39,226
Property activities	3,433	3,899
	596,602	662,499

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

Geographical analysis by destination

United Kingdom	557,874	615,526
European Community Countries	2,826	3,020
Rest of Europe	4,757	4,727
Asia – Pacific	31,145	39,226
	596,602	662,499

(Loss)/profit before taxation

Continuing operations:		
Coal sales – Deep Mines (Note d below)	(5,904)	(46,745)
– Deep Mines coal operating aid	–	21,658
Exceptional items (Note 3)	(91,501)	(15,771)
Coal sales – Surface Mines (Notes a & c below)	16,461	17,935
Surface mines contract mining and associated activities	(2,270)	(572)
Manufactured fuel and combined heat and power	(635)	(81)
Emissions trading	4,153	–
Australia – coal sales	1,834	4,246
– hedging losses	(2,517)	(4,440)
Property activities – rentals and other property activities (Notes b & c below)	907	1,906
– profit on sales	2,033	1,857
Provision for debtor in liquidation	–	(1,480)
Net interest payable	(5,672)	(4,997)
(Loss) before taxation	(83,111)	(26,484)

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

Net assets/(liabilities)

Continuing operations:		
Deep Mines	149,298	195,607
Surface Mines	12	(27,019)
Surface mines contract mining and associated activities	(15,049)	8,253
Manufactured fuel and combined heat and power	(1,107)	2,411
Australia	11,916	13,275
Property activities	83,256	80,810
	228,326	273,337
Unallocated net assets/(liabilities):		
Dividend payable	(7,292)	(7,346)
Net funds and finance leases	7,060	53,991
	228,094	319,982

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

For the year ended 31 December 2002

2 Segmental and geographical analysis (continued)

Note a: Includes income of £6.0 million in respect of business rates refunds on various surface mine sites in 2001 (2002: nil).

Note b: Includes a receipt of £0.5 million for land sterilisation in 2001 (2002: nil).

Note c: Costs associated with operating the property segment are now recognised in the property segment; previously these were treated as part of the cost of the surface mining operation. Comparatives have therefore been restated to show the impact of including these costs in the appropriate segment in the prior year.

Note d: Includes the effect of £21.1 million net release of provisions.

3 Exceptional items

Exceptional items comprise the following:

	Note	2002 £000	2001 £000
Impairment	a	20,191	-
Net redundancy and closure cost			
Redundancy	b	60,378	
Stores equipment and asset write-off	c	9,765	
DTI contribution	d	(10,000)	
Concessionary fuel	e	(4,500)	
		55,643	-
Provision against TXU debtor	f	6,358	
Provision against amounts recoverable under long-term contracts	g	9,309	
		15,667	-
Colliery write-down	h	-	15,771
		91,501	15,771

Notes

- a Following the announcement of the closure of mining operations at Selby, the carrying value and estimated useful economic lives of the mines and surface works has been reviewed, giving rise to an impairment in value.
- b Costs predominantly associated with the closure of Prince of Wales colliery and the announced closure of the Selby mines and surface works.
- c Equipment and stores which are unlikely to be used once Selby closes.
- d Government contribution to redundancy costs arising at Selby mines.
- e Reduction in liability to provide concessionary fuel deliveries.
- f Provision against non-payment by ESI customer, TXU, for fuel deliveries.
- g Provision has been made against certain amounts recoverable under long-term contracts where settlement is dependent on future planning permission and contract negotiations.
- h Write-off of Went Edge development costs at Prince of Wales Colliery.

The tax impact of exceptional items is disclosed in note 9.

For the year ended 31 December 2002

4 Other operating income and expenses

	2002 £000	2001 £000
Administrative expenses	18,164	20,830
Other operating income	(4,478)	(190)
Other operating income & expenses	13,686	20,640

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

Administrative expenses include £3.0 million (2001: £2.6 million) in respect of fees paid to Bain & Co., the consultants engaged to assist with Project 105.

5 Employee information

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

	2002 number	2001 number
Mining operations	5,323	5,843
Plant operations	733	618
Manufactured fuel	102	103
Administration	744	812
	6,902	7,376

Staff costs (including executive directors)

	2002 £000	2001 £000
Wages and salaries	205,937	210,940
Social security costs	15,570	16,705
Pension and post retirement benefit costs	12,340	16,709
	233,847	244,354

Pension and post retirement benefit costs in 2002 were reduced through the release of part of the concessionary fuel costs provided for in earlier periods (note 23).

