

Leading the way in solid fuel supply and bulk material logistics



Hargreaves Services plc

Established in 1994, Hargreaves Services plc 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 and smokeless fuel and also recycles tyres for customers throughout the UK and in Europe.

Revenue

£86.3m +9.3%

Underlying Operating Profit

£8.4m -20.2%



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

Revenue

£263.9m -18.1%

Underlying Operating Profit

£22.3m +38.1%



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

Revenue

£72.7m +7.5%

Underlying Operating Profit

£4.2m +21.7%



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

Revenue

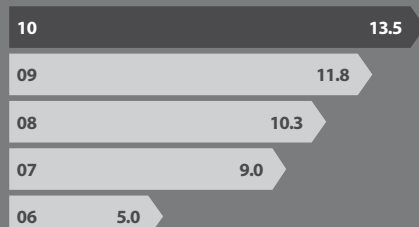
£60.4m +7.0%

Underlying Operating Profit

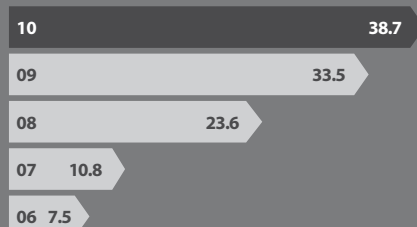
£3.8m +12.9%

Highlights of the Year

Dividend Per Share (pence)



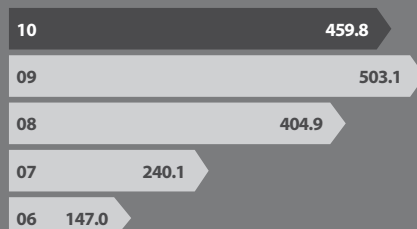
Underlying Operating Profit (£m)



Underlying Diluted EPS (pence)



Revenue (£m)



	Year ended 31 May 2010	Year ended 31 May 2009	Change %
Revenue	£459.8m	£503.1m	-8.6%
Operating Profit	£35.2m	£29.8m	+18.1%
Underlying Operating Profit ¹	£38.7m	£33.5m	+15.5%
Profit Before Tax	£30.7m	£26.2m	+17.4%
Underlying Profit Before Tax ²	£34.3m	£28.6m	+20.1%
Diluted EPS	75.6p	67.3p	+12.4%
Underlying Diluted EPS ²	88.8p	76.3p	+16.5%
Proposed Full Year Dividend	13.5p	11.8p	+14.4%

- › Underlying profit before tax increased by £5.7m to £34.3m
- › Underlying diluted EPS up 16.5% from 76.3p to 88.8p
- › Proposed full year dividend up 14.4% to 13.5p
- › Strong performance in Energy & Commodities, Transport and Industrial Services
- › Excellent progress made in European expansion, 25% increase in volume
- › Group well placed to focus on organic growth and cash generation

(1) Underlying Operating Profit is stated excluding the amortisation of acquired intangibles and including share of profit in jointly controlled entities.

(2) Underlying Profit Before Tax and EPS are stated excluding the amortisation of acquired intangibles.

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› Quality • Service • Expertise

Quality

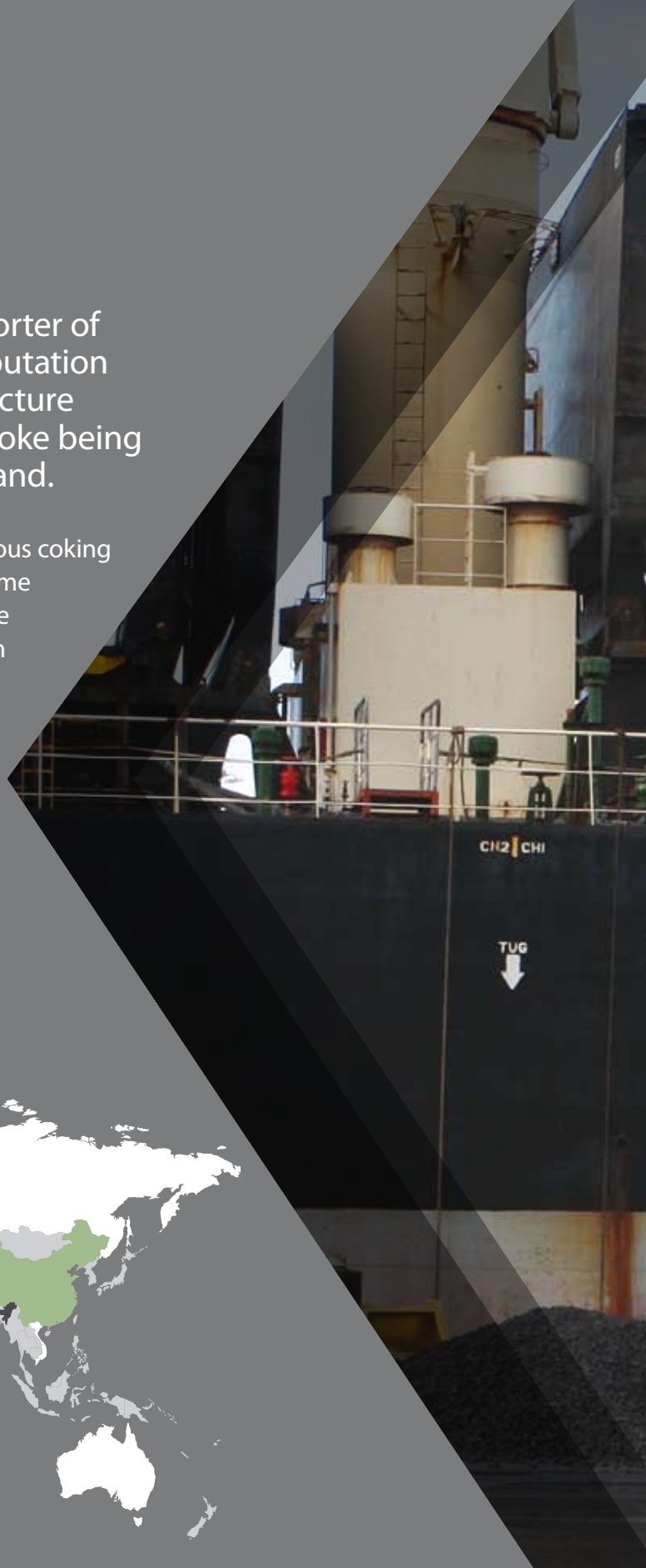
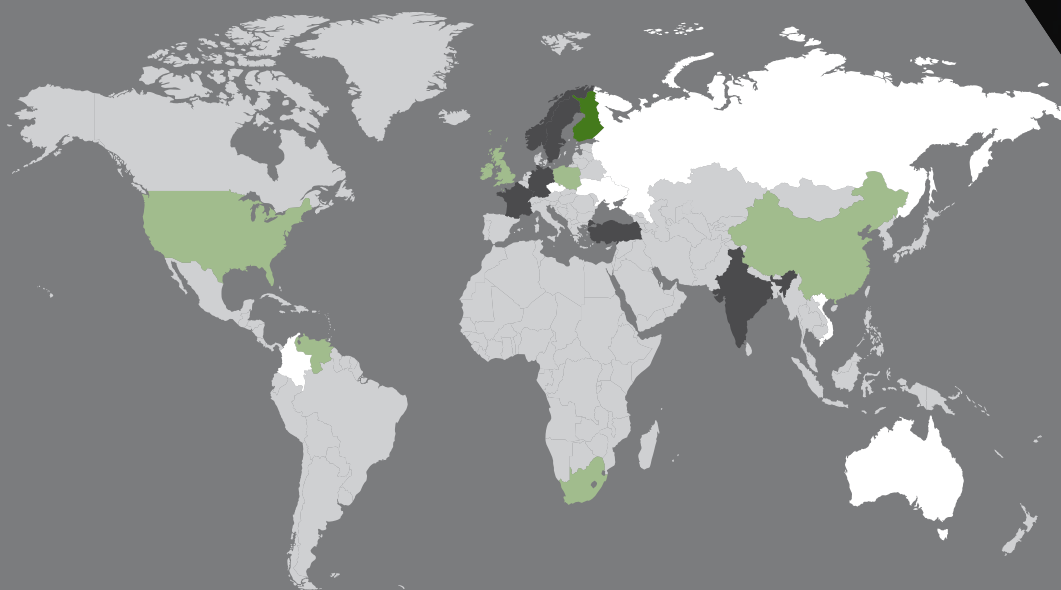
It is a long time since the UK was an exporter of carbon products, but the Hargreaves reputation for quality sees us doing just that. The picture here shows our premium metallurgical coke being prepared to be loaded for export to Finland.

The coke, produced at Monckton from low-phosphorous coking coal mined at Maltby, is ideally suited to the ferrochrome production process. The quality and consistency of the product makes it perfect for blue-chip customers such as Xstrata in South Africa and Outokumpu in Finland.

Key:

- Outokumpu
- Customers
- Suppliers
- Customer and Suppliers

OUTO
KUMPU





Chairman's Statement

"Underlying diluted EPS increased by 16.5% from 76.3p to 88.8p. With no major acquisitions in the year this growth is largely organic."

Tim Ross, Chairman





Results

I am pleased to report that the Group has completed another successful year and delivered a further set of record results. Underlying profit before tax for the year increased 20.1% from £28.6m to £34.3m whilst revenue declined due to the impact of falling commodity prices by £43.3m, from £503.1m to £459.8m. This again demonstrates our robust and unique trading model whereby we seek to achieve a fixed gross profit per tonne, and wherever possible, eliminate commodity price risks. Underlying diluted EPS increased by 16.5% from 76.3p to 88.8p. With no major acquisitions in the year this growth is largely organic.

With the exception of Maltby Colliery, businesses across the Group performed in line with, or ahead of, management expectations.

The Group remains well financed following the new banking facilities signed in September 2009 and the business is operating comfortably within its covenant levels. Having completed two years of heavy investment at Maltby, the focus will now, as planned, return to increasing cash generation.

Dividend

The Board has carefully considered the appropriate level of dividend, balancing the desirability of progressive dividend policy with the maintenance of capital in the business to support the growth potential and reduction of core debt levels. Given the strong performance in the year to 31 May 2010 and the encouraging outlook, the Board has decided to recommend a final dividend of 9.1 pence per share, bringing the dividend for the year to 13.5 pence per share, an increase of 14.4%. The final dividend is proposed to be paid on 17 November 2010 to all shareholders on the register at the close of business on 15 October 2010.

People

Our staff remain key to our business and I would like to thank them for their continued loyalty, hard work and cooperation in what has been a challenging economic period. I would particularly like to acknowledge the support that we are getting from our customers, employees and union representatives as we jointly face up to the challenge of improving Maltby's production consistency, reducing operating expenses and maximising proceeds to secure a successful future for the mine.

Development

Although we do not rule out acquisition activity when opportunities become available, we intend to focus on the many organic growth opportunities available to the Group. In February 2009 we announced that we intended to consider a move from AIM to the Official List.

Whilst it still remains our ambition to grow the size and profitability of the business to the point where a move to the Official List would be a natural step in the Group's evolution, in the absence of a strategic imperative that would require and justify such a move, our intention will be to remain on AIM and continue to enjoy the benefits offered by the AIM market.

Outlook

With the change to the new face having been completed at Maltby, we are hopeful that production consistency will now improve. The Board is encouraged by the start that has been made to the current financial year by the rest of the Group and believes that the Group is well placed to drive further profit growth and cash generation. The Board therefore continues to view the long-term future with confidence.

Tim Ross Chairman

14 September 2010

+18.1%
Operating Profit

+17.4%
Profit Before Tax

• Quality › Service • Expertise

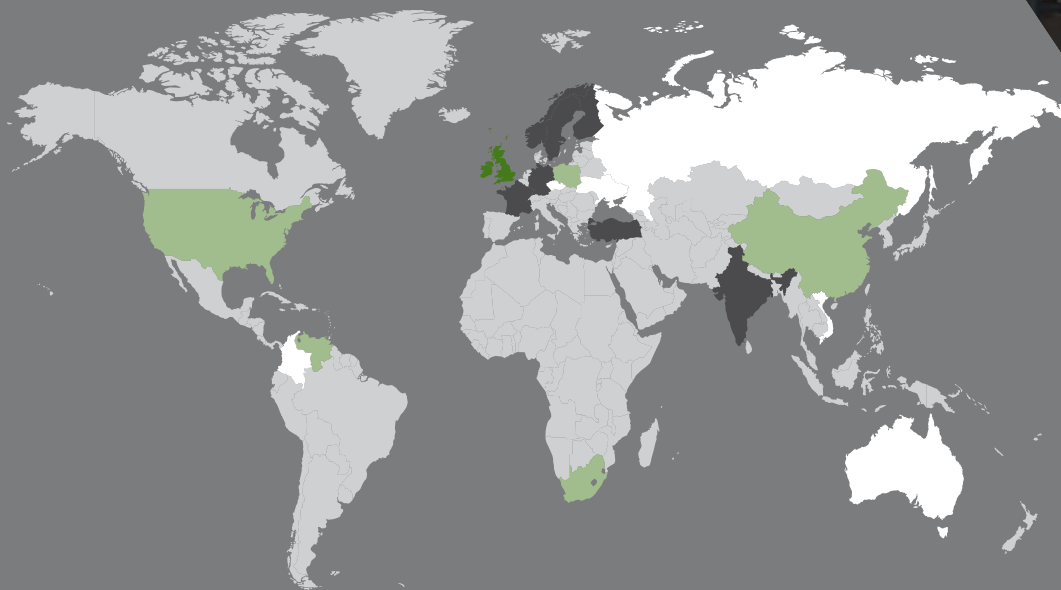
Service

Hargreaves is the UK leader in the delivery of bulk material handling and transport services. The picture here shows our blending operation at Drax's power station. In response to the needs of Drax, we quickly established blending operations capable of processing more than one million tonnes of coal per annum.

The operations were set up both at Immingham docks by our joint venture Eastgate Materials Handling with the support and help of the port owners, Associated British Ports and on site at Drax power station using our own resources and personnel. This is an excellent example of our ability to quickly deploy equipment and trained personnel to service our customers' needs.

Key:

- Drax
- Customers
- Suppliers
- Customer and Suppliers





Group Business Review

“The Group has continued its strong track record of growth during the year, developing the many growth and synergy opportunities in both the UK and Europe.”

Gordon Banham, Group Chief Executive





Overview

The Group has continued its strong track record of growth during the year, developing the many growth and synergy opportunities in both the UK and Europe.

