UK Coal PLC
07 September 2005

7th September 2005

UK COAL
Interim Report 2005

Financial Overview

For the six months ended 30 June 2005:

- Operating loss before exceptional items, £14.7 million (2004: loss of £15.8 million)
- Loss for the period £30.6 million (2004: loss of £1.4 million)
- Funds outflow of £36.7 million after receipt of proceeds from sale of Monckton of £8.0 million and property disposals of £8.2 million
- Net debt at 30 June 2005 £29.9 million including leasing and hire purchase and cash held in respect of insurance and surface damage liabilities (31 December 2004: £6.8 million net cash)
- £58.3 million increase in the gross valuation of the property portfolio (excluding investment properties) representing £189.1 million in excess of book value
- Value of Investment property portfolio increased to £17.8 million (31 December 2004: £6.7 million)

Operational Summary

- Deep mine production at ongoing mines 3.9 million tonnes (2004: 3.6 million tonnes)
- Total deep mines production 4.0 million tonnes (2004: 6.0 million tonnes)
- Sales volumes 4.8 million tonnes (2004: 7.4 million tonnes)
- Coal stocks 369,000 tonnes (31 December 2004: 647,000 tonnes)
- 6 coal faces equipped during first half of the year
- New workforce agreements and working arrangements implemented at 4 collieries
- Ellington Colliery closed and decision taken to mothball Harworth. Rossington Colliery will also be mothballed.
- Deep mine cost per GJ (for ongoing mines after deducting Coal Investment Aid and before exceptional cost of sales) £1.55 (2004: £1.46)
- Surface mine production 0.6 million tonnes (2004: 1.2 million tonnes)
- Selling price per GJ £1.30 (2004: £1.17)
- Property sales proceeds £8.2 million (2004: £1.9 million) - planning approvals for a further 140 acres
- Annualised rental income on commercial and business parks increased to £1.2 million (31 December 2004: £0.9 million)
- Planning applications being progressed for the erection of up to 40 wind turbines

Chairman's Statement

Results

During the six months ended 30 June 2005, the Group actively managed the issues in the deep mines, targeting costs, management processes, industrial relations and working practices. Rising sales prices and improved cost control contained losses during a period where six coal faces were equipped. Deep mines made a loss of £44.4 million, after exceptional costs of sale of £22.7 million, and an unexpected face gap at Daw Mill, which reduced profitability. However, property activities produced a profit of £10.4 million (2004: £2.4 million) and our other businesses delivered a profit of £3.3 million (2004: £1.5 million). The profit on disposal of our Monckton business was £2.9 million. This resulted in an overall loss after tax of £30.6 million (2004: £1.4 million).

A decline in sales volumes, partially offset by higher coal prices, led to a fall in turnover from continuing operations to £164.1 million (2004: £222.4 million). Coal sales fell to 4.8 million tonnes (2004: 7.4 million tonnes) as a result of a reduction in production to 4.6 million tonnes (2004: 7.2 million tonnes) reflecting colliery closures in 2004 and a reduction in surface mine output. Overall coal stocks held amounted to 369,000 tonnes (31 December 2004: 647,000 tonnes).

Exceptional costs incurred in the period amounted to £22.7 million (2004: revenue of £3.3 million). These primarily arose from costs at Kellingley and Rossington collieries, recovering operations following force majeure events (£7.5 million), the impairment of assets at Rossington (£5.6 million) and costs resulting from the closure of Ellington (£5.1 million).

Coal Investment Aid claimed by UK COAL in respect of investments to access coal reserves amounted to £10.4 million of which £8.1 million was credited to the consolidated income statement(2004: £4.4 million). The remaining Investment Aid was taken to deferred income and will be credited to the consolidated income statement over the life of the assets to which it relates. The Investment Aid debtor at 30 June 2005 amounted to £11.6 million (31 December 2004: £11.1 million).

We made good progress on our property activities in the period, with sales being made from developments where UK COAL has extracted maximum value from the planning process. Rental income received in the period on our commercial and industrial lets and farm tenancies on surface mining land held was £2.2 million (2004: £1.7 million). Profits on property sales were £4.5 million (2004: £1.3 million), and the Group has also recognised £4.5 million increase in the value of its investment property portfolio (2004: £nil), which is now valued at £17.7 million (31 December 2004: £6.7 million).

A property valuation has been carried out in the period, updating the valuation of 31 December 2004. Overall, this shows an increase of £58.3 million, representing an excess over book value of £189.1 million. A fuller description of the property revaluation is contained in the Chief Executive's Review of Operations.