Directors' remuneration and interests

Detailed information relating to directors' remuneration and their interests in share options is indicated by* on pages 30 to 35 and forms part of these financial statements.

6 Interest receivable and similar income

	2002 £000	2001 £000
Interest receivable from short-term deposits	5,181	5,276
Discounting of long-term receivables	-	368
	5,181	5,644

7 Interest payable and similar charges

	2002 £000	2001 £000
On bank loans, overdrafts and other loans repayable within 5 years	401	157
Amortisation of loan issue costs (FRS4)	545	691
On finance leases and hire purchase, repayable within 5 years	1,908	1,828
On finance leases and hire purchase, repayable after 5 years	-	21
	2,854	2,697

For the year ended 31 December 2002

8 Loss on ordinary activities before taxation

	2002	2001
	£000	£000
Loss on ordinary activities before taxation is stated after crediting:		
Rent receivable	3,433	3,899
Profit on disposal of tangible fixed assets – plant and equipment	296	246
– land and buildings	2,033	1,857
And after charging:		
Depreciation – tangible owned assets	50,661	48,335
Depreciation – assets held under hire purchase and finance leases	8,638	11,084
Went Edge impairment	–	15,771
Net charge for surface mine development and restoration assets	11,413	9,135
Auditors remuneration (Company £35,000, 2001: £50,000)	241	301

Auditors Remuneration

During the year the Group issued invitations to tender for the provision of audit and tax services for the year ending 31 December 2002. After undertaking a formal review process of the proposals submitted, the contract to provide audit and tax compliance services was awarded to PricewaterhouseCoopers.

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

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

During the year PricewaterhouseCoopers earned the following fees:

	2002	2001
	£000	£000
Statutory audit	241	301
Due diligence and other audit-related work	135	53
Tax advice and compliance services	266	204
Profit related pay scheme advice	–	3
	642	561

9 Taxation

	2002	2001
	£000	£000
On ordinary activities		
United Kingdom corporation tax at 30% (2001: 30%)	–	(6,497)
Adjustment in respect of prior years	–	(3,634)
Overseas taxation	3	(91)
Total current tax on ordinary activities	3	(10,222)
Deferred tax		
Origination and reversal of timing differences	2,514	(3,150)
Adjustment in respect of prior years	(726)	3,494
Total deferred tax on ordinary activities	1,788	344
On exceptional items		
United Kingdom corporation tax at 30% (2001: 30%)	–	6,497
Origination and reversal of timing differences	(3,142)	(4,731)
Total tax on exceptional items	(3,142)	1,766
Total current tax	3	(3,725)
Total deferred tax	(1,354)	(4,387)
Tax on profit of ordinary activities	(1,351)	(8,112)

For the year ended 31 December 2002

9 Taxation (continued)**Group tax reconciliation**

	2002	2001
	£000	£000
Loss before taxation	(83,111)	(26,484)
Tax credit thereon at 30%	24,933	7,945
Less: Total current tax (charge)/credit	(3)	3,725
Difference	24,936	4,220
Explained by:		
Expenses not deducted for tax purposes	(1,697)	29
Fixed Asset timing differences	8,915	6,988
Other timing differences	3,924	(2,706)
Utilised tax losses	13,566	3,526
Australian losses – no tax relief recognised	225	108
Adjustment in respects of prior years	-	(3,725)
Overseas tax	3	-
	24,936	4,220

Deferred taxation

	2002	2002	2001	2001
	Total Amount provided (note 23)	Total potential asset/(liability)	Total Amount provided	Total potential asset/(liability)
	£000	£000	£000	£000
Group				
Fixed asset timing differences	(34,205)	(29,615)	(39,560)	(39,556)
Other timing differences	34,205	39,279	34,680	34,877
Losses	-	16,216	3,526	3,526
Deferred tax asset/(liability)	-	25,880	(1,354)	(1,153)

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

10 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included separately in these financial statements. The loss for the financial year was £72,143,000 (2001: Profit – £784,000).

