Source Process Distribute

Creating an integrated value chain

Hargreaves Services plc

Annual Report and Accounts 2009

Established in 1994, Hargreaves Services plc 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.

The Group has four complementary Divisions:

Production Division produces coal, coke, smokeless fuel and also recycles tyres for customers throughout the UK and in Europe.

Revenue
£78.9m +15.2%
Underlying Operating Profit
£10.5m +8.8%

Energy and Commodities Division provides coal, coke, minerals and biomass products to a range of industrial, wholesale and public sector energy consumers.

Revenue
£322.4m +38.2%
Underlying Operating Profit
£16.2m +106.0%

Transport Division has grown to become one of the largest logistics providers in the UK.

Revenue
£67.6m -10.6%
Underlying Operating Profit
£3.4m ±0%

Industrial Services Division provides quality assured contract management services to the power generation, utilities, chemicals and minerals industries.

Revenue
£56.4m +19.7%
Underlying Operating Profit
£3.4m +29.5%

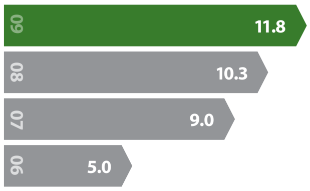
Highlights of the Year

	Year ended 31 May 2009	Year ended 31 May 2008	Change
Revenue	£503.1m	£404.9m	+24.3%
Operating Profit	£29.8m	£22.1m	+34.9%
Underlying Operating Profit [1]	£33.5m	£23.6m	+42.1%
Profit Before Tax	£26.2m	£17.9m	+46.5%
Underlying Profit Before Tax [2]	£28.6m	£19.0m	+50.2%
Diluted EPS	67.3p	45.7p	+47.1%
Underlying Diluted EPS [2]	76.3p	51.1p	+49.2%
Proposed Full Year Dividend	11.8p	10.3p	+14.6%

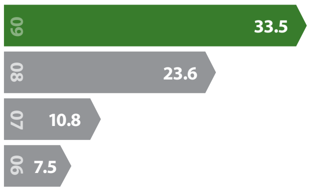
1 Underlying Operating Profit is stated excluding the amortisation of acquired intangibles and release of negative goodwill and including share of profit in jointly controlled entities and associates.
2 Underlying Profit Before Tax and Underlying Diluted EPS are stated excluding the amortisation of acquired intangibles and release of negative goodwill.

- Record results
- EPS growth of 49.2% achieved
- Strong performance across all divisions
- Dividend increased 14.6% to 11.8 pence
- New syndicated £115m, 3-year committed credit facility signed
- Strong underlying cash generation
- Well positioned for further growth

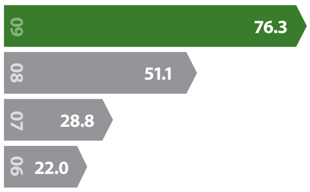
Dividend Per Share (pence)



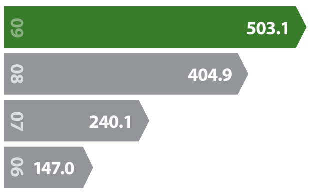
Underlying Operating Profit (£m)



Underlying Diluted EPS (pence)



Revenue (£m)



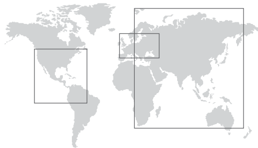
A Global Base of Customers and Suppliers:

Customers

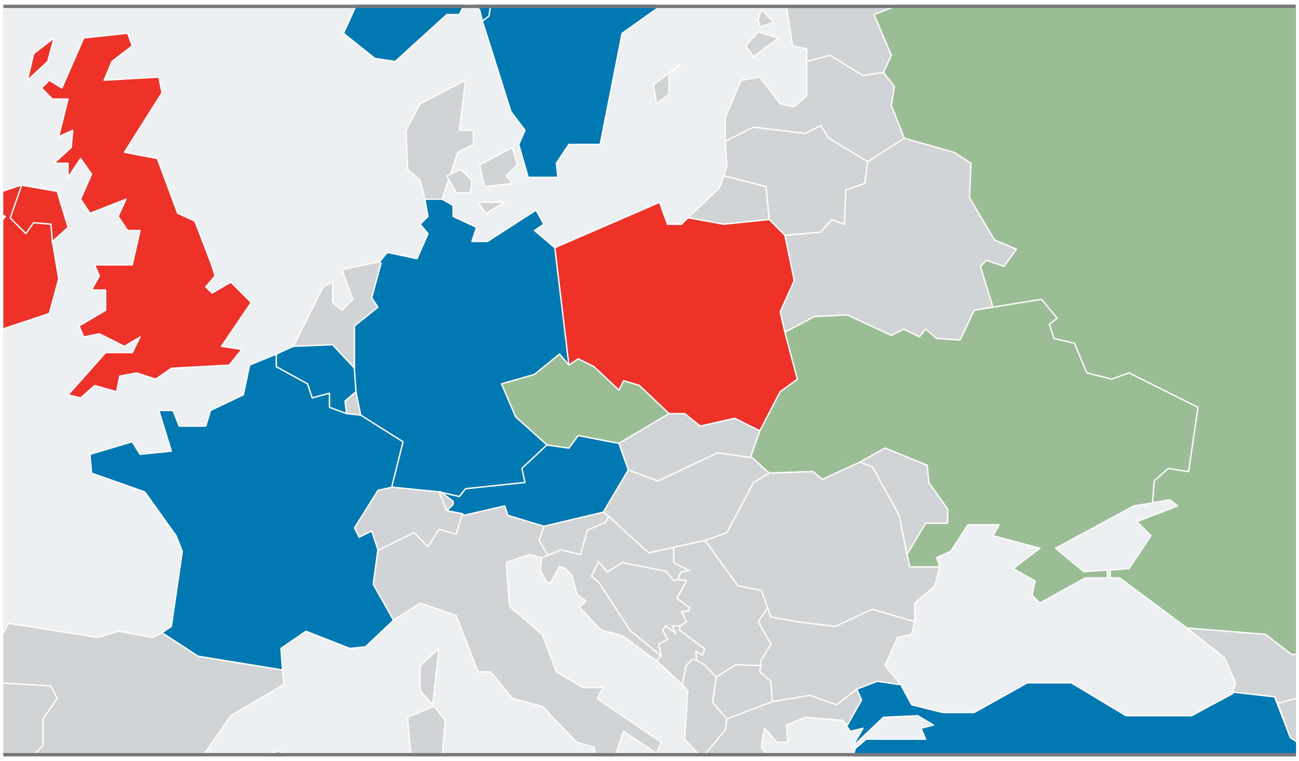
UK
USA
Venezuela
South Africa
China
Norway
Finland
Sweden
Turkey
France
Belgium
Germany
Poland
India
Austria

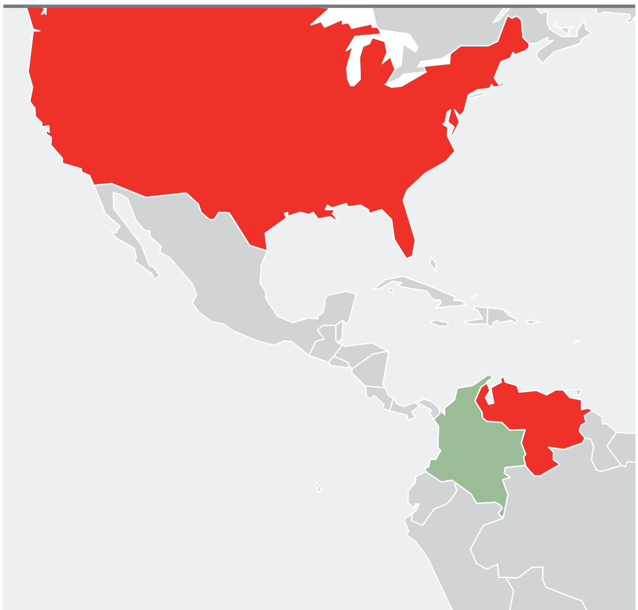
Suppliers

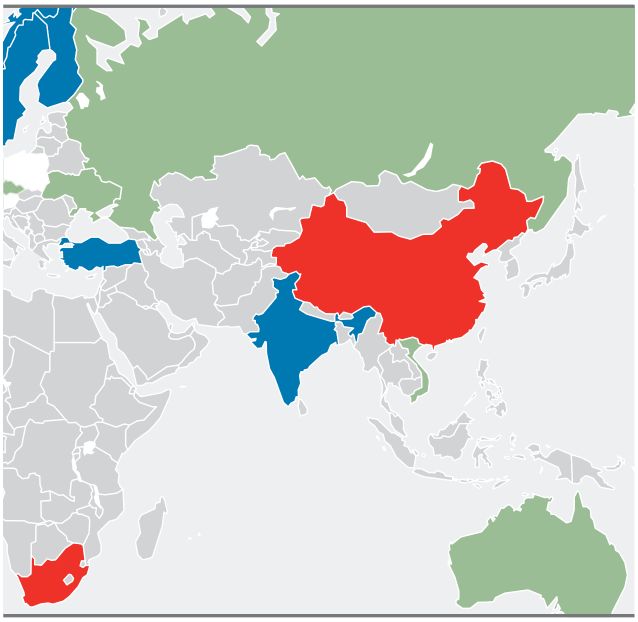
UK
USA
Colombia
Russia
China
Venezuela
Australia
Vietnam
South Africa
Ukraine
Poland
Czech Republic



Customers
Suppliers
Customers and suppliers







A Simple Business Model:

Source
- Buying power
- Multi-sourcing

Process
- Size and quality separation
- Blending
- Briquetting
- Coke manufacture

Distribute
- Transport
- Materials handling
- Marketing

Adding value and extracting margin at each stage

The Group Handles a Broad Base of Carbon and Non-carbon Materials:

Coal
- Power station
- Coking
- Sized
- Anthracite
- Speciality

Coke
- Metallurgical
- Petroleum

Biomass
- Liquid
- Solid

Other
- Refractory minerals
- Other specialist minerals
- Waste aggregates

The Group Serves a Broad Customer Base Across a Diverse Range of End User Markets:

- Electricity generation
- Steel production
- Industrial heating
- Domestic heating
- Cement and lime production
- Local authorities
- Waste companies
- Petrochemical and specialist chemical companies
- Specialist metal production
- Construction
- Aggregates production

"I am pleased to report that the Group has completed another successful year and delivered a further set of record results."

+24.3%
Increased Revenue

+34.9%
Increased Operating Profit

Results
I am pleased to report that the Group has completed another successful year and delivered a further set of record results.

Revenue for the year was £503.1m, an increase of 24.3% on the prior year. Underlying profit before tax for the year increased 50.2% from £19.0m to £28.6m. Profit before tax for the year increased by 46.5% from £17.9m to £26.2m. Underlying diluted EPS increased by 49.2% from 51.1p to 76.3p reflecting strong organic growth combined with a well-executed acquisition strategy.

Since flotation in November 2005, Hargreaves Services plc has consistently delivered results ahead of market expectations and has established a strong growth track record. The Group has grown underlying operating profit and underlying diluted earnings per share by very impressive compound annual growth rates of 64.4% and 51.5% respectively. The Group's staff and management deserve recognition for their significant achievements since flotation, not least of which is the delivery of this strong set of results during what has been one of the sharpest and most challenging recessions in recent years.

In addition to this, the Group has completed a successful re-financing and has attracted interest from a very broad and high-quality group of banks. The new £115m facility provides the Group with a flexible and cost-effective facility structure that is committed for three years. The management team deserve credit for achieving such a successful non-distressed re-financing in this challenging market and I would like to thank the banks for their interest and commitment. The facility, together with the existing facilities, provides the Group with access to total debt facilities of around £155m and will provide an excellent platform to help take the Group forward.

The Group has also created a clear divisional structure and invested in developing its management teams at both the divisional and group executive levels. The latest stage of this exercise was completed with the appointment of Mark Forrest in December 2008 to lead the Transport Division. Investment and overhead costs continue to be carefully managed.

Dividend
The Board is recommending a final dividend of 8.0 pence per share, bringing the dividend for the year to 11.8 pence per share. The final dividend is proposed to be paid on 18 November 2009 to all shareholders on the register at the close of business on 16 October 2009.

Health and Safety
The Group employs over 2,350 people and continues to be proud of its committed and hard-working staff. Our staff work in challenging and often dangerous working environments and we have continued to devote a significant amount of effort to developing safety systems across the Group.

Outlook
Hargreaves remains uniquely well-positioned in the resilient energy, waste and mineral sectors, dealing primarily with large blue chip customers. The Board believes that all of the divisions are well placed to continue to drive further profit growth both organically and by complementary acquisitions. The Board continues to view the current year with confidence and expects the Group to build on its impressive track record.

Tim Ross
Chairman
15 September 2009

Against the challenging economic backdrop we are pleased with the performance of all four divisions. We have continued to grow Group profitability.