Cash Flow and Debt

The operating loss suffered in the period contributed to an outflow of funds amounting to some £36.7 million. The net debt position of the Group at 30 June 2005 was £29.9 million (31 December 2004: net cash of £6.8 million). This included leasing and hire purchase obligations, and cash of £54.5 million (31 December 2004: £55.3 million) held in respect of insurance requirements and subsidence security funds.

Other major items affecting the cash flow in the period were redundancy payments of £11.1 million, primarily in respect of Selby and Ellington closures, surface mine restoration costs of £4.8 million, and a £6.5 million outflow in respect of increased net working capital, mainly as a result of reduced trade creditors. Liabilities in respect of shaft treatment, employers and public liability and surface damage amounting to £6.6 million in total were settled in the period. Capital expenditure amounted to £10.8 million and depreciation and impairment was £26.4 million.

Property and other fixed asset sales generated cash of £8.5 million (2004: £2.7 million) and the proceeds from the disposal of businesses amounted to £8.0 million in the period (2004: £19.4 million).

Dividend

Following the operating losses suffered in the first half of 2005, which resulted in a cash outflow and increased debt levels, the Board is not proposing an interim dividend. A final dividend will be considered in April 2006.

Contingent Liability

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

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

The case is due to be heard in the High Court during December 2005. The Company continues to vigorously defend the claim.

Outlook

With fewer face gaps and having equipped new faces at most mines, we expect more consistent deep mine production in the second half of the year, assisted by the ongoing reorganisation of the workforce and working practices.

Contract re-negotiations have been concluded with all major customers giving increased sales coverage going forward at prices more reflective of the current international market background. At the end of June 2005, total contracted coal sales to the end of 2010, including an estimate of sales to non Electricity Supply Industry markets, was 38.4 million tonnes with averaged proceeds (in 2005 prices) ranging between £1.31 and £1.40 per gigajoule across all years. These prices are subject to full RPI inflation and are dependent on the out-turn in international coal prices.

The delays in obtaining planning consents will prevent any improvement in surface mine production in the second half but we will be seeking to make best use of the more favourable background to obtain planning consents to begin improvements in surface mine outputs in 2006.

We will continue to accelerate the exploitation of our property portfolio and to realise the potential for our power generation business and expect to make good progress in these areas.

Chief Executive's Review of Operations

Deep Mines

The Group entered the year with eight deep mines, three of which were considered higher risk and which were under review. Conditions at these mines in the first half of the year have proved this initial assessment to be correct, and despite operational improvements, we have been forced to take the decision to close Ellington and plan to move two other mines to 'care and maintenance'.

Our deep mines produced 4.0 million tonnes in the six months to 30 June 2005 compared to 6.0 million tonnes in the same period in 2004. This reduction is attributable to the closure of the Selby complex in 2004, an unplanned face gap at Daw Mill, the closure of Ellington Colliery in January and excess methane at Harworth Colliery. Ongoing mine production, including Harworth and Rossington, amounted to 3.9 million tonnes (2004: 3.6 million tonnes).

During the period, the Group has equipped six new coal faces, which has necessitated heavy investment in equipment, manpower and management time and it is a credit to our people that this has been achieved despite sometimes extremely difficult mining conditions.

Operational initiatives in respect of new workforce agreements, cost control practices and ground control techniques have proved beneficial. In particular, during the early part of the year, the working practices in the deep mines were reviewed. New workforce agreements are now in place at four collieries. These agreements have resulted in increased guaranteed production time at the coalfaces, improved operational efficiency and fewer bonus disputes. The workforce and management teams have responded well to the challenges to achieve better performance.

We have also significantly improved cost control in the deep mines. We are involved in a large number of projects, each of which consumes substantial resources and management time. Control has been improved by the introduction of project costing. This has enabled the cost base to be reduced and has compensated for some of the production shortfalls. Tight control of costs will remain a feature of the operations in future.

These operating improvements have delivered tangible benefits in both working practices and cost control which have helped to mitigate the impact of lower deep mine production. The benefits have been particularly felt at Welbeck and Kellingley collieries. Total deep mine unit costs on the reduced output levels for ongoing collieries, after deducting Coal Investment Aid and excluding exceptional costs, were £1.55 per gigajoule (2004: £1.46 per gigajoule).

The improved output levels and general performance at some mines have, however, been offset by an unplanned face gap at Daw Mill. This was mainly due to the time needed to resolve the problem of floor heave, a complication not anticipated when the developments were designed some two years ago. The development design for the next panel is being changed to enable the next move to be carried out more efficiently when it takes place in early 2007.

Harworth Colliery was one of the first to complete its operational review. We introduced new working practices and workforce involvement unique in British mining. Performance levels on underground projects improved substantially. The mine, however, suffered from high methane levels in the first quarter slowing coal extraction and also encountered extremely difficult geological conditions in the region of reserves being worked. Following experience on this face, it was considered unlikely that further reserves could be economically extracted from this area of the mine. It is disappointing, following such excellent progress, that once the currently developed coal panel has been extracted early next year, the seam will have to be abandoned.

