Hargreaves Services plc

Moving Forward Together

Annual Report and Accounts 2012

An Overview of the Group

Established in 1994, Hargreaves Services plc provides unrivalled performance in sourcing, producing, processing, handling and transporting carbon-based and other bulk materials throughout the UK and within Europe.
The Group has four complementary divisions:

Production

Produces coal and coke and also recycles tyres for customers throughout the UK and Europe.

Revenue

£134.9m
+22.5%

Underlying Operating Profit

£15.2m
+20.3%

The Production Division results for the year ended 31 May 2012 encompassed the operations at Maltby Colliery, Monckton Coke Works, MRT, Rocpower and our share of the Tower Regeneration Joint Venture. Gross revenues for the Division increased by £24.8m from £110.1m to £134.9m and underlying operating profit by £2.5m from £12.7m to £15.2m. As anticipated, the Division delivered a very strong second half performance aided by the steady production rates and thicker coal on the T15 panel at Maltby and a first contribution of profit from the Tower Colliery project.

Find out more about this division and its performance in 2012 from page **11**

Energy & Commodities

Provides coal, coke, minerals, smokeless fuel and biomass products to a range of industrial, wholesale and public sector energy consumers.

Revenue

£446.2m
+34.9%

Underlying Operating Profit

£30.4m
+17.3%

The Energy & Commodities Division had another very strong year. Gross revenues increased by £115.4m to £446.2m, reflecting increases in sales of coal to power station customers. An increase in the proportion of lower margin power station coal relative to the higher margin speciality product saw overall operating profit margin reduce from 7.8% to 6.8%. However, underlying operating profit increased from £25.9m to £30.4m driven largely by the strong power station volumes and margins in the UK. Notwithstanding the overall increase in underlying operating profit, we experienced a difficult year in the coke markets where underlying operating profit attributable to our European subsidiaries reduced from £9.9m to £9.5m.

Find out more about this division and its performance in 2012 from page **10**

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.

Transport

Revenue

£77.3m
-1.8%

Underlying Operating Profit

£4.1m
+5.8%

Industrial Services

Revenue

£80.7m
+16.2%

Underlying Operating Profit

£4.3m
+0.2%

Both our Bulk and Tanker fleets performed well in markets that continue to be challenging. The Transport Division's gross revenues decreased slightly from £78.7m to £77.3m due principally to decreased Tanker revenues, with the Tanker business experiencing a soft second half, as it successfully repositioned itself following the loss of a contract with Petroplus as a result of it going into administration. Underlying operating profit increased by £0.3m from £3.8m to £4.1m. Underlying margins remained consistent. The restructuring costs taken in the prior year and the impact of the harsh winter in the prior year largely accounted for the improvement in profits.

In the Industrial Services Division, gross revenues increased by £11.2m from £69.5m to £80.7m reflecting the impact of previously announced power station contract wins and the first revenues flowing through the new Steel sector contracts. The new contracts contributed around £5.9m to revenues in the year ended 31 May 2012 and are expected to contribute £16m in the first full year ending 31 May 2013. Underlying operating profit remained flat at £4.3m, with the second half being impacted by the costs of starting and ramping up the new Steel sector contracts.

Find out more about this division and its performance in 2012 from page **12**

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Review of the Year

Corporate Governance

Financial Statements

Since 1994, Hargreaves Services plc has provided unrivalled performance in sourcing, producing, processing, handling and transporting carbon-based and other bulk materials throughout the UK and Europe.

Every day, each one of our 2,500+ people strives to deliver progress for the Group and our customers. Working together to move the business forward.

Market leadership

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

Find out more on page 7

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.

Find out more on page 9

Quality

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

Find out more on page 13

Strength

A proven and robust UK business model has been used to drive expansion into Europe and Asia and offers an exciting platform for long-term growth into new markets and geographies.

Find out more on page 16

www.hsgplc.co.uk

Highlights of the Year
Moving forward

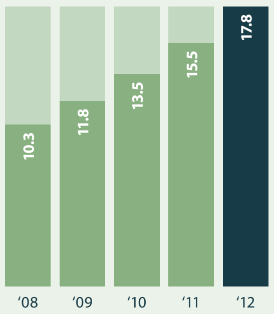
- Strong performance in the year ended 31 May 2012, record profits
- Geological problems at Maltby announced in May 2012, progress being made, but increasing risk profile causing concern
- Board considering future of mine to manage Group's forward risk profile
- Major contract wins for Industrial Services business in Steel sector
- Strong performance from coal trading business, UK and Europe
- European coke trading volumes subdued reflecting low steel production
- Tower project in production
- Banking facilities renewed and extended in April 2012 to October 2015

