



Hargreaves Services plc
Annual Report and Accounts 2008



INTEGRATED MATERIALS

Production, Sourcing & Handling
for the Energy & Waste markets

HARGREAVES SERVICES AT A GLANCE

Established in 1994, Hargreaves Services is one of the most rapidly expanding minerals and support services groups in the UK.

Hargreaves provides unrivalled performance in sourcing, producing, processing, handling and transporting carbon based and other bulk materials throughout the UK and within Europe. Hargreaves has an enviable reputation in providing technical and project support services within the energy and waste industries.

The Hargreaves Group has four complementary divisions:



- Production Division



- Energy & Commodities Division



- Transport Division



- Industrial Services Division

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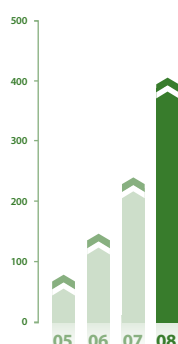
HIGHLIGHTS

	2008	2007	Change
Revenue	£404.9m	£240.1m	+69%
Operating Profit	£22.1m	£9.9m	+123%
Underlying Operating Profit ¹	£23.6m	£10.8m	+118%
Profit Before Tax	£17.9m	£9.6m	+86%
Underlying Profit Before Tax ²	£19.0m	£10.2m	+86%
Diluted EPS	45.7p	26.2p	+75%
Underlying Diluted EPS ²	51.1p	28.8p	+77%
Proposed Full Year Dividend (per share)	10.3p	9.0p	+14%

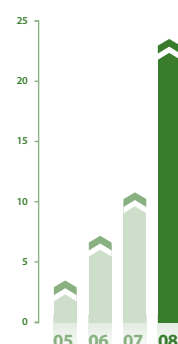
¹ Underlying Operating Profit is stated excluding the amortisation of acquired intangibles and release of negative goodwill and including share of profit in joint ventures and associates as shown in the table on page 7.

² Underlying Profit Before Tax and EPS are stated excluding the amortisation of acquired intangibles and release of negative goodwill.

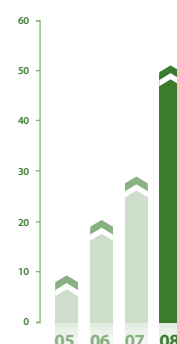
**Revenue
(£m)**



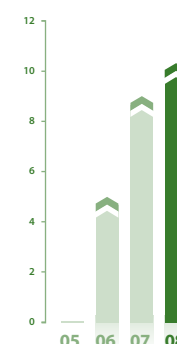
**Underlying
Operating Profit (£m)**



**Underlying Diluted
EPS (pence)**



**Dividend
Per Share (pence)**



- Record results ahead of expectations
- Strong organic growth and operating margin progression across all divisions
- Positive cash generation in second half reduced net debt by £10.7m to £46.2m
- Recoverable coal reserves substantially increased, extending the potential life of Maltby Colliery by up to eight years to 2025
- Well-positioned to progressively benefit from increases in world coal and coke prices over the next three years
- Strong order book and forward revenue visibility. Good prospects for further organic growth in all divisions
- Three acquisitions were completed in the year to complement and broaden the Group's product and service offering
- All acquisitions have now been integrated into the Group and are performing well

UNDERSTANDING OUR BUSINESS

The Group has developed an integrated product and service offering centred around bulk materials. The Group's activities are focused primarily in the energy, waste and minerals sectors. The Group's competencies include sourcing, production, processing, handling and transport. Hargreaves offers "best in class" products and services in each of its operating divisions.

The Group is organised into four divisions:

Production Division



Hargreaves Production assets include the last remaining coking coal mine and independent coke works in the UK

Key Activities

- Production of power station coal and high quality coking coal at the Maltby Colliery
- Production of over 200,000 tonnes of metallurgical high quality coke for supply to UK and specialist alloy producers in the Scandinavian markets
- Production of rubber crumb and associated by-products from used tyres
- Production of 7.0MW of electricity from the Monckton coke works and 6.3MW from the Maltby methane gas engines
- Reclaiming 1.5m tonnes of surface coal fines
- Recycling of 30,000 tonnes of waste tyres at Monckton Rubber Technologies into rubber crumb and wire

Revenue



Underlying operating profit



Energy & Commodities Division

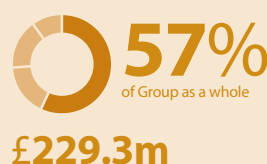


Hargreaves Energy & Commodities operations specialise in the provision of mineral and energy commodities to a wide range of industrial and wholesale customers

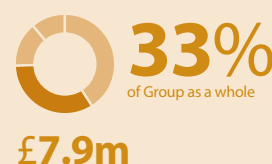
Key Activities

- Sourcing and port handling of circa 3.5m tonnes of coal on contract or for onward sale to UK power stations through the Group's key port facilities at Immingham and Newport
- Sourcing and importation of circa £100m of coke and refractory minerals in Europe from international markets including China, Asia and Columbia
- The largest ash agency and disposal operation in the UK through Hargreaves Coal Combustion Products ("HCCP") joint venture
- Specialist contaminated soil transport and disposal brokerage business
- Largest distributor of coal to the UK industrial and domestic wholesale market through Coal4Energy joint venture with UK Coal plc
- Emerging and rapidly growing supplier of biomass fuels into the UK power generation sector through RocFuel joint venture

Revenue

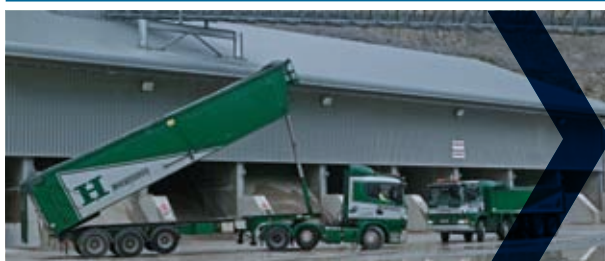


Underlying operating profit



Hargreaves can leverage its assets and competencies to provide high quality integrated solutions to major blue-chip customers. This integration allows customers to drive additional benefits and efficiencies and differentiates Hargreaves from its competitors. Hargreaves' flexibility and integration allows the Group to develop strong and synergistic relationships with its blue-chip client base. The Group is committed to reduction of risk. Although we produce and trade coal, coke and other minerals and commodities, the Group sets out to minimise commodity price risk, wherever possible, by using fixed price contracts, hedging instruments or back-to-back buy and sell agreements.

Transport Division



Hargreaves Transport has grown to become the largest specialist bulk transport provider in the UK

Key Activities

- Largest UK specialist road haulier of bulk materials including coal, aggregates, grain, soil and ash
- Specialist bulk liquid transport operation
- Specialist waste transport fleet
- Largest operational inland canal barge fleet for haulage of bulk materials

Revenue



£64.6m

Underlying operating profit



£3.4m

Industrial Services Division



Hargreaves Industrial Services provides quality assured contract management services to the power generation, utilities, chemical and minerals industries

Key Activities

- Deployment of over 800 personnel and specialist equipment at 18 power station, port, rail and chemical sites providing material services and technical support around materials handling
- Bulk material warehousing services at Immingham
- Engineering support and specialist fabrication services relating to bulk material handling systems

Revenue



£42.5m

Underlying operating profit



£2.6m

CHAIRMAN'S STATEMENT



Tim Ross, Chairman

“Hargreaves is well positioned in the relatively resilient energy, waste and mineral sectors, dealing primarily with large blue-chip customers.”

Results

I am pleased to report that the Group has completed a very successful year and delivered another set of record results with revenue, profit and margins improving in all divisions. Revenue for the year was £404.9m, an increase of 69% on the prior year. Underlying profit before tax for the year increased 86% from £10.2m to £19.0m. Profit before tax for the year increased by 86% from £9.6m to £17.9m.

In addition to exceeding a challenging set of operational and financial targets the Group has also completed three acquisitions in the period – Imperial Tankers in September 2007, AJS Contracts in March 2008 and Maxibrite (through Coal4Energy) in April 2008.

We are reporting our full year audited results for the first time under International Financial Reporting Standards as adopted by the EU ('Adopted IFRS').

Potential Mine Life Extension

The Group purchased Maltby Colliery, the last coking coal mine in the UK, in February 2007 with a view to securing supply of coking coal for its Monckton coke works. When the colliery was purchased from UK Coal plc the estimated mine life extended to 2015.

In light of the current coal prices, the Board commissioned a technical and feasibility study to identify opportunities to extend the life of the mine. This has confirmed that changes to the current mining plans could provide access to additional reserves that would allow the mine life to be extended as far as 2025. These changes would involve a further acceleration of face development and preparation ('drivage') rates to maximise the coal reserves accessible in the current Parkgate seam, combined with a plan to access specific areas of the Thorncliffe seam which is 25 metres below the Parkgate seam. On the basis of being able to achieve a satisfactory price level, these changes could allow the Group to maintain current production levels until 2025. A detailed business plan is now being developed to support the investment in headcount and equipment.

Dividend

The Board is recommending a final dividend of 7.0p per share bringing the dividend for the year to 10.3p per share. The final dividend is proposed to be paid on 12 November 2008 to all shareholders on the register at the close of business on 26 September 2008.

Staff

The Group now employs over 2,200 people and is proud of its committed and hard working staff. We have launched our third Save as You Earn Scheme and now have 571 staff members engaged with at least one scheme. The Group remains committed to Health and Safety and significant effort has been devoted to developing safety systems across the Group.

Board Changes

As previously reported, Peter Dillon retired as Finance Director on 31 December 2007 and was replaced by Iain Cockburn. The Board would again like to thank Peter for his loyal service and acknowledge the significant contribution that Peter has made to the development of the Group and its flotation on the London Stock Exchange.

Outlook

Hargreaves is well positioned in the relatively resilient energy, waste and mineral sectors, dealing primarily with large blue-chip customers. The Group continues to benefit from a strong forward order book providing future earnings visibility and expects, over the next three years, to benefit significantly from the substantial increases in coal and coke prices experienced over the last 12 months. The Board views the current year with confidence and expects to build on the track record of strong growth that has been established since flotation.

Tim Ross

Chairman
15 September 2008

Production Division Facts



- Maltby Colliery opened in 1907. It is one of only six deep mines left in England.
- The mine generates 60% of its power consumption from methane extracted from the mine.
- Maltby occupies a site of 500 acres and employs over 500 staff and contractors.
- Maltby is the last coking coal mine left in the UK and produces both high quality coking coal and power station coal.
- The coking coal produced at the mine is sold to Monckton coke works which was founded in 1879 and is the last independent coke producer in the UK.
- Monckton operates continuously, 24 hours a day, 365 days a year.
- The low phosphorous qualities of the Maltby coal produce a coke which commands a premium price with specialist alloy producers – approximately half the output is exported to such producers in Scandinavia.
- Monckton Rubber Technologies produces a high quality rubber crumb that is used for sports and equestrian surfaces and carpet backing.



Gordon Banham, Group Chief Executive



Iain Cockburn, Group Finance Director

“This has been a pivotal and high growth year for Hargreaves. This growth reflects solid organic progress in all divisions as well as the recent acquisitions of Maltby Colliery and Imperial Tankers.”

Overview

This has been a pivotal and high growth year for Hargreaves. This growth reflects solid organic progress in all divisions as well as the recent acquisitions of Maltby Colliery and Imperial Tankers. We have been particularly pleased with the success achieved by our German team.

Segmentation

The Group has reviewed its operations and will be making a change to the way the business will be reported and segmented to follow the way in which the business is being organised and managed.

We have settled on a structure of four divisions:

- **Production Division** – comprises Maltby Colliery and the Monckton Coke and Tyre Shredding operations that were previously reported separately under the Maltby and Monckton segments.
- **Energy & Commodities Division** – previously the Minerals Division.
- **Transport Division** – no change and will continue to comprise the bulk material, bulk liquid and waste transport operations.
- **Industrial Services Division** – no change and will continue to comprise our material handling and site service operations, the bulk material warehousing operation and the newly acquired AJS Contracts.

We have changed the name of the former Minerals segment to reflect an increasing focus on a broader offering of mineral commodities and on the energy sector. This reflects a growing demand for renewable fuels and energy sources and the anticipation of a greater role to be played by our RocFuel and RocPower operations.

Although we are reporting a combined Production Division, for transition purposes, we have reported both the Monckton and Maltby unit numbers in addition to those of the overall Production Division.

Macro-Economic Environment

Our exposure to the mineral, waste and energy sectors provides the Group with a degree of resilience to economic and other cyclical factors.

Coal prices have increased during the year. The benchmark API2 coal price increased from \$72 per tonne at the start of the year to close the year at \$158 per tonne. At the date of this report the index stood at approximately \$180 per tonne. Importantly for the Group, international coke prices have increased even more significantly than coal prices. This has been driven by a combination of increased raw material (coal) cost, increased Chinese export taxes and limited availability of supply driven by the surging domestic demand for coke in China, India and other developing nations.

Whilst commodity price rises bode well for the longer term performance of the Production Division, the majority of coal and coke produced by the Group is sold under long term contract. The Group is however very well positioned to benefit from increases in the world coke prices as its coke contracts are renewed over the next two years.

Hargreaves' bulk material transport operations have limited exposure to the aggregates and construction sector. The Group's scale and diversified customer base combined with a backbone of group controlled transport flows is a resilient transport formula. The strategy of combining sub-contract vehicles with own fleet increases its flexibility.

The exposure of Hargreaves' transport and mineral handling operations to fuel price increases is mitigated through the use, wherever possible, of index linked contracts. The Group aims to have monthly indexation provisions within these contracts to cater for volatility in fuel prices. The Imperial Tankers operation, acquired during the year, had traditionally operated on quarterly indexing. The majority of its contracts have now been converted to monthly indexation to minimise exposure to fuel price movements.

Financial Results

Hargreaves has continued to show strong trading performance and strong growth. Revenues for the full year increased by 69% from £240.1m to £404.9m. Underlying operating profit increased by 118% from £10.8m to £23.6m. Operating profit increased from £9.9m to £22.1m. Group operating margin increased from 4.3% to 5.5%.

The principal drivers of the organic growth were the impact of increased commodity prices on the minerals trading operations and strong volume growth in the German minerals operation. Due to the long term contracts covering the bulk of the outputs, revenues from Maltby did not benefit significantly from the increased commodity prices in the year to 31 May 2008. Although Monckton revenues benefited from increased prices, the hedges that were in place to protect the margin on specific contracts mitigated much of the margin benefit. As discussed below, we would expect Monckton to start to benefit from the increased prices during the second half of the current financial year.

Reconciliation of operating profit to underlying operating profit, by segment, is as follows:

	Production 2008 £000	Energy & Commodities 2008 £000	Transport 2008 £000	Industrial 2008 £000	Total 2008 £000
Segment operating profit	9,665	7,599	3,219	1,644	22,127
Intangible amortisation and release of negative goodwill	–	(17)	209	972	1,164
Share of profit in					
– joint ventures	–	213	–	–	213
– associates	–	49	–	–	49
Underlying operating profit	9,665	7,844	3,428	2,616	23,553
	Production 2007 £000	Energy & Commodities 2007 £000	Transport 2007 £000	Industrial 2007 £000	Total 2007 £000
Segment operating profit	3,994	3,402	2,100	395	9,891
Intangible amortisation and release of negative goodwill	–	(84)	–	685	601
Share of profit in					
– joint ventures	–	215	55	–	270
– associates	–	56	–	–	56
Underlying operating profit	3,994	3,589	2,155	1,080	10,818

Energy & Commodities Division Facts



- Blue chip customers include British Energy, Drax, Scottish and Southern Energy, Eon, Alcan and Welsh Power.
- Our German operation is one of the largest independent importers of coke and refractory materials into Europe, with products being sourced from China and Columbia.
- The bulk of our imported coal into the UK comes from Russia, Columbia, USA, South Africa, Norway and Poland.
- Coal4Energy, the division's 50/50 joint venture with UK Coal, has become a key supplier of sized coal to the industrial and domestic markets.
- Maxibrite is one of the last three producers of smokeless fuel briquettes in the UK and produces more than 60,000 tonnes of product for UK and Europe.
- Power stations produce ash, representing approximately 10% of coal burned in the power station. Our ash business helped dispose of over 1.4m tonnes of ash this year.
- RocFuel sources solid and liquid biomass for marketing to power plants and industrial combustion installations, enabling customers to meet their renewable obligations and carbon abatement strategies.
- Our new RocPower venture provides integrated and packaged solutions for off-grid micro-generation using renewable fuel sourced by RocFuel.

Review of Operating Performance by Strategic Business Unit

Production Division

Production Division gross revenues increased from £39.6m to £84.3m due mainly to the acquisition of Maltby Colliery in February 2007. Operating profit for the division increased by £5.7m to £9.7m; again this reflects a first full year of contribution from Maltby Colliery.

Production Division – Maltby

Over the year the mine performed largely in line with financial expectations. Production at just over 1m tonnes was lower than projected, although the combination of a tight control on costs and a greater proportion of higher value coking coal in the product mix helped to maintain the forecast profitability. The revenue for the mine was £47.8m compared to £12.1m in the three months ended 31 May 2007. Operating profit for the mine in the last year was £6.3m compared to £1.2m in the three months to 31 May 2007.

As reported in the Interim Statement, Maltby had a challenging first half due to reliability issues with the face equipment acquired with the mine as it worked the T9's long wall to completion. The face change from T9 to T22 in January 2008 took place without incident reflecting the expertise and commitment of the team. In the second half the mine performed strongly and recovered some of the production shortfall from the first half.

+69%
Increased revenue for the period

+123%
Increased operating profit

All Power Station Fuel ('PSF') produced at Maltby continues to be supplied to Drax under the supply agreement signed when the mine was acquired. Drax has exercised its option to extend the contract by a further year. The Group is continuing discussions with Drax to agree the phasing of this tonnage. Monckton continues to purchase the coking coal that is produced at Maltby. The mined coal fines which cannot be used as coking coal or PSF and the fines which are recovered from the surface ponds at Maltby continue to be sold to a variety of customers. A number of new contracts for coal fines have been signed in the year. The Group estimates that 1.5m tonnes of surface coal fines can be recovered from the site and efforts will continue to maximise recovery and sale effort.

In line with the plans set out at the acquisition of the mine, a new set of face equipment has been ordered and delivered and is being installed on the new T11 face which is due to commence production at the end of this calendar year. Given the experience on the recent T9 production face and the intention to extend the length of faces to maximise accessible reserves, the Group has significantly upgraded the specification of this equipment. Although this will raise the forecast capital cost for the new face equipment from around £7m to £10m, the Group is confident that the increased costs will be justified by greater future production reliability and longer mine life.

The mine has continued to yield significant quantities of methane gas which is recovered and combusted on site to produce electricity. The mine has ordered a sixth gas engine which should produce an additional 1.4MW with a current import value of approximately £0.7m annually. This should be running by March 2009.

When the mine was purchased, the expected mine life was eight years through to 2015. In the Interim Statement we announced that we had accelerated development drivage and were confident that mine life would be extended to 2017. We also stated that we would undertake feasibility studies on further extension.

These feasibility studies have now been completed and reviewed by the Board and external consultants. The Board has concluded that it is technically feasible to access additional reserves of coking coal both on the current Parkgate seam and the Thorncliffe seam which runs 25 metres below the Parkgate.

Plans to access the additional reserves will rely on investment in additional development drivage equipment, high specification coal face equipment and additional resources. We are currently developing the detailed business plans to facilitate the extension.