Overview

In the last year we have retained our focus on both operational delivery and appraising opportunities for growing the business organically and through acquisition. The strong performance of the Group through the last twelve months of volatility in economic conditions, foreign exchange rates and commodity prices illustrates and validates the effectiveness of our risk mitigation model.

Financial Results

Hargreaves has continued to show strong trading performance and strong growth. Revenues for the full year increased by 24.3% from £404.9m to £503.1m. Underlying operating profit increased by 42.1% from £23.6m to £33.5m. Reported operating profit increased from £22.1m to £29.8m. Group underlying operating margin increased from 5.8% to 6.7%.

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

	Production 2009 £000	Energy and Commodities 2009 £000	Transport 2009 £000	Industrial 2009 £000	Total 2009 £000
Segment operating profit	**10,512**	**14,941**	**2,968**	**1,425**	**29,846**
Intangible amortisation and release of negative goodwill	–	–	446	1,962	2,408
Share of profit in					
– jointly controlled entities	–	1,216	–	–	1,216
– associates	–	–	–	–	–
Underlying operating profit	**10,512**	**16,157**	**3,414**	**3,387**	**33,470**

	Production 2008 £000	Energy and 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					
– jointly controlled entities	–	213	–	–	213
– associates	–	49	–	–	49
Underlying operating profit	**9,665**	**7,844**	**3,428**	**2,616**	**23,553**

Iain Cockburn, Group Finance Director
Gordon Banham, Group Chief Executive

Review of Operating Performance by Strategic Business Unit

Energy and Commodities Division

The Energy and Commodities Division had a very strong year. Gross revenues increased by £89.1m from £233.3m to £322.4m, reflecting increases in commodity prices and an increase of 11.4% in the volume to 2.463m tonnes. The majority of the net volume increase is attributable to the effect of the Coal4Energy acquisition in January 2009. Including the full-year trading of Coal4Energy, despite the slowdown in the European Coke markets, the total underlying volume of tonnes traded through all of the business was 2.766m, an increase of 1.7% on the prior year. UK power station sales accounted for 1.674m tonnes, industrial and domestic sales accounted for 0.577m tonnes and European mineral operations accounted for 0.515m tonnes.

As predicted in the Interim Statement, following a strong first half, trading in the European operations in the second half was subdued due to the slowdown in European steel production. UK coaling operations performed strongly across the whole year and delivered a strong second half performance to offset the weakness in Europe. Coal4Energy contributed £19.9m of revenue to the consolidated revenues following the acquisition of the remaining 50% stake in January 2009.

Underlying operating profit increased by £8.4m from £7.8m to £16.2m. Improvements in profitability were driven by improved margins in the sale of sized coal, helped by improved marketing into niche markets and enhanced screening practices that assisted the Group to recover sized coal more effectively. Operating profit was not materially affected by the changes in the commodity prices experienced during the year. Of the increase of £8.4m, Coal4Energy accounted for £3.5m.

The Group has continued to explore the opportunities around generation of electricity using renewable source fuels. Hargreaves has successfully operated a pilot plant at Immingham for the last 12 months and achieved certification for Renewable Obligation Certificates. The Group has acquired the option to lease six sites across Yorkshire and is working through planning and certification for our first 8MW production site.

The ability to source the right fuel at the right price is key to this venture and we are pleased to announce that RocFuel, our renewable fuels trading joint venture, traded its first material cargoes and generated a profit for the first year of £0.4m before taxes. We are confident that RocFuel is well positioned to deliver growth as the market for biomass develops. In anticipation of this potential and for the opportunity to use RocFuel to source fuel for the proposed RocPower venture, the Group acquired control of RocFuel on 9 April 2009.

The ash business continues to trade profitably despite the downturn in the UK cement and construction sectors. Following the merger with the UK ash activities of Evonik GmbH, a number of new ash processing activities and technologies are being investigated.

Production Division

The Production Division encompasses the operations at Maltby Colliery, Monckton Coke Works and Monckton Rubber Technology. Excluding sales of coal from Maltby to Monckton of £18.5m, Production Division gross revenues increased from £68.5m to £78.9m, primarily due to increased production levels at Maltby following the production challenges that immediately followed its acquisition in 2007. Revenues included £10.3m of speciality coking coal that was sold through the Energy and Commodities Division. Saleable production at Maltby was 1.090m tonnes. Operating profit for the Division increased by £0.8m from £9.7m to £10.5m.

Energy and Commodities Division

Underlying Operating Profit

£16.2m +106.0%

Production Division

Underlying Operating Profit

£10.5m +8.8%

Coke operations contributed £37.6m of revenue compared to £34.8m in the prior year. Of this coke sales accounted for £32.7m (2008: £31.1m) and revenue from the sale of by-products was £4.9m (2008: £3.7m). The average price achieved per tonne of coke was £162 on 0.201m tonnes compared to £134 per tonne on 0.230m tonnes in the prior year net of hedge costs.

Saleable production at Maltby improved from 1.043m tonnes to 1.089m tonnes. All power station coal produced at Maltby continues to be sold to Drax under long-term contract. Coking coal is either processed into coke at Monckton or typically processed for export markets. Coal sales external to the division from Maltby generated £39.2m of revenue compared to £32.0m in the prior year. In the year to 31 May 2009, 0.811m tonnes of coal was sold externally from the division at an average price of £48.32 compared to 0.781m tonnes at an average price of £40.95 per tonne in the prior year. The increase in average selling price was due to a change in the sales mix and improved proceeds on specialist coking coals.

Coke stocks at 31 May 2009 were 44,357 tonnes compared to 30,739 tonnes held at the end of the prior year. The increase of 13,618 tonnes was in line with the forecasted stock build outlined in the Interim Statement, following the slow down in the coke markets and the reluctance of the Group to sell the coke at distressed prices. Management is optimistic that the coke markets in Europe will continue to recover and no material stocking is expected across the remainder of the current financial year.

Production Division costs increased by £9.6m over the year, £1.2m of which related to the increases in the cost of hedging coke sold under the Brunner Mond contract due to increasing commodity prices. The balance of the increase was principally attributable to higher power, fuel and steel prices at the mine, increased labour costs and increased processing and plant costs at Maltby for the recovery and processing of surface fines and speciality coking coals.

Steady progress has been made at Monckton Rubber Technologies, particularly in improving the quality of the steel wire. The significant drop in price of scrap steel in the second half of the year prevented the operation from becoming profitable. Monckton Rubber Technologies contributed £2.1m of revenue and generated an operating loss of £0.7m. Management is optimistic that the recent recovery in scrap steel prices will permit the operation to make a profit in the current financial year.

The site investigation work at Tower Colliery continued in the first half in conjunction with our joint venture partners. Under the terms of the joint venture agreement, the joint venture vehicle advanced £2m to Tower Colliery Limited in August 2009 to secure the land and mining rights, in addition to £1m paid in January 2009. The funding of site investigation and planning expenses will bring the expected investment up to the point of the planning decision to approximately £4m. A planning decision is expected in the financial year ending 31 May 2011.

Industrial Services Division

The core Industrial Services business performed strongly in the year building on the contract wins in the prior year and the Eggborough contract renewal and extension that was announced in the Interim Statement. Gross revenues increased from £47.1m to £56.4m with underlying operating profit for the Division increasing by £0.8m from £2.6m to £3.4m. Underlying operating profit margin increased from 5.6% to 6.0% principally reflecting a full year contribution from AJS.

AJS has performed well in the year but a slowdown in the commissioning of engineering projects at a number of power stations has delayed delivery of some of the cross-selling synergy gains. Management is however encouraged by recent tendering activity and confident this will drive incremental sales growth in the current financial year. Although completion of one of AJS's key outage projects was delayed by a month into June, AJS had a strong second half and contributed revenues of £6.0m to the result for the year compared to £1.6m in the two months following acquisition in the prior year. AJS contributed £0.8m of operating profit compared to £0.4m in the prior year.

Transport Division

The Transport Division's gross revenues decreased by £8.0m from £75.6m to £67.6m due principally to the slow down in bulk aggregate volumes as construction activity declined. Underlying operating profit was held at £3.4m.

Profitability has been maintained in the Division by an aggressive programme of cost efficiencies, active management of the sub-contractor fleet and investment in new and more efficient vehicles.

We have taken the opportunity afforded by the downturn to remove 109 of the older vehicles and have replaced them with 88 new and more efficient vehicles. This has trimmed the size of the fleet from 395 to 374 vehicles. We believe there are significant further long-term cost savings to be made through both improved fuel efficiency and lower repair costs, these efficiencies being enhanced through the extremely competitive purchase prices that were available from manufacturers in the last 12 months as other operators cancelled vehicle orders.

In addition, having now ensured that all the key Imperial Tankers contracts are on monthly fuel indexation, the current year was unaffected by the £0.4m charge taken in the comparative year due to rising fuel prices. The year ended 31 May 2009 benefited from a full year's contribution from the Imperial Tankers business which was acquired on 17 September 2007. The waste operation performed strongly across the whole year.

All three of our transport operations have continued to trade profitably and provide the highest level of service to their customers throughout the recent recession. We have reviewed a number of asset and business acquisition opportunities and will continue to do so in the coming months, looking for opportunities to add scale and geographic coverage to the Transport Division.

Financial Review

Revenue

Group revenue for the year was £503.1m compared to £404.9m for the previous year, an increase of 24.3%. The key drivers of organic growth came from the Energy and Commodities Division, both in the UK and Germany. The acquisition of Coal4Energy Limited on 27 January 2009 resulted in the inclusion of £19.9m revenue from Coal4Energy in the consolidated Group results.

Industrial Services Division

Underlying Operating Profit

£3.4m +29.5%

Transport Division

Underlying Operating Profit

£3.4m ±0%

Operating Profit and Margins

Operating profits increased in all Divisions with the exception of Transport which was flat compared to the prior year. The most significant increase in profit was generated by the Energy and Commodities Division following strong trading in the UK and Germany combined with the acquisition of Coal4Energy in January 2009. Coal4Energy contributed £3.6m of profit to the consolidated Group accounts in the period following acquisition.

Interest

The net interest charge for the Group was £4.9m compared to £4.5m for the previous year. The increase in interest reflects the higher average debt levels following recent acquisitions and the higher Group working capital requirements.

Profit Before Tax

Underlying profit before tax increased from £19.0m to £28.6m. Reported profit before tax increased from £17.9m to £26.2m.

Taxation

The tax charge in the year was £7.5m compared to £5.2m in the previous year. There were no material changes in the effective tax rates.

Earnings Per Share

Basic earnings per share for the year were 68.5 pence (2008: 46.7 pence) and diluted earnings per share were 67.3 pence (2008: 45.7 pence). Underlying diluted earnings per share, after adding back amortisation of acquired intangibles, increased by 49.2% from 51.1 pence to 76.3 pence.

Dividend

The Board has recommended a final dividend of 8.0 pence (2008: 7.0 pence) bringing the proposed dividend for the full year to 11.8 pence, an increase of 14.6% in the total dividend for the year. The proposed dividend is covered 5.8 times by underlying earnings (2008: 4.5 times).

Balance Sheet Review

Net Assets

Net assets increased by £23.6m from £48.1m at 31 May 2008 to £71.7m at 31 May 2009. The unwinding of the Brunner Mond hedge contract combined with a fall in the commodity prices in the second half of the year reduced the hedge provision (the fair value of derivative financial instruments) by £7.6m from £10.2m to £2.6m. The balance of the improvement in net assets is mainly attributable to retained profits.

Net tangible fixed assets increased by £4.9m from £66.3m to £71.2m. Working capital increased £24.2m over the year as a result of increased coke stocks at Monckton, higher coal stocks at Immingham due to the phasing of cargoes and deliveries and the investment in coal face drivage to support mine life extension at Maltby. The acquisition of Coal4Energy added £0.5m to the year end working capital. Trade debtor days improved slightly from 36.7 days at the end of the prior year to 35.4 at 31 May 2009. 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 and other interest-bearing loans and borrowings was £69.2m, an increase of £23.0m from the £46.2m reported at 31 May 2008 and a reduction of £3.7m from the £72.9m reported at the half year. The gearing ratio of the Group at 31 May 2009 was 97% compared to 117% at the half year and 96% at 31 May 2008.

Cash Flow

Cash flow generated from operating activities (before interest and income tax paid) was £21.4m in the year compared to £23.6m in the previous year.

Cash flow generated from operations included a £25.8m outflow relating to an increase in working capital for the reasons outlined above. 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. If commodity prices and trading volumes remain at current levels, management does not expect to see a significant increase in working capital in the current year.

Acquisitions accounted for an outflow of cash of £10.1m, £8.4m of which related to the Coal4Energy acquisition. The majority of the balance related to the second payment of deferred consideration of £1.2m relating to the AJS acquisition. A third and final payment of £1.2m is due in cash in May 2010.