	Year ended 31 May 2012	Year ended 31 May 2011	Change %
Revenue	**£688.3m**	£552.3m	+24.6%
Operating Profit	**£49.5m**	£43.1m	+14.9%
Underlying Operating Profit (1)	**£54.0m**	£46.7m	+15.6%
Profit Before Tax	**£43.1m**	£36.9m	+16.8%
Underlying Profit Before Tax (2)	**£47.5m**	£40.5m	+17.3%
Diluted EPS	**106.1p**	90.5p	+17.3%
Underlying Diluted EPS (2)	**121.9p**	103.7p	+17.6%
Dividend (including proposed final dividend)	**17.8p**	15.5p	+14.8%
Net Debt (3)	**£77.7m**	£66.0m	+17.7%

(1) Underlying Operating Profit is stated excluding the amortisation of acquired intangibles and including share of profit in jointly controlled entities.
(2) Underlying Profit Before Tax and EPS are stated excluding the amortisation of acquired intangibles.
(3) Net debt comprises cash and cash equivalents, bank overdraft and other interest bearing loans and borrowings.

Dividend Per Share (pence)

17.8p
+2.3p

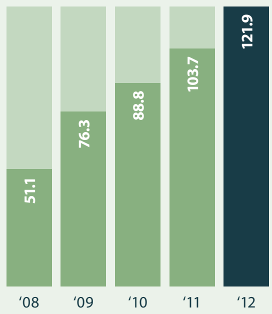


Underlying Operating Profit (£m)

£54.0m
+15.6%

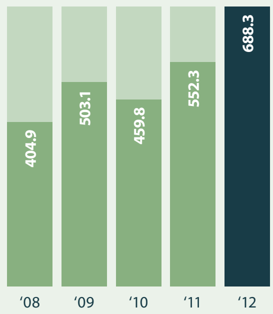
Underlying Diluted EPS (pence)

121.9p
+18.2p



Revenue (£m)

£688.3m
+24.6%



Chairman's Statement
Tim Ross, Group Chairman

Results
The reported financial results show another successful year for Hargreaves. This is despite the significant fall in coal prices over the last 12 months and the recessionary pressures in both the UK and Europe, which demonstrates the robustness of our business and gives us confidence for the long-term future of the Group. Underlying profit before tax for the year increased 17.3% from £40.5m to £47.5m. Revenues increased by £136.0m, from £552.3m to £688.3m. Underlying diluted EPS increased by 17.6% from 103.7p to 121.9p.

The Group's financial performance was not materially impacted by the events that took place at Maltby in May, as the main impact will be felt in this financial year. In this year we have budgeted for an £8.0m loss from Maltby, reflecting the impact of the anticipated face gap. In the last few weeks we have become more concerned about the risks of working in the area of the T125 panel. As we develop the face line the experts are learning more about the features of the strata and risks these pose to the completion of development and the subsequent production from the panel.

T125 is a very attractive panel and we hope that concerns over gas levels do not prevent us from being able to continue to its production. The issues that are impacting Maltby are discussed in more detail in the Group Business Review. These clearly illustrate the risk and volatility associated with owning deep mining operations. The Group has grown significantly over the last five years and the risk profile of Maltby contrasts starkly with the risk profile of our other Group businesses. The asset has played a key role in helping the Group develop and we have invested heavily in the mine since acquiring it five years ago. As a Group we have been very supportive and in return our management and staff have demonstrated a high level of commitment and flexibility. Geology is however a key variable and some of the most major risks that arise from that are outside the control of either the Group or the mining team. If we are unable to work through the current issues with an acceptable level of risk, we are fortunate to have reached a point in the Group's overall strategic development when we are able to contemplate closing or mothballing the operation with minimal impact on our growth prospects.

In the statements that follow there is more background on the risks around the current development and mining plans. We have given careful consideration to how the current position should be communicated at this time. Although we are not in a position to make a decision today, we are considering all the available options and therefore, as a Board, we feel it is right to highlight that we are actively reviewing the risks and considering the best path forward.

Dividend
The business performed very well in the year ended 31 May 2012 and our dividend cover remains very conservative. Notwithstanding the issues we face at Maltby, the progress that has been made in commencing production at Tower and in developing the Industrial Services business gives the Board the confidence to continue with its progressive dividend policy. The Board has therefore recommended a final dividend of 11.8 pence per share, bringing the dividend for the year to 17.8 pence per share, an increase of 14.8% on the previous year. The final dividend is proposed to be paid on 12 December 2012 to all shareholders on the register at the close of business on 9 November 2012.