11 Dividends

	2002	2002	2001	2001
	per share	£000	per share	£000
Interim	5.0p	7,292	5.0p	7,292
Final	5.0p	7,292	5.0p	7,292
	10.0p	14,584	10.0p	14,584

The number of shares in issue at 31 December 2002 was 145,847,454 (2001: 145,847,454).

Subject to approval at the AGM, the final dividend of 5.0 pence per share (2001: 5.0 pence per share) will be paid on 20 June 2003 to shareholders on the register at 23 May 2003. The total dividend recommended for the year is 10.0 pence per share (2001: 10.0 pence per share).

12 (Loss)/earnings per share

(Loss)/earnings per share have been based on the weighted average number of shares in issue and ranking for dividend, being 145,847,454 (2001: 145,847,454) and on the (loss)/profit after taxation and minority interests.

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

For the year ended 31 December 2002

13 Tangible fixed operating assets

	Freehold land and buildings £000	Mines and surface works £000	Plant and machinery £000	Surface mine development and restoration assets £000	Total £000
Group					
Cost					
At 1 January 2002	90,135	841,483	129,659	83,947	1,145,224
Exchange adjustment	(35)	–	(86)	(137)	(258)
Additions	1,100	20,161	14,688	12,394	48,343
Disposals	(1,048)	(17,710)	(4,395)	–	(23,153)
Transfers to investment properties	(1,743)	–	–	–	(1,743)
At 31 December 2002	88,409	843,934	139,866	96,204	1,168,413
Depreciation					
At 1 January 2002	5,632	534,293	81,351	38,161	659,437
Exchange adjustment	–	–	(42)	(33)	(75)
Charge for year	754	48,539	10,006	23,807	83,106
Disposals	–	(17,643)	(3,757)	–	(21,400)
Transfers to investment properties	(57)	–	–	–	(57)
Exceptional impairment provision (note 3)	–	20,191	–	–	20,191
At 31 December 2002	6,329	585,380	87,558	61,935	741,202
Net book value					
At 31 December 2002	82,080	258,554	52,308	34,269	427,211
At 31 December 2001	84,503	307,190	48,308	45,786	485,787

Included in Mines and Surface Works are assets in course of construction at 31 December 2002 amounting to £nil (2001: £40.8 million).

The net book value of tangible fixed assets includes £0.9 million (2001: £14.9 million) in respect of assets held under hire purchase contracts and £28.4 million (2001: £23.5 million) in respect of assets held under finance leases.

Freehold land and buildings net book value comprises £78.4 million of UK freehold land and buildings and £3.7 million of Australian land and buildings.

Following the decision and announcement of the closure of mining operations at Selby, the carrying value and estimated useful economic lives of mines and surface works has been reviewed. Impairments in value arising predominantly at the Selby site, charged in the current year, are described in notes 1 and 3. In addition, the remaining estimated useful economic life of the Selby mines and surface works was revised to be 20 months from 1 July 2002. Together, these items reduced the ongoing depreciation charge in the second half of the year by £5.8 million (estimated ongoing annual reduction of £6.5 million.)

14 Investment properties

	£000
At 1 January 2002	–
Transfers from tangible fixed operating assets	1,686
	1,686
Surplus on revaluation	4,814
At 31 December 2002	6,500

The investment property valuation was undertaken by Fuller Peiser as part of the valuation of the Group's UK land and buildings. The investment property comprises Asfordby Business Park, the premises at which have now been substantially let, and which are valued at £6.5 million on an open market value basis.

For the year ended 31 December 2002

Investment properties were depreciated during the year before being revalued and transferred out of Tangible Fixed Operating Assets. However, having been classed as Investment Properties, these properties will no longer be depreciated as they will be carried at open market value.

15 Fixed asset investments

Group	£000
Other investments at 1 January 2002	40
Less disposals	(2)
At 31 December 2002	38

Company	£000
Cost or valuation	
At 1 January 2002	595,920
Write-down in value of investments in subsidiaries	(104,831)
Shares acquired in subsidiaries	124
At 31 December 2002	491,213

During the year, three subsidiary companies, Harworth Guarantee Co. Limited, UK Coal Holdings Ltd and Harworth Group Ltd were incorporated. On 26 March 2002, UK COAL PLC gifted its investments in subsidiaries to Harworth Group Ltd by way of a capital contribution.