Capital Expenditure

Total capital expenditure for the year (net of disposal proceeds of £1.5m) was £18.1m of which £12.5m was financed through finance leases and £5.6m was paid in cash (net of disposal proceeds of £1.5m). This compared to only £6.9m in the prior year. The depreciation charge for the year was £13.6m (2008: £11.0m). As highlighted last year, we purchased the first of two new sets of face equipment for the mine. The cost of this was £7.5m. Other key capital projects at Maltby included the purchase and commission of a sixth methane gas generator. Capital expenditure on vehicle and plant replacements totalled £5.2m. The Group took advantage of very favourable market prices to replace a further 64 vehicles on lease. The objective is to maintain a balance of 50% owned and 50% leased vehicles in the transport fleet.

As highlighted in the Interim Statement, the Group intends to invest aggressively in upgrading underground and surface equipment at Maltby. A second and final set of face equipment will be purchased in the current financial year. A number of other strategic projects are under consideration.

Liquidity and Investments

During the year, the Group was financed by a mixture of cash flows from operations, trade credit, short-term borrowings, longer-term borrowings and finance leases. Operating leases were used in conjunction with asset financing to invest in lowering the average age of the transport fleet and to balance the flexibility afforded by asset ownership and the efficient use of capital.

Hargreaves' debt facilities have evolved over the last few years as the Group has grown by acquisition and were comprised of a mixture of committed medium-term loans and invoice finance facilities and a number of short-term trading facilities.

Following the end of the year the Group undertook a review of its facility structure. Following strong interest from five banks, we are pleased to report that we have completed a new 3-year multi-bank committed facility consisting of a cost-effective £35m invoice finance facility supported by an £80m revolving credit facility. The invoice finance facility is priced at 200bp over base rate. At the forecast leverage level of 1.5 to 2.0 times Debt/EBITDA, the revolving credit facility is priced at 250bp over LIBOR. Management is pleased with the support and interest shown by such a quality group of banks. The five banks making up the syndicate, in alphabetical order, are HSBC, Lloyds, RBS, Santander and Yorkshire Bank. RBS will continue to hold the largest share.

Management believes that the new facility structure will provide the Group with a committed and cost-effective debt facility that will finance all the investment planned in the short-term and will provide a platform for growing the Group further through organic growth and acquisition investment in years to come.

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 either hedge the commodity price exposure by matching the purchase and sale against a specific commodity index or fixed 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 and both are closed to new members, although certain employees retain a right to transfer previous benefits into the schemes. To date, 104 people have transferred their benefits to the new section of the scheme.

During the year the Group reached agreement with the Trustees over a plan to fund the deficit. In the year ended 31 May 2009, the Group made payments totalling £1.24m into the funds in respect of the deficit. It has been further agreed that the Group will continue to make payments of £80,000 per month until the deficit has been recovered.

Following the funding payments, the deficit as at 31 May 2009 was £4.1m, calculated in accordance with the principles of IAS19. This deficit has been calculated by updating the actuarial valuation as at 31 December 2007 to the balance sheet date and making appropriate adjustments to reflect the IAS 19 assumptions which have been adopted as at that date.

The next actuarial valuation will be based on the position at 31 December 2009, the results of which are expected to be available late in 2010.

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 in relation to the fuel scheme of £0.3m (31 May 2008: £0.3m).

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 state-of-the-art 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 service 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 and 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.

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

We believe that the Group remains well positioned to deliver its short-term targets and we also believe that significant opportunities exist to grow the Group both through organic and acquisition investment.

We are very pleased to have secured the new facilities with such a high-quality banking group and believe that this will provide us with a cost-effective and scalable platform to support the Group's future investment requirements.

In the short-term, having secured this facility, we will be accelerating our investment in upgrading equipment at the mine. The positive experience we have had with the new face equipment that is currently in production on face T11 has confirmed the benefits and risk mitigation that such investment will bring.

We remain committed to investing in Maltby to achieve the possibility to extend mine life from 2017 to 2025 as announced in September 2008.

We will also progress with investment to support the surface coal opportunity at Tower Colliery in Wales and will continue to progress our development plans for the RocPower renewable fuels generation project. We would expect there to be further progress and announcements on these projects in the coming year.

We are pleased and excited with the foundation we have laid in Belgium to start sourcing further specialist coals and trading these into the continental European markets. We believe that there are strong synergies with the UK coal operations both in terms of sourcing and sharing cargoes, but also as a channel for providing markets for specialist coking coal produced from Maltby. As the European market recovers from the recession we are confident we are well-placed to grow this business quickly and profitably.

At Monckton we are satisfied that our current contract base will allow us to achieve our targets for the coming year and that a strengthening in coke market prices provides an interesting upside opportunity in years to come. We have a number of important coke contract renewals that we will be working on in the coming months and we will report progress with these as they are concluded. At this time management are confident of satisfactory outcomes.

As with Monckton, there are some key contract renewals due for the UK coal operations in the next 12 months and again management is confident that these will be renewed. In the meantime, the business continues to trade strongly and management is confident that we have a strong value proposition to our customers which will ensure success in renewing these contracts. We also believe that the German business is well-placed to benefit from any upturn or recovery in European coke and refractory mineral trading volumes, with its very low fixed-cost base protecting its core profitability in the short-term.

The target and opportunities for the next 12 months for the Industrial Services Division is to continue to drive organic growth and to drive growth in AJS through cross-selling into its own customer base and into the broader Group.

Having responded proactively and aggressively to the downturn, the Transport Division is well-positioned, with one of the youngest and most cost-effective fleets in the industry, to deliver profitable growth from any improvement in sector volumes.

Whilst no business is immune to cyclical factors, our core markets remain robust and resilient to short-term economic factors. As with last year, we are entering the current year in a strong position and remain focused on pursuing further organic and acquisitive growth.

Iain Cockburn
Group Finance Director
15 September 2009

Gordon Banham
Group Chief Executive
15 September 2009

The following Directors served on the Board throughout the year: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1. Tim Ross (aged 60)*
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 Lavendon Group plc. Tim is the Senior Independent Non-Executive Director.

2. Gordon Banham (aged 45)
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 lead 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 44)
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.

4. Kevin Dougan MIQ (aged 54)
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 44)*
Non-Executive Director
Nigel is a Chartered Accountant and joined the Board at the time of the management buyout in April 2004. Nigel is an Investment Director with YFM Group Limited, a venture capital fund management group. He has extensive experience of mergers and acquisitions and also as a non-executive director.

* Current member of Audit and Remuneration Committees.

The executive directors and the following key managers comprise the Executive Management Team:


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1. Steve Anson
Managing Director
Energy and Commodities Division
Previously: Regional Director, Tarmac Ltd; Commercial Director, Tilcon Ltd.
Expertise: Minerals extraction and Marketing.

2. Gerry Huitson
Managing Director
Production Division
Previously: Colliery Manager, RJB Mining/UK Coal; Company Safety Engineer, RJB Mining.
Expertise: Mining industry.

3. Greg Kelley
Managing Director
Industrial Services Division
Previously: MD, Norec Ltd; Coal Prep Plant Manager, British Coal.
Expertise: Minerals processing, Materials handling.

4. Mark Forrest
Managing Director
Transport Division
Previously: CEO, Westlink Group; Divisional Director, P&O Pandoro; Divisional Director, PD Ports.
Expertise: Logistics, Ports industry.

5. Steve MacQuarrie
Group Company Secretary
Previously: Senior Planning Manager, RJB Mining/UK Coal; Company Secretary, Young Group plc; Planning Officer (Local government).
Expertise: Company secretarial, Planning and Development.

6. Ian Parkin
Development Director
Previously: Managing Director, Banks Property Ltd; Vice-Chairman, National Association Licensed Opencast Operators; Development Director, Young Group plc.
Expertise: Mineral and Property development.

Directors' Report

The Directors present their Directors' Report and financial statements for the year ended 31 May 2009.

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 Business Review including 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 12. 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 8p per share to be paid to shareholders on the register on 16 October 2009. The shares will be ex-dividend on 4 October 2009. 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 2009 for the Group were 40 (2008: 39). 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
KJ Dougan
ID Cockburn

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	4,004,288	4,000,000
KJ Dougan	Ordinary	529,288	525,000
ID Cockburn	Ordinary	7,680	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	Options outstanding
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 were exercised in March 2009.

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.

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	1 June 2011 to 30 November 2011	49,180
KJ Dougan	–	1 June 2011 to 30 November 2011	17,213
ID Cockburn	–	1 June 2011 to 30 November 2011	20,287

These options were granted under the Long Term Incentives Plan on 20 June 2008 and are outstanding at the end of the year. None of the share options have been exercised.

Significant Shareholdings

At 1 September 2009, 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	4,004,288	15.2%
Artemis Investments Management Ltd	2,494,569	9.5%
Brewin Dolphin Private Client	1,652,830	6.3%
Rensburg	1,564,938	5.9%
Baring Asset Management	1,216,666	4.6%
Octopus Investments	1,203,458	4.6%
Hansa Capital Partners	1,000,000	3.8%
M&G Investment Management	980,000	3.7%

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 in-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 £43,929 (2008: £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 Section 489 of the Companies Act 2006, 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 2009

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 the 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 is provided on page 14.

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.

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 100% 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:

	2009 Salary £000	2009 Bonus £000	2009 Benefits £000	2009 Total £000	2008 Total £000	2009 Pension £000	2008 Pension £000
Gordon Banham	**300**	**182**	**21**	**503**	417	**42**	37
Iain Cockburn	**173**	**115**	**18**	**306**	178	**19**	4
Kevin Dougan	**177**	**85**	**1**	**263**	196	**–**	8
Tim Ross	**53**	**–**	**–**	**53**	54	**–**	–
Nigel Barraclough	**34**	**–**	**–**	**34**	31	**–**	–
Peter Dillon	**–**	**–**	**–**	**–**	141	**–**	12
	737	**382**	**40**	**1,159**	1,017	**61**	61

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.

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 pages 16 and 17.

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 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.

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 that 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 2009

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 law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. They have 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 financial statements of Hargreaves Services plc for the year ended 31 May 2009, set out on pages 24 to 73. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

MR Thompson
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc
Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

15 September 2009

Consolidated Income Statement
for year ended 31 May 2009

	Note	2009 £000	2008 £000
Revenue	1	**503,093**	404,901
Cost of sales		**(433,800)**	(355,721)
Gross profit		**69,293**	49,180
Other operating expense	4	**(511)**	(77)
Administrative expenses		**(38,936)**	(26,976)
Operating profit	1,5,6	**29,846**	22,127
Financial income	8	**1,683**	1,151
Financial expenses	8	**(6,577)**	(5,680)
Share of profit of jointly controlled entities (net of tax)		**1,216**	213
Share of profit of associates (net of tax)		**–**	49
Profit before tax		**26,168**	17,860
Income tax expense	9	**(7,459)**	(5,181)
Profit for the year		**18,709**	12,679
Attributable to:			
Equity holders of the company		**18,025**	12,257
Minority interest	25	**684**	422
Profit for the year		**18,709**	12,679
Basic earnings per share (pence)	10	**68.53**	46.66
Diluted earnings per share (pence)	10	**67.27**	45.74

Statements of Recognised Income and Expense
for year ended 31 May 2009

	Note	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Foreign exchange translation differences		**640**	190	**–**	–
Effective portion of changes in fair value of cash flow hedges		**8,134**	(9,811)	**–**	–
Actuarial gains and losses on defined benefit pension plans		**(170)**	4,625	**–**	–
Tax recognised on income and expenses recognised directly in equity		**(2,578)**	1,238	**–**	–
Net income/(expense) recognised directly in equity		**6,026**	(3,758)	**–**	–
Profit for the year		**18,709**	12,679	**761**	228
Total recognised income and expense for the year	25	**24,735**	8,921	**761**	228
Total recognised income and expense for the year is attributable to:					
Equity holders of the parent		**23,871**	8,499	**761**	228
Minority interest		**864**	422	**–**	–
		24,735	8,921	**761**	228

Balance Sheets
at 31 May 2009

	Note	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Non-current assets					
Property, plant and equipment	11	**71,240**	66,277	**–**	–
Intangible assets	12	**36,685**	25,666	**–**	–
Investments in jointly controlled entities	13	**953**	592	**754**	1,123
Investments in subsidiary undertakings	13	**–**	–	**24,266**	14,495
Derivative financial instruments	14	**–**	35	**–**	–
Deferred tax assets	16	**–**	–	**123**	123
		108,878	92,570	**25,143**	15,741
Current assets					
Inventories	17	**60,693**	43,453	**–**	–
Derivative financial instruments	14	**754**	754	**–**	–
Trade and other receivables	18	**55,026**	52,022	**53,099**	38,304
Cash and cash equivalents	19	**1,062**	10,015	**–**	8,995
		117,535	106,244	**53,099**	47,299
Total assets		**226,413**	198,814	**78,242**	63,040
Non-current liabilities					
Other interest-bearing loans and borrowings	20	**(24,331)**	(30,001)	**(10,281)**	(8,063)
Retirement benefit obligations	22	**(4,429)**	(5,431)	**–**	–
Provisions	24	**(9,557)**	(10,327)	**–**	–
Derivative financial instruments	15	**(113)**	(7,895)	**–**	–
Deferred tax liabilities	16	**(5,724)**	(3,410)	**–**	–
Other non-current liabilities	21	**–**	(1,026)	**–**	–
		(44,154)	(58,090)	**(10,281)**	(8,063)
Current liabilities					
Bank overdraft	19	**(9,486)**	(11,040)	**(896)**	–
Other interest-bearing loans and borrowings	20	**(36,421)**	(15,187)	**(5,864)**	(2,932)
Trade and other payables	21	**(54,333)**	(58,230)	**(22,026)**	(11,710)
Income tax liabilities	16	**(7,159)**	(5,092)	**–**	–
Derivative financial instruments	15	**(3,191)**	(3,114)	**–**	–
		(110,590)	(92,663)	**(28,786)**	(14,642)
Total liabilities		**(154,744)**	(150,753)	**(39,067)**	(22,705)
Net assets		**71,669**	48,061	**39,175**	40,335