People
Our staff remain key to the business and once again I would like to thank them for their loyalty and hard work throughout a challenging year. A group as diverse and specialised as Hargreaves needs a strong and collaborative senior management team and we are fortunate in this regard.

The reported financial results show another successful year for Hargreaves. This is despite the significant fall in coal prices over the last 12 months and the recessionary pressures in both the UK and Europe.

+17.6%

Underlying Diluted EPS
increased by 17.6% from 103.7p to 121.9p.

Board

There were some significant changes to the Board during the year ended 31 May 2012. In last year's statement, we were pleased to announce the appointment of Peter Gillatt, whilst Nigel Barraclough resigned from the Board to assume a full-time Executive role. These changes were announced on 2 September 2011. Following last year's statement, we were also pleased to report that David Morgan joined the Board on 24 February 2012. David has joined the Board as Senior Independent Director and Chair of the Audit Committee.

Outlook

Our coal trading business remains very strong. European trading levels for coke remain subdued for now but the longer-term opportunity for Hargreaves in that market place remains very exciting. The Industrial Services business is demonstrating significant potential for growth, particularly in light of the recent contract wins relating to biomass conversion projects and contracting services in Asia. The Transport Division remains stable and profitable. In the Production Division, we are delighted that the Tower project has started and that we have added the first, albeit small, new surface mine site to our portfolio as we grow the scale of these operations. The progress that we have made across all our divisions not only contrasts with the issues we are encountering at Maltby (on which we provide an update in the Group Business Review) but also demonstrates the strength and breadth of the Group in its ability to absorb such setbacks while still moving forward with its long-term growth strategy.

Finally, and on a more positive note, I can report that the rest of the Group is trading strongly and based on early expectations, setting Maltby aside, and despite a slow start to production at Tower, we are cautiously optimistic that we have a good chance of meeting or even exceeding our overall budget for this financial year.

Tim Ross
Chairman
24 September 2012

Group Business Review

Gordon Banham, Group Chief Executive

Last year was the best performance by the Group to date, particularly gratifying when the difficult general economic and trading conditions are taken into consideration. The Group's strategy and business model delivered strong growth and record profits. The Tower project was delivered into production. The Industrial Services Division took a huge step forward by delivering significant contract wins in the steel sector and, more recently, by winning in excess of £30m of contracts to provide support to customers looking to convert from coal to biomass. The Industrial Services Division also provided management and engineering support on an outage project at a major power station in Hong Kong. Although the European markets were weak, particularly for third party coke trading, coal volumes in the UK and Europe grew and margins remained strong. Even Maltby delivered a strong second half, as predicted in the Interim Statement, having had its best production under our ownership during the last nine months.

Before reviewing the performance and position of the rest of the Group, I will provide a summary of the latest developments at Maltby and its long-term outlook.

Maltby

In May we reported that we had encountered significant geological problems while preparing the next panel of coal (T125). Although this instance did not affect production on the current T15 panel and had only limited impact on the financial results in the year ended 31 May 2012, we indicated that the delay in the commencement of production on T125 was estimated to be 12 to 16 weeks with a consequential estimated impact on the Group's profit in the year ending 31 May 2013 of between £12m and £16m.

The current development plan shows that development and face set up will be completed by 16 February 2013, some 15 weeks after the completion of the T15 panel. However, as the face line is being driven, gas issues, possibly emanating from the zone that caused the difficulties in May, are adding delays and risk to the completion of the face line. We envisage this may continue to add risk and further delay to both completion of the development and successful production of the panel once production commences. Our mining experts, together with external consultants, are reviewing the mining plans and performing additional investigative work to ensure that there is a plan that satisfactorily addresses both the health and safety risks and the financial risks this may cause. The outcome of this comprehensive review will be known by the end of October 2012, when there will also have been time to review the further geological data from driving the face and carrying out exploratory boring.

Along with the Board I am unequivocal in my view that, should the presence of gas, water and oil in the vicinity of the panel put our employees at risk, in the opinion of our own management or the external consultants, we will not attempt to mine the T125 panel. We anticipate that the abandonment of the T125 panel would lead to the mothballing or even closure of the mine as it would probably be uneconomic to switch production to a later panel due to the long face gap entailed. We believe that prevarication on these types of issues, especially in the context of deep mines, can bring unacceptable levels of risk to employees, avoidable financial losses and destruction of shareholder value, none of which we will countenance.

