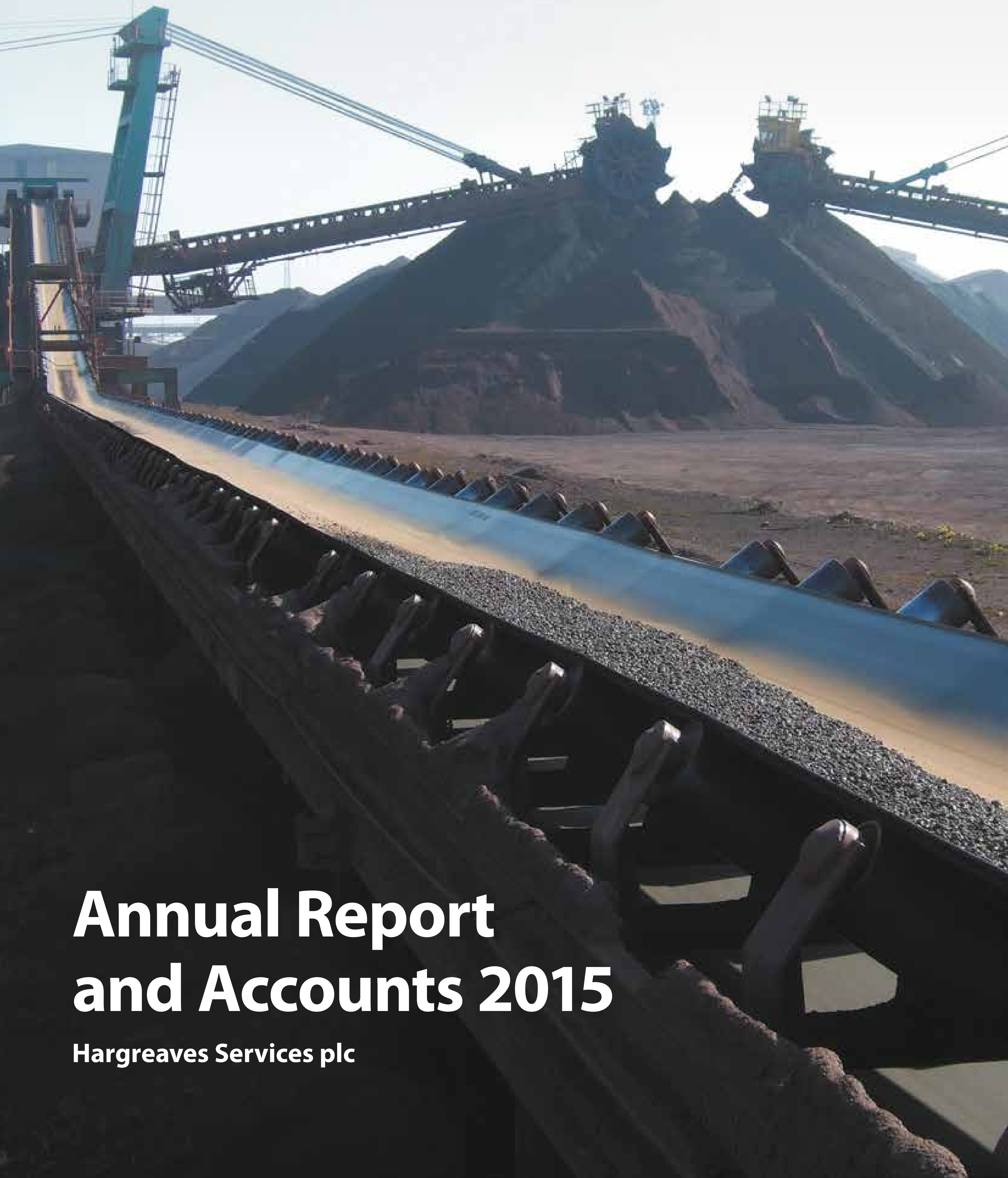
Hargreaves



Annual Report and Accounts 2015

Hargreaves Services plc

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Strategic Report

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Hargreaves Services sources, produces, processes, handles & transports carbon-based and other bulk materials across the UK and Europe.

Market Leadership

We are a market leader or major player across all the sectors we operate in. Operating in three distinct but synergistic divisions we offer our customers an unrivalled level of expertise.

Integration

Across our divisions, we are a fully integrated business. We source, produce, process, handle and transport a wide range of bulk materials demonstrating the value added nature of our service offerings.

Quality

We are committed to delivering a quality service. We have built an international reputation for quality, service and health and safety.

Unrivalled Scale

We are the largest surface mining operator in the UK and the largest independent importer of coal.

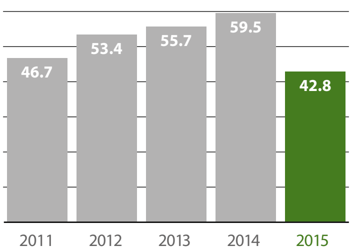
Highlights of the Year

- The Group has delivered a strong performance in very challenging markets:
  - Continuing Underlying Operating Profit of £42.8m
  - Excellent cash generation and our Simplification Programme have resulted in Net Debt of only £1.0m at the end of the year
- Underlying trading for the year was broadly in line with management's expectations
- Group Simplification Programme is now substantially complete, leading to the disposal of Imperial Tankers and the closure of our Monckton coke operation
- Markets remain challenging with a further fall in the coal price since the interim results and a number of potential coal fired power station closures announced
- Final dividend significantly increased to 20 pence per share from 16.7 pence per share reflecting the previously announced decision to move to a higher payout ratio and the strong cash generation despite the difficult trading conditions
- Strengthened balance sheet and strategic options under active review

	Year ended 31 May 2015	Year ended 31 May 2014	Change %
Continuing Revenue	**£662.2m**	£869.2m	(23.8)%
Continuing Operating Profit(1)	**£38.1m**	£50.9m	(25.1)%
Continuing Underlying Operating Profit(2)	**£42.8m**	£59.5m	(28.1)%
Continuing Profit Before Tax	**£24.9m**	£52.1m	(52.2)%
Continuing Underlying Profit Before Tax(3)	**£40.3m**	£55.1m	(26.9)%
Continuing Diluted EPS	**64.2p**	122.2p	(47.5)%
Continuing Underlying Diluted EPS(3)	**93.9p**	124.8p	(24.8)%
Dividend (including proposed final dividend)	**30.0p**	25.5p	17.6%
Net Debt(4)	**£1.0m**	£68.8m	(98.5)%

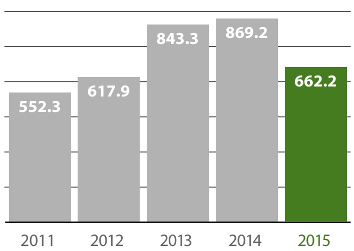
(1) Continuing Operating Profit is stated before simplification costs of £9,130,000.
(2) Continuing Underlying Operating Profit is stated excluding the simplification costs, the impact of the Biomass conversion project settlement, the amortisation of acquired intangibles and impairment of goodwill, impairment of non-current assets, and including share of profit in associates and joint ventures before tax.
(3) Continuing Underlying Profit before Tax and Continuing Underlying Diluted EPS are stated excluding the simplification costs, the impact of the Biomass conversion project settlement, the amortisation and impairment of acquired intangibles, impairment of non-current assets and gain on disposal of subsidiaries.
(4) Net debt comprises cash and cash equivalents, bank overdrafts and other interest bearing loans and borrowings.

Operating Profit (£m)



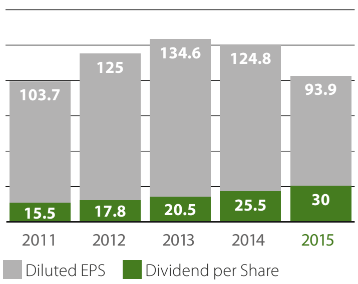
£42.8m
(28.1)%

Continuing Revenue (£m)



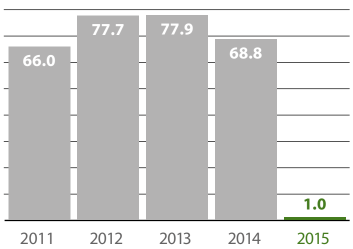
£662.2m
(23.8)%

Continuing Underlying Diluted EPS and Dividend per Share (pence)



93.9p
(24.8)%
30.0p
+17.6%

Net Debt (£m)



£1.0m
(98.5)%

At a Glance

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 three complementary divisions:

Coal Production and Distribution

Produces coal and coke for customers throughout the UK and Europe.

Transport

One of the largest suppliers of bulk logistics to UK customers.

Industrial Services

Provides quality assured contract management services to the power generation, utilities, chemicals, minerals and steel industries.

CPD Division revenues reduced by £275.1m from £761.0m to £485.9m during the year. While our Mining Operations delivered increased volumes and margins, reflecting the first full year of operation, at full run rate, in Scotland, our Third Party Trading business, as expected, experienced significantly reduced thermal volumes and margins in the face of challenging coal market conditions.

Continuing Gross Revenue

£485.9m

(36.1)%

Continuing Underlying Operating Profit

£34.8m

(29.4)%

Find out more about this division and its performance in 2015 from page 12.

Imperial Tankers Limited was sold during the period, as announced on 1 September 2014. Excluding the £7.3m of revenue and £0.2m of operating profit from Imperial Tankers that was included in the past financial year, Bulk Transport revenues are slightly ahead of the prior year at £61.0m whilst underlying operating profit is in line with the prior year at £2.1m reflecting a competitive market.

Continuing Gross Revenue

£68.3m

(23.3)%

Continuing Underlying Operating Profit

£2.3m

(48.9)%

Find out more about this division and its performance in 2015 from page 14.

It is pleasing to report that over the past financial year the Industrial Services Division continued to demonstrate steady progress on contract awards in the UK and internationally. Excluding the financial impact of the biomass conversion project settlement, Industrial Services Division revenues reduced by £12.0m from £122.6m to £110.6m reflecting some one-off project activities in the prior year. Underlying operating profit remained in line with the prior year at £5.7m.

Continuing Gross Revenue

£127.8m

+4.2%

Continuing Underlying Operating Profit

£5.7m

0.0%

Find out more about this division and its performance in 2015 from page 14.

Chairman's Statement
Tim Ross, Group Chairman

The past twelve months has seen a perfect storm of low coal prices and a collapse in UK import volumes

Results
Underlying Profit before Tax from Continuing Operations decreased by £14.8m from £55.1m to £40.3m. Reported Profit before Tax from Continuing Operations was £24.9m after a net exceptional charge of £12.2m arising from the significant Simplification Programme and re-structuring exercise undertaken by the Group in the past financial year. Underlying Diluted EPS from Continuing Operations decreased by 24.8% from 124.8p to 93.9p.

Cash generation in the second half slightly exceeded our own expectations and we finished the year with net debt of £1.0m. This figure benefitted from favourable year end working capital movements and we expect debt to build during the year in line with a planned coal stock build. We expect that, under normal conditions, stocks will be cleared by the end of the financial year and we are therefore confident that this current year will see further cash generation.

Strategy
As explained in recent announcements and in the statement below, the past twelve months has seen a perfect storm of low coal prices and a collapse in UK coal import volumes which has adversely affected the whole sector. Whilst we still believe the UK coal markets will offer opportunity for the Group over the coming years, especially if coal prices improve, the events and developments over the past few months demonstrate that the political will to accelerate the removal of coal from the UK energy mix through energy policy and taxation is even stronger now than it was twelve months ago.

This increases the urgency and importance of repositioning the Group towards activities that offer a long-term future. The decisive actions undertaken as part of the Group's Simplification Programme and restructuring exercise have helped to strengthen the balance sheet which will be of key importance as the Board continues to review strategic options.

In this regard, we are working hard to identify opportunities to leverage our skill sets and our significant asset base, especially our equipment and property assets. As we review other strategic opportunities we will be looking in particular to extend our activities in the renewable energy, biomass and material handling sectors. The risks and returns available from deploying capital for any investment will be carefully appraised alongside the need for free cash flow to support dividends or further share buy-backs.

Dividend
In view of the underlying profit performance and strong cash generation in the past financial year, the Board has confidence in recommending an increase of 19.8% in the final dividend from 16.7p to 20.0p. This will bring the dividend for the full year to 30.0p compared with 25.5p in the previous year, an overall increase of 17.6% for the year and increases the dividend payout ratio to 31.9%. The Board will continue to actively review the Group's dividend policy, although at this time the Board's view would be to progress the Group to a payout ratio of 40%. The proposed final dividend will be paid on 23 October 2015 to all shareholders on the register at the close of business on 25 September 2015.

People
Our staff have always played a key role in the development and operation of the Group. The Board recognises this contribution and acknowledges that last year was a painful one with a succession of business divestures and restructuring, culminating in a deep round of redundancies across the Group. It is essential to keep the Group competitive and ensure that it adapts to deal with changing circumstances. These changes, together with the broader restructuring initiatives will ensure the Group is better placed to deal with any further challenges and to respond to any improvement in market conditions.

Board
We have previously announced my intention to stand down from the Board following this year's Annual General Meeting after almost ten years as Chairman. I am delighted that David Morgan will be assuming the role of Chairman from that time.

Summary
UK steel and coal markets continue to be characterised by risks and uncertainties. Coal price trends, together with the level of UK thermal coal demand, will be key determinants of our future prospects and strategy over the coming months. We cannot control these factors but we have worked hard to ensure that we have a solid platform and are well placed to respond to both challenges and opportunities. With a significant restructuring exercise largely behind us, we can concentrate on our strategic options to deliver future shareholder value.

Tim Ross
Chairman
10 August 2015

In view of strong cash generation in the past financial year, the Board has confidence in recommending an increase of 19.8% in the final dividend from 16.7p to 20.0p.

Group Business Review
Gordon Banham, Group Chief Executive

Significant steps have been taken to restructure and simplify the business

Results
As a result of the unprecedented challenges that we have faced over the past two years our underlying profit performance in the past twelve months is testament to the hard work of an expert team at Hargreaves. Revenue in the last financial year declined from £869.2m to £662.2m, mainly, as a result of reduced coal trading volumes. Underlying Profit before Tax from Continuing Operations during the past year was £40.3m.

In parallel with this strong underlying performance we took significant steps to restructure and streamline the business. The Income Statement contains a net exceptional charge for simplification costs of £12.2m, as detailed below.

As part of this restructuring, we have completed the merger of the Energy and Commodities ("E&C") and Production Divisions to form one new Division called Coal Production and Distribution ("CPD"). This recognises the strong synergies that exist between the two operations, with E&C historically having provided all of the coal marketing services to the Production Division. Consequently, the Group's financial reporting is now presented across three segments: CPD, Industrial Services and Transport. Prior year segmental comparatives have been presented on the same basis.

From a net reported profit before tax of £24.9m, which included the £12.2m of net simplification charges, we were able to generate a reduction in net debt over the year of £67.8m. This reflected the benefits of the Simplification Programme, with the sale of Imperial Tankers and the first stage of unwinding inventories at Monckton coke works being key areas of cash generation.

The decision taken after the end of the year to accept a reduced settlement on the long-running engineering contract at Liverpool Bulk Terminal resulted in a further charge of £2.4m and completed the year's streamlining activity. The final settlement of this outstanding contract has resulted in a £10m cash receipt post year end and has cleared the way to develop other opportunities within our core business with an important and valued customer.

Simplification Programme
The markets were already challenging by the start of the past financial year, with coal prices having fallen to approximately £44 per tonne, some £9 from the levels prevailing when we acquired the Scottish mining assets in 2013. Added to low coal prices, European coke markets were very soft and the outlook for coal fired generation in the UK was increasingly unclear. We started the last financial year working to identify opportunities that would allow the Group to be able to exercise more control over elements of its coal business. As we have previously reported, we looked for opportunities to help support and improve forward visibility in both our production and port operations. Our focus on the headwinds that were impacting the coal and energy sectors led us to undertake a process to streamline the Group. This programme was aimed at simplifying operations, reducing debt levels and, where possible, seeking to reduce volatility of earnings. It started with the disposal of Imperial Tankers for £26.9m in cash. The closure of Monckton was announced and implemented early in the second half; production ceased in December and this generated further cash as the stock levels began to unwind during the second half. We also took action to exit our tyre shredding operation and other non-core joint ventures and activities.

The programme has allowed us to deleverage and strengthen the balance sheet at a critical time. The headwinds that we saw at the start of the financial year intensified at the start of this calendar year when there were further significant, sudden and unexpected falls in international oil and gas prices. This contributed to further falls in coal prices and also reduced projected coal burn, which combined with the planned increases in coal stock levels ahead of the doubling in Carbon Price Support tax on 31 March 2015, has resulted in coal stations carrying particularly high levels of stock.

Much of the past year's financial performance was protected from the combined impact of falling coal prices and falling demand through a series of contracts and hedges. As we have noted in recent statements, the current financial year will not benefit from these measures and we have had to reduce our own targets for volumes and profits accordingly.

Markets
Coal Price
The coal price has fallen from £44 to £38 per tonne during the past financial year. The coal price remains soft and at the date of this report stands at approximately £37 per tonne. The outlook for the coal price remains very uncertain. Many industry commentators have questioned whether the coal price can be sustained at this level but to date there is little sign of significant production curtailment and concern exists

over forward demand levels in key markets such as China and the US. The international coal price will continue to be set largely with reference to supply and demand parameters in these key markets. Production and consumption in the UK and for that matter Europe will have little or no impact on the coal price and therefore operators in the region, such as Hargreaves, will remain as a price taker with regard to power station supplies.

UK Energy Market Developments

Given the Group's focus on the coal sector, developments within the UK energy sector continue to have a significant impact on the trading performance and prospects for the Group. The UK energy markets continue to be characterised by multiple policy changes and uncertainty. Although the UK's Carbon Price Support tax was frozen at £18.08 per tonne of CO_2, this amount still equates to an additional £42 of tax cost for each tonne of coal burnt in a UK power station. The substantial drop in international gas prices has lowered the projected UK coal burn by reducing the margin or "clean dark spread" for coal station operators, making it challenging for them to operate except in periods of sustained high demand. This drop in spreads when combined with the increased cost of UK Carbon Price Support tax for coal operators will make coal stations very challenging to operate unless there is a significant increase in energy costs demonstrating that energy prices in the UK are still largely driven by and dependent upon international gas prices.

With falling coal generating margins as a result of the backdrop of high carbon taxes, the threatened early station closure of Ferrybridge in West Yorkshire has already been announced and mooted for Longannet in Scotland. Whilst the risk of the lights going out due to tight capacity margin is more a news headline than a reality in the short term, this risk has increased in recent times and should significant further coal station closures follow in the coming months and years it is less clear from where, and how quickly, new capacity can be brought onto the grid.

We have consistently stated that in the Group's view, coal will have a longer run-out in the UK than many commentators expect. Coal can provide reliable baseload capacity and is therefore very complementary to intermittent renewable capacity. We still believe this to be the case but in the past few months we have revised our own expectations on the length of that run out in the face of falling coal spreads and from the recent reaffirmation from all political parties of their intention to aggressively move the UK away from coal and other fossil fuels. In our business model we are assuming that at least 10GW of the current 18GW of coal capacity remains on the grid into the mid-2020s. That will be enough to sustain our base business and provide sufficient time and opportunity to reposition and broaden the Group's activities.

Other Coal Markets

Business pressure has not been restricted to the coal generation sector. We continue to provide services and supply coal into the UK steel sector and to UK speciality coal markets.

The UK steel sector is also under significant pressure due to excess volume from China driving down prices and increasing exports to Europe. We remain particularly concerned about a concentration of earnings of around £4m with one major UK steel plant where we supply both services and coal. We continue to be vigilant in reviewing and assessing our exposures in the UK steel sector, trying to balance the provision of ongoing support to help protect future profit streams with managing the associated credit risks.

The UK speciality coal markets have traditionally been served predominantly by coal produced from UK deep mines, imports and from certain Scottish coal field areas. In the past two years, since the collapse of UK Coal plc and the consequent loss of our exclusive coal supply contract with them to market speciality coal from their deep mines, we have been competing directly with output from their last two remaining deep mines, Thoresby and Kellingley. In the past year, in addition to the closure of Hatfield Colliery in June 2015, we have seen the cessation of mining at the Thoresby deep mine. Mining at the last remaining deep mine, Kellingley, is due to finish by the end of this calendar year. In Scotland we are working hard to source as much speciality coal as possible to replace these sources in the longer term. In the short term we will continue to see margin pressure as coal stocks are sold and cleared from these deep mine operations. We would expect all excess stocks to have been cleared out of the system by the end of next winter. This would leave the Scottish coalfields, and imported coal, as the main sources of coals for the speciality markets.

Strategy

Coal Production and Distribution Division

In the year to 31 May 2014 the Group traded 5.4 million tonnes of bulk coal in the UK. In the year to 31 May 2015 this dropped to 4.2 million tonnes. In the first half of the current year we see no prospect of significant third party coal sales to UK power stations as they seek to adjust their stock levels. As previously reported, we are expecting some recovery in third party volumes as this position unwinds and anticipate approximately 1.0 million tonnes to be traded in the second half of the current financial year.

Whilst trading activities can and have been scaled back, the impact of fixed costs on lower trading volumes will create margin pressure, even taking into account the extensive actions to mitigate this and the recent redundancy and cost saving programmes.

The option to cease production has been evaluated, but comes at a greater cost and has greater implications. As a result we have reduced our production targets, as previously communicated, for the current year from two million tonnes to one million tonnes but will continue to maintain an operation and manage stock build. At current coal prices, our Scottish coal production activities would be loss making as we will incur losses on the production of thermal coal that we can only partially mitigate by maximising production of higher margin speciality coals alongside the thermal coal. We will clearly seek to maximise the yield of such coals.

We see three principal reasons for continuing to invest in sustaining the Scottish surface mining operation. Firstly, we have a duty to our workforce and other stakeholders to invest and sustain the operation through difficult periods, within sensible commercial constraints. Secondly, to preserve these important assets so the Group can benefit from any improvement in coal prices. Finally, we see opportunity to build on synergy value between our production and coal trading and distribution operations, both in the thermal and speciality markets.

At the same time as reducing the level of our planned production activities the Group has been working hard with the Government and other stakeholders to deliver a change in the Carbon Price Support tax regime that would enable the industry to deliver significant restoration solutions for the unfunded restoration liabilities left following the failures of ATH and SRG in 2013. In the absence of a solution, such as the

Group Business Review continued

£67.8m

Reduction in net debt

We were able to generate a reduction in net debt over the year of £67.8m

The programme has allowed us to deleverage and strengthen the balance sheet at a critical time.

one we are proposing, these restoration liabilities will represent a very significant ongoing cost to the taxpayer and result in substantial blight, risk and dangers to the surrounding communities were restoration not to proceed. The proposed tax exemption would preserve and create jobs by focussing the industry on designing and delivering mining and large-scale restoration schemes around the existing brownfield sites.

With regard to the ongoing carbon capture power station projects, we continue to watch with interest as we see UK mined coal as being a key contributor to such projects, not only through maximising the social and economic benefit of these projects but also through being able to offer long-term sterling based and RPI indexed fuel sources, necessary to support the financial plans of these proposals. Such projects are making good progress through planning and feasibility and look like offering the potential for base load capacity at energy prices that would be more competitive than for many alternatives, including Hinkley Point.

In Wales, we are working with our joint venture partners to manage the impact of falling coal prices on the profitability of the Tower project. We continue to review mining plans to ensure that we have the optimal production strategy to allow the business to best manage the impact of reductions in the coal price and be flexible enough to deal with changes to the future level of demand for thermal coal in Wales.

