



*Hargreaves Services plc*

## PRELIMINARY RESULTS YEAR ENDED 31 MAY 2010



**Source > Process > Distribute**

Creating an integrated  
value chain

# HIGHLIGHTS

Gordon Banham  
Chief Executive Officer



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## RESULTS HIGHLIGHTS

- Revenue dropped to £459.8m from £503.1m
- Operating profit increased £5.2m to £38.7m
- Profit before tax increased £5.7m to £34.3m
- Diluted EPS up 16.5% from 76.3p to 88.8p
- Proposed full year dividend up 14.4% to 13.5p
- Net debt was £88.2m, gearing unchanged at c98%

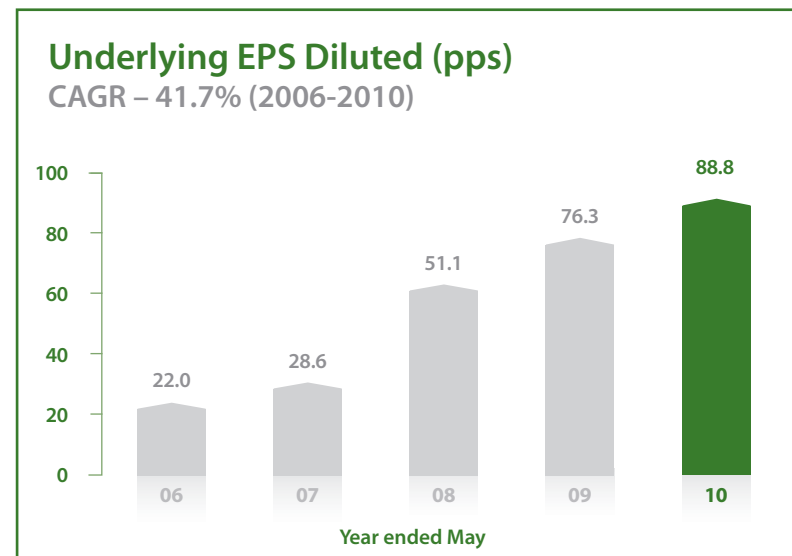
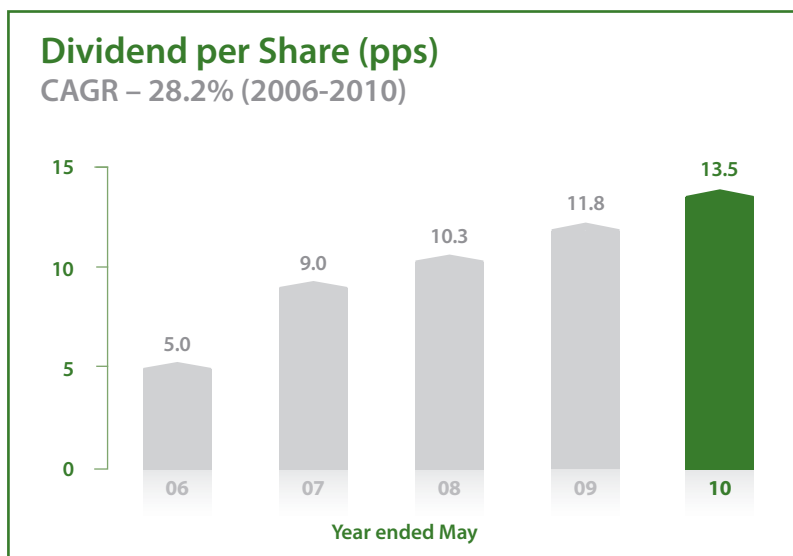
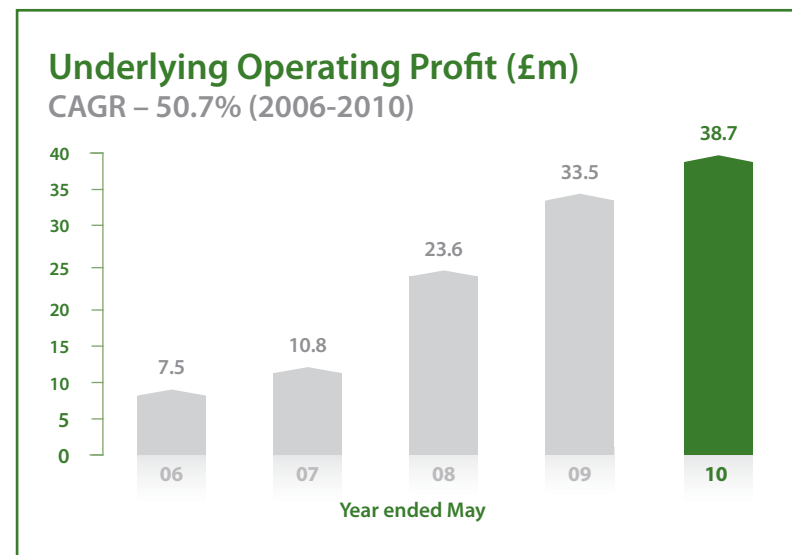
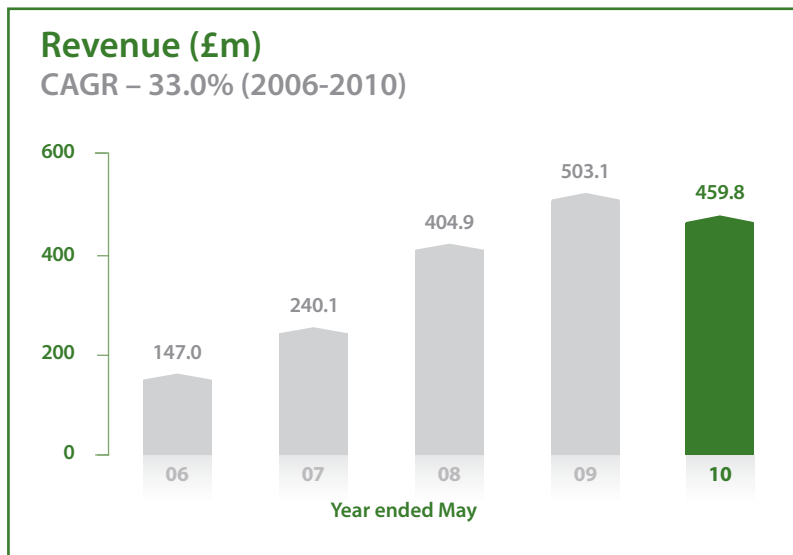
Note: Operating profit, profit before tax and EPS are all stated before amortisation of intangibles and including share of profits and losses in jointly controlled entities.