The Group operates in four distinct divisions, and each, in their own right, is now a major player or the market leader in its discipline. It is however the team work of these divisions, unique in the energy sector, which sets us apart from our competitors. I would like to reiterate the Chairman's comments and thank all our more than 2,500 employees who work so closely together, not only within respective Energy & Commodities, Production, Transport, and Industrial Services Division teams, but also as a united team to deliver a highly-valued and first-rate service to our many major blue-chip customers. Each division plays an important role as a link in our unique supply chain model and each has made a contribution to making Hargreaves what it is today.

Energy & Commodities is by far our largest division in terms of revenues and profits. It continues to perform particularly well, helping to source and market speciality coals from both our own Production Division and our many third-party producers, with whom we have built long-standing and mutually beneficial relationships over many years. Alongside sourcing products, Energy & Commodities' role is to gain accreditation as a quality supplier to the broad spectrum of blue-chip customers and end-user markets we serve. As can be seen from the growth of the division over the last few years, our unique model, backed up by quality assurance, reliability and value for money, continues to win not only repeat business but an ever growing market share and wider customer base.

Within Production, the performance at Maltby has been a disappointment. It is a testament to the strength of the Group as a whole that we have been able to deliver such positive overall Group results despite these challenges. The problems were particularly disappointing given the investment we have made in the mine. After further delays and disruption, the problematic face T11 was finally completed at the end of July 2010. Although the mine is slightly behind targeted production in the current year due to delays in completing T11, I am hopeful that this shortfall can be recovered as they develop the new T24 panel with new specification equipment benefiting from the lessons we have learnt on T11. We will continue to focus on initiatives to improve the consistency of production at Maltby, reduce costs and maximise proceeds.

Coke has been produced at Monckton for over 130 years, and the site continues to deliver consistent, stable production levels. Monckton has also benefited from the efforts of the Energy & Commodities team which has doubled the potential customer base for its finite production. Although being mindful of the long-term trading relationships with many of our existing customers stretching back over 50 years, this has provided additional competition that has helped to increase proceeds for this unique, high quality, low phosphorous coke. It will also help us extend the average length of sales contracts, thus reducing future price volatility.

At MRT (Monckton Rubber Technologies), through the combined efforts of the Industrial Services team which streamlined and increased production, and the Energy & Commodities team which has found improved proceeds through accessing markets in Europe and the UK for rubber, fibre and wire, we have established a solid profitable business to move forward in 2010-11.

The Transport Division continues to grow both as a supplier to third parties and to the Energy & Commodities Division and its customer base. The division services a variety of blue-chip and local authority customers in waste, chemical and the bulk materials sectors, working on a variety of contracts with durations of up to five years. Many of these customers have been our business partners for over ten years.

Industrial Services, by working closely with the other divisions, has been able to demonstrate its added value to many new customers of the wider Group, whilst continuing to compete for business from its core of long-term trading partners in the utilities sector. Again, helped by its reputation for quality, many of this Division's contracts are of long duration, typically three to five years.

As the Chairman noted, the poor performance at Maltby should not detract from the solid performance of the rest of the Production Division and also of the wider Hargreaves Group. Maltby is an important part of the Group but as the Group scales in size, its inherent volatility and therefore relative importance and impact on Group results decreases. Whilst delivering impressive growth we have made a number of new management appointments and have successfully strengthened the Group's management team. I believe this team is well placed to take the Group forward through its next stage of development and I would like to take this opportunity to welcome the new arrivals to the Group and thank everyone for their contribution and support in the last year.

Our Markets

The last twelve months have seen continued volatility in commodity prices and exchange rates. The solid performance of the Group in the last period, particularly in our trading activities, continues to validate the effectiveness of our risk mitigation model of securing absolute fixed margins underpinned by an increasing volume base.

The market price for coal and coke continues to be driven by strong global demand and, although our short-term exposure to floating prices is limited through hedges and back-to-back contracts, we remain encouraged by the current and forward prices for coal and coke. The current and forward prices represent a significant premium to our own contracted group production from both Maltby and Monckton.

+20.1%
Underlying Profit Before Tax

Group Business Review (continued)

Coal burn in the UK has reduced to levels that have not been seen for over a decade, mainly as a result of increased availability of cheap gas and also reduced demand for power due to the recession. In addition to the decline in coal burn, many power stations have taken the opportunity to reduce inventory. This reduction in stock levels, combined with the drop in overall burn, has resulted in a significant decrease in coal imports. This is evidenced in the Financial Review and shows our coal tonnage to power stations has, as indicated in our Interim Statement, dropped. However, we derive the bulk of our profits in the Energy & Commodities Division from the less cyclical and more diverse speciality coal markets. These markets include sized coals for the domestic and commercial heating markets and industrial customers in the cement, steel, ferro-alloy and ferro-silicate sectors. I am pleased to report that we have made excellent progress in increasing the supply of these more specialist solid fuels in Europe. As you note from the Review of Operating Performance by Business Unit, we have seen resulting strong increases in volume, margins and profits.

Although other non-thermal coal markets were also subdued in the earlier part of the financial year as steel, alloy and cement producers dealt with the consequences of the recession, demand and prices recovered strongly as the year progressed.

In pricing terms, whilst we have seen a slight reduction in trading coke margins year-on-year, due to de-stocking early in our financial year we have seen a strong improvement in the margins on the speciality coal.

Demand for biomass has remained subdued with minimal external volume being traded through our RocFuel business. Demand levels have been low due to unfavourable economics for co-firing of biomass in coal-fired stations and due to the uncertainty over future subsidy levels adding further delays to many biomass energy projects including, as previously announced, our own RocPower initiative.

In our transport markets, our Tanker volumes have remained robust throughout the recession. Competition and price pressures remain high but we have worked hard to maintain our reputation for quality and service and have continued to be disciplined about ensuring that we only take on new business on a basis that is sustainable for the term of the contract.

The Dry Bulk transport fleet was impacted by the recession with volumes affected in the construction and aggregate markets which have not yet returned to anything like their pre-recession levels. However, we were

already well into that cycle by the start of the last financial year and had taken the action necessary to re-size and re-shape our Bulk fleet accordingly. Pricing pressure has always been high and will always remain a feature of this market.

The Waste fleet has performed well. Our long-term waste contracts continue to provide benefits of visibility and resilience to recessionary pressures on our Bulk transport fleet.

Finally, in Industrial Services, we have continued to benefit from the forward visibility of our repeat term contracts with our many long-term established blue-chip customers. The sector remains competitive with strong pressure from our customers to look for and drive additional cost saving measures. However, the success rate we have continued to demonstrate our ability to win not only repeat business from our existing customers, but also new business by being able to deliver the right service at the right price.

Strategic Focus

We have established a strong position sourcing and supplying solid fuels in the energy markets in the UK. We have always recognised that by working in the speciality un-commoditised niche markets, added value and margin can be driven from the supply of speciality coals, cokes and biomass.

We have a clear strategic focus to continue to build on our foundation as the UK's leading supplier of speciality solid fuels and related logistical and industrial support services. In that regard, we are currently working on three opportunities to grow our business – Europe, the Tower Colliery project and the Renewables sector.

Europe

Whilst the UK will always be a key market for us, we have long recognised the strategic importance of Europe and the transferability of our expertise in speciality solid fuels to these markets. We set up Hargreaves Raw Material Services GmbH in 2006 and more recently, Hargreaves Carbon Products NV in Belgium. These businesses and their management teams provide a foundation for advancing into the continental European markets.

Our own research indicates that the size of the continental European coal and coke market is just under one billion tonnes per year. Whilst power station coal flows dominate the total market tonnages as they do in the UK, the market for speciality coals in Europe is in excess of 20 times the size of the equivalent UK market due to the greater amount of steel production and heavy industrial manufacturing.

Whilst these markets are served today by a range of well-established competitors, we believe that the unique model we have developed in the UK is transferable to many of these markets. Five years ago our market share in the UK was a fraction of its size today. Through offering the broadest portfolio of quality products to customers and leveraging our supplier relationships and bulk buying power, we are confident that we can continue to win market share both in the UK and will also be able to replicate our model in Europe.

We believe that this strategy can be delivered largely by organic means without the need for major capital expenditure or commitment. In the short- and medium-term, investment in strategic assets is an option but not a requirement as the product flows in Germany, Belgium and Poland can be built using third-party stockyard and transport service providers.

Tower

Subject to a positive planning decision, the Tower project is an exciting opportunity for the Group allowing us to work with the cooperative representing the former miners and owners of Tower Colliery in Wales, to not only deliver a fully remediated site suitable for housing and industrial development for the local community, but also allowing us to apply our unique expertise to this production asset. We anticipate total production of nearly six million tonnes over seven years. Working alongside the Tower team, we will be delivering logistics services and helping to market the Welsh steam and semi-anthracite coals to power station customers in the UK and specialist coal users in both the UK and Europe.

Renewables

In the Renewables sector, through our RocPower project we have delivered a viable, environmentally friendly and unique solution that will contribute a potentially significant profit stream for the Group and help the UK to hit its green energy targets. We believe that we have a viable, scalable and environmentally sustainable solution to the Government's energy challenges and are disappointed by the Government's threatened u-turn on future subsidy levels. We will continue to progress planning on the next two sites in the UK but at the same time we will be working with the UK Government and DECC to secure approval of guaranteed Renewable Obligation Certificate (ROC) accreditation post-2013 to allow us to continue to build further plants through 2011. We will also continue to look at other logistics and trading opportunities, where we can deploy our existing assets and skills, in the renewable and waste-to-energy sectors.

Future of the Coal-Fired Sector in the UK

In all the discussion around greenhouse gas emissions and the coal-fired power generation sector in the UK, it is easy to forget that speciality coals and cokes play a vital and irreplaceable role in our everyday lives. Steel could not be produced economically without coke produced from coking coal such as that from Maltby. Our speciality coals are used in many applications, from the production of specialised steel additives to solar panel manufacture. They are a unique and irreplaceable element in their production and as such will continue to play a large part in the industrial future.

Coal will play a continuing part in the UK, European and Global energy mix and it is clear that coal has a long future as part of this mix.

Health and Safety

The Group recognises the potentially hazardous nature of the work undertaken across all its divisions and is determined to ensure that it provides safe systems of work throughout its diverse range of operations. The health and safety of employees, customers and the public are of the highest priority to the Board and Management.

During the year there has been a major drive to advance the already high standards of health and safety. I continue to take a close personal interest in health and safety and have always ensured that safety is a key focus of the Group, not just in terms of developing processes and systems, but in ensuring both substance in terms of actions and culture takes shape behind. This year in particular I have invested additional time to review and understand opportunities for improving our health and safety performance.

I am the Group Health and Safety champion and drive high quality health and safety performance throughout the business. The Group has health and safety management systems in place that are in the main externally audited and accredited to the highest standard and will continue with the implementation of these arrangements throughout all divisions. We manage health and safety with appropriately skilled resources deployed within each division to work with and support the staff and managers responsible for the delivery of a healthy and safe working environment. Management at a division and business unit level allows us to identify trends and take account of the different operational environments in which we operate. Although we focus on safety at the business unit level, we have a Group Health and Safety manager to promote communication and coordination across the Group and we jointly chair meetings on a regular basis at both divisional and Group levels to manage safety.

Health and safety management systems were reviewed and an increased emphasis introduced across all levels of employees across all divisions. Health and safety statistics are produced and monitored at a divisional and business unit level, with regular main Board Review. Areas identified where additional training or improved working practices would be beneficial are promptly addressed.

In spite of the tragic fatality at Maltby announced in December 2009, the accident rate, defined as the number of lost time accidents per 100,000 man hours worked, reduced by 7% in FY10 to 2.2 (FY09 2.1).

Management aim to constantly improve upon health and safety performance and in the coming year intend to introduce more robust health and safety policies and procedures throughout the Group with increased accountability and further use of external audit.

Future Strategy and Outlook

We believe that the Group remains well-positioned to deliver its short- and medium-term targets and the significant opportunities that exist to grow the Group organically. We will continue to focus on the development of the Group's growth strategies.

I am confident, that with the support of all stakeholders, we can deliver the necessary support and implement the changes that will ensure a satisfactory profit and return on the investment from Maltby. The next twelve months will see us promote organic growth and synergies across the Group with specific focus on managing the expansion of our successful coal supply model into continental Europe; supporting and developing the Tower project through planning, development and production; and working with DECC and UK Government to secure the correct regulatory framework to allow us to roll out the RocPower model at further locations.

Whilst we are doing this, we will continue to maintain a close focus on working capital and cash generation. All in all, I am very pleased with the results delivered by the Group, in particular the development of the business and strength and teamwork demonstrated by the management team and employees across the Group.

Gordon Banham
Group Chief Executive

14 September 2010

"The health and safety of employees, customers and the public are of the highest priority to the Board and Management."

Gordon Banham, Group Chief Executive

Review of Operating Performance by Business Unit

“The Group has continued to show strong trading performance and underlying growth in its core businesses.”

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

	Production 2010 £000	Energy & Commodities 2010 £000	Transport 2010 £000	Industrial Services 2010 £000	Total 2010 £000
Segment operating profit	8,496	20,727	3,761	2,255	35,239
Intangible amortisation	–	1,630	393	1,569	3,592
Share of loss in jointly controlled entities	(107)	(52)	–	–	(159)
Underlying operating profit	8,389	22,305	4,154	3,824	38,672

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



Group Overview

The Group has continued to show strong trading performance and underlying growth in its core businesses.

Revenues for the full year decreased by 8.6% from £503.1m to £459.8m. Underlying operating profit increased by 15.5% from £33.5m to £38.7m. Reported operating profit increased from £29.8m to £35.2m. Group underlying operating margin increased from 6.7% to 8.4% due in a large part to the impact of falling commodity prices on the relatively fixed, absolute gross profit per tonne that our business model seeks to achieve.

Although the Group conducted no material acquisitions in the year to 31 May 2010, the revenue and operating profit comparisons with the prior year benefit from the acquisition of Coal4Energy in January 2009.

Energy & Commodities Division

Our Energy & Commodities Division encompasses our solid fuel trading activities, including power station coal and other more specialised carbon-based energy products such as sized coals, coke and biomass. Power station coal is a fairly commoditised product offering low margin potential. More specialised products such as sized coals for the domestic and commercial heating markets and industrial customers in the cement, steel, ferro-alloy and ferro-silicate sectors, offer greater margin opportunity to add value to the product and hence generate higher margins.

The Energy & Commodities Division had another very strong year. Gross revenues decreased by £58.5m from £322.4m to £263.9m, reflecting decreases in commodity prices and a reduction in volume of power station coal sold. However, commodity price fluctuations have limited impact on our profits. Underlying operating profit increased from £16.2m to £22.3m due to increased volumes and strong margins in the speciality coal markets, the markets that we regard as the key profit drivers for the Division.

The table below provides a breakdown on volumes and margins within the Energy & Commodities Division.