We have made excellent progress in developing our property assets and renewable projects. Planning consents were granted in February for wind energy projects at the Dalquhandy and Poniel sites in South Lanarkshire, between them totalling 55MW of wind capacity. We have also made good progress working through feasibility analysis and planning preparation on large wind projects at three other sites. All these efforts will now be slowed while we await the Government's deliberations on the level of future subsidy for onshore wind.

We are also making progress in developing some of our other key property assets. We are working on revised master planning for the Monckton and Maltby sites and have submitted a planning application for a 1,600 house scheme at the Blindwells site outside Edinburgh. If a positive planning decision can be gained, even taking account of compaction and site preparation investment the Blindwells scheme could present an exciting opportunity for the Group and for the Scottish Mines Restoration Trust who have a carried interest in the site.

Industrial Services Division

In the Industrial Services Division, we remain focussed on working to grow the business and diversify our base both by sector and geography. The UK business started in the coal generation sector and, whilst this will remain a key sector and focus area for the Group to ensure customers continue to receive the highest level of service and value, activity in this sector will inevitably decline over the coming years. As a result, we will continue to diversify on two fronts.

Our first target is to diversify our sector focus. Five years ago the Division derived substantially all of its core material handling revenues from the UK coal fired generation sector. Following our success in penetrating the steel sector, revenues from the steel sector last year contributed 38% of revenues compared to 62% from the UK coal generation sector, generating similar margins to those achieved in the thermal sector.

We have also worked to diversify the business away from the UK to markets where the use of coal is set to persist into the longer term. To this end the last period has seen the Group:

- Win its first contract in Asia and continue to work with China Light and Power at the Castle Peak Power Station;
- Enter the South African steel market with the completion of the strategic acquisition of Algol, a steel services business in South Africa, in December; and
- Succeed in winning its first significant contracts in the deep mining services sector in India.

Three years ago, our International services accounted for 2% of Divisional revenues. Last year they accounted for £12.3m, 10.5% of total Divisional revenue and in this current year we expect to grow the proportion of International services revenue further.

We will continue to look to turn our international contracts and relationships into solid reference sites from which further work can be won. Our goal is to create a focussed Industrial Services operation with a long-term sustainable profit base.

Transport Division

Our Transport business will remain focussed on the transport of bulk materials. We will remain open to opportunities to gradually expand our geographical coverage within the UK and will target further market share in the growing biomass markets. Significant progress has been made in the last few years to reduce the division's dependence on coal movements. Five years ago coal accounted for 48% of the Division's turnover. Last year coal only accounted for 32% and we are targeting that number to fall to 16% by the end of this financial year as waste and biomass increasingly replace coal flows.

Group Business Review
continued

Share Buy-Back and Dividend

With the streamlining and cost reduction programme behind us, the management team is now free to focus on strategies to protect existing revenue and profit streams and deliver new opportunities. We remain focussed on shareholder value and exercise vigilance and discipline in looking to invest the Group's capital.

Last year we announced the commencement of a share buy-back programme. Between November 2014 and February 2015 we purchased 1,053,072 shares at a total cost of £6.3m. Ongoing weakness in coal prices and further restructuring persuaded us to adopt a more cautious approach to the buy-back process in the latter part of the year. Looking forward, we will seek to balance the distribution of returns to shareholders through a combination of dividends and share buy-backs with opportunities to invest in re-positioning the Group away from coal. We have proposed a final dividend of 20 pence per share bringing the full year payment to 30 pence per share. We have reiterated our intention to move the dividend to a payout ratio of 40%, subject to continually assessing our forward cash and earnings profile.

Outlook

We find ourselves working in the most challenging markets that I have ever experienced in more than thirty years of working in the coal sector. However, we have a talented and hard-working team, a strong balance sheet and an intimate understanding of the sectors in which we work. I am confident that whilst we still face challenges, we are well positioned to work through this period of turmoil and find opportunities to optimise the value of our considerable assets and skills base.

We have highlighted the key principal risks that we have faced as a business in the past few statements and these remain unchanged as we enter this financial year. Coal price (with its impact on our mining operations) and low thermal coal demand (as UK coal stations seek to clear excess coal stocks) are the two keys risks we face.

We will continue to review the viability of and investment in our mining operations in light of coal price movements. We will also continue to press Government for a solution to deal with the significant restoration liabilities faced by the taxpayer. Such a solution would allow the whole industry to deliver much needed restoration and safeguard many more jobs while we await a coal price improvement. We are very well placed to supply these restoration services should the opportunity arise and we are well placed to benefit from our production operations should coal prices recover.

The other key risk we face is around UK thermal coal volumes. We have assumed in our annual planning that coal trading volumes will recover in the second half of the financial year. Whilst this assumption remains a risk as we have no visibility of orders or demand at this time, based on our knowledge of the market and activities of power station operators we do not believe this is an unreasonable assumption to make. Therefore we will continue to monitor that position extremely closely as we go into the winter. Assuming that coal burn returns to a normal level in the winter we would expect to resume shipments after the end of the calendar year.

Our current low net debt position will allow us to fund some coal stock build over the next six months within our mining activities while we wait for coal stocks at power stations to be cleared and for deliveries to resume. We are expecting to build our coal stocks by approximately £16 to £18m between now and the end of the calendar year to support continuity of activities across our mining operations. We will continue to carefully monitor the carrying value of that stock but given low current coal prices will not seek to hedge that stock from short term coal price movements. This represents a change from our historical position of not carrying any open stock positions and reflects a trading position that is amply supported by our current balance sheet capacity.

The Industrial Services and Transport Divisions are largely unaffected by commodity prices and less impacted by fluctuations in coal demand. The targets for growth that we have set for this year are challenging but we see opportunities to steadily diversify and grow these businesses and remain focussed on both credit risks and other exposures that are associated with a smaller and more concentrated customer base.

The Transport Division is already well diversified and has proven to be very resilient, due in no small part to a very talented and proactive management team. The outlook for the business remains positive, even if in the short and medium term opportunities for significant organic growth are limited. It remains a desirable and synergistic part of the Group.

Across our portfolio of wind and renewable projects we will await the outcome of the Government's latest thinking on policy and assess our strategy accordingly. It will be very disappointing if support for onshore wind is further reduced or removed but we remain encouraged as our Scottish property portfolio has a number of large scale and high wind-speed opportunities that offer potential in the longer term.

The prospects for developing the property portfolio remain very positive.

In summary, although our markets remain unpredictable and we are undoubtedly in for another difficult year, the Group is well positioned to deal with further challenges thanks to the work we have done in the past twelve months. These efforts have left the Group with good visibility regarding the likely risks and ready to deal with challenges should they arise and in the meantime we will also continue to actively seek opportunities to help mitigate the impact of these difficult markets.

Gordon Banham
Group Chief Executive
10 August 2015

Review of Operating Performance by Business Unit

Review of Underlying Performance
Aside from the financial impact of the recent settlement in relation to the Group's Liverpool Biomass Conversion project with a major UK power generator, underlying trading for the year was broadly in line with management's expectations. Revenues from Continuing Operations during the year reduced by £207.0m from £869.2m to £662.2m, reflecting the challenging market conditions, particularly within our Coal Production and Distribution business where third party trading volumes and margins were significantly reduced on the prior year. In addition, the implementation of the Group Simplification Programme has resulted in lower revenues as the Group disposed of and closed a number of non-core businesses. Underlying Group Operating Profit from Continuing Operations for the year reduced by £16.7m from £59.5m to £42.8m. Underlying profit before tax was £40.3m, a decrease of £14.8m on the prior year, due largely to the impact of reduced trading volumes on revenues and margins in the CPD Division. Reported profit before tax of the Group reduced by £27.2m to £24.9m including £12.2m of net, one-off simplification costs (see below).

Details of Group Simplification Programme
The Board announced on 1 September 2014 that, following a review of strategy, it would be embarking on a Group wide programme to simplify the Group structure, increase operational focus and ensure the Group was optimally placed to deliver shareholder value in the face of very challenging market conditions.

The Board is pleased to report that the Simplification Programme is now substantially complete. One of the key objectives of the programme was to liberate fixed and working capital in order to strengthen the balance sheet and ensure the Group was placed on a solid platform from which to further review strategic options. This debt reduction strategy has progressed well and the cash generation in the second half of the year slightly exceeded management expectations. To date, the Simplification Programme has achieved net cash generation of approximately £30m and the Group expects it to achieve a further £10m through the year ending 31 May 2016. These efforts, helped by favourable timing of vessels and working capital around year end resulted in the Group net debt standing at £1.0m as at the year end.

The first phase of the Simplification Programme which we reported on in February 2015 resulted in:

- The successful sale of Imperial Tankers Limited ("Imperial Tankers"), a non-core business, on 29 August 2014, to Suttons Transport Group, generating sale proceeds of £26.9m and a profit on disposal of £16.3m.
- The orderly closure of our non-core tyre crumbing business and the Mir Trade joint venture. The Group's exit from these businesses, which had a book cost of £2.8m, had a small positive net cash impact.
- The closure of Monckton coke works ("Monckton") on 12 December 2014. The Monckton closure has resulted in a £17.0m charge to the income statement but has, and will continue to, liberate the significant working capital that was tied up in the business, as anticipated. Net cash flows of £5.2m were generated to 31 May 2015 and the Group expects further cash inflows of approximately £12m to be realised.
- Other costs of simplification incurred within the first phase of the programme amounting to £4.2m, including some one-off transaction costs and a provision of £1.1m in respect of the surplus portion of the Group's interest rate swaps.

This first phase of the Simplification Programme resulted in a net, one-off charge of £7.7m.

	Coal Production & Distribution 2015 £000	Transport 2015 £000	Industrial Services 2015 £000	Total 2015 £000
Segment Continuing Operating Profit	**32,547**	**2,267**	**3,260**	**38,074**
Intangible amortisation/impairment	143	–	–	143
Impact of Biomass Conversion Project settlement	–	–	2,400	2,400
Share of profit in jointly controlled entities (net of tax)	1,504	–	–	1,504
Share of tax in associates and jointly controlled entities	634	–	–	634
Underlying Continuing Operating Profit	**34,828**	**2,267**	**5,660**	**42,755**
Net financing costs – Continuing Operations	(1,435)	(421)	(609)	(2,465)
Underlying Continuing Profit before Tax	**33,393**	**1,846**	**5,051**	**40,290**

	Coal Production & Distribution 2014	Transport 2014 £000	Industrial Services 2014 £000	Total 2014 £000
Segment Continuing Operating Profit	**41,027**	**4,508**	**5,405**	**50,940**
Intangible amortisation/impairment	990	–	329	1,319
Impairment of property, plant and equipment	2,829	–	–	2,829
Share of profit in jointly controlled entities (net of tax)	3,499	–	–	3,499
Share of tax in associates and jointly controlled entities	912	–	–	912
Underlying Continuing Operating Profit	**49,257**	**4,508**	**5,734**	**59,499**
Net financing costs – Continuing Operations	(2,940)	(933)	(574)	(4,447)
Underlying Continuing Profit before Tax	**46,317**	**3,575**	**5,160**	**55,052**

Review of Operating Performance by Business Unit *continued*

In February 2015, the Group embarked on the second phase of the Simplification Programme. In the face of falling coal prices and a significant reduction in the short term orders from UK power stations, the Group announced its intention to seek reductions to its overhead base, particularly in its port and coal production operations. The Board set a challenging target of achieving a cost reduction of at least £3m by the year end and it is pleasing to report that this target has been delivered and exceeded.

This second phase of the Simplification Programme was substantially completed before the year end and has resulted in further one-off costs and charges totalling £4.5m. In addition to the cost of £1.4m in respect of the programme of redundancies across the Group, we have provided £1.9m against fuel hedges that are now ineffective given the reduced forward mining programme. We have also reviewed mining reserves and provided £1.2m against mine development costs for sites and reserves that we no longer anticipate mining in current market conditions.

The Group is therefore reporting £12.2m of net, non-recurring simplification charges across both phases of the programme.

The commentary below reflects the continuing, underlying performance of the three Divisions, excluding the impact of the Simplification Programme.

Coal Production And Distribution ("CPD") Division
The newly formed CPD Division consists of two main activities – "Mining Operations" and "Third Party Trading". Mining Operations encompasses the power station and speciality volumes that are produced within our surface mining business in Scotland and England and the activities encompassed within our Tower operation. The Third Party Trading business consists of coal purchased from third party suppliers to service the thermal, metallurgical and speciality markets. There are two other principal activities included in the CPD Division; Europe and Property and Renewables.

The Tower joint venture, Tower Regeneration Limited, ("TRL") and our European joint venture Hargreaves Raw Material Services GmbH are reported within CPD but their results are not consolidated. The Tower contract mining operation and our development activities around Property and Renewables are also included in CPD and are consolidated. At the moment the Property and Renewables operations are not contributing significant profits, but our aspiration is that they rapidly evolve to a level where they can justify being an operating segment on their own.

CPD Division revenues reduced by £275.1m from £761.0m to £485.9m during the year. While our Mining Operations delivered increased volumes and margins, reflecting the first full year of operation, at full run rate, in Scotland, our Third Party Trading business, as expected, experienced significantly reduced thermal volumes and margins in the face of challenging coal market conditions.

Third Party Trading
Revenues from the Third Party Trading business reduced during the year from £484.4m to £336.7m reflecting a substantial reduction in thermal volumes. This was the main driver of the reduction in underlying Operating Profit from Continuing Operations in the CPD Division from £49.3m to £34.8m.

The Third Party Trading business contributed £14.4m of operating profit to the CPD Division during the year, a reduction of £9.6m compared to the prior year result of £24.0m. This result, and its comparative, excludes profits on our sales of speciality coal produced from our Mining Operations, which, following the consolidation of the two operations, are now reported within Group Mining Operations.

Ongoing uncertainty and volatility within coal markets have resulted in a significant reduction in UK Bulk volumes from 5.4m tonnes to 4.2m tonnes. This reduction was almost entirely attributable to the year on year fall in thermal volumes with metallurgical volumes into Redcar Steel works relatively stable at approximately 1.4 million tonnes. The significant drop in throughput adversely impacted the average profit per tonne achieved during the year with the operating margin on bulk tonnes decreasing by in excess of £1 per tonne from £2.52 per tonne to £1.39 per tonne. These low volumes prompted the Group to review the fixed cost base at both its Redcar and Immingham operations as part of the Simplification Programme.

The coal and steel markets remain very uncertain. A number of power stations have announced potential closure decisions and there remains very limited revenue visibility from UK power generators as they continue to burn the high stockpiles built ahead of the carbon tax increase. We will closely monitor the market going forward and in particular, as previously stated, we will continue to monitor and manage exposures in the steel sector, being careful to try and balance the provision of ongoing support to sustain earnings with the management of risks and exposures.

Volumes within our UK third party speciality business have remained more robust during the year with softness in domestic heating markets partly offset by strong volumes into the industrial markets. Whilst the throughput increased slightly from 485,000 tonnes to 515,000 tonnes, the warm weather through December and early January and the competitive dynamics of the market, resulted in reduced pricing levels. Consequently, we have seen a reduction in the profit achieved of just under £5 per tonne with margins reducing from £21.31 to £16.78 per tonne as per the table below. Since the start of this calendar year we have seen other producers reducing prices to stimulate demand and we expect some short term competitive turbulence in the industrial and domestic markets as the last remaining deep mines liquidate their remaining production and stocks as they progress through their managed closure plans.

European Operations
The steel sector in the UK and Europe has continued to face significant challenges which are impacting on the demand for coke at our associate German operations. A reduction in volumes from 491,000 tonnes to 304,000 tonnes resulted in revenues falling from £107.2m to £64.1m. The previously announced managed reduction to a lower level of activity saw subdued contracting activity and resulted in the business generating an underlying operating profit of only £1.4m before the one-off settlement of a long standing legal claim. Underlying operating profit of £0.7m represents a reduction of £3.8m on the prior year result of £4.5m.

Mining Operations
Mining Operations contributed £20.0m of operating profit during the year ended 31 May 2015, an increase of £3.5m on the prior year. This increase reflected the first year of operations, at full run rate, of our Scottish assets.

The Group's surface mining operations in Scotland and England performed broadly in line with management expectations in the year. Mining Operations' result includes the profits earned on Scottish speciality volumes, traded into the Industrial and Domestic markets. Speciality volumes sourced from third parties continue to be reported within the Third Party Trading business.

Our Group mining sites in Scotland and England continued to perform well through the second half of the year and achieved power station sales across the year of 1.1m tonnes and speciality sales into the Industrial and Domestic markets of 0.3m tonnes.

At the time of reporting our interim results in February 2015, the forward coal price for the year ending 31 May 2016 was approximately £41 per tonne which resulted in a downward revision to mining production targets at that time to approximately 1m tonnes. Whilst we scaled back the cost structure of our Mining Operations as part of the Simplification Programme in response to these volatile and challenging market conditions, there was also a downward revision in profit expectations to reflect the latest coal price. Since February 2015, conditions in the coal markets have further deteriorated and the coal price has fallen by an additional £4 per tonne. Whilst the coal price followed a downward trend throughout the year ended 31 May 2015, the strong result reported in our Mining Operations for the year has been supported by the financial hedges and fixed price contracts put in place following the acquisition of the Scottish assets in 2013. However, as previously reported, this protection fell away at the end of 31 May 2015 and the Group have announced that we will retain an open and unhedged position.

Notwithstanding this further deterioration in the coal markets, the Group continues to take the view that it is right to continue to protect the viability of its current Scottish operations, subject to reviewing mining plans and reducing forecast production volumes where necessary. This commitment reflects the Group's desire to protect the viability of the Scottish operations and the potential longer term value of the reserve base. Given our expertise in the production and distribution of speciality coals, Scotland remains a key source of coal volumes for sale into the industrial and domestic markets that the Group has worked very hard to secure.

Tower

The Tower project performed in line with management's expectations during the year. The contribution from our Tower operation comprises our 35% share of mining profits and profits made by Hargreaves Surface Mining. Coal sales during the year increased from 470,000 tonnes to 700,000 tonnes. Current coal price levels continue to impact adversely on the Tower mining operation and, whilst a proportion of Tower's output is fixed price, the fall in the coal price since February 2015 will further impact the contribution from the Tower joint venture in the current financial year.

Property and Renewables

The Group continues to step up its efforts to drive as much value as possible from its significant property and renewable portfolio. The year ended 31 May 2015 saw some progress in this regard with the contribution of £0.8m of operating profit following a number of property disposals including a section of land at the Poniel site in Lanarkshire.

At this time, the Group is particularly focussing on its portfolio of renewables opportunities. As announced previously, we were pleased to receive planning permission for 55MW of wind capacity in South Lanarkshire and we will continue to work hard to ensure these projects can be commercialised at optimal valuations. The Group also has a number of other interesting wind projects in the pipeline. In addition, efforts are continuing to optimise cash and profits from our property portfolio and we remain very pleased with the progress in seeking planning approval for a major housing development on a former surface mine site at Blindwells, east of Edinburgh. Further opportunities exist within the Group's property portfolio and we will report further on these as they progress.

As noted above, we continue to work very hard with government at local, Holyrood and Westminster levels to find a solution for the significant legacy of opencast restoration with which local communities have been left by the failure of previous operators. An early solution would provide an opportunity for Hargreaves and other operators to create significant environmental benefits to those communities that are affected, as well as creating employment and protecting future capacity.

Operating Profit by Business Unit within the CPD Division

	Bulk		Industrial and Domestic		Total	
	2015	2014	2015	2014	2015	2014
Third Party Traded Volumes ('000s tonnes)	4,157	5,411	515	485	4,672	5,896
Profit per tonne (£)	1.39	2.52	16.78	21.31	3.09	4.07
Third Party Trading (£'000)	**5,792**	**13,638**	**8,644**	**10,337**	14,436	23,975
Mining Operations (£'000)					19,972	16,548
Germany (Associate) (£'000)					663	4,522
Property and Renewables (£'000)					767	–
Monckton (£'000)					(139)	2,969
Other (£'000)					(871)	1,243
CPD Operating Profit (£'000)					**34,828**	**49,257**

Review of Operating Performance by Business Unit continued

Industrial Services Division

It is pleasing to report that over the past financial year the Industrial Services Division continued to demonstrate steady progress on contract awards in the UK and internationally.

Following the end of the year, and after careful consideration, the Group agreed to accept a reduced settlement to conclude the Liverpool Biomass Conversion project with a major UK power generator which brings to an end the Division's activities in this space. This contract commenced in 2012 and was largely concluded in early 2014. Whilst the settlement fell £2.4m short of the amount that the Group expected to collect on the contract, the decision will allow the Group to conclude the long running negotiations and move on. This resulted in a cash inflow to the Group of approximately £10m in July 2015, the collection of which had been delayed by the negotiations. The provision shortfall of £2.4m was charged against the Division's profits in the year ended 31 May 2015.

Excluding the financial impact of the biomass conversion project settlement, Industrial Services Division revenues reduced by £12.0m from £122.6m to £110.6m reflecting some one-off project activities in the prior year. Underlying operating profit remained in line with the prior year at £5.7m.

The UK core materials handling business experienced a slight reduction in revenues from £104.2m to £99.7m together with a fall in UK operating profit from £5.5m to £4.6m due to a reduction in the level of additional works issued by customers during the year.

International profits of £0.3m showed improvement on the prior year, where start-up costs were incurred in mobilising the integrated maintenance services contract with China Light and Power in Hong Kong.

We continue to be focused on the careful development of our international growth opportunities. In December 2014 the Group acquired a small South African steel services provider with a contract at a steel facility outside Johannesburg. This is the Group's first step into the region and builds on our increased credentials and experience in the steel sector. The Division was also successful last year in winning its first significant mining services contracts in India, focussing initially at least on the provision of expertise and services in the deep mining sector.

Transport Division

Imperial Tankers Limited was sold during the period, as announced on 1 September 2014. Consequently, Transport revenues have reduced by £20.7m from £89.0m to £68.3m. Underlying operating profit from continuing operations has also reduced by £2.2m from £4.5m to £2.3m.

Excluding the £7.3m of revenue and £0.2m of operating profit from Imperial Tankers that was included in the past financial year, Bulk Transport revenues are slightly ahead of the prior year at £61.0m whilst underlying operating profit is in line with the prior year at £2.1m reflecting a competitive market.

Health, Safety and Environment

The health and safety of employees, contractors, customers and the public continues to be of the highest priority to the Board and management. We recognise the potentially hazardous nature of the work undertaken across all of our Divisions and we are determined to ensure that we provide safe systems of work throughout our diverse range of operations.

The whole Board takes an active role in health and safety. The CEO personally acts as a Group Health and Safety Champion, working alongside the Chief Operating Officer and health and safety team to drive high quality health and safety performance throughout the business, not just in terms of developing processes and systems, but in providing the necessary leadership to underpin the behavioural culture we demand.

The Group has health and safety management systems in place that are either internally or externally audited to the highest standard. In addition we have worked hard to ensure that a positive engaging health and safety culture is encouraged throughout our operations. We focus on safety at the business unit level and have regular accountability meetings as well as a Group Health and Safety Forum to define best practice and to promote high standards of communication and coordination across the Group.

Health and safety statistics continue to be monitored at a Divisional and business unit level, with regular main Board review. Health and safety strategies are developed at the Business Unit and Group level to deal with any evolving trends and drive overall performance.