In light of the losses sustained by the main operating subsidiary companies and the revised view of the carrying value and estimated useful economic lives of mines and surface works at Selby complex, the carrying value of the investments in subsidiary companies has been written down.

Interests in principal Group undertakings:

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

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

With the exception of UK Coal Australia Pty Limited and Gloucester Coal Limited, which are incorporated and registered in Australia, all of the above companies are incorporated in England and Wales. All companies operated principally in their country of incorporation and all are included in the consolidation. The companies listed above include all those that materially affect the amount of profit or loss and the assets of the Group.

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

Gloucester Coal Ltd is listed on the Australian Stock Exchange. The market value of the Group's investment in Gloucester Coal Ltd at 31 December 2002 was £14.5 million. The principal place of business of Gloucester Coal Ltd is at Level 5, Citadel Towers (Tower B), 799 Pacific Highway, Chatswood, NSW 2067.

For the year ended 31 December 2002

Gloucester Coal's principal activities comprised the production and marketing of coal from the Stratford Mine, the assessment of other resources at Stratford where it has a 90% interest, and the assessment of its wholly owned Duralie Project.

16 Stocks

	Group	Group
	2002	2001
Coal stocks	48,917	28,622
Spares and consumables	30,235	43,244
	79,152	71,866

17 Debtors: amounts falling due after one year

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Amounts owed by subsidiary undertakings	-	-	20,154	20,154
Amounts recoverable under long-term contracts	-	6,935	-	-
Other debtors	673	1,383	-	-
Government contributions to redundancy payments	8,200	-	-	-
	8,873	8,318	20,154	20,154

18 Debtors: amounts falling due within one year

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Amounts recoverable under long-term contracts	-	2,903	-	-
Trade debtors	57,450	59,288	-	-
Other debtors	3,231	2,329	3,537	3,537
Prepayments and accrued income	10,662	21,535	-	468
Amounts owed by subsidiary undertakings	-	-	195,727	167,216
Government contributions to redundancy payments	1,800	-	-	-
	73,143	86,055	199,264	171,221

19 Share capital

	No. of	2002	No. of	2001
	shares	£000	shares	£000
Authorised share capital				
At 1 January and 31 December 2002				
Ordinary shares of 1p each	250,000,000	2,500	250,000,000	2,500
Issued and fully paid				
At 1 January and 31 December 2002				
Ordinary shares of 1p each	145,847,454	1,458	145,847,454	1,458

For the year ended 31 December 2002

20 Share Options Over Shares in UK COAL PLC

At 31 December 2002 up to 4,059,699 (2001: 5,599,135) ordinary shares were reserved against the exercise of options by certain directors and employees under share option schemes as below. Options are normally exercisable within 6 months of the initial exercise date for share save options, and within 10 years of the issue date for executive options.

	Exercise Price Per share £	No. of ordinary shares	
		2002	2001
Exercisable from 2000	2.00 – 4.08	100,000	126,932
Exercisable from 2000	3.08 – 4.34	9,000	9,000
Exercisable from 2001	0.95	–	909,655
Exercisable from 2003	0.95	595,118	668,783
Exercisable from 2004	0.71	3,355,581	3,884,765
		4,059,699	5,599,135

During the year 1,539,436 share options either lapsed or were relinquished.

Long Term Incentive Plan

During the year 91,060 (2001: 236,222) shares were reserved for senior management against the award of shares under the Long Term Incentive Plan approved by shareholders at the AGM in May 2000.

	Exercise Price Per share £	No. of ordinary shares	
		2002	2001
Exercisable from 2004	0.60	–	236,222
Exercisable from 2005	0.90	91,060	–

21 Share premium and reserves

	Share premium account	Revaluation reserve	Special reserve account	Capital redemption reserve	Profit loss account
	2002	2002	2002	2002	2002
	£000	£000	£000	£000	£000
Group					
At 1 January 2002	290,872	–	18,919	257	8,060
Transferred to profit & loss account	–	–	(18,919)	–	18,919
Loss for the year	–	–	–	–	(96,262)
Exchange differences	–	–	–	–	(355)
Surplus on revaluation	–	4,814	–	–	–
At 31 December 2002	290,872	4,814	–	257	(69,638)
Company					
At 1 January 2002	290,872	–	191,847	257	59,054
Transferred to profit & loss account	–	–	(191,847)	–	191,847
Loss for the year	–	–	–	–	(86,727)
At 31 December 2002	290,872	–	–	257	164,174

Cumulative goodwill written off to reserves amounts to £172.9 million (2001: £172.9 million).