Plans are now being drawn up at Harworth to mothball the mine, reducing the cost base. This strategy will allow future access to substantial areas of reserves in an alternate coal seam. Investment here will be dependent on anticipated returns, government support and the future coal price. Following this decision, the Group has retained fixed assets with a value of £12 million, which relate to the winding equipment, surface works, mine access and land curtilage. These assets will be reviewed periodically to test impairment and written down as appropriate after taking into account the costs of remediation and restoration. The mothballing of activities has resulted in an impairment charge in the period to the carrying value of fixed assets amounting to £1.0 million and the write off of consumable stores and stocks of £0.5 million.

As with all our mines, employees at Harworth Colliery are highly experienced, motivated workers with unique skills. Wherever possible, employees from Harworth are being transferred to improve operational efficiency at other mines. Redundancy costs will be incurred in the second half in respect of employees who cannot or choose not to be transferred. Such costs are expected to amount to around £9 million and, in accordance with accounting standards, have not been provided in the period.

At Rossington, which began the year under review, attempts were made to establish advancing longwall panels productive enough to support the extensive rehabilitation expense necessary to support the future development. Advancing longwalls have not been used in British mines for some years and are not used elsewhere in the world because of inherent problems controlling cycle times and gate roads. It was, therefore, a trial which ultimately has not produced the required result, and, as such, Rossington will be mothballed once extraction is completed at the current panel. As a result, the carrying value of Rossington's assets has been reviewed, resulting in an impairment charge to the consolidated income statement of £5.6 million.

Coal selling prices in the six months ended 30 June 2005 began to reflect the improvement in international coal prices with unit income averaging £1.30 per gigajoule (2004: £1.17 per gigajoule). Certain energy prices, particularly gas, have experienced unprecedented increases in the period, improving coal's relative competitive position.

The force majeure dispute with Drax Power Limited has been settled amicably, involving the re-pricing and re-phasing of the tonnage shortfall.

Surface Mines

Surface mine activity declined in the period as a result of four sites completing coaling. Output from the Group's six mines was 0.6 million tonnes (2004: 1.2 million tonnes). Cost control contained the losses and surplus plant has been applied to restore sites. We are more optimistic that further planning approvals will be obtained which will allow access to the substantial reserves, and our plant capacity is being maintained accordingly.

Unit costs were £1.28 per gigajoule (2004: £1.03 per gigajoule) reflecting lower activity levels. Extraction was completed in the period at four mines, which are now in restoration.

While no new planning consents were received in the six months ended 30 June 2005, three sites with a total tonnage of 2.7 million tonnes are in the Public Inquiry process following appeal and, subject to approval, will be available to start production in 2006.

Two further schemes, totalling 0.6 million tonnes, were submitted for planning approval in the first half of the year. Four projects with total reserves of 4 million tonnes will be submitted for planning approval in the second half of the year.

Planning permission is currently held for one project with a total of 1.5 million tonnes of reserves. This is scheduled to begin production later in 2006, with extraction of the reserves to be phased over a four year period.

The total coal reserves, held within our property portfolio, including projects currently being worked and in planning, have a potential of around 100 million tonnes. This holding has increased due to higher coal prices, which have improved the viability of previously uneconomic projects.

Property

The Group continues to increase the value of its property portfolio by focussing on three key areas: commercial lets, development properties and improving rents from agricultural land held for surface mining purposes.
The property team is developing these areas by adding value where appropriate through the planning system and by active development of certain sites. Joint venture projects have been entered into where appropriate, and more will follow. With such a large property portfolio, surplus land is identified and sold when

maximum value has been created after gaining planning permission.

In the commercial lets area, we have made good progress in growing annual rentals, which increased during the period by £0.3 million. Applications for business park use have been submitted in respect of all the former Selby mines and a planning application for an additional building is about to be lodged for the Asfordby site. If these applications are successful, our business parks will cover a total of 290 acres, of which 175 acres is currently awaiting approval.

A review of the Group's properties which are substantially let and held for investment purposes was carried out during the six months ended 30 June 2005. In this period, leases have been signed in respect of one former disposal point and the Whitemoor business park is fully let. In accordance with accounting standards, we have recognised £4.5 million of gains in the valuation of our investment portfolio in the income statement for the six months ended 30 June 2005, with a further gain of £5.6 million reflected in reserves. Future movements in the value of our investment properties will similarly be taken to profit. The Group now has £17.8 million of properties in this category yielding a rental income of £1.2 million per year.