Production Division – Monckton

Gross revenues for Monckton increased from £27.4m to £36.5m, an increase of £9.1m. A significant proportion of the revenue improvement related to contracts for which hedges were in place to protect the margin and as a result the revenue improvement was offset by an equally and opposite increase on cost. Operating profit increased from £2.8m to £3.3m, an increase of £0.5m or 17%.

The Monckton coke operation performed well this year, particularly in the latter half of the year as higher prices have started to filter through on sales of electricity, by-products and a small amount of un-contracted coke tonnage. World coke prices continue to rise and indeed over the last 12 months have risen considerably more than coal prices. Just over half of the output from Monckton is sold on annual fixed price contracts. The balance is sold on a five year contract, expiring June 2010, where the price has been fixed through the use of hedging instruments (a provision for the fair value of which is included on the balance sheet under Adopted IFRS). When these contracts are renewed the Group should be able to access world coke prices which are up to £100 per tonne above the current prices.

Monckton has also benefited from improved electricity and by-product pricing which should benefit performance significantly in the coming year.

“The Group’s bulk material transport fleet is the largest in the UK.”

The Group continues to progress the project to re-commission nine ovens which have not been operated for some 20 years. This project will increase the capacity of Monckton by approximately 20% and will allow Monckton to fulfil a greater portion of its customer requirements directly. The project is estimated to cost around £10m and will be subject to environmental and planning consents. This is anticipated to take upwards of one year. Monckton's tyre shredding operation has had a challenging first full year. As reported in the Interim Statement, good progress has been made with the sourcing of tyres and the efficiency of the plant's operations. A new contract was agreed with Goodyear that will give the plant access to truck tyres from September 2008. The losses at Monckton Rubber Technologies ('MRT') of £0.95m have offset the benefit from the increased and un-hedged coke prices and has resulted in the overall operating margin dropping from 10.3% to 9.1%. The management team at MRT are testing new equipment to clean rubber contamination from the waste wire to access significantly higher scrap metal prices for this waste product. The Group believes that, together with the improvements that have taken place to date, this would bring the plant into profitability.

Energy & Commodities Division

The Energy & Commodities Division had a very strong year. Gross revenues increased by 66% from £140.5m to £233.3m, driven largely by increases in commodity prices and a strong growth in volume through the German minerals business.

Underlying operating profit for the division increased by 119% from £3.6m to £7.8m. Operating profit for the division increased from £3.4m to £7.6m. Underlying operating margin improved from 2.6% to 3.4%. This improvement primarily reflects success in finding additional sales opportunities for the coal fines recovered at Maltby together with strong margin performance from the German business.

In its first full year of business the German minerals business has generated revenues of £111.7m. The team is based in Duisburg and has grown to 12 staff.

The UK minerals business continues to trade strongly. Following the year end the division entered into a joint venture at Immingham docks to consolidate its port storage and handling operations with those of Oxbow Coal Limited ('Oxbow'), a subsidiary of Oxbow Inc, the leading US minerals trading group. This joint venture should allow both Hargreaves and Oxbow to extract synergies from the combination of resources and skills and from the resulting cost synergies and efficiencies offered by the increased scale of operation. Although revenues from the UK operations increased, the volume of coal sold through the UK minerals operation in the year was 350,000 tonnes less than the prior year due to strategic stocking of coal by a customer in the prior year.

The Hargreaves Building Products group that comprises the ash disposal businesses (Hargreaves Building Products Limited and Hargreaves Coal Combustion Products Limited) and Lytag distribution business (Lytag Limited) performed satisfactorily over the year, although profits were lower than the prior year due to expenses incurred in evaluating the potential to build Lytag production facilities.

We have decided against making the substantial investments necessary in Lytag production facilities at this time. The Group will instead focus on ash disposal. As a result of this decision, following the year end, the Board concluded a reorganisation of its interests in its building products group. We have effectively disposed of our 50% interest in the Lytag business in return for the purchase of an additional 25% of the ash business operation of Hargreaves Building Products Limited and the cancellation of outstanding deferred consideration from the acquisition of the additional 25% shareholdings in Hargreaves Building Products Limited and Lytag Limited that took place in October 2007. The reorganisation had no material cash effect for the Group.

Transport Division Facts



- Following the acquisition of Imperial Tankers, we are now one of the top five road tanker operators in the UK, with 200 tankers operating from seven strategically located depots.
- A significant portion of the tanker fleet's work is under long term contracts, all of which are fuel price indexed.
- Our bulk material transport fleet is the largest in the UK with 170 owned vehicles and the same again in sub-contract vehicles.
- The bulk materials fleet moved more than 9m tonnes of materials this year – more than 360,000 truck movements.
- The transport fleet moves ash for the Energy & Commodities Division, coal and coke for the Production Division and works closely with the Industrial Services Division on power station sites.

GROUP BUSINESS REVIEW (CONTINUED)

Coal4Energy has traded very strongly throughout the year and on 2 May 2008, acquired Maxibrite Limited with a view to adding Maxibrite's products to the Coal4Energy portfolio and driving synergy gains from the customer base and sales teams. Our RocFuel joint venture signed its first material supply contracts. In addition to creating the first revenue and margin opportunities for the business, this activity has also generated business for the Transport Division.

Transport Division

Transport Division gross revenues have increased by £19.2m from £56.4m in the prior year to £75.6m. Underlying operating profit increased by 59% from £2.2m to £3.4m. Operating profit increased from £2.1m to £3.2m. Underlying operating margin improved from 3.8% to 4.5%.

The main driver for the increases in revenue and profitability was the acquisition of Imperial Tankers on 28 September 2007. The increase in specialist bulk tanker revenues in the mix of the division's revenues was the key driver of the improvement in operating margin. The tanker operations continue to trade well. The integration of Imperial with the Hargreaves Bulk Liquid Transport business is now well advanced and the Group should benefit from the resulting cost savings and synergies in the upcoming year. The combined tanker operation will be operating under the Imperial Tankers banner.

Our bulk tanker operations continue to specialise in the transportation of hazardous chemicals, pressurised gases, petroleum products and controlled liquid waste. These sectors continue to generate strong volumes and a significant portion of this work is undertaken under long term contracts. Many of the contracts that were acquired with the Imperial business had been operated under quarterly fuel indexing. Whilst quarterly indexing protected longer term margins, there has been a consistent lag effect over the period resulting in approximately £0.3m of additional fuel expense. All major contracts have now been renegotiated onto a monthly indexing basis.

The Waste transport operation had a challenging first half due to changes in the patterns of waste flows on both the Barnsley and Cheshire contracts. Both these contracts have now concluded. A compensation claim for Barnsley in the region of £0.25m has been awarded. Compensation discussions for the Cheshire contract are ongoing. No provision has been made for any recoveries at this stage. On the positive side, the waste transport business has won a five year contract in Lincoln and continues to operate its other contracts.

The Group appointed a new general manager for the Waste transport business in May 2008 and will be looking for additional opportunities to expand the business.

The bulk materials operation performed well during the year, particularly given the challenging trading conditions and the margin pressure at the aggregate operations at Tarmac and Darrington Quarries. Activity levels in the coal and biomass markets remain buoyant. The bulk materials fleet continues to benefit from the strong pull-through in the Group's material movements. The existence of a large sub-contract element has allowed the Group a greater degree of operational flexibility than many of the Group's smaller competitors. While the current environment does not present much opportunity for organic growth in the coming year, we are confident that the business unit is well placed to weather the challenges in the sector.

Industrial Services Division

The Industrial Services business had a solid year. Gross revenues increased from £26.8m to £47.1m reflecting the first full year of Norec results. Underlying operating profit for the division increased from £1.1m to £2.6m, an increase of 142% while underlying operating margin improved from 4.0% to 5.6%. Operating profit increased from £0.4m to £1.6m.

The business made steady progress and has won a number of new contracts with new and existing customers during the year. New contracts include both the renewal of existing activities and extension to include other site services for British Energy at

Eggborough. Success at Eggborough has also led to an extension of the contract to cover other site services. Contracts to support the FGD plants at Ferrybridge and Rugeley have been won, together with a contract to operate a coal cleaning plant for UK Coal at Thoresby Colliery.

The bulk warehousing operation at Killingholme (acquired from Simons Distribution in April 2007) has continued to perform strongly, exceeding expectations, and has been fully integrated into the Industrial Services Division.

The acquisition of AJS Contracts Limited on 3 April 2008 expands the division's service offerings and customer base. The integration of AJS is progressing well and a new general manager has recently been engaged to oversee the development of the business. In addition to tendering for work at Monckton and Maltby, AJS is already working on a number of new tenders in respect of both new and existing customers.

Financial Review

Revenue

Group revenue for the year was £404.9m compared to £240.1m for the previous year, an increase of 69%. The key drivers of organic growth came from the Energy & Commodities Division both in the UK and Germany.

Operating Profit and Margins

Operating profits increased in each of the divisions of the Group with the most significant organic increase coming in Energy & Commodities from the rapid growth of the German operation. The addition of a full year of activity from Maltby Colliery contributed an additional £5.1m of operating profit compared to the prior year. The increase of Maltby profits in the revenue mix and the improved margins from the UK mineral operations were the major drivers of improvement in overall Group underlying operating margin from 4.3% to 5.5%.

“We are entering the current year in a strong position and remain focused on pursuing further organic and acquisitive growth.”

Interest

The net interest charge for the Group was £4.5m compared to £0.6m for the previous year. The increase in interest reflects the higher average debt levels following recent acquisitions and the higher Group working capital requirements. The prior year charge is stated after offsetting credits amounting to £1.1m relating to fair value gains on interest and foreign exchange swaps.

Profit Before Tax

Underlying profit before tax increased from £10.2m to £19.0m. Reported profit before tax increased from £9.6m to £17.9m.

Taxation

The tax charge in the year was £5.2m compared to £3.1m in the previous year. The effective tax rate fell slightly from 32.6% in the prior year to 29.0% due to reductions in the UK and German corporate tax rates.

Earnings Per Share

Basic earnings per share for the year were 46.7p (2007 26.3p) and diluted earnings per share were 45.7p (2007 26.2p). Underlying diluted earnings per share, after adding back amortisation of acquired intangibles, increased by 77% to 51.1p. Earnings per share arose entirely from continuing operations.

Dividend

The Board has recommended a final dividend of 7.0p (2007 6.0p) bringing the proposed dividend for the full year to 10.3p, an increase of 14.4% in the total dividend for the year. The proposed dividend is covered 4.5 times by underlying earnings (2007 2.9 times).

Balance Sheet Review

Net Assets

Net assets increased from £41.0m at 31 May 2007 to £48.1m at 31 May 2008. Stripping out the provision for the fair value of financial instruments that we use to hedge coal and coke contracts, the underlying net assets increased by £17.2m in the year from £41.1m to £58.3m.

Net tangible fixed assets increased by £3.1m from £63.2m to £66.3m. Working capital increased £16.2m over the year as a result of the investment in coal face drive and preparation at Maltby, increased trading activity in Germany, the addition of the Imperial Tankers business and the general impact of increased commodity prices.

Net stocks increased by £8.5m from £35.0m to £43.5m, of which £28.2m related to highly liquid coal and mineral stocks. Work in progress at the Maltby mine amounted to £8.2m. Over the next two years this is expected to increase by approximately £6.0m as drive rates are pushed to 100 metres per week to support the mine life extension.

Trade debtors increased by £9.1m from £31.1m to £40.2m. Trade debtor days continued to improve and were 36.7 days at the end of the year, down from 39.7 days at the end of the prior year. Trade creditors increased by only £2.0m from £22.5m to £24.5m reflecting the tighter trade terms on the increasing mix of imports from China.

During the year we also switched some extended trade credit to more cost-effective import facilities offered by banks. Working capital is core to our business and we remain focused on managing it effectively and efficiently.

Net Debt

Group net debt, comprising cash and cash equivalents, bank overdraft, other interest bearing loans and borrowings was £46.2m, an increase of £7.8m from the £38.4m reported at 31 May 2007 and a reduction of £10.7m from the £56.9m reported at the half year. The gearing ratio of the Group at 31 May 2008 (expressed as net debt divided by net equity) was 96% compared to 133% at the half year and 94% at 31 May 2007. The acquisitions of Imperial Tankers and AJS in the year added £13.0m of net debt to the Group balance sheet.

Industrial Services Division Facts



- The Industrial Services division employs in excess of 800 staff, operating 30 service related contracts in 18 different locations.
- Its blue chip customer base includes Scottish Power, Eon, British Energy, Scottish and Southern Energy and EDF.
- Key material handling operations are responsible for handling in excess of 32m tonnes of coal and over 2m tonnes of ash.
- The Killingholme bulk material warehousing operation handles over 275,000 tonnes of material each year and stores up to 75,000 tonnes at any point in time.
- Health and Safety is key in this sector – the division prides itself in having secured Five Star Certification from the BSC for its Health and Safety Management Systems, at eight key sites and having won three prestigious Swords of Honour this year alone.
- The acquisition of AJS Contracts adds engineering fabrication services to the division's portfolio of services.

GROUP BUSINESS REVIEW (CONTINUED)

Cash Flow

Cash flow generated from operating activities (before interest and income tax paid) was £23.6m in the year compared to £8.4m in the previous year. The strong second half cash flow also benefited from assets sales of £0.6m and the slippage of approximately £1.5m of capital expenditure into the first quarter of the following year.

Cash flow generated from operations included an £11.3m outflow relating to an increase in working capital reflecting increased trading levels compared to the prior year, both as a result of the volume of trade and the impact of increased prices of coal, coke and other mineral prices on all elements of working capital.

There will continue to be an element of seasonality in our working capital levels with a tendency to build coal stocks over the first half and reducing stocks over the second half. This has been particularly prevalent since we commenced buying coal from Norway (Spitsbergen) which is shipped in large 70,000 tonne consignments and needs to be purchased before the ports become iced for the winter. We are planning to purchase an additional two shipments this season compared to the prior year.

In the six months to 30 November 2008 we will build a stock of product for Monckton to fulfil an exceptionally large export order in December. In keeping with prior practice, the Group will also be building an extra safety stock of coking coal in the last calendar quarter to protect Monckton from any supply disruption during the planned face change at the mine at the end of the year.

Although these factors will combine to increase working capital and net debt in the first half, these positions will have unwound by the end of the next financial year. The Board is comfortable that we have the facilities in place to fund these requirements.

Acquisitions resulted in net cash outflows of £8.9m reflecting the cash acquisition cost of Imperial Tankers and AJS.

Capital expenditure

Net capital expenditure for the year was £4.4m compared to £7.9m in the prior year. The depreciation charge for the year was £11.0m (2007 £5.0m). The decrease over the prior year reflects capital expenditure immediately following the Maltby acquisition in February 2007 and lower than expected capital expenditure in the second half of the year. A number of scheduled fleet replacements were delayed to June and July of this year which resulted in capital expenditure being approximately £1.5m less than expected.

Following the year end the Group has completed the scheduled acquisition of a new set of face equipment for the Maltby Colliery. Although this was anticipated at the time of the acquisition, the specification of the equipment has been significantly increased to provide greater operational reliability and to deal with the much longer face runs that are planned to support the mine life extension. There will also be a consequent increase in the total capital cost from around £7.0m to £10.0m.

Liquidity and investments

The Group is financed by a mixture of cash flows from operations, trade credit, short term borrowings, longer term borrowings and finance leases. Operating leases are used on specific occasions but the Group prefers to use finance leases for the majority of its asset financing due to the greater flexibility that is provided through asset ownership.

Hargreaves funding policy ensures continuity of finance at reasonable cost based on a backbone of committed facilities. Hargreaves also uses uncommitted and short term facilities to manage week to week liquidity and working capital requirements. A new committed import loan facility was set up following the year-end.

The Group continues to be able to borrow at competitive rates and believes this to be the most effective means of funding. The Group has three five year term loans arising from the acquisitions of Monckton, Maltby and Imperial Tankers. All three loans are under a committed facility that expires in 2012.

The Group completed a renewal of its three year committed Invoice Discounting facility in the second half and increased the maximum drawdown from £18m to £21.5m. This facility effectively acts as overdraft which is secured against the Group's trade debtor book.

The Group completed a review of its facilities and covenant levels during the year and continues to operate comfortably inside these covenant levels.

Treasury Policy

Treasury activities have the objective of minimising both risk and finance costs and are centralised in the Group's Head Office. Group Treasury is responsible for the management of liquidity, interest and foreign exchange risks and operates within policies and authority limits approved by the Board. The use of financial instruments, including derivatives, is permitted when approved by the Board and where the effect is to minimise risk to the Group.

Coal, coke and minerals stocks that are purchased for re-sale are predominantly hedged by matching the currency of purchase with the currency of sale. In the majority of trades the Group will hedge the commodity price exposure by matching the purchase and sale against a specific commodity index or fix price levels.

The Group borrows in US Dollars, Euros and Sterling. These borrowings are predominantly at floating rates and where appropriate the Group will use derivatives to generate the desired effective currency and interest rate exposure.

It is Group policy to hedge material exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of a foreign exchange forward contract. The Group does not hedge exposure on the translation of profits of foreign subsidiaries.

Defined Benefit Pension Arrangements

The Group participates in two defined benefit schemes in the UK which are reflected on the Group balance sheet. Both relate to Maltby Colliery where 138 employees of Maltby Colliery are members of one of two industry wide

“People are the Group’s most important assets and are key to ensuring that our quality systems operate effectively.”

schemes and continue to accrue benefits. The schemes are closed to new members. On the purchase of Maltby Colliery, each participating employee was given the option to transfer their past service benefits into new Maltby Colliery sections of each scheme. To date 104 people have transferred their benefits to the new section, with 34 other employees retaining the right to transfer at a later date. The Group is currently in discussions with the trustees of each scheme regarding their funding obligation of the Maltby sections for each scheme. The deficit on the balance sheet is calculated in accordance with the principles of IAS19 to be £5.0m as at 31 May 2008 in relation to the above schemes. The Group also operates a number of money purchase arrangements and an unfunded concessionary fuel benefit scheme. There is a liability on the balance sheet of £0.3m (31 May 2007: £0.3) in relation to this scheme.

Post Balance Sheet Events

After the year end the Group completed a reorganisation of its interests in the Building Products Group joint venture. As part of this reorganisation, Hargreaves effectively disposed of its 50% share in Lytag Limited in exchange for an additional 25% stake in Hargreaves Building Products Limited and a cancellation of the deferred consideration relating to the October 2007 acquisition.

In August 2008, the Group entered into a joint venture with Oxbow Coal Limited. Under this joint venture the Group and Oxbow combined their port handling operations into a new special purpose vehicle, Eastgate Handling Services Limited.

Change in Accounting Policies

The Group is reporting its full year results under IFRS for the first time. There have been material changes in the accounting policies applied under IFRS during the year.

Going Concern

After making enquiries, the Directors have formed the opinion at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Statement on Risks Relating to the Group’s Business

This statement is an integral part of the Business Review.

Mining Risk

Deep mining is an inherently high risk activity. Disruption of either a geological or mechanical nature can adversely affect production. Whilst we expect and budget for a certain degree of variability in production, major geological or mechanical failures could result in prolonged periods when no production can take place. Whilst the geology of the mine is very well understood having been worked for 100 years and these instances are rare, the impact of a prolonged period of production disruption could have a material impact on the results of the Group. The Group mitigates this risk by investing in high quality mining equipment, operating a rigorous preventative maintenance plan, engaging a highly skilled engineering team and operating a carefully managed spare parts strategy.