Balance Sheets
at 31 May 2009
(continued)

	Note	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Equity attributable to equity holders of the parent					
Share capital	25	**2,639**	2,627	**2,639**	2,627
Share premium	25	**29,434**	29,177	**29,434**	29,177
Other reserves	25	**211**	29	**–**	–
Translation reserve	25	**646**	186	**–**	–
Merger reserve	25	**1,022**	1,022	**1,022**	1,022
Hedging reserve	25	**(1,762)**	(7,618)	**–**	–
Capital redemption reserve	25	**1,530**	1,530	**1,530**	1,530
Retained earnings	25	**35,792**	20,427	**4,550**	5,979
		69,512	47,380	**39,175**	40,335
Minority interest	25	**2,157**	681	**–**	–
Total equity		**71,669**	48,061	**39,175**	40,355

These financial statements were approved by the board of directors on 15 September 2009 and were signed on its behalf by:

Gordon Banham
Director

Iain Cockburn
Director

Cash Flow Statements
for year ended 31 May 2009

	Note	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Cash flows from operating activities					
Profit for the year		**18,709**	12,679	**761**	228
Adjustments for:					
Depreciation		**13,596**	11,042	**–**	–
Amortisation of intangible assets		**2,408**	1,164	**–**	–
Dividend income		**–**	–	**(17)**	–
Net finance expense		**4,894**	4,528	**(711)**	(234)
Share of profit of jointly controlled entities		**(1,216)**	(213)	**–**	–
Share of profit of associates		**–**	(49)	**–**	–
Loss on sale of property, plant and equipment		**193**	105	**–**	–
Loss on sale of investments		**318**	–	**(153)**	–
Equity settled share-based payment expenses		**648**	440	**–**	–
Income tax expense		**7,459**	5,181	**–**	(123)
Translation of minority interest		**179**	71	**–**	–
		47,188	34,948	**(120)**	(129)
Change in trade and other receivables		**15,213**	(8,820)	**(14,772)**	22,409
Change in inventories		**(15,909)**	(6,391)	**–**	–
Change in trade and other payables		**(23,201)**	3,542	**11,295**	(8,076)
Change in provisions and employee benefits		**(1,934)**	333	**–**	–
		21,357	23,612	**(3,597)**	14,204
Interest paid		**(3,955)**	(4,216)	**711**	234
Income tax paid		**(8,323)**	(4,013)	**–**	–
Net cash generated from operating activities		**9,079**	15,383	**(2,886)**	14,438
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**1,495**	1,016	**–**	–
Proceeds from sale of investments		**–**	51	**–**	–
Dividends received		**117**	750	**17**	–
Acquisition of subsidiaries, net of cash acquired	3	**(9,547)**	(8,878)	**(9,105)**	–
Acquisition of property, plant and equipment	11	**(7,110)**	(5,369)	**–**	–
Acquisition of other investments	13	**(590)**	(31)	**(598)**	–
Minority interest contribution		**39**	–	**–**	–
Net cash outflow from investing activities		**(15,596)**	(12,461)	**(9,686)**	–
Cash flows from financing activities					
Proceeds from the issue of share capital	25	**269**	–	**269**	–
Proceeds from new loan	20	**9,000**	5,000	**9,000**	–
Repayment of borrowings		**(6,374)**	(5,779)	**(3,750)**	(3,000)
Payment of finance lease liabilities		**(5,724)**	(3,034)	**–**	–
Repayment of invoice discounting facility		**(9,310)**	(4,977)	**–**	–
Dividends paid	25	**(2,838)**	(2,453)	**(2,838)**	(2,443)
Proceeds from issue of promissory notes		**15,115**	6,759	**–**	–
Net cash inflow/(outflow) from financing activities		**138**	(4,484)	**2,681**	(5,443)
Net (decrease)/increase in cash and cash equivalents		**(6,379)**	(1,562)	**(9,891)**	8,995
Cash and cash equivalents at 1 June		**(1,025)**	1,955	**8,995**	–
Effect of exchange rate fluctuations on cash held		**(1,020)**	(1,418)	**–**	–
Cash and cash equivalents at 31 May	19	**(8,424)**	(1,025)	**(896)**	8,995

Notes to 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 s408 of the Companies Act 2006 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.

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.

The Group's business activities, together with the factors likely to affect its future development performance and position are set out in the Group Business Review on pages 6 to 13. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 9 to 12. In addition note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

Following the end of the year the Group agreed and completed a new invoice finance and revolving credit facility (note 31).

The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Group is well-placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

The financial statements were approved by the board of directors on 15 September 2009.

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;
- 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);
- Amendments to IFRS 2 'Share-based payment – Vesting Conditions and Cancellations' (mandatory for the year commencing on or after 1 January 2009);
- IFRIC 13: Customer Loyalty Programmes (mandatory for the year commencing on or after 1 July 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);
- 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);
- IFRIC 15: Agreements for the Construction of Real Estate (mandatory for the year commencing on or after 1 January 2009);
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (mandatory for the year commencing on or after 1 October 2008).

Yet to be endorsed

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items (mandatory for the year commencing on or after 1 July 2009);
- IFRIC 17: Distributions of Non-Cash Assets to Owners (mandatory for the year commencing on or after 1 July 2009);
- IFRIC 18: Transfers of Assets from Customers (mandatory for the year commencing on or after 1 July 2009);
- Amendment to IAS 39 Reclassification of Financial Assets: Effective date and Transition (mandatory for the year commencing on or after 1 July 2008);
- Amendment to IFRS 7 Improving Disclosures about Financial Instruments (mandatory for the year commencing on or after 1 January 2009);
- Amendments to IFRIC 9 and IAS 39 Embedded Derivatives (mandatory for the year commencing on or after 30 June 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.

1 **Accounting policies (continued)**

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.

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.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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.

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 the income statement.

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 the income statement 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.

1 Accounting policies (continued)

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.

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 Ltd, 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. Sales of goods and services are recognised when they are delivered and title has passed.

Notes to the Financial Statements (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 income statement 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 2009 £000	Energy and Commodities 2009 £000	Transport 2009 £000	Industrial 2009 £000	Total 2009 £000
Revenue					
Total revenue	78,941	322,388	67,620	56,431	525,380
Inter-segment revenue	(10,250)	(1,171)	(9,027)	(1,839)	(22,287)
Revenue to third parties	**68,691**	**321,217**	**58,593**	**54,592**	**503,093**
Segment operating profit	10,512	14,941	2,968	1,425	29,846
Share of profit in					
– jointly controlled entities	–	1,216	–	–	1,216
– associates	–	–	–	–	–
Net financing costs	(1,180)	(2,632)	(741)	(341)	(4,894)
Profit before taxation	**9,332**	**13,525**	**2,227**	**1,084**	**26,168**
Depreciation charge	**(8,224)**	**(933)**	**(3,386)**	**(1,053)**	**(13,596)**
Amortisation of intangibles	–	–	(446)	(1,962)	(2,408)
Capital expenditure	**12,130**	**2,320**	**3,913**	**1,346**	**19,709**
Net assets					
Segment assets	75,249	69,896	26,563	15,668	187,376
Segment liabilities	(32,980)	(62,599)	(19,415)	(8,751)	(123,745)
Segment net assets	42,269	7,297	7,148	6,917	63,631
Jointly controlled entities	–	953	–	–	953
Segment net assets including share of jointly controlled entities	**42,269**	**8,250**	**7,148**	**6,917**	**64,584**
Unallocated net assets					7,085
Total net assets					**71,669**

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

Included within revenue is £124.6m (2008: £111.7m) of revenue which originates in Europe. All other revenue originates in the UK.

Notes to the Financial Statements (continued)

2 Segmental information (continued)

	Production 2008 £000	Energy and Commodities 2008 £000	Transport 2008 £000	Industrial 2008 £000	Total 2008 £000
Revenue					
Total revenue	68,521	233,263	75,594	47,126	424,504
Inter-segment revenue	(7)	(4,012)	(10,995)	(4,589)	(19,603)
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					
– jointly controlled entities	–	213	–	–	213
– associates	–	49	–	–	49
Net financing costs	(1,701)	(1,571)	(956)	(301)	(4,529)
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
Jointly controlled entities	–	592	–	–	592
Segment net assets including share of jointly controlled entities and associates	**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.

3 Acquisition of subsidiaries

On 27 January 2009, the Group acquired the remaining 50% of the issued share capital of Coal4Energy, a jointly controlled entity with UK Coal plc, satisfied by £9,122,000 cash. Coal4Energy has an 85.2% controlled subsidiary, Maxibrite Limited. The company sells light industrial and domestic coal to the UK market.

In the four months to 31 May 2009, the Coal4Energy group contributed profit after tax of £2,493,000 to the consolidated profit after tax for the year. If the acquisition had occurred on 1 June 2008, Group revenue would have been an estimated £560.3m and profit after tax would have been an estimated £20.4m. 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 2008.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	731	–	731
Intangible assets	3,175	8,148	11,323
Current assets			
Inventories	800	–	800
Trade and other receivables	16,742	–	16,742
Cash and cash equivalents	828	–	828
LIABILITIES			
Non-current liabilities			
Interest-bearing loans and borrowings	(137)	–	(137)
Deferred tax liabilities	(32)	(2,281)	(2,313)
Current liabilities			
Trade and other payables	(19,577)	–	(19,577)
Current income tax liabilities	(230)	–	(230)
Interest-bearing loans and borrowings	(98)	–	(98)
Net identifiable assets and liabilities	2,202	5,867	8,069
Minority interest share of assets			(401)
Share of Coal4Energy Group owned			(901)
Goodwill on acquisition			2,355
Net purchase consideration and costs of acquisition			**9,122**
Satisfied by:			
Consideration paid			9,122

As part of the arrangements for the acquisition the terms of a supply agreement were renegotiated, leading to the recognition of an intangible asset of £8,148,000 for the preferential agreement based on discounted future cash flows for the duration of the supply contract. There were no fair value adjustments to the existing assets and liabilities.

The intangible assets are being amortised over the weighted average expected life of the contract, which is 60 months. The goodwill is not being amortised but will be reviewed annually for impairment.

Notes to the Financial Statements (continued)

3 Acquisition of subsidiaries (continued)

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 8 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 2 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 to the Financial Statements (continued)

4 Other operating expense

	2009 £000	2008 £000
Net loss on disposal of property, plant and equipment	**(193)**	(105)
Net (loss)/gain on disposal of investments	**(318)**	28
	(511)	(77)

5 Expenses and auditors' remuneration

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

	2009 £000	2008 £000
Amortisation of intangibles	**2,408**	1,164
Impairment loss on inventories	**1,234**	441
Impairment loss/(gain) on trade and other receivables	**544**	(110)
Depreciation of property, plant and equipment owned	**9,617**	8,278
Depreciation of property, plant and equipment, held under finance lease	**3,979**	2,764

Auditors' remuneration:

	2009 £000	2008 £000
Audit of these financial statements	**25**	36
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**141**	166
Other services pursuant to such legislation	**–**	118
Other services relating to taxation	**71**	66
Valuation and actuarial services	**–**	5
Services relating to recruitment and remuneration	**–**	12
All other services	**107**	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.