The Group is committed to a philosophy of continuing improvement across all Group operations. During the last 18 months the Group has reshaped its health and safety team and invested in additional resources where appropriate. Our strategy has been to identify risks and eliminate them before an accident and not to rely on "lessons learned".

Accident rates within the Group are monitored on the basis of RIDDOR reportable accidents per 100,000 hours worked. The Group has seen a 21% year on year RIDDOR accident rate reduction from 0.33 in the year ended 31 May 2014 to 0.26 in the year ended 31 May 2015.

The incidence of RIDDOR accidents at Hargreaves has been trending downwards for a number of years and reflects the efforts that continue to be focussed in this area.

The Group is also committed to mitigating its impact on the environment in the course of its daily business activities by the application of robust environmental management systems. The current work to comply with the new ESOS legislation should help towards the material demonstration of our improvements.

Iain Cockburn
Group Finance Director

Gordon Banham
Group Chief Executive
10 August 2015

Financial Review
Iain Cockburn, Group Finance Director

Net Debt reduced by £67.8m from £68.8m to £1.0m at 31 May 2015

Revenue
The Group has experienced a substantial reduction in revenue during the year, with reported revenue decreasing by £207.0m from £869.2m in the year ended 31 May 2014 to £662.2m in the year ended 31 May 2015. This reduction largely reflects challenging market conditions within its Third Party Trading business where a reduction in thermal volumes of 1.1m tonnes has been seen. In addition, the Simplification Programme has had some impact on revenues in the period, following the disposal or orderly closure of certain businesses within the Group, and the European restructure has meant that no European revenues were consolidated in the year being reported compared with £55.4m in the prior year.

Operating Profit and Margins
Underlying Operating Profit from Continuing Operations reduced by £16.7m from £59.5m to £42.8m almost entirely driven by a reduced contribution from our Third Party Trading business and subdued activity in our European business. As anticipated, the volumes and margins within our Third Party Trading business came under significant pressure against a backdrop of a second consecutive mild winter, low gas prices and a consequent overall reduced coal burn. Our Mining Operations delivered a year on year increase of £3.5m to operating profit following a full year's production, at full run rate, in our Scottish surface mining business; this increased contribution helped to offset the reduced contribution from Monckton following its closure in December 2014. Reported Group continuing operating profit before simplification costs fell from £50.9m to £38.1m whilst continuing profit before tax fell more sharply from £52.1m to £24.9m reflecting £9.1m of simplification costs and £3.1m of fair value losses on derivatives (see below).

Simplification Programme
Amounts relating to the Group Simplification Programme have been aggregated and are shown as a net charge to the income statement during the period. The net charge relating to simplification for the full year amounts to £12.2m (further detail is included within the Operating Performance by Business Unit and in Note 6 to the Accounts). These costs do not form part of the Group's ongoing activities, are considered exceptional by size and nature, and are therefore excluded from the Group's underlying result.

Interest
In the year to 31 May 2015, continuing net finance expenses for the Group reduced by £1.9m from £4.4m to £2.5m. This positive movement reflects a significant reduction in average Group net debt levels, ahead of expectations, during the year largely as a result of the successful impact of the Simplification Programme.

Taxation
Income tax expense for the year is £3.6m compared with £11.5m for the year ended 31 May 2014; including the share of tax of equity accounted investees of £0.6m (2014: £0.9m) this results in a total tax expense of £4.2m (2014: £12.4m). Whilst this charge represents a reported effective tax rate for the Group of 16.40% (2014: 23.5%), the underlying effective tax rate, before the impact of the Simplification Programme and other non-underlying items, amounts to 22.8%, in line with the half year position.

The reduction from the underlying rate of 23.5% for the year ended 31 May 2014 to the underlying rate of 22.8% is largely driven by the fall in the UK corporation tax rate from 23% at April 2013 to 20% at April 2015.

As previously reported, following the change in regulation introduced in the 2014 Finance Act, HMRC are now able to request payment in advance of concluding discussions in respect of certain disclosable tax planning schemes. The Board can now confirm that HMRC have formally requested, or are in the process of requesting, the tax payments on a corporation tax planning arrangement which is still subject to ongoing negotiation with HMRC. Whilst the full amount is likely to be paid in this current financial year, should HMRC ultimately accept the Group's view on how this arrangement should be treated for corporation tax purposes, any cash paid under the 2014 Finance Act will be subsequently repaid by HMRC. As previously reported, no profit or loss benefit was taken at the time the scheme was enacted. The quantum of the tax involved is approximately £11m and £4m of this amount was paid by the Group in June 2015.

Financial Review
continued

The Group's financial position remains strong.

Dividend
The Board has proposed a final dividend of 20.0p per share (2014: 16.7p), bringing the dividend for the full year to 30.0p per share (2014: 25.5p), an increase of 17.6% in the total dividend for the year. The proposed dividend represents a payout ratio of 31.9% on underlying diluted earnings per share (2014: 20.4%). The proposed final dividend will be paid on 23 October 2015 to all shareholders on the register at the close of business on 25 September 2015.

Pensions
Both Monckton and Maltby operate unfunded concessionary fuel schemes and Maltby continues to operate its two defined benefit pension schemes. The combined net liability of all of the schemes has decreased over the year from £5.6m to £5.5m with losses on remeasurement of £2.1m offsetting deficit contributions of £2.0m during the year. In addition, there is a curtailment event as a result of the closure of Monckton which has resulted in a gain of £0.4m.

Earnings per Share
Reported basic earnings per share from Continuing Operations decreased by 47.0% from 123.2p to 65.3p reflecting reduced profitability and the one-off charge for simplification costs during the year. Underlying diluted earnings per share decreased by 24.8% from 124.8p to 93.9p. The weighted average diluted number of shares reduced slightly during the year from 33.3m to 33.1m. The impact of the share buy-back programme, which was approved on 5 November 2014, and resulted in the purchase of 1,053,072 shares at 31 May 2015, was partly offset by the impact of exercised LTIP options during the year.

Discontinued Operations
The loss for the period from Discontinued Operations was £0.8m during the year. This represented a significant reduction on the prior year charge of £3.7m.

Net Debt
Net debt reduced by £67.8m from £68.8m at 31 May 2014 to £1.0m at 31 May 2015. The net debt figure has decreased largely as a result of the Group's strong operating cash flows and the impact of the Simplification Programme.

Group net assets decreased from £150.1m at 31 May 2014 to £148.5m at 31 May 2015. Gearing (measured as net debt compared to net assets) at the end of May 2015 was 1%, compared to 46% at 31 May 2014.

Borrowings and Facilities
During the year, the Group was financed by a mixture of cash flows from operating 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 July 2015, the Group secured a new multi bank committed facility of £110m. The new arrangement consists of a £70m borrowing base facility and a £40m revolving credit facility. The arrangement was concluded with a three bank group comprising of HSBC, Lloyds and Barclays and is committed through to August 2018. The change in structure of the facility has resulted in improved pricing and provides the Group with the debt capacity to support its developing strategy. We continue to work closely and positively with our banking Group and are very appreciative of their support in delivering this innovative, efficient and flexible structure.

The Group's financial position remains strong and we continue to operate comfortably below our maximum covenant levels.

Cash Flow
Net cash flow from continuing operating activities generated a strong cash inflow of £63.0m during the year. This cash generation reflected robust EBITDA of £46.1m, despite the cash element of the simplification charges during the year, supported by a strong working capital unwind of £23.0m detailed below.

As in previous years, the strong cash flows achieved through working capital were heavily weighted to the second half of the year, reflecting the normal seasonal stock build in the first half of the year. These strong cash flows were bolstered during the year by the positive working capital impact of the Simplification Programme. The reduction in inventories of £37.6m in the year included a managed reduction in our readily marketable coal stocks in our Third Party Trading and Mining Operations in response to market challenges. Further inventory reductions resulted from the Simplification Programme, including an unwind in coke stocks following the closure of the Monckton operation and a review of the Group's property portfolio which identified changes in the intended use of a number of sites resulting in a reclassification of those assets from inventory to fixed assets during the year. Finally, the conclusion of the commercial discussions in relation to the

Group's Liverpool Biomass Conversion project resulted in the remaining sums to be collected transferring from work in progress to trade receivables.

The unwinding of inventory was offset by a £11.3m net cash outflow resulting from movements in receivables and payables. Approximately £10m of the net movement reflects a receivable at 31 May 2015 from a major UK power generator relating to the conclusion of the Liverpool Biomass Conversion project. The remaining offsetting movements in receivables and payables, both of which have reduced substantially during the year, reflects an overall reduction in Group activity levels following the Simplification Programme and as a result of the lower level of activity in the UK power station sector at the end of the current year compared with twelve months ago.

Gross capital expenditure of £18.5m (2014: £37.5m) included £2.1m of new finance leases (2014: £13.0m) and £5.1m of properties transferred from inventory into fixed assets, therefore cash outflow on capital expenditure amounted to only £11.3m. The majority of the cash outflow related to investment in mine stripping assets, following the first full year of production in Scotland, and is expected to begin to unwind into operating cash flow in the next financial year. The amount also includes investment in our transport and yellow plant fleet. The reduction in capital expenditure from the previous year reflects significant investment in mining equipment in the year ended 31 May 2014 as part of the mobilisation of our Scottish mining operations. Proceeds received on the disposal of fixed assets were £2.9m (2014: 2.1m).

The Group generated a cash inflow of £24.8m through the disposal of subsidiaries following the sale of Imperial Tankers in August 2014. The total reduction in net debt arising from the disposal was £27.5m.

Consequently, the Group generated cash during the year of £83.6m through its operating and investing activities. Following this significant cash generation, the Group has repaid £48.0m of its banking facilities during the year, made dividend payments of £8.7m, made purchases totalling £6.3m through the share buy-back programme and funded finance lease payments amounting to £5.6m.

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 generally less than 90 days, the Board is comfortable to maintain higher levels of debt and gearing as measured against EBITDA.

Summary of Net Debt

	2015 £000	2014 £000
Cash and cash equivalents	**(43,853)**	(30,768)
Revolving credit facility	**32,772**	80,190
Finance lease liabilities	**12,049**	19,353
Net Debt	**968**	68,775

Going Concern

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.

Iain Cockburn
Group Finance Director
10 August 2015

Statement on Risks Relating to the Group's Business

This statement is an integral part of the Strategic Report.

Operational

Surface Mining Risk

Our surface mining operation is subject to all of the hazards and risks normally encountered in the exploration, development and production of surface coal including unusual and unexpected geological formations, geotechnical instability, flooding and adverse weather conditions. The Group's surface mining team undertakes appropriate levels of site investigation, including extensive geological assessment, drilling/borehole analysis and ongoing review, and has the appropriate planning, development and technical infrastructure and expertise in order to minimise these risks.

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 fixed-price contracts, hedging instruments and "back-to-back" purchase and sale agreements. Although short-term trading risks are managed in this way, through our interest in surface mining activities, the Group does have a longer-term exposure to price movements, favourable or unfavourable, in international coal prices. The Group is acutely aware of this exposure and reviews its mining plans regularly to guard against any over production.

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 businesses with a small number of large energy and steel 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.

Economic

Not only are commodity prices subject to fluctuations, trading levels are also heavily influenced by economic factors and their impact on key customer sectors such as steel production. Although elements of the CPD third party trading activities are based on long-term contracts of up to one year in duration, a significant portion of the trading is based on spot cargoes and deals. In times of economic downturn, traded volumes can fall. Although our fixed cost base in the trading business is low, a drop in volumes can have an impact in terms of lost profit. The Group will continue to mitigate this risk by minimising the fixed cost base, seeking to enter term contracts wherever possible and diversifying the customer base as far as possible.

The Group also now has a growing portfolio of property assets, the value of which will be dependent on successful development and commercial exploitation. As well as the risk of variations in the market value of property assets, development is also subject to receiving appropriate permissions from the relevant planning and other regulatory bodies. The Group has considerable expertise in this area, supported by external specialists where necessary.

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. The Group CEO acts as Group Health and Safety Champion.

Environmental

Operations, if not properly managed, could result in environmental contamination with disruption of business, financial costs and loss of reputation. In particular, the processes used in the mining of coal present environmental risks which may affect not only our property but also property belonging to third parties. Our approach towards environmental risks includes providing clear guidance on the standards we expect all our operations to achieve. Compliance with laws, regulations and industry best practice are priorities within the business.

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 production facilities. An increase in energy cost has been a risk that to date we have been successful in mitigating by indexing key contracts against fuel price rises.

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 in foreign currency for re-sale are predominantly hedged by matching the currency of purchase with the currency of sale.

Interest Rate

The Group predominantly borrows in Sterling. These borrowings are largely 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 2015 £12.0m of the Groups financial liabilities were at fixed rates (2014: £19.4m).

Foreign Currency
The Group has operations in overseas countries and is therefore exposed to foreign exchange translation risk when the profits of these entities are reflected in the Group accounts. The Group does not hedge exposure on the translation of profits of overseas operations. 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 to perform to contract. This risk is judged against the scale and duration of the specific contract on a case-by-case basis. As the Group expands into new geographies, the inherent counterparty risk profile may increase and the information available to assess counterparties may decrease. The Group will mitigate this risk by, as far as possible, carefully selecting and monitoring counterparties and structuring transactions to minimise counterparty exposure.

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 hundreds 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 2015, the largest customer represented 15% of the Group trade receivables balance of £35.4m.

Management are mindful of the continuation of difficult trading conditions being experienced in a number of sectors, particularly the coal and steel markets.

Directors' Report

Financial Statements

Board of Directors

Tim Ross* (aged 66)
Non-Executive Chairman

Tim read law at Oxford University and qualified as a solicitor. He worked in the City of London and as a company legal adviser, before attending London Business School and moving into general management. He has considerable experience of the construction, aggregates, waste disposal and opencast coal industries. He is a past Chairman of May Gurney Integrated Services plc and other public companies and has served on the boards of several other quoted companies, including George Wimpey plc and Lavendon plc. He currently sits on the board of several other companies in the construction sector.

Gordon Banham (aged 51)
Group Chief Executive

Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels and was appointed as General Manager of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, he 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. He led the management buyout in 2004 and subsequent flotation on the London Stock Exchange, the following year. He has since guided a series of major acquisitions.

Iain Cockburn (aged 50)
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 the 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.

Kevin Dougan (aged 61)
Group Commercial Director

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

David Morgan* (aged 57)
Senior Independent Director

David, a Chartered Accountant, has had wide-ranging board and senior management experience. Having trained with KPMG, he then spent over 20 years with Johnson Matthey plc, a FTSE 100 global business and was Executive Director, Corporate Development from 1999 to 2009. He is Chairman of Nord Gold N.V. and of Econic Technologies Ltd and a Non-Executive director of The Royal Mint as well as a number of other companies. His career has involved general and financial management as well as corporate governance and he has had M&A experience in all parts of the world.

Peter Jones* (aged 60)
Non-Executive Director

Peter brings to the company many years of senior management and Board experience. Previously he was Chief Executive of The Mersey Docks & Harbour Co Limited (to 2006) before serving as Chief Executive of Associated British Ports until March 2013. Peter currently serves as Chairman of the Port of Milford Haven and is a Non-Executive Director of Henderson Opportunities Trust plc and also a Non-Executive Director of SKIL Ports & Logistics Limited.

* Current member of Audit, Remuneration and Nominations Committees.

Group Executive Management Team

The Executive Directors and the following key managers comprise the Executive Management Team:

Steve Anson

Managing Director

Coal Production & Distribution Division

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

Julie Haynes

Managing Director

Industrial Services Division

Previously: Business Development Director, Norec Ltd; Operations and Development Manager, Alfred McAlpine plc; Operations Manager, Serco Group plc.

Phil Dryden

Chief Operating Officer

Previously: Operations Director, Exxon Chemical; Managing Director, Tyco Electronics; Executive Director, Corus UK; Chief Executive, SSI UK.

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2015.

Principal Activities
The principal activities of the Group are the provision of haulage services, mineral import, mining and processing, together with coal and steel handling operations and related activities.

Financial Instruments
The financial risks faced by the Group and its policy in respect of these risks are set out in Note 29 of the accounts.

Proposed Dividend
Following the payment of an interim dividend of 10p per share on 27 March 2015, the Directors recommend a final dividend for the year ended 31 May 2015 of 20p per share to be paid on 23 October 2015 to shareholders on the register on 25 September 2015. The shares will be ex-dividend on 24 September 2015. 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 2015 for the Group were 20 days (2014: 23 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 and to date were as follows:

Tim Ross
Gordon Banham
Iain Cockburn
Kevin Dougan
David Morgan
Peter Jones (appointed 6 June 2014)

The names and biographical details of the Directors at the date of this Directors' Report appear on pages 22 and 23.

All Directors are required to retire by rotation every three years, in line with the Articles of Association. A formal evaluation of the performance of each Director and of the Board is carried out and the performance of each continues to be effective and demonstrates commitment to the role. The Directors required to retire by rotation at this year's Annual General Meeting are noted on page 25.

The Company provided indemnities to each of its Directors in accordance with the provisions of the Company's Articles of Association. Additional information relating to Directors' remuneration, service contracts and interests in the Company's shares is given on pages 31 to 33.

The Directors who held office at the end of the financial year had the following 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
Gordon Banham	Ordinary	2,273,466	2,149,831
Kevin Dougan	Ordinary	118,272	75,000
Iain Cockburn	Ordinary	7,680	7,680
Tim Ross	Ordinary	3,086	3,086

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

Details of Directors' emoluments are set out in the Remuneration Report on page 31.

All the Directors benefited from qualifying third-party indemnity provisions in place during the year and at the date of this Directors' 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 Directors' Report except as indicated below. The options referred to below which have vested are held by Hargreaves ESOT Trustees Limited. Options that have vested are held on trust until such time as the Directors exercise their options. Vested options are therefore included within the total issued share capital.

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Iain Cockburn	–	June 2011 to June 2018	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. During the year both Gordon Banham and Kevin Dougan exercised their rights over their options.

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Iain Cockburn	–	June 2012 to June 2019	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. During the year both Gordon Banham and Kevin Dougan exercised their rights over their options.

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Iain Cockburn	–	June 2014 to September 2021	16,989

These options were granted under the Long-Term Incentive Plan on 16 September 2011 and are outstanding at the end of the year. The options partially vested at 41.71%. Iain Cockburn's beneficial holding is therefore 7,086. During the year both Gordon Banham and Kevin Dougan exercised their rights over their options.

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Gordon Banham	–	June 2016 to September 2023	50,484
Kevin Dougan	–	June 2016 to September 2023	18,798
Iain Cockburn	–	June 2016 to September 2023	25,242

These options were granted under the Long-Term Incentive Plan on 29 October 2013 and are outstanding at the end of the year. None of the share options have vested and are subject to performance conditions as outlined in Note 26.

No options were granted under a Long-Term Incentive Plan in 2012 nor in 2014. The options awarded under a Long-Term Incentive Plan in 2010 lapsed.

Under the Savings-Related Share Option schemes, the following options were held by Directors:

	Scheme	Options at end of year	Options at beginning of year
Gordon Banham	Savings-Related Share Option Scheme 7	819	819

Retirement of Directors
In accordance with the Articles of Association one-third of Directors retire by rotation each year. The Directors retiring by rotation are Iain Cockburn and Kevin Dougan. Iain Cockburn and Kevin Dougan, being eligible, offer themselves for re-election. As previously announced, Tim Ross is formally retiring as Chairman and Non-Executive Director at the end of this year's Annual General Meeting.

Directors' Report
continued

Significant Shareholdings
At 7 August 2015 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	% of issued share capital
Schroder Investment Management Ltd	5,180,034	16.14%
Fidelity Management & Research Company	3,208,568	10.00%
Shareholder Value Beteiligungen AG	2,970,123	9.26%
Artemis Investment Management LLP	2,703,375	8.43%
Gordon Banham	2,273,466	7.09%
The NFU Mutual Insurance Society Limited	1,460,000	4.55%
M & G Investment Management	1,320,444	4.12%

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, sexual orientation or marital status. In the event of employees becoming disabled every effort is made, including appropriate training, to ensure that their employment with the Group continues.

The Directors recognise the importance of good communications and good relations with employees.

Purchase of Own Shares
The Directors are authorised to make market purchases of the Company's own shares under an authority granted at the Annual General Meeting held on 5 November 2014. In accordance with the Company buy back policy 1,053,072 shares were purchased during the year. The Directors will seek authority to make market purchases of up to fifteen per cent of the Company's own shares at the 2015 Annual General Meeting (full details are available in the 2015 Notice of Annual General Meeting).

Approval to Issue Shares
The Directors will seek authority to allot up to a maximum aggregate nominal amount of £1,069,523 at the 2015 Annual General Meeting (full details are available in the 2015 Notice of Annual General Meeting).

Employee Share Schemes
The Company operates share option schemes for the benefit of employees. Information regarding the schemes and the number of options outstanding is given in Note 26 on page 74.

Political Contributions
The Group made no political contributions during the current or prior year.

Disclosure of Information to Auditor
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 auditor is 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 auditor is aware of that information.

Independent Auditor
The Board proposes to reappoint KPMG LLP as auditor. Resolutions concerning their continued appointment and to authorise the Directors to agree their remuneration will be put to the forthcoming Annual General Meeting of the Company (full details are available in the Notice of Annual General Meeting).

By order of the Board

Andrew Robertson
Company Secretary
10 August 2015

Corporate Governance

The Company is committed to maintaining high standards of corporate governance. Whilst the Company, which is listed on AIM, is not required to report on corporate governance matters, it is the Board's intention to both disclose and report on the corporate governance structures and processes that are operated and to develop these further to meet the standards appropriate for a group of Hargreaves' size and complexity.

The following sections set out how the Company and the Group have applied the principles and spirit of the UK Corporate Governance Code.

The Board

The Group is headed by an effective Board, which controls and leads the Group. A biography of each Director and details of the membership of the Board and its associated committees are provided on pages 22 and 23.

During the year the Board comprised a Non-Executive Chairman, three Executive Directors, and two independent Non-Executive Directors. David Morgan, who acts as the Senior Independent Director, was appointed Deputy Chairman with effect from 5 November 2014. As noted above, Tim Ross will retire as Chairman and Non-Executive Director at the end of this year's Annual General Meeting, whereupon David Morgan will be appointed Chairman.

The Board meets at least ten times per year, receiving appropriate information from management on a timely basis, and making further detailed enquiries where necessary to enable it to fully discharge its duties. The Board is collectively responsible for the long-term success of the Company and has ultimate responsibility for the management, direction and performance of the Group and its businesses. The Board is required to exercise objective judgment on all corporate matters and is accountable to shareholders for the proper conduct of the business.

The Board has a schedule of matters which are specifically reserved for its decision. All Directors have access to the advice and services of the Company Secretary who is a solicitor. The Company Secretary is responsible to the Board for ensuring that procedures are followed and for compliance with applicable rules and regulations.

There is a clearly defined division of responsibilities between the Chairman and the Group Chief Executive. The Chairman is primarily responsible for the leadership and effective working of the Board. This is achieved by:

- chairing Board meetings, setting the agendas in consultation with the Group Chief Executive and Company Secretary and encouraging the Directors to actively participate in Board discussions;
- leading the performance evaluation of the Board, its Committees and individual Directors;
- promoting high standards of corporate governance;
- ensuring timely and accurate distribution of information to the Directors and effective communication with shareholders;
- periodically holding meetings with the Non-Executive Directors without the Executive Directors present; and
- establishing an effective working relationship with the Group Chief Executive by providing support and advice whilst respecting executive responsibility.