Markets and Commodity Prices

The Group produces and trades in coal, coke and other mineral commodities, the prices of which are subject to variations that are both uncontrollable and unpredictable. Further trading risks are created through foreign currency exposures. The Group mitigates these risks, wherever practical, through the use of measures including fixed price contracts, hedging instruments and “back-to-back” purchase and sale agreements. Although short term trading risks are managed in this way, through the ownership of the Maltby Colliery and Monckton coke works, the Group does have a longer term exposure to price movements, favourable or unfavourable, in international coal and coke prices.

Commercial Relationships

The Group benefits from many long term and partnership arrangements with key customers and suppliers. Damage to or loss of these relationships could be detrimental to the Group results. In addition, due to the nature of the sectors in which the Group operates, it does have a concentration of business with a small number of large energy companies. The Group believes that these risks have been adequately mitigated through the close working relationships that it has developed over a long period of time with key clients and suppliers and through careful monitoring of services levels and price competitiveness.

Counterparty Risks

The Group does routinely enter term contracts for the purchase or supply of minerals. Although price risk is hedged where appropriate on these transactions, the Group is exposed to risk through the potential failure of counterparties. The Group mitigates this risk by carefully assessing and then monitoring the strength of each key counterparty. This risk and strength is judged against the scale and duration of the specific contract on a case by case basis.

Health & Safety

Our working environments have numerous and varied risks which we strive to mitigate by providing systems, equipment, training and supervision. Risk is evaluated by internal and external resources so it is continuously managed and mitigated.

Environmental

There is risk of ground and air contamination at our production sites, in particular at the Monckton Coke works. We mitigate this risk by careful monitoring of groundwater discharge. Our transport fleet carries hazardous chemicals, which could lead to contamination in the event of a spillage. The Group mitigates this risk through deploying properly maintained equipment, utilising well trained personnel and enforcing tight operational procedures.

GROUP BUSINESS REVIEW (CONTINUED)

Human Resources and Operations

People are the Group's most important assets and are key to ensuring that our quality systems operate effectively. We work hard at recruiting, training and developing staff to mitigate the risk of system or human error.

Energy Costs

The Group's energy usage is very high, both throughout the transport and plant fleets and at the Group's three production facilities. An increase in energy cost has been a risk that to date we have been successful in mitigating by indexing key transport contracts against fuel price rises and through our ability to generate electricity at the Monckton Coke Works and Maltby Colliery.

Future Strategy and Outlook

Production

At Maltby we will continue to work towards securing the extension of the mine life. The key short term challenge will be to look at investments that will take the development drivage rates up to £100m per week. Over the coming 12 months, we will also be looking at investments to increase the amount of methane that can be recovered from the mine with a view to adding further methane gas engines. The objective will be to increase generation to a level where the mine is self sufficient in electricity.

We will continue to recover the coal fines for supply to the Energy & Commodities Division and are actively looking at plans that will allow us to increase annual production.

In light of the current coke prices, including contracts already signed that came into effect on 1 January 2008, the outlook for the coke operations over the next three years is very positive. At Monckton the key strategic opportunity will be the re-commissioning of the extra ovens, a project that will be progressed as quickly as possible.

We will continue to review and push progress at Monckton Rubber Technologies. The outlook for the plant will be greatly improved if the current initiatives to add value to the waste wire are successful. We would not envisage investing in any further capacity.

Energy & Commodities Division

In the coming months we will seek to build on the resources, relationships and product flows that have been laid down in Europe by our German team. This will include reviewing the opportunities for acquiring transport or port assets in the medium term to start to build an integrated model similar to the model we operate in the UK. In the shorter term we are looking to add power generation coal to the minerals that we source and import into continental Europe to accelerate organic growth.

In the UK, we will look to the new Immingham joint venture to provide cost and efficiency benefits to our UK minerals business. The new joint venture will also provide additional capacity, increase product volumes and drive organic growth.

Having disposed of our shareholding in Lytag we will be focussing our efforts on developing our ash business by acquiring strategic assets or looking at opportunities to develop new relationships.

With our partner, UK Coal plc, we will also look at further opportunities to develop the Coal4Energy business.

Transport Division

In the first half of the current year we hope to have completed our search for a new Managing Director to drive and manage the strategy and operations for all the Group's transport assets.

The outlook for the Transport Division remains solid. We believe that we are well placed to deal effectively with any further increases in fuel costs. The strategy for the next 12 months will be to work hard in all three transport businesses to drive further contract wins based on the assets, resources and reputation that we currently have at our disposal.

We will continue to review opportunities for bolt-on acquisitions to add scale to all three transport businesses. We will also look for opportunities for partnerships or joint ventures that will leverage greater value from the significant mineral flows that we currently move by rail.

Industrial Services Division

The outlook for the Industrial Services Division remains robust. The focus in the short term will be on driving additional organic growth, leveraging existing relationships and the products and services of AJS. We will continue to look at small bolt on acquisitions that, like AJS, offer the possibility of expanding or improving the range of services provided to customers.

Having completed the integration of the bulk warehousing operation at Killingholme, we will be looking at organic opportunities in the coming year to add scale to the operation and to create additional value from the property and land that came with the acquisition.

Outlook Summary

Whilst no business is immune to cyclical factors, our core markets remain robust and relatively resilient to short term economic factors. The prospect of further extending the mine life is exciting and we will continue to evaluate this opportunity over the coming months. Provided prices remain at the current levels there will be significant opportunity to access higher coke prices as contracts unwind over the next three years. As a result we are entering the current year in a strong position and remain focused on pursuing further organic and acquisitive growth.

Gordon Banham

Group Chief Executive
15 September 2008

Iain Cockburn

Group Finance Director
15 September 2008

BOARD OF DIRECTORS



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The Board of Hargreaves Services plc at the end of the financial year comprises the following directors:

1. Tim Ross (aged 59)*

Non-Executive Chairman

Tim read law at Oxford University and qualified as a solicitor, working in the City of London and as a company legal adviser, before attending London Business School and moving into general management. He has considerable experience of the construction, aggregates, waste disposal and opencast coal industries. He was a main board director of George Wimpey PLC from 1991 to 1996. He is currently non-executive chairman of May Gurney Integrated Services plc and Superglass Holdings plc. He is also deputy chairman of Connaught plc and a non-executive director of Ennstone plc and Lavendon Group plc. Tim is the Senior Independent Non-Executive Director.

2. Gordon Banham (aged 44)

Group Chief Executive

Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels, Gordon being appointed as General Manager of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, Gordon was

made Distribution Director responsible for the enlarged group's coal distribution activities. Gordon joined Hargreaves in 2001, subsequently being appointed as Group Chief Executive. Gordon led a management buyout in 2004 and subsequent flotation on the London Stock Exchange the following year. He has since guided a series of major acquisitions.

3. Iain Cockburn (aged 43)

Group Finance Director

Iain is a Chartered Accountant. After five years with PricewaterhouseCoopers in the UK and Luxembourg he held a number of finance roles, in both the UK and USA, within Courtaulds plc and GenRad Inc groups. Prior to joining Hargreaves he was Finance Director and subsequently CEO and Finance Director of Knowledge Support Systems plc ('KSS'). In October 2006, in addition to his executive role at KSS, he joined the board of Tadpole Technology plc as a non-executive, to assist with its strategic review. He has resigned all of his appointments to join Hargreaves.

4. Kevin Dougan MIQ (aged 53)

Group Contracts Director

Kevin spent the early part of his career with British Coal, specialising in opencast coal mining, eventually becoming Assistant Regional Engineer. In 1986, Kevin joined Andrew Golightly Limited as Contracts Director, subsequently joining the Group in 1995 as a divisional director, and was appointed to the Group Board in April 2004.

5. Nigel Barraclough FCA (aged 43)*

Non-Executive Director

Nigel is a Chartered Accountant. Nigel is an investment manager with YFM Group Limited, a venture capital fund management group, responsible for venture capital investments and for portfolio companies. He has extensive experience of mergers and acquisitions and also as a non-executive director.

* Current member of Audit and Remuneration Committees.

DIRECTORS' REPORT

The directors present their directors' report and financial statements for the year ended 31 May 2008.

Principal activities

The principal activities of the Group are the provision of haulage services, waste transportation, mineral import, mining and processing, together with coke manufacture and related activities.

Business review

The results for the year are set out on page 24.

Information that fulfils the requirements of the business review can be found in the accompanying information. In particular: A balanced and comprehensive analysis of the development and performance of the Group's business during the financial year, and of its position at the end of the year, is included in the Group Chief Executive's statement and the Financial Review. Key performance indicators have been included in the Financial Review where appropriate.

The principal risks and uncertainties facing the business have been included in a separate statement 'Statement on Risks Relating to the Group's Business' on page 13. This includes information on environmental matters and employee issues.

Financial instruments

The financial risks faced by the Group and its policy towards these risks are set out in note 26 of the accounts.

Proposed dividend

The directors recommend a final dividend in respect of the current financial year of 7p per share to be paid to shareholders on the register on 24 September 2008. The shares will be ex-dividend on 22 September 2008. This dividend has not been recognised within creditors as it was not declared and approved before the year end.

Policy and practice on payment of creditors

The Group does not operate a defined code of practice regarding payment to suppliers. The Group determines conditions of payment for its own supply of goods and services. It is the Group's policy that transactions are then settled in compliance with these legal or other contractual obligations having regard to good commercial practice. Average creditor days at 31 May 2008 for the Group were 39 (2007: 38). It is not meaningful to disclose a similar statistic for the Company since it does not trade in its own right.

Directors

The directors who held office during the year were as follows:

TS Ross
GFC Banham
N Barraclough
PM Dillon (resigned 31 December 2007)
KJ Dougan
ID Cockburn (appointed 1 January 2008)

The directors who held office at the end of the financial year had the following disclosable interests in the shares of the Company according to the register of directors' interests:

Class of share		Interest at end of year	Interest at beginning of year
GFC Banham	Ordinary	4,000,000	4,000,000
KJ Dougan	Ordinary	525,000	700,000
ID Cockburn	Ordinary	4,440	–
TS Ross	Ordinary	3,086	3,086
N Barraclough	Ordinary	–	–

The interests of TS Ross are held through a pension trust of which he is a potential beneficiary.

Details of directors' emoluments are set out in the Corporate Governance and Remuneration Report.

All the directors benefited from qualifying third party indemnity provisions in place during the year and at the date of this report. According to the register of directors' interests, no rights to subscribe for shares in Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year and up to the date of this report except as indicated below:

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	218p	1 March 2009 to 1 September 2009	4,288
KJ Dougan	218p	1 March 2009 to 1 September 2009	4,288

These options were granted under the Savings Related Share Options Scheme on 22 December 2005 and are outstanding at the end of the year. None of the share options have been exercised.

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	1 June 2009 to 30 November 2009	25,543
KJ Dougan	–	1 June 2009 to 30 November 2009	15,964

These options were granted under the Long Term Incentive Plan on 8 November 2006 and are outstanding at the end of the year. None of the share options have been exercised.

Significant shareholdings

At 28 August 2008, the company had been notified or was aware of the following shareholders with 3% or more of the issued share capital of the company:

Shareholder	Number of ordinary shares in which interested	% of issued share capital
GFC Banham	4,000,000	15.2
Artemis Investment Management Ltd	2,599,669	9.9
Rensburg	1,846,868	7.0
Brewin Dolphin Private Client	1,668,198	6.3
Baring Asset Management	1,152,700	4.4
Old Mutual Asset Managers	1,114,500	4.2
Hansa Capital Partners	1,000,000	3.8
M&G Investment Management	892,814	3.4
Global Asset Management	892,814	3.4
Berenberg Bank (Schweiz)	823,000	3.1
Octopus Investments	791,604	3.0

Employees

Applications for employment by disabled persons are always fully considered. Employment policies are designed to provide opportunities irrespective of colour, ethnic or national origin, nationality, sex or marital status. In the event of employees becoming disabled every effort is made, including appropriate training, to ensure that their employment with the company continues.

The directors recognise the importance of good communications and good relations with employees. A quarterly house magazine is sent to all employees.

Political and charitable contributions

The Group made no political contributions during the year. Donations to UK charities amounted to £69,807.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with s384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit plc as auditors of the company and to authorise the directors to agree their remuneration is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Iain Cockburn

Group Finance Director
15 September 2008

CORPORATE GOVERNANCE AND REMUNERATION REPORT

The Group has increased in size significantly in recent years and in recognition of this has both considerably strengthened the Board of Directors and also introduced a level of corporate governance. Being listed on AIM, the Group is not required to report on corporate governance matters, but this statement is intended to provide information on how the Group has applied the principles and spirit of corporate governance.

The Group Board

The Group is headed by an effective Board, which both controls and leads the Group. A biography of each director and details of the membership of the Committees of the Group Board are provided on page 15.

The Group Board currently comprises three executive directors and two non-executive directors. The Group Board meets at least six times per year, receiving appropriate information from management on a timely basis, and making further detailed enquiries where necessary which enables the Board to discharge its duties.

The Group Board has a schedule of matters which are specifically reserved to it for decision. All directors have access to the advice and services of the company secretary, who is responsible to the Group Board for ensuring that Group Board procedures are followed and for compliance with applicable rules and regulations.

Health and safety

The Group Board ensures that Health and Safety issues for employees, customers and the public, are of foremost concern in all Group activities. The Group Chief Executive, supported by external advice, is charged with overall responsibility. The Group encourages both internal and external training through a formal network of full time officers and Health and Safety nominated 'champions' at all levels. Statistical analysis is used to highlight any areas where additional training or improved working practices would be beneficial, and positive action is promptly implemented.

Corporate Ethos

The Board has developed several principles which will apply in its dealings with stakeholders and the wider community.

Safety, Health and the Environment

Hargreaves Services plc has a proactive approach to Safety, Health and the Environment and is committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts.

Human Resources

Hargreaves Services plc employment policies are non-discriminatory, complying with all current legislation to engender equal opportunity, irrespective of race, gender, religion, disability, sexual orientation or nationality. Harassment is not tolerated.

Ethical Standards

All Hargreaves Group personnel are expected to apply a high ethical standard, consistent with an international UK-listed company.

Compliance with Laws

Hargreaves Services plc has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice.

Competition

Hargreaves Services plc aims to win business in a differentiated high value manner, does not employ unfair trading methods and competes vigorously but fairly within the requirements of the applicable laws. Employees are prohibited from either giving or receiving any inducements.

Conflicts of Interest

Employees are expected to ensure that their personal interests do not at any time conflict with those of Hargreaves Services plc. Shareholder employees are advised of and comply with share trading codes.

Politics

Hargreaves Services plc does not make political donations.

Remuneration Committee

The Remuneration Committee consists of the two non-executive directors, Tim Ross and Nigel Barraclough. Other directors attend as requested, but do not vote on their own remuneration. The Remuneration Committee has access to independent advice where considered necessary.

The policy of the Committee is to review the remuneration of the executive directors, and is structured to attract, retain and motivate executive directors. The total remuneration package is designed to align the interests of the executive directors with those of the shareholders. The remuneration strategy, policy and approach for all staff is also reviewed annually by the Committee.

Components of remuneration

Basic salary

This is a fixed cash sum, payable monthly. Salaries are reviewed annually by the Remuneration Committee in the light of individual performance, experience in the role and market comparisons.

Bonus

Executive directors participate in an annual incentive bonus scheme linked to the actual achievement of operating profit targets set by the Remuneration Committee. Such bonus is capped at 50% of salary. No bonus counts in the calculation of pension entitlement.

Benefits in kind and pensions

In addition to basic salary, Gordon Banham, Iain Cockburn and Kevin Dougan are entitled to the following benefits: paid holiday, company car, contributions to a personal pension plan and life assurance.

Directors' remuneration

Remuneration was as follows:

	2008 Salary £000	2008 Bonus £000	2008 Benefits £000	2008 Total £000	2007 Total £000	2008 Pension £000	2007 Pension £000
Gordon Banham	274	121	22	417	371	37	35
Peter Dillon	119	–	22	141	306	12	20
Kevin Dougan	139	56	1	196	203	8	–
Tim Ross	54	–	–	54	50	–	–
Nigel Barraclough	31	–	–	31	31	–	–
Iain Cockburn	98	66	14	178	–	4	–
	715	243	59	1,017	961	61	55

Directors' service contracts

The directors have entered into letters of appointment with the Company and the principal terms are as follows:

Date	Name	Position	Commencement of period of office	Remuneration £	Termination
24 November 2005	Tim Ross	Non-executive Chairman	30 November 2005	50,000	12 months' notice
24 November 2005	Nigel Barraclough	Non-executive Director	30 April 2004	31,000	12 months' notice
24 November 2005	Gordon Banham	Group Chief Executive	1 October 2001	300,000	12 months' notice
24 November 2005	Kevin Dougan	Group Contracts Director	23 June 1997	140,000	12 months' notice
1 August 2007	Iain Cockburn	Group Finance Director	8 October 2007	165,000	12 months' notice

The services of Tim Ross are provided by Crosswater Resources Limited, a company in which Mr Ross has a significant interest. The remuneration for Nigel Barraclough is paid to his employers, YFM Private Equity Limited.

Directors' share options

Details of directors' share options, held under the Savings related Share Option Scheme and Executive Long Term Incentive Plan, are noted in the Directors' Report on page 16.

Going concern

After making appropriate enquiries, the directors can confirm that, in their opinion, the Group and the Company have adequate resources for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing the financial statements.

CORPORATE GOVERNANCE AND REMUNERATION REPORT (CONTINUED)

Internal control

Management has considerable autonomy to run and develop the business of the Group. A well designed system of internal reporting and control is necessary. The Group Board has overall responsibility for the system of internal control within the Group. The Audit Committee, on behalf of the Group Board, has undertaken a review of its effectiveness. The system is designed to provide reasonable, but not absolute, assurance that the assets of the Group are safeguarded, that proper accounting records are maintained, and that reliable financial information is produced.

All subsidiary undertakings are required to adhere to specified internal control procedures.

The Group Board receives regular reports on internal control matters and does not believe that there is currently a need for an internal audit function. However, this matter is subject to periodic review.

Further control is exercised by monthly monitoring of performance by comparison to budgets, forecasts and cash targets, both by subsidiary management and by the Group Board. Regular visits by divisional and main board directors to the Group's subsidiaries are an integral part of the control system.

During these visits business issues, risks, internal controls, financial results, and future prospects are discussed with operational management.

Monitoring of compliance with the Group's system of internal control is undertaken by all levels of management and reinforced by the role fulfilled by the Audit Committee.

Audit Committee

The Group Board has established an Audit Committee comprising the two non-executive directors, Tim Ross and Nigel Barraclough, who meet at least three times a year, with the external auditors attending by invitation at least twice a year. The Committee provides a forum by which the external auditors report to the Group Board.

The Audit Committee is responsible for reviewing the scope and results of the audit together with its cost effectiveness. The objectivity of the auditors is enhanced by ensuring that they have direct access to the Group Board. Non-audit work undertaken by the auditors is limited to work that requires detailed knowledge derived from the statutory audit or work where the fees involved are not considered to be material.

Savings related Share Option Scheme

The Sharesave Scheme is a savings-related share option scheme and was implemented in December 2005.

All employees (including full time directors) of the Company or any participating member of the Group whose earnings are subject to income tax and who have the requisite minimum period of continuous employment are eligible to participate.

The exercise price of an option shall be fixed by the company but shall not be normally less than the market value of a share on the date invitations are issued to eligible employees. In a case of an option to subscribe for shares the exercise price may not be less than the nominal value of a share.