While any decision to close or mothball the mine can only be taken after the outcome of the comprehensive review is known, given the current risk profile, the Board wants to ensure that all stakeholders, internal and external, are kept fully informed and where necessary consulted with over the coming weeks. I personally hope that the review will provide unequivocal evidence that will leave the Group in a position to carry on with development and production of the T125 panel. We were, and we remain very optimistic about the potential yield from the T125 panel given the thickness of the coal seam.

Last year was the best performance by the Group to date, particularly gratifying when the difficult general economic and trading conditions are taken into consideration.

Should the level of risk ultimately prove to be unacceptable, the closure or mothballing of Maltby would obviously be a disappointing development for the management and employees. Having raised the possibility of mothballing or closure, I would like to provide some reassurance on the impacts of such action. Firstly, I can reassure investors that the Board are of the view that the Group is strong enough to absorb such actions. Although Maltby was one of the original catalysts of the development of the Group, it is now only one relatively small element among many within the Group. Maltby has not been driving our recent profitable growth and it has undoubtedly been adding risk and volatility to the Group's earnings profile and rating.

Although we would incur a substantial book impairment charge, the cash costs, including redundancy, of mothballing or closing the mine, would likely be less than the losses that are forecast to be made during the upcoming face gap. Based on the initial work we have done to date we are very confident that the cash that would be raised from selling the plant and machinery would be comfortably higher than the cash costs of redundancy. The harvesting of surface fines and the exploitation of the methane gas engines would continue until exhausted. The impact on overall future earnings would be limited to the profit stream from Maltby. Five years on from acquisition this stream now represents a far smaller proportion of overall earnings. It would also remove significant volatility from the Group's earnings.

Following the work we have done in recent months, we are confident that we will be able to protect Monckton's profit stream having found international coals with a very similar, although not identical, specification to Maltby coal. We are also confident that we can honour and meet all contractual obligations without exposing the Group to penalties or claims.

Setting financial matters aside, we can assure shareholders that the safety of our workforce is our primary consideration and, no matter which path is followed, that safety will not be compromised.

8-year contract worth up to

£250m

Production Growth: Surface Mining Progress

At Tower we have secured an 8-year, £250m contract to provide outsourced operational management and mining services. We have also received planning permission at Well Hill in Northumberland, expected to produce 130k tonnes.

I would now like to switch the focus to the positive progress and development of the rest of the Group.

The Future for Coal

Coal remains a key profit generator for the Group. In last year's statement I outlined our view on the future for coal which was largely positive and I believe that what I said last year still holds true today.

We will indeed see a reduction in coal burn over the coming years in the UK power generation sector. In fact we are now helping some of our customers to convert coal facilities to handle biomass. We outlined last year that in contrast to the trend in coal fired generation, many of the specialised coal markets in which we deal, for example coal for Pulverised Coal Injection ('PCI') for steel making, are not likely to be impacted by such reductions and present long-term market opportunities. In addition we still expect that the European and emerging markets will continue to provide growth opportunities.

We are often asked about the impact on Hargreaves of the declining coal burn in the UK power generation sector. Hargreaves only seeks to supply a small tonnage into the power generation market. For imported coals, as a minimum, we have to find a market for approximately one million tonnes of thermal coal which will always arise from the importing and processing of the coal we need for the speciality markets. We also need to place the indigenous power station coal that is produced from Tower, Maltby and Hatfield. Indigenous coal has traditionally sold at a discount to imported coal and therefore will always find a place in the market ahead of imported coal. Indigenous coal is a small and declining proportion of projected coal burn, some 18 million tonnes, or 36% of the total 50 million tonne annual coal burn. We are therefore confident of being able to continue to place both our imported and future indigenous coal for a long time to come.

The Economic Environment

Although economic conditions have been very challenging, we continue to see resilience in all the coal markets we deal with in the UK and the wider European markets. We have enjoyed an increase in volumes of thermal coal for power stations in the UK and have successfully traded our first cargoes of thermal coal through our joint venture with the major Russian producer, MIR Trade AG. Volume and margins have held up very well in the speciality coal markets.

The conditions in the coke market are mixed. Monckton sells most of its coke into niche markets such as ferro-alloy and soda ash producers. Demand for Monckton product has remained buoyant and continues to be strong, driven by the quality characteristics of the coke. On the other hand, our coke trading activities in Europe that largely serve the steel sector and trade a lot of blast furnace coke have seen a reduction in general trading volumes, as the big steel makers reduce production to a level where they are self-sufficient for coke. The outlook for steel production in the short term remains uncertain.