2010	UK	Rest of Europe	Total	Power Station Coal	Other Products	Total
Tonnes sold (000s)	1,635	623	2,258	1,067	1,191	2,258
Operating margin per tonne (£)	10.16	7.75	9.50	2.69	15.59	9.50
Operating profit from trading (£m)	16.6	4.8	21.4	2.9	18.5	21.4
JCE & non-trading (£m)			0.9			0.9
Total segment underlying operating profit (£m)			22.3			22.3

2009	UK	Rest of Europe	Total	Power Station Coal	Other Products	Total
Tonnes sold (000s)	1,948	497	2,445	1,674	771	2,445
Operating margin per tonne (£)	5.71	8.34	6.24	2.96	13.36	6.24
Operating profit from trading (£m)	11.2	4.1	15.3	5.0	10.3	15.3
JCE & non-trading (£m)			0.9			0.9
Total segment underlying operating profit (£m)			16.2			16.2

Overall, volumes traded dropped from 2,445k tonnes to 2,258k tonnes but average profit per tonne improved from £6.24 to £9.50, due to an increase in the amount of speciality products in the mix. Operating profit from trading activities increased from £15.3m to £21.4m and accounted for the increase in the overall divisional profits.

Both volumes and profits from European trading activities increased with European volumes increasing 25.4% to 623k tonnes and contribution to divisional operating profit increasing from £4.1m to £4.8m.

The volumes we supplied to power stations dropped from 1,674k tonnes in 2009 to 1,067k tonnes in the year ended 31 May 2010. Average margin per tonne reduced by £0.27, from £2.96 per tonne to £2.69 per tonne.

In contrast, volumes of other (speciality) products sold increased by 420k tonnes from 771k tonnes to 1,191k tonnes. Of this increase, 303k tonnes was attributable to a full year effect in respect of the acquisition of Coal4Energy (including Maxibrite). The average operating margin per tonne improved from £13.36 to £15.59 due to a reduction in the acquisition cost of sized coals and an increase in our net margin per tonne in Europe.

Volume of biomass traded through RocFuel to external customers was negligible as many operators have deferred and delayed projects, as the co-firing of biomass with coal has been uneconomical due to the high price of biomass relative to coal. Our RocFuel business remains active and we still believe that biomass will have an important role to play in UK electricity generation once the Government clarifies the uncertainty on ROC subsidies that is currently hanging over the biomass sector.

+15.5%
Underlying Operating Profit

Review of Operating Performance by Business Unit (continued)

On 28 May 2010 we disposed of our ash interests when we sold our 50% shareholding in Evonik Hargreaves Limited (the holding company for Hargreaves Coal Combustion Products Limited) to our partner Evonik GmbH. This will leave Evonik free to invest in longer-term ash processing technologies. The Group looks forward to continuing its ongoing trading relationship with Evonik, providing support services including transport and material handling. As a result of the disposal we have realised a gain on disposal of just under £1.0m and secured a long-term transport contract.

The disposal of the ash business follows the acquisition of Coal4Energy (including Maxibrite) in January 2009 and the disposal of Lytag in 2008. This completes the focussing and simplification of the Energy & Commodities Division.

Production Division

The Production Division encompasses the operations at Maltby Colliery, Monckton Coke Works, MRT, and this year with the advent of the first operational RocPower site, the results of RocPower. The Tower project, assuming planning is granted, will also be included in the Production Division in the current financial year.

Gross revenues for the division increased by £7.4m from £78.9m to £86.3m. Underlying operating profit fell by £2.1m from £10.5m to £8.4m.

In the year to 31 May 2010, as previously announced, production at Maltby was inconsistent. Total saleable production decreased from 1,089k tonnes to 1,057k tonnes due to a number of geological and mechanical problems in the production of the T11 face. This was particularly disappointing due to the investment we had made in new underground equipment.

Excellent progress was made in accelerating the harvesting of coal fines, finding new markets for the fines products either as a standalone product or as part of a blend. This has partially offset the impact of the disappointing underground production. In the year, we signed a number of new contracts including one with Drax power station. These contracts will help us maintain the progress we have made in extracting value from the pond fines at Maltby. We have also commenced initiatives to develop other fines lagoons at Maltby and have signed contracts to provide access to fines at a number of other third-party locations which will help to extend the life of fines production.

All standard power station coal produced at Maltby continues to be sold to Drax under long-term contract. Coking coal is processed into coke at Monckton. External coal sales from Maltby generated £38.9m of revenue compared to £39.2m in the prior year.

Since the end of the year we have completed the face change from the old T11 to the new T24. The face change took place without major incident and without any face gap. The face change was however delayed due to the problems in completing the T11 panel, as previously announced. Production up to the face change on the old face T11 continued to be problematic. We will continue to rigorously review progress at the mine and work closely with staff, management, unions and customers to ensure we have a viable operation for the longer-term.

Performance at Monckton remained consistent and revenues increased by £5.2m from £37.6m to £42.8m. Coke sales increased by £6.4m from £32.7m to £39.1m as stock levels were reduced, whilst the sale of by-products fell by £1.2m from £4.9m to £3.7m reflecting a full year effect of lower by-product prices.

The average price achieved per tonne of coke was £171 per tonne on the sale of 229k tonnes compared to £162 per tonne on 201k tonnes sold in the prior year with volumes benefiting from the sale of the excess product that was in stock at the beginning of the year. During the year we signed a three-year contract with Xstrata in South Africa, a new customer for Monckton, to supply up to 100k tonnes of coke per annum. This will help secure visibility for the Group and reduce price volatility.

Demand for Monckton coke remains high and discussions are underway with a number of customers to move from the traditional annual supply contracts to longer-term contracts.

In the year to 31 May 2010, we largely completed the commissioning of the first RocPower site at Commons Lane near Featherstone. In the last few months we have obtained considerable operational experience with the site and although the commissioning period has taken longer than planned, we are pleased to report that the site is well placed to deliver its budget for the current year. In the last financial year, net operating loss incurred during the commissioning phase was £0.5m on revenue of £0.4m.

As we reported in June, in the face of uncertainty over the guaranteed level of the future ROC subsidy scheme, and in line with the majority of other operators in the biomass field, we have decided to delay further investment. We will continue to progress the planning application for the second and third sites but will not commit any further capital spend to these sites until the position on the future grandfathering is clarified by UK Government. Although we are disappointed at the delay, we believe that this is the prudent and sensible way to proceed.

MRT has made excellent progress and we are confident that it will contribute to Group profit this year. The operating loss for the year reduced from £0.7m to £0.3m, revenues in the year increased from £2.1m to £4.2m, finally providing the scale to deliver profitability. The plant has been running at a profitable run rate during the current year-to-date.

The Tower Colliery project is progressing very well. The site investigation work was completed in the year to 31 May 2010. The planning applications were submitted in March 2010 with final registration taking place in July 2010. A planning decision is expected in the current financial year.

Under the terms of the joint venture agreement, the Group advanced £2m to the joint venture vehicle, Tower Regeneration Limited, in August 2009 to secure the land and mining rights from Tower Colliery Limited. This was in addition to the £1m paid by the Group directly to Tower Colliery Limited in January 2009. A further £0.9m was advanced in the year to the joint venture in the form of a loan to fund site investigation and planning preparations bringing the total investment to date to £3.9m. £2.9m of this amount is in the form of loans that will be repaid by Tower Regeneration Limited from Tower Colliery Limited's profit share when production commences.

Industrial Services Division

The Industrial Services Division delivered another steady year, again benefiting from good visibility from its long-term contract base. Gross revenue increased by £4.0m from £56.4m to £60.4m. Underlying operating profit increased from £3.4m to £3.8m.

Despite continuing budgetary pressures in the power stations sector, the Division has continued to make steady progress with key contract wins and renewals.

New contract wins included the hard services contract signed with EON covering two coal-fired and two gas-fired power stations, expected to yield £15.0m over 5 years, and a new £1.0m ducting project was also awarded by EDF at Cottam power station. Due to the successful completion of the first ducting project, a further 3 projects have since been awarded without competitive tender. Contract renewals included a 5-year extension to our key contracts at Ferrybridge power station.

Following the end of the financial year, the Division successfully renewed three 5-year material handling contracts at Rugeley power station. This will not only secure existing business for the next five years but will also provide an excellent platform to bid for incremental contract work in the future.

The Division has continued to demonstrate its high service levels and operational excellence. Nine of the Division's site locations achieved 5-star ratings from the British Safety Council for their Health and Safety programs.

We are now starting to see the benefits of the investment in additional business development resource that we announced last year. The sales pipeline for Industrial Services is as strong as it has ever been. In the coming year our focus will be to drive further growth from that pipeline of opportunities and we are confident we will deliver.

Transport Division

The Transport Division's gross revenues increased by £5.1m from £67.6m to £72.7m due principally to increased Tanker revenues. Underlying operating profit increased by £0.8m from £3.4m to £4.2m. The increase in profits was due mainly to additional gross profit from incremental tanker revenues and as a result of efficiency improvements and investment in the Bulk and Waste fleets as discussed in last year's Statement.

The Tankers business unit had a strong year. The increased revenues were as a result of improving tanker volumes, assisted by the acquisition of vehicles and contracts from Stiller Tankers Limited. In addition to acquiring vehicles and a number of customer relationships, the Tankers business has also completed a move into a new larger purpose-built depot which will provide a base for future expansion.

The Dry Bulk business unit again benefited from a strong performance in the Waste fleet. The Waste fleet continued to benefit from its long-term contracts. In the year a 5-year contract renewal was won with SITA in the North East. Offsetting the strong performance of the Waste fleet, the rest of the Dry Bulk fleet continued to deal with challenging market conditions. The investment and efficiency programs implemented last year have helped to reduce costs. Two new depots in the North

West have been added to the Division's network to expand geographic coverage. New contracts, including a new 3-year contract for movements of coal into EON's Ratcliffe power station and a new exclusive contract with UK Coal for the new Parkwall opencast, will help ensure volumes can be maintained.

Fleet size has increased by 12% from 374 vehicles to 420 vehicles, again due mainly to the vehicles acquired with the Stiller contracts.

The focus of the Transport Division in the current financial year will be to drive additional organic growth, wherever possible leveraging cross-selling opportunities with other activities within the Group to enable customers to derive additional synergy benefits.

Iain Cockburn
Group Finance Director

Gordon Banham
Group Chief Executive
14 September 2010

"We are now starting to see the benefits of the investment in additional business development resource that we announced last year."

Iain Cockburn, Group Finance Director

Financial Review

“The key drivers of organic growth came from the Energy & Commodities Division, both in the UK and Europe.”

Iain Cockburn, Group Finance Director





Results Overview

Group revenue for the year was £459.8m compared to £503.1m for the previous year, a decrease of 8.6%. The key drivers of organic growth came from the Energy & Commodities Division, both in the UK and Europe.

Underlying profit before tax increased from £28.6m to £34.3m. Reported profit before tax increased from £26.2m to £30.7m. As previously reported the Group spent £0.2m investigating a potential transaction with UK Coal PLC during the year and has charged this amount against profits.

Interest

The net interest charge for the Group was £4.4m compared to £4.9m for the previous year. The drop in interest reflects lower interest costs offset by increased debt levels, resulting from financing capital expenditure and increased working capital requirements.

Taxation

The tax charge in the year was £9.4m compared to £7.5m 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 77.5 pence (2009: 68.5 pence) and diluted earnings per share were 75.6 pence (2009: 67.3 pence). Underlying diluted earnings per share, after adding back amortisation of acquired intangibles, increased by 16.5% from 76.3 pence to 88.8 pence.

Dividend

The Board has recommended a final dividend of 9.1 pence (2009: 8.0 pence) bringing the proposed dividend for the full year to 13.5 pence, an increase of 14.4% in the total dividend for the year. The proposed dividend is covered 5.7 times by underlying earnings (2009: 5.8 times).

Net Assets

Net assets increased by £18.1m from £71.7m at 31 May 2009 to £89.8m at 31 May 2010. Net tangible fixed assets increased by £14.4m from £71.2m to £85.6m as a result of continued investment in plant and equipment, particularly at Maltby Colliery. Net fixed asset additions of £29.0m were offset by a depreciation charge for the year of £14.6m (2009: £13.6m). Working capital increased by £23.0m in the year to £84.4m. Working capital in the UK and Europe amounted to £54.2m and £30.2m respectively. The working capital balance in the UK included approximately £6.4m of extra coal held over the summer for a specific contract with EDF that was announced in the Interim Statement. This coal is due to be shipped between October and April. The decrease of £2.1m in goodwill and intangibles arose from amortisation of acquired intangibles totalling £3.6m, offset by goodwill and intangibles arising from the investment in the Tower project of £1.1m and goodwill arising on other acquisitions of £0.4m.

Net Debt

Group net debt, comprising cash and cash equivalents, bank overdraft and other interest-bearing loans and borrowings was £88.2m at 31 May 2010, an increase of £19.0m from the £69.2m reported at 31 May 2009. The gearing ratio of the Group at 31 May 2010 was 98% compared to 97% at 31 May 2009.

Cash Flow

Cash flow generated from operating activities (before interest and income tax paid) was £28.1m in the year compared to £21.4m in the previous year.

Cash flow generated from operations included a £24.6m outflow relating to an increase in working capital. Of this increase, £2.4m related to monies advanced to Tower Regeneration Limited to fund development of the joint venture project. The remaining £22.2m related to an increase in trading working capital.

Stock held in the UK business for the EDF contract accounted for approximately 120,000 tonnes, or £6.4m of the increase. This coal is due for delivery between October 2010 and April 2011.

Group stock days improved slightly from 58.9 days at 31 May 2009 to 57.6 days at 31 May 2010, despite the impact of the extra EDF coal. Both Group trade debtor and creditor days dropped slightly, reflecting a change in the mix, with shorter-cycle European trading balances in the year-end numbers. Group trade creditor days reduced by 5.4 days, from 40.0 days at 31 May 2009 to 34.6 days at 31 May 2010. Group debtor days reduced by 5.9 days, from 35.4 days to 29.5 days.

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 of the year, and reduce stocks over the second half. Significant movements in commodity prices will affect the net value of working capital positions. The timing of larger vessels and customer orders will always create volatility in working capital positions, particularly in the European business.

Assuming commodity prices do not increase significantly and trading volumes do not increase substantially beyond planned levels, we do not expect to see a material increase in working capital levels for the UK business in the current year. In Europe, a core underlying stock has already been established, and further increases in working capital should be dealt with comfortably within the existing facilities. Working capital increases should lag behind increases in sales growth as economies of scale are exploited. The stock at the year-end was higher than budgeted and was commensurate with the high run rate of trading over the end of last financial year, rather than the average trading across the full year.