There have been no significant changes in the commitments of the Chairman throughout the year which may impact upon his time and commitment to the Company.

The Group Chief Executive is responsible for the executive management of the Group and for ensuring the implementation of Board strategy and policy within approved business plans, budgets and timescales.

Non-Executive Directors

Non-Executive Directors bring a wide range of experience to the Group and throughout the year the Chairman and the Non-Executive Directors were considered by the Board to be independent.

Board Meetings

The Board meets regularly during the year as well as on an ad hoc basis, receiving appropriate information from management on a timely basis and making further detailed enquiries where necessary to enable the Board to discharge its duties. At each meeting the Board receives regular reports covering, for example, current trading, treasury, health and safety issues and capital expenditure proposals. There is a detailed process to ensure that the Board formally reviews and approves annual budgets and business plans. Throughout the year the Board reviews performance against these annual budgets and business plans.

The Board also receives regular updates on strategy and reviews other topics, including material risks, legal issues affecting the Group and uncertainties facing the business. The Board also evaluates its own performance. In addition, each year the senior management succession plan for the Group is reviewed with the Head of Human Resources.

Attendance at meetings	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	10	3	7	1
Tim Ross	10 attended	3 attended	7 attended	1 attended
Gordon Banham	10 attended	n/a	n/a	n/a
David Morgan	9 attended	3 attended	6 attended	1 attended
Peter Jones	10 attended	3 attended	7 attended	1 attended
Iain Cockburn	10 attended	n/a	n/a	n/a
Kevin Dougan	10 attended	n/a	n/a	n/a

Corporate Governance
continued

The Board continued

Board Committee

The Board has three Committees which assist in the discharge of its responsibilities:

- Remuneration;
- Audit; and
- Nominations.

Each Committee reports to, and has its terms of reference approved by, the Board and each Committee's terms of reference can be found on the Group's website.

Remuneration Committee

The composition and work of the Remuneration Committee is described in the Remuneration Report found on page 31.

The Audit Committee and Independent Auditor

During the year the Audit Committee comprised the Non-Executive Directors. David Morgan sits as Chairman of the Committee and is a chartered accountant with a corporate governance background. He brings a high level of relevant financial and corporate governance experience to the Committee. The Board is satisfied that he has recent and relevant financial experience. The Group Chief Executive, Finance Director and the independent auditor are invited to attend meetings. The independent auditor throughout the financial year was KPMG LLP who led the external audit.

The Committee meets at least three times a year to review the Group's accounting and financial reporting practices; the work of the independent auditor; and, compliance with policies, procedures and applicable legislation. The objectivity of the independent auditor is maintained by ensuring that they have direct access to the Committee and, as appropriate, the Board.

During the year the Committee reviewed the half year and annual financial statements before submission to the Board. The Committee is also responsible for receiving and reviewing reports from the Risk Committee and for reviewing the scope, remit and effectiveness of internal audit provisions and the effectiveness of the Group's internal control systems. It also reviews the whistle-blowing arrangements by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties, and the anti-bribery and corruption policy. The minutes of the Committee are circulated to all Directors for information.

The independence and objectivity of the independent auditor are considered annually by the Committee. The Board recognises the importance of safeguarding auditor objectivity and has taken the following steps to ensure that auditor independence is not compromised:

- the Committee reviews the audit appointment periodically and undertakes a review of the effectiveness of the external audit process on an annual basis;
- at least once per year the independent auditor meets with the Committee, or the Chairman of the Committee on its behalf, without members of management being present;
- non-audit work is limited to work that requires detailed knowledge derived from the statutory audit or work where fees are not considered to be material, and exceptions to this are specifically approved by the Committee;
- the Committee reviews and approves all fees paid for audit, and all other fees paid to the Independent auditor, with a view to ensuring that there is value of delivery and appropriate cost-effectiveness; and
- the independent auditor provides a report to the Board and the Committee confirming its independence in accordance with Auditing Standards.

The effectiveness of the annual audit process is reviewed each year when the robustness of the audit process, quality of delivery and service levels provided are assessed. The Audit Committee notes the Financial Reporting Council's Guidance published in September 2012 concerning the requirement for audit services to be put out to tender by FTSE 350 companies once in each ten-year period.

Nominations Committee

The Nominations Committee leads the process for the appointment of Directors by making recommendations to the Board about filling vacancies and appointing additional persons to the Board and to senior management positions. This approach assists in maintaining an appropriate balance of skills and experience both on the Board and throughout the Group. It also considers and makes recommendations to the Board on its composition, balance and membership and on the re-appointment by shareholders of any Director under the retirement by rotation provisions in the Company's Articles of Association. Following such appointment, the Director is required to retire and seek re-appointment at the next Annual General Meeting. There is a process of rotation, which ensures that approximately one third of all Directors are required to retire and seek re-appointment at each Annual General Meeting.

During the year the Nominations Committee reviewed the composition of the Board, leadership requirements and succession planning, together with a performance evaluation of Non-Executive time-commitment. The specification for the role of an additional Non-Executive Director was agreed with the Board. A shortlist of potential appointees was produced with the assistance of external agencies. The Committee also reviews its own effectiveness.

The Committee's members are the independent Non-Executives. Although the Chairman, Tim Ross, is also Chairman of the Committee he did not chair the Committee when choosing his successor. The Committee evaluates the balance of skills, knowledge and experience on the Board and in light of this evaluation, prepares a description of the roles and capabilities required for a particular appointment.

All Directors have service agreements or letters of appointment and the details of their terms are set out in the Remuneration Report on page 32.

The Committee recognises the benefits to the Group of diversity in the workforce and in the composition of the Board itself. While the Company will continue to make all appointments based on the best candidate for the role and without prejudicing its policy of appointing the most suitable applicant for any role, it is aware of the desirability of female representation.

Executive Management Committee

The Group Chief Executive is assisted by the work of the Group Executive and its sub-committees. Together these form part of the Company's corporate governance framework, but are not formally appointed committees of the Board.

- **Executive Management Team** – responsible under the leadership of the Group Chief Executive for the day-to-day management of the business, setting performance targets and implementing the Group's strategy and direction as determined by the Board. Monthly meetings attended by the Group Executive Management Team are held to review operational performance and assess the strategic development of each division.
- **Risk Committee** – responsible for driving effective risk management throughout the business; reporting and making recommendations to the Audit Committee as appropriate; and, monitoring and reporting on all material business risks which might impact the delivery of the Group's strategic goals and objectives. Members of the Committee include the Group Finance Director, or his Deputy, and senior financial and operational management. Day-to-day risk management is the responsibility of senior management as part of their everyday business processes. This is underpinned by the Group's policies and procedures to ensure that risk management is fully embedded throughout the organisation. The Board has ultimate responsibility for ensuring that business risks are effectively managed. The Board has considered and approved the Risk Committee policy and has delegated the regular review of the risk management process to the Audit Committee. The Audit Committee receives regular reports and monitors progress against agreed action plans arising out of reviews.

Induction, Development and Support

All new Directors receive a full, formal and tailored induction on joining the Board, including meetings with senior management and advisers and visits to the Group's operational locations. The Board calendar is planned to ensure that Directors are briefed on a wide range of topics throughout the year and are given the opportunity to visit sites and discuss aspects of the business with employees. The Board recognises that the Directors have a diverse range of experience, and encourages them to attend external seminars and briefings that will assist them individually.

Directors have access to independent professional advice at the Company's expense where they judge this to be necessary to discharge their responsibilities as Directors. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

Board Performance Evaluation

To further strengthen Group compliance the Board undertakes an annual performance review that reviews and measures its effectiveness and that of its Committees. Alongside this review each Director receives an appraisal. The Chairman conducts appraisals in respect of the Group Chief Executive and Non-Executive Directors; the Senior Independent Director (following discussions with the other Directors) conducts the Chairman's appraisal; and, the Group Chief Executive conducts appraisals in respect of the other Executive Directors.

Conflicts of Interest

The Articles of Association enable the Directors to authorise any situation in which a Director has an interest that conflicts or has the potential to conflict with the Company's and Group's interests and which would otherwise be a breach of the Director's duty under section 175 of the Companies Act 2006. The Board has a formal system in place for Directors to declare such situations to be considered for authorisation by those Directors who have no interest in the matter being considered. The Nominations Committee will review conflicts of interests when considering new Board appointments.

Internal Control

Management has considerable autonomy to run and develop the business of the Group. The Board believes that a well-designed system of internal reporting and control is necessary. The Board therefore continues to have overall responsibility to develop and strengthen internal controls further. The Audit Committee, on behalf of the Board, has the responsibility for reviewing internal controls. 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 Audit Committee receives regular reports on internal control. 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.

Relations with Shareholders

An important role of the Board is to represent and promote the interests of its shareholders as well as being accountable to them for the performance and activities of the Group. The Board believes it is important to engage with its shareholders and does this in a number of ways through presentations, conference calls, face-to-face meetings and the Annual General Meeting. Following the announcement of the Group's half-year and year-end results, presentations are made to analysts and major shareholders to update them on progress and invite them to ask questions.

The Board is updated on the latest shareholder information by the receipt of shareholder register movements, analyst reports and feedback from the Group's brokers following investor road shows after half-year and year-end results.

All Directors attend the Annual General Meeting and engage in discussion with shareholders present.

Safety, Health and the Environment

The Group 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.

Corporate Governance
continued

Safety, Health and the Environment continued
The 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. All divisions have formulated safety management systems. We continue with the programme to achieve OHSAS 18001 Occupation Health and Safety Assessment Series for health and safety management systems and ISO 14000 environmental management.

Compliance with Laws
The Group has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice. Compliance with the Bribery Act 2010 involves an Anti-Corruption Policy and a Group Whistle-Blowing Policy, which can be found on the website. Training is given to all appropriate employees through the use of online tools to ensure that there is full understanding of the Bribery Act and awareness of the consequences of not adhering to Group policies.

Going Concern
The Group's business activities and financial position; the factors likely to affect its future development and performance; and, its objectives and policies in managing financial risks are discussed in the Financial Review on page 15.

The Directors have assessed, in light of current and anticipated economic conditions, the Group's ability to continue as a going concern. The Directors are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the "going concern" basis for preparing the accounts.

Remuneration Report

Responsibilities and Role of the Remuneration Committee
The Committee's principal function is to review the remuneration of the Executive Directors. It also monitors the remuneration of the Group's senior managers. The remuneration strategy, policy and approach for all staff, is also reviewed annually by the Committee. The full Terms of Reference of the Committee are available on the website.

The policy for the current and future financial years for the remuneration and incentivisation of the Executive Directors is as follows:

- ensure that individual rewards and incentives are aligned with the performance of the Company and the interests of shareholders;
- ensure that performance-related elements of remuneration constitute a significant proportion of an executive's remuneration package; and
- maintain a competitive remuneration package which enables the Company to attract, retain and motivate high calibre executives.

The Committee reviews the Company's executive remuneration arrangements and implements incentive arrangements to support the objective of rewarding those individuals who deliver real and genuine shareholder value. In developing the arrangements the Committee and its advisers consider current market practice.

The Committee invites individuals to attend meetings to provide advice to ensure that the Committee's decisions are informed and take account of pay and conditions across the Group. During the year the Group Chief Executive and Group Head of Human Resources attended meetings and provided relevant information to the Committee.

Membership of the Committee
The members of the Committee which met on nine occasions during the year were:

Peter Jones Chairman
David Morgan
Tim Ross

Peter Jones brings a wealth of knowledge to the Committee and has chaired the Committee from 6 June 2014.

All members of the Committee are Independent Non-Executive Directors and are recognised by the Board as capable of bringing independent judgement to bear. The Group Chief Executive is consulted and invited to attend meetings, when appropriate, but no Director is allowed to be present when his own remuneration is discussed.

During the year the Committee reviewed and considered annual pay rises and conditions of service for employees earning over £100k; bonus scheme arrangements; the vesting and granting of Long-Term Incentive Plans; the Group's annual pay review; and the effectiveness of 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.

Annual Bonus
Executive Directors participate in an annual incentive bonus scheme linked to the actual achievement of Group targets set by the Committee. These being profit before tax, net debt and safety. Such bonus is capped at 100% of salary. No bonus counts in the calculation of pension entitlement.

Long-Term Incentives
The Executive Directors and other senior employees are invited to participate in Long-Term Incentive Plans, whereby shares in the Group are awarded subject to performance criteria including Earnings Per Share growth targets over a three-year period. The Group LTIP were replaced by a deferred bonus scheme in 2014.

Benefits in Kind and Pensions
In addition to basic salary, Executive Directors are entitled to the following benefits: paid holiday, company car, contributions to a personal pension plan and life assurance, private medical insurance and permanent health insurance.

Directors' Remuneration for the Year to 31 May 2015

	Salary/Fees		Bonus in Cash		Benefits		Total		Pension	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Gordon Banham	**452**	443	**181**	–	**43**	39	**676**	482	**113**	111
Iain Cockburn	**300**	261	**120**	130	**24**	18	**444**	409	**75**	52
Kevin Dougan	**247**	242	**90**	110	**28**	34	**365**	386	**–**	–
Tim Ross	**65**	53	**–**	–	**–**	–	**65**	53	**–**	–
David Morgan	**55**	43	**–**	–	**–**	–	**55**	43	**–**	–
Peter Jones	**40**	–	**–**	–	**–**	–	**40**	–	**–**	–
Peter Gillatt* (resigned 09.09.2013)	**–**	10	**–**	–	**–**	–	**–**	10	**–**	–
Total	**1,159**	1,052	**391**	240	**95**	91	**1,645**	1,383	**188**	163

Remuneration Report
continued

Directors' Service Contracts and Letters of Appointment
The Directors have entered into service agreements and letters of appointment with the Company and the principal terms are as follows:

Date of latest agreement	Name	Position	Commencement of period of office	2015/16 Salary (£)	Notice period
3 September 2013	Tim Ross	Non-Executive Chairman	30 November 2005	65,000	12 months' notice
3 September 2013	Gordon Banham	Group Chief Executive	1 October 2001	406,907	12 months' notice
3 September 2013	Kevin Dougan	Group Commercial Director	23 June 1997	202,026	12 months' notice
3 September 2013	Iain Cockburn	Group Finance Director	8 October 2007	270,000	12 months' notice
3 September 2013	David Morgan	Senior Independent Director	24 February 2012	55,000	6 months' notice
6 June 2014	Peter Jones	Non-Executive Director	6 June 2014	40,000	n/a

Non-Executive Directors are not eligible to participate in any incentive plans, share option schemes or Company pension arrangements and are not entitled to any payment in compensation for any early termination of their appointment.

Directors' Share Options
Details of Directors' share options, held under the Savings-Related Share Option Scheme and Executive Long-Term Incentive Plan, are noted in the Directors' Report on pages 24 and 25.

Savings-Related Share Option Scheme
The Sharesave Scheme is a ten year savings-related share option scheme and was implemented in December 2005. This will not be renewed in 2015.

All employees (including Executive Directors) of the Group, 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 Group and shall normally be at a 10% discount on the market value of a share on the date invitations are issued to eligible employees. In the 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 65 if they 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. No LTIP award was granted in the year ended 31 May 2015.

The scheme was designed to allow awards to be made to eligible employees selected by the Remuneration Committee.

The vesting of an award granted to an Executive Director of the Company shall, or in the case of an award granted to any other Group employee may, be subject to the satisfaction of one or more Performance Conditions. The Remuneration Committee may determine or recommend to the Trustee that the vesting of an award will be subject to any other objective condition in addition to the Performance Conditions. The Performance Conditions on current awards, are included in Note 26.

The rules of the LTIP schemes allow participants to exercise options, to the extent they have satisfied the performance conditions, after the expiry of the vesting period.

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 ten years after the date of the grant, except if the participant dies, in which case the option will lapse 12 months following death, whichever date is earlier.

Deferred Bonus Scheme
A Deferred Bonus Scheme ("the Scheme") was implemented in December 2014. The Scheme was introduced as a temporary replacement for the Executive Long-Term Incentive Plan ("LTIP") for the year ended 31 May 2015. Although the Scheme is proposed to be a one year scheme, with a focus on incentivising the Executive team during a transitional period for the Group, it may be extended.

The Scheme was designed to allow awards to be made to Executive Directors selected by the Remuneration Committee. The value of any award made under the Scheme will be sixty percent of any bonus received under the Group Annual Bonus Scheme. This figure in turn will be converted into shares using the mid closing price of a Hargreaves Services plc share on the day preceding the award.

By order of the Board

Peter Jones
Non-Executive Director
10 August 2015

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 the 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 the Group's 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 Auditor's Report to the Members of Hargreaves Services plc

We have audited the financial statements of Hargreaves Services plc for the year ended 31 May 2015, set out on pages 36 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 Auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 34, 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, and express an opinion on, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2015 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 Matter Prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and 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.

Nick Plumb
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

10 August 2015

Consolidated Statement of Profit and Loss and Other Comprehensive Income for year ended 31 May 2015

Continuing operations	Note	2015 £000	2014 £000
Revenue	1,2	**662,161**	869,244
Cost of sales		**(588,390)**	(771,626)
Gross profit		**73,771**	97,618
Other operating income	4	**733**	970
Administrative expenses – Impairment of non-current assets		**–**	(2,829)
Other administrative expenses	5	**(36,430)**	(44,819)
Operating profit (before simplification)		**38,074**	50,940
Simplification costs – Administrative expenses	6	**(9,130)**	2,087
Operating profit (after simplification)	1,5,7,8	**28,944**	53,027
Financial income	9	**1,152**	1,121
Financial expenses	9	**(3,617)**	(5,568)
Simplification costs – Unrealised fair value gains and losses on derivative financial instruments	6	**(3,080)**	–
Share of profit in associates and joint ventures (net of tax)	16	**1,504**	3,499
Profit before tax		**24,903**	52,079
Income tax expense	11	**(3,554)**	(11,525)
Profit for the year from continuing operations		**21,349**	40,554
Discontinued operations			
Loss for the year from discontinued operations	10	**(779)**	(3,734)
Profit for the year		**20,570**	36,820
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans	25	**(1,733)**	(2,738)
Tax recognised on items that will not be reclassified to profit or loss	11	**368**	460
Items that are or may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		**(1,766)**	(754)
Effective portion of changes in fair value of cash flow hedges		**(4,769)**	10,576
Tax recognised on items that are or may be reclassified subsequently to profit or loss	11	**862**	(2,118)
Other comprehensive (expense)/income for the year, net of tax		**(7,038)**	5,426
Total comprehensive income for the year		**13,532**	42,246

	Note	2015 £000	2014 £000
Profit attributable to:			
Equity holders of the Company		**20,454**	36,995
Non-controlling interest		**116**	(175)
Profit for the year		**20,570**	36,820
Total comprehensive income/(expense) attributable to:			
Equity holders of the Company		**13,416**	42,443
Non-controlling interest		**116**	(197)
Total comprehensive income/(expense) for the year		**13,532**	42,246
Basic earnings per share (pence)	12	**62.91**	111.88
Diluted earnings per share (pence)	12	**61.88**	110.99
Basic earnings per share from continuing operations (pence)	12	**65.31**	123.18
Diluted earnings per share from continuing operations (pence)	12	**64.24**	122.19
Non GAAP Measures			
Basic underlying earnings per share from continuing operations (pence)		**95.41**	125.77
Diluted underlying earnings per share continuing operations (pence)		**93.85**	124.76

Balance Sheets
at 31 May 2015

	Note	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Non-current assets					
Property, plant and equipment	13	**57,144**	80,293	**–**	–
Investment property	14	**5,126**	–	**–**	–
Intangible assets	15	**9,472**	17,801	**–**	–
Investments in associates and joint ventures	16	**5,963**	6,843	**4,984**	5,027
Investments in subsidiary undertakings	16	**–**	–	**32,902**	32,574
Derivative financial instruments	17	**–**	2,965	**–**	–
Deferred tax assets	19	**2,512**	–	**123**	123
		80,217	107,902	**38,009**	37,724
Current assets					
Assets held for sale	10	**5,040**	8,171	**–**	–
Inventories	20	**57,803**	100,437	**–**	–
Derivative financial instruments	17	**1,088**	4,178	**–**	–
Trade and other receivables	21	**108,750**	133,518	**545,063**	600,525
Cash and cash equivalents	22	**43,853**	30,768	**19,906**	427
		216,534	277,072	**564,969**	600,952
Total assets		**296,751**	384,974	**602,978**	638,676
Non-current liabilities					
Other interest-bearing loans and borrowings	23	**(7,165)**	(92,328)	**–**	(80,190)
Retirement benefit obligations	25	**(5,516)**	(5,580)	**–**	–
Provisions	27	**(5,762)**	(8,641)	**–**	–
Derivative financial instruments	18	**(1,308)**	(1,343)	**(1,308)**	–
Deferred tax liabilities	19	**–**	(2,172)	**–**	–
		(19,751)	(110,064)	**(1,308)**	(80,190)
Current liabilities					
Other interest-bearing loans and borrowings	23	**(37,656)**	(7,215)	**(32,772)**	–
Trade and other payables	24	**(73,078)**	(99,612)	**(456,401)**	(430,520)
Income tax liabilities		**(13,414)**	(14,823)	**–**	(496)
Provisions	27	**–**	(550)	**–**	–
Derivative financial instruments	18	**(4,351)**	(2,586)	**(224)**	(1)
		(128,499)	(124,786)	**(489,397)**	(431,017)
Total liabilities		**(148,250)**	(234,850)	**(490,705)**	(511,207)
Net assets		**148,501**	150,124	**112,273**	127,469

	Note	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Equity attributable to equity holders of the parent					
Share capital	28	**3,314**	3,309	**3,314**	3,309
Share premium		**73,955**	73,952	**73,955**	73,952
Other reserves	28	**211**	211	**–**	–
Translation reserve	28	**(3,731)**	(1,965)	**–**	–
Merger reserve	28	**1,022**	1,022	**1,022**	1,022
Hedging reserve	28	**(1,141)**	2,766	**(466)**	–
Capital redemption reserve	28	**1,530**	1,530	**1,530**	1,530
Retained earnings		**72,999**	69,073	**32,918**	47,656
		148,159	149,898	**112,273**	127,469
Non-controlling interest		**342**	226	**–**	–
Total equity		**148,501**	150,124	**112,273**	127,469

These financial statements were approved by the Board of Directors on 10 August 2015 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 2015

Group	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000	Non-controlling interest £000	Total equity £000
Balance at 1 June 2013	3,296	73,208	(872)	(5,692)	211	1,530	1,022	47,265	119,968	(1,638)	118,330
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	36,995	36,995	(175)	36,820
Other comprehensive income/ (expense)											
Foreign exchange translation differences	–	–	(732)	–	–	–	–	–	(732)	(22)	(754)
Effective portion of changes in fair value of cash flow hedges	–	–	–	10,576	–	–	–	–	10,576	–	10,576
Remeasurements of defined benefit pension plans	–	–	–	–	–	–	–	(2,738)	(2,738)	–	(2,738)
Tax recognised on other comprehensive income	–	–	–	(2,118)	–	–	–	460	(1,658)	–	(1,658)
Total other comprehensive income/ (expense)	–	–	(732)	8,458	–	–	–	(2,278)	5,448	(22)	5,426
Total comprehensive income/ (expense) for the year	–	–	(732)	8,458	–	–	–	34,717	42,443	(197)	42,246
Transactions with owners recorded directly in equity											
Issue of shares	13	744	–	–	–	–	–	–	757	–	757
Equity settled share-based payment transactions	–	–	–	–	–	–	–	1,224	1,224	–	1,224
Dividends	–	–	–	–	–	–	–	(7,406)	(7,406)	–	(7,406)
Total contributions by and distributions to owners	13	744	–	–	–	–	–	(6,182)	(5,425)	–	(5,425)
Changes in ownership interests											
Acquisition of non-controlling interest without a change in control	–	–	–	–	–	–	–	(6,727)	(6,727)	3,922	(2,805)
Disposal of subsidiaries	–	–	(361)	–	–	–	–	–	(361)	(1,861)	(2,222)
Total changes in ownership	–	–	(361)	–	–	–	–	(6,727)	(7,088)	2,061	(5,027)
Total transactions with owners	13	744	(361)	–	–	–	–	(12,909)	(12,513)	2,061	(10,452)
Balance at 31 May 2014	3,309	73,952	(1,965)	2,766	211	1,530	1,022	69,073	149,898	226	150,124