Asfordby Business Park, which was included within Tangible Fixed Operating Assets at 31 December 2001, is now substantially fully let and was re-classified as an Investment Property at the year end. It has been valued at open market value and the surplus arising has been taken to Revaluation Reserve.

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21 Share premium and reserves (continued)

By Orders of the High Court dated respectively 10 June 1994 and 9 June 1999, amounts of £46.0 million and £145.8 million were cancelled from the share premium account and a Special Reserve amounting to £191.8 million in total was created. This Special Reserve was used until 31 December 2001 in eliminating goodwill of £172.9 million arising on consolidation of earlier acquisitions.

On 19 November 2002, the Company was released by the High Court from the undertakings given in respect of the 1994 and 1999 Court Orders. As a consequence the balance on the Special Reserve of £191.8 million has been transferred to the profit and loss account.

As the Special Reserve is no longer available to eliminate goodwill arising on consolidation, this goodwill is now shown netted against the consolidated profit and loss account, and this account now shows a deficit of £69.6 million. The Company's profit and loss account and its ability to pay dividends to shareholders is not affected by the fact that goodwill arising on consolidation is now netted against the consolidated profit and loss account.

A shareholders' resolution will be proposed at the Annual General Meeting to approve a further reduction of capital of £290.9 million, by way of a cancellation of the Company's share premium account. If the resolution is passed then application will be made to the High Court for confirmation of the cancellation. It is envisaged that, once the cancellation is effective, the full value of the share premium account will be transferred to the profit and loss account.

22 Reconciliation of movements in shareholders' funds

	Group	Group	Company	Company
	2002	2001	2002	2001
	£000	£000	£000	£000
(Loss)/profit for the financial year	(81,678)	(18,276)	(72,143)	784
Dividends (note 11)	(14,584)	(14,584)	(14,584)	(14,584)
Exchange differences	(355)	(785)	-	-
Surplus on revaluation	4,814	-	-	-
Movement in shareholders' funds	(91,803)	(33,645)	(86,727)	(13,800)
Opening shareholders' funds	319,566	353,211	543,488	557,288
Closing shareholders' funds	227,763	319,566	456,761	543,488

23 Provisions for liabilities and charges

Group	As at 1-Jan 2002	Created in year	Released in year	Utilised in year	Unwinding of discount	At 31-Dec 2002
	£000	£000	£000	£000	£000	£000
Employer and public liabilities	28,974	6,660	(191)	(7,260)	1,346	29,529
Surface damage	34,497	5,192	(11,955)	(4,930)	1,035	23,839
Concessionary fuel	29,426	-	(5,164)	(437)	1,249	25,074
Claims	527	6,391	-	(5,943)	-	975
Restoration & closure costs – surface mines	89,962	1,872	(7,807)	(2,309)	2,699	84,417
Restoration & closure costs – deep mines						
shaft treatment and pit top	35,035	1,380	(10,739)	(713)	950	25,913
spoil heaps	11,809	233	(6,483)	(312)	326	5,573
pumping costs	14,594	116	(4,604)	-	63	10,169
Ground/groundwater contamination	11,036	500	(1,000)	-	331	10,867
Gas plant decommissioning	194	-	-	(41)	-	153
Redundancy	-	60,378	-	(18,188)	-	42,190
	256,054	82,722	(47,943)	(40,133)	7,999	258,699
Deferred taxation (note 9)	1,354	-	-	(1,354)	-	-
	257,408	82,722	(47,943)	(41,487)	7,999	258,699

For the year ended 31 December 2002

23 Provisions for liabilities and charges (continued)

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

During the year exceptional items of £60.4 million and (£4.5 million) were charged/(credited) to the profit and loss account in respect of redundancies and concessionary fuel liabilities releases respectively.