+12.4%
Diluted EPS

Financial Review (continued)

Aside from occasional exceptional contracts such as the EDF contract, stock and other working capital positions are generally very short-term in nature and given the rapid turn, management continue to be comfortable using current facilities to finance these positions.

Total capital expenditure for the year (net of disposal proceeds of £1.9m) was £26.6m compared to £18.1m in the prior year. Of the capital expenditure, £8.8m was financed through finance leases and £19.7m was paid in cash. The depreciation charge for the year was £14.6m (2009: £13.6m). The capital expenditure program last year included the acquisition of the second face equipment set (shearer, armoured face conveyor and stage loader) together with an upgrade to the roof supports. This completes the program of strategic underground investment at Maltby.

The disposal of the ash joint venture (Evonik Hargreaves Limited) raised £1.8m. Acquisitions accounted for an outflow of cash of £3.0m (2009: £10.1m). The acquisition outflow included the final £1.2m of deferred consideration from the AJS acquisition and £1.5m in respect of the acquisition of vehicles and customer relationships from Stiller Tankers.

Borrowings and Facilities

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 are used in conjunction with asset financing to balance the flexibility afforded by asset ownership and the efficient use of capital.

In September 2009, the Group completed a new 3-year multi-bank committed facility consisting of a £35m invoice finance facility and an £80m revolving credit facility ("RCF"). At the end of the year these were drawn £9.8m and £53.1m respectively.

The Group continues to be able to borrow at competitive rates and is operating comfortably within its banking covenants. The key covenants on the RCF are interest cover and leverage, measured as a ratio of net debt to EBITDA. As at 31 May 2010 interest cover was 12.1 times, comfortably over the covenant minimum of 4 times and leverage was 1.7 times, comfortably under the maximum 2.5 times permitted.

The European business continues to operate on a facility of €40m from Commerzbank. At the end of the year the net debt on this facility was £13.2m.

Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, whilst maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising capital, reserves and retained earnings.

The capital structure is reviewed regularly by the Group's Board of Directors. The Group's policy is to maintain gearing at levels appropriate to the business. The Board principally reviews gearing determined as a proportion of debt to earnings before interest, tax and depreciation. The Board also takes consideration of gearing determined as the proportion of net debt to total capital. It should be noted that the Board reviews gearing taking careful account of the working capital needs and flows of the business. In the trading businesses, where working capital cycles are regular, predictable and generally less than 90 days, the Board is comfortable to maintain higher levels of debt and gearing as measured against EBITDA.

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 schemes are closed to new members although certain employees retain a right to transfer previous benefits into the schemes. To date, of 140 people eligible to transfer, 110 people have transferred their benefits to the new section of the scheme.

Following the funding payments, the deficit as at 31 May 2010 was £6.2m, 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 in late 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 £0.4m (31 May 2009: £0.3m) in relation to this scheme.

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.

Operational 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.

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 asset 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 four 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 essentially balance and therefore intrinsically hedge electricity generation and usage between the Monckton Coke Works and Maltby Colliery.

Financial

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.

Interest Rate

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. As at 31 May 2010, 47.9% of net financial liabilities were at fixed rates (2009: 37.9%).

Foreign Currency

The Group has operations in four countries and is therefore exposed to foreign exchange translation risk when the profits of these entities are consolidated into the Group accounts. The Group does not hedge exposure on the translation of profits of foreign subsidiaries. The translation risk is reduced by ensuring that net assets are financed where possible by borrowing in local currency.

Transaction foreign exchange exposures arise when entities within the Group enter into contracts to pay or receive funds in a currency different from the functional currency of the entity concerned. It is Group policy to hedge material net exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of a foreign exchange forward contract.

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.

Credit Risk

Credit risk arises from the possibility that customers may not be able to pay their debts. To manage this risk the Group periodically assesses the financial reliability of customers. The majority of the Group's trade receivables are due for payment within 45 days. The Credit Control function closely monitors and chases any overdue debts.

Although the Group has a diverse customer base of many thousands of trade debtors, concentrations of credit risk with respect to trade receivables can arise. These concentrations, when they do arise tend to relate to the larger power generation companies. These concentrations and exposures are closely monitored by the Credit Control function. As at 31 May 2010, the largest customer represented 4% of the Group trade receivables balance of £49.5m and the top 10 accounts represented approximately 21%.

Management are mindful of the continuation of difficult trading conditions being experienced in a number of sectors, particularly transport and construction.

Iain Cockburn
Group Finance Director

14 September 2010

"The Group benefits from many long-term and partnership arrangements with key customers and suppliers."

Iain Cockburn, Group Finance Director

• Quality • Service > Expertise

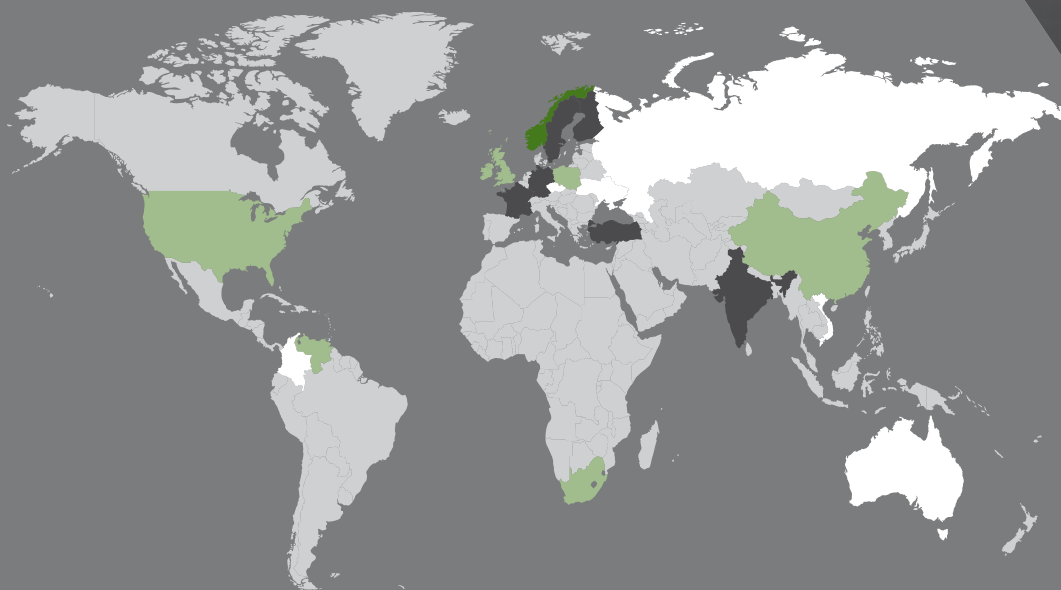
Expertise

Product quality and consistency is key in our solid fuel markets. The picture here shows laboratory testing of low ash coal beans destined for Elkem, for use in the manufacture of products including solar panels and mobile phone components.

Hargreaves has built an international reputation for providing quality products to precise specifications; products perfectly aligned to the varying but exacting standards of our broad spectrum of customers – from power stations to electrical component manufacturers to steam railways.

Key:

- Elkem
- Customers
- Suppliers
- Customer and Suppliers





Board of Directors

The following Directors served on the Board throughout the year:



1. Tim Ross (aged 61)*

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. Previously a Main Board Director of George Wimpey PLC, he is currently Non-Executive Chairman of Superglass Holdings plc and a Non-Executive Director of May Gurney Integrated Services plc and Lavendon Group plc, in addition to board positions with a number of private venture capital-backed companies. Tim is the Senior Independent Non-Executive Director.

2. Gordon Banham (aged 46)

Group Chief Executive

Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels, Gordon being appointed as General Manager

of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, Gordon was made Distribution Director responsible for the enlarged group's coal distribution activities. Gordon joined Hargreaves in 2001, subsequently being appointed as Group Chief Executive. Gordon led a management buyout in 2004 and subsequent flotation on the London Stock Exchange the following year. He has since guided a series of major acquisitions.

3. Iain Cockburn (aged 45)

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').

4. Kevin Dougan MIQ (aged 55)

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 Golithly 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 ACA (aged 45)*

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.

Key Management

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



1. Steve Anson

Managing Director

Energy & Commodities Division

Previously: Regional Director, Tarmac Ltd; Commercial Director, Tilcon Ltd.

3. Greg Kelley

Managing Director

Industrial Services Division

Previously: MD, Norec Ltd; Coal Prep Plant Manager, British Coal.

5. Steve MacQuarrie

Group Company Secretary

Previously: Senior Planning Manager, RJB Mining/UK Coal; Company Secretary, Young Group plc; Planning Officer (Local government).

2. Gerry Huitson

Managing Director

Production Division

Previously: Colliery Manager, RJB Mining/UK Coal; Company Safety Engineer, RJB Mining.

4. Mark Forrest

Managing Director

Transport Division

Previously: CEO, Westlink Group; Divisional Director, P&O Pandoro; Divisional Director, PD Ports.

6. Ian Parkin

Development Director

Previously: Managing Director, Banks Property Ltd; Vice-Chairman, National Association Licensed Opencast Operators; Development Director, Young Group plc.

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2010.

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 33.

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, the Review of Operating Performance by Business Unit and the Financial Review. Key performance indicators have been included in the Financial Review where appropriate; and
- The principal risks and uncertainties facing the business have been included in the Financial Review 'Statement on Risks Relating to the Group's Business' on page 18. 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 9.1p per share to be paid to shareholders on the register on 15 October 2010. The shares will be ex-dividend on 13 October 2010. 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 2010 for the Group were 35 days (2009: 40 days). 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
ID Cockburn
KJ Dougan
N Barraclough

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	3,029,831	4,004,288
KJ Dougan	Ordinary	172,856	529,288
ID Cockburn	Ordinary	7,680	7,680
TS Ross	Ordinary	3,086	3,086

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	–	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 were exercised in September 2009.

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 Incentive Plan on 20 June 2008 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 2012 to 30 November 2012	60,000
KJ Dougan	–	1 June 2012 to 30 November 2012	21,000
ID Cockburn	–	1 June 2012 to 30 November 2012	28,500

These options were granted under the Long-Term Incentive Plan on 30 June 2009 and are outstanding at the end of the year. None of the share options have been exercised.

Significant Shareholdings

At 1 September 2010, 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	3,029,831	11.3%
M&G Investment Management	1,550,000	5.79%
Brewin Dolphin	1,451,065	5.42%
Artemis Investment Management	1,306,741	4.88%
Legal & General Investment Management	1,067,500	3.99%
Hansa Capital Partners	1,000,000	3.73%
Old Mutual Asset Managers	883,023	3.21%

Directors' Report (continued)

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 £56,242 (2009: £43,929).

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

14 September 2010

Corporate Governance and Remuneration Report

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

The Group Board

The Group is headed by an effective Board, which both controls and leads the Group. A biography of each director and details of the membership of the Committees of the Group Board is provided on page 22.

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.

Corporate Governance and Remuneration Report

(continued)

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:

	2010 Salary £000	2010 Bonus £000	2010 Benefits £000	2010 Total £000	2009 Total £000	2010 Pension £000	2009 Pension £000
Gordon Banham	300	218	21	539	503	42	42
Iain Cockburn	190	142	16	348	306	19	19
Kevin Dougan	165	102	2	269	263	–	–
Tim Ross	60	–	–	60	53	–	–
Nigel Barraclough	35	–	–	35	34	–	–
	750	462	39	1,251	1,159	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 page 25.

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.

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.

Corporate Governance and Remuneration Report

(continued)

The vesting of an award granted to an executive director of the Company shall, or in the case of an award granted to any other Group employee may, be subject to the satisfaction of one or more Performance Conditions. The Remuneration Committee may determine or recommend to the Trustee that the vesting of an award will be subject to any other objective condition in addition to the Performance Conditions.

No option shall be granted under the LTIP scheme on any date if, as a result, the total number of shares issued or issuable pursuant to options and other rights granted under the LTIP scheme and any other employee share scheme established by the Company on or after Admission, would exceed 10% (5% excluding other share schemes) of the issued ordinary share capital of the Company on date of grant.

Ordinary shares issued pursuant to the LTIP scheme shall rank pari passu in all respects with the ordinary shares already in issue.

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

By order of the Board

Gordon Banham
Group Chief Executive
14 September 2010

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual 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 judgements 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 2010, set out on pages 33 to 83. 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 Chapter 3 of Part 16 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 31, 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 2010 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

14 September 2010

Consolidated Statement of Comprehensive Income

for year ended 31 May 2010

	Note	2010 £000	2009 £000
Revenue	1	459,779	503,093
Cost of sales		(385,393)	(433,800)
Gross profit		74,386	69,293
Other operating income/(expense)	4	1,593	(511)
Administrative expenses		(40,740)	(38,936)
Operating profit	1,5,6	35,239	29,846
Financial income	8	2,031	1,683
Financial expenses	8	(6,394)	(6,577)
Share of (loss)/profit in jointly controlled entities (net of tax)		(159)	1,216
Profit before tax		30,717	26,168
Income tax expense	9	(9,370)	(7,459)
Profit for the year		21,347	18,709
Other comprehensive income			
Foreign exchange translation differences		(781)	640
Effective portion of changes in fair value of cash flow hedges		1,486	8,134
Actuarial gains and losses on defined benefit pension plans		(3,028)	(170)
Tax recognised on other comprehensive income		434	(2,578)
Dividend waived		(15)	–
Other comprehensive income for the year, net of tax		(1,904)	6,026
Total comprehensive income for the year		19,443	24,735
Profit attributable to:			
Equity holders of the company		20,560	18,025
Minority interest		787	684
Profit for the year		21,347	18,709
Total comprehensive income attributable to:			
Equity holders of the company		18,760	23,871
Minority interest		683	864
Total comprehensive income for the year		19,443	24,735
Basic earnings per share (pence)	10	77.53	68.53
Diluted earnings per share (pence)	10	75.61	67.27