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	
	2009	2008	2009	2008
Directors	**26**	22	**5**	5
Maintenance and washery	**197**	197	**–**	–
Traffic and administration	**362**	288	**–**	–
Drivers	**450**	441	**–**	–
Production	**1,174**	1,031	**–**	–
	2,209	1,979	**5**	5

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Wages and salaries	**69,990**	61,037	**–**	–
Share-based payments (see note 23)	**648**	440	**–**	–
Social security costs	**7,008**	6,220	**–**	–
Contributions to defined contribution plans	**393**	447	**–**	–
Expenses related to defined benefit plans	**1,176**	1,071	**–**	–
	79,215	69,215	**–**	–

7 Directors' remuneration

	2009 £000	2008 £000
Directors' emoluments	**1,072**	932
Company contributions to money purchase pension plans	**61**	61
Amounts paid to third parties in respect of directors' services	**87**	85

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £503,000 (2008: £417,000), and company pension contributions of £42,000 (2008: £37,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	2009	2008
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	**2**	–
The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was	**–**	–

Notes to the Financial Statements (continued)

7 Directors' remuneration (continued)

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

	Number of options At start of year	At end of year	Exercise price p
GFC Banham	4,288	–	218
KJ Dougan	4,288	–	218
GFC Banham	25,543	74,723	–
KJ Dougan	15,964	33,177	–
ID Cockburn	–	20,287	–

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

8 Finance income and expense

Recognised in the income statement

	2009 £000	2008 £000
Finance income		
Net gain on financial instruments designated as fair value through the income statement	**–**	227
Interest income on unimpaired financial assets	**634**	153
Expected return on defined benefit pension plan assets	**1,049**	771
Total finance income	**1,683**	1,151

	2009 £000	2008 £000
Finance expense		
Net loss on financial instruments designated as fair value through the income statement	**465**	–
Total interest expense on financial liabilities measured at amortised cost	**4,877**	4,563
Unwind of discount on deferred consideration	**194**	34
Interest on defined benefit pension plan obligation	**1,041**	1,083
Total finance expense	**6,577**	5,680

9 Taxation

Recognised in the income statement

	2009 £000	2008 £000
Current tax expense		
Current year	**8,860**	5,633
Adjustments for prior years	**(58)**	172
Foreign tax – current year	**1,234**	728
Current tax expense	**10,036**	6,533
Deferred tax credit		
Origination and reversal of temporary differences	**(2,579)**	(672)
Reduction in tax rate	**–**	(44)
Adjustments for prior years	**2**	(636)
Deferred tax credit	**(2,577)**	(1,352)
Tax expense in income statement (excluding share of tax of equity accounted investees)	**7,459**	5,181
Share of tax of equity accounted investees	**561**	122
Total tax expense	**8,020**	5,303

Reconciliation of effective tax rate

	2009 £000	2008 £000
Profit for the year	**18,709**	12,679
Total tax expense (including tax on equity accounted investees)	**8,020**	5,303
Profit excluding taxation	**26,729**	17,982
Tax using the UK corporation tax rate of 28% (2008: 30%)	**7,484**	5,395
Effect of tax rates in foreign jurisdictions	**162**	49
Difference in effective tax rate	**12**	(69)
Impact of change in tax rate to 28% on deferred tax balances	**–**	(44)
Non-deductible expenses	**418**	440
Marginal relief	**–**	(4)
Over provided in prior years	**(56)**	(464)
Total tax expense (including tax on equity accounted investees)	**8,020**	5,303

Notes to the Financial Statements (continued)

9 Taxation (continued)

Tax recognised directly in equity

	2009 £000	2008 £000
Current tax recognised directly in equity	–	–
Deferred tax recognised directly in equity	**(2,578)**	1,238
Total tax recognised directly in equity	**(2,578)**	1,238

For the year ended 31 May 2009, the Group was subject to UK corporation tax at a base rate of 28%. During the 10 months to 31 March 2008 it was subject to a base rate of 30%, and 28% from 1 April 2008 to 31 May 2008.

10 Earnings per share

All earnings per share disclosures relate to continuing operations as the Group had no discontinued operations in either 2008 or 2009.

Earnings per share for the ordinary shares are as follows:

	2009	2008
Ordinary shares		
Basic earnings per share	**68.53p**	46.66p
Diluted earnings per share	**67.27p**	45.74p

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

	2009 £000	2008 £000
Profit for the year attributable to equity holders	**18,025**	12,257
Weighted average number of shares	**26,302,652**	26,270,532
Earnings per ordinary share	**68.53p**	46.66p

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 (effect on weighted average number of shares: 490,344, effect on earnings per ordinary share: (1.26) pence).

	2009 £000	2008 £000
Profit for the year attributable to equity holders	**18,025**	12,257
Weighted average number of shares	**26,792,996**	26,800,663
Diluted earnings per ordinary share	**67.27p**	45.74p

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 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**
Balance at 1 June 2008	19,978	7,281	55,805	282	6,638	89,984
Acquisitions through business combinations	603	21	97	10	–	731
Other acquisitions	589	421	18,646	53	–	19,709
Disposals	–	(13)	(6,780)	–	–	(6,793)
Effect of movements in foreign exchange	–	2	–	–	–	2
Balance at 31 May 2009	**21,170**	**7,712**	**67,768**	**345**	**6,638**	**103,633**
Depreciation and impairment						
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**
Balance at 1 June 2008	1,411	3,194	18,191	149	762	23,707
Depreciation charge for the year	552	422	11,758	34	830	13,596
Disposals	–	(12)	(4,899)	–	–	(4,911)
Effect of movements in foreign exchange	–	1	–	–	–	1
Balance at 31 May 2009	**1,963**	**3,605**	**25,050**	**183**	**1,592**	**32,393**
Net book value						
At 1 June 2007	**17,635**	**4,112**	**34,856**	**58**	**6,517**	**63,178**
At 31 May 2008 and 1 June 2008	**18,567**	**4,087**	**37,614**	**133**	**5,876**	**66,277**
At 31 May 2009	**19,207**	**4,107**	**42,718**	**162**	**5,046**	**71,240**

Leased plant and machinery

At 31 May 2009 the net carrying amount of leased plant and machinery was £21,379,620 (2008: £14,483,132). 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.

Notes to the Financial Statements (continued)

12 Intangible assets – Group

	Goodwill £000	Negative goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
Cost						
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**
Balance at 1 June 2008	15,839	(102)	11,689	–	5	27,431
Acquisitions through business combinations	6,292	–	–	8,148	15	14,455
Effect of movements in foreign exchange	(10)	–	–	–	–	(10)
Disposals	(1,013)	9	–	–	(5)	(1,009)
Balance at 31 May 2009	**21,108**	**(93)**	**11,689**	**8,148**	**15**	**40,867**
Amortisation and impairment						
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**
Balance at 1 June 2008	–	(102)	1,867	–	–	1,765
Amortisation for the year	–	–	2,408	–	–	2,408
Disposals	–	9	–	–	–	9
Balance at 31 May 2009	**–**	**(93)**	**4,275**	**–**	**–**	**4,182**
Net book value						
At 1 June 2007	**10,362**	**–**	**6,376**	**–**	**7**	**16,745**
At 31 May 2008 and 1 June 2008	**15,839**	**–**	**9,822**	**–**	**5**	**25,666**
At 31 May 2009	**21,108**	**–**	**7,414**	**8,148**	**15**	**36,685**

The supply contracts are being amortised over the weighted average expected life of the contracts, which is 60 months.

£2,032,000 of the customer contracts is being amortised over 62 months, £2,596,000 of the customer contracts is being amortised over 71 months and £7,061,000 of the customer contracts is being amortised over 75 months, each being the weighted average expected life of the contracts.

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:

	2009 £000	2008 £000
Administrative expenses	2,408	1,164

Impairment testing

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

	Goodwill	
	2009 £000	2008 £000
Norec Limited	**1,252**	1,252
AJS Contracts Limited	**2,502**	2,502
Imperial Tankers Limited/Hargreaves Bulk Liquid Transport Limited	**3,523**	3,523
The Monckton Coke & Chemical Company Limited	**5,419**	5,419
Hargreaves Building Products Limited	**–**	1,004
Maltby Colliery Limited	**2,139**	2,139
Coal4Energy Limited/Maxibrite Limited	**6,140**	–
Other	**133**	–

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:

	2009	2008
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 value in use. 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% (2008: 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.

The Company has no intangible assets.

Notes to the Financial Statements (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 2009	2008
Company					
Subsidiary undertakings					
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	50%	50%
			Preference	50%	50%
Coal4Energy Limited	Light industrial and domestic coal sales	UK	Ordinary	100%	50%
Jointly controlled entity					
Forward Sound Limited	Coal mining	UK	Ordinary	100%	–
Evonik Hargreaves Limited	Holding company	UK	Ordinary	50%	–
Group					
Subsidiary undertakings					
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	100%	100%
			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%	72.5%
Hargreaves Metallurgical Supplies Limited	Mineral distribution	UK	Ordinary	100%	100%
Imperial Tankers Limited	Haulage	UK	Ordinary	100%	100%
AJS Contracts Limited	Engineering maintenance services	UK	Ordinary	100%	100%
Maxibrite Limited	Smokeless fuel briquette manufacturing	UK	Ordinary	85.2%	42.6%
RocFuel Limited	Renewable energy solutions	UK	Ordinary	50.1%	50%
Hargreaves Carbon Products NV	Import and sale of carbon-based materials	Belgium	Ordinary	58%	–
Jointly controlled entity					
Hargreaves Coal Combustion Products Limited	Management and sale of ash products	UK	Ordinary	37.5%	50%
			Preference	37.5%	50%
Lytag Limited	Sales of aggregate product	UK	Ordinary	–	50%
Eastgate Materials Handling Limited	Port facilities	UK	Ordinary	50%	–
XYZ Newco Limited	Holding company	UK	Ordinary	37.5%	–
Hargreaves Coal Combustion Products Holdings Limited	Holding company	UK	Ordinary	37.5%	–
Hargreaves Building Products Holdings Limited	Holding company	UK	Ordinary	37.5%	–
Evonik Power Minerals Limited	Holding company	UK	Ordinary	37.5%	–
Hargreaves Building Products Limited	Holding company	UK	Ordinary	37.5%	50%

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

Hargreaves Carbon Products NV is an 80% owned subsidiary of Hargreaves Raw Material Services GmbH.

In addition to the above, the Group has approximately 10 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 2009 was £1,216,000 (2008: £262,000).

Forward Sound Limited is considered a jointly controlled entity as the Group has joint control established by a contractual agreement.

Group

	Interests in jointly controlled entities £000	Total £000
Cost		
At beginning of year	152	152
Additions	790	790
Disposal	(129)	(129)
At end of year	813	813
Share of post acquisition reserves		
At beginning of year	440	440
Profits for the financial year	1,216	1,216
Disposals	(1,448)	(1,448)
Dividends paid	(117)	(117)
Capital contribution	49	49
At end of year	140	140
Net book value		
At 31 May 2009	**953**	**953**
At 31 May 2008	**592**	**592**

Notes to the Financial Statements (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
2009							
Hargreaves Building Products Limited	50%/75%/ 60%/37.5%	53	–	–	–	89	(100)
Hargreaves Coal Combustion Products Limited	50%/60%/ 37.5%	272	–	–	–	3,779	(3,696)
RocFuel Limited	50%	581	–	(287)	–	23	(77)
Forward Sound Limited	100%	–	1,000	(500)	–	–	–
Eastgate Materials Handling Limited	50%	1,278	2	(1,288)	–	5,366	(5,374)
XYZ Newco Limited	37.5%	1,723	864	(1,618)	(14)	2,288	(2,167)
Hargreaves Building Products Holdings Limited	37.5%	–	45	–	–	–	–
Hargreaves Coal Combustion Products Holdings Limited	37.5%	–	220	–	–	–	–
Evonik Hargreaves Limited	50%	–	1	–	–	–	–
Evonik Power Minerals Limited	37.5%	533	–	–	–	147*	141*
		4,440	**2,132**	**(3,693)**	**(14)**	**11,692**	**(11,273)**

* Result from 1 January 2008 – 31 May 2009

	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)**

Summary aggregated financial information on associates – 100%:

	2009 £000	2008 £000
Assets	**–**	–
Liabilities	**–**	–
Revenues	**–**	1,590
Profit after tax	**–**	195

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

Company

	Group undertakings £000	Jointly controlled entities £000	Associates £000	Total £000
Shares at cost				
Cost and net book value				
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**
At 1 June 2008	14,495	1,123	–	15,618
Additions	9,122	1,318	–	10,440
Capital contribution arising on share options	648	–	–	648
Transfer	1	(1)	–	–
Disposals	–	(1,686)	–	(1,686)
At 31 May 2009	**24,266**	**754**	**–**	**25,020**

14 Other financial assets

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Non-current				
Interest rate swaps designated as fair value through profit or loss	**–**	35	**–**	–
Current				
Currency contracts designated as fair value through profit or loss	**240**	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	**514**	416	**–**	–
	754	754	**–**	–

15 Other financial liabilities

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Non-current				
Interest rate swaps designated as fair value through profit and loss	**113**	8	**–**	–
Other derivative designated as fair value through hedging reserve	**–**	7,887	**–**	–
	113	7,895	**–**	–

Notes to the Financial Statements (continued)

15 Other financial liabilities (continued)

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Current				
Interest rate swaps designated as fair value through profit or loss	**188**	–	**–**	–
Currency contracts designated as fair value through profit or loss	**43**	5	**–**	–
Other derivatives designated as fair value through hedging reserve	**2,960**	3,109	**–**	–
	3,191	3,114	**–**	–

16 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2009 £000	Assets 2008 £000	Liabilities 2009 £000	Liabilities 2008 £000
Property, plant and equipment	**–**	–	**6,208**	7,855
Intangible assets	**–**	–	**4,534**	3,273
Financial assets	**(715)**	(2,863)	**–**	–
Employee benefits	**(1,240)**	(1,520)	**–**	–
Share-based payments	**(176)**	(391)	**–**	–
Provisions	**(2,566)**	(2,938)	**–**	–
Tax value of loss carry-forwards	**(19)**	(6)	**–**	–
Other	**(302)**	–	**–**	–
Tax (assets)/liabilities	**(5,018)**	(7,718)	**10,742**	11,128
Net of tax liabilities	**–**	–	**7,159**	5,092
Net tax (assets)/liabilities	**(5,018)**	(7,718)	**17,901**	16,220

Movement in deferred tax during the year

	31 May 2008 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 May 2009 £000
Property, plant and equipment	7,855	(1,679)	–	32	**6,208**
Intangible assets	3,273	(1,020)	–	2,281	**4,534**
Financial assets	(2,863)	(130)	2,278	–	**(715)**
Employee benefits	(1,520)	(20)	300	–	**(1,240)**
Share-based payments	(391)	215	–	–	**(176)**
Provisions	(2,938)	372	–	–	**(2,566)**
Tax value of loss carry-forwards utilised	(6)	(13)	–	–	**(19)**
Other	–	(302)	–	–	**(302)**
	3,410	(2,577)	2,578	2,313	**5,724**

16 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the prior year

	31 May 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

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2009 £000	2008 £000	2009 £000	2008 £000
Share-based payments	**(123)**	(123)	**–**	–
Tax (assets)/liabilities	**(123)**	(123)	**–**	–
Net of tax liabilities/(assets)	**–**	–	**–**	–
Net tax (assets)/liabilities	**(123)**	(123)	**–**	–

Movement in deferred tax during the year

	At 1 June 2007 and at 1 June 2008 £000	Recognised in income £000	Recognised in equity £000	31 May 2009 £000
Share-based payment	(123)	–	–	(123)

There is no expiry date on the above recognised deferred tax asset.