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## KEY OPERATIONAL HIGHLIGHTS

- Energy and Commodities
  - Power station volumes down due to reduced coal burn
  - Substantial margin and volume growth in speciality products
  - 25% increase in European volume
- Production
  - Maltby, a difficult year (primarily equipment related)
  - Monckton, new long-term sales contracts
  - Tower, planning submitted
  - RocPower, successfully generating from its first site
- Transport
  - Improved profitability
  - Tankers and Waste performing well
- Industrial
  - Key contract renewals with both SSE and EON
  - New contracts with EDF and EON for gas and coal stations

# 5 YEAR TRACK RECORD



# FINANCIAL AND SEGMENTAL PERFORMANCE

Iain Cockburn  
Finance Director



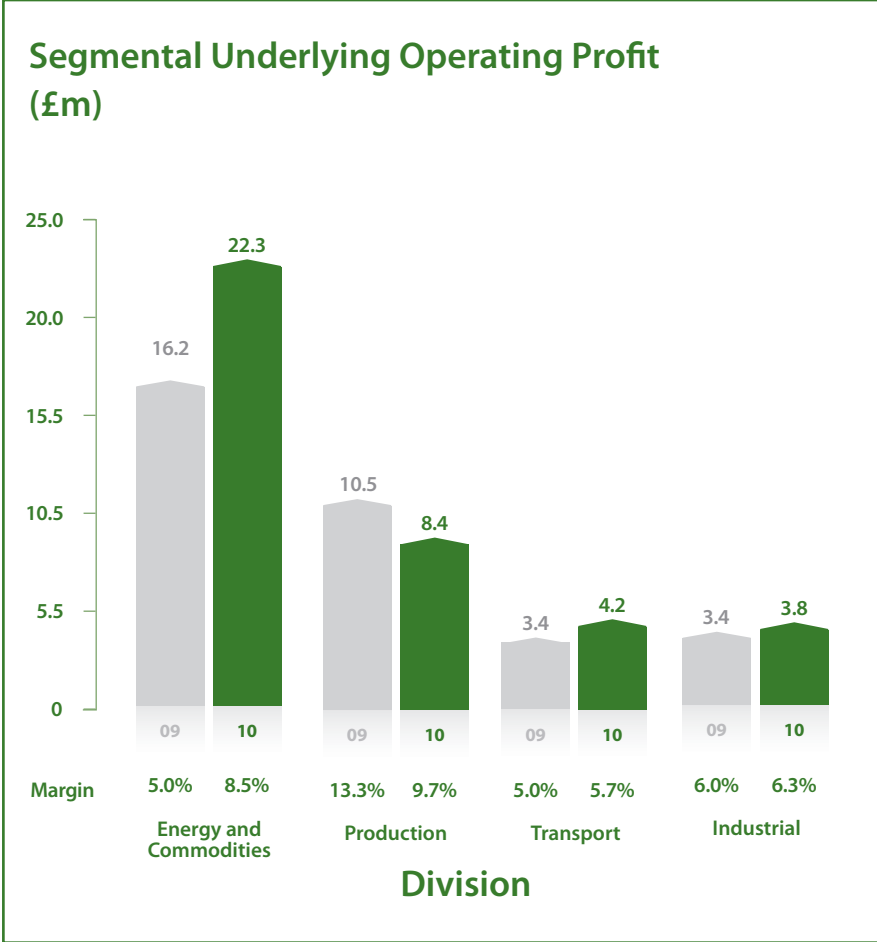
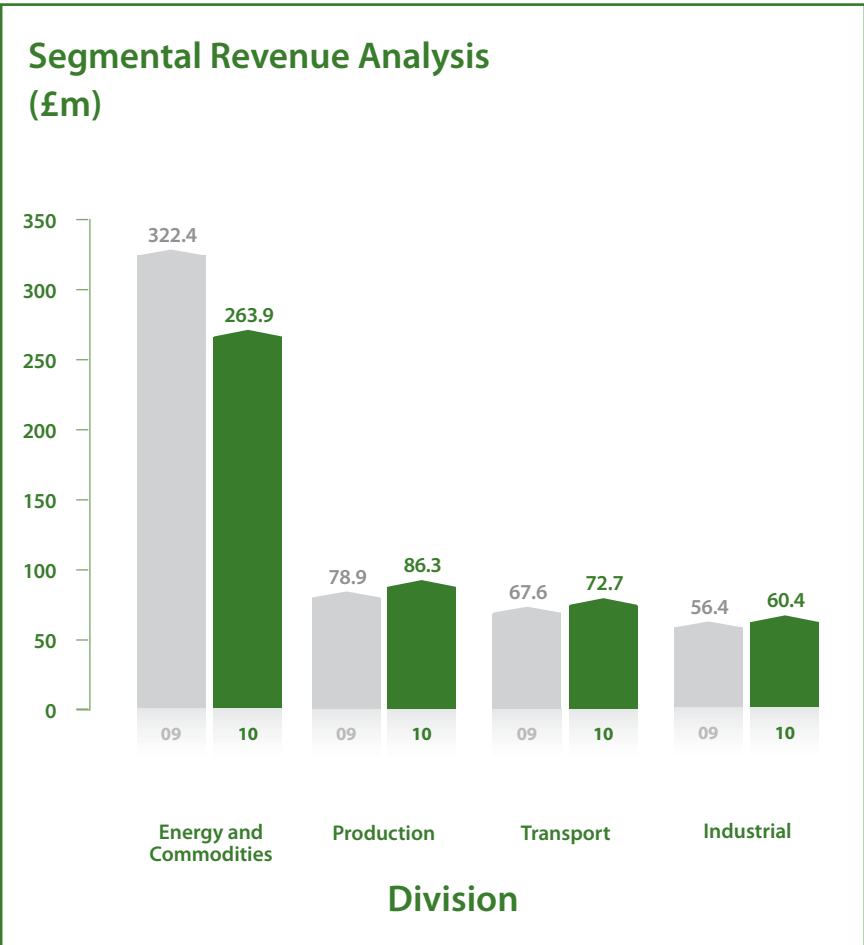
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## INCOME STATEMENT HIGHLIGHTS

	2010 £'m	2009 £'m	% Movement
Revenue	<b>459.8</b>	503.1	-8.6%
Underlying Operating Profit	<b>38.7</b>	33.5	15.5%
EBITDA	<b>52.6</b>	47.2	11.6%
Net Interest Expense	<b>4.4</b>	4.9	-10.9%
Underlying Profit Before Tax	<b>34.3</b>	28.6	20.1%
Underlying EPS	<b>88.8p</b>	76.3p	16.5%
Dividend Per Share (proposed)	<b>13.5p</b>	11.8p	14.4%