Our development activities have progressed well. We have gained planning permission for further tranches of our land and have put land into the planning process. Master planning is ongoing for the Orgreave and Prince of Wales sites, and planning permission is in place for the Waverley AMP and other sites. The total area of sites being promoted or with planning consent now amounts to some 1,250 acres and these are included in the table below as 'working surface mines' or 'other land'.

Agricultural land held for surface mining purposes has increased in value in the period, and additional focus has been directed towards this area, with the aim of creating further development opportunities where appropriate.

Property proceeds in the first half year amounted to £8.2 million (2004: £1.9 million). Further property sales, currently under negotiation, are expected to be finalised during the second half year.

Property Valuation

A full independent property valuation of all properties has been carried out in the period, in accordance with the 'RICS Appraisal and Valuation Standards' published by the Chartered Institute of Surveyors. This follows the limited update to the 2002 valuation carried out at 31 December 2004. It is pleasing to report that the gross valuation (excluding investment properties) has increased by 29% to £260.3 million (31 December 2004: £201.9 million), the major reason being the uplift in agricultural values since 2002.Agricultural land is valued on an existing use basis. The valuation is before the deduction of rehabilitationand restoration costs of £71.2 million (31 December 2004: £77.2 million), which are provided in the accounts and relate mainly to working surface mines and sites in aftercare. On a like for like basis, the property portfolio has shown again of £74.9 million (37.1%), which takes into account disposals, transfers to investment properties and development expenditure. A fuller analysis of the property valuation, excluding investment properties, is set out in the table below.

Summary of Properties	Book Value 30 June 2005 £000	Valuation 30 June 2005 £000	Valuation 31 Dec 2004 £000
Sites with Planning for development (Note 1)	260	32,260	41,420
Working Surface Mines (Note 2)	9,056	73,925	49,696
Surface Mining Land bank	38,168	63,596	48,786
Sites in Aftercare	13,110	15,139	9,159
Other Land (Note 3)	10,595	75,332	52,845
Total	71,189	260,252	201,906

Note 1: At 30 June 2005, the category 'Sites with planning for development' is net of disposals with proceeds of £8.2 million.
Note 2: Includes Orgreave surface mine site.

Note 3: Principally consists of former operational land in evaluation, planning or master planning process.

The valuation exceeds the amount recorded in the books by £189.1 million (31 December 2004: £126.3 million).

At 30 June 2005, investment properties were valued at £17.8 million, compared to £6.7 million at 31 December 2004. Two properties reclassified as investment properties account for £9.5 million of the increase, the remainder being the increase in the value of Asfordby business park in the period.

Power Generation

Harworth Power is engaged in the generation of electricity utilising methane gas from both operating and closed deep mines. In the six months to 30 June 2005, Harworth Power generated 48,000 MWH of electricity with a value of £1.9 million from its installed capacity of 32 MW.

Harworth Power is currently progressing planning applications for former colliery and surface mining land to establish up to 40 wind turbines with a capacity of 80 MW. The first of these applications will be determined in late September 2005 and the remainder over the next two years.

Other Operations

The Monckton Coke and Chemical Company Limited ('Monckton'), which was engaged in the production of coke, was sold during June 2005. The business was sold for a total consideration of £12.0 million with £8.0 million received immediately and the remaining £4.0 million receivable on the first and second anniversaries of the sale in equal amounts. A further £1.1 million will be received in respect of working capital.

Monckton was sold to Hargreaves (UK) Limited, which has significant interests in this area. The terms of the sale reflect the current high prices for coking coal products and allow us to receive a royalty on future sales in addition to supplying coal at market prices. The disposal will allow the business to move forward and through the royalty and coal sale agreement enable us to participate in the future success of the operation.

Production - 6 months to June	H1 2005(mt)	H1 2004(mt)
Ongoing collieries		
Daw Mill	0.7	1.4
Kellingley	1.0	0.3
Maltby	0.4	0.4
Thoresby	0.8	0.4
Welbeck	0.5	0.4
Sub total	3.4	2.9
Harworth	0.3	0.5
Rossington	0.2	0.2
Sub total - ongoing collieries	3.9	3.6
Selby Complex	-	2.1
Other closed mines	0.1	0.3
Total Deep Mines	4.0	6.0
Surface Mines	0.6	1.2
Total Production	4.6	7.2