Group	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000	Non-controlling interest £000	Total equity £000
Balance at 1 June 2014	3,309	73,952	(1,965)	2,766	211	1,530	1,022	69,073	149,898	226	150,124
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	20,454	20,454	116	20,570
Other comprehensive income/(expense)											
Foreign exchange translation differences	–	–	(1,766)	–	–	–	–	–	(1,766)	–	(1,766)
Effective portion of changes in fair value of cash flow hedges	–	–	–	(4,769)	–	–	–	–	(4,769)	–	(4,769)
Remeasurements of defined benefit pension plans	–	–	–	–	–	–	–	(1,733)	(1,733)	–	(1,733)
Tax recognised on other comprehensive income	–	–	–	862	–	–	–	368	1,230	–	1,230
Total other comprehensive (expense)	–	–	(1,766)	(3,907)	–	–	–	(1,365)	(7,038)	–	(7,038)
Total comprehensive income/(expense) for the year	–	–	(1,766)	(3,907)	–	–	–	19,089	13,416	116	13,532
Transactions with owners recorded directly in equity											
Issue of shares	5	3	–	–	–	–	–	–	8	–	8
Equity settled share-based payment transactions	–	–	–	–	–	–	–	(89)	(89)	–	(89)
Dividends paid	–	–	–	–	–	–	–	(8,744)	(8,744)	–	(8,744)
Purchase of own shares	–	–	–	–	–	–	–	(6,330)	(6,330)	–	(6,330)
Total contributions by and distributions to owners	5	3	–	–	–	–	–	(15,163)	(15,155)	–	(15,155)
Balance at 31 May 2015	3,314	73,955	(3,731)	(1,141)	211	1,530	1,022	72,999	148,159	342	148,501

Statements of Changes in Equity
for year ended 31 May 2015 continued

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Hedging reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1 June 2013	3,296	73,208	1,530	1,022	–	9,335	88,391
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	44,503	44,503
Total comprehensive income for the year	–	–	–	–	–	44,503	44,503
Transactions with owners recorded directly in equity							
Issue of shares	13	744	–	–	–	–	757
Equity settled share-based payment transactions	–	–	–	–	–	1,224	1,224
Dividends paid	–	–	–	–	–	(7,406)	(7,406)
Total transactions with owners	13	744	–	–	–	(6,182)	(5,425)
Balance at 31 May 2014	3,309	73,952	1,530	1,022	–	47,656	127,469
Balance at 1 June 2014	3,309	73,952	1,530	1,022	–	47,656	127,469
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	425	425
Other comprehensive income/(expense)							
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(466)	–	(466)
Total comprehensive income for the year	–	–	–	–	(466)	425	(41)
Transactions with owners recorded directly in equity							
Issue of shares	5	3	–	–	–	–	8
Equity settled share-based payment transactions	–	–	–	–	–	(89)	(89)
Dividends paid	–	–	–	–	–	(8,744)	(8,744)
Purchase of own shares	–	–	–	–	–	(6,330)	(6,330)
Total contributions by and distributions to owners	5	3	–	–	–	(15,163)	(15,155)
Balance at 31 May 2015	3,314	73,955	1,530	1,022	(466)	32,918	112,273

Cash Flow Statements
for year ended 31 May 2015

	Note	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Cash flows from operating activities					
Profit for the year from continuing operations		**21,349**	40,554	**425**	44,503
Adjustments for:					
Depreciation		**10,009**	9,407	**–**	–
Impairment of property, plant and equipment		**10,078**	2,829	**–**	–
Depreciation of mining assets		**8,901**	2,873	**–**	–
Amortisation and impairment of goodwill and intangible assets		**5,567**	1,319	**–**	–
Dividend income		**–**	–	**(2,153)**	(41,770)
Net finance expense		**2,465**	4,447	**1,011**	835
Share of profit in associates and joint ventures (net of tax)		**(1,504)**	(3,499)	**–**	–
Profit on sale of property, plant and equipment		**(733)**	(970)	**–**	–
Profit on disposal of subsidiaries		**(16,253)**	(2,087)	**–**	(3,756)
Equity settled share-based payment expenses		**(123)**	1,050	**–**	–
Income tax expense		**3,554**	11,525	**(490)**	496
Loss/(Gain) on derivative financial instruments		**3,080**	(199)	**1,105**	11
Translation of non-controlling interest and investments		**(298)**	(22)	**–**	–
		46,092	67,227	**(102)**	319
Change in inventories		**37,627**	(28,434)	**–**	–
Change in trade and other receivables		**11,257**	13,435	**55,458**	(93,874)
Change in trade and other payables		**(22,666)**	(6,461)	**25,881**	88,791
Change in provisions and employee benefits		**(3,334)**	1,115	**–**	–
		68,976	46,882	**81,237**	(4,764)
Interest paid		**(1,362)**	(3,871)	**(430)**	(278)
Income tax paid		**(4,716)**	(793)	**–**	–
Net cash from continuing operating activities		**62,898**	42,218	**80,807**	(5,042)
Net cash from operating activities in discontinued operations		**1,055**	(9,149)	**–**	–
Net cash from operating activities		**63,953**	33,069	**80,807**	(5,042)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**2,927**	2,089	**–**	–
Dividends received		**2,153**	4,273	**2,153**	4,273
European reorganisation		**–**	10,242	**–**	–
Disposal of subsidiaries		**24,807**	–	**364**	–
Acquisition of subsidiaries (net of cash acquired)		**(637)**	–	**(779)**	–
Acquisition of property, plant and equipment	13	**(11,263)**	(23,618)	**–**	–
Net cash from investing activities in continuing operations		**17,987**	(7,014)	**1,738**	4,273
Net cash from investing activities in discontinued operations		**1,677**	2,910	**–**	–
Net cash from investing activities		**19,664**	(4,104)	**1,738**	4,273
Cash flows from financing activities					
Proceeds from the issue of share capital (net of directly attributable expenses)	28	**8**	755	**8**	757
Payment of finance lease liabilities		**(5,636)**	(4,960)	**–**	–
Dividends paid	28	**(8,744)**	(7,406)	**(8,744)**	(7,406)
Purchase of own shares		**(6,330)**	–	**(6,330)**	–
Repayment of revolving credit facility	22	**(48,000)**	(4,000)	**(48,000)**	(4,000)
Net cash from financing activities in continuing operations		**(68,702)**	(15,611)	**(63,066)**	(10,649)
Net cash from financing activities in discontinued operations		**(1,578)**	(1,923)	**–**	–
Net cash from financing activities		**(70,280)**	(17,534)	**(63,066)**	(10,649)
Net increase/(decrease) in cash and cash equivalents		**13,337**	11,431	**19,479**	(11,418)
Cash and cash equivalents at 1 June		**30,768**	18,959	**427**	11,845
Effect of exchange rate fluctuations on cash held		**(252)**	378	**–**	–
Cash and cash equivalents at 31 May	22	**43,853**	30,768	**19,906**	427

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 joint ventures. 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 various Adopted IFRSs which are effective for the first time, have been adopted including the following standards, amendments and interpretations:

- IFRS 10 "Consolidated Financial Statements".
- IFRS 11 "Joint Arrangements".
- IFRS 12 "Disclosure of Interests in Other Entities".
- Amendments to IAS 27 "Separate Financial Statements".
- Amendments to IAS 28 "Investments in Associates and Joint Ventures".
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance".
- Amendments to IAS 32: "Offsetting Financial Assets and Financial Liabilities".
- Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets.
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting.

None of the Adopted IFRSs adopted by the Group had a significant impact on the Group's result for the year or its equity.

Subsidiaries
As a result of IFRS 10, the Group has reconsidered its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee, and an ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees at 1 June 2014. No modifications of previous conclusions about control regarding the Group's investees were required.

Joint Arrangements
As a result of IFRS 11, the Group has reconsidered its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. No modifications of previous conclusions about joint arrangements were required following this assessment.

Disclosure of Interests in other Entities
In line with the requirements of IFRS 12, the Group and the Company have expanded disclosures about their interests in subsidiaries and equity-accounted investees.
Amendment to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets.
The Group and the Company have adopted the amendments to IAS 36 and have expanded their disclosures of recoverable amounts when they are based on fair value less costs of disposal and an impairment is recognised.

Accounting Estimates and Judgements
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 estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The 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, assets held for sale and other property assets**
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. Management have assessed the sensitivity of carrying amounts of cash-generating units containing goodwill to reasonably possible changes in key assumptions. Assets held for sale relate to residual equipment from discontinued operations. Estimates have been made of the net proceeds from these disposals. Other property assets are assessed on the basis of the strategy for each asset and the estimated net proceeds arising.

1 Accounting Policies continued

Accounting Estimates and Judgements continued

b) Mining production and profitability

The Group has a significant surface mining business primarily comprising the Tower joint venture and the operations in Scotland. Estimates of mine life and production levels, and the profitability of future production (which in the medium-term continues to be part dependent on future prices for coal and coke) are included in Group forecasts. These forecasts are used in the impairment assessment of certain related mining assets, including goodwill. Estimates of mine life and production levels also form the basis of depreciation of capitalised mining costs.

c) Restoration costs

Obligations exist at both Maltby Colliery and Monckton Coke Works to carry out restoration at the end of the productive life. The related provisions (see Note 27) are based on the nature and extent of the contamination and the estimated costs of restoration. These key assumptions are reviewed on a regular basis and these reviews may lead to adjustments to the provisions over their lives.

The Group's surface mining activities also give rise to obligations for site restoration. The restoration provisions are based on the Group's current obligation for the cost of future site restoration. Restoration provisions are measured at the expected value of future cash flows, discounted to their present value applying an appropriate risk-adjusted rate. Significant judgements and estimates are involved in forming an expectation of future activities and the amount and timing of the associated cash flows. Such expectations are based on existing planning requirements and management's future development plans which may give rise to a constructive obligation.

d) Post retirement employee benefits

The Group operates both funded defined benefit schemes and unfunded concessionary fuel schemes. The determination of the Group's obligations under these schemes is dependent on a number of long-term assumptions including the discount rate, inflation rate and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in future years.

e) Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model together with assumptions in respect of the key inputs into the model, including the achievement of certain service and performance conditions. Differences arising from actual experience may be reflected in future years.

f) Deferred tax asset

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.

Measurement Convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments and 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 6 to 10. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 15 to 17. In addition, Note 29 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 challenging trading conditions. In making this assessment, the Board has reviewed projections for the next five years, taking into account key assumptions and uncertainties.

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 10 August 2015.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Change in Subsidiary Ownership and Loss of Control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Notes
(forming part of the financial statements) continued

1 Accounting Policies continued

Basis of Consolidation continued

Joint Arrangements

A joint arrangement is an arrangement over which the Group and one or more third parties have joint control. These joint arrangements are in turn classified as:

- Joint ventures – whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities; and
- Joint operations – whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement.

Associates

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.

Application of the Equity Method to Associates and Joint Ventures

Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted 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.

Joint Operations

Where the Group is a party to a joint operation, the consolidated financial statements include the Group's share of the joint operation's assets and liabilities, as well as the Group's share of the entity's profit or loss and other comprehensive income, on a line-by-line basis.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Separate Parent Company Financial Statements

In the parent company financial statements, all investments in subsidiaries, joint ventures, and associates are carried at cost less impairment.

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 retranslated 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 other comprehensive income.

The assets and liabilities of foreign operations are translated into Pounds Sterling, the Group's presentational currency, at the exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence is lost, the entire accumulated amount in the translation reserve, net of amounts previously attributed to non-controlling interests, is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests.

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.

1 Accounting Policies continued

Financial Instruments

Non-Derivative Financial Instruments

Non-derivative financial instruments include investments, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. These are initially recognised at fair value and subsequently are measured at amortised cost.

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.

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

Cash Flow Hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction (for example, interest payments, sales and purchases denominated in foreign currency, sale and purchase of commodities), changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in the hedging reserve to the extent that the hedge is effective. Amounts deferred in equity are recognised in the Consolidated Statement of Comprehensive Income when the hedged item affects profit or loss. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in profit or 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 economic lives, they are accounted for as separate items of property, plant and equipment.

Mine development costs associated with the Group's surface mining operations are depreciated on a tonnage extracted basis over the estimated production life of the site.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful economic 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.
Investment properties	–	2% to 4% p.a.

Mining Assets

Surface mine development	–	units of coal production
Restoration asset	–	units of coal production
Stripping activity asset	–	units of coal production from the specific box cut to which the associated stripping asset relates

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. Depreciation on assets in the course of construction commences when the assets are available for use.

Mining Assets

Surface Mine Development Asset

Costs incurred in preparing and developing sites are referred to as 'surface mine development costs' and are capitalised within 'property, plant and equipment' as part of 'Mining assets'. Surface mine development costs principally comprise:

- the costs associated with achieving the necessary planning permission and consents, licences and permits required to operate the site;
- drilling, pumping, geology and mine design costs; and
- site development and infrastructure costs.

Notes
(forming part of the financial statements) continued

1 Accounting Policies continued
Mining Assets continued
Surface Mine Development Asset continued
This asset is amortised to the statement of comprehensive income on a units of production method. Production is deemed to commence when work to extract coal from the first production box cut begins.

Income from incidental coal that is extracted during the development phase is included within the consolidated statement of comprehensive income together with the associated direct costs.

Stripping Asset
During the production phase, a non-current "stripping activity asset" is recognised within 'Mining assets' to capitalise costs of removing overburden in order to gain access or improve access to coal deposits; to the extent that future economic benefits are probable, the deposit of coal to which access has been improved can be identified, and costs reliably measured. The stripping activity asset is initially measured at cost and subsequently carried at cost or its revalued amount less amortisation and impairment. The stripping activity asset is amortised over the units of production of the coal deposit identified as being made more accessible as a result of the directly associated stripping activity.

Business Combinations
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.

Acquisitions on or After 1 June 2010
For acquisitions on or after 1 June 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Acquisitions Between 1 June 2006 and 1 June 2010
Goodwill arising on acquisitions that have occurred between 1 June 2006 and 1 June 2010 is capitalised and is 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.

Acquisitions Prior to 1 June 2006 (Date of Transition to IFRSs)
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.

Acquisitions and Disposals of Non-Controlling Interests
Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (2008), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

Intangible Assets and Goodwill
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Other intangible assets that are acquired by the Group, which have finite useful economic lives, are stated 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.

1 Accounting Policies continued

Investment Property

Investment properties are properties which are held either to earn rental income, or for capital appreciation, or for both. Investment properties are stated at cost less accumulated depreciation.

Assets Held for Sale

The Group has classified non-current assets as held for sale if the carrying value will be recovered principally through sale rather than continuing use, they are available for immediate sale and the sale is highly probable within one year.

On initial classification as held for sale, assets are measured at the lower of carrying amount and fair value less costs to sell, with any adjustments taken to the Income Statement. In accordance with IFRS 5, no reclassifications are made in prior periods.

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.

Work in progress includes work to date on service contracts where project milestones have not yet been reached.

Trade and Other Receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost less any impairment losses. 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 cash flow statement.

Trade and Other Payables

Trade and other payables are non-interest-bearing and are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments

Investments in joint ventures, associates and subsidiaries are carried at cost less impairment in the parent company accounts.

Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transactions costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Impairment

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

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

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

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, remeasurement gains and losses.

Notes
(forming part of the financial statements) continued

1 Accounting Policies continued

Employee Benefits continued

Defined Benefit Pension Plans continued

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, remeasurement 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 for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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.

The Group has implemented a share buyback programme during the year. Shares purchased by the Group are deducted from retained earnings at the total consideration paid or payable.

Simplification Costs

The Group has undertaken a "Simplification Programme" in the year whereby significant changes have been made to the Group's business model. The net costs arising from these changes, to the extent that they are material by size and/or nature, have been separately disclosed as Simplification costs (representing exceptional administrative expenses and unrealised fair value gains and losses on derivative financial instruments) in these accounts, to enable a reader of the accounts to understand the impact of the programme on the Group's performance.

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.

Coal, Coke and Other Mineral Sales

Revenue is recognised when delivery of the product has been made and title has passed to the customer. A number of sales are sold on long-term contracts, whereby quantities and pricing are agreed with customers for a defined future period. Revenue is recognised on individual sales when the conditions above have been met.

Revenue is measured at the invoiced price net of VAT and any discounts. If, as a separate transaction, the Company has entered into a derivative contract to hedge the sale price, any gains or losses on that hedge instrument are also included in revenue at the same time as the hedged transaction is recorded as revenue.

Services

Revenue is recognised when the service has been delivered and the Group has performed its obligations under the sales contract. A large proportion of sales are subject to long-term contracts, typically on a cost-plus or similar basis. The profit on such contracts is recognised (and invoiced) evenly over §the term of the contract unless it is clear that the timing of contract performance requires profit to be recognised on an alternative basis. Certain contracts, for example, include specific programmes of work to be carried out. In these instances, revenue is recognised on achievement of specific programme milestones through agreement with the customer. Any losses on such contracts are recognised in full immediately.

Leases

As Lessee

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 inception date 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 economic 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 term of the lease.

As Lessor

The Group also acts as lessor for certain equipment leased on a Hire Purchase basis. As substantially all the risks and rewards of ownership have passed to the lessee, the Group has derecognised the related equipment and recognised a recoverable for the minimum lease payments discounted at a rate which reflects a constant periodic rate of return over the life of the lease.

1 Accounting Policies continued

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 recognised through the profit and loss and the net interest on the pension scheme liability. This is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit asset/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 payment is established.

Taxation

Tax on the profit or loss for the period comprises both current and deferred tax. 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, that can be reliably measured 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.

Restoration and Rehabilitation Costs

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration. Restoration works can include site decommissioning and dismantling and site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Company's environmental policies.

An initial provision reflecting the current obligation for the cost of future site restoration is recognised at the commencement of the production phase for all liabilities created through development of the surface mine. Production activities give rise to further restoration obligations and provisions are made for these liabilities as they arise.

Restoration provisions are measured at the expected value of future cash flows, discounted to their present value applying an appropriate risk-adjusted rate. Significant judgements and estimates are involved in forming an expectation of future activities and the amount and timing of the associated cash flows. Such expectations are based on existing planning requirements and management's future development plans which give rise to a constructive obligation. Upon initial recognition of the restoration provision, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost is recognised as 'restoration assets' within 'mining assets'. This asset is amortised to the statement of comprehensive income on a units of production method over the life of mine. Further 'restoration assets' are capitalised as additional provisions are created through production activities. These assets are amortised to the statement of comprehensive income on a units of production method over the coal tonnage extracted from the area identified as giving rise to the additional restoration obligation.

The value of the provision is further increased over time as the effect of discounting unwinds, creating an expense recognised in 'other finance costs'. Restoration provisions are also adjusted for changes in estimates, which are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the unamortised capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the statement of comprehensive income. Changes to the capitalised cost result in an adjustment to future amortisation and financial charges.

Given the significant judgements and estimates involved, adjustments to the estimated amount and timing of future restoration and rehabilitation cash flows are a normal occurrence. Factors influencing those changes include but are not limited to: revisions to estimated reserves and site operations; planning requirements and management's development plans; changes in the estimated cost and scope of anticipated activities.

Adopted IFRSs Not Yet Applied

At the date of issue of these financial statements the following Adopted IFRSs have been endorsed but have not been applied in these financial statements. They are not expected to have a material effect on the financial statements:

- IFRIC 21 Levies
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs – 2010 – 2012
- Annual Improvements to IFRSs – 2011 – 2013

Notes
(forming part of the financial statements) continued

2 Segmental Information

The following 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 assess performance and make strategic decisions about allocation of resources.

The Group announced on 11 February 2015 the intention to combine the E&C Division and Production Division into one new division called Coal Production and Distribution. The resultant three division structure now forms the basis of the operating segments upon which, the Chief Operating Decision Maker assesses the business performance and makes strategic decisions. The comparative period has been restated to reflect this new divisional structure.

The new divisional structure is therefore:

- **Coal Production and Distribution:** Provides coal, coke, minerals, smokeless fuel and biomass products to a range of industrial, wholesale and public sector energy consumers.
- **Industrial Services:** Provides quality assured contract management services to clients in materials handling and a wide range of other industrial sectors.
- **Transport:** Provides bulk logistics to customers across the UK.

These segments are combinations of subsidiaries, jointly controlled entities and associates. They have separate management teams and provide different products and services. The three operating segments are also reportable segments.

Transactions between divisions are carried out at rates that do not give a competitive advantage to a particular division of the Group.

The segment results, as reported to the Board of Directors, are calculated under the principles of IFRS. Performance is measured on the basis of underlying operating profit, which is reconciled to profit before tax in the tables below:

	Coal Production & Distribution 2015 £000	Transport 2015 £000	Industrial Services 2015 £000	Total 2015 £000
Revenue				
Total revenue	485,948	68,309	127,769	682,026
Inter-segment revenue	(1,332)	(11,693)	(6,840)	(19,865)
Revenue from external customers	**484,616**	**56,616**	**120,929**	**662,161**
Underlying operating profit	**34,828**	**2,267**	**5,660**	**42,755**
Loss on Biomass conversion project	–	–	(2,400)	(2,400)
Amortisation of intangibles	(143)	–	–	(143)
Taxation on associates and joint ventures	(634)	–	–	(634)
Net financing costs	(1,435)	(421)	(609)	(2,465)
Profit before taxation (pre-simplification)	**32,616**	**1,846**	**2,651**	**37,113**
Simplification costs				(9,130)
Unrealised fair value gains and losses on derivative financial instruments				(3,080)
Profit before taxation				**24,903**
Depreciation charge	**(13,120)**	**(2,411)**	**(3,427)**	**(18,958)**
Capital expenditure	**11,163**	**1,864**	**397**	**13,424**
Net assets				
Segment assets	186,300	17,111	46,012	249,423
Segment liabilities	(67,929)	(10,649)	(23,150)	(101,728)
Segment net assets	**118,371**	**6,462**	**22,862**	**147,695**
Associates and joint ventures	5,963	–	–	5,963
Segment net assets including share of associates and joint ventures	**124,334**	**6,462**	**22,862**	**153,658**
Unallocated net assets				(5,157)
Total net assets				**148,501**

Unallocated net assets include goodwill and intangibles (£9.5m), revolving credit facility (£32.8m), cash and cash equivalents (£19.8m), derivative financial instruments (£4.6m), deferred tax asset (£2.9m) and other corporate items (£1.2m).