Group Business Review
Continued

The difficult economic conditions are placing great pressure on many of our larger customers and counter-parties. We are even more cognisant of counter-party and credit risks and continue to proactively manage these risks as best we can.

Coal and Coke Prices
A key feature of our markets in the last few years and over the last 12 months has been volatility in coal and coke prices.

We have always adopted a business model where we attempt to eliminate or at least smooth the impact of changing commodity prices. In recent years the volatility has been unprecedented and our business model has been tested by a number of rising and falling price cycles. The API2 coal index fell by 29% over the 12 months to 31 May 2012.

In the Energy & Commodities business, where we buy and sell coal and coke, we will continue to minimise open positions in our trading activities through hedging and the use of back-to-back purchase and sale contracts. The business model, in profitability terms, is therefore largely unaffected by rising or falling prices.

In the Production Division where we are selling commodities that are produced from a relatively fixed cost base, we will continue to utilise long-term contracts that are fixed price or, where possible, RPI linked. Although we are still exposed to long-term price movements, these contracts have removed a great deal of the volatility from our results in recent years.

Last year, the prevailing commodity prices were comfortably higher than the average prices on our prevailing fixed price contracts. With the prices having fallen, although much of that cushion or uplift opportunity has gone, the contracts that the Group currently has in place will continue to provide protection from any further falls in market prices. We remain committed to locking in as much certainty on future price and margin levels as possible.

The contractual position in the three key business units where we have exposure to commodity prices can be summarised as follows. Maltby continues to benefit from a thermal coal contract that offers a fixed price through Q4 2014. At Monckton, the contract with Xstrata is due to expire at the end of this calendar year. A number of contracts have been signed and contract discussions with a variety of customers for 2013 are progressing. As reported in the recent trading update, based on contracts and discussions to date, we remain confident that the average price that will be secured for the year ending 31 May 2013 will be at least as high as the average price achieved in the last financial year. We were pleased to announce last December that the Tower joint venture had secured a three-year fixed price contract for its thermal coal off-take. Trials and contractual discussions on PCI coal are ongoing and we are confident of achieving contract prices in line with our business plan.

In summary, although commodity prices have softened over the last few months we have never built peak commodity prices into our forecast and are therefore still comfortable with the current and forward commodity price position of the Group.

Progress Against Targets
Let me now review the progress we made against the targets we set ourselves last year. We stated last year that we will continue to use our strong UK business base to fund and drive growth into new markets and geographies, with a particular emphasis on three opportunities – Europe, Asia and the Steel Sector.

Europe
In my statement last year I noted the risks around short-term European trading volumes. Following strong growth in Europe in the year ended 31 May 2011, profits reported in our European business for the year ended 31 May 2012 were £9.5m, a slight reduction on the £9.9m reported last year. This was principally due to a fall in the volumes of coke sourced on behalf of European steel producers. The opportunities to trade coke also reduced as steel producers reduced their steel production to such an extent that they were largely self sufficient.

In contrast with coke, we saw increases in coal volumes traded in Europe. Up until the start of last year our focus in the coal markets in Europe had been on speciality markets, particularly anthracites and other low ash products. Although the growth achieved last year was encouraging, the strategic goals we had set ourselves were to start trading flows of both PCI coal into European steel producers and thermal coal to European power generators. We still await purchase decisions by several potential customers following a number of successful PCI coal trials and we see these as opportunities to add significant growth. In the thermal coal sector we successfully established the joint venture with MIR Trade AG, a major Russian producer, and have already won contracts to supply over 300k tonnes of thermal coal.

Revenue:
£80m

Industrial Services Growth:
Breaking into the Steel sector

We have secured major contract wins at all three major steel plants in the UK. These contracts are worth in excess of £80m revenue and are providing a platform not only to sell additional services but are also providing the opportunity to supply both coking coal and PCI coal.

"I joined Hargreaves as a class 2 HGV driver in 2004. The diversity of the Group's operations meant I had opportunities to progress – and I transferred my own personal skills into the Industrial Services Division in 2012 in a new role. I'm now a coal stock banksman, based at Ferrybridge Power Station. I'm in a Group that's going places – and I want to be a part of that."

Julian Vasey, Coal Stock Banksman

Moving forward together:
Market leadership

We have built our market leading position based on our expertise.