UK COAL PLC

Consolidated income statement for the six months ended 30 June 2005

	Notes	6 months to June 2005 £'000	6 months to June 2004 £'000	12 mont to D 20 £'0
Continuing operations				
Turnover	2	164,118	222,385	433,8
Cost of sales	3	(205,936)	(233,021)	(471,0
Gross loss		(41,818)	(10,636)	(37,2
Coal Investment Aid	4	8,102	4,449	8,9
Appreciation in fair value of investment properties		4,530	-	
Profit on disposal of land and buildings		4,461	1,315	2,7
Profit on disposal of business	4, 10	2,918	-	
Other operating income and expenses		(4,579)	(3,251)	(11,4
Operating loss		(26,386)	(8,123)	(37,0
Net interest (payable)/receivable	5	(1,561)	1,186	7
Unwinding of discount on provisions	5	(2,566)	(3,049)	(5,8
Net finance costs	5	(4,127)	(1,863)	(5,1
Loss before tax		(30,513)	(9,986)	(42,1
Tax		(71)	-	
Loss for the period from continuing operations		(30,584)	(9,986)	(42,1

Discontinued operations				
Loss for the period from discontinued operations		-	(1,302)	(1,6
Profit on disposal of businesses		-	9,936	10,2
Total profit from discontinued operations		-	8,634	8,6
Loss for the period		(30,584)	(1,352)	(33,5
Attributable to :-				
Equity holders of the parent		(30,584)	(1,305)	(33,4
Minority interest		-	(47)	(
		(30,584)	(1,352)	(33,5
Loss per share	8	p	p	
From continuing operations:				
Basic and diluted		(20.6)	(6.8)	(29
From discontinued operations:				
Basic and diluted		0.0	5.9	6
From total operations:				
Basic and diluted		(20.6)	(0.9)	(23

Consolidated statement of recognised income and expense
for the six months ended 30 June 2005

	6 months to June 2005 £'000	6 months to June 2004 £'000	12 months to Dec 2004 £'000
Actuarial losses on defined benefit pension schemes	(3,722)	(990)	(14,025)
Actuarial gain on concessionary fuel reserve	-	-	2,307
	--------	--------	--------
Net expense recognised directly in equity	(3,722)	(990)	(11,718)
Transfers to/(from) equity			
Accrual for long term incentive plan liabilities	87	(322)	(211)
Loss for period	(30,584)	(1,352)	(33,531)
	--------	--------	--------
Total recognised expense for the period	(34,219)	(2,664)	(45,460)
	========	========	========
Attributable to :-			
Equity holders of the parent	(34,219)	(2,617)	(45,409)
Minority interest	-	(47)	(51)
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	(34,219)	(2,664)	(45,460)
	========	========	========

Consolidated statement of changes in equity
for the six months ended 30 June 2005

6 months to June	6 months to June	12 months to Dec

	2005	2004	2004
	£'000	£'000	£'000
Total recognised expense for the period attributable to equity holders of the parent	(34,219)	(2,617)	(45,409)
Dividends	(1,483)	(7,299)	(14,602)
Accrual for long term incentive plan liabilities	-	1,476	368
Increase in revaluation reserve	5,565	-	-
Shares purchased to fulfil long term incentive plan liabilities	-	-	(43)
Ordinary shares issued in the period	1,663	61	122
	(28,474)	(8,379)	(59,564)
Equity at commencement of period	56,789	116,353	116,353
Equity at end of period	28,315	107,974	56,789

Consolidated balance sheet
At 30 June 2005

	Notes	30 June 2005	30 June 2004	31 December 2004
		£'000	£'000	£'000
Assets				
Non current assets				
Property, plant and equipment		336,263	367,761	358,232
Investment properties		17,750	6,720	6,720
Trade and other receivables		4,627	634	4,131
		358,640	375,115	369,083

Current assets				
Inventories		37,067	56,226	47,641
Trade and other receivables		53,576	92,163	62,358
Cash and cash equivalents	9	54,865	57,431	55,617
		145,508	205,820	165,616
Liabilities				
Current liabilities				
Bank overdrafts and loans	9	(57,330)	(16,547)	(12,225)
Trade and other payables		(87,325)	(112,795)	(106,827)
Obligations under hire purchase and finance leases	9	(10,365)	(9,022)	(10,998)
Provisions	11	(40,323)	(44,669)	(46,837)
		(195,343)	(183,033)	(176,887)
Net current (liabilities)/assets		(49,835)	22,787	(11,271)
Non current liabilities				
Trade and other payables		(44)	(162)	(44)
Obligations under hire purchase and finance leases	9	(16,335)	(12,021)	(25,108)
Provisions	11	(123,911)	(150,727)	(138,812)
Retirement benefit obligations	12	(140,200)	(127,018)	(137,059)
		(280,490)	(289,928)	(301,023)
Net assets		28,315	107,974	56,789

Equity

Capital and reserves			
Ordinary shares	1,485	1,461	1,462
Share premium	1,762	62	122
Revaluation reserve	5,565	-	-
Capital redemption reserve	257	257	257
Fair value reserve	4,530	-	-
Retained earnings	14,716	106,194	54,948
Total equity	28,315	107,974	56,789