2 Segmental Information continued

	Coal Production & Distribution 2014 £000	Transport 2014 £000	Industrial Services 2014 £000	Total 2014 £000
Revenue				
Total revenue	760,992	88,975	122,599	972,566
Inter-segment revenue	(85,949)	(12,467)	(4,906)	(103,322)
Revenue from external customers	675,043	76,508	117,693	869,244
Underlying operating profit	49,257	4,508	5,734	59,499
Gain on disposal of subsidiaries	2,087	–	–	2,087
Impairment of property, plant and equipment	(2,829)	–	–	(2,829)
Amortisation of intangibles	(990)	–	(329)	(1,319)
Taxation on associates and joint ventures	(912)	–	–	(912)
Net financing costs	(2,940)	(933)	(574)	(4,447)
Profit before taxation	43,673	3,575	4,831	52,079
Depreciation charge	(8,000)	(3,196)	(1,084)	(12,280)
Capital expenditure	27,971	6,251	1,336	35,558
Net assets				
Segment assets	249,856	30,518	52,111	332,485
Segment liabilities	(91,353)	(20,631)	(22,111)	(134,095)
Segment net assets	158,503	9,887	30,000	198,390
Associates and joint ventures	6,843	–	–	6,843
Segment net assets including share of associates and joint ventures	165,346	9,887	30,000	205,233
Unallocated net assets				(55,109)
Total net assets				150,124

Unallocated net assets include goodwill and intangibles (£17.8m), revolving credit facility (£80.2m), cash and cash equivalent (£3.0m) derivative financial instruments (£3.2m), deferred tax asset (£2.2m) and other corporate items (£3.3m).

Information About Key Customers

Included in revenue is an amount of £95,236,000 (2014: £155,595,000) arising from sales to the Group's largest customer, relating to the Energy and Commodities and Industrial Services divisions.

The following table analyses revenue by significant category:

	2015 £000	2014 £000
Sale of goods	**484,616**	675,043
Rendering of services	**177,545**	194,201
	662,161	869,244

Geographical Information

	2015		2014	
	UK £000	Overseas £000	UK £000	Overseas £000
Revenue	**649,816**	**12,345**	816,274	52,970
Non-current assets	**79,889**	**328**	107,902	–

Notes
(forming part of the financial statements) continued

3 Acquisition of Subsidiaries

Current Year

Acquisition of Algol Recycling Services (Pty) Limited

On 9 December 2014, the Group acquired 100% share capital of Hargreaves South Africa (Pty) Limited (formerly Algol Recycling Services (Pty) Limited). The principal activity of the company is that of metal recovery and handling in the manufacturing of steel.

In the six months to 31 May 2015, Hargreaves South Africa (Pty) Ltd contributed profit after tax of £79k to the consolidated profit after tax for the year.

	Pre-acquisition carrying amounts £000	Fair value adjustment £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	1,210	–	1,210
Intangible assets	336	(336)	–
Intangible assets – Customer contracts	–	1,234	1,234
Current assets			
Trade and other receivables	171	–	171
Cash and cash equivalents	228	–	228
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	(160)	–	(160)
Long term loans	(1,160)	–	(1,160)
Current liabilities			
Trade and other payables	(744)	–	(744)
Net identifiable assets and liabilities	(119)	898	779
Net purchase consideration and costs of acquisition			779
Satisfied by:			
Consideration paid			779

£554,000 is held in escrow pending certain performance measurements. The fair value of this contingent payment is estimated at £554,000.

4 Other Operating Income

	2015 £000	2014 £000
Net gain on disposal of property, plant and equipment	**733**	970

5 Expenses and Auditors' Remuneration

Included in profit are the following:

	2015 £000	2014 £000
Amortisation of intangibles	**143**	1,319
Impairment of goodwill	**5,424**	–
Impairment loss on inventories	**1,024**	694
Impairment loss on trade and other receivables	**–**	19
Impairment of property, plant and equipment	**10,078**	2,829
Depreciation of property, plant and equipment owned	**5,872**	5,765
Depreciation of property, plant and equipment held under finance lease	**4,185**	3,642
Depreciation of mining assets	**8,901**	2,873

5 Expenses and Auditors' Remuneration continued

Auditors' Remuneration:

	2015 £000	2014 £000
Audit of these financial statements	**30**	27
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**169**	208
Audit related assurance services	**–**	5
Taxation compliance services	**55**	67
Other tax advisory services	**21**	45
Other assurance services	**227**	–
All other services	**64**	47

Amounts paid to the Company's auditor and its 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 Simplification Programme

The simplification programme was substantially completed during the year and resulted in a net, non-recurring charge of £12.2m (see below).

	2015 £000	2014 £000
Gain on disposal of Imperial Tankers	**16,253**	–
Gain on disposal of other subsidiaries	**–**	2,087
Impact of closure of Monckton coke works	**(16,951)**	–
Impact of closure of tyre recycling operation (MR&R)	**(2,776)**	–
Restructuring costs	**(1,380)**	–
Write off of mining assets	**(1,187)**	–
Other simplification costs including one-off transaction costs	**(3,089)**	–
	(9,130)	2,087
Unrealised fair value gains and losses on derivative financial instruments	**(3,080)**	–
Total	**(12,210)**	2,087

Included in the above £12.2m charge is £2.1m relating to management time in dealing with the overall simplification programme, asset impairment/write offs of £7.5m, goodwill impairment of £5.4m and legal and professional fees of £2.3m.

On 28 November 2013 a group reorganisation took place, whereby the Group's share of the voting rights in its German subsidiary reduced from 86% to 49%, which together with changes in board composition and shareholder rights, resulted in the Group losing control of the German business but retaining significant influence. In accordance with IAS 27, this was accounted for as a disposal of subsidiary and acquisition of an associate; the latter was accounted for at fair value at the date of the acquisition, resulting in a gain on disposal of £2.1m. This has been reclassified as a comparative of 'Simplification costs – Administrative expenses' in the prior year it was reported as gain on disposal of subsidiaries.

7 Staff Numbers and Costs

The average number of persons employed by the Group in continuing and discontinued operations (including Directors) during the year, analysed by category, was as follows:

	Number of employees Group	
	2015	2014
Directors	**29**	22
Traffic and administration	**528**	557
Production, maintenance and drivers	**2,168**	2,176
	2,725	2,755

Notes
(forming part of the financial statements) continued

7 Staff Numbers and Costs continued

The aggregate payroll costs of these persons were as follows:

	Group	
	2015 £000	2014 £000
Wages and salaries	**98,938**	97,966
Share-based payments (see Note 26)	**(89)**	1,224
Social security costs	**8,891**	9,643
Contributions to defined contribution plans (see Note 25)	**1,817**	1,765
Current service costs of defined benefit plans (see Note 25)	**145**	89
	109,702	110,687

8 Directors' Remuneration

	2015 £000	2014 £000
Directors' emoluments	**1,485**	1,277
Company contributions to money purchase pension plans	**188**	163
Amounts paid to third-parties in respect of Directors' services	**160**	106

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £676,000 (2014: £482,000), and company pension contributions of £113,000 (2014: £110,813) were made to a money purchase scheme on his behalf.

	Number of Directors	
	2015	2014
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	**2**	2
Defined benefit schemes	**–**	–
The number of Directors who exercised share options was	**2**	–
The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes was	**3**	3

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

	Number of options		
	At start of year	At end of year	Exercise price pence
GFC Banham	194,321	50,484	–
GFC Banham (under SRSOSs)	819	819	1,098
KJ Dougan	69,141	18,798	–
ID Cockburn	91,018	81,115	–
ID Cockburn (under SRSOSs)	1,093	–	–

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

9 Finance Income and Expense

Recognised in Profit or Loss

	2015 £000	2014 £000
Finance income		
Interest income on unimpaired financial assets	**85**	185
Interest received from jointly controlled entities	**1,067**	936
Total finance income	**1,152**	1,121
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**3,392**	5,427
Interest on defined benefit pension plan obligation	**225**	141
Total finance expense	**3,617**	5,568

10 Discontinued Operations

All discontinued results are attributable to equity holders.

The Group's discontinued operations made a loss of £0.8m (2014: loss of £3.7m) after tax during the year. These losses relate to events at Maltby and in Belgium and the associated results have been classified as discontinued in the current and prior year. In addition, certain related assets were reclassified in the balance sheet as "assets held for sale" in a prior period.

	2015 £000	2014 £000
Administrative expenses	**(1,541)**	(4,174)
Operating loss	**(1,541)**	(4,174)
Net finance expense	**(843)**	(895)
Loss before tax of discontinued operations	**(2,384)**	(5,069)
Taxation		
Current tax credit	**1,083**	6,725
Deferred tax credit/(charge)	**522**	(5,390)
	1,605	1,335
Loss for the year from discontinued operations	**(779)**	(3,734)

The major classes of assets directly attributable to the discontinued operations are:

	2015 £000	2014 £000
Property, plant and equipment	**5,040**	6,774
Other non-current assets	**–**	1,397
	5,040	8,171

11 Taxation

Recognised in the Income Statement

	2015 £000	2014 £000
Current tax expense		
Current year	**5,777**	11,444
Adjustments for prior years	**(107)**	472
Foreign tax – current year	**–**	377
Current tax expense	**5,670**	12,293
Deferred tax credit		
Origination and reversal of temporary differences	**(2,262)**	(710)
Adjustments for prior years	**56**	(98)
Reduction in tax rate	**90**	40
Deferred tax credit	**(2,116)**	(768)
Tax expense in income statement (excluding share of tax of equity accounted investees)	**3,554**	11,525
Share of tax of equity accounted investees	**634**	912
Total tax expense from continuing operations	**4,188**	12,437

The £3,554,000 tax expense in the income statement comprises a tax credit of £5,632,000 relating to the Simplification Programme and other non-underlying items and a tax charge of £9,186,000 (underlying effective tax rate 22.8%) relating to underlying trading.

Notes
(forming part of the financial statements) continued

11 Taxation continued

Recognised in Other Comprehensive Income

	2015 £000	2014 £000
Deferred tax income/(expense)		
Effective portion of changes in fair value of cash flow hedges	**862**	(2,118)
Actuarial gains and losses on defined benefit pension plans	**368**	460
	1,230	(1,658)

Reconciliation of Effective Tax Rate

	2015 Rate	2015 £000	2014 Rate	2014 £000
Profit for the year from continuing operations		**21,349**		40,554
Total tax expense (including tax on equity accounted investees)		**4,188**		12,437
Profit excluding taxation from continuing operations		**25,537**		52,991
Tax using the UK corporation tax rate of 20.83% (2014: 22.67%)	**20.83%**	**5,319**	22.67%	12,011
Effect of tax rates in foreign jurisdictions	**0.37%**	**95**	0.43%	228
Unrecognised tax losses	**–**	**–**	0.02%	13
Non-deductible (income)/expenses	**(5.39%)**	**(1,376)**	(0.36%)	(187)
Reduction in tax rate on deferred tax balances	**0.35%**	**90**	–	(2)
Under provided in prior years	**0.23%**	**60**	0.71%	374
Effective tax rate and total tax expense	**16.40%**	**4,188**	23.47%	12,437

The UK corporation tax rate reduced to 20% on 1 April 2015, giving an effective base rate of 20.83% (2014: 22.67%).

Factors That May Affect Future Current and Total Tax Charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 May 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

12 Earnings Per Share

	2015 Continuing and discontinued	2015 Continuing	2014 Continuing and discontinued	2014 Continuing
Ordinary Shares				
Basic earnings per share	**62.91p**	**65.31p**	111.88p	123.18p
Diluted earnings per share	**61.88p**	**64.24p**	110.99p	122.19p

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.

	2015 Continuing and discontinued	2015 Continuing	2014 Continuing and discontinued	2014 Continuing
Profit for the year attributable to equity holders (£000)	**20,454**	**21,233**	36,995	40,729
Weighted average number of shares	**32,511,083**	**32,511,083**	33,065,926	33,065,926
Basic earnings per share	**62.91p**	**65.31p**	111.88p	123.18p

The calculation of weighted average number of shares includes the effect of own shares held of 1,053,072(2014:nil). The calculation of diluted earnings per share is based on the profit for the year and 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 is 540,262 (2014: 266,277)); effect on earnings per ordinary share is 1.03p (2014: 0.89p). Effect on continuing earnings per ordinary share is 1.07p (2014: 0.99p).

	2015 Continuing and discontinued	2015 Continuing	2014 Continuing and discontinued	2014 Continuing
Profit for the year attributable to equity holders (£000)	**20,454**	**21,233**	36,995	40,729
Weighted average number of shares	**33,051,345**	**33,051,345**	33,332,203	33,332,203
Diluted earnings per share	**61.88p**	**64.24p**	110.99p	122.19p

12 Earnings Per Share continued

Continuing underlying basic and diluted earnings per share are calculated on the same weighted average number of shares in the table above, and on underlying profit after tax, as reconciled below:

	2015 £000	2014 £000
Profit for the year attributable to equity holders from continuing operations	**21,233**	40,729
Amortisation/impairment of intangibles/goodwill	**143**	1,319
Simplification costs (including derivative movement)	**12,210**	(2,087)
Loss on Biomass conversion project settlement	**2,400**	–
Impairment of property, plant and equipment	**–**	2,404
Tax effect of above items	**(4,967)**	(780)
Underlying Profit after Tax from Continuing Operations	**31,019**	41,585

13 Property, Plant and Equipment

Group

	Freehold land and buildings and leasehold improvements £000	Assets under the course of construction £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Mining assets £000	Mineral reserves £000	Total £000
Cost								
Balance at 1 June 2013	21,557	2,095	5,702	65,821	524	–	9,571	105,270
Other acquisitions	408	615	760	22,890	56	12,770	–	37,499
Disposals	(552)	(260)	(255)	(4,608)	(4)	–	(9,571)	(15,250)
Transfers	2,342	(2,450)	–	108	–	–	–	–
Effect of movements in foreign exchange	–	–	(3)	(3)	–	–	–	(6)
Balance at 31 May 2014	**23,755**	**–**	**6,204**	**84,208**	**576**	**12,770**	**–**	**127,513**
Balance at 1 June 2014	23,755	–	6,204	84,208	576	12,770	–	127,513
Other acquisitions	304	–	514	5,377	6	7,223	–	13,424
Disposals	(334)	–	(65)	(7,013)	(145)	–	–	(7,557)
Acquisitions through business combinations	–	–	8	1,380	18	–	–	1,406
Disposals on sale of subsidiaries	(132)	–	(206)	(16,508)	–	–	–	(16,846)
Effect of movements in foreign exchange	(6)	–	8	(40)	–	–	–	(38)
Balance at 31 May 2015	**23,587**	**–**	**6,463**	**67,404**	**455**	**19,993**	**–**	**117,902**
Depreciation and impairment								
Balance at 1 June 2013	3,479	–	4,606	27,168	376	–	9,571	45,200
Depreciation charge for the year	334	–	359	8,660	44	2,883	–	12,280
Impairment losses	–	–	–	2,829	–	–	–	2,829
Disposals	(201)	–	(200)	(3,110)	(4)	–	(9,571)	(13,086)
Effect of movements in foreign exchange	–	–	(2)	(1)	–	–	–	(3)
Balance at 31 May 2014	**3,612**	**–**	**4,763**	**35,546**	**416**	**2,883**	**–**	**47,220**
Balance at 1 June 2014	3,612	–	4,763	35,546	416	2,883	–	47,220
Depreciation charge for the year	333	–	481	9,193	50	8,901	–	18,958
Impairment losses	4,034	–	–	6,044	–	–	–	10,078
Disposals	(79)	–	(60)	(5,108)	(116)	–	–	(5,363)
Acquisitions through business combinations	–	–	2	191	3	–	–	196
Disposals on sale of subsidiaries	(43)	–	(183)	(10,081)	–	–	–	(10,307)
Effect of movements in foreign exchange	(3)	–	(2)	(18)	(1)	–	–	(24)
Balance at 31 May 2015	**7,854**	**–**	**5,001**	**35,767**	**352**	**11,784**	**–**	**60,758**
Net book value								
At 1 June 2013	**18,078**	**2,095**	**1,096**	**38,653**	**148**	**–**	**–**	**60,070**
At 31 May 2014 and 1 June 2014	**20,143**	**–**	**1,441**	**48,662**	**160**	**9,887**	**–**	**80,293**
At 31 May 2015	**15,733**	**–**	**1,462**	**31,637**	**103**	**8,209**	**–**	**57,144**

Notes
(forming part of the financial statements) continued

13 Property, Plant and Equipment continued
The Group has £nil (2014: £nil) property, plant and equipment under construction.

The Company has no property, plant and equipment.

Leased Plant and Machinery
At 31 May 2015 the net carrying amount of leased plant and machinery was £16,051,581 (2014: £21,350,279). The leased equipment secures lease obligations (see Note 23).

Security
The Group's property, plant and equipment is used to secure some of its interest-bearing loans and borrowings (see Note 23).

14 Investment Property

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Balance at 1 June	–	–	–	–
Transfer from inventories – Properties held for development	5,126	–	–	–
Balance at 31 May	**5,126**	–	–	–

The directors do not believe there is a material difference between the fair value and carrying value of the investment property at the year end.

15 Intangible Assets
Group

	Goodwill £000	Negative goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
Cost						
Balance at 1 June 2013	22,320	(93)	14,229	8,148	1,015	45,619
Effect of movements in foreign exchange	–	–	–	–	–	–
Disposal of subsidiary	–	93	–	–	–	93
Balance at 31 May 2014	**22,320**	**–**	**14,229**	**8,148**	**1,015**	**45,712**
Balance at 1 June 2014	22,320	–	14,229	8,148	1,015	45,712
Additions	–	–	1,234	–	–	1,234
Disposal of subsidiary	(3,884)	–	(2,032)	–	–	(5,916)
Balance at 31 May 2015	**18,436**	**–**	**13,431**	**8,148**	**1,015**	**41,030**
Amortisation and impairment						
Balance at 1 June 2013	5,229	(93)	13,055	8,148	131	26,470
Amortisation for the year	–	–	1,174	–	145	1,319
Disposal of subsidiary	–	93	–	–	–	93
Exchange movements	29	–	–	–	–	29
Balance at 31 May 2014	**5,258**	**–**	**14,229**	**8,148**	**276**	**27,911**
Balance at 1 June 2014	5,258	–	14,229	8,148	276	27,911
Amortisation for the year	–	–	–	–	143	143
Impairment	5,424	–	–	–	–	5,424
Disposal of subsidiary	–	–	(2,032)	–	–	(2,032)
Exchange movements	57	–	55	–	–	112
Balance at 31 May 2015	**10,739**	**–**	**12,252**	**8,148**	**419**	**31,558**
Net book value						
At 31 May 2013	**17,091**	**–**	**1,174**	**–**	**884**	**19,149**
At 31 May 2014 and 1 June 2014	**17,062**	**–**	**–**	**–**	**739**	**17,801**
At 31 May 2015	**7,697**	**–**	**1,179**	**–**	**596**	**9,472**

15 Intangible Assets continued

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

£2,596,000 of the customer contracts were being amortised over 71 months, £7,061,000 of the customer contracts were being amortised over 75 months and £2,540,000 of the customer contracts were being amortised over 36 months, each being the weighted average expected life of the contracts.

£1,000,000 of other intangibles relates to an exclusivity agreement and is being amortised over the expected life of the project to which it relates, which is expected to be seven years.

Amortisation and Impairment Charge

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

	2015 £000	2014 £000
Other administrative expenses	**143**	1,319

Impairment Testing

The remaining goodwill has been allocated to cash-generating units or groups of cash-generating units as follows:

	Goodwill	
	2015 £000	2014 £000
Hargreaves Industrial Services Limited	**1,252**	1,252
Imperial Tankers Limited/Hargreaves (Bulk Liquid Transport) Limited	**–**	3,523
The Monckton Coke & Chemical Company Limited	**–**	5,419
Coal4Energy Limited/Maxibrite Limited	**6,140**	6,140
Other	**305**	728
	7,697	17,062

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:

	2015	2014
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond approved forecast period	**2%**	2%
Discount rate	**9%**	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 used in the calculations equivalent to the current levels of annual depreciation; and
- a pre-tax discount rate of 9% (2014: 12%) has been used in the first instance. Management consider this to be higher than a market participant's discount rate for each individual cash-generating unit. The latter would be reassessed if the initial 9% indicated potential impairment of any individual cash-generating unit.

Each of the cash-generating units had significant headroom under the annual impairment review, which remains after allowing for reasonably possible changes in assumptions.

The Company has no intangible assets.

Notes
(forming part of the financial statements) continued

16 Investments in Subsidiaries, Associates and Joint Ventures
The Group and Company have the following investments in subsidiaries, associates and joint ventures:

	Nature of business	Country of incorporation	Class of shares held	Ownership 2015	Ownership 2014
Company					
Subsidiary undertakings					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Industrial Services Limited (formerly Norec Limited)	Contract management service	UK	Ordinary	100%	100%
Coal4Energy Limited	Light industrial and domestic coal sales	UK	Ordinary	100%	100%
Forward Sound Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Services (HK) Limited	Holding company	Hong Kong	Ordinary	100%	100%
Hargreaves Surface Mining Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Technical Resources Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves Carbon Products Europe Limited	Sale of carbon-based materials	UK	Ordinary	100%	100%
Hargreaves Maltby Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Services (Westfield) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services (Castlebridge) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services (Blindwells) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services (Piperhill) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services (Killoch) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Forestry Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (Damside) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (Broken Cross) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (Glentaggart) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (House of Water) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (Chalmerston) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves South Africa (Pty) Limited	Steel	South Africa	Ordinary	100%	100%
Hargreaves Mining India Private Limited	Steel	India	Ordinary	100%	100%
Dormant companies					
Hargreaves (Bulk Liquid Transport) Limited	Dormant	UK	Ordinary	100%	100%
R Hanson & Son Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves ESOT Trustee Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Services Australia Limited	Dormant	UK	Ordinary	100%	100%
Redcar Steel & Coal Company Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Europe Limited	Dormant	UK	Ordinary	100%	100%
Joint ventures					
Mir Trade Services Limited	Import and sale of carbon-based materials	UK	Ordinary	50%	50%
Associate undertakings					
Hargreaves Services Europe Limited	Import and sale of carbon-based materials	UK	Ordinary	86%	86%
Group					
Subsidiary undertakings					
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%
Maltby Colliery Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Engineering & Contracts Limited (formerly 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	100%	100%
Hargreaves Industrial Services (HK) Limited	Contract management service	Hong Kong	Ordinary	100%	100%
Eastgate Materials Handling Limited	Port facilities	UK	Ordinary	100%	100%
Mekol NV	Port facilities	Belgium	Ordinary	100%	100%
OCCW (St Ninians) Limited	Coal working	UK	Ordinary	100%	100%

16 Investments in Subsidiaries, Associates and Joint Ventures continued

	Nature of business	Country of incorporation	Class of shares held	Ownership 2015	Ownership 2014
Joint ventures					
Tower Regeneration Limited	Coal mining	UK	Ordinary	50%	50%
Tower Regeneration Leasing Limited	Lease of heavy plant	UK	Ordinary	50%	50%
517EPA Limited	Holding company	UK	Ordinary	50%	50%
Associate undertakings					
Hargreaves Raw Material Services GmbH	Import and sale of carbon-based materials	Germany	Ordinary	86%	86%
Hargreaves Carbon Products Polska Sp Zo.o	Sale of carbon-based materials	Poland	Ordinary	85%	86%
Dormant companies					
Hargreaves Metallurgical Supplies Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Waste Services Limited	Dormant	UK	Ordinary	100%	100%
R&A Fuels Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Mineral Services Limited	Dormant	UK	Ordinary	100%	100%
Squire Distribution Services Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Transport Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Industrial Dormant Limited	Dormant	UK	Ordinary	100%	100%
GR Wardle & Son Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Transport Services Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Environmental Services Limited	Dormant	UK	Ordinary	100%	100%
DWL Engineering Services Limited	Dormant	UK	Ordinary	100%	100%
Coalite Limited	Dormant	UK	Ordinary	85.2%	85.2%
SCCL (option Co) Limited	Dormant	UK	Ordinary	100%	100%
MCC Staff Pension Scheme Trustees Limited	Dormant	UK	Ordinary	100%	100%

Tower Regeneration Leasing Limited is a 100% owned subsidiary of Tower Regeneration Limited.