Notes to the Financial Statements (continued)

17 Inventories

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Raw materials and consumables	**12,042**	29,953	**–**	–
Work in progress	**15,749**	8,773	**–**	–
Finished goods	**32,902**	4,727	**–**	–
	60,693	43,453	**–**	–

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

The write-down of inventories to net realisable value amounted to £1,234,000 (2008: £441,000). The reversal of write-downs amounted to £nil (2008: £nil). The write-down is in cost of sales.

Included within inventories is £nil (2008: £17.0m) of advanced payments on account from customers.

18 Trade and other receivables

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Trade receivables	**43,306**	40,233	**27**	–
Trade receivable due from Group undertakings	**–**	–	**52,568**	38,201
Trade receivable due from undertakings in which the Company has a participating interest	**1,557**	3,031	**500**	100
Other receivables	**4,834**	5,277	**3**	3
Prepayments and accrued income	**5,056**	3,481	**–**	–
Other tax and social security	**273**	–	**1**	–
	55,026	52,022	**53,099**	38,304

Included within trade and other receivables is £nil (2008: £nil) for the Group and £nil (2008: £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 2009 trade receivables are shown net of an allowance for bad debts of £727,000 (2008: £125,000) arising from the ordinary course of business, as follows:

	2009 £000	2008 £000
Group		
Balance at 1 June	**125**	207
Assumed on acquisition	**185**	28
Provided during the year	**544**	61
Released	**–**	(110)
Utilised during the year	**(127)**	(61)
Balance at 31 May	**727**	125

18 Trade and other receivables (continued)

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

	Gross trade receivables £000	2009 Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	33,684	–	33,684
Past due date (0-90 days)	9,840	(226)	9,614
Past due date (over 90 days)	470	(462)	8
Individually impaired amounts	39	(39)	–
	44,033	**(727)**	**43,306**

	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**

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

The Group's most significant customer is EON UK Limited which accounts for £2,506,000 of trade receivables carrying amount at 31 May 2009 (2008: SSE Energy Supply Limited £4,128,000).

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

	2009 £000	2008 £000
UK	**34,206**	36,249
European customers	**6,100**	3,370
Other regions	**3,000**	614
	43,306	40,233

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

Notes to the Financial Statements (continued)

19 Cash and cash equivalents/bank overdrafts

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Cash and cash equivalents per balance sheet	**1,062**	10,015	**–**	8,995
Bank overdrafts	**(9,486)**	(11,040)	**(896)**	–
Cash and cash equivalents per cash flow statements	**(8,424)**	(1,025)	**(896)**	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 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Non-current liabilities				
Secured bank loans	**13,037**	13,297	**10,281**	8,063
Finance lease liabilities	**10,493**	6,729	**–**	–
Invoice discounting facility	**801**	9,975	**–**	–
	24,331	30,001	**10,281**	8,063
Current liabilities				
Current portion of secured bank loans	**8,328**	5,212	**5,864**	2,932
Current portion of finance lease liabilities	**6,219**	3,216	**–**	–
Promissory note facility	**21,874**	6,759	**–**	–
	36,421	15,187	**5,864**	2,932
Bank overdraft	**9,486**	11,040	**896**	–
	45,907	26,227	**6,760**	2,932

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2009 £000	Carrying amount 2009 £000	Face value 2008 £000	Carrying amount 2008 £000
Term loan A	Sterling	LIBOR +2%	2012	**8,250**	**8,063**	11,250	10,995
Term loan B	Sterling	LIBOR +2.5%	2010	**1,400**	**1,376**	2,800	2,756
Term loan C	Sterling	Base Rate +2%	2012	**3,535**	**3,468**	4,454	4,367
Term loan D	Sterling	LIBOR + 2.5%	2012	**8,250**	**8,082**	–	–
Mortgage	Sterling	LIBOR +1.5%	2024	**376**	**376**	391	391
Finance lease liabilities	Sterling	5.5% – 12.5%	2009-2014	**16,712**	**16,712**	9,945	9,945
Promissory note facility	USD	LIBOR + 1.25%	2009	**21,874**	**21,874**	6,759	6,759
Bank overdraft facility	EUR	3.8% – 4.95%	2009	**9,486**	**9,486**	11,040	11,040
Invoice discounting facility	Sterling	Base Rate + 1.4%	2011	**801**	**801**	9,975	9,975
				70,684	**70,238**	56,614	56,228

20 Other interest-bearing loans and borrowings (continued)

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 2009 was £843,000 (2008: £10,500,000).

The overdraft facility is a 12-month facility from 31 December 2008, and can be drawn down in Euros, US Dollars and Sterling. The rate of interest is fixed and dependent on the currency drawn down.

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2009 £000	Interest 2009 £000	Principal 2009 £000	Minimum lease payments 2008 £000	Interest 2008 £000	Principal 2008 £000
Less than one year	**7,045**	**826**	**6,219**	3,760	544	3,216
Between one and five years	**11,259**	**766**	**10,493**	7,258	574	6,684
More than five years	**–**	**–**	**–**	54	9	45
	18,304	**1,592**	**16,712**	11,072	1,127	9,945

21 Trade and other payables

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Current				
Trade payables	**31,489**	24,540	**–**	–
Trade payables due to Group undertakings	**–**	–	**21,947**	10,397
Trade payables due to undertakings in which the Company has a participating interest	**675**	78	**–**	41
Other trade payables	**6,994**	11,872	**–**	–
Non-trade payables and accrued expenses	**13,047**	18,492	**79**	152
Deferred consideration	**2,128**	3,248	**–**	1,120
	54,333	58,230	**22,026**	11,710
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 (2008: £nil).

Notes to the Financial Statements (continued)

22 Pension schemes and other retirement benefits

Defined contribution plans

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 £393,000 (2008: £447,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

Defined benefit plans

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.

The latest full actuarial valuation was carried out on 31 December 2007 and updated for IAS 19 purposes to 31 May 2009.

The major assumptions used in these valuations were:

	2009	2008
Average retirement age	**65 years**	65 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

	2009 £000	2008 £000
Present value of scheme liabilities	**(364)**	(419)
Deferred tax asset	**102**	117
Net scheme liabilities	**(262)**	(302)

Movement in deficit during the year

	2009 £000	2008 £000
Deficit in scheme at beginning of year	**(419)**	(469)
Current service cost	**(4)**	(6)
Contributions paid	**19**	26
Other finance cost	**(22)**	(25)
Actuarial gain	**62**	55
Deficit in the scheme at the end of the year	**(364)**	(419)

22 Pension schemes and other retirement benefits (continued)

Analysis of other pension costs charged in arriving at operating profit

	2009 £000	2008 £000
Current service cost	**(4)**	(6)

Analysis of amounts included in other finance costs

	2009 £000	2008 £000
Interest on pension scheme liabilities	**(22)**	(25)

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

	2009 £000	2008 £000
Experience gains and losses arising on scheme liabilities	**–**	84
Changes in assumptions underlying the present value of scheme liabilities	**62**	(29)
Actuarial gain recognised in statement of total recognised gains and losses	**62**	55

History of experience gains and losses

	2009 £000	2008 £000	2007 £000	2006 £000
Experience gains and losses on scheme liabilities:	**–**	84	–	(18)
Percentage of year end present value of scheme liabilities	**0%**	20%	–	4%
Total amount recognised in statement of total recognised gains and losses:	**62**	55	13	(50)
Percentage of year end present value of scheme liabilities	**17%**	13%	3%	11%

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 2007 and was updated for IAS 19 purposes to 31 May 2009 by a qualified independent actuary.

The major assumptions used in this valuation were:

	2009	2008
Rate of increase in salaries	**3.9%**	3.8%
Rate of increase in pensions in payment and deferred pensions	**3.7%**	3.6%
Discount rate applied to scheme liabilities	**6.5%**	5.9%
Inflation assumption	**3.9%**	3.8%

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.

Notes to the Financial Statements (continued)

22 Pension schemes and other retirement benefits (continued)

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 2009 £000	Value at 2008 £000
Equities	**11,946**	11,480
Bonds	**–**	–
Other – cash	**247**	81
Total market value of assets	**12,193**	11,561
Present value of scheme liabilities	**(16,258)**	(16,573)
Deficit in the scheme – pension liability	**(4,065)**	(5,012)
Related deferred tax asset	**1,138**	1,403
Net pension liability	**(2,927)**	(3,609)

Movement in the present value of plan assets

	2009 £000	2008 £000
Fair value of plan assets at beginning of year	**11,561**	11,716
Expected return on plan assets	**1,049**	771
Actuarial loss	**(3,034)**	(1,887)
Employer contributions	**2,321**	712
Plan members' contributions	**322**	288
Benefits paid	**(26)**	(39)
Fair value of plan assets at end of year	**12,193**	11,561

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

	Long-term rate of return 2009	Long-term rate of return 2008
Equities	**8.2%**	9.0%
Bonds	**–**	5.5%
Other – cash	**4.2%**	5.0%

22 Pension schemes and other retirement benefits (continued)

Movement in deficit during the year

	2009 £000	2008 £000
Deficit in the scheme at the beginning of the year	**(5,012)**	(8,942)
Current service cost	**(1,172)**	(1,065)
Contributions paid	**2,321**	712
Other finance income/(cost)	**30**	(287)
Actuarial (loss)/gain	**(232)**	4,570
Deficit in the scheme at the end of the year	**(4,065)**	(5,012)

Analysis of other pension costs charged in arriving at operating profit

	2009 £000	2008 £000
Current service cost	**(1,172)**	(1,065)

Analysis of amounts included in other finance income/(cost)

	2009 £000	2008 £000
Expected return on pension scheme assets	**1,049**	771
Interest on pension scheme liabilities	**(1,019)**	(1,058)
	30	(287)

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

	2009 £000	2008 £000
Actual return less expected return on scheme assets	**(232)**	4,570

History of experience gains and losses

	2009 £000	2008 £000	2007 £000
Difference between the expected and actual return on scheme assets:	**(3,034)**	(1,887)	95
Percentage of year end scheme assets	**24.9%**	16.3%	0.8%
Experience gains and losses on scheme liabilities:	**2,802**	6,457	–
Percentage of year end present value of scheme liabilities	**17.2%**	31.0%	–
Total amount recognised in statement of total recognised gains and losses:	**(232)**	4,570	95
Percentage of year end present value of scheme liabilities	**1.4%**	27.6%	0.5%

Notes to the Financial Statements (continued)

23 Employee share schemes

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

	2009 Weighted average exercise price	2009 Number of options	2008 Weighted average exercise price	2008 Number of options
At beginning of year	**4.32**	**562,468**	4.24	439,736
Granted during year	**4.43**	**231,870**	4.67	175,968
Lapsed during year	**4.53**	**(52,528)**	4.80	(53,236)
Exercised during year	**2.18**	**(124,639)**	–	–
Outstanding at the end of the year	**4.78**	**617,171**	4.32	562,468
Exercisable at the end of the year	**2.18**	**1,857**	–	–

The exercise period for 1,857 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 223,188 options is from 1 July 2010 to 1 January 2011 and the weighted average exercise price is 524p. The exercise period for 161,660 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.

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:

	2009	2008
Share price at date of grant (pence)	**492.5**	519
Expected option life (years)	**3**	3
Volatility	**40%**	40%
Risk free interest rate	**5.35%**	5.35%

The Group recognised a total expense of £342,000 (2008: £252,000) in respect of these equity-settled share options.