Consolidated cash flow statement for
the six months ended 30 June 2005

	Notes	6 months to June 2005 £'000	6 months to June 2004 £'000	12 months to Dec 2004 £'000
Cash flows from operating activities				
Loss for the period	2	(30,584)	(1,352)	(33,531)
Depreciation/impairment of property, plant and equipment		26,370	22,346	55,336
Fair value appreciation in investment properties		(4,530)	-	-
Net interest receivable and amortisation of discount on provisions		3,884	1,863	5,148
Net charge/(credit) for share based remuneration		87	(322)	(211)
Net credit for surface mine development and restoration costs		(339)	(3,151)	(1,649)
Profit on sale of property, plant and equipment		(4,562)	(1,315)	(3,317)

Profit on sale of interest in businesses	(2,918)	(9,936)	(10,293)
Decrease in provisions	(22,859)	(17,467)	(29,200)
Tax	71	-	-
DTI contributions to redundancy payments	-	5,200	5,200
Operating cash flows before movements in working capital	(35,380)	(4,134)	(12,517)
Decrease in stocks	7,105	2,243	10,828
Decrease/(increase) in receivables	8,472	(1,524)	24,589
(Decrease)/increase in payables	(22,119)	3,007	(5,524)
Cash (used in)/generated from operations	(41,922)	(408)	17,376
Tax paid	(71)	-	-
Interest paid	(2,596)	(1,139)	(4,006)
Cash (used in)/generated from operating activities	(44,589)	(1,547)	13,370
Cash flows from investing activities			
Interest received	1,541	1,297	4,605
Net receipt from insurance provision fund	786	2,306	3,675
Disposal of businesses	8,844	19,383	19,571
Proceeds on disposal of property, plant and equipment	8,474	2,742	6,382
Purchase of property, plant and equipment	(10,767)	(23,734)	(51,370)
Cash generated from/(used in) investing activities	8,878	1,994	(17,137)

Cash flows from financing activities				
Proceeds from issue of share capital		1,663	61	122
New bank loans raised		44,971	9,073	5,067
Purchase of treasury shares		-	-	(43)
Proceeds from new finance leases		4,939	-	22,185
Repayment of obligations under hire purchase and finance leases		(14,345)	(2,864)	(9,986)
Dividends paid		(1,483)	(7,267)	(14,573)
Cash generated from/(used in) financing activities		35,745	(997)	2,772
Effects of exchange rate changes		-	(63)	(63)
Increase/(decrease) in cash		34	(613)	(1,058)
At commencement of period				
Cash		326	1,384	1,384
Cash equivalents		55,291	58,966	58,966
		55,617	60,350	60,350
Reduction in cash equivalents (net receipt from insurance fund)		(786)	(2,306)	(3,675)
Increase/(decrease) in cash		34	(613)	(1,058)
		54,865	57,431	55,617
At end of period				
Cash		360	771	326
Cash equivalents		54,505	56,660	55,291
Cash and cash equivalents	9	54,865	57,431	55,617

Notes to the Financial Statements for the six months ended 30 June 2005

Basis of preparation of interim statements

The interim financial statements have been prepared in accordance with the accounting policies of the Group under IFRS as set out in the 'Restatement of FinancialInformation for 2004 under International Accounting Standards and International Financial Reporting Standards' (collectively referred to as 'IFRS') which can be found on the Group's website. These standards and interpretations are subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the International Financial Reporting Interpretations Committee (IFRIC) and are therefore still subject to change.

The 'Restatement of Financial Information for 2004' includes a reconciliation of equity at 30 June 2004 under UK GAAP to equity under IFRS and a reconciliation of the loss for the period to 30 June 2004 under UK GAAP to the loss for the period under IFRS.

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

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

IFRIC 4 'Determining whether an Arrangement contains a Lease'

IFRIC 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'

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

The interim financial statements are not statutory accounts for the purposes of S240 of the Companies Act 1985. The Financial Information for the year ended 31 December 2004 is based on the statutory accounts for the financial year ended 31 December 2004 restated for the effects of the adoption of IFRS as published on 19 July 2005. The statutory accounts, on which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies. The auditors issued an unqualified special purpose audit opinion on the restated Financial Information. The half-year figures, which are for the 26 week period (2004: 26 weeks) ended 30 June 2005, have not been audited but have been reviewed by the auditors. The auditors' review report is included with the interim statements. The Board approved the interim statements on 6 September 2005.