Balance Sheets

at 31 May 2010

	Note	2010 £000	Group 2009 £000	Company 2010 £000	2009 £000
Non-current assets					
Property, plant and equipment	11	85,605	71,240	–	–
Intangible assets	12	34,607	36,685	–	–
Investments in jointly controlled entities	13	–	953	–	754
Investments in subsidiary undertakings	13	–	–	28,436	24,266
Derivative financial instruments	14	3	–	–	–
Deferred tax assets	16	–	–	123	123
		120,215	108,878	28,559	25,143
Current assets					
Inventories	17	81,956	60,693	–	–
Derivative financial instruments	14	517	754	–	–
Trade and other receivables	18	62,371	55,026	218,455	53,099
Cash and cash equivalents	19	16,983	1,062	1,923	–
		161,827	117,535	220,378	53,099
Total assets		282,042	226,413	248,937	78,242
Non-current liabilities					
Other interest-bearing loans and borrowings	20	(73,265)	(24,331)	(53,138)	(10,281)
Retirement benefit obligations	22	(6,177)	(4,429)	–	–
Provisions	24	(8,986)	(9,557)	–	–
Derivative financial instruments	15	(770)	(113)	–	–
Deferred tax liabilities	16	(5,823)	(5,724)	–	–
		(95,021)	(44,154)	(53,138)	(10,281)
Current liabilities					
Bank overdraft	19	(24,189)	(9,486)	–	(896)
Other interest-bearing loans and borrowings	20	(7,729)	(36,421)	–	(5,864)
Trade and other payables	21	(59,889)	(54,333)	(155,572)	(22,026)
Income tax liabilities	16	(4,489)	(7,159)	–	–
Derivative financial instruments	15	(941)	(3,191)	–	–
		(97,237)	(110,590)	(155,572)	(28,786)
Total liabilities		(192,258)	(154,744)	(208,710)	(39,067)
Net assets		89,784	71,669	40,227	39,175

	Note	2010 £000	Group 2009 £000	2010 £000	Company 2009 £000
Equity attributable to equity holders of the parent					
Share capital	25	2,660	2,639	2,660	2,639
Share premium		30,429	29,434	30,429	29,434
Other reserves		211	211	–	–
Translation reserve	25	(31)	646	–	–
Merger reserve		1,022	1,022	1,022	1,022
Hedging reserve	25	(690)	(1,762)	–	–
Capital redemption reserve		1,530	1,530	1,530	1,530
Retained earnings		51,813	35,792	4,586	4,550
		86,944	69,512	40,227	39,175
Minority interest		2,840	2,157	–	–
Total equity		89,784	71,669	40,227	39,175

These financial statements were approved by the Board of Directors on 14 September 2010 and were signed on its behalf by:

Gordon Banham
Director

Iain Cockburn
Director

Registered Number: 4952865

Statements of Changes in Equity

for year ended 31 May 2010

Group	Share capital £000	Share premium £000	Trans- lation 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 2008	2,627	29,177	186	(7,618)	29	1,530	1,022	20,427	47,380	681	48,061
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	18,025	18,025	684	18,709
Other comprehensive income											
Foreign exchange translation differences	–	–	460	–	–	–	–	–	460	180	640
Effective portion of changes in fair value of cash flow hedges	–	–	–	8,134	–	–	–	–	8,134	–	8,134
Actuarial gains and losses on defined benefit pension plans	–	–	–	–	–	–	–	(170)	(170)	–	(170)
Tax recognised on other comprehensive income	–	–	–	(2,278)	–	–	–	(300)	(2,578)	–	(2,578)
Total other comprehensive income	–	–	460	5,856	–	–	–	(470)	5,846	180	6,026
Total comprehensive income for the year	–	–	460	5,856	–	–	–	17,555	23,871	864	24,735
Transactions with owners recorded directly in equity											
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
Total transactions with owners	12	257	–	–	182	–	–	(2,190)	(1,739)	612	(1,127)
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

Group	Share capital £000	Share premium £000	Trans- lation 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 2009	2,639	29,434	646	(1,762)	211	1,530	1,022	35,792	69,512	2,157	71,669
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	20,560	20,560	787	21,347
Other comprehensive income											
Foreign exchange translation differences	–	–	(677)	–	–	–	–	–	(677)	(104)	(781)
Effective portion of changes in fair value of cash flow hedges	–	–	–	1,486	–	–	–	–	1,486	–	1,486
Actuarial gains and losses on defined benefit pension plans	–	–	–	–	–	–	–	(3,028)	(3,028)	–	(3,028)
Tax recognised on other comprehensive income	–	–	–	(414)	–	–	–	848	434	–	434
Dividend waived	–	–	–	–	–	–	–	(15)	(15)	–	(15)
Total other comprehensive income	–	–	(677)	1,072	–	–	–	(2,195)	(1,800)	(104)	(1,904)
Total comprehensive income for the year	–	–	(677)	1,072	–	–	–	18,365	18,760	683	19,443
Transactions with owners recorded directly in equity											
Issue of shares	21	995	–	–	–	–	–	–	1,016	–	1,016
Equity settled share-based payment transactions	–	–	–	–	–	–	–	948	948	–	948
Dividends	–	–	–	–	–	–	–	(3,292)	(3,292)	–	(3,292)
Total transactions with owners	21	995	–	–	–	–	–	(2,344)	(1,328)	–	(1,328)
Balance at 31 May 2010	2,660	30,429	(31)	(690)	211	1,530	1,022	51,813	86,944	2,840	89,784

Statements of Changes in Equity (continued)

for year ended 31 May 2010

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 2008	2,627	29,177	1,530	1,022	5,979	40,335
Total comprehensive income for the year						
Profit for the year	–	–	–	–	761	761
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	761	761
Transactions with owners recorded directly in equity						
Issue of shares	12	257	–	–	–	269
Equity settled share-based payment transactions	–	–	–	–	648	648
Dividends	–	–	–	–	(2,838)	(2,838)
Total transactions with owners	12	257	–	–	(2,190)	(1,921)
Balance at 31 May 2009	2,639	29,434	1,530	1,022	4,550	39,175
Balance at 1 June 2009	2,639	29,434	1,530	1,022	4,550	39,175
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,380	2,380
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	2,380	2,380
Transactions with owners recorded directly in equity						
Issue of shares	21	995	–	–	–	1,016
Equity settled share-based payment transactions	–	–	–	–	948	948
Dividends	–	–	–	–	(3,292)	(3,292)
Total transactions with owners	21	995	–	–	(2,344)	(1,328)
Balance at 31 May 2010	2,660	30,429	1,530	1,022	4,586	40,227

Cash Flow Statements

for year ended 31 May 2010

	Note	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Cash flows from operating activities					
Profit for the year		21,347	18,709	2,380	761
Adjustments for:					
Depreciation		14,565	13,596	–	–
Amortisation of intangible assets		3,592	2,408	–	–
Dividend income		–	–	(2,627)	(17)
Net finance expense		4,363	4,894	1,020	(711)
Share of loss/(profit) in jointly controlled entities		159	(1,216)	–	–
(Profit)/loss on sale of property, plant and equipment		(624)	193	–	–
(Profit)/loss on sale of investments		(969)	318	(1,144)	(153)
Equity settled share-based payment transactions		948	648	–	–
Income tax expense		9,370	7,459	(266)	–
Translation of minority interest		(104)	179	–	–
		52,647	47,188	(637)	(120)
Change in inventories		(22,099)	(15,909)	–	–
Change in trade and other receivables		(8,135)	15,213	(167,614)	(14,772)
Change in trade and other payables		7,613	(23,201)	134,030	11,295
Change in provisions and employee benefits		(1,966)	(1,934)	–	–
		28,060	21,357	(34,221)	(3,597)
Interest paid		(4,030)	(3,955)	(1,104)	711
Income tax paid		(11,484)	(8,323)	–	–
Net cash from operating activities		12,546	9,079	(35,325)	(2,886)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		1,947	1,495	–	–
Proceeds from sale of investments		1,750	–	1,750	–
Dividends received		127	117	2,627	17
Acquisition of subsidiaries, net of cash acquired	3	(1,304)	(9,547)	(85)	(9,105)
Acquisition of property, plant and equipment	11	(19,712)	(7,110)	–	–
Acquisition of other investments	13	–	(590)	–	(598)
Minority interest contribution		–	39	–	–
Acquisition of trade and assets	3	(1,743)	–	–	–
Net cash from investing activities		(18,935)	(15,596)	4,292	(9,686)
Cash flows from financing activities					
Proceeds from the issue of share capital	25	35	269	1,016	269
Proceeds from new loan	20	–	9,000	–	9,000
Repayment of borrowings		(21,811)	(6,374)	(16,500)	(3,750)
Payment of finance lease liabilities		(7,511)	(5,724)	–	–
Proceeds from/(repayment of) invoice discounting facility		9,027	(9,310)	–	–
Dividends paid	25	(3,292)	(2,838)	(3,292)	(2,838)
(Repayment of)/proceeds from issue of promissory notes		(21,874)	15,115	–	–
Proceeds from revolving credit facility	20	52,628	–	52,628	–
Net cash from financing activities		7,202	138	33,852	2,681
Net increase/(decrease) in cash and cash equivalents		813	(6,379)	2,819	(9,891)
Cash and cash equivalents at 1 June		(8,424)	(1,025)	(896)	8,995
Effect of exchange rate fluctuations on cash held		405	(1,020)	–	–
Cash and cash equivalents at 31 May	19	(7,206)	(8,424)	1,923	(896)

Notes

(forming part of the financial statements)

1 Accounting policies

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

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

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in 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.

In these financial statements the following Adopted IFRSs which are effective for the first time, have been adopted. Their adoption has had no material effect on the Group's profit or equity:

- Amended IFRS 1 and IAS 27 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate';
- Amendments to IAS 1 'Presentation of Financial Statements' – these amendments revise requirements for the presentation of the financial statements and requires the presentation of a statement of changes in equity and a statement of comprehensive income as primary statements;
- Improvements to IFRSs (2008) – the amendments to IAS 1 clarify among other things, the classification of derivative financial instruments as current or non-current;
- Amendments to IFRS 2 Share-based payments: Vesting Conditions and Cancellations – these amendments concern certain aspects of the valuation of share-based payments and the impact of a cancellation by a grantee;
- IFRS 8 Operating Segments – this standard amends the requirements for disclosure of segmental performance. This disclosure is provided in note 2;
- Amendment to IAS 23 Borrowing Costs – the amendment generally eliminates the option to expense borrowing costs attributable to the acquisition, construction or production of a qualifying asset as incurred, and instead requires the capitalisation of such borrowing costs as part of the cost of the specific asset;
- Amendments to IFRS 7 Improving Disclosures about Financial Instruments – these amendments are to enhance disclosures over fair value measurements relating to financial instruments and improving disclosures over liquidity risk.

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, the discount rate applied in the calculations and the comparison of the 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.

1 Accounting policies (continued)

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.

Going concern

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 8 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 16 to 19. 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.

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.

The financial statements were approved by the Board of Directors on 14 September 2010.

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 percent 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. When the Group's share of losses exceeds its interest in an equity accounting investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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 to the functional currency 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 except for differences arising on qualifying cashflow hedges which are recognised directly in equity.

The balance sheet assets and liabilities of foreign subsidiaries are translated into sterling, the Group's presentational currency, at the exchange rate at the balance sheet date, and the income statement is translated at an average rate for the year. Gains and losses are then taken to a separate translation reserve. They are released to the income statement upon disposal.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Group

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

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

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

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

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

Financial instruments

Derivative financial instruments

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

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

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

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

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

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

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.

1 Accounting policies (continued)

Property, plant and equipment (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 profit or loss.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in 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.

Investments

Investments in jointly controlled entities, associates and subsidiaries are carried at cost in the parent company accounts.

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.

Notes (continued)

1 Accounting policies (continued)

Impairment (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 Company Limited on 17 June 2005 and Maltby Colliery Limited on 26 February 2007, the Group operates two concessionary fuel retirement benefit schemes.

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

The retirement benefit scheme liabilities are calculated by a qualified actuary 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 other comprehensive income 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 other comprehensive income 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.

Where the Company grants share-based payment awards over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

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. All directly attributable expenses in respect of services provided are recognised in the income statement in the period to which they relate. Sales of goods and services are recognised when they are delivered and title has passed.

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, finance charges on finance leases and interest receivable on funds invested together with changes in the fair values of interest rate swaps and foreign currency forward contracts through the profit and loss and the expected returns on plan assets and interest on the pension scheme liability.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

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.

Notes (continued)

1 Accounting policies (continued)

Standards and interpretations in issue 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

- Revised IFRS 3 'Business Combinations' (mandatory for the year commencing on or after 1 July 2009);
- Amendments to IAS 27 'Consolidated and Separate Financial Statements' (mandatory for the year commencing on or after 1 July 2009);
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items' (mandatory for year commencing on or after 1 July 2009);
- Amendments to IAS 39 'Reclassification of Financial Assets: Effective Date and Transition' (mandatory for year commencing on or after 1 July 2009);
- Amendments to IAS 32 'Financial Instruments: Presentation – Classification of rights issue' (mandatory for year commencing on or after 1 February 2010);
- Amendments to IFRS 2 'Group Cash-Settled Share-based payments transactions' (mandatory for year commencing on or after 1 January 2010);
- Improvements to IFRSs (issued 16 April 2009) (adoption dates varies but certain improvements are mandatory for the year commencing on or after 1 July 2009);
- Revised IAS 24 'Related Party Disclosure' (mandatory for year commencing on or after 1 January 2011);
- Amendments to IFRIC 14 – Prepayments of a minimum funding requirement (mandatory for year commencing on or after 1 January 2011).

Yet to be endorsed

- Improvements to IFRSs (issued May 2010) (adoption dates vary but certain improvements are mandatory for the year commencing on or after 1 July 2010);
- IFRS 9 'Financial Instruments' (mandatory for year commencing on or after 1 January 2013).

All other amendments to standards and interpretations that are available for early adoption currently have no impact for the Company.

2 Segmental information

The introduction of IFRS 8 Operating Segments, which is effective for accounting periods beginning on or after 1 January 2009, has required a reassessment of the reportable segments within the Group. The analysis by industry segment is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions.

The sectors distinguished as reportable segments are Production, Energy & Commodities, Transport, and Industrial Services. A short description of these sectors is as follows:

- Production: produces coal, coke and smokeless fuel and also recycles tyres for customers throughout the UK and Europe;
- Energy & Commodities: provides coal, coke, minerals and biomass products to a range of industrial, wholesale and public sector energy consumers;
- Transport: provides bulk and liquid transport logistics to UK customers; and
- Industrial Services: provides quality assured contract management services to the power generation, utilities, chemicals and minerals industries.

These segments are combinations of subsidiaries and divisions, have separate management teams and offer different products and services.

The segment results, as reported to the Board of Directors, are calculated under the principles of IFRS.