A brief description of the nature of the Group's obligations, the expected timing of resulting outflows of economic benefit and an indication of the uncertainties surrounding each of the above provisions is provided below:

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

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

Concessionary fuel provides for retirement benefits payable to employees in the form of heating coal provided by external coal retailers. The amounts payable are defined in employee terms and conditions and are subject to a qualifying period of service. The costs of the concessionary fuel benefits are determined by a qualified actuary on the basis of triennial valuations. Benefits are payable as an annuity. Further details are set out in note 26.

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

Restoration and closure costs – Surface mines

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

Restoration and closure costs – Deep mines

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

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

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

For the year ended 31 December 2002

23 Provisions for liabilities and charges (continued)

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

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

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

24 Creditors: amounts falling due after more than one year

	Group 2002	Group 2001
Hire purchase and finance lease liabilities	18,256	15,373
Retentions	4,534	4,693
	22,790	20,066

25 Creditors: amounts falling due within one year

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Trade creditors	55,209	58,104	-	-
Other taxation and social security	13,697	14,268	-	-
Hire purchase and finance lease liabilities	7,217	7,325	-	-
Bank borrowings	28,386	492	28,584	-
Amounts owed to subsidiary undertakings	-	-	217,374	270,304
Dividends payable	7,401	7,346	7,401	7,346
Accruals and deferred income	33,191	43,666	501	775
Corporation tax	1,126	590	10	826
	146,227	131,791	253,870	279,251

For the year ended 31 December 2002

26 Pension Schemes and other retirement benefits**Pension schemes**

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

The majority of the employees within defined benefit schemes are members of industry wide schemes being either the Industry Wide Coal Staff Superannuation Scheme (IWCS) or the Industry Wide Mineworkers Pension Scheme (IWMP), both of which commenced on privatisation following the Coal Industry Act 1994.

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

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

	2002	2001
	£000	£000
Defined benefit schemes	14,285	14,521
Defined contribution schemes	1,919	1,951
	16,204	16,472

Actuarial valuations of each scheme were undertaken on 31 December 2000 using the Projected Unit Method. The main assumption underlying both schemes is a long term gross yield on scheme assets of 7% which will exceed the annual rate of increase in pensionable salaries and price inflation by 2.25% and 3.75% respectively. Pensions are expected to increase in line with price inflation. The aggregate market value of the assets at the valuation date was £53 million for the IWCS and £96 million for the IWMP. The aggregate funding level on an ongoing basis was 50% and 64% respectively.

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

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

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

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

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

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

For the year ended 31 December 2002

26 Pension Schemes and other retirement benefits (continued)

	Long-term rate of return expected	IWMPS Value	IWCSSS Value
	2001	2001	2001
	%	£000	£000
Equities	6	114,141	61,879
Total market value of assets		114,141	61,879
Present value of scheme liabilities		(133,997)	(85,511)
Gross deficit in the schemes		(19,856)	(23,632)

A deferred tax asset of £32.4 million (2001: £13.1 million) would offset the gross deficit if the Group generates sufficient taxable profits before the deficit is accounted for.

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

	IWMPS 2002 £000	IWCSSS 2002 £000	Total 2002 £000
Amounts to be included within operating profit:			
Current service cost	9,722	6,452	16,174
Past service costs	-	-	-
Total to be included within operating profit	9,722	6,452	16,174

	IWMPS 2002 £000	IWCSSS 2002 £000	Total 2002 £000
Amounts to be included as other finance costs:			
Expected return on scheme assets	7,143	3,900	11,043
Interest on scheme liabilities	(8,400)	(5,356)	(13,756)
Total to be included as net finance charge	(1,257)	(1,456)	(2,713)

	IWMPS 2002 £000	IWCSSS 2002 £000	Total 2002 £000
Amounts to be included in the consolidated statement of total recognised gains and losses:			
Difference between actual and expected return on scheme assets	(34,739)	(18,521)	(53,260)
Experience gains arising on scheme liabilities	6,372	(4,976)	1,396
Effects of changes in assumptions in present value of scheme liabilities	(4,340)	(3,479)	(7,819)
Total actuarial gains and losses to be recognised in STRGL	(32,707)	(26,976)	(59,683)

History of experience gains and losses:

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

For the year ended 31 December 2002

26 Pension Schemes and other retirement benefits (continued)

	2002 Group £000	2001 Group £000
Net assets		
Net assets excluding pension liability	228,094	319,982
Pension liability	(108,087)	(43,488)
Net assets including pension liability	120,007	276,494
Reserves		
Profit and loss (deficit)/reserve excluding pension liability	(69,638)	8,060
Pension liability	(108,087)	(43,488)
Profit and loss deficit including pension liability	(177,725)	(35,428)

Other retirement benefits

The Group has a commitment to provide concessionary fuel benefits to retired ex-British Coal employees. At retirement upon attaining the age of 65, and having been employed for a minimum of 15 years, employees become entitled to a retirement fuel allowance. Employees with a minimum of 15 years employment, who have attained the age of 50, and whose employment is terminated by redundancy, are also eligible for this fuel allowance. 1,114 former workers and widows already receive this benefit and there are 2,717 current employees who will become members eligible for this allowance.

The most recent actuarial valuation of the above schemes was at 31 December 2002. The valuation of the scheme used the projected unit method and was carried out by William M Mercer Ltd, a professionally qualified actuary.

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

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

Concessionary fuel is an unfunded retirement benefit and as such there are no assets in the scheme.

The net liability relating to this unfunded benefit is shown below:

	2002 £000	2001 £000
Gross present value of scheme liabilities	(25,598)	(23,765)

The present value of scheme liabilities of £25,598,000 (2001: £23,765,000) compares to a provision per Note 23 of £25,074,000 (2001: £29,426,000).

The latest updated actuarial valuation at 31 December 2002 revealed a surplus in the provision of £3,976,000, before the exceptional provision release of £4,500,000.

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

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27 Derivatives and other financial instruments

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

Coal swaps

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

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

Emissions Trading

During the year the Group has sold 37,000 tCO₂e (tonnes of carbon dioxide equivalents) allowances for cash consideration of £273,000 under the rules of the UK Emissions Trading Scheme. At 31 December 2002 the Group held 199,610 tCO₂e allowances over and above those required to meet its annual obligation under the scheme rules. These have not been attributed a book value or fair value as there is no readily ascertainable market value due to the embryonic status of the carbon credit market.

Strategies, Objectives and Policies

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

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

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

Group policy includes:

The Group's strategy includes maintaining committed facilities which provide adequate cover over peak anticipated borrowing requirements. The existing banking agreements include covenants on interest cover, EBITDA and net asset levels and a maximum gearing of 50%. At year end the Group's net gearing ratio was nil.

For the purpose of the disclosures which follow, short term debtors and creditors which arise directly from the Group's operations have been excluded as permitted under FRS13.

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

Liquidity risk

The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term trade creditors and accruals at 31 December 2002 is set out below:

	Debt £000	Finance Leases and hire purchase contracts £000	Letters of Credit £000	Other Financial Liabilities £000	Total £000
Within 1 year, or on demand	28,942	7,217	25,000	1,592	62,751
Between 1 and 2 years	-	7,615	-	220	7,835
Between 2 and 5 years	-	10,641	-	4,173	14,814
Over 5 years	-	-	-	50	50
	28,942	25,473	25,000	6,035	85,450

For the year ended 31 December 2002

27 Derivatives and other financial instruments (continued)

The comparative data as at 31 December 2001 is set out below:

	Debt £000	Finance Leases and hire purchase contracts £000	Letters of Credit £000	Other Financial Liabilities £000	Total £000
Within 1 year, or on demand	960	7,327	23,950	791	33,028
Between 1 and 2 years	-	4,168	-	942	5,110
Between 2 and 5 years	-	10,622	-	3,751	14,373
Over 5 years	-	582	-	-	582
	960	22,699	23,950	5,484	53,093

Interest rate risk

The Group's trading operations are financed through a mixture of retained profits, liquid resources, borrowings and deferred payment terms. The interest rate profile of the financial liabilities of the Group after taking account of interest rate swaps at 31 December 2002 is set out below:

Currency	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average fixed interest rate %	Weighted period for which no interest is paid Months	Weighted Average period for which rate is fixed Months
Sterling	31,713	22,702	6,035	60,450	7.70	33	47
Aus\$	-	-	-	-	-	-	-
	31,713	22,702	6,035	60,450			

The floating interest rates for Sterling liabilities are : £28,942,000 at LIBOR plus 1.75 % and £2,771,000 at LIBOR plus 1.5%.