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# SEGMENTAL PERFORMANCE



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## CASH FLOW HIGHLIGHTS

	2010 £'m	2009 £'m
EBITDA	<b>52.6</b>	47.2
Trading Working Capital	<b>(22.1)</b>	(25.8)
Operating Cash Flow	<b>30.5</b>	21.4
Interest	<b>(4.0)</b>	(4.0)
Taxation	<b>(11.5)</b>	(8.3)
Loans advanced to Tower JV	<b>(2.4)</b>	–
Acquisitions	<b>(1.3)</b>	(10.1)
Debt Acquired	–	(0.2)
Capital Expenditure	<b>(26.6)</b>	(18.1)
Dividends Paid	<b>(3.3)</b>	(2.8)
Other	<b>(0.4)</b>	(0.9)
<b>Movement in Net Debt in period</b>	<b>(19.0)</b>	(23.0)

## BALANCE SHEET HIGHLIGHTS

	2010 £'m	2009 £'m
Goodwill and Intangibles	34.6	36.7
Tangible Fixed Assets	85.6	71.2
Working Capital (see Appendix 1)	84.4	61.4
Derivative Financial Instruments	(1.2)	(2.6)
Retirement Benefit Obligations	(6.2)	(4.4)
Provisions	(9.0)	(9.6)
Other Net Liabilities	(10.3)	(11.9)
Net Assets Before Borrowings	178.0	140.8
Net Debt (see Appendix 2)	(88.2)	(69.2)
Net Assets	89.8	71.7
Gearing (Debt/Equity)	98%	97%
Debt/EBITDA	1.7	1.5
Interest cover (times)	12.1	9.6

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## FINANCIAL SUMMARY

- Another successful period in terms of profit and earnings
- Creditable Group performance particularly in light of production challenges at Maltby
- Good visibility of income looking forward
- Comfortable with debt levels, gearing and headroom
- Strategic equipment investment phase at Maltby completed last year
- Opportunities to drive working capital improvement this year
- Focus on organic growth and cash generation for 2011

# REVIEW AND OUTLOOK

Gordon Banham  
Chief Executive Officer



## ENERGY AND COMMODITIES DIVISION

- Increase in profits driven by focus on speciality products
- UK power station volumes soft
  - Volumes dropped to 1,067k tonnes (1,674k tonnes)
  - Margins stable at £2.69 per tonne (£2.96)
- Speciality product sales and margins strong
  - Volumes increase to 1,191k tonnes (771k tonnes)
  - Margins increased 16.7% to £15.59 per tonne
- Biomass sector activity remains subdued
- Encouraging progress developing pond fine opportunities
- Maxibrite
  - Record production load on plant
  - New European customers contracted

	2010 £'m	2009 £'m
Total Revenue	263.9	322.4
Intersegment revenue	(7.3)	(1.2)
Reported Revenue	256.7	321.2
Operating Profit	22.3	16.2
Operating Margin	8.5%	5.0%

## ENERGY AND COMMODITIES DIVISION – CONTINUED

- European business performed well
  - Rapid recovery in markets, strong H2
  - 25.4% growth in volumes traded to 623k tonnes
  - Operating profit increased by 17% to £4.8m
  - European coal volumes starting to build
  - First shipments into Poland during the year
  - Current market share estimated at less than 5%

	2010 £'m	2009 £'m
Total Revenue	263.9	322.4
Intersegment revenue	(7.3)	(1.2)
Reported Revenue	256.7	321.2
Operating Profit	22.3	16.2
Operating Margin	8.5%	5.0%

## PRODUCTION DIVISION

- Maltby
  - Saleable production dropped to 1,057k tonnes (1,089k)
  - T11 face problematic equipment
  - Face change T24 in August 2010
- Monckton
  - Xstrata three-year sales contract started June 2010
  - Production consistent 212k tonnes
  - Average price £171 per tonne
- MRT
  - Loss reduced to £0.3m
  - Profitable ongoing (very acceptable ROCE)

	2010 £'m	2009 £'m
Total Revenue	86.3	78.9
Intersegment revenue	(5.8)	(10.3)
Reported Revenue	80.5	68.6
Operating Profit	8.4	10.5
Operating Margin	9.7%	13.3%

## PRODUCTION DIVISION – CONTINUED

- RocPower
  - Site 1 virtually complete, working on efficiencies
  - Planning in progress for sites 2 and 3
  - Lobbying for clarity from the Government on ROC grandfathering
- Tower
  - Project progressing well
  - Awaiting planning decision by end of 2010