Significant and Exceptional Items

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

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

2 Segmental analysis
Six months to 30 June 2005

	Deep Mining £'000	Surface Mining £'000	Property £'000	Other businesses £'000	Australia £'000
Continuing operations					
Turnover	134,583	14,842	2,534	12,159	-
Gross (loss)/profit before Exceptional Items within cost of sales	(26,086)	2,023	1,372	3,549	-
Exceptional Items within cost of sales	(22,676)	-	-	-	-
Gross (loss)/profit	(48,762)	2,023	1,372	3,549	-
Coal Investment Aid	8,102	-	-	-	-
Appreciation in fair value of investment properties	-	-	4,530	-	-
Profit on sale of land & buildings	-	-	4,461	-	-
Profit on disposal of business	-	-	-	2,918	-
Other operating income and expenses	(3,722)	(617)	-	(240)	-
Operating(loss)/profit	(44,382)	1,406	10,363	6,227	-
Net finance costs					
Loss before tax					

Tax					
Loss for the period					
Segmental (liabilities)/assets	(15,448)	(14,845)	103,113	(15,339)	
Unallocated net assets/ (liabilities)					
Net debt and finance leases					
Net assets					

Six months to 30 June 2004	Deep Mining £'000	Surface Mining £'000	Property £'000	Other businesses £'000	Australia £'000
Continuing operations					
Turnover	183,190	25,228	2,102	11,865	-
Gross (loss)/profit before Exceptional Items within cost of sales	(21,426)	4,773	1,073	1,694	-
Exceptional Items within cost of sales	3,250	-	-	-	-
Gross (loss)/profit	(18,176)	4,773	1,073	1,694	-
Coal Investment Aid	4,449	-	-	-	-
Profit on sale of land & buildings	-	-	1,315	-	-
Other operating income and expenses	(2,556)	(523)	-	(172)	-

Operating (loss)/profit	16,283)	4,250	2,388	1,522	-
Net finance costs					
Loss for the period from continuing operations					
Discontinued operations					
Turnover					5,856
Loss for the period					(1,302)
Profit on disposal of business					9,936
Total profit from discontinued operations					8,634
Loss for the period					
Segmental assets/ (liabilities)	13,702	(20,946)	90,161	(12,998)	18,215
Unallocated net assets					
Net debt and finance leases					
Net assets					

Year to 31 December 2004

	Deep Mining	Surface Mining	Property	Other businesses	Australia	T

	£'000	£'000	£'000	£'000	£'000	£
Continuing operations						
Turnover	364,848	45,028	3,912	20,030	-	433
Gross (loss)/profit before Exceptional Items within cost of sales	(29,793)	5,620	1,840	4,105	-	(18
Exceptional Items within cost of sales	(14,669)	(4,323)	-	-	-	(18
Gross (loss)/profit	(44,462)	1,297	1,840	4,105	-	(37
Coal Investment Aid	8,902	-	-	-	-	8,
Profit on sale of land & buildings	-	-	2,760	-	-	2
Other operating income and expenses	(9,393)	(1,539)	-	(560)	-	(11
Operating (loss)/profit	(44,953)	(242)	4,600	3,545	-	(37
Net finance costs						(5
Loss for the year from continuing operations						(42
Discontinued operations						
Turnover				2,874	6,218	9
Loss for the year				(412)	(1,214)	(1
Profit on disposal of businesses				188	10,105	10

Total (loss)/profit from discontinued operations				(224)	8,891	8
Loss for the year						(33
Segmental assets/(liabilities)						
Unallocated net assets	393	(27,208)	92,276	(15,957)	-	49
Net debt and finance leases						7
Net assets						5

3 Cost of sales

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	12 mont to 31 D 20 £'0
Exceptional Items within cost of sales			
Redundancy	(2,373)	3,250	(6,2
Selby post coaling	-	-	(6,2
Ellington post coaling	(5,070)	-	
Ellington impairment	-	-	(3,1
Stores equipment	(1,160)	-	
Impairment of assets on mothballing of Harworth	(967)	-	
Impairment of assets at Rossington	(5,631)	-	
Recovery costs at Kellingley and Rossington	(7,475)	-	
Surface mine equipment	-	-	(4,3
Pension obligation in respect of companies disposed			

of in prior years	-	-	(1,2
Amount recovered against TXU debtor	-	-	2,2
	(22,676)	3,250	(18,9
Other cost of sales	(183,260)	(236,271)	(452,0
Total cost of sales	(205,936)	(233,021)	(471,0

4 Exceptional Items

	Note	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	12 m to 3
Exceptional Items within cost of sales	3	(22,676)	3,250	(1
Other Exceptional Items:				
Coal Investment Aid		8,102	4,449	
Profit on disposal of business		2,918	-	
Total Exceptional Items		(11,656)	7,699	(1
Operating loss before Exceptional Items		(14,730)	(15,822)	(2
Net (charge)/ credit for Exceptional Items		(11,656)	7,699	(1
Operating loss		(26,386)	(8,123)	(3