2 Segmental information (continued)

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

	Production 2010 £000	Energy & Commodities 2010 £000	Transport 2010 £000	Industrial Services 2010 £000	Total 2010 £000
Revenue					
Total revenue	86,256	263,949	72,746	60,358	483,309
Inter-segment revenue	(5,800)	(7,269)	(10,100)	(361)	(23,530)
Revenue from external customers	80,456	256,680	62,646	59,997	459,779
Segment operating profit	8,496	20,727	3,761	2,255	35,239
Share of loss in jointly controlled entities	(107)	(52)	–	–	(159)
Net financing costs	(1,653)	(1,784)	(663)	(263)	(4,363)
Profit before taxation	6,736	18,891	3,098	1,992	30,717
Depreciation charge	(9,179)	(531)	(3,260)	(1,595)	(14,565)
Amortisation of intangibles	–	(1,630)	(393)	(1,569)	(3,592)
Capital expenditure	23,199	721	4,349	1,998	30,267
Net assets					
Segment assets	93,091	107,053	29,488	14,029	243,661
Segment liabilities	(38,220)	(62,856)	(17,167)	(12,699)	(130,942)
Segment net assets	54,871	44,197	12,321	1,330	112,719
Jointly controlled entities	–	–	–	–	–
Segment net assets including share of jointly controlled entities	54,871	44,197	12,321	1,330	112,719
Unallocated net assets					(22,935)
Total net assets					89,784

Unallocated net assets include goodwill and intangibles (£34.6m), revolving credit facility (£53.1m), derivative financial instruments (£1.2m) and other corporate items (£3.2m).

Included within revenue is £109.0m (2009: £124.6m) of revenue which originates in Europe. All other revenue originates in the UK.

Notes (continued)

2 Segmental information (continued)

	Production 2009 £000	Energy & Commodities 2009 £000	Transport 2009 £000	Industrial Services 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 from external customers	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
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 (£36.7m), bank loans (£21.4m), deferred consideration (£2.1m), derivative financial instruments (£2.6m) and other corporate items (£3.5m).

3 Acquisition of subsidiaries

On 2 November 2009, the Group obtained total control of Forward Sound Limited, a jointly controlled entity with Evans & Reid Coal Company Limited, satisfied by £85,000. The company is a holding company.

In the seven months to 31 May 2010, Forward Sound contributed profit after tax of £45,000 to the consolidated profit after tax for the year. If the acquisition had occurred on 1 June 2009, Group revenue would have been an estimated £459.8m and profit after tax would have been an estimated £21.3m. In determining these amounts, management has assumed that any fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 June 2009.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Intangible assets	1,000	–	1,000
Deferred tax assets	23	–	23
LIABILITIES			
Current liabilities			
Trade and other payables	(584)	–	(584)
Net identifiable assets and liabilities	439	–	439
Share of Forward Sound owned			(492)
Goodwill on acquisition			138
Net purchase consideration and costs of acquisition			85
Satisfied by:			
Consideration paid			85

Notes (continued)

3 Acquisition of subsidiaries (continued)

In October 2009, the Group acquired certain assets from Stiller Tankers Limited and in March 2010 acquired the trade and assets of DWL Engineering Services Limited. These acquisitions have been aggregated in the table below as they are deemed to be individually immaterial.

It is impracticable to determine the result these acquisitions have contributed to the consolidated profit after tax for the year as they have been integrated into existing businesses.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	1,716	–	1,716
Current assets			
Inventories	5	–	5
Trade and other receivables	123	–	123
LIABILITIES			
Current liabilities			
Trade and other payables	(93)	(362)	(455)
Interest-bearing loans and borrowings	(51)	–	(51)
Net identifiable assets and liabilities	1,700	(362)	1,338
Goodwill on acquisition			374
Net purchase consideration and costs of acquisition			1,712
Satisfied by:			
Consideration paid			1,442
Deferred consideration			270
			1,712

On 27 January 2009, the Group acquired the remaining 50% of the issued share capital of Coal4Energy Limited, a jointly controlled entity with UK Coal plc, satisfied by £9,122,000 cash. Coal4Energy Limited 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.

3 Acquisition of subsidiaries (continued)

	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)
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 contracts, which is 60 months. The goodwill is not being amortised but is being reviewed annually for impairment.

4 Other operating income/(expense)

	2010 £000	2009 £000
Net gain/(loss) on disposal of property, plant and equipment	624	(193)
Net gain/(loss) on disposal of investments	969	(318)
	1,593	(511)

Notes (continued)

5 Expenses and auditors' remuneration

Profit before tax is stated after charging:

	2010 £000	2009 £000
Amortisation of intangibles	3,592	2,408
Impairment loss on inventories	1,040	1,234
Impairment loss on trade and other receivables	262	544
Depreciation of property, plant and equipment owned	10,054	9,617
Depreciation of property, plant and equipment held under finance lease	4,511	3,979

Auditors' remuneration:

	2010 £000	2009 £000
Audit of these financial statements	26	25
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	153	141
Other services relating to taxation	117	71
All other services	222	107

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 by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees Group	
	2010	2009
Directors	27	26
Maintenance and washery	200	197
Traffic and administration	409	362
Drivers	508	450
Production	1,255	1,174
	2,399	2,209

The aggregate payroll costs of these persons were as follows:

	Group	
	2010 £000	2009 £000
Wages and salaries	78,881	69,990
Share-based payments (see note 23)	948	648
Social security costs	8,007	7,008
Contributions to defined contribution plans	568	393
Expenses related to defined benefit plans	998	1,176
	89,402	79,215

7 Directors' remuneration

	2010 £000	2009 £000
Directors' emoluments	1,156	1,072
Company contributions to money purchase pension plans	61	61
Amounts paid to third-parties in respect of directors' services	95	87

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £539,000 (2009: £503,000), and company pension contributions of £42,000 (2009: £42,000) were made to a money purchase scheme on his behalf.

	Number of directors 2010 2009	
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	2
The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was	–	–

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

	Number of options		Exercise price p
	At start of year	At end of year	
GFC Banham	74,723	109,180	–
KJ Dougan	33,177	38,213	–
ID Cockburn	20,287	48,787	–

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

8 Finance income and expense

Recognised in profit or loss

	2010 £000	2009 £000
Finance income		
Interest income on unimpaired financial assets	1,030	634
Expected return on defined benefit pension plan assets	1,001	1,049
Total finance income	2,031	1,683
Finance expense		
Net loss on financial instruments designated as fair value through the income statement	126	465
Total interest expense on financial liabilities measured at amortised cost	5,060	4,877
Unwind of discount on deferred consideration	92	194
Interest on defined benefit pension plan obligation	1,116	1,041
Total finance expense	6,394	6,577

Notes (continued)

9 Taxation

Recognised in the statement of comprehensive income

	2010 £000	2009 £000
Current tax expense		
Current year	7,849	8,860
Adjustments for prior years	(451)	(58)
Foreign tax – current year	1,416	1,234
Current tax expense	8,814	10,036
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	94	(2,579)
Adjustments for prior years	462	2
Deferred tax expense/(credit)	556	(2,577)
Tax expense in income statement (excluding share of tax of equity accounted investees)	9,370	7,459
Share of tax of equity accounted investees	(122)	561
Total tax expense	9,248	8,020

Tax recognised in other comprehensive income

	2010 £000	2009 £000
Deferred tax		
Effective portion of changes in fair value of cash flow hedges	(414)	(2,278)
Actuarial gains and losses on defined benefit pension plans	848	(300)
	434	(2,578)

Reconciliation of effective tax rate

	2010 £000	2009 £000
Profit for the year	21,347	18,709
Total tax expense (including tax on equity accounted investees)	9,248	8,020
Profit excluding taxation	30,595	26,729
Tax using the UK corporation tax rate of 28% (2009: 28%)	8,567	7,484
Effect of tax rates in foreign jurisdictions	218	162
Difference in effective tax rate	–	12
Non-deductible expenses	452	418
Under/(over) provided in prior years	11	(56)
Total tax expense (including tax on equity accounted investees)	9,248	8,020

9 Taxation (continued)

For the years ended 31 May 2010 and 31 May 2009, the Group was subject to UK corporation tax at a base rate of 28%.

Factors that may affect future tax expenses

On 28 July 2010 a change in the rate of corporation tax was substantively enacted, with corporation tax reduced from 28% to 27% with effect from 1 April 2011. As this change was after the balance sheet date, deferred tax balances have not been calculated based on the new rate. Further reductions in the corporate tax rate have also been proposed along with reduced rates of capital allowances.

An accurate calculation of the impact of the proposed changes is not possible however the reduction in the corporate tax rate to 27% is likely to reduce the deferred tax balances by approximately £200,000.

10 Earnings per share

All earnings per share disclosures relate to continuing operations as the Group had no discontinued operations in either 2009 or 2010.

Earnings per share for the ordinary shares are as follows:

	2010	2009
Ordinary shares		
Basic earnings per share	77.53p	68.53p
Diluted earnings per share	75.61p	67.27p

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

	2010 £000	2009 £000
Profit for the year attributable to equity holders	20,560	18,025
Weighted average number of shares	26,519,310	26,302,652
Earnings per ordinary share	77.53p	68.53p

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: 673,013; effect on earnings per ordinary share: 1.92 pence).

	2010 £000	2009 £000
Profit for the year attributable to equity holders	20,560	18,025
Weighted average number of shares	27,192,323	26,792,996
Diluted earnings per ordinary share	75.61p	67.27p

Notes (continued)

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 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
Balance at 1 June 2009	21,170	7,712	67,768	345	6,638	103,633
Other acquisitions	398	321	29,490	58	–	30,267
Disposals	(950)	–	(2,327)	–	–	(3,277)
Transfers	(4)	(3,057)	3,070	(9)	–	–
Effect of movements in foreign exchange	–	(2)	(1)	–	–	(3)
Balance at 31 May 2010	20,614	4,974	98,000	394	6,638	130,620
Depreciation and impairment						
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
Balance at 1 June 2009	1,963	3,605	25,050	183	1,592	32,393
Depreciation charge for the year	566	481	12,635	53	830	14,565
Disposals	(108)	–	(1,834)	–	–	(1,942)
Transfers	–	(9)	(18)	27	–	–
Effect of movements in foreign exchange	–	(1)	–	–	–	(1)
Balance at 31 May 2010	2,421	4,076	35,833	263	2,422	45,015
Net book value						
At 1 June 2008	18,567	4,087	37,614	133	5,876	66,277
At 31 May 2009 and 1 June 2009	19,207	4,107	42,718	162	5,046	71,240
At 31 May 2010	18,193	898	62,167	131	4,216	85,605

Leased plant and machinery

At 31 May 2010 the net carrying amount of leased plant and machinery was £23,312,116 (2009: £21,379,620). The leased equipment secures lease obligations (see note 20).

Security

The Group's property, plant and equipment is used to secure some of its interest-bearing loans and borrowings (see note 20).

11 Property, plant and equipment (continued)

Property, plant and equipment under construction

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

The Company has no property, plant and equipment.

12 Intangible assets

Group

	Goodwill £000	Negative goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
Cost						
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
Balance at 1 June 2009	21,108	(93)	11,689	8,148	15	40,867
Acquisitions through business combinations	512	–	–	–	1,000	1,512
Effect of movements in foreign exchange	2	–	–	–	–	2
Balance at 31 May 2010	21,622	(93)	11,689	8,148	1,015	42,381
Amortisation and impairment						
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
Balance at 1 June 2009	–	(93)	4,275	–	–	4,182
Amortisation for the year	–	–	1,962	1,630	–	3,592
Balance at 31 May 2010	–	(93)	6,237	1,630	–	7,774
Net book value						
At 1 June 2008	15,839	–	9,822	–	5	25,666
At 31 May 2009 and 1 June 2009	21,108	–	7,414	8,148	15	36,685
At 31 May 2010	21,622	–	5,452	6,518	1,015	34,607

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.

£1,000,000 of other intangibles relates to an exclusivity agreement and is not yet being amortised. The life of the intangible is expected to be 7 years.

Notes (continued)

12 Intangible assets (continued)

Amortisation and impairment charge

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

	2010 £000	2009 £000
Administrative expenses	3,592	2,408

Impairment testing

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

	2010 £000	Goodwill 2009 £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
Maltby Colliery Limited	2,139	2,139
Coal4Energy Limited/Maxibrite Limited	6,140	6,140
Other	647	133

The recoverable amounts 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:

	2010	2009
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% (2009: 12%) has been used. Management consider this to be an estimate of the cost of capital of the Group, taking into account the current macro-economic situation.

The Company has no intangible assets.

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	
						2010	2009
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%	100%	
Forward Sound Limited		Holding company	UK	Ordinary	100%	100%	
Jointly controlled entity							
Evonik Hargreaves Limited		Holding company	UK	Ordinary	–	50%	
Group							
Subsidiary undertakings							
Hargreaves (UK) Limited		Holding company	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%	85.2%	
RocFuel Limited		Renewable energy solutions	UK	Ordinary	50.1%	50.1%	
RocPower Limited		Renewable energy solutions	UK	Ordinary	85%	85%	
Hargreaves Carbon Products NV		Import and sale of carbon-based materials	Belgium	Ordinary	58%	58%	
Jointly controlled entities							
Eastgate Materials Handling Limited		Port facilities	UK	Ordinary	50%	50%	
Tower Regeneration Limited		Coal mining	UK	Ordinary	50%	–	
Hargreaves Coal Combustion Products Limited		Management and sale of ash products	UK	Ordinary	–	37.5%	
				Preference	–	37.5%	
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%	

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

In addition to the above, the Group has approximately 11 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 2010 was a loss of £159,000 (2009: profit of £1,216,000).

Notes (continued)

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

Forward Sound Limited is no longer considered a jointly controlled entity as during the year the Group obtained total control.

Group	Interests in jointly controlled entities £000
Cost	
At beginning of year	813
Additions	405
Disposals	(1,179)
At end of year	39
Share of post acquisition reserves	
At beginning of year	140
Loss for the financial year	(159)
Disposals	(95)
Dividends paid	(141)
Transferred to current liabilities within other payables	216
At end of year	(39)
Net book value	
At 31 May 2010	–
At 31 May 2009	953

The amount by which the accumulated share of post acquisition losses exceeds the cost of the investment in individual equity accounted entities has, where required by the Group accounting policy, been transferred to current liabilities and included within note 21.

	Ownership %	Current assets £000	Non-current assets £000	Current liabilities £000	Non-current liabilities £000	Revenue £000	Expenses (including tax) £000
2010							
Eastgate Materials Handling Limited	50%	443	373	(1,186)	–	7,691	(8,053)
Tower Regeneration Limited	50%	–	3,924	(4,056)	–	–	(132)
		443	4,297	(5,242)	–	7,691	(8,185)

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.