The expertise of our Industrial Services Division in materials handling and processing adds value to the power generation, utilities, chemicals, minerals and steel industries. Each individual has a key role to play in adding that value.

Group Business Review
Continued

Asia
As we noted in last year's statement, in contrast to Western Europe, coal consumption and demand in markets such as China and India are set to continue to increase for the foreseeable future. Last year we set ourselves the goal of expanding our business development activities outside of Europe. In this regard I am pleased to announce that we have continued to develop opportunities with China Light and Power. We provided management and engineering support for a recent outage project at the Castle Peak power station in Hong Kong and are in the process of tendering for services contracts with a number of customers in the region. These promise to provide a substantial opportunity for Hargreaves to establish itself in Asia. We are finding strong interest in the services that are provided by the Group and will be continuing our business development activities. In combination with developing an opportunity for our Industrial Services Division we continue to search and explore for opportunities to start trading products through the Energy & Commodities Division.

Steel Sector
We set ourselves the target last year of establishing a presence in the steel sector. We see the steel sector as a promising market for both our Industrial Services and Energy & Commodities Divisions. We were pleased to report at the time of our interim results that we had secured major contract wins at all three major steel plants in the UK. These contracts are worth in excess of £80m of revenue and are providing a platform not only to sell additional services but are also providing the opportunity to supply both coking coal and PCI coal. Following the year end we secured an agreement to source and supply around 500k tonnes annually of coking coal. The success we are demonstrating clearly shows the value and synergies of the Group's business model.

Health and Safety
The health and safety of employees, customers and the public are 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.

I continue to take an active role as a Group Health and Safety champion, working alongside the Health & Safety team to drive high quality health and safety performance throughout the business, not just in terms of developing processes and systems, but in ensuring substance in terms of actions and culture underpin the processes and systems.

The Group has health and safety management systems in place that are either internally or externally audited to the highest standard. We continue to manage health and safety at a divisional and business unit level, allowing us to identify trends and take account of the different operational environments in which we operate. Although we focus on safety at the business unit level, we have a Group Health and Safety manager to promote communication and coordination across the Group.

Health and safety statistics continue to be monitored at a divisional and business unit level, with regular main Board review, as well as pro-active health and safety strategies in place at each division. Areas identified where additional training or improved working practices would be beneficial are promptly addressed.

We are pleased to note that the accident rate, defined as the number of lost time accidents per 100,000 man hours worked, reduced by 6% in the year ended 31 May 2012 to 1.5 *(year ended 31 May 2011: 1.6)*.

Future Strategy and Outlook
Despite events at Maltby, our broad strategy remains unaffected and you will find this strategy and outlook statement is very similar to that of last year. We remain confident that the combination of the Group's capital, skills and business model offers an exciting platform for long-term growth into new markets. We remain confident that we have an efficient and effective business model both in terms of managing risk and delivering profit, founded on not only our core strengths but increasingly the value-added nature of our services offering.

By way of example, in the last 12 months at Tower, we demonstrated how much support and value we can bring to surface mining projects. We have provided capital and expertise to deliver the project through design and planning and into production. We have secured an eight-year, £250m contract to provide outsourced operational management and mining services. We have added value to that service through our coal marketing skills. As another example, we have taken on a £60m contract with SSI to outsource material, coal and coke handling at Redcar steel works. We have re-engineered the coke processing and screening facilities, we have helped to market surplus coke fractions and we have been able to provide assistance in sourcing and financing coking coal supplies.

These projects, together with projects like Hatfield, demonstrate the opportunity that we have created to grow the services and trading side of the business. They also demonstrate the synergies that we have available to cross-sell and the synergies we are able to exploit between our different divisions and we believe that these services are highly sought after, particularly in emerging markets. We will therefore be pushing on with even greater effort to expand our activities overseas, with a continuing focus on supporting operators of mines, power stations and steel plants.

Although the European markets, particularly in coke sourcing, have been subdued, we remain confident that there is a significant medium to long-term opportunity in Europe and we still believe we are well positioned to exploit that opportunity. Off-setting this we are encouraged by the progress we have made recently in developing activities in the steel sector both in terms of services and opportunities to trade products such as PCI and coking coal into these markets.

These strategic plans and opportunities are unaffected by events at Maltby. We will monitor the position at Maltby closely over the coming weeks and we will not let ourselves get into a position whereby we put the Group at risk of excessive loss or volatility going forward. In the meantime we will continue with our efforts to develop and grow the core parts of the Group.