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 2015 was a profit of £1,504,000 (2014: profit of £3,499,000).

Associates and Joint Ventures

Carrying amount of equity accounted investees:

Group	Tower Regeneration Limited £000	Hargreaves Raw Material Services GmbH £000	Interests in immaterial associate undertakings £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2014	4,018	2,880	(398)	343	6,843
Dividends received by the Group	–	(1,681)	(344)	(128)	(2,153)
Exchange differences	–	(216)	19	(34)	(231)
Group's share of total comprehensive income	1,163	454	(73)	(40)	1,504
At 31 May 2015	**5,181**	**1,437**	**(796)**	**141**	**5,963**

Notes
(forming part of the financial statements) continued

16 Investments in Subsidiaries, Associates and Joint Ventures continued
Associates and joint venture continued

	Tower Regeneration Limited		Hargreaves Raw Material Services GmbH	
	2015	2014	2015	2014
Voting rights	**50%**	50%	**49%**	49%
Cash & cash equivalents	**1,455**	1,814	**5,083**	8,472
Other current assets	**24,652**	37,426	**29,407**	23,823
Total current assets	**26,107**	39,240	**34,490**	32,295
Non-current assets	**19,807**	19,541	**115**	130
Current liabilities	**(12,810)**	(35,835)	**(32,934)**	(28,669)
Non-current liabilities	**(18,298)**	(11,560)	**–**	–
Net assets (100%)	**14,806**	11,386	**1,671**	3,756
Revenue	**50,955**	35,647	**64,077**	54,983
Depreciation	**(9,701)**	(7,396)	**(36)**	(21)
Other expenses	**(35,313)**	(20,819)	**(62,761)**	(52,225)
Interest income	**17**	22	**332**	66
Interest expense	**(1,743)**	(1,749)	**(814)**	(630)
Profit before tax from continuing operations	**4,215**	5,705	**798**	2,173
Income tax expense	**(894)**	(1,160)	**(271)**	(377)
Post tax profit from continuing operations (100%)	**3,321**	4,545	**527**	1,796

The total financial liabilities included in current liabilities is: Tower Regeneration Limited £nil (2014: £nil); Hargreaves Raw Material Services GmbH £28,091k (2014: £22,637k).

Group Composition
Management have considered the level of control of each of its individual Joint Venture arrangements and associate investments and are satisfied that the Group does not have control, either through voting rights or other circumstances, of any of these arrangements. Tower Regeneration Limited is a Joint Venture between the Group and a third party. The Group is entitled to 35% of the profits from the operation. The strategic business decisions of the Joint Venture are taken by both the Group and the third party equally, this is reflected in the equal representation on the board of each investing party and further the ownership of voting rights is split 50:50 between both parties.

Hargreaves Raw Materials Services GmbH (HRMS),is the Groups only material associate investment. The Group is entitled to 86% of the profits on the operation, however the Group does not exert control on the business. The Group holds 49% of the voting rights, with the remainder being held by the HRMS management team and has one of the four Directors. The Group does not have the power to change these arrangements. A shareholder agreement is in place to provide the Group with safeguards designed to protect its investment; however, the key strategic decisions affecting the operation and its results are not taken by the Group. In the event of a dispute between the Group and the operation which could not be resolved, the operation would be subject to an orderly wind down. Whilst the voting rights demonstrate significant influence, the Group does not control the operation and therefore management have treated the investment as an associate.

The Group also has non-material interest in the following companies: Tower Regeneration Leasing Limited, MIR Trade Services Limited, Hargreaves Services Europe Limited and Hargreaves Carbon Products Polska Sp Zoo.

The Group also has options to acquire 100% of the shares in two subsidiaries of Aardvark (TMC) Limited. These options are measured at fair value which, at 31 May 2015, was £2 (31 May 2014: £2). Fair value is deemed to be negligible given the scale of the related restoration liabilities existing within these entities.

Company	Group undertakings £000	Joint ventures £000	Total £000
Shares at cost and net book value			
At 1 June 2013	32,578	42	32,620
Disposals	(1,228)	–	(1,228)
Acquisitions	–	4,985	4,985
Capital contribution arising on share options	1,224	–	1,224
At 31 May 2014	**32,574**	**5,027**	**37,601**
At 1 June 2014	32,574	5,027	37,601
Disposals	(362)	(43)	(405)
Acquisitions	779	–	779
Capital contribution arising on share options	(89)	–	(89)
At 31 May 2015	**32,902**	**4,984**	**37,886**

17 Other Financial Assets

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Non-current				
Currency contracts designated as fair value through hedging reserve	**–**	701	**–**	–
Other derivatives designated as fair value through hedging reserve	**–**	2,264	**–**	–
	–	2,965	**–**	–

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Current				
Currency contracts designated as fair value through profit or loss	**5**	46	**–**	–
Currency contracts designated as fair value through hedging reserve	**377**	1,617	**–**	–
Other derivatives designated as fair value through hedging reserve	**706**	2,515	**–**	–
	1,088	4,178	**–**	–

18 Other Financial Liabilities

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Non-current				
Interest rate swaps designated as fair value through hedging reserve	**1,129**	962	**1,129**	–
Interest rate swaps designated as fair value through profit or loss	**179**	–	**179**	–
Currency contracts designated as fair value through hedging reserve	**–**	88	**–**	–
Other derivatives designated as fair value through hedging reserve	**–**	293	**–**	–
	1,308	1,343	**1,308**	–

	Group 2015 £000	Group 2014 £000	Company 2015 £000	Company 2014 £000
Current				
Currency contracts designated as fair value through hedging reserve	**197**	1,089	**–**	–
Currency contracts designated as fair value through profit or loss	**1**	13	**–**	1
Other derivatives designated as fair value through hedging reserve	**4,153**	1,484	**224**	–
	4,351	2,586	**224**	1

Notes
(forming part of the financial statements) continued

19 Deferred Tax Assets and Liabilities

Group

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2015 £000	2014 £000	2015 £000	2014 £000
Property, plant and equipment	**–**	–	**380**	4,306
Financial assets	**(607)**	–	**–**	613
Employee benefits	**(1,103)**	(1,162)	**–**	–
Share-based payments	**(147)**	(293)	**–**	–
Provisions	**(942)**	(1,275)	**–**	–
Tax value of loss carry-forwards	**(17)**	(17)	**–**	–
Other	**(76)**	–	**–**	–
Tax (assets)/liabilities	**(2,892)**	(2,747)	**380**	4,919

Deferred tax assets and liabilities have been netted as the Group has a legally enforceable right of offset and settlement will be on a net basis.

Movement in Deferred Tax During the Year

	31 May 2014 £000	Recognised in income £000	Recognised in equity £000	31 May 2015 £000
Property, plant and equipment	4,306	(3,926)	–	**380**
Financial assets	613	(358)	(862)	**(607)**
Employee benefits	(1,162)	427	(368)	**(1,103)**
Share-based payments	(293)	146	–	**(147)**
Provisions	(1,275)	333	–	**(942)**
Tax value of loss carry-forwards utilised	(17)	–	–	**(17)**
Other	–	(76)	–	**(76)**
	2,172	(3,454)	(1,230)	**(2,512)**

Included within the £3,454k above is an amount of £816k relating to the sale of Imperial Tankers.

Movement in Deferred Tax During the Prior Year

	31 May 2013 £000	Recognised in income £000	Recognised in equity £000	31 May 2014 £000
Property, plant and equipment	579	3,727	–	4,306
Intangible assets	336	(336)	–	–
Financial assets	(1,769)	264	2,118	613
Employee benefits	(883)	181	(460)	(1,162)
Share-based payments	(450)	157	–	(293)
Provisions	(1,890)	615	–	(1,275)
Tax value of loss carry-forwards utilised	(20)	3	–	(17)
Other	(11)	11	–	–
	(4,108)	4,622	1,658	2,172

The amount recognised in income includes £522,000 deferred tax credit (2014: £5,390,000 deferred tax charge) in relation to discontinued operations, see Note 8.

19 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	
	2015 £000	2014 £000	2015 £000	2014 £000
Share-based payments	**(123)**	(123)	**–**	–
Tax assets	**(123)**	(123)	**–**	–
Net of tax liabilities	**–**	–	**–**	–
Net tax assets	**(123)**	(123)	**–**	–

Movement in Deferred Tax During the Year

	At 31 May 2013 and at 31 May 2014 £000	Recognised in income £000	Recognised in equity £000	31 May 2015 £000
Share-based payments	(123)	–	–	**(123)**

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

A deferred tax asset has been recognised as projections indicate that there will be sufficient future profits to utilise losses.

The deferred tax asset at 31 May 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

20 Inventories

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Raw materials and consumables	**3,607**	7,104	**–**	–
Work in progress	**830**	17,064	**–**	–
Finished goods	**49,964**	67,851	**–**	–
Properties held for development and resale	**3,402**	8,418	**–**	–
	57,803	100,437	**–**	–

All amounts included within raw materials, work in progress and finished goods are expected to be recovered within 12 months.

The write-down of inventories to net realisable value amounted to £1,024,000 (2014: £694,000). The reversal of write-downs amounted to £nil (2014: £nil). The write-down is in cost of sales. The properties held for development and resale were included in assets acquired in respect of the Scottish surface mining activities.

21 Trade and Other Receivables

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Trade receivables	**35,391**	60,601	**–**	–
Trade receivables due from Group undertakings	**–**	–	**537,837**	590,379
Trade receivables due from undertakings in which the Company has a participating interest	**24,750**	30,439	**4,597**	7,405
Other receivables	**17,313**	20,717	**2,012**	2,041
Prepayments and accrued income	**31,296**	20,287	**–**	77
Corporation tax	**–**	1,462	**617**	623
Hire purchase receivable	**–**	12	**–**	–
	108,750	133,518	**545,063**	600,525

Included within trade and other receivables is £nil (2014: £nil) for the Group and £nil (2014: £nil) for the Company expected to be recovered in more than 12 months.

Notes
(forming part of the financial statements) continued

21 Trade and Other Receivables continued
The Hire Purchase receivable comprises future minimum lease payments of £nil (2014: £12,321) due within one year and £nil (2014: £nil) due within one to two years.

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 2015 trade receivables are shown net of an allowance for bad debts of £981,000 (2014: £125,000) arising from the ordinary course of business, as follows:

	2015 £000	2014 £000
Group		
Balance at 1 June	**125**	171
Provided during the year	**981**	40
Released	**–**	(69)
Utilised during the year	**(125)**	(17)
Balance at 31 May	**981**	125

The allowance for bad debts records impairment losses unless the Group 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.

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

	Gross trade receivables £000	2015 Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	30,572	–	30,572
Past due date (0-90 days)	5,250	(431)	4,819
Past due date (over 90 days)	550	(550)	–
Individually impaired amounts	–	–	–
	36,372	**(981)**	**35,391**

	Gross trade receivables £000	2014 Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	47,172	(10)	47,162
Past due date (0-90 days)	11,061	(10)	11,051
Past due date (over 90 days)	2,493	(105)	2,388
Individually impaired amounts	–	–	–
	60,726	(125)	60,601

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

The Group's most significant trade receivable at 31 May 2015 is Uskmouth Power Company Limited which accounts for £5,416,650 of the trade receivables carrying amount at 31 May 2015 within the Coal Production and Distribution segment (2014: EDF Energy plc £9,422,000).

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

	2015 £000	2014 £000
UK	**35,149**	58,033
European customers	**44**	2,104
Other regions	**198**	464
	35,391	60,601

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in Note 29.

22 Cash and Cash Equivalents

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Cash and cash equivalents per Balance Sheet	**43,853**	30,768	**19,906**	427
Cash and cash equivalents per Cash Flow Statement	**43,853**	30,768	**19,906**	427

Included in cash and cash equivalents above is £823,839 (2014:500,000) in respect of cash which is ring-fenced for settlement of restoration works in the Scottish mining business.

The Group's exposure to credit and currency risk related to cash and cash equivalents is disclosed in Note 29.

23 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 29.

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Non-current liabilities				
Finance lease liabilities	**7,165**	12,138	**–**	–
Invoice discounting facility	**–**	–	**–**	–
Revolving credit facility	**–**	80,190	**–**	80,190
	7,165	92,328	**–**	80,190
Current liabilities				
Current portion of finance lease liabilities	**4,884**	7,215	**–**	–
Revolving credit facility	**32,772**	–	**32,772**	–
	37,656	7,215	**32,772**	–
Bank overdraft	**–**	–	**–**	–
	37,656	7,215	**32,772**	–

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2015 £000	Carrying amount 2015 £000	Face value 2014 £000	Carrying amount 2014 £000
Finance lease liabilities	Sterling	4.0% – 5.0%	2015–2018	**12,049**	**12,049**	19,353	19,353
Invoice discounting facility	Sterling	Base Rate + 2%	2015	**–**	**–**	–	–
Revolving credit facility	Sterling	LIBOR + 2.35%	2015	**33,000**	**32,772**	81,000	80,190
				45,049	**44,821**	100,353	99,543

In July 2015, the Group completed a new 37 month multi bank committed facility consisting of a £70m borrowing base facility and a £40m revolving credit facility. This facility is secured by a debenture over the Group's assets.

The banking arrangements in place at the balance sheet date include an invoice discounting facility. This facility permits the refinancing of current trade receivables. 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 2015 was £nil (2014: £nil). At the year end the invoice discounting facility was unused, with a credit balance of £7,346,555 (2014: £5,922,000) which was included in cash and cash equivalents.

Notes
(forming part of the financial statements) continued

23 Other Interest-bearing Loans and Borrowings continued

Finance Lease Liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2015 £000	Interest 2015 £000	Principal 2015 £000	Minimum lease payments 2014 £000	Interest 2014 £000	Principal 2014 £000
Less than one year	**5,255**	**371**	**4,884**	7,782	567	7,215
Between one and five years	**7,612**	**447**	**7,165**	12,727	589	12,138
	12,867	**818**	**12,049**	20,509	1,156	19,353

24 Trade and Other Payables

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Current				
Trade payables	**32,211**	41,321	**–**	–
Trade payables due to Group undertakings	**–**	–	**456,169**	429,032
Trade payables due to undertakings in which the Company has a participating interest	**940**	–	**–**	–
Other trade payables	**6,233**	19,311	**39**	39
Non-trade payables and accrued expenses	**33,694**	38,980	**193**	1,449
	73,078	99,612	**456,401**	430,520

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months (2014: £nil).

25 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 £1,816,734 (2014: £1,605,000). 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 2009 and updated for IAS 19 purposes to 31 May 2015.

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

	2015 £000	2014 £000
Present value of unfunded defined benefit obligations	**15**	411

Movements in Present Value of Defined Benefit Obligation

	2015 £000	2014 £000
At beginning of year	**411**	424
Current service cost	**8**	9
Contributions paid	**(30)**	(21)
Other finance cost	**18**	19
Actuarial gain	**(392)**	(20)
At the end of the year	**15**	411

Expense Recognised in the Income Statement

	2015 £000	2014 £000
Current service cost	**8**	9
Interest on defined benefit obligation	**18**	19
	26	28

25 Pension Schemes and Other Retirement Benefits continued
Defined Benefit Plans continued
The expense is recognised in the following line items in the income statement:

	2015 £000	2014 £000
Administrative expenses	**8**	9
Finance expense	**18**	19
	26	28

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

	2015 £000	2014 £000
Cumulative amount at 1 June	**61**	41
Recognised in the year	**392**	20
Cumulative amount at 31 May	**453**	61

The major assumptions used in these valuations were:

	2015	2014
Average retirement age	**65 years**	65 years
Rate of leaving services	**2.5%**	2.5%
Coal price inflation	**2.45%**	2.55%
Discount rate applied to scheme liabilities	**3.5%**	4.25%
Inflation assumption	**3.45%**	3.55%

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 65 year old to live for a number of years as follows:

Current pensioner aged 65: 20.0 years (male), 22.2 years (female).
Future retiree upon reaching 65: 20.6 years (male), 23.0 years (female).

Sensitivity Analysis
Reasonably possible changes at the reporting date to one of the actuarial assumptions, holding other assumptions constant, would have increased/(decreased) the defined benefit obligation by the amounts shown below.

	2015 £000	2014 £000
Discount rate (1% movement)	**–**	(90)
Coal price inflation (1% movement)	**–**	90

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. Details of these three schemes are consolidated in the tables below.

The latest full actuarial valuation of all these schemes was carried out at 31 December 2009 and was updated for IAS 19 purposes to 31 May 2015 by a qualified independent actuary.

	2015 £000	2014 £000
Present value of unfunded defined benefit obligations	**(1,528)**	(1,361)
Present value of funded defined benefit obligations	**(45,820)**	(39,813)
Fair value of assets	**41,847**	36,005
Deficit in the scheme – Pension liability	**(5,501)**	(5,169)

Notes
(forming part of the financial statements) continued

25 Pension Schemes and Other Retirement Benefits continued

Sensitivity Analysis continued

Movements in Present Value of Defined Benefit Obligation

	2015 £000	2014 £000
At the beginning of the year	**41,174**	39,052
Current service cost	**–**	–
Interest cost	**1,764**	1,752
Actuarial loss	**5,260**	2,207
Contributions paid	**–**	–
Benefits paid	**(978)**	(2,060)
Obligation acquired	**128**	223
At the end of the year	**47,348**	41,174

Movements in the Fair Value of Plan Assets

	2015 £000	2014 £000
Fair value of plan assets at beginning of year	**36,005**	35,836
Expected return on plan assets	**1,557**	1,630
Actuarial gain/(loss)	**3,135**	(551)
Employer contributions	**2,137**	1,007
Plan members' contributions	**–**	–
Benefits paid	**(978)**	(2,060)
Expenses paid	**(137)**	(80)
Plan assets acquired	**128**	223
Fair value of plan assets at end of year	**41,847**	36,005

Expense Recognised in the Income Statement

	2015 £000	2014 £000
Expenses paid from plan	**137**	80
Expected return on defined benefit pension plan	**(1,557)**	(1,630)
Interest on defined benefit pension plan obligation	**1,733**	1,752
	313	202

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

In discontinued operations	2015 £000	2014 £000
Administrative expenses	**137**	80
Finance income	**(1,557)**	(1,630)
Finance expense	**1,733**	1,752
	313	202

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

	2015 £000	2014 £000
Cumulative amount at 1 June	**2,474**	(284)
Recognised in the year	**2,125**	2,758
Cumulative amount at 31 May	**4,599**	2,474

25 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 2015 £000	Fair value at 2014 £000
Equities and hedge funds	**22,003**	18,454
Bonds	**14,073**	12,070
Property	**2,372**	1,995
Alternative investment mandate	**3,291**	3,140
Other – cash	**108**	346
	41,847	36,005
Actual return on plan assets	**4,692**	1,079

The major assumptions used in this valuation were:

	2015	2014
Rate of increase in salaries	**–**	–
Rate of increase in deferred pensions	**3.45%**	3.40%
Rate of increase in pensions in payment	**3.30%**	3.40%
Discount rate applied to scheme liabilities	**3.50%**	4.25%
Inflation assumption	**3.45%**	3.55%

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: 22.0 years (male), 25.8 years (female).
Future retiree upon reaching 60: 22.6 years (male), 26.6 years (female).

IWCSSS

Current pensioner aged 60: 24.6 years (male), 27.1 years (female).
Future retiree upon reaching 60: 25.1 years (male), 27.8 years (female).

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the actuarial assumptions, holding other assumptions constant, would have increased/(decreased) the defined benefit obligation by the amounts shown below.

	2015 £000	2014 £000
Discount rate (1% increase)	**(7,900)**	(9,058)
Inflation (1% increase)	**8,000**	9,058

	2015 £000	2014 £000
Discount rate (1% decrease)	**10,300**	9,058
Inflation (1% decrease)	**(7,300)**	(9,058)

The Group expects to contribute approximately £2,274,000 to its defined benefit plans in the next financial year.

Notes
(forming part of the financial statements) continued

26 Employee Share Schemes

The Group has established a Savings-Related Share Option scheme and an Executive Long-Term Incentive Plan. An additional Long-Term Incentive Plan was established for certain senior employees as part of the acquisition of Norec Limited in September 2006. In addition, a deferred bonus scheme was implemented as a temporary replacement for the Executive Long-Term Incentive Plan (LTIP) for the year ended 31 May 2015.

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
Long-Term Incentive Plan – Norec	September 2006	Senior employees	96,572	3 years' service	11 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
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	
Long-Term Incentive Plan 5	September 2011	Senior employees	134,626	3 years' service and EPS growth of 9.3%% (30% award) – 22.5% (100% award over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 7	April 2012	All employees	167,715	3 years' service	3.5 years
Savings-Related Share Option Scheme 8	April 2013	All employees	134,986	3 years' service	3.5 years
Long-Term Incentive Plan 6	October 2013	Senior employees	192,098	3 years' service and EPS growth of 3% pa (30% award) – 9% pa (100% award) over those 3 years	3.5 years 3.5 years
Savings-related share option scheme 9	April 2014	All employees	140,346	3 years' service	3.5 years
Deferred bonus scheme B (50%)	March 2015	Senior employees	112,213	3 years' service	3 years
Deferred bonus scheme B (50%)	March 2015	Senior employees	112,213	4 years' service	4 years

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

Savings-Related Share Option Schemes

	2015 Weighted average exercise price	2015 Number of options	2014 Weighted average exercise price	2014 Number of options
Outstanding at beginning of year	**813p**	**334,630**	828p	457,561
Granted during the year	**–**	**–**	733p	140,346
Lapsed during the year	**808p**	**(200,335)**	895p	(152,599)
Exercised during the year	**825p**	**(437)**	660p	(110,678)
Outstanding at the end of the year	**820p**	**133,858**	813p	334,630
Exercisable at the end of the year	**1,098p**	**29,022**	825p	47,075

The options outstanding at 31 May 2015 have an exercise price in the range of 733p to 1,098p and have a weighted average contractual life of two years.

The options exercised during the year had a weighted average market value of 791p (2014: 819p).

26 Employee Share Schemes continued

Long-Term Incentive Plans

	2015 Weighted average exercise price	2015 Number of options	2014 Weighted average exercise price	2014 Number of options
Outstanding at beginning of year	**10p**	**567,363**	26p	551,274
Granted during the year	**–**		–	192,098
Lapsed during the year	**–**	**(87,058)**	–	(123,425)
Exercised during the year	**–**	**(187,606)**	165p	(52,584)
Outstanding at the end of the year	**15p**	**292,699**	10p	567,363
Exercisable at the end of the year	**32p**	**100,601**	22p	246,416

The options outstanding at 31 May 2015 have an exercise price in the range of £nil to 393.5p and have a weighted average contractual life of 0.9 years.

The options exercised during the year had a weighted average market value of 591p (2014: 814p).