Company	Group undertakings £000	Jointly controlled entities £000	Total £000
Shares at cost and net book value			
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
At 1 June 2009	24,266	754	25,020
Additions	2,669	405	3,074
Capital contribution arising on share options	948	–	948
Transfer	553	(553)	–
Disposals	–	(606)	(606)
At 31 May 2010	28,436	–	28,436

Notes (continued)

14 Other financial assets

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Non-current				
Interest rate swaps designated as fair value through profit or loss	3	–	–	–
Current				
Currency contracts designated as fair value through profit or loss	40	240	–	–
Other derivatives designated as fair value through hedging reserve	477	514	–	–
	517	754	–	–

15 Other financial liabilities

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Non-current				
Interest rate swaps designated as fair value through profit and loss	110	113	–	–
Currency contracts designated as fair value through profit or loss	28	–	–	–
Other derivatives designated as fair value through hedging reserve	632	–	–	–
	770	113	–	–
Current				
Interest rate swaps designated as fair value through profit or loss	36	188	–	–
Currency contracts designated as fair value through profit or loss	100	43	–	–
Other derivatives designated as fair value through hedging reserve	805	2,960	–	–
	941	3,191	–	–

16 Deferred tax assets and liabilities

Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2010 £000	2009 £000	2010 £000	2009 £000
Property, plant and equipment	–	–	7,804	6,208
Intangible assets	–	–	3,528	4,534
Financial assets	(333)	(715)	–	–
Employee benefits	(1,729)	(1,240)	–	–
Share-based payments	(534)	(176)	–	–
Provisions	(2,614)	(2,566)	–	–
Tax value of loss carry-forwards	(36)	(19)	–	–
Other	(263)	(302)	–	–
Tax (assets)/liabilities	(5,509)	(5,018)	11,332	10,742
Net of tax liabilities	–	–	4,489	7,159
Net tax (assets)/liabilities	(5,509)	(5,018)	15,821	17,901

Movement in deferred tax during the year

	31 May 2009 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 May 2010 £000
Property, plant and equipment	6,208	1,596	–	–	7,804
Intangible assets	4,534	(1,006)	–	–	3,528
Financial assets	(715)	(32)	414	–	(333)
Employee benefits	(1,240)	359	(848)	–	(1,729)
Share-based payments	(176)	(358)	–	–	(534)
Provisions	(2,566)	(48)	–	–	(2,614)
Tax value of loss carry-forwards utilised	(19)	6	–	(23)	(36)
Other	(302)	39	–	–	(263)
	5,724	556	(434)	(23)	5,823

Movement in deferred tax during the prior 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

Notes (continued)

16 Deferred tax assets and liabilities (continued)

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2010 £000	2009 £000	2010 £000	2009 £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 31 May 2008 and at 31 May 2009 £000	Recognised in income £000	Recognised in equity £000	31 May 2010 £000
Share-based payments	(123)	–	–	(123)

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

17 Inventories

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Raw materials and consumables	19,139	12,042	–	–
Work in progress	18,934	15,749	–	–
Finished goods	43,883	32,902	–	–
	81,956	60,693	–	–

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

The write-down of inventories to net realisable value amounted to £1,040,000 (2009: £1,234,000). The reversal of write-downs amounted to £nil (2009: £nil). The write-down is in cost of sales.

Included within inventories is £nil (2009: £nil) of advanced payments on account from customers.

18 Trade and other receivables

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade receivables	49,491	43,306	–	27
Trade receivables due from Group undertakings	–	–	217,971	52,568
Trade receivables due from undertakings in which the Company has a participating interest	3,792	1,557	–	500
Other receivables	5,352	4,834	218	3
Prepayments and accrued income	3,736	5,056	–	–
Other tax and social security	–	273	–	1
Corporation tax	–	–	266	–
	62,371	55,026	218,455	53,099

Included within trade and other receivables is £nil (2009: £nil) for the Group and £nil (2009: £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 2010 trade receivables are shown net of an allowance for bad debts of £593,000 (2009: £727,000) arising from the ordinary course of business, as follows:

	2010 £000	2009 £000
Group		
Balance at 1 June	727	125
Assumed on acquisition	–	185
Provided during the year	262	544
Released	(356)	–
Utilised during the year	(40)	(127)
Balance at 31 May	593	727

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

	Gross trade receivables £000	2010 Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	37,392	–	37,392
Past due date (0–90 days)	10,726	(463)	10,263
Past due date (over 90 days)	1,966	(130)	1,836
Individually impaired amounts	–	–	–
	50,084	(593)	49,491

Notes (continued)

18 Trade and other receivables (continued)

	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

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

The Group's most significant customer is UK Coal Plc which accounts for £2,168,000 of trade receivables carrying amount at 31 May 2010 (2009: EON UK Limited £2,506,000).

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

	2010 £000	2009 £000
UK	36,677	34,206
European customers	12,371	6,100
Other regions	443	3,000
	49,491	43,306

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

19 Cash and cash equivalents/bank overdrafts

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Cash and cash equivalents per balance sheet	16,983	1,062	1,923	–
Bank overdrafts	(24,189)	(9,486)	–	(896)
Cash and cash equivalents per cash flow statements	(7,206)	(8,424)	1,923	(896)

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

20 Other interest-bearing loans and borrowings

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

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Non-current liabilities				
Secured bank loans	–	13,037	–	10,281
Finance lease liabilities	10,299	10,493	–	–
Invoice discounting facility	9,828	801	–	–
Revolving credit facility	53,138	–	53,138	–
	73,265	24,331	53,138	10,281
Current liabilities				
Current portion of secured bank loans	–	8,328	–	5,864
Current portion of finance lease liabilities	7,729	6,219	–	–
Promissory note facility	–	21,874	–	–
	7,729	36,421	–	5,864
Bank overdraft	24,189	9,486	–	896
	31,918	45,907	–	6,760

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2010 £000	Carrying amount 2010 £000	Face value 2009 £000	Carrying amount 2009 £000
Term loan A	Sterling	LIBOR + 2%	2012	–	–	8,250	8,063
Term loan B	Sterling	LIBOR + 2.5%	2010	–	–	1,400	1,376
Term loan C	Sterling	Base Rate + 2%	2012	–	–	3,535	3,468
Term loan D	Sterling	LIBOR + 2.5%	2012	–	–	8,250	8,082
Mortgage	Sterling	LIBOR + 1.5%	2024	–	–	376	376
Finance lease liabilities	Sterling	5.5% – 12.5%	2010–2014	18,028	18,028	16,712	16,712
Promissory note facility	USD	LIBOR + 1.25%	2010	–	–	21,874	21,874
Bank overdraft facility	EUR/USD/Sterling	3.98% – 4.55%	2010	24,189	24,189	9,486	9,486
Invoice discounting facility	Sterling	Base Rate + 2%	2012	9,828	9,828	801	801
Revolving credit facility	Sterling	LIBOR + 2.5%	2012	54,856	53,138	–	–
				106,901	105,183	70,684	70,238

In September 2009, the Group completed a new 3-year multi-bank committed facility consisting of a £35m invoice finance facility and an £80m revolving credit facility. This facility is secured by a debenture over the Group's assets.

The invoice discounting facilities are committed 36-month facilities from 14 September 2009 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 2010 was £10,345,000 (2009: £843,000).

The overdraft facility is a 12-month facility from 31 December 2009, and can be drawn down in Euros, US Dollars and Sterling. The rate of interest is fixed and dependent on the currency drawn down.

Notes (continued)

20 Other interest-bearing loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000	Minimum lease payments 2009 £000	Interest 2009 £000	Principal 2009 £000
Less than one year	8,690	961	7,729	7,045	826	6,219
Between one and five years	11,103	804	10,299	11,259	766	10,493
More than five years	–	–	–	–	–	–
	19,793	1,765	18,028	18,304	1,592	16,712

21 Trade and other payables

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Current				
Trade payables	36,526	31,489	–	–
Trade payables due to Group undertakings	–	–	154,935	21,947
Trade payables due to undertakings in which the Company has a participating interest	324	675	–	–
Other trade payables	9,365	6,994	–	–
Non-trade payables and accrued expenses	13,404	13,047	637	79
Deferred consideration	270	2,128	–	–
	59,889	54,333	155,572	22,026

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months (2009: £nil).

During the year £1,000,000 of deferred consideration was settled by the issue of 134,343 ordinary shares.

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 £568,000 (2009: £393,000). 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 2010.

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

	2010 £000	2009 £000
Present value of unfunded defined benefit obligations	390	364

22 Pension schemes and other retirement benefits (continued)

Movements in present value of defined benefit obligation

	2010 £000	2009 £000
At beginning of year	364	419
Current service cost	4	4
Contributions paid	(20)	(19)
Other finance cost	19	22
Actuarial loss/(gain)	23	(62)
At the end of the year	390	364

Expense recognised in the income statement

	2010 £000	2009 £000
Current service cost	4	4
Interest on pension scheme liabilities	19	22
	23	26

The expense is recognised in the following line items in the income statement:

	2010 £000	2009 £000
Administrative expenses	4	4
Finance expense	19	22
	23	26

Actuarial gains and losses recognised directly in equity in the statement of comprehensive income since 17 June 2005.

	2010 £000	2009 £000
Cumulative amount at 1 June	80	18
Recognised in the year	(23)	62
Cumulative amount at 31 May	57	80

The major assumptions used in these valuations were:

	2010	2009
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.

Notes (continued)

22 Pension schemes and other retirement benefits (continued)

The assumptions relating to longevity underlying the pension liability at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

- Current pensioner aged 65: 18.6 years (male), 21.6 years (female).
- Future retiree upon reaching 65: 18.6 years (male), 21.6 years (female).

History of plans

The history of the plans for the current and prior periods is as follows:

Balance sheet

	2010 £000	2009 £000	2008 £000	2007 £000
Present value of the defined benefit obligation	390	364	419	469

Experience adjustments

	2010	2009	2008	2007
Experience gains and losses on scheme liabilities: Amount (£000)	–	–	84	–
Percentage of year-end present value of scheme liabilities	0%	0%	20%	0%

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 2010 by a qualified independent actuary.

	2010 £000	2009 £000
Present value of unfunded defined benefit obligations	(610)	(467)
Present value of funded defined benefit obligations	(22,868)	(15,791)
Fair value of assets	17,691	12,193
Deficit in the scheme – Pension liability	(5,787)	(4,065)

Movements in present value of defined benefit obligation

	2010 £000	2009 £000
At the beginning of the year	16,258	16,573
Current service cost	994	1,172
Interest cost	1,097	1,019
Actuarial loss/(gain)	4,862	(2,802)
Contributions paid	338	322
Benefits paid	(71)	(26)
At the end of the year	23,478	16,258

22 Pension schemes and other retirement benefits (continued)**Movements in the fair value of plan assets**

	2010 £000	2009 £000
Fair value of plan assets at beginning of year	12,193	11,561
Expected return on plan assets	1,001	1,049
Actuarial gain/(loss)	1,857	(3,034)
Employer contributions	2,373	2,321
Plan members' contributions	338	322
Benefits paid	(71)	(26)
Fair value of plan assets at end of year	17,691	12,193

Expense recognised in the income statement

	2010 £000	2009 £000
Current service cost	994	1,172
Expected return on pension scheme assets	(1,001)	(1,049)
Interest on pension scheme liabilities	1,097	1,019
	1,090	1,142

The expense is recognised in the following line items in the income statement:

	2010 £000	2009 £000
Administrative expenses	994	1,172
Finance income	(1,001)	(1,049)
Finance expense	1,097	1,019
	1,090	1,142

Actuarial gains and losses recognised directly in equity in the statement of comprehensive income since 26 February 2007.

	2010 £000	2009 £000
Cumulative amount at 1 June	4,433	4,665
Recognised in the year	(3,005)	(232)
Cumulative amount at 31 May	1,428	4,433

Notes (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:

	Fair value at 2010 £000	Fair value at 2009 £000
Equities	7,110	11,946
Bonds	5,391	–
Hedge funds	1,956	–
Property	644	–
Alternative investment mandate	1,117	–
Other – net current assets	272	–
Other – cash	1,201	247
	17,691	12,193
Actual return on plan assets	2,858	(1,985)

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

	Long-term rate of return 2010	Long-term rate of return 2009
Equities	8.3%	8.2%
Other – cash	4.3%	4.2%

The major assumptions used in this valuation were:

	2010	2009
Rate of increase in salaries	4.6%	3.9%
Rate of increase in pensions in payment and deferred pensions	3.4%	3.7%
Discount rate applied to scheme liabilities	5.5%	6.5%
Inflation assumption	3.6%	3.9%

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.

The assumptions relating to longevity underlying the pension liability at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60 year old to live for a number of years as follows:

IWMPS

- Current pensioner aged 60: 21.3 years (male), 24.4 years (female).
- Future retiree upon reaching 60: 21.3 years (male), 24.4 years (female).

IWCSSS

- Current pensioner aged 60: 23.1 years (male), 26.0 years (female).
- Future retiree upon reaching 60: 23.1 years (male), 26.0 years (female).

22 Pension schemes and other retirement benefits (continued)

History of plans

The history of the plans for the current and prior periods is as follows:

Balance sheet

	2010 £000	2009 £000	2008 £000	2007 £000
Present value of the defined benefit obligation	(23,478)	(16,258)	(16,573)	(20,658)
Fair value of plan assets	17,691	12,193	11,561	11,716
Deficit	(5,787)	(4,065)	(5,012)	(8,942)

Experience adjustment

	2010	2009	2008	2007
Difference between the expected and actual return on scheme assets:				
Amount (£000)	1,857	(3,034)	(1,887)	95
Percentage of year-end scheme assets	10.5%	24.9%	16.3%	0.8%
Experience gains and losses on scheme liabilities:				
Amount (£000)	(4,862)	2,802	6,457	–
Percentage of year-end present value of scheme liabilities	20.7%	17.2%	31.0%	–

The Group expects to contribute approximately £2,839,000 to its defined benefit plans in the next financial year.

Notes (continued)

23 Employee share schemes

The Group has established a Savings-Related Share Option scheme, which granted options in March 2006, May 2007, April 2008, April 2009 and April 2010 and an Executive Long-Term Incentive Plan which granted options in November 2006, June 2008 and June 2009. An additional Long-Term Incentive Plan was established for certain senior employees as part of the acquisition of Norec Limited in September 2006.

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	Number of shares granted	Vesting conditions	Contractual life
Savings-Related Share Option Scheme 1	March 2006	All employees	165,758	3 years' service	3.5 years
Equity Settled Share Option Scheme – Norec	September 2006	Senior employees	96,572	3 years' service	11 years
Long-Term Incentive Plan 1	November 2006	Senior employees	92,593	3 years' service and EPS growth of 22.32% (30% award) – 74.41% (100% award) over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 2	May 2007	All employees	295,499	3 years' service	3.5 years
Savings-Related Share Option Scheme 3	April 2008	All employees	175,968	3 years' service	3.5 years
Long-Term Incentive Plan 2	June 2008	Senior employees	128,621	3 years' service and EPS growth of 35.4% (30% award) – 63.5% (100% award) over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 4	April 2009	All employees	231,870	3 years' service	3.5 years
Long-Term Incentive Plan 3	June 2009	Senior employees	193,658	3 years' service and EPS growth of 18.9% (30% award) – 30.0% (100% award) over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 5	April 2010	All employees	175,511	3 years' service	3.5 years

The number and weighted average exercise price of share options is as follows:

Savings-Related Share Option Schemes

	2010 Weighted average exercise price	2010 Number of options	2009 Weighted average exercise price	2009 Number of options
Outstanding at beginning of year	478p	617,171	432p	562,468
Granted during the year	656p	175,511	443p	231,870
Lapsed during the year	459p	(45,510)	453p	(52,528)
Exercised during the year	467p	(1,096)	218p	(124,639)
Outstanding at the end of the year	521p	746,076	478p	617,171
Exercisable at the end of the year	–	–	218p	1,857

The options outstanding at 31 May 2010 have an exercise price in the range of 443p to 656p and have a weighted average contractual life of 1.9 years.