Participants may, at the absolute discretion of the Committee, be invited to apply for three, five or seven year options. All options must be linked to a contractual savings scheme entered into by each participant with the savings institution nominated by the Company and approved by the HMRC. Participants may save between £5 and £250 per month (or weekly equivalent), such sums to be deducted from the relevant participant's pay.

At the end of the chosen savings period, a bonus is payable.

No option shall be granted under the Sharesave Scheme on any date if, as a result, the total number of shares issued or issuable pursuant to options and other rights granted under the Sharesave Scheme and any other employees share scheme established by the Company on or after Admission, would exceed 10% of the issued ordinary share capital of the Company on that date of grant.

Savings related Share Option Scheme (continued)

Ordinary shares issued pursuant to the Sharesave Scheme shall rank *pari passu* in all respects with the ordinary shares already in issue.

In normal circumstances, options may be exercised during the period of six months commencing on the maturity (that is the relevant bonus date) of the savings contract. Options will become exercisable immediately on the death of a participant for a period of 12 months after the date of death or the bonus date, whichever is earlier. If a participant ceases to be an employee on reaching the age of 65 or at such other age at which that employee is bound to retire in accordance with the terms of his contract of employment or ceases to be in employment due to injury, disability, redundancy, or as a result of the sale of the business or subsidiary by which the participant is employed, options will become exercisable for a period of six months. If a participant has held an option for at least three years, it will become exercisable for a period of six months. Options will also become exercisable on an employee attaining the age of 60 if he should continue in employment and on a change in control, reconstruction, amalgamation or voluntary winding-up of the Company.

An option will lapse six months following the bonus date, except if the participant dies, in which case an option will lapse 12 months following death, if later.

Executive Long Term Incentive Plan ('LTIP')

The LTIP scheme was implemented in November 2006.

The scheme was designed to allow awards to be made to eligible employees selected by the Remuneration Committee. The vesting of an award granted to an executive director of the Company shall, or in the case of an award granted to any other Group employee may, be subject to the satisfaction of one or more Performance Conditions. The Remuneration Committee may determine or recommend to the Trustee that the vesting of an award will be subject to any other objective condition in addition to the Performance Conditions.

No option shall be granted under the LTIP scheme on any date if, as a result, the total number of shares issued or issuable pursuant to options and other rights granted under the LTIP scheme and any other employee share scheme established by the Company on or after admission, would exceed 10% (5% excluding other share schemes) of the issued ordinary share capital of the Company on date of grant. Ordinary shares issued pursuant to the LTIP scheme shall rank *pari passu* in all respects with the ordinary shares already in issue.

An option will lapse six months following the vesting date, except if the participant dies, in which case the option will lapse 12 months following death, if later.

By order of the Board

Gordon Banham

Group Chief Executive
15 September 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable laws and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HARGREAVES SERVICES PLC

We have audited the Group and Parent Company financial statements (the 'financial statements') of Hargreaves Services plc for the year ended 31 May 2008 which comprise the Consolidated Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 22.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Group Business Review, the Statement on risks relating to the Group's business and the Financial Review that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 May 2008 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 May 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

15 September 2008

Chartered Accountants

Registered Auditor

CONSOLIDATED INCOME STATEMENT FOR YEAR ENDED 31 MAY 2008

	Note	2008 £000	2007 £000
Revenue	1	404,901	240,105
Cost of sales		(355,721)	(213,164)
Gross profit		49,180	26,941
Other operating (expense)/income	4	(77)	25
Administrative expenses		(26,976)	(17,075)
Operating profit	1, 5, 6	22,127	9,891
Financial income	8	1,151	1,640
Financial expenses	8	(5,680)	(2,236)
Share of profit of jointly controlled entities (net of tax)		213	270
Share of profit of associates (net of tax)		49	56
Profit before tax		17,860	9,621
Income tax expense	9	(5,181)	(3,134)
Profit for the year		12,679	6,487
Attributable to:			
Equity holders of the company		12,257	6,414
Minority interest	25	422	73
Profit for the year		12,679	6,487
Basic earnings per share (pence)	10	46.66	26.32
Diluted earnings per share (pence)	10	45.74	26.16

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR YEAR ENDED 31 MAY 2008

	Note	2008 £000	Group 2007 £000	2008 £000	Company 2007 £000
Foreign exchange translation differences		190	(4)	–	–
Effective portion of changes in fair value of cash flow hedges		(9,811)	(769)	–	–
Actuarial gains and losses on defined benefit pension plans		4,625	108	–	–
Tax recognised on income and expenses recognised directly in equity		1,238	199	–	–
Net expense recognised directly in equity		(3,758)	(466)	–	–
Profit for the year		12,679	6,487	228	8,217
Total recognised income and expense for the year	25	8,921	6,021	228	8,217
Total recognised income and expense for the year is attributable to:					
Equity holders of the parent		8,499	5,948	228	8,217
Minority interest		422	73	–	–
		8,921	6,021	228	8,217

BALANCE SHEETS

AT 31 MAY 2008

	Note	2008 £000	Group 2007 £000	2008 £000	Company 2007 £000
Non-current assets					
Property, plant and equipment	11	66,277	63,178	–	–
Intangible assets	12	25,666	16,745	–	–
Investments in jointly controlled entities	13	592	881	1,123	1
Investments in associates	13	–	58	–	2
Other investments	13	–	20	–	–
Investments in subsidiary undertakings	13	–	–	14,495	14,055
Derivative financial instruments	14	35	200	–	–
Other financial assets	14	–	500	–	–
Deferred tax assets	16	–	–	123	–
		92,570	81,582	15,741	14,058
Current assets					
Inventories	17	43,453	35,027	–	–
Derivative financial instruments	14	754	–	–	–
Trade and other receivables	18	52,022	38,406	38,304	60,713
Cash and cash equivalents	19	10,015	11,779	8,995	–
		106,244	85,212	47,299	60,713
Total assets		198,814	166,794	63,040	74,771
Non-current liabilities					
Other interest-bearing loans and borrowings	20	(30,001)	(34,165)	(8,063)	(10,995)
Retirement benefit obligations	22	(5,431)	(9,411)	–	–
Provisions	24	(10,327)	(10,327)	–	–
Derivative financial instruments	15	(7,895)	(631)	–	–
Deferred tax liabilities	16	(3,410)	(3,613)	–	–
Other non-current liabilities	21	(1,026)	–	–	–
		(58,090)	(58,147)	(8,063)	(10,995)
Current liabilities					
Bank overdraft	19	(11,040)	(9,824)	–	–
Other interest-bearing loans and borrowings	20	(15,187)	(6,228)	(2,932)	(2,932)
Trade and other payables	21	(58,230)	(49,505)	(11,710)	(18,734)
Income tax liabilities	16	(5,092)	(1,851)	–	–
Derivative financial instruments	15	(3,114)	(205)	–	–
		(92,663)	(67,613)	(14,642)	(21,666)
Total liabilities		(150,753)	(125,760)	(22,705)	(32,661)
Net assets		48,061	41,034	40,335	42,110

BALANCE SHEETS (CONTINUED)

AT 31 MAY 2008

	Note	2008 £000	Group 2007 £000	2008 £000	Company 2007 £000
Equity attributable to equity holders of the parent					
Share capital	25	2,627	2,627	2,627	2,627
Share premium	25	29,177	29,177	29,177	29,177
Other reserves	25	29	29	–	–
Translation reserve	25	186	(4)	–	–
Merger reserve	25	1,022	1,022	1,022	1,022
Hedging reserve	25	(7,618)	(538)	–	–
Capital redemption reserve	25	1,530	1,530	1,530	1,530
Retained earnings	25	20,427	7,041	5,979	7,754
		47,380	40,884	40,335	42,110
Minority interest					
	25	681	150	–	–
Total equity					
		48,061	41,034	40,355	42,110

These financial statements were approved by the board of directors on 15 September 2008 and were signed on its behalf by:

GFC Banham
Director

ID Cockburn
Director

CASH FLOW STATEMENTS

FOR YEAR ENDED 31 MAY 2008

	Note	2008 £000	Group 2007 £000	2008 £000	Company 2007 £000
Cash flows from operating activities					
Profit for the year		12,679	6,487	228	8,216
Adjustments for:					
Depreciation		11,042	5,030	–	–
Amortisation of intangible assets		1,164	601	–	–
Dividend income		–	–	(234)	(8,500)
Net finance expense		4,528	596	–	256
Share of profit of joint ventures		(213)	(270)	–	–
Share of profit of associates		(49)	(56)	–	–
Loss/(gain) on sale of property, plant and equipment		105	(25)	–	–
Equity settled share-based payment expenses		440	268	–	–
Income tax expense		5,181	3,134	(123)	–
Translation of minority interest		71	–	–	–
		34,948	15,765	(129)	(28)
Change in trade and other receivables		(8,820)	(4,914)	22,409	(37,627)
Change in inventories		(6,391)	(13,254)	–	–
Change in trade and other payables		3,542	10,691	(8,076)	621
Change in provisions and employee benefits		333	117	–	–
		23,612	8,405	14,204	(37,034)
Interest paid		(4,216)	(1,971)	234	(596)
Income tax paid		(4,013)	(2,245)	–	–
Net cash generated from operating activities		15,383	4,189	14,438	(37,630)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		1,016	794	–	–
Proceeds from sales of investments		51	–	–	–
Interest received		–	324	–	–
Dividends received		750	–	–	–
Acquisition of subsidiaries, net of cash acquired	3	(8,878)	(33,693)	–	(763)
Acquisition of property, plant and equipment	11	(5,369)	(8,661)	–	–
Acquisition of other investments	13	(31)	75	–	–
Net cash outflow from investing activities		(12,461)	(41,161)	–	(763)
Cash flows from financing activities					
Proceeds from the issue of share capital	25	–	10,332	–	11,115
Proceeds from new loan	20	5,000	15,000	–	15,000
Repayment of borrowings		(5,779)	(1,164)	(3,000)	(750)
Payment of finance lease liabilities		(3,034)	(1,947)	–	–
(Repayment)/proceeds from invoice discounting facility		(4,977)	3,656	–	–
Dividends paid	25	(2,453)	(1,972)	(2,443)	(1,972)
Proceeds from issue of promissory notes		6,759	–	–	–
Net cash (outflow)/inflow from financing activities		(4,484)	23,905	(5,443)	23,393
Net decrease in cash and cash equivalents		(1,562)	(13,067)	8,995	(15,000)
Cash and cash equivalents at 1 June		1,955	15,022	–	15,000
Effect of exchange rate fluctuations on cash held		(1,418)	–	–	–
Cash and cash equivalents at 31 May	19	(1,025)	1,955	8,995	–

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS)

1 Accounting policies

Hargreaves Services plc (the 'Company') is a company incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 June 2006 for the purposes of the transition to Adopted IFRSs.

The preparation of financial statements requires the directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

a) Measurement of the recoverable amounts of cash generating units containing goodwill.

This requires the identification of appropriate cash generating units and the allocation of goodwill to these units.

The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash generating units and the comparison of these cash flows to the carrying value of the goodwill.

b) Recognition of deferred tax assets.

The Group has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's future assessment of the Group's financial performance and forecast financial information.

c) Share based payments.

The estimation of share based payments costs which requires the selection of an appropriate valuation model together with assumptions as to the key inputs into the model.

The preparation of financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Transition to Adopted IFRSs

Both the Group and the Company are preparing their financial statements in accordance with Adopted IFRSs for the first time and consequently both have applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the previously reported financial position, financial performance and cash flows of the Group and Parent Company is provided in note 32.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to transition date have not been restated.
- Property, plant and equipment – The Group has opted to continue to measure property, plant and equipment at historical cost less accumulated depreciation in the transition balance sheet.

Both the Group and Company financial statements have been prepared and approved by the directors in accordance with Adopted IFRSs.

The financial statements were approved by the board of directors on 15 September 2008.

NOTES (CONTINUED)

1 Accounting policies (continued)

Standards, interpretations in use but not applied

At the date of issue of these financial statements the following standards and interpretations, which have not been applied by the Group in these financial statements, were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

Endorsed

- IFRS 8 'Operating Segments' applicable for accounting periods beginning on or after 1 January 2009. Currently the Group presents segment information in respect of its business segments under IAS 14 'Segment Reporting'. Under IFRS 8 segments are to be identified based upon the information that management uses to make decisions about operating matters. This may lead to a change in the presentation and disclosure of segmental information when adopted.

Yet to be endorsed

- Revised IAS 23 'Borrowing Costs' (mandatory for the year commencing on or after 1 January 2009);
- Revised IAS 1 'Presentation of Financial Statements' (mandatory for the year commencing on or after 1 January 2009);
- Revised IFRS 3 'Business Combinations' (mandatory for the year commencing on or after 1 July 2009);
- Revised IAS 27 'Consolidated and Separate Financial Statements' (mandatory for the year commencing on or after 1 July 2009);
- Amendments to IFRS 2 'Share based payment – Vesting Conditions and Cancellations' (mandatory for the year commencing on or after 1 January 2009);
- IFRIC 12: Service Concession Arrangements (mandatory for the year commencing on or after 1 January 2008).

Not yet applied

- IFRIC 13: Customer Loyalty Programmes (mandatory for the year commencing on or after 1 July 2008);
- IFRIC 14: IAS 19 – The limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction (mandatory for the year commencing on or after 1 January 2008);
- Amendment to IAS 32 and IAS 1: Puttable financial instruments and obligations existing on liquidation (mandatory for the year commencing on or after 1 January 2009).

Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale are stated at their fair value.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial information from the date control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated when preparing the consolidated financial information.

Associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of another entity.

A jointly controlled entity is an entity over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic, financial and operating decisions. The consolidated accounts include the Group's share of the total recognised income and expense of jointly controlled entities and associates on an equity accounted basis. The results of jointly controlled entities and associates are included in the consolidated accounts from the date that joint control or significant influence respectively, commences until the date that it ceases.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

The balance sheet assets and liabilities of foreign subsidiaries are translated into sterling at the exchange rate at the balance sheet date, and the income statement is translated at the average rate. Gains and losses are then taken to a separate reserve.

1 Accounting policies (continued)

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Financial instruments

Derivative financial instruments

The Group uses interest rate swaps to help manage its interest rate risk, and forward foreign currency contracts to manage its exchange rate risk. The Group also uses derivative sale and purchase contracts to mitigate the risk of fluctuating coal prices and exchange rate risk.

All derivative financial instruments are recognised initially at fair value and subsequently re-measured to fair value at each reporting date and changes therein are accounted for as described below.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit and loss.

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Derivatives are intended to be highly effective in mitigating the above risks, and hedge accounting is adopted where the required hedge documentation is in place and the relevant test criteria are met.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement as part of financing costs.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Mine development costs at Maltby Colliery are capitalised and depreciated over the working life of the area of the mine to which the costs are attributable.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation rates are as follows:

Mineral Reserves	–	12.5% p.a.
Freehold Buildings	–	2% to 4% p.a.
Leasehold improvements	–	15% p.a.
Motor vehicles and plant	–	10% to 20% p.a.
Furniture and equipment	–	25% p.a.
Fixtures and Fittings	–	15% p.a.

NOTES (CONTINUED)

1 Accounting policies (continued)

Intangible assets and goodwill

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method.

Goodwill arises from the acquisition of businesses and represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill arising on acquisitions that have occurred since 1 June 2006 is capitalised and subject to impairment review, both annually and when there are indications the carrying value may not be recoverable. Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Goodwill arising on acquisitions prior to 1 June 2006 was capitalised and amortised under UK GAAP. This goodwill is carried at the UK GAAP carrying value at the date of transition to adopted IFRS and is subject to impairment reviews as described above.

Other intangible assets that are acquired by the Group, which have finite useful economic lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

At Maltby Colliery, the cost of preparing proceeding coal faces is held on the balance sheet within work in progress and is charged on a tonnage-extracted basis over the estimated production life of the relevant face.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the agreed terms of the receivables concerned.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Trade and other payables

Trade and other payables are non-interest bearing and are recognised at fair value.

Impairment

The carrying amounts of the Group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

1 Accounting policies (continued)

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined benefit pension plans

Following the acquisition of The Monckton Coke & Chemical Co Ltd on 17 June 2005 and Maltby Colliery on 26 February 2007, the Group operates two concessionary fuel retirement benefit schemes.

In addition, following the acquisition of Maltby Colliery, the Group is a member of two pension schemes providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

The retirement benefit scheme liabilities are measured using the projected unit method. The concessionary fuel retirement benefit schemes are unfunded retirement benefits and as such there are no assets in the schemes. The retirement benefit deficits are recognised in full, the movement in the scheme deficits is split between operating charges, finance items and in the statement of total recognised income and expense, actuarial gains and losses.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and in the statement of total recognised income and expenses, actuarial gains and losses.

Defined contribution pension plans

The Group operates a group personal pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the financial period.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-based payment transactions

The Group operates a share option scheme for certain employees. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Revenue

Revenue is measured at the fair value of consideration received or receivable, excluding value added tax, for goods and services supplied to external customers. It includes the Group's share of revenue from work carried out under jointly controlled operations. Sales of goods and services are recognised when they are delivered and title has passed.

NOTES (CONTINUED)

1 Accounting policies (continued)

Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest costs charged to the income statement on the outstanding balance. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested together with changes in the fair values of interest rate swaps and foreign currency forward contracts through the profit and loss and the expected returns on plan assets and interest on the pension scheme liability.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method.

Income tax

Income tax on the profit or loss for the period comprises both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

2 Segmental information

The table below sets out information for each of the Group's industry segments. The origination and destination of principally all operations is in the United Kingdom.

	Production 2008 £000	Energy & Commodities 2008 £000	Transport 2008 £000	Industrial 2008 £000	Total 2008 £000
Revenue					
Total revenue	84,288	233,263	75,594	47,126	440,271
Inter-segment revenue	(15,774)	(4,012)	(10,995)	(4,589)	(35,370)
Revenue to third parties	68,514	229,251	64,599	42,537	404,901
Segment operating profit	9,665	7,599	3,219	1,644	22,127
Share of profit in					
– joint ventures	–	213	–	–	213
– associates	–	49	–	–	49
Net financing costs	(1,701)	(1,571)	(956)	(301)	(4,5290)
Profit before taxation	7,964	6,290	2,263	1,343	17,860
Depreciation charge	(6,362)	(93)	(3,265)	(1,322)	(11,042)
Amortisation of intangibles	–	17	(209)	(972)	(1,164)
Capital expenditure	5,354	75	1,055	1,531	8,015
Net assets					
Segment assets	67,126	45,967	29,141	18,894	161,128
Segment liabilities	(37,524)	(42,675)	(27,866)	(10,906)	(118,971)
Segment net assets	29,602	3,292	1,275	7,988	42,157
Joint ventures	–	592	–	–	592
Segment net assets including share of joint ventures	29,602	3,884	1,275	7,988	42,749
Unallocated net assets					5,312
Total net assets					48,061

Unallocated net assets include goodwill, bank loans, deferred consideration and derivative financial instruments.

Included within revenue is £111.7m (2007: £29.9m) of revenue which originates in Europe. All other revenue originates in the United Kingdom.