5 Net finance costs

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	12 months to 31 Dec 2004 £'000
Interest expense:			
Interest payable on bank borrowings	(1,398)	(425)	(1,731)
Amortisation of issue costs of bank loan	(134)	(250)	(446)
Interest payable on hire purchase agreements and finance leases	(1,067)	(865)	(1,691)
Discounting of non current receivables	(503)	-	-
Interest payable and similar charges	(3,102)	(1,540)	(3,868)
Interest receivable	1,541	2,726	4,605
Net interest (payable)/receivable	(1,561)	1,186	737
Unwinding of discounts in provisions	(2,566)	(3,049)	(5,885)
	(4,127)	(1,863)	(5,148)

6 Taxation

The tax charge for the six months to 30 June 2005 relates solely to winding up the Australian operations. Due to losses arising in the UK, there is no taxation charge in the period and no credit has been recognised for losses arising, due to uncertainty over when value for those losses will be received.

7 Dividends

	2005 per share	2005 £'000	2004 per share	2004 £'000
Final in respect of 2003			5.0p	7,299

Interim in respect of 2004					5.0p	7,303
Final in respect of 2004 paid 17 June 2005	1.0p	1,483				

8 Loss per share

Loss per share has been based on the weighted average number of shares in issue and ranking for dividend, being 148,421,290 (June 2004: 146,033,889, December 2004:146,079,661) and on the loss after taxation and minority interests.

In calculating diluted loss per share, the weighted average number of shares is adjusted for the diluting effect of the share options being 209,700 (June 2004: 2,884,791,December 2004: 1,295,771) giving a diluted number of ordinary shares of 148,630,990 (June 2004: 148,918,680, December 2004: 147,375,432). However inclusion of these potentially dilutive shares would decrease the loss per share from continuing operations and, therefore, they have been disregarded in calculating loss per share.

9 Cash and cash equivalents

	30 June 2005 £'000	30 June 2004 £'000	31 December 2004 £'000
Cash deposited to cover insurance requirements	28,353	30,254	29,747
Subsidence security fund	26,152	24,943	25,544
Other security funds	-	1,463	-
Other cash balances	360	771	326
Cash and cash equivalents	54,865	57,431	55,617
Debt	(58,061)	(16,672)	(12,666)
Finance leases and hire purchase contracts	(26,700)	(21,043)	(36,106)

Net (debt)/ funds	(29,896)	19,716	6,845

Debt at 30 June 2005 is before unamortised borrowing costs of £731,000 (June 2004: £125,000 - December 2004: £441,000)

10 Disposal of subsidiary

On 17 June 2005 the Group disposed of its wholly owned subsidiary, The Monckton Coke & Chemical Company Limited, for a consideration of £12,000,000 before transaction costs plus an incremental adjustment in respect of working capital in the sum of £1,114,000. Of the £12,000,000 consideration, £8,000,000 was received immediately with the remainining £4,000,000 receivable in two equal instalments on the first and second anniversaries of the sale.

	£'000
Property, plant & equipment	5,557
Inventories	3,469
Trade & other receivables	4,314
Cash & cash equivalents	(844)
Trade & other payables	(1,222)
Provisions	(1,588)
	9,686
Profit on disposal	2,918
Cash consideration, net of transaction costs	12,604

11 Provisions

	1 January 2005	Created in period	Released in period	Subsidiary sold	Utilised in period	Unwi of dis

	£'000	£'000	£'000	£'000	£'000	
Employer and public liabilities	20,780	2,285	(75)	-	(3,023)	
Surface damage	22,652	1,745	(1,555)	-	(1,296)	
Claims	1,026	-	-	-	(18)	
Restoration and closure costs of surface mines	77,207	100	(2,398)	-	(4,810)	1
Restoration and closure costs of deep mines						
shaft treatment and pit top	23,324	1,107	(3,010)	-	(2,233)	
spoil heaps	5,389	-	-	-	(211)	
pumping costs	8,130	-	-	-	(5)	
Ground/groundwater contamination	11,043	-	(280)	(1,582)	-	
Redundancy	16,098	4,518	(2,145)	-	(11,095)	
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	185,649	9,755	(9,463)	(1,582)	(22,691)	
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Provisions payable within one year
Provisions payable after more than one year

12 Pensions

	30 June 2005	30 June 2004	31 December 2004
	£'000	£'000	£'000
Retirement benefit obligations - Blenkinsopp	1,299	-	1,299
Retirement benefit obligations - Concessionary fuel	22,772	24,165	22,579

Retirement benefit obligations - Industry Wide Schemes	116,129	102,853	113,181
	140,200	127,018	137,059

13 Contingent liability

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

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

The case is due to be heard in the High Court during December 2005. The Company continues to vigorously defend the claim.