Gordon Banham
Group Chief Executive
24 September 2012

"I started work at Immingham docks in 2005 as a plant operative, driving a loading shovel. My managers encouraged me to develop my skills, and with their mentoring and training I have done just that. Since 2010 I have worked as a shift supervisor."

Adam Short, Plant Operative, Immingham

Moving forward together:
Integration

Providing a value added service offering.

Our Energy & Commodities division sources, processes and distributes coal, coke, minerals and biomass products to a wide range of industries. The fully integrated nature of our business model allows us to move quickly and flexibly to identify and capture every opportunity to add value for our customers.

Review of Operating Performance by Business Unit

As anticipated, the Group saw a very strong second half weighting to its performance, benefitting from better production at Maltby, the first contribution of profit from Tower and strong volume increase and profit improvement from the coal trading operations.

Revenues for the full year increased by 24.6% from £552.3m to £688.3m driven mainly by the Energy & Commodities Division which enjoyed a substantial increase in the volume of coal supplied to power stations. Underlying Group operating profit increased by 15.6% from £46.7m to £54.0m. Reported operating profit increased from £43.1m to £49.5m. Underlying Group operating margin decreased from 8.5% to 7.8%, mainly reflecting a changing product mix in the Energy & Commodities Division with a significant increase in low margin sales to power stations.

Energy & Commodities Division

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

The Energy & Commodities Division had another very strong year. Gross revenues increased by £115.4m from £330.8m to £446.2m, reflecting increases in sales of coal to power station customers. The average profit per tonne and margin are influenced heavily by the product mix, most notably the difference between the lower margin sales of coal sold to power stations and the higher margin product sold into speciality markets.

An increase in the proportion of lower margin power station coal relative to the higher margin speciality product saw overall operating profit margin reduce from 7.8% to 6.8%. As can be seen from the table opposite, the underlying profitability per tonne was fairly steady, with a slight improvement in the average profit per tonne of power station coal sold. Underlying operating profit increased from £25.9m to £30.4m driven largely by strong power station volumes and margins in the UK. Following a difficult year in the coke markets, underlying operating profit attributable to our European subsidiaries reduced from £9.9m to £9.5m. Low volumes of coke trading was only partially offset by an increase in traded coal volumes and margins.

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

Reconciliation of Operating Profit to Underlying Operating Profit, by segment, together with a reconciliation to Underlying Profit before Tax is as follows:

	Production 2012 £000	Energy & Commodities 2012 £000	Transport 2012 £000	Industrial Services 2012 £000	Total 2012 £000
Segment Operating profit	**15,149**	**27,902**	**3,674**	**2,755**	**49,480**
Intangible amortisation	–	2,429	393	1,570	4,392
Share of profit in jointly controlled entities	76	23	–	–	99
Underlying Operating Profit	**15,225**	**30,354**	**4,067**	**4,325**	**53,971**
Net financing costs	(1,831)	(3,350)	(749)	(530)	(6,460)
Underlying Profit before Tax	**13,394**	**27,004**	**3,318**	**3,795**	**47,511**

	Production 2011 £000	Energy & Commodities 2011 £000	Transport 2011 £000	Industrial Services 2011 £000	Total 2011 £000
Segment Operating profit	**12,606**	**24,260**	**3,450**	**2,748**	**43,064**
Intangible amortisation	–	1,630	393	1,569	3,592
Share of profit/(loss) in jointly controlled entities	46	(23)	–	–	23
Underlying Operating Profit	**12,652**	**25,867**	**3,843**	**4,317**	**46,679**
Net financing costs	(2,698)	(2,042)	(829)	(590)	(6,159)
Underlying Profit before Tax	**9,954**	**23,825**	**3,014**	**3,727**	**40,520**

The average profit per tonne sold fell from £10.82 to £7.26 due to the increased proportion of power station coal. Looking at power station coal specifically, we are pleased to report that the profit per tonne sold recovered slightly from £2.12 to £2.64. Sales of power station coal included 828k tonnes of coal under the new Hatfield Colliery marketing contract. The volume of specialised coal decreased slightly from 1,463k tonnes to 1,453k tonnes reflecting lower coke sales in Europe and a return of the UK volumes to normal levels following the exceptional orders received in the prior year. The profit per tonne of specialised product remained strong at £15.56, slightly lower than the £16.36 in the prior year, reflecting the loss of higher margin coke sales from the product mix.

In the Interim Statement we reported that we had concluded our first contracts for the supply of PCI coal. These supplies are expected to commence in the last quarter of this financial year. Trials with other UK and European customers for PCI coal have progressed well, but opportunities to finalise contracts with European customers have been delayed due to the slowdown in steel production. We remain committed to developing further PCI coal supply opportunities and see this as an important opportunity for the Group, particularly considering the potential for PCI production from Tower Colliery.