The options exercised during the year had a weighted average market value of 732p (2009: 529p).

23 Employee share schemes (continued)

Long-Term Incentive Plans

	2010 Weighted average exercise price	2010 Number of options	2009 Weighted average exercise price	2009 Number of options
Outstanding at beginning of year	125p	305,013	201p	189,165
Granted during the year	–	193,658	–	128,621
Lapsed during the year	–	(12,773)	–	(12,773)
Exercised during the year	26p	(71,876)	–	–
Outstanding at the end of the year	87p	414,022	125p	305,013
Exercisable at the end of the year	393.5p	91,743	–	–

The options outstanding at 31 May 2010 have an exercise price in the range of £nil to 393.5p and have a weighted average contractual life of 3.1 years.

The options exercised during the year had a weighted average market value of 723p.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

	2010 Long-Term Incentive Plan 3	2010 Savings Related Share Option Scheme 5	2009 Long-Term Incentive Plan 4	2009 Savings Related Share Option Scheme 4
Fair value at grant date	461p	255p	574p	173p
Share price	490p	729p	610p	492.5p
Exercise price	–	656p	–	443p
Expected volatility	20.0%	40.0%	20.0%	40.0%
Option life	3 years	3 years	3 years	3 years
Expected dividends	2.0%	1.0%	2.0%	1.0%
Risk-free rate	5.8%	5.4%	5.8%	5.4%

Volatility was calculated with reference to the Group's daily share price volatility. The average share price in the year was 646 pence (2009: 531 pence).

The costs charged to the income statement relating to share-based payments were as follows:

	2010 £000	2009 £000
Share options granted in 2006	–	28
Share options granted in 2007	169	265
Share options granted in 2008	107	107
Share options granted in 2009	371	248
Share options granted in 2010	301	–
	948	648

Notes (continued)

24 Provisions

Group	Monckton ground water contamination £000	Maltby restoration £000	Maltby subsidence provision £000	Other £000	Total £000
Balance at 1 June 2009	1,582	6,567	1,013	395	9,557
Provisions made during the year	–	–	115	–	115
Provisions utilised during the year	–	(450)	–	(180)	(630)
Provisions reversed during the year	–	–	(56)	–	(56)
Balance at 31 May 2010	1,582	6,117	1,072	215	8,986

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 £6,117,000 restoration provision which relates to Maltby's obligation to restore the site after coal mining has been completed. £450,000 of the provision has been utilised as work has been undertaken to rectify large parts of the site.
- 3 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

Share capital

	Ordinary shares	
	2010 Number	2009 Number
In issue at 1 June	26,393,902	26,270,532
Issued for cash	75,100	123,370
Issued in acquisitions	134,343	–
In issue and fully paid at 31 May	26,603,345	26,393,902
	2010 £000	2009 £000
Authorised		
47,500,000 (2009: 47,500,000) Ordinary shares of 10p each	4,750	4,750
Allotted, called up and fully paid		
26,603,345 (2009: 26,393,902) Ordinary shares of 10p each	2,660	2,639

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.

25 Capital and reserves (continued)

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:

	2010 £000	2009 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	2,122	1,839
Interim dividends paid in respect of the current year	1,170	999
	3,292	2,838
Proposed dividend of 9.1p per share (2009: 8.0p)	2,421	2,112

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 £49,491,000 (2009: £43,306,000) being the total of the carrying amount of trade receivables.

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

(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 cash flows against forecast requirements based on a rolling cash forecast.

Notes (continued)

26 Financial instruments (continued)

(b) Liquidity risk (continued)

Group

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

	Carrying amount £000	Contractual cash flow £000	2010 1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	2009 1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Secured bank loans	–	–	–	–	–	–	21,365	21,365	8,328	6,937	5,817	283
Finance lease liabilities	18,028	19,793	8,690	6,285	4,818	–	16,712	18,304	7,045	5,902	5,357	–
Promissory note facility	–	–	–	–	–	–	21,874	21,874	21,874	–	–	–
Bank overdrafts	24,189	24,189	24,189	–	–	–	9,486	9,486	9,486	–	–	–
Trade and other payables*	59,889	59,889	59,889	–	–	–	54,333	54,333	54,333	–	–	–
Invoice discounting facility	9,828	9,828	–	–	9,828	–	801	801	–	–	801	–
Revolving credit facility	53,138	53,138	–	–	53,138	–	–	–	–	–	–	–
Derivative financial liabilities												
Interest rate swaps used for hedging	146	146	36	110	–	–	301	301	188	113	–	–
Forward exchange contracts used for hedging:												
Outflow	128	128	100	28	–	–	43	43	43	–	–	–
Inflow	–	–	–	–	–	–	–	–	–	–	–	–
Commodity contracts:												
Outflow	1,437	1,437	805	632	–	–	2,960	2,960	2,960	–	–	–
Inflow	–	–	–	–	–	–	–	–	–	–	–	–
	166,783	168,548	93,709	7,055	67,784	–	127,875	129,467	104,257	12,952	11,975	283

* Excludes derivatives (shown separately).

Company

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

	Carrying amount £000	Contractual cash flow £000	2010 1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	2009 1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Secured bank loans	–	–	–	–	–	–	16,145	16,145	5,864	5,872	4,409	–
Trade and other payables	155,572	155,572	155,572	–	–	–	22,026	22,026	22,026	–	–	–
Bank overdraft	–	–	–	–	–	–	896	896	896	–	–	–
Revolving credit facility	53,138	53,138	–	–	53,138	–	–	–	–	–	–	–
	208,710	208,710	155,572	–	53,138	–	39,067	39,067	28,786	5,872	4,409	–

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:

	Carrying amount £000	2010 Expected cash flows				Carrying amount £000	2009 Expected cash flows			
		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:										
Assets	3	–	3	–	–	–	–	–	–	–
Liabilities	(146)	(36)	(110)	–	–	(301)	(188)	(113)	–	–
Forward exchange contracts:										
Assets	40	40	–	–	–	240	240	–	–	–
Liabilities	(128)	(100)	(28)	–	–	(43)	(43)	–	–	–
Commodity contracts:										
Assets	477	477	–	–	–	514	514	–	–	–
Liabilities	(1,437)	(805)	(632)	–	–	(2,960)	(2,960)	–	–	–
	(1,191)	(424)	(767)	–	–	(2,550)	(2,437)	(113)	–	–

(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.

Notes (continued)

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 2010

	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	6,373	10,610	–	16,983
Trade receivables	35,435	12,372	1,684	49,491
Secured bank loans	–	–	–	–
Trade payables	(24,411)	(2,820)	(9,295)	(36,526)
Other trade payables	(9,365)	–	–	(9,365)
Overdraft	–	(8,890)	(15,299)	(24,189)
Promissory notes	–	–	–	–
Invoice discounting facility	(9,828)	–	–	(9,828)
Revolving credit facility	(53,138)	–	–	(53,138)
Balance sheet exposure	(54,934)	11,272	(22,910)	(66,572)
Estimated forecast sales	–	–	–	–
Estimated forecast purchases	–	–	–	–
Gross exposure		11,272	(22,910)	(11,638)
Forward exchange contracts		(200)	1,168	968
Net exposure		11,072	(21,742)	(10,670)

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)

Company

The Company has no exposure to foreign currency risk.

26 Financial instruments (continued)

(d) Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis

Group

A 10% weakening of the following currencies against the pound sterling at 31 May 2010 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 2009.

	Equity		Profit or loss	
	2010 £000	2009 £000	2010 £000	2009 £000
€	(1,007)	(236)	(1,007)	(236)
\$	1,977	1,471	1,977	1,471

A 10% strengthening of the above currencies against the pound sterling at 31 May 2010 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		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Fixed rate instruments				
Financial assets	–	–	–	–
Financial liabilities	(42,217)	(26,198)	–	–
	(42,217)	(26,198)	–	–
Variable rate instruments				
Financial assets	16,983	1,062	1,923	–
Financial liabilities	(62,966)	(44,040)	(53,138)	(17,041)
	(45,983)	(42,978)	(51,215)	(17,041)

Notes (continued)

26 Financial instruments (continued)

(d) Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

An increase of 1 basis point 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 2009.

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Profit or loss				
Decrease	(317)	(217)	(202)	(80)

(e) Capital management

The Group's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns. To achieve this objective, the Group aims to maintain a prudent mix of debt and equity financing and considers the current capital structure to be appropriate.

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		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Less than one year	5,361	3,989	–	–
Between one and five years	9,472	6,129	–	–
More than five years	190	9	–	–
	15,023	10,127	–	–

Group

During the year £5,782,000 was recognised as an expense in the income statement in respect of operating leases (2009: £4,807,000).

Company

During the year £nil was recognised as an expense in the income statement in respect of operating leases (2009: £nil).

28 Capital commitments

Group

During the year ended 31 May 2010, the Group entered into contracts to purchase property, plant and equipment for £2,362,000 (2009: £20,229,000). In respect of its interest in jointly controlled entities, the Group is committed to incur capital expenditure of £nil (2009: £nil). The jointly controlled entities are themselves committed to incur capital expenditure of £nil (2009: £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 £15,990,000 (2009: £18,224,000).

30 Related parties

Identity of related parties with which the Group has transacted

The Group and Company have a related party relationship with their subsidiaries and jointly controlled entities (note 13) and its Directors.

Group

Other related party transactions

	Sales to		Purchases from	
	2010 £000	2009 £000	2010 £000	2009 £000
Jointly controlled entities				
Eastgate Materials Handling Limited	2,797	3,382	3,831	3,505
Hargreaves Coal Combustion Products Limited	316	1,802	–	–
Coal4Energy Limited	–	15,726	–	588
Hargreaves Building Products Limited	–	4	–	–
Lytag Limited	–	9	–	–
Maxibrite Limited	–	1,058	–	1,564
	3,113	21,981	3,831	5,657

	Receivables outstanding		Payables outstanding	
	2010 £000	2009 £000	2010 £000	2009 £000
Jointly controlled entities				
Forward Sound Limited	–	500	–	–
Eastgate Materials Handling Limited	919	856	324	675
Hargreaves Coal Combustion Products Limited	–	197	–	–
Hargreaves Building Products Limited	–	4	–	–
Tower Regeneration Limited	2,873	–	–	–
	3,792	1,557	324	675

Transactions with key management personnel

The directors are the key management personnel of the Group. Details of directors' remuneration, share options, pension benefits and other non-cash benefits can be found in note 7.

Company

Other related party transactions

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

	Receivables outstanding		Payables outstanding	
	2010 £000	2009 £000	2010 £000	2009 £000
Subsidiaries	217,971	52,568	154,935	21,947
Jointly controlled entities	–	500	–	–
	217,971	53,068	154,935	21,947

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 Prior's Hall, Durham Cathedral, The College, Durham, DH1 3EH on Monday 8 November 2010 at 10.30 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 adopt and 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 2010.
- 2 To approve the Directors' Corporate Governance and Remuneration Report for the year ended 31 May 2010.
- 3 To declare a final dividend for the year ended 31 May 2010 of 9.1 pence per ordinary share to bring the dividend for the year ended 31 May 2010 to a total of 13.5 pence.
- 4 To re-appoint Iain Cockburn as a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
- 5 To re-appoint Gordon Banham as a director of the Company in accordance with article 34 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 £892,887 (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 £1,785,774 (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 (3) 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 £267,866 (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 directors of 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 resolution as a special resolution.

10 The Company be and is generally and unconditionally authorised for the purpose of section 701 of the Companies Act 2006 (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 2,678,662 (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.

12 October 2010

By order of the Board

Steve 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 6 November 2010 (or, in the event of any adjournment, at 6.00 pm two days prior to the day 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 10.30 am on 6 November 2010.
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 10.30 am on 6 November 2010. 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 10.30 am on 6 November 2010. 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 11 October 2010 (being the latest practicable date prior to the publication of this notice) the Company's issued share capital consists of 26,786,621 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 11 October 2010 are 26,786,621.
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; and
 - copies of the letters of appointment of non-executive directors of the Company.

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 and 10 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 Directors' Corporate Governance and Remuneration Report, the Auditors' Report and the audited Financial Statements for the financial year ended 31 May 2010 to the meeting as required by law. These reports and statements are set out in pages 27 to 83 of this document.

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 2010 which is set out in full on pages 27 to 30 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 2010 of 9.1 pence per share will be paid on 17 November 2010 to shareholders on the register of members on 15 October 2010.

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. Iain Cockburn and Gordon Banham are both offering themselves for re-appointment.

Brief biographical details of Iain Cockburn and Gordon Banham are set out on page 22 of this document.

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 £892,887 being approximately one third of the Company's ordinary share capital in issue at 11 October 2010.

In line with guidance issued by the Association of British Insurers in December 2008 and updated in November 2009, 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 £1,785,775 (representing 17,857,747 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 11 October 2010.

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 £267,866 being 10 per cent of the Company's ordinary share capital in issue at 11 October 2010. 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 2011 Company financial year end, whichever is the sooner, up to a total of 2,678,662 ordinary shares. This represents 10% of the issued ordinary share capital as at 11 October 2010, the latest practicable date prior to the publication 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.

Investor Information

Company Secretary

Steve MacQuarrie

Independent Auditors

KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Bankers

Royal Bank of Scotland
2nd Floor
Keel Row House
1 Sandgate
Newcastle upon Tyne
NE1 2NG

Legal Advisers

Walker Morris
Kings Court
12 King Street
Leeds
LS1 2HL

Nominated Adviser and Joint Stock Broker

Brewin Dolphin Limited
34 Lisbon Street
Leeds
LS1 4LX

Joint Stock Broker

RBS Hoare Govett Limited
250 Bishopsgate
London
EC2M 4AA

Registered Office

West Terrace
Esh Winning
Durham
DH7 9PT

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU



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Hargreaves Services plc

Hargreaves Services plc

West Terrace

Esh Winning

Durham DH7 9PT

Tel: 0191 373 4485

Fax: 0191 373 3777

www.hargreavesservices.co.uk