	2010 £'m	2009 £'m
Total Revenue	86.3	78.9
Intersegment revenue	(5.8)	(10.3)
Reported Revenue	80.5	68.6
Operating Profit	8.4	10.5
Operating Margin	9.7%	13.3%

## TRANSPORT DIVISION

- Assets and customer relationships acquired from Stiller Tankers
- Tankers move to new purpose built depot completed
- Established two new bases in North West (Clitheroe and Widnes)
- New 3-year contract with EON for coal into Ratcliffe
- Renewal of SITA contract in North East for 5 years
- New contract with UK Coal for new Parkwall opencast won, commencing this year
- New 5-year exclusive haulage contract with Evonik's Ash Division in the UK (£10m value)

	2010 £'m	2009 £'m
Total Revenue	72.7	67.6
Intersegment revenue	(10.1)	(9.0)
Reported Revenue	62.6	58.6
Operating Profit	4.2	3.4
Operating Margin	5.7%	5.0%

## INDUSTRIAL DIVISION

- Steady progress
- New contract wins
  - EDF ducting (£4m over 2 years)
  - EON hard services (£15m over 5 years)
- Key renewals
  - International Power Rugeley (£15m over 5 years)
  - SSE Ferrybridge
- Sales pipeline very strong

	2010 £'m	2009 £'m
Total Revenue	60.4	56.4
Intersegment revenue	(0.4)	(1.8)
Reported Revenue	60.0	54.6
Operating Profit	3.8	3.4
Operating Margin	6.3%	6.0%

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## KEY GROWTH OPPORTUNITIES

- Organic
  - Energy and Commodities – biomass, RDF and waste wood
  - Transport – tankers and waste
  - Industrial – chemical, steel and non-coal generation
- The Big Three
  - Tower
    - Planning decision targeted for 2010
    - Project commencement targeted early 2011
  - Europe
    - Development into Western and Eastern Europe
    - JV for coking and thermal coke with major international producer
  - RocPower
    - Achieving planning on the next two sites
    - Lobbying for clarity on subsidies

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## SUMMARY AND OUTLOOK

### SUMMARY

- Another successful year
- Continued record of delivering strong profit growth since IPO
- Investment cycle now complete at Maltby
- Well established as leading supplier in our divisions/sectors
- Strategy has delivered growth through commodity and recessionary cycles

### OUTLOOK

- Strong proven management team combined with strong balance sheet and funding position
- Very focused on organic growth opportunities but open to review strategic acquisition opportunities
- Solid growth platform enhanced by three exciting projects for 2010/2011 – Europe, Tower and RocPower

# HARGREAVES SERVICES PLC PRELIMINARY RESULTS YEAR ENDED 31 MAY 2010

## APPENDICES



## APPENDIX 1

### TRADING WORKING CAPITAL

	May 2010			May 2009			Movement		
	UK £'m	Europe £'m	Total £'m	UK £'m	Europe £'m	Total £'m	UK £'m	Europe £'m	Total £'m
Stock	55.3	26.7	<b>82.0</b>	48.9	11.8	<b>60.7</b>	(6.4)	(14.9)	<b>(21.3)</b>
Trade Debtors	36.2	13.2	<b>49.5</b>	35.6	7.7	<b>43.3</b>	(0.6)	(5.6)	<b>(6.2)</b>
Trade Creditors*	(31.6)	(7.4)	<b>(39.0)</b>	(30.4)	(1.6)	<b>(32.0)</b>	1.2	5.8	<b>7.0</b>
Trading Working Capital	59.9	32.5	<b>92.4</b>	54.1	17.8	<b>72.0</b>	(5.8)	(14.6)	<b>(20.4)</b>
Other Drs/Crs	(5.7)	(2.3)	<b>(8.0)</b>	(13.0)	2.4	<b>(10.6)</b>	(7.3)	4.6	<b>(2.6)</b>
Total Working Capital	54.2	30.2	<b>84.4</b>	41.2	20.2	<b>61.4</b>	(13.2)	(10.0)	<b>(23.1)</b>