Long-Term Incentive Plan ('LTIP')

At 31 May 2009 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.

23 Employee share schemes (continued)

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:

	2009	2008
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 531 pence (2008: 561 pence).

The Group recognised a total expense of £88,000 (2008: £136,000) in respect of the equity-settled LTIP share scheme.

The exercise period for 230,466 of the options is from 1 June 2012 to 30 November 2012 and the weighted average exercise price is £4.43.

On 30 June 2008, the Group commenced an additional LTIP scheme.

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
June 2008	Senior employees	128,621	June 2011 to August 2011

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:

	2009
Share price at date of grant (pence)	492.5
Expected option life (years)	3
Volatility	40%
Risk free interest rate	5.35%

The Group recognised a total expense of £218,000 in respect of this equity settled LTIP share scheme.

Notes to the Financial Statements (continued)

23 Employee share schemes (continued)

Equity settled share option schemes – Norec

At 31 May 2009 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 £nil (2008: £52,000) in respect of these equity-settled share options.

24 Provisions

Group	Monckton ground water contamination £000	Maltby restoration £000	HMRC 2 £000	Maltby subsidence provision £000	Total £000
Balance at 1 June 2008	1,582	7,656	570	519	10,327
Provisions made during the year	–	–	–	494	494
Provisions utilised during the year	–	(1,089)	–	–	(1,089)
Provisions reversed during the year	–	–	(175)	–	(175)
Balance at 31 May 2009	**1,582**	**6,567**	**395**	**1,013**	**9,557**

Provisions comprise:

1 A £1,582,000 ground and 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 £6,567,000 restoration provision which relates to Maltby's obligation to restore the site after coal mining has been completed. £1,089,000 of the provision has been utilised as work has been undertaken to rectify large parts of the site.

3 A £395,000 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 with management revising downwards the expected outflow in the current year due to further negotiations with HMRC.

4 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.

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 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
Balance at 1 June 2008	2,627	29,177	186	(7,618)	29	1,530	1,022	20,427	47,380	681	48,061
Total recognised income and expense	–	–	460	5,856	–	–	–	17,555	23,871	864	24,735
Issue of shares	12	257	–	–	–	–	–	–	269	–	269
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	648	648	–	648
Dividends	–	–	–	–	–	–	–	(2,838)	(2,838)	–	(2,838)
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	612	612
Acquisition of jointly controlled entities	–	–	–	–	182	–	–	–	182	–	182
Balance at 31 May 2009	**2,639**	**29,434**	**646**	**(1,762)**	**211**	**1,530**	**1,022**	**35,792**	**69,512**	**2,157**	**71,669**

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 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
Balance at 1 June 2008	2,627	29,177	1,530	1,022	5,979	40,335
Total recognised income and expense	–	–	–	–	761	761
Issue of shares	12	257	–	–	–	269
Equity-settled share-based payment transactions	–	–	–	–	648	648
Dividends	–	–	–	–	(2,838)	(2,838)
Balance at 31 May 2009	**2,639**	**29,434**	**1,530**	**1,022**	**4,550**	**39,175**

Notes to the Financial Statements (continued)

25 Capital and reserves (continued)

Share capital

	2009 £000	2008 £000
Authorised		
47,500,000 (2008: 47,500,000) Ordinary shares of 10p each	**4,750**	4,750
Allotted, called up and fully paid		
26,393,902 (2008: 26,270,532) Ordinary shares of 10p each	**2,639**	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 2007, 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:

	2009 £000	2008 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**1,839**	1,576
Interim dividends paid in respect of the current year	**999**	867
	2,838	2,443
Proposed dividend of 8p per share (2008: 7p)	**2,112**	1,839

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

26 Financial instruments

The Group's and Company's principal financial instruments comprise short-term debtors and creditors, bank loans and overdrafts, invoice discounting advances, obligations under finance leases and cash. Neither the Group nor the Company trades 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 and Company's ongoing operations and manage its working capital requirements.

(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 £43,306,000 (2008: £40,233,000) being the total of the carrying amount of trade receivables.

26 Financial instruments (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

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.

(b) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group and Company will not be able to access the necessary funds to finance their operations. They finance their operations through a mix of short and medium-term facilities.

The Group manages its liquidity risk by monitoring existing facilities and cashflows 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:

		2009 Contracted Cash flows					2008 Contracted Cash flows			
	Carrying amount £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000	Carrying amount £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000
Non-derivative financial liabilities										
Secured bank loans	**21,365**	**8,328**	**6,937**	**5,817**	**283**	18,509	5,212	5,279	7,714	304
Finance lease liabilities	**16,712**	**6,219**	**5,427**	**5,066**	**–**	9,945	3,216	3,185	3,499	45
Promissory note facility	**21,874**	**21,874**	**–**	**–**	**–**	6,759	6,759	–	–	–
Bank overdrafts	**9,486**	**9,486**	**–**	**–**	**–**	11,040	11,040	–	–	–
Trade and other payables*	**54,333**	**54,333**	**–**	**–**	**–**	59,256	58,230	1,026	–	–
Invoice discounting facility	**801**	**–**	**–**	**801**	**–**	9,975	–	–	9,975	–
Derivative financial liabilities										
Interest rate swaps used for hedging	**301**	**188**	**113**	**–**	**–**	8	–	–	8	–
Forward exchange contracts used for hedging:										
Outflow	**43**	**43**	**–**	**–**	**–**	5	5	–	–	–
Inflow	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Commodity contracts:										
Outflow	**2,960**	**2,960**	**–**	**–**	**–**	10,996	3,109	5,669	2,218	–
Inflow	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
	127,875	**103,431**	**12,477**	**11,684**	**283**	126,493	87,571	15,159	23,414	349

* Excludes derivatives (shown separately).

Liquidity risk – Company

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

		2009 Contracted Cash flows					2008 Contracted Cash flows			
	Carrying amount £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000	Carrying amount £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000
Non-derivative financial liabilities										
Secured bank loans	**16,145**	**5,864**	**5,872**	**4,409**	**–**	10,995	2,932	2,932	5,131	–
Trade and other payables	**22,026**	**22,026**	**–**	**–**	**–**	11,710	11,710	–	–	–
Bank overdraft	**896**	**896**	**–**	**–**	**–**	–	–	–	–	–
	39,067	**28,786**	**5,872**	**4,409**	**–**	22,705	14,642	2,932	5,131	–

Notes to the Financial Statements (continued)

26 Financial instruments (continued)

(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:

	2009	2009 Expected Cash flows				2008	2008 Expected Cash flows			
	Carrying amount £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000	Carrying amount £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000
Interest rate swaps:										
Assets	–	–	–	–	–	57	22	–	35	–
Liabilities	(301)	(188)	(113)	–	–	(8)	–	–	(8)	–
Forward exchange contracts:										
Assets	240	240	–	–	–	164	164	–	–	–
Liabilities	(43)	(43)	–	–	–	(5)	(5)	–	–	–
Commodity contracts:										
Assets	514	514	–	–	–	568	568	–	–	–
Liabilities	(2,960)	(2,960)	–	–	–	(10,996)	(3,109)	(5,669)	(2,218)	–
	(2,550)	(2,437)	(113)	–	–	(10,220)	(2,360)	(5,669)	(2,191)	–

(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 or Company'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.

26 Financial instruments (continued)

(d) Market risk (continued)

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 2009

	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	185	346	531	1,062
Trade receivables	33,698	7,641	1,967	43,306
Secured bank loans	(21,365)	–	–	(21,365)
Trade payables	(25,373)	(1,128)	(4,988)	(31,489)
Other trade payables	(6,522)	(472)	–	(6,994)
Overdraft	–	(3,794)	(5,692)	(9,486)
Promissory notes	–	–	(21,874)	(21,874)
Invoice discounting facility	(801)	–	–	(801)
Balance sheet exposure	(20,178)	2,593	(30,056)	(47,641)
Estimated forecast sales		–	–	–
Estimated forecast purchases		–	–	–
Gross exposure		2,593	(30,056)	(27,463)
Forward exchange contracts		–	13,870	13,870
Net exposure		**2,593**	**(16,186)**	**(13,593)**

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)**

Notes to the Financial Statements (continued)

26 Financial instruments (continued)
(d) Market risk (continued)
Foreign currency risk (continued)

Company

The Company has no exposure to foreign currency risk.

Sensitivity analysis

Group

A 10% weakening of the following currencies against the pound sterling at 31 May 2009 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 2008.

	Equity 2009 £000	Equity 2008 £000	Profit or loss 2009 £000	Profit or loss 2008 £000
€	**(236)**	2,043	**(236)**	2,043
$	**1,471**	647	**1,471**	647

A 10% strengthening of the above currencies against the pound sterling at 31 May 2009 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.

Interest rate risk

Profile

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

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Fixed rate instruments				
Financial assets	**–**	–	**–**	–
Financial liabilities	**(26,198)**	(20,985)	**–**	–
	(26,198)	(20,985)	**–**	–
Variable rate instruments				
Financial assets	**1,062**	10,015	**–**	–
Financial liabilities	**(44,040)**	(35,243)	**(17,041)**	(10,995)
	(42,978)	(25,228)	**(17,041)**	(10,995)

Sensitivity analysis

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

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 2008.

26 Financial instruments (continued)
(d) Market risk (continued)

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Profit or loss				
Decrease	**(217)**	(42)	**(80)**	(31)

(e) Capital management
The Group and Company finance their 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 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Less than one year	**3,989**	4,622	**–**	–
Between one and five years	**6,129**	5,370	**–**	–
More than five years	**9**	416	**–**	–
	10,127	10,408	**–**	–

Group
During the year £4,807,000 was recognised as an expense in the income statement in respect of operating leases (2008: £5,393,000).

Company
During the year £nil was recognised as an expense in the income statement in respect of operating leases (2008: £nil).

28 Capital commitments
Group
During the year ended 31 May 2009, the Group entered into a contract to purchase property, plant and equipment for £20,229,000 (2008: £14,265,000). In respect of its interest in jointly controlled entities, the Group is committed to incur capital expenditure of £nil (2008: £nil). The jointly controlled entities are themselves committed to incur capital expenditure of £nil (2008: £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 £18,224,000 (2008: £28,743,000).

Notes to the Financial Statements (continued)

30 Related parties

Group

Other related party transactions

	Sales to 2009 £000	Sales to 2008 £000	Purchases from 2009 £000	Purchases from 2008 £000
Ultimate parent of the Group	**–**	–	**–**	–
Associates				
Hargreaves Building Products Limited	**–**	–	**–**	–
Lytag Limited	**–**	42	**–**	–
Jointly controlled entities				
Eastgate Materials Handling Limited	**3,382**	–	**3,505**	–
Hargreaves Metallurgical Supplies Limited	**–**	–	**–**	–
Hargreaves Coal Combustion Products Limited	**1,802**	2,084	**–**	3
Coal4Energy Limited	**15,726**	19,677	**588**	–
Hargreaves Building Products Limited	**4**	15	**–**	–
Lytag Limited	**9**	–	**–**	–
Maxibrite Limited	**1,058**	6	**1,564**	17
	21,981	21,824	**5,657**	20

	Receivables outstanding 2009 £000	Receivables outstanding 2008 £000	Payables outstanding 2009 £000	Payables outstanding 2008 £000
Ultimate parent of the Group	**–**	–	**–**	–
Associates				
Hargreaves Building Products Limited	**–**	–	**–**	–
Lytag Limited	**–**	–	**–**	–
Jointly controlled entities				
Forward Sound Limited	**500**	–	**–**	–
Eastgate Materials Handling Limited	**856**	–	**675**	–
Hargreaves Metallurgical Supplies Limited	**–**	–	**–**	–
Hargreaves Coal Combustion Products Limited	**197**	130	**–**	4
Coal4Energy	**–**	2,814	**–**	17
Hargreaves Building Products Limited	**4**	14	**–**	–
Lytag Limited	**–**	5	**–**	40
Maxibrite Limited	**–**	29	**–**	17
RocFuel Limited	**–**	39	**–**	–
	1,557	3,031	**675**	78

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 2009 £000	Receivables outstanding 2008 £000	Payables outstanding 2009 £000	Payables outstanding 2008 £000
Ultimate parent of the Group	**–**	–	**–**	–
Subsidiaries	**52,568**	38,201	**21,947**	10,397
Associates	**–**	–	**–**	–
Jointly controlled entities	**500**	100	**–**	41
	53,068	38,301	**21,947**	10,438

31 Subsequent events

Following the end of the year, the Group undertook a review of its facility structure. Following strong interest from five banks, the Group completed a new 3-year multi-bank committed facility consisting of a cost-effective £35m invoice finance facility supported by an £80m revolving credit facility. The invoice finance facility is priced at 200 bp over base rate. At the forecast leverage level of 1.5 to 2.0 times Debt/EBITDA, the revolving credit facility is priced at 205 bp over LIBOR. The five banks making up the syndicate, in alphabetical order are HSBC, Lloyds, RBS, Santander and Yorkshire Bank. RBS will continue to hold the largest share.

