

## Directors' Report

The directors submit their report and the financial statements of Tanfield Group PLC for the year ended 31 December 2007.

### Principal Activities

The Company's principal activity is that of a holding company. Tanfield Group PLC is the parent company of a group engaged mainly in the powered access, zero emission vehicle industries and engineering.

### Results and Dividends

The financial result, for the twelve months to December 2007 reflects the further development of Tanfield Group plc into a high growth, profitable and robust business.

Turnover for the twelve month period grew to £123m which compares to £41m for the full year to December 2006. This results from a combination of organic growth in the group's ongoing operations together with the growth resulting from our acquisition of Upright Powered access.

Profit (continuing business) before restructuring costs and tax for the period of £12.8m shows significant growth from the £5.7m profit in the year to December 2006. The 2006 figure includes an amount of £2m representing negative goodwill and the 2007 figure includes a similar amount in relation to the recovery of a Snorkel customer debt.

After restructuring, profit (continuing business) before tax for the period of £12.4m shows an increase of 235% against 2006.

The balance sheet is very robust, with net assets at the end of December of £165m (£43m: December 2006). Net Current Assets were £110m (2006: £31m) with cash balances in excess of £27m and no borrowing. This demonstrates that the company has significant levels of working capital allowing it to fund strong growth in 2008.

During the year the Company raised new equity of £109m (net of expenses) in July to fund the Snorkel acquisition and to provide working capital to accelerate the growth of the Zero Emission Division.

No dividend has been paid or proposed for the year (2006: £nil). The retained profit of £10.3m (2006: £2.5m) has been added to reserves.

### Review of the Business

The two major developments during the year were the launch of Smith's new generation of electric vehicles and Tanfield's acquisition of Snorkel in July 2007.

A detailed review of the business is included in the Business and Financial Review on pages 16 to 23.

### Future Developments

The growth of the Powered Access Division with the addition of Snorkel together with the strength of the orderbook for the new generation electric vehicles indicate that Tanfield Group PLC will continue to grow strongly in 2008. This growth, together with the resultant efficiencies from increased overhead utilisation achieved by operating out of a single manufacturing plant in the UK, will ensure continued increases in profitability.

Management policies will continue to be reviewed in the light of changing trading conditions.

### Political and Charitable Contributions

During the year, the Group has made no political or charitable donations (2006: £nil).

### Financial Instruments

The Group's financial instruments comprise cash, finance leases, unsecured loan notes and short term debtors and creditors arising from its operations. The principal financial instruments used by the Group are loans and mortgages which, together with cash raised from share issues by the company are applied in financing the group's fixed assets. The Group has not established a formal policy on the use of financial instruments but assesses the risks faced by the Group as economic conditions and the Group's operations develop.

### Market Value of Land and Buildings

The directors are of the opinion that the market value of properties at 31 December 2007 would exceed the net book values included in the financial statements, but they are unable to quantify this excess in the absence of a professional valuation, the costs of which are not considered justifiable in view of the group's intention to retain ownership of its existing properties for use in its business for the foreseeable future.

### Research and Development

The Group maintains a development programme as continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth.

### Events Since the End of the Year

There have been no significant events since the end of the year.

### Disabled Persons

The group will employ disabled persons when they appear to be suitable for a particular vacancy and every effort is made to ensure that they are given full and fair consideration when such vacancies arise. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development to disabled employees wherever appropriate.

### Employee Involvement

The Group encourages the involvement of its employees through regular dissemination of information of particular concerns to employees.

To facilitate this, the company undertakes a Communications Forum where all employees are represented by a colleague within their department at regular meetings with senior managers.

### Directors

The present membership of the board is set out on page 24. Changes since 1 January 2007 are as follows:

Colin Billiet was appointed Non-Executive director on 23 May 2007.

	Ordinary shares of £ 0.01 each	
	31 December 2007	31 December 2006
Directors shareholding		
Beneficial		
RRE Stanley	19,649,292	24,649,292
DS Kell	—	—
CD Brooks	—	—
BJ Campbell	6,119	6,119
M Groak	—	—
JN Bridge	27,541	27,541
C Billiet	—	—

All directors have the right to acquire shares in the company via the exercise of options granted under the terms of their service contracts, copies of which may be inspected by shareholders upon written application to the company secretary. Details of the directors' options to acquire shares are set out in the Directors' Remuneration Report on pages 31 to 33.

### Policy on Payment of Creditors

It is group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice. The company supports and the UK based businesses follow the CBI Prompt Payers Code. A copy of the code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Trade creditor days based on creditors at 31 December 2007 were 64 days. (2006: 58 days).

## Directors' Report continued

### Substantial Shareholdings

On 31 December 2007 the following held substantial shares in the company. No other person has reported an interest of more than 3% in the ordinary shares.

Bank of New York (Nominees)	18,251,543
Euroclear Nominees	20,945,692
Nortrust Nominees	32,348,422
Morstan Nominees	34,932,485
State Street Nominees	12,085,469
Productive Nominees	11,561,902

As disclosed in the Directors report RRE Stanley holds shares of 5.3% which are held through nominee companies.

### Directors' Interest in Contracts

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the company or any of its subsidiary undertakings.

### Auditors

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

### Statement as to Disclosure of Information to Auditors

The directors in office on 21 April 2008 have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

### Directors Indemnity

Every Director shall be indemnified by the company out of its own funds.

Approved by the Board of Directors  
and signed on behalf of the Board

### Darren Kell

Chief Executive

21 April 2008