\*adjusted to include trade invoice accruals

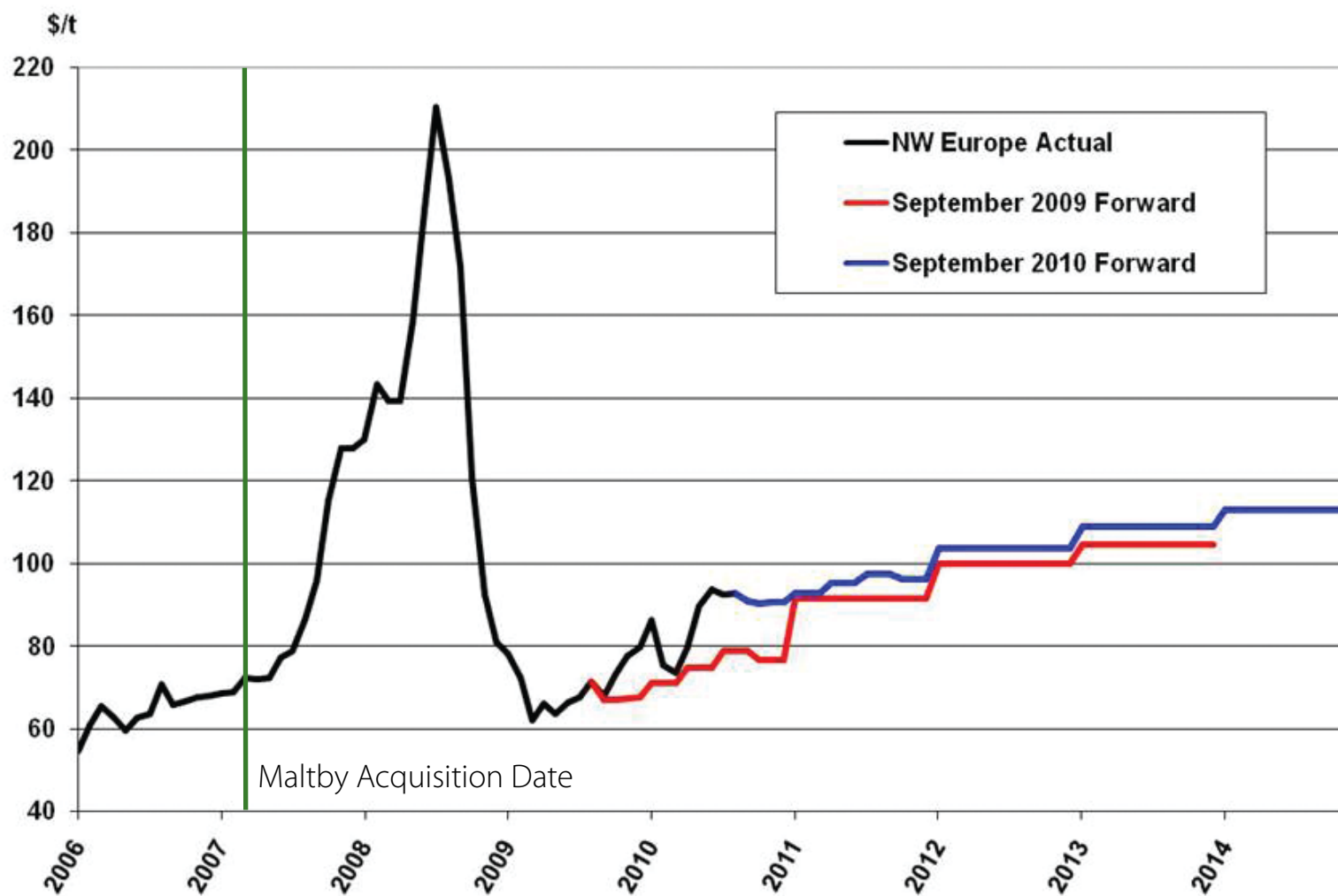
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## APPENDIX 2

### NET DEBT AND FACILITIES

	UK £'m	Europe £'m	Total £'m	Facility £'m	Headroom £'m
RCF	(53.1)	–	<b>(53.1)</b>	80.0	26.9
Invoice Finance	(9.8)	–	<b>(9.8)</b>	35.0	25.2
Asset Finance	(18.0)	–	<b>(18.0)</b>	25.0	7.0
Cash/(Overdraft)	6.0	(13.2)	<b>(7.2)</b>	38.0	30.8
Intergroup loans	8.1	(8.1)	–	–	–
Total Net Debt	(66.9)	(21.3)	<b>(88.2)</b>	178.0	89.8

## APPENDIX 3 - COAL PRICE



Source: IHS McCloskey

Please note: Prices shown in US Dollars