At 31 December 2001:

Currency	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average fixed interest rate %	Weighted period for which no interest is paid Months	Weighted Average period for which rate is fixed Months
Sterling	-	22,699	5,484	28,183	8.8	44	56
Aus\$	960	-	-	960	-	-	-
	960	22,699	5,484	29,143			

The interest rate profile of the financial assets of the Group after taking account of interest rate swaps at 31 December 2002 is set out below:

	2002 £000	2001 £000
Currency		
Sterling	60,592	76,168
Australian Dollars	301	1,013
At 31 December	60,893	77,181
Floating rate	60,893	77,181
Fixed rate	-	-
At 31 December	60,893	77,181

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

For the year ended 31 December 2002

27 Derivatives and other financial instruments (continued)**Foreign currency risk**

The foreign exchange contracts entered into by the Australian trading operations all finished during 2002. No replacement contracts have been entered into as at the balance sheet date. The Group will continue to monitor its foreign currency exposure with a view to hedging a proportion of its future sales using forward foreign exchange contracts if appropriate.

Borrowing facilities

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

	2002 £000	2001 £000
Expiring within 1 year	-	50,000
Expiring between 1 and 2 years	9,391	-
	9,391	50,000

Fair value

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

	2002 Book value £000	2002 Fair value £000	2001 Book value £000	2001 Fair value £000
Cash	60,893	60,893	77,181	77,181
Investments	38	38	40	40
Debt	(28,942)	(28,942)	(960)	(960)
Finance leases and hire purchase contracts	(25,473)	(23,957)	(22,699)	(21,145)
Coal swaps	-	(328)	-	-
Other financial liabilities	(6,035)	(5,534)	(5,484)	(4,923)
Foreign exchange forward rate contracts	-	-	-	(5,294)

Debt at 31 December 2002 is before deduction of FRS4 unamortised costs of £556,000 (2001: £468,000).

Hedges

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

Unrecognised gains and losses on hedges

	Gains £000	(Losses) £000	Net gains/ (losses) £000
At 1 January 2002	-	(3,297)	(3,297)
(Gains)/losses arising in the previous year recognised in 2002 profit and loss account	-	3,297	3,297
Gains/(losses) arising pre 1 January 2002 that were not recognised in 2002 profit and loss account	-	-	-
Arising in 2002	22	(350)	(328)
At 31 December 2002	22	(350)	(328)
Of which:			
Gains and losses expected to be recognised in profit & loss account in less than 1 year	-	(350)	(350)
Gains and losses expected to be recognised in profit & loss account in more than 1 year	22	-	22
At 31 December 2002	22	(350)	(328)

For the year ended 31 December 2002

Unrecognised gains and losses in this table reflect the movements between the rates applicable at date of entering the hedge contracts and those ruling at 31 December 2002.

28 Capital commitments

	2002	2001
	£000	£000
Contracted but not provided	4,485	6,144

29 Cash at bank and in hand

	2002	2002 Change in year	2001	2001 Change in year
	£000	£000	£000	£000
Monies deposited to cover insurance requirements	37,361	2,075	35,286	1,849
Subsidence security fund	23,231	2,664	20,567	20,567
Other cash balances	301	(21,027)*	21,328	29,353*
	60,893	(16,288)	77,181	51,769

* Includes £9,000 (2001: £48,000) of exchange differences.

Included within the cash balance of £60.9 million are amounts totalling £37.4 million (2001: £35.3 million) held by the Group's insurance subsidiary and £23.2 million (2001: £20.6 million) deposited as security for subsidence liabilities.

30 Contingent liabilities

Guarantees have been given in the normal course of business for performance bonds of £5.7 million (2001: £4.1 million) to cover the performance of work under a number of Group contracts.

Letters of credit have been issued amounting to £25.0 million (2001: £24.0 million), which is available to meet part of the Group's subsidence and shaft treatment obligations.

Claims have been made and counter-claims have been received in relation to certain surface mine operations where UK COAL act as contract miners. While the claims are subject to negotiation, the directors are confident of a successful outcome.

At 31 December 2002, the Group had the following operating lease commitments:

	2002	2001
	£000	£000
Annual commitments		
In one year or less	22	207
Between one and two years	-	22

31 Related party transactions

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

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