NOTES (CONTINUED)

2 Segmental information (continued)

	Production 2007 £000	Energy & Commodities 2007 £000	Transport 2007 £000	Industrial 2007 £000	Total 2007 £000
Revenue					
Total revenue	39,563	140,454	56,388	26,807	263,212
Inter-segment revenue	(2,923)	(6,133)	(12,283)	(1,768)	(23,107)
Revenue to third parties	36,640	134,321	44,105	25,039	240,105
Segment operating profit	3,994	3,402	2,100	395	9,891
Share of profit in					
– joint ventures	–	215	55	–	270
– associates	–	56	–	–	56
Net financing costs	(1,049)	810	(221)	(136)	(596)
Profit before taxation	2,945	4,483	1,934	259	9,621
Depreciation charge	(1,784)	(62)	(2,244)	(940)	(5,030)
Amortisation of intangibles	–	84	–	(685)	(601)
Capital expenditure	6,292	379	2,829	1,092	10,592
Net assets					
Segment assets	59,536	39,244	22,596	18,620	139,996
Segment liabilities	(34,598)	(35,785)	(17,300)	(12,563)	(100,246)
Segment net assets	24,938	3,459	5,296	6,057	39,750
Joint ventures	–	881	–	–	881
Associates	–	58	–	–	58
Segment net assets including share of joint ventures and associates	24,938	4,398	5,296	6,057	40,689
Unallocated net assets					345
Total net assets					41,034

Unallocated net assets include goodwill, bank loans, deferred consideration, and derivative financial instruments.

2 Segmental information (continued)

Production division was previously reported separately as Monckton and Maltby, therefore Production division is analysed as follows:

	Monckton 2008 £000	Maltby 2008 £000	Production 2008 £000	Monckton 2007 £000	Maltby 2007 £000	Production 2007 £000
Revenue						
Total revenue	36,529	47,759	84,288	27,415	12,148	39,563
Inter-segment revenue	(7)	(15,767)	(15,774)	(4)	(2,919)	(2,923)
Revenue to third parties	36,522	31,992	68,514	27,411	9,229	36,640
Segment operating profit	3,317	6,348	9,665	2,835	1,159	3,994
Share of profit in						
– joint ventures	–	–	–	–	–	–
– associates	–	–	–	–	–	–
Net financing costs	(454)	(1,247)	(1,701)	(637)	(412)	(1,049)
Profit before taxation	2,863	5,101	7,964	2,198	747	2,945
Depreciation charge	(831)	(5,531)	(6,362)	(678)	(1,106)	(1,784)
Amortisation of intangibles	–	–	–	–	–	–
Capital expenditure	480	4,874	5,354	2,142	4,150	6,292
Net assets						
Segment assets	17,854	49,272	67,126	18,337	41,199	59,536
Segment liabilities	(6,263)	(31,261)	(37,524)	(8,366)	(26,232)	(34,598)
Segment net assets	11,591	18,011	29,602	9,971	14,967	24,938

NOTES (CONTINUED)

3 Acquisitions of subsidiaries

On 28 September 2007, the Group acquired all of the ordinary shares in Imperial Tankers Limited for £6,415,000, satisfied by £5,415,000 cash, with £1,000,000 being deferred and contingent on the future performance of the business. The company operates a fleet of bulk liquid tankers. In accordance with IFRS 3 Business Combinations, a review of the acquisition was performed to identify specific intangible assets. This resulted in the creation of an intangible asset of £2,032,000 for customer contracts, based on discounted future cash flows of the key long term sales contracts in place at the date of acquisition.

In the eight months to 31 May 2008 the subsidiary contributed profit after tax of £889,000 to the consolidated profit after tax for the year. If the acquisition had occurred on 1 June 2007, Group revenue would have been an estimated £410.3m and profit after tax would have been an estimated £12.7m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 June 2007.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	7,287	–	7,287
Intangible assets	–	2,032	2,032
Current assets			
Inventories	126	–	126
Trade and other receivables	2,782	–	2,782
Cash and cash equivalents	1,306	–	1,306
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	(2,993)	–	(2,993)
Deferred tax liabilities	(1,068)	(569)	(1,637)
Current liabilities			
Trade and other payables	(2,212)	(250)	(2,462)
Current income tax liabilities	(390)	–	(390)
Interest-bearing loans and borrowings	(1,609)	–	(1,609)
Net identifiable assets and liabilities	3,229	1,213	4,442
Goodwill on acquisition			1,973
Net purchase consideration and costs of acquisition			6,415
Satisfied by:			
Consideration paid			5,415
Contingent consideration			1,000
			6,415

The intangible assets are being amortised over the weighted average expected life of these contracts, which is 62 months.

The goodwill is not being amortised, but will be reviewed for impairment annually.

3 Acquisitions of subsidiaries (continued)

On 1 April 2008, the Group acquired all of the ordinary shares in AJS Contracts Limited for £4,436,000 cash, of which £2,120,000 is deferred. The company carries out specialist engineering services relating to major outages at power stations. In accordance with IFRS 3 Business Combinations, a review of the acquisition was performed to identify specific intangible assets. This resulted in the creation of an intangible asset of £2,596,000 for customer contracts, based on discounted future cash flows of the key long term sales contracts in place at the date of acquisition.

In the two months to 31 May 2008 the subsidiary contributed profit after tax of £296,000 to the consolidated profit after tax for the year. If the acquisition had occurred on 1 June 2007, Group revenue would have been an estimated £408.3m and profit after tax would have been an estimated £13.8m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 June 2007.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	217	(39)	178
Intangible assets	–	2,596	2,596
Current assets			
Inventories	163	–	163
Trade and other receivables	649	–	649
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	(29)	(727)	(756)
Current liabilities			
Trade and other payables	(544)	(21)	(565)
Current income tax liabilities	(299)	–	(299)
Interest-bearing loans and borrowings	(32)	–	(32)
Net identifiable assets and liabilities	125	1,809	1,934
Goodwill on acquisition			2,502
Net purchase consideration and costs of acquisition			4,436
Satisfied by:			
Consideration paid			2,316
Deferred consideration			2,120
Net purchase consideration and costs of acquisition			4,436

The intangible asset is being amortised over the weighted average expected life of these contracts, which is 71 months. The goodwill is not being amortised, but will be reviewed for impairment annually.

NOTES (CONTINUED)

3 Acquisitions of subsidiaries (continued)

On 5 October 2007, the Group increased its stake in Hargreaves Building Products Ltd and Lytag Ltd by way of a share exchange between Hargreaves Building Products Ltd and Hargreaves Coal Combustion Products Ltd, and exchanging shares in Hargreaves Services plc with the other shareholders of HCCP Ltd, HBP Ltd, and Lytag Ltd. Hargreaves increased its share of the new combined group from 25% to 50%, resulting in an increase in investments of £107,054. The consideration was valued at £1,120,097 based on expected future profits of the combined HBP/HCCP group. This resulted in goodwill of £1,013,043. The goodwill will not be amortised over a specific period of time, however it will be reviewed annually for impairment at each reporting date, in line with Group policy.

The Group acquired the entire issued share capital of Norec Limited on 1 September 2006. The resulting goodwill of £1,252,000 was capitalised and will be reviewed annually for impairment.

In accordance with IFRS 3 Business Combinations, a review of the acquisition was performed to identify specific intangible assets. This resulted in the creation of an intangible asset of £7,061,000 for customer contracts, based on discounted future cash flows of the key long term sales contracts in place at the date of acquisition. The intangible asset is being amortised over the weighted average expected life of these contracts, which is 75 months.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	764	–	764
Intangible assets	–	7,061	7,061
Current assets			
Trade and other receivables	4,271	–	4,271
Cash and cash equivalents	1,371	–	1,371
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	–	(1,977)	(1,977)
Current liabilities			
Trade and other payables	(2,172)	–	(2,172)
Provisions	(3,173)	–	(3,173)
Net identifiable assets and liabilities	1,061	5,084	6,145
Goodwill on acquisition			1,252
Net purchase consideration and costs of acquisition			7,397
Satisfied by:			
Cash consideration paid			5,897
Deferred consideration paid by 31 May 2007			1,500
			7,397

3 Acquisitions of subsidiaries (continued)

The Group also acquired the trade and assets of Maltby Colliery, on 26 February 2007 resulting in goodwill of £2,139,000. This goodwill will be reviewed annually for impairment.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	12,694	17,839	30,533
Current assets			
Inventories	5,171	(1,358)	3,813
LIABILITIES			
Deferred tax liabilities	–	(2,139)	(2,139)
Provisions	(6,186)	(7,656)	(13,842)
Net identifiable assets and liabilities	11,679	6,686	18,365
Goodwill on acquisition			2,139
Net purchase consideration and costs of acquisition			20,504
Satisfied by:			
Cash consideration paid			20,504

This subsidiary undertaking acquired during the year ending 31 May 2007 contributed £4,112,000 to the Group's net operating cashflows, paid £nil in respect of net returns on investments and servicing of finance and utilised £4,150,000 for capital expenditure.

Prior to the acquisition, Maltby Colliery was part of a division of UK Coal plc.

NOTES (CONTINUED)

3 Acquisitions of subsidiaries (continued)

The Group acquired an additional 50% of the issued share capital of Hargreaves (Bulk Liquid Transport) Limited in December 2006 taking its shareholding to 100%. The resulting goodwill of £1,529,000 was capitalised and will be reviewed annually for impairment.

	Book and fair value £000
ASSETS	
Non-current assets	
Intangible	14
Property, plant and equipment	856
Current assets	
Inventories	17
Trade receivables	855
Cash and cash equivalents	5
LIABILITIES	
Trade and other payables	(1,389)
Provisions	(78)
Net identifiable assets and liabilities	280
Goodwill on acquisition	1,529
Net purchase consideration and costs of acquisition	1,809
Satisfied by:	
Cash consideration paid	764
Shares	1,045
	1,809

The Group acquired the entire issued share capital of Mineral Resources Europe GmbH in May 2007, through its 77.5% owned subsidiary, Hargreaves Raw Material Services GmbH (now 72.5%). The resulting negative goodwill of £84,000 was released immediately to profit and loss account.

	Book and fair value £000
ASSETS	
Non-current assets	15
Property, plant and equipment	
Current assets	
Inventories	2,870
Trade receivables	6,345
Cash and cash equivalents	1,083
LIABILITIES	
Current liabilities	
Trade and other payables	(9,566)
Net identifiable assets and liabilities	747
Goodwill on acquisition	(84)
Net purchase consideration and costs of acquisition	663
Satisfied by:	
Cash consideration paid	663

3 Acquisitions of subsidiaries (continued)

The Group acquired the trade and certain assets of the Simon Bulk Warehousing and Distribution division from Humber Sea Terminal Limited on 30 March 2007 resulting in goodwill of £nil.

	Book value £000	Revaluations £000	Fair value £000
ASSETS			
Non-current assets			
Property, plant and equipment	3,000	1,215	4,215
Net identifiable assets and liabilities			4,215
Goodwill on acquisition			–
Net purchase consideration and costs of acquisition			4,215
Satisfied by:			
Cash consideration paid			4,215

4 Other operating (expense)/income

	2008 £000	2007 £000
Net (loss)/gain on disposal of property, plant and equipment	(105)	25
Net gain/(loss) on disposal of investments	28	–
	(77)	25

5 Expenses and auditors' remuneration

Profit before tax is stated after charging/(crediting):

	2008 £000	2007 £000
Amortisation of intangibles	1,164	601
Impairment loss on inventories	441	–
Impairment (gain)/loss on trade and other receivables	(110)	80
Depreciation of property, plant and equipment owned	8,278	3,592
Depreciation of property, plant and equipment, held under finance lease	2,764	1,438
Auditors' remuneration:		
Audit of these financial statements	36	31
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	136	110
Other services pursuant to such legislation		407
Other services relating to taxation	66	40
Valuation and actuarial services	5	–
Services relating to recruitment and remuneration	12	36
All other services	14	–

Amounts paid to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

NOTES (CONTINUED)

6 Staff numbers and costs

The average number of persons employed (including directors) during the year, analysed by category, was as follows:

	Number of employees Group		Number of employees Company	
	2008	2007	2008	2007
Directors	22	15	5	5
Maintenance and washery	197	137	–	–
Traffic and administration	288	189	–	–
Drivers	441	423	–	–
Production	1,031	687	–	–
	1,979	1,451	5	5

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Wages and salaries	61,037	38,714	–	–
Share-based payments (see note 23)	440	267	–	–
Social security costs	6,220	4,013	–	–
Contributions to defined contribution plans	1,430	158	–	–
Expenses related to defined benefit plans	1,071	312	–	–
	70,198	43,464	–	–

7 Directors' remuneration

	2008 £000	2007 £000
Directors' emoluments	901	880
Company contributions to money purchase pension plans	61	55
Amounts paid to third parties in respect of directors' services	85	81

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £417,000 (2007: £371,000), and company pension contributions of £37,000 (2007: £35,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	2008	2007
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2
Defined benefit schemes	–	–
The number of directors who exercised share options was	–	–
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	–	–

Directors' rights to subscribe for shares in or debentures of the Company and its subsidiaries are indicated below:

	Number of options		Exercise price p
	At start of year	At end of year	
GFC Banham	4,288	4,288	218
KJ Dougan	4,288	4,288	218
GFC Banham	25,543	25,543	–
KJ Dougan	15,964	15,964	–

All of the directors benefited from qualifying third party indemnity provisions.

8 Finance income and expense

Recognised in profit or loss

	2008 £000	2007 £000
<i>Finance income</i>		
Net gain on financial instruments designated as fair value through profit or loss	227	1,148
Interest income on unimpaired financial assets	153	324
Expected return on defined benefit pension plan assets	771	168
Total finance income	1,151	1,640
	2008 £000	2007 £000
<i>Finance expense</i>		
Total interest expense on financial liabilities measured at amortised cost	4,563	1,971
Unwind of discount on deferred consideration	34	–
Interest on defined benefit pension plan obligation	1,083	265
Total finance expense	5,680	2,236

9 Taxation

Recognised in the income statement

	2008 £000	2007 £000
<i>Current tax expense</i>		
Current year	5,633	2,405
Adjustments for prior years	172	(294)
Foreign tax – current year	728	243
Current tax expense	6,533	2,354
<i>Deferred tax (credit)/expense</i>		
Origination and reversal of temporary differences	(672)	591
Reduction in tax rate	(44)	–
Adjustments for prior years	(636)	189
Deferred tax (credit)/expense	(1,352)	780
Tax expense in income statement (excluding share of tax of equity accounted investees)	5,181	3,134
Share of tax of equity accounted investees	122	128
Total tax expense	5,303	3,262

NOTES (CONTINUED)

9 Taxation (continued)

Reconciliation of effective tax rate

	2008 £000	2007 £000
Profit for the year	12,679	6,487
Total tax expense (including tax on equity accounted investees)	5,303	3,262
Profit excluding taxation	17,982	9,749
Tax using the UK corporation tax rate of 30% (2007: 30%)	5,395	2,925
Effect of tax rates in foreign jurisdictions	49	73
Difference in effective tax rate	(69)	–
Impact of change in tax rate to 28% on deferred tax balances	(44)	–
Non-deductible expenses	440	368
Utilisation of previously unrecognised tax losses	–	33
Marginal relief	(4)	(32)
Over provided in prior years	(464)	(105)

Total tax expense (including tax on equity accounted investees)	5,303	3,262
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Tax recognised directly in equity

	2008 £000	2007 £000
Current tax recognised directly in equity	–	–
Deferred tax recognised directly in equity	1,238	199
Total tax recognised directly in equity	1,238	199

10 Earnings per share

All earnings per share disclosures relate to continuing operations as the Group had no discontinued operations in either 2007 or 2008.

Earnings per share for the ordinary shares are as follows:

	2008	2007
Ordinary shares		
Basic earnings per share	46.66p	26.32p
Diluted earnings per share	45.74p	26.16p

The calculation of earnings per share is based on the profit for the year attributable to equity holders and on the weighted average number of shares in issue and ranking for dividend in the year.

Ordinary shares

	2008 £000	2007 £000
Profit for the year attributable to equity holders	12,257	6,414
Weighted average number of shares	26,270,532	24,372,457
Earnings per ordinary share (pence)	46.66p	26.32p

10 Earnings per share (continued)

The calculation of diluted earnings per share is based on the profit for the year and on the weighted average number of ordinary shares in issue in the year adjusted for the dilutive effect of the share options outstanding.

	2008 £000	2007 £000
Profit for the year attributable to equity holders	12,257	6,414
Weighted average number of shares	26,800,663	24,516,162
Diluted earnings per ordinary share (pence)	45.74p	26.16p

11 Property, plant and equipment – Group

	Freehold land and buildings and leasehold improvements £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Mineral reserves £000	Total £000
Cost						
Balance at 1 June 2006	2,640	5,740	24,430	133	–	32,943
Acquisitions through business combinations	15,021	29	15,520	31	6,638	37,239
Other acquisitions	853	1,890	7,835	14	–	10,592
Disposals	–	(339)	(1,473)	–	–	(1,812)
Balance at 31 May 2007	18,514	7,320	46,312	178	6,638	78,962
Balance at 1 June 2007	18,514	7,320	46,312	178	6,638	78,962
Acquisitions through business combinations	1,185	13	6,259	8	–	7,465
Other acquisitions	279	291	7,344	101	–	8,015
Disposals	–	(345)	(4,110)	(5)	–	(4,460)
Effect of movements in foreign exchange	–	2	–	–	–	2
Balance at 31 May 2008	19,978	7,281	55,805	282	6,638	89,984
Depreciation and impairment						
Balance at 1 June 2006	564	2,574	8,553	106	–	11,797
Depreciation charge for the year	315	801	3,779	14	121	5,030
Disposals	–	(167)	(876)	–	–	(1,043)
Balance at 31 May 2007	879	3,208	11,456	120	121	15,784
Balance at 1 June 2007	879	3,208	11,456	120	121	15,784
Depreciation charge for the year	532	315	9,520	34	641	11,042
Disposals	–	(330)	(2,785)	(5)	–	(3,120)
Effect of movements in foreign exchange	–	1	–	–	–	1
Balance at 31 May 2008	1,411	3,194	18,191	149	762	23,707
Net book value						
At 1 June 2006	2,076	3,166	15,877	27	–	21,146
At 31 May 2007 and 1 June 2007	17,635	4,112	34,856	58	6,517	63,178
At 31 May 2008	18,567	4,087	37,614	133	5,876	66,277

NOTES (CONTINUED)

11 Property, plant and equipment – Group (continued)

Leased plant and machinery

At 31 May 2008 the net carrying amount of leased plant and machinery was £14,483,132 (2007: £8,732,424). The leased equipment secures lease obligations (see note 20).

Security

Certain of the Group's property is used to secure long term funding through secured term loan arrangements (note 20).

Property, plant and equipment under construction

The Group has no property, plant and equipment under construction.

The Company has no property, plant and equipment.