Deferred Bonus Scheme

	2015 Weighted average exercise price	2015 Number of options	2014 Weighted average exercise price	2014 Number of options
Outstanding at beginning of year	**–**	**–**	–	–
Granted during the year	**–**	**224,426**	–	–
Lapsed during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Outstanding at the end of the year	**–**	**224,426**	–	–
Exercisable at the end of the year	**–**	**–**	–	–

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.

	2015		2014
	Deferred Bonus Scheme B (50%)	Deferred Bonus Scheme B (50%)	Savings-Related Share Option Scheme 9
Fair value at grant date	**442p**	**442p**	285p
Exercise price	**–**	**–**	733p
Share price	**470p**	**470p**	814p
Expected volatility	**20%**	**20%**	40.0%
Option life	**3 years**	**4 years**	3 years
Expected dividends	**2%**	**2%**	1.0%
Risk-free rate	**5.8%**	**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 609p (2014: 836p).

Long-Term Incentive Plans and Deferred Bonus Schemes

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

	2015 £000	2014 £000
Share options granted in 2011	**–**	126
Share options granted in 2012	**(357)**	632
Share options granted in 2013	**136**	136
Share options granted in 2014	**(175)**	330
Share options granted in 2015	**307**	–
	(89)	1,224

Notes
(forming part of the financial statements) continued

27 Provisions

Group	Surface mining restoration £000	Monckton ground water contamination £000	Maltby restoration £000	Maltby subsidence provision £000	Total £000
Balance at 1 June 2014	1,081	1,736	5,421	953	9,191
Provisions made during the year	1,415	49	55	–	1,519
Provisions utilised during the year	(270)	(77)	(550)	(17)	(914)
Provisions reversed	–	–	(4,034)	–	(4,034)
Balance at 31 May 2015	2,226	1,708	892	936	5,762

Included within the Maltby restoration provision is an amount of £nil (2014: £550,000) that is expected to be utilised in the next 12 months.

Provisions comprise:

1 A £2,226,490 restoration provision, which relates to the surface mining obligation to restore the site once mining operation is completed.
2 A £1,707,699 ground and groundwater contamination provision which relates to Monckton's obligation to address ground and groundwater contamination at its sites now that the site is closed.
3 A £891,916 restoration provision which relates to Maltby Colliery's obligation to restore the site now that coal mining has been completed.
4 A statutory provision payable to the UK Coal Authority 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.

28 Capital and Reserves
Share Capital

	Ordinary Shares 2015 Number	Ordinary Shares 2014 Number
In issue at 1 June	**33,087,413**	32,962,735
Issued for cash	**51,343**	124,678
In issue and fully paid at 31 May	**33,138,756**	33,087,413

	2015 £000	2014 £000
Allotted, called up and fully paid		
32,085,684 (2014: 33,087,413) Ordinary Shares of 10p each (excluding own shares held)	**3,209**	3,309
Own shares held of 10p each 1,053,072 (2014: nil)	**105**	–
	3,314	3,309

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.

As at the year end the Group held 1,053,072 within Treasury shares, representing own shares purchased as part of the Group's share buyback programme. These shares have a market value of £4.0m at 31 May 2015 and were purchased during the year for an aggregate consideration of £6.3m.

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.

Other Reserves
Other reserves, the Merger reserve, and the Capital Redemption reserve are historical reserves for which no movements are anticipated.

28 Capital and Reserves continued

Dividends

The aggregate amount of dividends comprises:

	2015 £000	2014 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year (16.7 pence per share (2014: 13.6p))	**5,534**	4,498
Interim dividends paid in respect of the current year (10.0 pence per share (2014: 8.8p))	**3,210**	2,908
	8,744	7,406
Proposed dividend (20.0 pence per share (2014: 16.7p))	**6,417**	5,522

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

29 Financial Instruments

The Group's and Company's principal financial instruments comprise short-term receivables and payables, 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, interest rate and commodity price 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) Fair Values of Financial Assets and Financial Liabilities

Derivative Financial Instruments

Fair Value Hierarchy

The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In both 2015 and 2014 all of the interest rate swaps, the forward exchange contracts and the commodity contracts are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year.

The fair value of financial instruments held at fair value have been determined based on available market information at the balance sheet date.

(b) 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 £35,391,000 (2014: £60,601,000) 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. Further information on credit risk is provided in Note 20.

(c) 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. We finance 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
(forming part of the financial statements) continued

29 Financial Instruments continued

(c) Liquidity Risk continued

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

Group

	2015						2014					
	Carrying amount £000	Contractual cash flow £000	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	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Finance lease liabilities	**12,049**	**12,867**	**5,255**	**4,130**	**3,482**	**–**	19,353	20,509	7,782	5,757	6,970	–
Trade and other payables*	**73,078**	**73,078**	**73,078**	**–**	**–**	**–**	99,612	99,612	99,612	–	–	–
Invoice discounting facility	**(7,347)**	**(7,347)**	**(7,347)**	**–**	**–**	**–**	(5,922)	(5,922)	(5,922)	–	–	–
Revolving credit facility	**32,772**	**32,772**	**32,772**	**–**	**–**	**–**	80,190	80,190	–	80,190	–	–
Derivative financial liabilities												
Interest rate swaps used for hedging	**1,308**	**1,308**	**–**	**–**	**1,308**	**–**	962	962	–	–	962	–
Forward exchange contracts used for hedging:												
Outflow	**198**	**198**	**198**	**–**	**–**	**–**	1,190	1,190	1,102	88	–	–
Inflow	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Commodity contracts:												
Outflow	**4,153**	**4,153**	**4,153**	**–**	**–**	**–**	1,777	1,777	1,484	293	–	–
Inflow	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
	116,211	**117,029**	**108,109**	**4,130**	**4,790**	**–**	197,162	198,318	104,058	86,328	7,932	–

* Excludes derivatives (shown separately).

Company

	2015						2014					
	Carrying amount £000	Contractual cash flow £000	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	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Trade and other payables	**456,169**	**456,169**	**456,169**	**–**	**–**	**–**	429,032	429,032	429,032	–	–	–
Revolving credit facility	**32,772**	**32,772**	**32,772**	**–**	**–**	**–**	80,190	80,190	–	80,190	–	–
Derivative financial liabilities												
Interest rate swaps used for hedging	**1,308**	**1,308**	**–**	**–**	**1,308**	**–**	–	–	–	–	–	–
Forward exchange contracts used for hedging:												
Outflow	**224**	**224**	**224**	**–**	**–**	**–**	1	1	1	–	–	–
	490,473	**490,473**	**489,165**	**–**	**1,308**	**–**	509,223	509,223	429,033	80,190	–	–

(d) Market Risk

Financial Risk Management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity 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.

The Group is exposed to interest rate risk principally where its borrowings are at a variable interest rate. The Group's policy it to reduce this exposure through interest rate swaps.

29 Financial Instruments continued

(d) Market Risk continued

Commodity Price Risk

Commodity price risk is the risk of financial loss to the Group through open positions on the trading of coal, coke and other mineral commodities, prices for which are subject to variations that are both uncontrollable and unpredictable.

The Group mitigates these risks wherever practicable, 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 Group's participation in the Tower surface mining jointly controlled entity and the former Aardvark and Scottish Coal sites, the Group does have a longer-term exposure to price movements, favourable or unfavourable, in international coal and coke prices.

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 2015

	Sterling £000	Euro £000	US Dollar £000	Hong Kong Dollar £000	South African Rand £000	Indian Rupee £000	Total £000
Cash and cash equivalents	**31,950**	**1,729**	**2,326**	**356**	**145**	**–**	**36,506**
Invoice discounting facility	**7,347**	**–**	**–**	**–**	**–**	**–**	**7,347**
Trade receivables	**35,091**	**44**	**58**	**–**	**198**	**–**	**35,391**
Trade receivables due from undertakings in which the Company has a participating interest	**22,360**	**2,390**	**–**	**–**	**–**	**–**	**24,750**
Trade payables	**(29,594)**	**(23)**	**(2,491)**	**–**	**(89)**	**(14)**	**(32,211)**
Trade payables due to undertakings in which the Company has a participating interest	**(940)**	**–**	**–**	**–**	**–**	**–**	**(940)**
Other trade payables	**(6,203)**	**–**	**–**	**(44)**	**14**	**–**	**(6,233)**
Revolving credit facility	**(32,772)**	**–**	**–**	**–**	**–**	**–**	**(32,772)**
Balance sheet exposure	**27,239**	**4,140**	**(107)**	**312**	**268**	**(14)**	**31,838**
Contracted future sales		**–**	**3,596**	**–**	**–**	**–**	**3,596**
Contracted future purchases		**–**	**–**	**–**	**–**	**–**	**–**
Gross exposure		**4,140**	**3,489**	**312**	**268**	**(14)**	**8,195**
Forward exchange contracts		**5,821**	**(11,055)**	**(1,165)**	**–**	**–**	**(6,399)**
Net exposure		**9,961**	**(7,566)**	**(853)**	**268**	**(14)**	**1,796**

31 May 2014

	Sterling £000	Euro £000	US Dollar £000	Hong Kong Dollar £000	Total £000
Cash and cash equivalents	22,157	1,164	1,469	56	24,846
Invoice discounting facility	5,922	–	–	–	5,922
Trade receivables	55,353	1,109	3,308	831	60,601
Trade receivables due from undertakings in which the Company has a participating interest	25,360	2,992	2,087	–	30,439
Trade payables	(40,859)	(462)	–	–	(41,321)
Other trade payables	(19,311)	–	–	–	(19,311)
Revolving credit facility	(80,190)	–	–	–	(80,190)
Balance sheet exposure	(31,568)	4,803	6,864	887	(19,014)
Contracted future sales		518	–	–	518
Contracted future purchases		–	–	–	–
Gross exposure		5,321	6,864	887	13,072
Forward exchange contracts		(2,835)	(26,046)	–	(28,881)
Net exposure		**2,486**	**(19,182)**	**887**	**(15,809)**

Company

The Company has no exposure to foreign currency risk.

Notes
(forming part of the financial statements) continued

29 Financial Instruments continued

(d) Market Risk continued

Sensitivity Analysis

Group

A 10% weakening of the following currencies against the pound Sterling at 31 May 2015 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 2014.

	Equity		Profit or loss	
	2015 £000	2014 £000	2015 £000	2014 £000
€	**(906)**	(226)	**(906)**	(226)
$	**688**	1,744	**688**	1,744
HKD	**78**	(81)	**78**	(81)
ZAR	**(23)**	–	**(23)**	–
INR	**1**	–	**1**	–

A 10% strengthening of the above currencies against the pound Sterling at 31 May 2015 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	
	2015 £000	2014 £000	2015 £000	2014 £000
Fixed rate instruments				
Financial assets	**–**	–	**–**	–
Financial liabilities	**(12,049)**	(19,353)	**–**	–
	(12,049)	(19,353)	**–**	–
Variable rate instruments				
Financial assets	**43,853**	30,768	**19,906**	427
Financial liabilities	**(32,772)**	(80,190)	**(32,772)**	(80,190)
	11,081	(49,422)	**(12,866)**	(79,763)

Sensitivity Analysis

An increase of one basis point in interest rates throughout the period would have affected 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 instruments at fair value through profit and 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 2014.

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Profit or loss				
Increase/(decrease)	**503**	392	**287**	(27)

29 Financial Instruments continued

(e) 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:

		2015 Expected cash flows					2014 Expected cash flows			
	Carrying amount £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £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	–	–	–	–	–	–	–	–	–	–
Liabilities	**(1,308)**	–	–	**(1,308)**	–	(962)	–	–	(962)	–
Forward exchange contracts:										
Assets	**377**	**377**	–	–	–	2,318	1,617	701	–	–
Liabilities	**(198)**	**(198)**	–	–	–	(1,177)	(1,089)	(88)	–	–
Commodity contracts:										
Assets	**706**	**706**	–	–	–	4,779	2,515	2,264	–	–
Liabilities	**(4,153)**	**(4,153)**	–	–	–	(1,777)	(1,484)	(293)	–	–
	(4,576)	**(3,268)**	–	**(1,308)**	–	3,181	1,559	2,584	(962)	–

(f) 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 ("EBITDA"). 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.

The Board believes that the Group's dividend cover remains conservative. The average dividend cover over the past three years has been just under five times, representing an average pay out ratio of 22.5%.

There are no externally imposed capital requirements but the bank debt is subject to certain covenants in line with normal commercial practice. Historic and projected compliance with these covenants is reviewed by the Board on a regular basis.

30 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Less than one year	**12,028**	15,318	–	–
Between one and five years	**13,268**	23,020	–	–
More than five years	**817**	74	–	–
	26,113	38,412	–	–

Group

During the year £19,508,775 was recognised as an expense in the income statement in respect of operating leases (2014: £18,710,000).

Company

During the year £nil was recognised as an expense in the income statement in respect of operating leases (2014: £nil).

31 Capital Commitments

Group

As at 31 May 2015, the Group was committed to contracts to purchase property, plant and equipment for £nil (2014: £80,801).

Notes
(forming part of the financial statements) continued

32 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 banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided exposure is £nil (2014: £2,324,000).

The Group is defendant in a small number of lawsuits incidental to its operations which, in aggregate, are not expected to have a material adverse effect on the Group.

33 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 joint ventures (Note 16) and its Directors.

Group

Other Related Party Transactions

	Sales to		Purchases from	
	2015 £000	2014 £000	2015 £000	2014 £000
Joint ventures				
Tower Regeneration Limited	**35,754**	27,673	**–**	–
Tower Regeneration Leasing Limited	**–**	–	**4,934**	5,262
Mir Trade Services Limited	**125**	882	**1,102**	18,980
Associate undertakings				
Hargreaves Services Europe Limited	**(419)**	965	**–**	–
Hargreaves Raw Materials Services GmbH	**1,312**	1,112	**–**	762
	36,772	30,632	**6,036**	25,004

	Interest received from		Interest paid to	
	2015 £000	2014 £000	2015 £000	2014 £000
Joint ventures				
Tower Regeneration Limited	**857**	728	**–**	–
Mir Trade Services Limited	**–**	95	**–**	–
Associate undertakings				
Hargreaves Raw Materials Services GmbH	**210**	126	**–**	–
	1,067	949	**–**	–

	Receivables outstanding		Payables outstanding	
	2015 £000	2014 £000	2015 £000	2014 £000
Joint ventures				
Tower Regeneration Limited	**23,064**	24,899	**–**	–
Tower Regeneration Leasing Limited	**–**	–	**479**	–
517EPA Limited	**–**	125	**–**	–
Mir Trade Services Limited	**1**	2,236	**–**	–
Associate undertakings				
Hargreaves Raw Materials Services GmbH	**2,114**	2,768	**–**	–
Hargreaves Services Europe Limited	**40**	37	**–**	–
Hargreaves Carbon Products Polska Sp Zo.o	**378**	373	**–**	–
	25,597	30,438	**479**	–

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 8. In addition to this, the element of the share-based payment (credit)/charge for the year that relates to key management personnel is £(557,000) (2014: £701,000). There are no other post-employment or other long-term benefits.

33 Related Parties continued

Company

Other Related Party Transactions

	Sales to 2015 £000	Sales to 2014 £000	Purchases from 2015 £000	Purchases from 2014 £000
Joint ventures				
Tower Regeneration Limited	**143**	600	**–**	–
Mir Trade Services Limited	**–**	–	**–**	95
	143	600	**–**	95

	Receivables outstanding 2015 £000	Receivables outstanding 2014 £000	Payables outstanding 2015 £000	Payables outstanding 2014 £000
Subsidiaries	**537,837**	590,379	**456,169**	429,032
Joint ventures	**4,597**	7,405	**–**	–
	542,434	597,784	**456,169**	429,032

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 Beamish Hall, Beamish, Stanley, Durham, DH9 0YB on 7 October 2015 at 11.00 a.m. for the following purposes:

Ordinary Business
To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolution 10 as a special resolution.

1. To adopt and receive the Directors' Report, the Strategic Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the Financial Statements for the year ended 31 May 2015.

2. To approve the Directors' Corporate Governance and Remuneration Reports for the year ended 31 May 2015.

3. To declare a final dividend for the year ended 31 May 2015 of 20 pence per ordinary share to bring the dividend for the year ended 31 May 2015 to a total of 30 pence per ordinary share.

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 Kevin Dougan 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 Nigel Halkes as a Director of the Company in accordance with article 29.2 of the Company's articles of association, who offers himself for re-appointment.

7. To appoint KPMG LLP as auditor 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.

8. To authorise the Directors to agree the remuneration of the auditor.

9. 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**):

9.1 up to an aggregate nominal value of £1,063,689 (representing approximately one-third of the total ordinary share capital in issue as at the date of this notice); and

9.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,127,379 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 10.1) 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 9 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six 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 9 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 9 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 9. For the purposes of this resolution 9, **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.

10. That, subject to and conditional upon the passing of resolution 9 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:

10.1 pursuant to the authority conferred upon them by resolution 9.1 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:

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

10.1.2 (otherwise than pursuant to sub-paragraph 10.1.1 above) up to an aggregate nominal value of £319,107 (representing approximately 10% of the total ordinary share capital in issue); and

10.2 pursuant to the authority conferred upon them by resolution 9.2, 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 six 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 10 has expired.

For the purpose of this resolution 10:

(a) **rights issue** has the meaning given in resolution 9; 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.

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

11.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 11 is 4,786,603 (representing approximately fifteen per cent of the number of Ordinary Shares in issue); and

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

11.3 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 six 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 11 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 11 had not expired.

1 September 2015

By order of the Board

Andrew Robertson
Company Secretary

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

Notice of Annual General Meeting – Hargreaves Services plc 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 6.00 p.m. on 5 October 2015 (or, in the event of any adjournment, at 6.00 p.m. 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 Asset Services, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00 a.m. on 5 October 2015.

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 applies 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 Asset Services 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 Asset Services. 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 Asset Services at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00 a.m. on 5 October 2015. 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 voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (Euroclear) specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00 a.m. on 5 October 2015. 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 Euroclear 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 28 August 2015 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 31,910,684 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 28 August 2015 are 31,910,684.

14. The following documents will be available for inspection of 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 9 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 10 and 11 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1: Accounts
The Directors will present their Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the audited Financial Statements for the financial year ended 31 May 2015 to the meeting as required by law. These reports and statements are set out on pages 24 to 83 of the Company's annual report.

Resolution 2: Approval of the Directors' Remuneration Report
Shareholders are asked to approve the Directors' Remuneration Report for the financial year ended 31 May 2015 which is set out in full on pages 31 to 33 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: Final Dividend
The Board proposes a final dividend of 20.0 pence per share. If the meeting approves resolution 3, the final dividend will be paid on 23 October 2015 to shareholders on the register of members on 25 September 2015.

Resolutions 4 and 5: Re-appointment of Directors
At each annual 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, must retire. Directors due to retire by rotation are those longest in office since their last re-election or re-appointment. A retiring Director is eligible for re-appointment. Iain Cockburn and Kevin Dougan are both offering themselves for re-appointment. Tim Ross is retiring at the conclusion of the Annual General Meeting and will not be offering himself for re-appointment.

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

Resolution 6: Appointment of a Director
As Nigel Halkes was appointed to the Board subsequent to the date of the last Annual General Meeting, he is required by the Company's articles of association to retire at this year's Annual General Meeting. The Directors recommend that Nigel Halkes be re-appointed as a director and resolution 6 proposes his re-appointment.

Resolutions 7 and 8: Appointment and Remuneration of Auditor
The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the next general meeting. KPMG LLP are willing to continue in office for a further year and resolution 7 proposes their re-appointment and, in accordance with standard practice, resolution 8 proposes that their remuneration be fixed by the Directors.

Resolution 9: Renewal of Board's Authority to Allot Shares
Resolution 9.1 grants the Directors authority to allot relevant ordinary shares up to an aggregate nominal amount of £1,063,689 being approximately one-third of the Company's issued ordinary share capital.

In line with guidance issued by the Association of British Insurers, resolution 9.2 grants the Directors authority to allot ordinary shares in connection with a rights issue up to an aggregate nominal amount of £2,127,379 (representing 21,273,789 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 9.1. This amount, before any such reduction, represents approximately two-thirds of the Company's issued ordinary share capital. Under a rights issue, ordinary shareholders are invited to subscribe for further ordinary shares in proportion (as near as is practicable) to their holdings of shares in the Company and, if they accept the invitation, their holding of shares is not diluted (and if they decline the offer then they can sell their "rights" in the market for value).

Guidelines issued by the Association of British Insurers (ABI) provide that an authority for directors to allot new shares up to an amount equal to one-third of the existing share capital, such as that granted by resolution 9.1, will be regarded as routine. The ABI guidelines also state that an authority for directors to allot a further amount equal to one-third of the existing issued share capital, such as that granted by resolution 9.2, will also be regarded as routine as long as that additional authorisation applies only to fully pre-emptive rights issues.

It is not the Directors' current intention to exercise either such authorities. The authorities granted by resolution 9 replace the existing authorities to allot shares.

Resolution 10: Disapplication of Pre-emption Rights
This resolution grants the Directors authority to allot shares equivalent to 10 per cent of the issued ordinary share capital for cash (as distinct from non-cash consideration) without first offering them to existing shareholders in proportion to their existing shareholdings. The resolution also allows the Directors to make pre-emptive offers (such as rights issues) to shareholders without following certain detailed procedures in company law. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next Annual General Meeting of the Company.

The Pre-Emption Group's Statement of Principles (the "PEG Principles") recommend that boards of directors should not seek authority to issue more than 5 per cent of the issued share capital of a company for cash on a non-pre-emptive basis. The PEG Principles are designed for officially listed companies, rather than AIM companies, and the National Association of Pension Funds has confirmed that AIM companies should be permitted to take an authority to allot up to 10 per cent of issued share capital for cash on a non-pre-emptive basis (which Hargreaves has done each year since joining AIM).

Notice of Annual General Meeting – Hargreaves Services plc continued

Resolution 11: Purchase of Own Shares
Resolution 11 authorises the Company to purchase its own shares (in accordance with section 701 of the Act) 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 2015 Company financial year end, whichever is the sooner, up to a total of 4,786,603 ordinary shares. This represents approximately 15% of the issued ordinary share capital. 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. 1,228,072 shares were purchased since the last Annual General Meeting of which all are held in Treasury.

The Directors will consider making use of the renewed authorities pursuant to resolution 11 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 a general meeting.

Investor Information

Company Secretary
Andrew Robertson

Independent Auditor
KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Bankers
HSBC
4th Floor
City Point
29 King Street
Leeds
LS1 2HL

Barclays
Barclays House
5 St Ann's Street
Quayside
Newcastle upon Tyne
NE1 3DX

Lloyds Banking Group
1st Floor Black Horse House
91 Sandyford Road
Newcastle upon Tyne
NE99 1JW

Legal Advisers
Walker Morris
Kings Court
12 King Street
Leeds
LS1 2HL

Nominated Adviser and Joint Stock Broker
N+1 Singer
One Bartholomew Lane
London
EC2N 2AX

Joint Stock Broker
Jefferies Hoare Govett
Vintners Place
68 Upper Thames Street
London
EC4V 3BJ

Registered Office
West Terrace Esh Winning
Durham
DH7 9PT

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

For more information

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Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)131 220 7990

Hargreaves Services plc
West Terrace
Esh Winning
Durham DH7 9PT
Tel: 0191 373 4485
Fax: 0191 373 3777

www.hsgplc.co.uk