Management believe that the new facility structure will provide the Group with a committed and cost-effective debt facility that will finance all the investment planned in the short-term and will provide a platform for growing the Group further through organic growth and acquisition investment in years to come.

Notice of Annual General Meeting
Hargreaves Services plc
(incorporated and registered in England and Wales under number 4952865)

NOTICE IS HEREBY GIVEN that this year's Annual General Meeting will be held at The Seam Suite, The Radisson BLU Hotel, Framwellgate Waterside, City of Durham, DH1 5TL on Monday 9 November 2009 at 11.30 am for the following purposes:

Ordinary Business

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 8 will be proposed as ordinary resolutions and resolution 9 as a special resolution.

1 To receive the Directors' Report, the Directors' Corporate Governance and Remuneration Report, the Auditor's Report and the Financial Statements for the year ended 31 May 2009.

2 To approve the Directors' Corporate Governance and Remuneration Report for the year ended 31 May 2009.

3 To declare a final dividend for the year ended 31 May 2009 of 8 pence per ordinary share to bring the dividend for the year ended 31 May 2009 to a total of 11.8 pence.

4 To re-appoint Kevin Dougan as a director of the Company in accordance with article 35 of the Company's articles of association, who offers himself for re-appointment.

5 To re-appoint Nigel Barraclough as a director of the Company in accordance with article 35 of the Company's articles of association who offers himself for re-appointment.

6 To re-appoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the next meeting at which accounts are laid before the Company.

7 To authorise the Directors to agree the remuneration of the auditors.

8 That the Directors of the Company be and are generally granted and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the **Act**) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares in the Company (**Rights**):

8.1 up to an aggregate nominal value of £879,877 (representing approximately one third of the total ordinary share capital in issue as at the date of this notice); and

8.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £1,759,754 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 8.1) in connection with or pursuant to an offer or invitation by way of a rights issue (as defined below),

provided that such authorities conferred by this resolution 8 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 6 months after the end of the Company's current financial year unless varied, revoked or renewed by the Company in general meeting, save that the Company may at any time before such expiry make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares and grant Rights pursuant to such offers or agreements as if the relevant authorities conferred by this resolution 8 had not expired. These authorities shall be in substitution for all previous authorities previously granted to the directors to allot shares and grant Rights which are pursuant to this Resolution 8 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 8.

For the purposes of this resolution 8, **rights issue** means an offer or invitation to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the directors of the Company consider necessary, as permitted by the rights of those securities, to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable instrument) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.

9 That, subject to and conditional upon the passing of resolution 8 above, the Directors be and are empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash:

9.1 pursuant to the authority conferred upon them by resolution 8.1 or where the allotment constitutes an allotment of equity securities by virtue of section 560(2)(b) of the Act, provided that this power shall be limited to the allotment of equity securities:

9.1.1 in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and

9.1.2 (otherwise than pursuant to sub-paragraph 9.1.1 above) up to an aggregate nominal value of £263,963 (representing 10% of the total ordinary share capital in issue) and

9.2 pursuant to the authority conferred upon them by resolution 8.2, in connection with or pursuant to a rights issue,

as if Section 561(1) of the Act did not apply to any such allotment and the authorities given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 6 months after the end of the Company's current financial year unless renewed or extended prior to such expiry, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution 9 has expired.

For the purpose of this resolution 9:

(a) **rights issue** has the meaning given in resolution 8; and

(b) **Pre-emptive offer** means a rights issue, open offer or other pre-emptive issue or offer to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date(s) for such allotment; and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the directors of the Company consider necessary, as permitted by the rights of those securities, but subject in both cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.

Special Business

To consider and, if thought fit, pass the following resolutions as special resolutions.

10 The Company be and is generally and unconditionally authorised for the purpose of section 701 of the Act to make market purchases (which in this resolution shall have the meaning given to this term in section 693 (4) of the Act) of its ordinary shares of 10p each in the capital of the Company (**Ordinary Shares**) on the terms set out below:

10.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 10 is 2,639,630 (representing ten per cent of the number of Ordinary Shares in issue); and

10.2 the minimum price which may be paid for each of those Ordinary Shares (exclusive of expenses) is 10p; and

10.3 the maximum price (exclusive of expenses) which may be paid for each of those Ordinary Shares is not more than the higher of (i) five per cent above the average of the middle market quotations for Ordinary Shares (as derived from the Daily Official Lists of the London Stock Exchange) for the five dealing days immediately preceding the date of purchase and (ii) that stipulated by Article 5(1) of the Buy-Back and Stabilisation Regulations 2003,

but so that this authority shall (unless previously varied, revoked or renewed) expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 6 months after the end of the Company's current financial year, save that the Company may before the expiry of this authority conclude any contract for the purchase of its own shares pursuant to the authority conferred by this resolution 10 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 10 had not expired.

11 That the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association.

13 October 2009

By order of the Board

Stephen MacQuarrie
Company Secretary

Registered Office:
West Terrace
Esh Winning
Durham
DH7 9PT
Registered in England and Wales No. 4952865

Notice of Annual General Meeting (continued)

Notes

1. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at 6 pm on 7 November 2009 (or, in the event of any adjournment, no later than 48 hours before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
3. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Registrars of the Company, Capita Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.30 am on 7 November 2009.
4. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
5. If a member appoints a proxy or proxies and then decides to attend the Annual General Meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding. If you do not have a proxy form and/or believe that you should have one or if you require additional forms, please contact the Company at its registered office.
6. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see note 3 above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

   If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
7. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   The revocation notice must be received by Capita Registrars at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.30 am on 7 November 2009. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 5 above, your appointment will remain valid.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (**Euroclear**) specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 11.30 am on 7 November 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

12. If a corporation is a member of the Company, it may by resolution of its directors or other governing body authorise one or more persons to act as its representative or representatives at the Meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company.

Corporate representatives should bring with them either an original or certified copy of the appropriate board resolution or an original letter confirming the appointment, provided it is on the corporation's letterhead and is signed by an authorised signatory and accompanied by evidence of the signatory's authority.

13. As at 12 October 2009 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 26,396,303 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 12 October 2009 are 26,396,303.

14. The following documents will be available for inspection at the Company's registered office at West Terrace, Esh Winning, Durham, DH7 9PT during normal business hours on any week day (Saturdays and English public holidays excepted) from the date of this notice until the close of the Meeting and at the place of that Meeting for at least 15 minutes prior to and during the Meeting:

- copies of the service contracts for the executive directors of the Company;
- copies of the letters of appointment of non-executive directors of the Company; and
- new articles of association together with a marked up version of the current articles to show the changes being proposed.

Explanatory Notes to the Notice of Annual General Meeting

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 8 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 9 to 11 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1: Accounts

The Directors will present their report, the auditors' report and the audited financial statements for the financial year ended 31 May 2009 to the meeting as required by law.

Resolution 2: Approval of the Directors' Corporate Governance and Remuneration Report

In accordance with the Directors' Remuneration Report Regulations 2002, shareholders are asked to approve the Directors' Corporate Governance and Remuneration Report for the financial year ended 31 May 2009 which is set out in full on pages 18 to 21 of the Company's annual report. The vote is advisory and the directors' entitlement to remuneration is not conditional upon this resolution being passed.

Resolution 3: Declaration of final dividend

Final dividends must be approved by shareholders but must not exceed the amount recommended by the directors. If the meeting approves resolution 3, the final dividend in respect of 2009 of 8 pence per share will be paid on 18 November 2009 to shareholders on the register of members on 16 October 2009.

Resolutions 4 and 5: Re-appointment of Directors

At each general meeting one-third of the directors for the time being (other than those appointed since the last Annual General Meeting) are required to retire. If the number of relevant directors is not a multiple of three, the number nearest to one third of directors, but not less than one third, should be obliged to retire. Directors due to retire by rotation are those longest in office since their last re-election or re-appointment and as between persons who become or were last re-elected or re-appointed on the same day those due to retire shall (unless otherwise agreed among themselves) be determined by lot. A retiring director is eligible for re-appointment. Kevin Dougan and Nigel Barraclough are both offering themselves for re-appointment.

Resolutions 6 and 7: Re-appointment of auditors and approval of remuneration

The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the next general meeting. The present auditors, KPMG Audit Plc, are willing to continue in office for a further year and resolution 6 proposes their re-appointment and, in accordance with standard practice, resolution 7 authorises the directors to determine the level of the auditors' remuneration.

Notice of Annual General Meeting (continued)

Resolution 8: Authority to allot shares
Resolution 8.1 grants the directors authority to allot relevant securities up to an aggregate nominal amount of £879,877 being approximately one third of the Company's ordinary share capital in issue at 12 October 2009.

In line with guidance issued by the Association of British Insurers in December 2008, resolution 8.2 grants the directors of the Company authority to allot unissued share capital in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £1,759,754 (representing 17,597,540 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 8.1. This amount, before any such reduction, represents approximately two thirds of the Company's ordinary share capital in issue at 12 October 2009.

It is not the directors' current intention to exercise either such authorities. The authorities granted by resolution 8 replace the existing authority to allot shares.

Resolution 9: Disapplication of statutory pre-emption rights
This resolution disapplies the statutory pre-emption rights which would otherwise apply on an issue of shares for cash and is limited to allotments in connection with rights issues or other pre-emptive offers where the securities attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of shares held and generally up to a further £263,963 being 10 per cent of the Company's ordinary share capital in issue at 12 October 2009. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next Annual General Meeting of the Company.

Resolution 10: Purchase of own shares
Resolution 10 authorises the Company to purchase its own shares (in accordance with section 701 of the Companies Act 2006) during the period from the date of this Annual General Meeting until the end of the next Annual General Meeting of the Company or the expiration of six months after the 2010 Company financial year end, whichever is the sooner, up to a total of 2,639,630 ordinary shares. This represents 10% of the issued ordinary share capital as at 12 October 2009, the latest practicable date prior to the issue of this notice. The maximum price payable for a share shall not be more than the higher of 5% above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulations 2003 (being the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out). The minimum price payable for a share will be 10 pence.

Companies are permitted to retain any of their own shares which they have purchased as treasury stock with a view to possible re-issue at a future date, rather than cancelling them. The Company will consider holding any of its own shares that it purchases pursuant to the authority conferred by this resolution as treasury stock. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively, and would provide the Company with additional flexibility in the management of its capital base.

The directors will consider making use of the renewed authorities pursuant to resolution 10 in circumstances which they consider to be in the best interests of shareholders generally after taking account of market conditions prevailing at the time, other investment opportunities, appropriate gearing levels, the effect on earnings per share and the Company's overall financial position. No purchases will be made which would effectively alter the control of the Company without the prior approval of the shareholders in general meeting.

Resolution 11: Adoption of new articles of association
It is proposed in resolution 11 to adopt new articles of association of the Company (the **New Articles**) in order to update the Company's current articles of association (the **Current Articles**) primarily to take account of changes implementing the last parts of the Companies Act 2006 (the **2006 Act**).

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the 2006 Act, or conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform have not been noted. The New Articles showing all the changes to the Current Articles are available for inspection, as indicated in note 14 to the notice of the Annual General Meeting.

- **The Company's objects**

  The provisions regulating the operations of the Company were set out in the Company's memorandum and articles of association until 1 October 2009. The Company's memorandum contained, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake.

The 2006 Act has significantly reduced the constitutional significance of a company's memorandum. The 2006 Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the 2006 Act the objects clause and all other provisions which were currently contained in the company's memorandum, for existing companies as at 1 October 2009, were deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further, the 2006 Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the 2006 Act, are now treated as forming part of the Company's articles of association. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles contain an express statement regarding the limited liability of the shareholders.

- **Articles which duplicate statutory provisions**

  Provisions in the Current Articles which replicate provisions contained in the 2006 Act are in the main amended to bring them into line with the 2006 Act.

- **Authorised share capital and unissued shares**

  The 2006 Act abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act, save in respect of employee share schemes.

- **Suspension of registration of share transfers (article 16)**

  The Current Articles permit the directors to suspend the registration of transfers. Under the 2006 Act share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

- **Voting rights on a show of hands (article 27.9)**

  The Companies (Shareholders' Rights) Regulations 2009 clarify the various powers of proxies in respect of resolutions taken on a show of hands. Where a proxy has been duly appointed by one member, he has one vote on a show of hands, and where he has been duly appointed by more than one member, if some of his appointers instruct him to vote for and some against a resolution, on a show of hands he has one vote for and one vote against the resolution. The new Articles contain provisions which clarify these rights and also clarify how the provision giving a proxy a second vote on a show of hands should apply to discretionary powers.

- **Vacation of office by directors (article 33)**

  The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

- **Use of seals (article 44)**

  A company currently requires authority in its articles to have an official seal for use abroad. Since 1 October 2009 such authority is no longer required. Accordingly, the relevant authorisation has been removed in the New Articles.

  The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

- **General**

  Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform.

Notes

Investor Information

Company Secretary
Stephen Nigel MacQuarrie

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110 Quayside
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NE1 2NG

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Nominated Adviser and Stock Broker
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