12 Intangible assets – Group

	Goodwill £000	Negative goodwill £000	Customer contracts £000	Other intangibles £000	Total £000
Cost					
Balance at 1 June 2006	5,422	–	–	–	5,422
Acquisitions through business combinations	4,940	(84)	7,061	–	11,917
Other acquisitions – externally purchased	–	–	–	7	7
Balance at 31 May 2007	10,362	(84)	7,061	7	17,346
Balance at 1 June 2007	10,362	(84)	7,061	7	17,346
Acquisitions through business combinations	5,488	(18)	4,628	–	10,098
Effect of movements in foreign exchange	(11)	–	–	(2)	(13)
Balance at 31 May 2008	15,839	(102)	11,689	5	27,431
Amortisation and impairment					
Balance at 1 June 2006	–	–	–	–	–
Amortisation for the year	–	(84)	685	–	601
Balance at 31 May 2007	–	(84)	685	–	601
Balance at 1 June 2007	–	(84)	685	–	601
Amortisation for the year	–	(18)	1,182	–	1,164
Balance at 31 May 2008	–	(102)	1,867	–	1,765
Net book value					
At 1 June 2006	5,422	–	–	–	5,422
At 31 May 2007 and 1 June 2007	10,362	–	6,376	7	16,745
At 31 May 2008	15,839	–	9,822	5	25,666

12 Intangible assets – Group (continued)

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the income statement:

	2008 £000	2007 £000
Administrative expenses	1,164	601

Impairment testing

Goodwill has been allocated to cash generating units or groups of cash generating units as follows:

	2008 £000	Goodwill 2007 £000
Norec Limited	1,252	1,252
AJS Contracts Limited	2,502	–
Imperial Tankers Limited/Hargreaves (Bulk Liquid Transport) Limited	3,523	1,552
Monckton Coke & Chemical Company Limited	5,419	5,419
Hargreaves Building Products Limited	1,004	–
Maltby Colliery Limited	2,139	2,139

The recoverable amount of the above cash generating units have been calculated with reference to their value in use. The key features of this calculation are shown below:

	2008	2007
Period on which management approved forecasts are based	5 years	5 years
Growth rate applied beyond approved forecast period	2%	2%
Discount rate	12%	12%

The growth rates used in value in use calculations reflect a conservative estimate of the average industry growth rate.

The recoverable amount of each cash generating unit has been calculated with reference to its fair value less cost to sell.

In calculating this value, management have used the following assumptions:

- Cash flows were projected based on budgeted operating results for the proceeding year with the short term growth rate applied to the next four years. A conservative growth rate of 2% has been applied in perpetuity. This rate does not exceed the long term average growth rate for any of the cash generating units' industries.
- Sustaining capital expenditure in each cash generating unit has been included in the calculations equivalent to the current levels of annual depreciation. This is considered to be a prudent view by management as cash generating units such as Norec and AJS Contracts are largely labour-intensive rather than capital-intensive.
- A pre-tax discount rate of 12% has been used. Management consider this to be a prudent estimate of the cost of capital of the Group, taking into account the current macro-economic situation.

NOTES (CONTINUED)

13 Investments in subsidiaries, associates and jointly controlled entities

The Group and Company have the following investments in subsidiaries, associates and jointly controlled entities:

	Nature of business	Country of incorporation	Class of shares held	Ownership 2008	Ownership 2007
Company					
<i>Subsidiary undertakings</i>					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Norec Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Haulage	UK	Ordinary Preference	100% 50%	50% 50%
<i>Jointly controlled entity</i>					
Coal4Energy Limited	Light industrial and domestic coal sales	UK	Ordinary	50%	50%
Hargreaves Building Products Limited	Holding company	UK	Ordinary	50%	25%
Group					
<i>Subsidiary undertakings</i>					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Transport Limited	Asset Management	UK	Ordinary	100%	100%
Hargreaves (UK) Services Limited	Haulage, mineral import and processing	UK	Ordinary	100%	100%
The Monckton Coke & Chemical Company Limited	Manufacture of coke	UK	Ordinary	100%	100%
Norec Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Haulage	UK	Ordinary Preference	100%	100%
Maltby Colliery Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Raw Material Services GmbH	Import and sale of carbon based materials	Germany	Ordinary	72.5%	77.5%
Hargreaves Metallurgical Supplies Limited (formerly known as ThyssenKrupp Metallurgical Supplies Limited)	Mineral distribution	UK	Ordinary	100%	50%
Imperial Tankers Limited	Haulage	UK	Ordinary	100%	–
AJS Contracts Limited	Engineering maintenance services	UK	Ordinary	100%	–
<i>Jointly controlled entity</i>					
Maxibrite Limited	Smokeless fuel briquette manufacturing	UK	Ordinary	42.6%*	–
Hargreaves Coal Combustion Products Limited	Management and sale of ash products	UK	Ordinary Preference	50% 50%	48% 50%
Lytag Limited	Sales of aggregate product	UK	Ordinary	50%	25%
Rocfuel Limited	Renewable energy solutions	UK	Ordinary	50%	–

* Maxibrite is a 85.2% owned subsidiary of Coal4Energy Limited.

In addition to the above, the Group has approximately ten dormant subsidiary undertakings.

The Group's share of post-acquisition total recognised profit or loss in the above associates and jointly controlled entities for the year ended 31 May 2008 was £262,000 (2007: £326,000).

13 Investments in subsidiaries, associates and jointly controlled entities (continued)

Coal4Energy is considered a Jointly Controlled Entity because 50% of the voting rights are controlled by the Group.

Hargreaves Building Products Limited is considered a Jointly Controlled Entity because 50% of the voting rights are controlled by the Group.

Hargreaves Coal Combustion Products Limited is considered a Jointly Controlled Entity because 50% of the voting rights are controlled by the Group.

Lytag limited is considered a Jointly Controlled Entity because 50% of the voting rights are controlled by the Group.

Rocfuel Limited is considered a Jointly Controlled Entity because 50% of the voting rights are controlled by the Group.

Maxibrite Limited is considered a Jointly Controlled Entity because it is a 85.167% owned subsidiary of Coal4Energy, of which 50% of the voting rights are controlled by the Group.

	Interests in associates £000	Interests in jointly controlled entities £000	Other investments (listed) £000	Total £000
Group				
Cost				
At beginning of year	2	1	20	23
Additions	–	149	–	149
Disposal	–	–	(20)	(20)
Transfer	(2)	2	–	–
At end of year	–	152	–	152
Share of post acquisition reserves				
At beginning of year	56	880	–	936
Profits for the financial year	49	213	–	262
Disposals	–	(8)	–	(8)
Transfers	(105)	105	–	–
Dividends paid	–	(750)	–	(750)
At end of year	–	440	–	440
Net book value				
At 31 May 2008	–	592	–	592
At 31 May 2007	58	881	20	959

The Group's other investments were disposed of during the year. They had a market value at 31 May 2007 of £33,000.

The disposal of joint ventures in the year relates to the change in ownership of Hargreaves Metallurgical Supplies Limited from a 50% owned joint venture to a 100% owned subsidiary. The additional 50% of share capital was acquired on 31 May 2008.

NOTES (CONTINUED)

13 Investments in subsidiaries, associates and jointly controlled entities (continued)

	Ownership %	Current assets £000	Non-current assets £000	Current liabilities £000	Non-current liabilities £000	Revenue £000	Expenses (including tax) £000
2008							
Hargreaves Building Products Limited	50%	448	4	(376)	(11)	296	(310)
Hargreaves Coal Combustion Products Limited	50%	2,154	301	(2,033)	–	7,270	(7,114)
Hargreaves Metallurgical Supplies Limited	50%	–	–	–	–	–	13
Coal4Energy Limited	50%	8,091	4,821	(12,895)	–	63,683	(63,675)
Maxibrite Limited	42.58%	3,107	774	(1,281)	–	615	(505)
Lytag Limited	50%	1,437	231	(1,112)	–	2,722	(2,520)
Rocfuel Limited	50%	5	11	(48)	–	–	(34)
		15,242	6,142	(17,745)	(11)	74,586	(74,145)

	Ownership %	Current assets £000	Non-current assets £000	Current liabilities £000	Non-current liabilities £000	Revenue £000	Expenses (including tax) £000
2007							
Hargreaves Coal Combustion Products Limited	48%	1,558	300	(1,492)	–	4,037	(3,945)
Hargreaves Metallurgical Supplies Limited	50%	1,979	–	(575)	–	2,969	(2,701)
Coal4Energy Limited	50%	6,207	34	(6,232)	–	56,653	(56,578)
Hargreaves (Bulk Liquid Transport Limited)	50%	–	–	–	–	7,278	(7,168)
		9,744	334	(8,299)	–	70,937	(70,392)

Summary aggregated financial information on associates – 100%:

	2008 £000	2007 £000
Assets	–	2,775
Liabilities	–	(2,542)
Revenues	1,590	2,285
Profit after tax	195	223

Company

	Group undertakings £000	Joint ventures £000	Associates £000	Total £000
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Shares at cost

Cost and net book value

At 1 June 2006	4,581	1	–	4,582
Additions	9,206	–	2	9,208
Capital contribution arising on share options	268	–	–	268

At 31 May 2007	14,055	1	2	14,058
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At 1 June 2007	14,055	1	2	14,058
Additions	–	1,120	–	1,120
Capital contribution arising on share options	440	–	–	440
Transfer	–	2	(2)	–

At 31 May 2008	14,495	1,123	–	15,618
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14 Other financial assets

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Non-current				
Interest rate swaps designated as fair value through profit or loss	35	200	–	–
Directors' indemnity (see note 24)	–	500	–	–
	35	700	–	–
Current				
Currency contracts designated as fair value through profit or loss	164	–	–	–
Interest rate swaps designated as fair value through profit or loss	22	–	–	–
Other derivatives designated as fair value through profit and loss	152	–	–	–
Other derivative designated as fair value through hedging reserve	416	–	–	–
	754	–	–	–

15 Other financial liabilities

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Non-current				
Interest rate swaps designated as fair value through profit and loss	8	–	–	–
Other derivative designated as fair value through hedging reserve	7,887	631	–	–
	7,895	631	–	–
Current				
Currency contracts designated as fair value through profit or loss	5	67	–	–
Other derivatives designated as fair value through hedging reserve	3,109	138	–	–
	3,114	205	–	–

16 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2008 £000	2007 £000	2008 £000	2007 £000
Property, plant and equipment	–	–	7,855	6,972
Intangible assets	–	–	3,273	1,977
Financial assets	(2,863)	(191)	–	–
Employee benefits	(1,520)	(2,823)	–	–
Share-based payments	(391)	(268)	–	–
Provisions	(2,938)	(2,143)	–	–
Tax value of loss carry-forwards	(6)	–	–	–
Other	–	–	–	89
Tax (assets)/liabilities	(7,718)	(5,425)	11,128	9,038
Net of tax liabilities	–	–	5,092	1,851
Net tax (assets)/liabilities	(7,718)	(5,425)	16,220	10,889

NOTES (CONTINUED)

16 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

	1 June 2007 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 May 2008 £000
Property, plant and equipment	6,972	(208)	–	1,091	7,855
Intangible assets	1,977	–	–	1,296	3,273
Financial assets	(191)	61	(2,733)	–	(2,863)
Employee benefits	(2,823)	(192)	1,495	–	(1,520)
Share-based payments	(268)	(123)	–	–	(391)
Provisions	(2,143)	(795)	–	–	(2,938)
Tax value of loss carry-forwards utilised	–	(6)	–	–	(6)
Other	89	(89)	–	–	–
	3,613	(1,352)	(1,238)	2,387	3,410

Movement in deferred tax during the prior year

	1 June 2006 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 May 2007 £000
Property, plant and equipment	2,102	388	–	4,482	6,972
Intangible assets	–	–	–	1,977	1,977
Financial assets	(304)	344	(231)	–	(191)
Employee benefits	(141)	(63)	32	(2,651)	(2,823)
Share-based payments	–	(268)	–	–	(268)
Provisions	–	–	–	(2,143)	(2,143)
Other	(209)	379	–	(81)	89
	1,448	780	(199)	1,584	3,613

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2008 £000	Assets 2007 £000	2008 £000	Liabilities 2007 £000
Share-based payments	(123)	–	–	–
Tax (assets)/liabilities	(123)	–	–	–
Net of tax liabilities/(assets)	–	–	–	–
Net tax (assets)/liabilities	(123)	–	–	–

Movement in deferred tax during the year

	At 1 June 2006 and at 1 June 2007 £000	Recognised in income £000	Recognised in equity £000	31 May 2008 £000
Share-based payments	–	(123)	–	(123)

On 27 June 2007 a change in the rate of corporation tax was substantively enacted, with corporation tax reduced from 30% to 28% with effect from 1 April 2008. Consequently all deferred tax balances have been calculated based on the new rate.

17 Inventories

	2008 £000	Group 2007 £000	2008 £000	Company 2007 £000
Raw materials and consumables	29,953	30,220	–	–
Work in progress	8,773	1,503	–	–
Finished goods	4,727	3,304	–	–
	43,453	35,027	–	–

All amounts included within stocks are expected to be recovered within 12 months.

The write-down of inventories to net realisable value amounted to £441,000 (2007: £nil). The reversal of write-downs amounted to £nil (2007: £nil). The write-down is in cost of sales.

Included within inventories is £17.0m (2007: £nil) of advanced payments on account from customers.

18 Trade and other receivables

	2008 £000	Group 2007 £000	2008 £000	Company 2007 £000
Trade receivables	40,233	31,143	–	–
Trade receivable due from group undertakings	–	–	38,201	60,611
Trade receivable due from undertakings in which the company has a participating interest	3,031	2,820	100	100
Other trade receivables	5,277	1,826	3	2
Prepayments and accrued income	3,481	2,617	–	–
	52,022	38,406	38,304	60,713

Included within trade and other receivables is £nil (2007: £nil) for the Group and £nil (2007: £nil) for the Company expected to be recovered in more than 12 months.

The Group has a variety of credit terms depending on the customer. The majority of the Group's sales are made to blue-chip companies and consequently have very low historical default rates.

At 31 May 2008 trade receivables are shown net of an allowance for bad debts of £125,000 (2007: £207,000) arising from the ordinary course of business, as follows:

	2008 £000	2007 £000
Group		
Balance at 1 June	207	30
Assumed on acquisition	28	97
Provided during the year	61	80
Released	(110)	–
Utilised during the year	(61)	–
Balance at 31 May	125	207

NOTES (CONTINUED)

18 Trade and other receivables (continued)

The ageing of trade receivables at the balance sheet date was:

	Gross trade receivables £000	2008 Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	29,555	–	29,555
Past due date (0-90 days)	10,676	(28)	10,648
Past due date (over 90 days)	127	(97)	30
Individually impaired amounts	–	–	–
	40,358	(125)	40,233
	Gross trade receivables £000	2007 Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	22,890	(110)	22,780
Past due date (0-90 days)	8,372	–	8,372
Past due date (over 90 days)	88	(97)	(9)
Individually impaired amounts	–	–	–
	31,350	(207)	31,143

Management have no indication that any unimpaired amounts will be irrecoverable.

The Group's most significant customer is SSE Energy Supply Limited which accounts for £4,128,000 of trade receivables carrying amount at 31 May 2008 (2007: £2,229,000).

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2008 £000	2007 £000
UK	36,249	25,753
European customers	3,370	4,070
Other regions	614	1,320
	40,233	31,143

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 26.

19 Cash and cash equivalents/bank overdrafts

	2008 £000	Group 2007 £000	2008 £000	Company 2007 £000
Cash and cash equivalents per balance sheet	10,015	11,779	8,995	–
Bank overdrafts	(11,040)	(9,824)	–	–
Cash and cash equivalents per cash flow statements	(1,025)	1,955	8,995	–

The Group's exposure to credit and currency risk related to cash and cash equivalents are disclosed in note 26.

20 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 26.

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Non-current liabilities				
Secured bank loans	13,297	14,143	8,063	10,995
Finance lease liabilities	6,729	4,784	–	–
Invoice discounting facility	9,975	15,238	–	–
	30,001	34,165	8,063	10,995
Current liabilities				
Current portion of secured bank loans	5,212	4,327	2,932	2,932
Current portion of finance lease liabilities	3,216	1,901	–	–
Promissory note facility	6,759	–	–	–
Bank overdraft	11,040	9,824	–	–
	26,227	16,052	2,932	2,932

The Group comparative analysis between current and non-current liabilities has been amended to more accurately reflect existing repayment terms.

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2008 £000	Carrying amount 2008 £000	Face value 2007 £000	Carrying amount 2007 £000
Term loan A	Sterling	LIBOR +2%	2012	11,250	10,995	14,250	13,927
Term loan B	Sterling	LIBOR +2.5%	2010	2,800	2,756	4,200	4,136
Term loan C	Sterling	Base Rate +2%	2012	4,454	4,367	–	–
Mortgage	Sterling	LIBOR +1.5%	2024	391	391	407	407
Finance lease liabilities	Sterling	5.5% -12.5%	2008-2014	9,945	9,945	6,685	6,685
Promissory note facility	USD	LIBOR + 1.125%	2009	6,759	6,759	–	–
Bank overdraft facility	EUR	5.6% -7.25%	2008	11,040	11,040	9,824	9,824
Invoice discounting facility	Sterling	LIBOR + 1.4%	2011	9,975	9,975	15,238	15,238
				56,614	56,228	50,604	50,217

The invoice discounting facilities are committed 36 months facilities from 17 June 2008 which permit the refinancing of current debt. In accordance with the presentation requirements of IAS 32 and IAS 39 these liabilities have been classified according to the maturity date of the longest permitted refinancing. Without these committed facilities these amounts would have been classified as falling due within one year. The invoice discounting advances are secured by fixed and floating charges over the Group's assets. The gross amount of debts which were subject to invoice discounting advances at 31 May 2008 were £10,500,000 (2007: £6,404,000)

The overdraft facility is a 12 month facility from 22 January 2008, and can be drawn down in both Euros and US Dollars. The rate of interest is fixed and dependent on the currency drawn down.

NOTES (CONTINUED)

20 Other interest-bearing loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2008 £000	Interest 2008 £000	Principal 2008 £000	Minimum lease payments 2007 £000	Interest 2007 £000	Principal 2007 £000
Less than one year	3,760	544	3,216	2,293	392	1,901
Between one and five years	7,258	574	6,684	5,246	462	4,784
More than five years	54	9	45	–	–	–
	11,072	1,127	9,945	7,539	854	6,685

21 Trade and other payables

	2008 £000	Group 2007 £000	Company 2008 £000	2007 £000
Current				
Trade payables	24,540	22,492	–	–
Trade payables due to Group undertakings	–	–	10,397	18,553
Trade payables due to undertakings in which the company has a participating interest	78	–	41	–
Other trade payables	11,872	11,119	–	181
Non-trade payables and accrued expenses	18,492	13,894	152	–
Deferred consideration	3,248	2,000	1,120	–
	58,230	49,505	11,710	18,734
Non-current				
Deferred consideration	1,026	–	–	–
	1,026	–	–	–

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months (2007: £nil).

22 Pension schemes and other retirement benefits

The Group operates a group personal pension scheme. The pension cost charge for the year represents contributions payable by the Group to the employees' funds and amounted to £1,430,000 (2007: £158,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

The Group acquired a concessionary fuel retirement benefit scheme on the acquisition of The Monckton Coke & Chemical Company Limited on 17 June 2005.

The Group provides for concessionary fuel retirement benefits, for the current members of the scheme, payable at retirement on attaining the age of 65. The amounts payable are determined in the 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.

22 Pension schemes and other retirement benefits (continued)

The latest full actuarial valuation was carried out on 31 December 2004 and updated for IAS 19 purposes to 31 May 2008.

The major assumptions used in these valuations were:

	2008	2007
Average retirement age	65 years	60 years
Rate of leaving services	2.5%	2.5%
Coal price inflation	2.1%	2.1%
Discount rate applied to scheme liabilities	5.4%	5.4%
Inflation assumption	3.1%	3.1%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

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

Summary of scheme liabilities

	2008	2007
Present value of scheme liabilities	(419)	(469)
Deferred tax asset	117	141

Net scheme liabilities

(302) (328)

Movement in deficit during the year

	2008 £000	2007 £000
Deficit in scheme at beginning of year	(469)	(469)
Current service cost	(6)	(7)
Contributions paid	26	18
Other finance cost	(25)	(24)
Actuarial gain/(loss)	55	13

Deficit in the scheme at the end of the year

(419) (469)

Analysis of other pension costs charged in arriving at operating profit

	2008 £000	2007 £000
Current service cost	(6)	(7)

Analysis of amounts included in other finance costs

	2008 £000	2007 £000
Interest on pension scheme liabilities	(25)	(24)

Analysis of amount recognised in statement of total recognised gains and losses

	2008 £000	2007 £000
Experience gains and losses arising on scheme liabilities	84	–
Changes in assumptions underlying the present value of scheme liabilities	(29)	13
Actuarial gain recognised in statement of total recognised gains and losses	55	13

NOTES (CONTINUED)

22 Pension schemes and other retirement benefits (continued)

History of experience gains and losses

	2008	2007
Experience gains and losses on scheme liabilities:		
Amount (£000)	84	–
Percentage of year end present value of scheme liabilities	20%	–
Total amount recognised in statement of total recognised gains and losses:		
Amount (£000)	55	13
Percentage of year end present value of scheme liabilities	13%	3%

The Group acquired another concessionary fuel retirement benefit scheme and became a member of two defined benefit schemes on the acquisition of Maltby Colliery on 26 February 2007.

The Group operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation of all these schemes was carried out at 31 December 2003 and was updated for IAS 19 purposes to 31 May 2008 by a qualified independent actuary.

The major assumptions used in this valuation were:

	2008	2007
Rate of increase in salaries	3.8%	3.2%
Rate of increase in pensions in payment and deferred pensions	3.6%	3.2%
Discount rate applied to scheme liabilities	5.9%	4.9%
Inflation assumption	3.8%	3.2%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2008 £000	Value at 2007 £000
Equities	11,480	8,787
Bonds	–	2,929
Other – Cash	81	–
Total market value of assets	11,561	11,716
Present value of scheme liabilities	(16,573)	(20,658)
Deficit in the scheme – Pension liability	(5,012)	(8,942)
Related deferred tax asset	1,403	2,682
Net pension liability	(3,609)	(6,260)

The expected rates of return on the assets in the scheme were:

	Long term rate of return 2008	Long term rate of return 2007
Equities	9.0%	7.4%
Bonds	5.5%	5.0%
Other – Cash	5.0%	5.5%

22 Pension schemes and other retirement benefits (continued)

Movement in deficit during the year

	2008 £000	2007 £000
Deficit in scheme on acquisition	–	(8,837)
Deficit in scheme at the beginning of the year	(8,942)	–
Current service cost	(1,065)	(305)
Contributions paid	712	178
Other finance cost	(287)	(73)
Actuarial gain	4,570	95
Deficit in the scheme at the end of the year	(5,012)	(8,942)

The pension scheme deficit has been calculated at 31 May 2008 on the basis that of the 138 employees eligible to transfer their benefits to the new section of the Maltby Colliery pension scheme, 34 were yet to transfer. At 31 May 2007, the deficit was calculated on the assumption that all 138 eligible members would transfer their benefits.

Analysis of other pension costs charged in arriving at operating profit

	2008 £000	2007 £000
Current service cost	(1,065)	(305)

Analysis of amounts included in other finance costs

	2008 £000	2007 £000
Expected return on pension scheme assets	771	168
Interest on pension scheme liabilities	(1,058)	(241)
	(287)	(73)

Analysis of amount recognised in statement of total recognised gains and losses

	2008 £000	2007 £000
Actual return less expected return on scheme assets	4,570	95

History of experience gains and losses

	2008	2007
Difference between the expected and actual return on scheme assets:		
Amount (£000)	(1,887)	95
Percentage of year end scheme assets	16.3%	0.8%
Experience gains and losses on scheme liabilities:		
Amount (£000)	6,457	–
Percentage of year end present value of scheme liabilities	31.0%	–
Total amount recognised in statement of total recognised gains and losses:		
Amount (£000)	4,570	95
Percentage of year end present value of scheme liabilities	27.6%	0.5%

NOTES (CONTINUED)

23 Employee share schemes

The Group has issued options under the Savings Related Share Option Scheme during the year. Details are as follows:

	2008 Number of options	2007 Number of options
At beginning of year	439,736	164,044
Granted during year	175,968	295,499
Lapsed during year	(53,236)	(19,807)
Exercised during year	–	–
At end of year	562,468	439,736

The exercise period for 135,852 of the options is from 1 March 2009 to 1 September 2009 and the weighted average exercise price of these is 218p. The exercise period for 251,305 options is from 1 July 2010 to 1 January 2011 and the weighted average exercise price is 524p. The exercise period for 175,311 of the options is from 1 June 2011 to 30 November 2011 and the weighted average price of these is 467p. Further details of the Savings Related Share Option Scheme are included in the Corporate Governance and Remuneration report.

The Group recognised a total expense of £252,000 (2007: £85,000) in respect of these equity-settled share options.

Long Term Incentive Plan ('LTIP')

At 31 May 2008 the Group had an LTIP scheme that granted options on 8 November 2006. Further details of the LTIP scheme are included in the Corporate Governance and Remuneration Report.

The details of the grant are as follows, whereby all options are settled by physical delivery of shares:

Date of grant	Employees entitled	Number of shares granted	Exercise period
November 2006	Senior employees	92,593	June 2009- November 2009

No options were exercised during the period.

Details of options granted in the period

The fair value of the options granted during the year have been measured using the Black Scholes valuation model, the exercise prices above and the weighted average inputs shown below:

	2008	2007
Share price at date of grant (pence)	391.5	391.5
Expected option life (years)	3	3
Volatility	40%	40%
Risk free interest rate	5.35%	5.35%

Volatility was calculated with reference to the Group's daily share price volatility. The average share price in the year was 561p (2007: 452p).

The Group recognised a total expense of £136,000 (2007: £82,000) in respect of the equity-settled LTIP share scheme.

23 Employee share schemes (continued)

Equity settled share option schemes – Norec

At 31 May 2008 the Group had a share option scheme, that granted options in September 2006, to the senior management team of the Norec business.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Date of grant	Employees entitled	Exercise price	Number of shares granted	Exercise period
September 2006	Senior employees	393.5p	96,572	September 2007-September 2017

No options were exercised during the period.

Details of options granted in the period

The fair value of the options granted during the year have been measured using the Black Scholes valuation model, the exercise prices above and the weighted average inputs shown below:

	2007
Share price at date of grant (pence)	391.0
Expected option life (years)	5.5
Volatility	40%
Risk free interest rate	5.35%

The Group recognised a total expense of £52,000 (2007: £101,000) in respect of these equity-settled share options.

24 Provisions

Group	Monckton ground water contamination £000	Maltby Restoration £000	HMRC 1 £000	HMRC 2 £000	Maltby subsidence provision £000	Total £000
Balance at 1 June 2006	1,582	–	1,089	–	–	2,671
Amounts arising from acquisition/disposal	–	7,656	–	–	–	7,656
Balance at 31 May 2007	1,582	7,656	1,089	–	–	10,327
Balance at 1 June 2007	1,582	7,656	1,089	–	–	10,327
Provisions made during the year	–	–	–	570	519	1,089
Provisions reversed during the year	–	–	(1,089)	–	–	(1,089)
Balance at 31 May 2008	1,582	7,656	–	570	519	10,327

Provisions comprise:

- 1 A £1,582,000 ground/groundwater contamination provision which relates to Monckton's obligation to address ground and groundwater contamination at its sites. The provision is based on estimates of volumes of contaminated soil and historical contract costs of ground contamination treatment. The costs will usually be payable on the decommissioning of the site.
- 2 A £7,656,000 restoration provision which relates to Maltby's obligation to restore the site after coal mining has been completed.
- 3 A net £589,000 relating to excise duty assessments by HM Revenue & Customs ('HMRC 1'). The Group, having taken legal advice, appealed the excise duty assessment, arguing that it was the victim of a fraud by third party suppliers. The decision of the appeal was made during the year, and found in favour of the Group. The provision has therefore been released. The gross liability at 31 May 2007 was £1,122,000. Certain directors of the Company indemnified the Group to a maximum of £500,000 in respect of this issue, leaving the net figure as the best estimate of the likely cash outflow.
- 4 A £570,000 provision relating to assessments by HM Revenue & Customs ('HMRC 2'). The provision is connected with the operation of an independent drivers co-operative used by the Group to supply drivers. The Group, having taken professional advice, believe that the employment status and tax treatment of the drivers has been applied correctly. HMRC are, however, challenging the operation of this scheme and other industry wide schemes of the same nature on the basis that these schemes avoid the requirement to operate PAYE and pay employers national insurance contributions. The schemes are no longer operated. The Group is prepared to appeal any assessments raised in connection with these schemes. The provision is based on an estimate of expected potential cash outflow.
- 5 A statutory provision payable to the UK Coal Mining Board at a set rate, in order to rectify any potential subsidence of the local area around Maltby Colliery. Any unused provision will be released after the statutory period.

The company has no provisions.

NOTES (CONTINUED)

25 Capital and reserves

Reconciliation of movement in capital and reserves – Group

	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000	Minority interest £000	Total equity £000
Balance at 1 June 2006	2,368	19,082	–	–	29	1,530	–	2,255	25,264	–	25,264
Total recognised income and expense	–	–	(4)	(538)	–	–	–	6,490	5,948	73	6,021
Issue of shares	259	10,095	–	–	–	–	–	–	10,354	–	10,354
Merger reserve arising on acquisition	–	–	–	–	–	–	1,022	–	1,022	–	1,022
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	268	268	–	268
Dividends	–	–	–	–	–	–	–	(1,972)	(1,972)	–	(1,972)
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	77	77
Balance at 31 May 2007	2,627	29,177	(4)	(538)	29	1,530	1,022	7,041	40,884	150	41,034
Balance at 1 June 2007	2,627	29,177	(4)	(538)	29	1,530	1,022	7,041	40,884	150	41,034
Total recognised income and expense	–	–	190	(7,080)	–	–	–	15,389	8,499	422	8,921
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	440	440	–	440
Dividends	–	–	–	–	–	–	–	(2,443)	(2,443)	–	(2,443)
Disposal of shares in subsidiary	–	–	–	–	–	–	–	–	–	109	109
Balance at 31 May 2008	2,627	29,177	186	(7,618)	29	1,530	1,022	20,427	47,380	681	48,061

Reconciliation of movement in capital and reserves – Company

	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1 June 2006	2,368	19,082	1,530	–	1,241	24,221
Total recognised income and expense	–	–	–	–	8,217	8,217
Issue of shares	259	10,095	–	–	–	10,354
Merger reserve arising on acquisition	–	–	–	1,022	–	1,022
Equity-settled share-based payment transactions	–	–	–	–	268	268
Dividends	–	–	–	–	(1,972)	(1,972)
Balance at 31 May 2007	2,627	29,177	1,530	1,022	7,754	42,110
Balance at 1 June 2007	2,627	29,177	1,530	1,022	7,754	42,110
Total recognised income and expense	–	–	–	–	228	228
Equity-settled share-based payment transactions	–	–	–	–	440	440
Dividends	–	–	–	–	(2,443)	(2,443)
Balance at 31 May 2008	2,627	29,177	1,530	1,022	5,979	40,335

25 Capital and reserves (continued)

Share capital (in thousands of shares)

	Ordinary shares	
	2008 £000	2007 £000
<i>Authorised</i>		
47,500,000 (2007: 47,500,000) Ordinary shares of 10p each	4,750	4,750
<i>Allotted, called up and fully paid</i>		
26,270,532 (2007: 26,270,532) Ordinary shares of 10p each	2,627	2,627

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Translation reserve

The translation reserve comprises all foreign exchange differences arising since 1 June 2006, the transition date to Adopted IFRSs, from the translation of the financial statements of foreign operations.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends

The aggregate amount of dividends comprises:

	2008 £000	2007 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	1,576	1,184
Interim dividends paid in respect of the current year	867	788
	2,443	1,972
Proposed dividend of 7p per share (2007: 6p)	1,839	1,576

The proposed dividend has not been included in liabilities as it was not approved before the year end.

26 Financial instruments

The Group's principal financial instruments comprise short term debtors and creditors, bank loans and overdrafts, invoice discounting advances, obligations under finance leases and cash. The Group does not trade in financial instruments but uses derivative financial instruments in the form of forward rate agreements and forward foreign currency contracts to help manage its foreign currency and interest rate exposures. The main purpose of these financial instruments is to raise finance for the Group's ongoing operations and manage its working capital requirements.

NOTES (CONTINUED)

26 (a) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's risk is influenced by the nature of its customers. New customers are analysed for creditworthiness before the Group's standard payment terms and conditions are offered and appropriate credit limits set.

Exposure to credit risk

The carrying amount of trade receivables represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £40,233,000 (2007: £31,143,000) being the total of the carrying amount of trade receivables.

The allowance account for trade receivables is used to record impairment losses unless the Group or Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

26 (b) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to access the necessary funds to finance its operations. The Group finances its operations through a mix of short and medium term facilities.

The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on a rolling cash forecast.

Liquidity risk – Group

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £000	2008 Contracted Cash flows				Carrying amount £000	2007 Contracted Cash flows			
		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities										
Secured bank loans	18,509	5,212	5,279	7,714	304	18,470	4,327	4,328	9,492	323
Finance lease liabilities	9,945	3,216	3,185	3,499	45	6,685	1,901	1,773	3,011	–
Promissory note facility	6,759	6,759	–	–	–	–	–	–	–	–
Bank overdrafts	11,040	11,040	–	–	–	9,824	9,824	–	–	–
Trade and other payables*	59,256	58,230	1,026	–	–	49,505	49,505	–	–	–
Invoice discounting facility	9,975	–	–	9,975	–	15,238	–	–	15,238	–
Derivative financial liabilities										
Interest rate swaps used for hedging	8	–	–	8	–	67	67	–	–	–
Forward exchange contracts used for hedging:										
Outflow	5	5	–	–	–	–	–	–	–	–
Inflow	–	–	–	–	–	–	–	–	–	–
Commodity contracts:										
Outflow	10,996	3,109	5,669	2,218	–	769	138	305	326	–
Inflow	–	–	–	–	–	–	–	–	–	–
	126,493	87,571	15,159	23,414	349	100,558	65,762	6,406	28,067	323

*Excludes derivatives (shown separately).

26 (b) Liquidity risk (continued)

Liquidity risk – Company

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £000	2008 Contracted Cash flows				Carrying amount £000	2007 Contracted Cash flows			
		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities										
Secured bank loans	10,995	2,932	2,932	5,131	–	13,927	2,932	2,932	8,063	–
Trade and other payables	11,710	11,710	–	–	–	18,734	18,734	–	–	–
	22,705	14,642	2,932	5,131	–	32,661	21,666	2,932	8,063	–

26 (c) Cash flow hedges

Cash flow hedges – Group

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

	Carrying amount £000	2008 Expected Cash flows				Carrying amount £000	2007 Expected Cash flows			
		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:										
Assets	57	22	–	35	–	200	–	128	72	–
Liabilities	(8)	–	–	(8)	–	–	–	–	–	–
Forward exchange contracts:										
Assets	164	164	–	–	–	–	–	–	–	–
Liabilities	(5)	(5)	–	–	–	(67)	(67)	–	–	–
Commodity contracts:										
Assets	568	568	–	–	–	–	–	–	–	–
Liabilities	(10,996)	(3,109)	(5,669)	(2,218)	–	(769)	(138)	(305)	(326)	–
	(10,220)	(2,360)	(5,669)	(2,191)	–	(636)	(205)	(177)	(254)	–

26 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Group

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities.

The Group's policy is to reduce currency exposures on sales and purchasing through forward foreign currency contracts.

NOTES (CONTINUED)

26 (d) Market risk (continued)

Market risk – Foreign currency risk

Group

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 May 2008

	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	10,015	–	–	10,015
Trade receivables	34,467	3,235	2,531	40,233
Secured bank loans	(18,509)	–	–	(18,509)
Trade payables	(2,257)	(22,283)	–	(24,540)
Other trade payables	(1,927)	(579)	(9,366)	(11,872)
Overdraft	(176)	(2,850)	(8,014)	(11,040)
Promissory notes	–	–	(6,759)	(6,759)
Invoice discounting facility	(9,975)	–	–	(9,975)
Balance sheet exposure	11,638	(22,477)	(21,608)	(32,447)
Estimated forecast sales	–	–	–	–
Estimated forecast purchases	–	–	–	–
Gross exposure		(22,477)	(21,608)	(44,085)
Forward exchange contracts		–	14,489	14,489
Net exposure		(22,477)	(7,119)	(29,596)

31 May 2007

	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	10,664	288	827	11,779
Trade receivables	25,481	4,023	1,639	31,143
Secured bank loans	(18,470)	–	–	(18,470)
Trade payables	(19,541)	(2,951)	–	(22,492)
Other trade payables	(1,673)	(253)	(9,193)	(11,119)
Overdraft	(730)	(3,591)	(5,503)	(9,824)
Promissory notes	–	–	–	–
Invoice discounting facility	(15,238)	–	–	(15,238)
Balance sheet exposure	(19,507)	(2,484)	(12,230)	(34,221)
Estimated forecast sales	–	–	–	–
Estimated forecast purchases	–	–	–	–
Gross exposure		(2,484)	(12,230)	(14,714)
Forward exchange contracts		–	3,164	3,164
Net exposure		(2,484)	(9,066)	(11,550)

26 (d) Market risk (continued)

Company

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 May 2008

	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	8,995	–	–	8,995
Trade receivables	38,304	–	–	38,304
Secured bank loans	(10,995)	–	–	(10,995)
Trade payables	(11,710)	–	–	(11,710)
Balance sheet exposure	24,594	–	–	24,594
Estimated forecast sales		–	–	–
Estimated forecast purchases		–	–	–
Gross exposure		–	–	–
Forward exchange contracts		–	–	–
Net exposure		–	–	–

31 May 2007

	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	–	–	–	–
Trade receivables	60,713	–	–	60,713
Secured bank loans	(13,927)	–	–	(13,927)
Trade payables	(18,734)	–	–	(18,734)
Forward exchange contracts	–	–	–	–
Balance sheet exposure	28,052	–	–	28,052
Estimated forecast sales		–	–	–
Estimated forecast purchases		–	–	–
Gross exposure		–	–	–
Forward exchange contracts		–	–	–
Net exposure		–	–	–

Sensitivity analysis

Group

A 10% weakening of the following currencies against the pound sterling at 31 May 2008 would have increased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 2007.

	2008 £000	Equity 2007 £000	Profit or loss 2008 £000	2007 £000
€	2,043	226	2,043	226
\$	647	824	647	824

A 10% strengthening of the above currencies against the pound sterling at 31 May 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

NOTES (CONTINUED)

26 (d) Market risk (continued)

Market risk – Interest rate risk

Profile

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Fixed rate instruments				
Financial assets	–	–	–	–
Financial liabilities	(20,985)	(16,509)	–	–
	(20,985)	(16,509)	–	–
Variable rate instruments				
Financial assets	10,015	11,779	–	–
Financial liabilities	(35,243)	(33,708)	(10,995)	(13,927)
	(25,228)	(21,929)	(10,995)	(13,927)

Sensitivity analysis

An increase of 1 basis points in interest rates at the balance sheet date would have decreased profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2007.

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Profit or loss				
Decrease	(1,065)	(448)	(537)	(620)

26 (d) Capital management

Group

The Group finances its operations through retained earnings, bank borrowings and the management of working capital.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Less than one year	726	1,177	–	–
Between one and five years	3,849	4,414	–	–
More than five years	86	1,846	–	–
	4,661	7,437	–	–

Group

During the year £5,393,000 was recognised as an expense in the income statement in respect of operating leases (2007: £4,929,000).

Company

During the year £nil was recognised as an expense in the income statement in respect of operating leases (2007: £nil).

28 Capital commitments

Group

During the year ended 31 May 2008, the Group entered into a contract to purchase property, plant and equipment for £14,265,000 (2007: £1,861,000). In respect of its interest in jointly controlled entities, the Group is committed to incur capital expenditure of £nil (2007: £nil). The jointly controlled entities are themselves committed to incur capital expenditure of £nil (2007: £nil).

29 Contingencies

Group and Company

The Company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The Company acts as a guarantor, or surety, for various subsidiary undertakings in leasing, banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided liability is £28,743,000 (2007: £21,443,000).

30 Related parties

Group

Other related party transactions

	2008 £000	Sales to 2007 £000	Purchases from 2008 £000	2007 £000
Ultimate parent of the Group	–	–	–	–
Associates				
Hargreaves Building Products Limited	–	1	–	–
Lytag Limited	42	4	–	–
Joint ventures				
Hargreaves Metallurgical Supplies Limited (formerly known as ThyssenKrupp Metallurgical Supplies Limited)	–	1,133	–	15
Hargreaves (Bulk Liquid Transport) Limited	–	1,615	–	–
Hargreaves Coal Combustion Products Limited	2,084	945	3	4
Coal4Energy	19,677	16,726	–	37
Hargreaves Building Products Limited	15	–	–	–
Lytag Limited	–	–	–	–
Maxibrite Limited	6	–	17	–
Other related parties	–	–	–	–
	21,824	20,424	20	56
	Receivables outstanding 2008 £000	2007 £000	Payables outstanding 2008 £000	2007 £000
Ultimate parent of the Group	–	–	–	–
Associates				
Hargreaves Building Products Limited	–	–	–	–
Lytag Limited	–	–	–	–
Joint ventures				
Hargreaves Metallurgical Supplies Limited	–	374	–	–
Hargreaves (Bulk Liquid Transport) Limited	–	–	–	–
Hargreaves Coal Combustion Products Limited	130	268	4	–
Coal4Energy	2,814	2,178	17	–
Hargreaves Building Products Limited	14	–	–	–
Lytag Limited	5	–	40	–
Maxibrite Limited	29	–	17	–
Rocfuel Limited	39	–	–	–
Other related parties	–	–	–	–
	3,031	2,820	78	–

NOTES (CONTINUED)

30 Related parties (continued)

Company

Other related party transactions

The Company had no sales to, or purchases from, any related parties during this or the prior year.

	Receivables outstanding		Payables outstanding	
	2008	2007	2008	2007
	£000	£000	£000	£000
Ultimate parent of the Group	–	–	–	–
Subsidiaries	38,201	60,611	10,397	18,553
Associates	–	–	–	–
Joint ventures	100	100	41	–
Other related parties	–	–	–	–
	38,301	60,711	10,438	18,553

31 Subsequent events

After the year end the Group completed a reorganisation of its interests in the Building Products Group joint venture. As part of this reorganisation, Hargreaves effectively disposed of its 50% share in Lytag Limited in exchange for an additional 25% stake in Hargreaves Building Products Limited and a cancellation of the deferred consideration relating to the October 2007 acquisition. This October 2007 acquisition is disclosed in more detail in note 3.

On 1 August 2008, the Group entered into a joint venture with SSM Limited, a subsidiary of Oxbow Inc, a major global minerals trading enterprise. Under this joint venture, the Group and Oxbow Inc have combined their port handling operations into a new special purpose vehicle, Eastgate Material Handling Services Limited. Eastgate will provide port handling services to both Hargreaves and Oxbow, whilst accessing the synergies of greater scale at the Immingham port.

32 Explanation of transition to Adopted IFRSs – Group

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 May 2008, the comparative information presented in these financial statements for the year ended 31 May 2007 and in the preparation of an opening IFRS balance sheet at 1 June 2006 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

There is no difference between the Company balance sheet under UK GAAP and adopted IFRSs however, in 2008 the Company has adopted IRFIC 11 IFRS 2 'Group Share Transactions' and applied the standard retrospectively. The same treatment would have been adopted under UK GAAP. Therefore a reconciliation of transition to adopted IFRSs for the Company is not disclosed.

The share-based payment charge for the year ended 31 May 2007 has been recognised as an investment in subsidiary undertakings. This increases investments by £268,000 and increases the reported profit for the year by £268,000.

32 Explanation of transition to Adopted IFRSs – Group (continued)

Reconciliation of Consolidated Income Statement for the year ended 31 May 2007

	UK GAAP £000	Goodwill (a) £000	IFRS adjustments IAS 32 & 39 (b) £000	Intangibles (c) £000	Reclassification (d) £000	IFRS £000
Revenue	240,105	–	–	–	–	240,105
Cost of sales	(213,164)	–	–	–	–	(213,164)
Gross profit	26,941	–	–	–	–	26,941
Other income: group	25	–	–	–	–	25
Other income: joint ventures	30	–	–	–	(30)	–
Administrative expenses	(17,049)	659	–	(685)	–	(17,075)
Operating profit	9,947	659	–	(685)	(30)	9,891
Finance income	1,674	–	–	–	(34)	1,640
Finance expenses: group	(3,384)	–	1,148	–	–	(2,236)
Finance expenses: joint ventures	(99)	–	–	–	99	–
Share of profit of joint ventures	413	–	–	–	(143)	270
Share of profit of associates	76	–	–	–	(20)	56
Profit before income tax	8,627	659	1,148	(685)	(128)	9,621
Income tax expense	(2,918)	–	(344)	–	128	(3,134)
Profit for the period	5,709	659	804	(685)	–	6,487
Profit for the period attributable to equity holders of the Company	5,636	659	804	(685)	–	6,414
Profit for the period attributable to minority interest	73	–	–	–	–	73

NOTES (CONTINUED)

32 Explanation of transition to Adopted IFRSs – Group (continued)

Reconciliation of Consolidated Balance Sheet

at 31 May 2007

	UK GAAP £000	Goodwill (a) £000	IAS 32 & 39 (b) £000	IFRS adjustments Intangibles (c) £000	Reclassification (d) £000	IFRS £000
ASSETS						
Non-current assets						
Property, plant and equipment	63,178	–	–	–	–	63,178
Intangible assets	12,979	4,451	–	(685)	–	16,745
Investments in joint ventures	881	–	–	–	–	881
Investments in associates	58	–	–	–	–	58
Other investments, including derivatives	20	–	200	–	–	220
Other receivables	500	–	–	–	–	500
Total non-current assets	77,616	4,451	200	(685)	–	81,582
Current assets						
Inventories	35,027	–	–	–	–	35,027
Trade and other receivables	38,406	–	–	–	–	38,406
Cash and cash equivalents	11,779	–	–	–	–	11,779
Total current assets	85,212	–	–	–	–	85,212
Total assets	162,828	4,451	200	(685)	–	166,794
LIABILITIES						
Non-current liabilities						
Loans and borrowings	(34,165)	–	–	–	–	(34,165)
Derivative financial instruments	–	–	(631)	–	–	(631)
Deferred tax liabilities	–	(4,115)	191	–	311	(3,613)
Retirement benefit obligations	(6,588)	–	–	–	(2,823)	(9,411)
Provisions	(12,839)	–	–	–	2,512	(10,327)
Total non-current liabilities	(53,592)	(4,115)	(440)	–	–	(58,147)
Current liabilities						
Trade and other payables	(51,356)	–	–	–	1,851	(49,505)
Current income tax liabilities	–	–	–	–	(1,851)	(1,851)
Borrowings	(16,052)	–	–	–	–	(16,052)
Derivative financial instruments	–	–	(205)	–	–	(205)
Total current liabilities	(67,408)	–	(205)	–	–	(67,613)
Total liabilities	(121,000)	(4,115)	(645)	–	–	(125,760)
Net assets/(liabilities)	41,828	336	(445)	(685)	–	41,034
EQUITY						
Capital and reserves attributable to equity holders of the company						
Issued capital	2,627	–	–	–	–	2,627
Share premium	29,177	–	–	–	–	29,177
Other reserves	29	–	–	–	–	29
Translation reserve	–	–	–	–	(4)	(4)
Merger reserve	1,022	–	–	–	–	1,022
Hedging reserve	–	–	(538)	–	–	(538)
Capital redemption reserve	1,530	–	–	–	–	1,530
Retained earnings	7,293	336	93	(685)	4	7,041
	41,678	336	(445)	(685)	–	40,884
Minority interest in equity	150	–	–	–	–	150
	41,828	336	(445)	(685)	–	41,034

32 Explanation of transition to Adopted IFRSs – Group (continued)

Reconciliation of Consolidated Statement of Cash Flows for the year ended 31 May 2007

	UK GAAP £000	Goodwill (a) £000	IFRS adjustments IAS 32 & 39 (b) £000	Intangibles (c) £000	Reclassification (d) £000	IFRS £000
Cash flows from operating activities						
Profit for the period	5,709	659	804	(685)	–	6,487
Adjustments for:						
Depreciation	5,030	–	–	–	–	5,030
Amortisation of intangible assets	–	–	–	685	–	685
Amortisation of goodwill/ negative goodwill on acquisition	575	(659)	–	–	–	(84)
Share of profit of joint ventures	(413)	–	–	–	143	(270)
Share of profit of associates	(76)	–	–	–	20	(56)
Gain on sale of property, plant and equipment	(55)	–	–	–	30	(25)
Equity-settled share-based payment transactions	268	–	–	–	–	268
Net finance expense	1,809	–	(1,148)	–	(65)	596
Income tax expense	2,918	–	344	–	(128)	3,134
	15,765	–	–	–	–	15,765
Change in inventories	(13,254)	–	–	–	–	(13,254)
Change in trade and other receivables	(4,914)	–	–	–	–	(4,914)
Change in trade and other payables	10,691	–	–	–	–	10,691
Change in provisions and employee benefits	117	–	–	–	–	117
Cash from operating activities	8,405	–	–	–	–	8,405
Interest paid	(1,971)	–	–	–	–	(1,971)
Income tax paid	(2,245)	–	–	–	–	(2,245)
Net cash inflow from operating activities	4,189	–	–	–	–	4,189
Cash flows from investing activities						
Interest received	324	–	–	–	–	324
Proceeds from sale of property, plant and equipment	794	–	–	–	–	794
Acquisition of property, plant and equipment	(8,661)	–	–	–	–	(8,661)
Acquisition of subsidiary net of cash acquired	(33,693)	–	–	–	–	(33,693)
Acquisition of other investments	75	–	–	–	–	75
Net cash outflow from investing activities	(41,161)	–	–	–	–	(41,161)
Cash flows from financing activities						
Proceeds from the issue of share capital	10,332	–	–	–	–	10,332
Proceeds from borrowings	15,000	–	–	–	–	15,000
Repayment of borrowings	(1,164)	–	–	–	–	(1,164)
Repayment of finance lease liabilities	(1,947)	–	–	–	–	(1,947)
Proceeds from invoice discounting facility	3,656	–	–	–	–	3,656
Dividends paid	(1,972)	–	–	–	–	(1,972)
Net cash inflow from financing activities	23,905	–	–	–	–	23,905
Net decrease in cash and cash equivalents	(13,067)	–	–	–	–	(13,067)
Cash and cash equivalents at the start of the period	15,022	–	–	–	–	15,022
Cash and cash equivalents at the end of the period	1,955	–	–	–	–	1,955

NOTES (CONTINUED)

32 Explanation of transition to Adopted IFRSs – Group (continued)

(a) & (c) IFRS 3 – Business Combinations

Under UK GAAP, the Group amortised the cost of goodwill arising on acquisition of subsidiaries over its useful life. Under IFRS 3, goodwill on acquisition is no longer amortised, but is held at its acquired prior to the transition date to IFRS carrying value at the transition date, or acquisition date, as appropriate, and is then subject to impairment review at each reporting date.

The Group has restated the value of goodwill in its balance sheet to that at the transition date (1 June 2006) and has carried out an impairment review as at 1 June 2006 and 31 May 2007. The impact has been to decrease profit by £5,000 in the six months ended 30 November 2006 and decrease profit by £26,000 in the year ended 31 May 2007, which includes a reversal of goodwill amortisation of £659,000 and an intangible asset amortisation charge of £685,000 (with a corresponding decrease in the carrying value of goodwill).

The Group has accounted for acquisitions that have occurred since 1 June 2006 in accordance with IFRS 3 'Business Combinations'. Under IFRS 3, intangible assets purchased as part of a business combination may meet the criteria set out in IFRS 3 for categorisation as an intangible asset other than goodwill and are then amortised over their useful economic life.

Norec Ltd

On 1 September 2006 the Group acquired the entire issued share capital of Norec. Under UK GAAP the fair value of the consideration was £7,397,000 and the fair value of the net assets acquired was £1,061,000, which gave rise to £6,336,000 goodwill on acquisition.

The Group has recognised an intangible asset under IFRS 3 for the customer contracts acquired. This has been fair valued at £7,061,000 at the date of acquisition by the Group. This is being amortised over the period in which the contracts are expected to expire, which is 75 months, leaving a carrying amount of £6,376,000 at 31 May 2007.

Hargreaves (Bulk Liquid Transport) Ltd

On 22 January 2007 the Group acquired the remaining 50% issued share capital of Hargreaves (Bulk Liquid Transport) Ltd (previously a 50% joint venture). Under UK GAAP the fair value of the consideration was £1,809,000 and the fair value of the net assets acquired was £280,000, which gave rise to £1,529,000 goodwill on acquisition.

The group has recognised no intangible assets under IFRS 3, as there are no material separately identifiable intangible assets such as key customer contracts, brand names, non-compete agreements etc.

(b) IAS 32 and 39 – Financial Instruments

Under UK GAAP, the fair values of foreign exchange contracts, interest rate swaps and other derivative financial instruments, were not required to be recorded in the financial statements. Under IFRS, IAS 39 requires foreign exchange contracts and interest rate swaps to be recorded in the balance sheet at their fair value and movements in the fair value between balance sheet dates are included in the income statement.

The value of the Group's foreign exchange contracts and interest rate swap at balance sheet dates and the impact on the consolidated income statement are set out below:

	Fair value £000	Deferred tax £000	Net impact £000
Value at 1 June 2006	(1,015)	304	(711)
Movement in value in 12 months 31 May 2007	1,148	(344)	804
Value at 31 May 2007	133	(40)	93

The Group has entered into a derivative contract for the sale and purchase of coking coal. This contract bases the sale price to a specific major Group customer on the API international coal index, and also contracts to purchase the coke from a third party, thus effectively hedging the Group's risk to both exchange rate fluctuations and coal price fluctuations in the market.

32 Explanation of transition to Adopted IFRSs – Group (continued)

The fair value is the estimated amount that the Group would have to pay to terminate the purchase contract at the balance sheet date, taking account of current API index prices, foreign currency exchange rates and the current credit worthiness of swap counterparties.

Under IAS39 the Group are able to hedge account for this arrangement, as it is able to prove the effective relationship between the hedging instrument and the hedged item. Hedge accounting permits any movement in the fair value of the hedge to be recognised in reserves rather than in the income statement. The movement is disclosed in the statement of recognised income and expense.

	Fair value £000	Deferred tax £000	Net impact £000
Value at 31 May 2007	(769)	231	(538)

(d) Reclassifications

Under UK GAAP, the Group's share of operating profits and taxation from joint ventures was shown separately in the income statement. IAS 31 requires the Group's share of its joint ventures profit to be shown net of tax on a single line in the income statement. This is a reclassification adjustment in the consolidated income statement only and no adjustment is required to the consolidated balance sheet.

Deferred tax liabilities previously included in provisions in the consolidated balance sheet have been reclassified and disclosed separately on the face of the consolidated balance sheet as a deferred tax liability.

Income tax liabilities previously included in trade and other payables has been reclassified and shown separately on the face of the consolidated balance sheet as a current tax payable.

Under UK GAAP, the Group's pension scheme liability was shown in the balance sheet net of the related deferred tax asset. IAS19 requires the Group's pension scheme liability to be shown gross in the balance sheet and the associated deferred tax asset has been reclassified to deferred tax liabilities.

Subsequent to the IFRS transition announcement made on 14 February 2008, a further adjustment has been made to the reconciliation as follows. A deferred tax liability of £1,977,000 has been recognised on the customer contract fair value adjustment arising on acquisition of Norec and a deferred tax liability of £2,139,000 has been recognised on the fair value adjustments arising on acquisition of Maltby Colliery. This increases goodwill and intangibles carried forward by £4,116,000 as at 31 May 2007 and 31 May 2008.

NOTES (CONTINUED)

32 Explanation of Transition to Adopted IFRSs – Group (continued)

Reconciliation of Consolidated Balance Sheet
at 1 June 2006

	UK GAAP £000	Goodwill (a) £000	IFRS adjustments IAS 32 & 39 (b) £000	Intangibles (c) £000	Reclassification (d) £000	IFRS £000
ASSETS						
Non-current assets						
Property, plant and equipment	21,146	–	–	–	–	21,146
Intangible assets	5,745	(323)	–	–	–	5,422
Investments in joint ventures	897	–	–	–	–	897
Other investments, including derivatives	83	–	44	–	–	127
Other receivables	500	–	–	–	–	500
Total non-current assets	28,371	(323)	44	–	–	28,092
Current assets						
Inventories	15,055	–	–	–	–	15,055
Trade and other receivables	21,167	–	–	–	–	21,167
Cash and cash equivalents	15,022	–	–	–	–	15,022
Total current assets/(liabilities)	51,244	–	–	–	–	51,244
Total assets	79,615	(323)	44	–	–	79,336
LIABILITIES						
Non-current liabilities						
Loans and borrowings	(19,521)	–	–	–	–	(19,521)
Other non-current liabilities	(2,000)	–	–	–	–	(2,000)
Deferred tax liabilities	–	–	304	–	(1,752)	(1,448)
Retirement benefit obligations	(328)	–	–	–	(141)	(469)
Provisions	(4,564)	–	–	–	1,893	(2,671)
Total non-current liabilities	(26,413)	–	304	–	–	(26,109)
Current liabilities						
Trade and other payables	(24,989)	–	–	–	1,550	(23,439)
Current income tax liabilities	–	–	–	–	(1,550)	(1,550)
Borrowings	(1,915)	–	–	–	–	(1,915)
Derivative financial instruments	–	–	(1,059)	–	–	(1,059)
Total current liabilities	(26,904)	–	(1,059)	–	–	(27,963)
Total liabilities	(53,317)	–	(755)	–	–	(54,072)
Net assets	26,298	(323)	(711)	–	–	25,264
EQUITY						
Capital and reserves attributable to equity holders of the company						
Issued capital	2,368	–	–	–	–	2,368
Share premium	19,082	–	–	–	–	19,082
Other reserves	29	–	–	–	–	29
Capital redemption reserve	1,530	–	–	–	–	1,530
Retained earnings	3,289	(323)	(711)	–	–	2,255
	26,298	(323)	(711)	–	–	25,264
Minority interest in equity	–	–	–	–	–	–
	26,298	(323)	(711)	–	–	25,264

NOTES

NOTES

DIRECTORS, SECRETARY AND ADVISERS

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Gordon Frank Colenso Banham
Iain Duncan Cockburn
Kevin James Stewart Dougan
Nigel Mark Barraclough

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Group Chief Executive
Group Finance Director
Group Contracts Director
Non-Executive Director

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