As reported in last year's Annual Report, in June 2011 we completed the acquisition of Oxbow's share in the Eastgate Materials Handling joint venture for a cash payment of £1.8m which provides us with additional flexibility and control to develop operations at Immingham.

Production Division

The Production Division results for the year ended 31 May 2012 encompassed the operations at Maltby Colliery, Monckton Coke Works, MRT, Rocpower and our share of the Tower Regeneration joint venture. Gross revenues for the division increased by £24.8m from £110.1m to £134.9m and underlying operating profit by £2.5m from £12.7m to £15.2m. As anticipated, the Division delivered a very strong second half performance aided by the steady production rates and thicker coal on the T15 panel at Maltby, and a first contribution of profit from the Tower Colliery project.

Maltby

Total saleable production at Maltby increased by 111k tonnes from 1,517k tonnes to 1,628k tonnes. Both underground production and surface coal fines sales increased year on year, with underground production increasing by 30kt to 903kt and coal fines sales increasing by 81kt to 725kt. The implementation of a fifth shift helped to increase underground production year on year.

The majority of underground production for the year ended 31 May 2012 was sold as power station fuel to Drax under a long-term contract, with a further 257k tonnes of coking coal being sold to Monckton. Coal sales from Maltby outside of the division generated £60.3m of revenue compared to £53.1m in the prior year. Increased coal sales and an improvement in average selling price from £59.75 per tonne to £69.38 per tonne, resulted in coal (non-fines) revenue increasing from £40.6m to £47.6m. The increase in average selling price reflected improved proceeds on major contract renewals combined with higher market prices for coking coal. The full year benefit of the Management Services Contract at Hatfield Colliery boosted revenue further, with coal fines revenue of £12.7m being little changed year on year. Costs at Maltby increased by £3.8m compared to prior year, largely as a result of the full year impact of employing a fifth production shift.

Monckton

Production at Monckton remained steady and revenues increased by £8.7m from £47.6m to £56.3m. Coke sales increased by £10.7m from £43.4m to £54.1m, whilst by-product income improved by £0.5m to £4.6m as a result of improving prices.

The average coke price was £208 per tonne on the sale of 261k tonnes compared to £199 per tonne on 217k tonnes sold in the prior year. During the year Monckton secured a contract to supply third-party manufactured coke to a major existing customer in addition to Monckton's own coke production. This boosted annual sales tonnage, and helped to satisfy demand from Monckton's customer base. Once again the average sales price benefitted from improved contract renewal terms, underlining the demand for Monckton's low phosphorus coke.

2012	UK operations	European operations	Total	Power station coal	Other products	Total
Tonnes sold (000s)	3,247	815	4,062	2,609	1,453	4,062
Operating profit per tonne (£)	6.16	11.66	7.26	2.64	15.56	7.26
Operating profit from trading (£m)	20.0	9.5	29.5	6.9	22.6	29.5
JCE & non-trading (£m)			0.9			0.9
Total segment underlying operating profit (£m)			30.4			30.4

2011	UK operations	European operations	Total	Power station coal	Other products	Total
Tonnes sold (000s)	1,592	802	2,394	931	1,463	2,394
Operating profit per tonne (£)	10.07	12.31	10.82	2.12	16.36	10.82
Operating profit from trading (£m)	16.0	9.9	25.9	2.0	23.9	25.9
JCE & non-trading (£m)			–			–
Total segment underlying operating profit (£m)			25.9			25.9

Note: Operating margin per tonne included profits on handling third-party product volumes through port operations.

Review of Operating Performance by Business Unit Continued

Surface Mining
Our open cast mining joint venture, Tower Regeneration Ltd ('TRL') satisfied pre-production planning conditions in April 2012, which allowed operations to commence on site. Immediately after receiving the planning certificate in December 2011, we were able to announce a three-year contract to supply RWE's Aberthaw power station with thermal coal. We announced in the interim statement that we would be conducting tests and trials with potential customers in the UK and European steel markets for the PCI grade coal. The initial trials have been concluded with positive results and we are confident of announcing contracts in the coming months.

In line with previous guidance we are pleased to report that a contract for working the site was agreed between TRL and Hargreaves Surface Mining on an open book cost plus basis. By the end of May 2012, 72k tonnes of coal had been produced and sold as the site was set up and established.

The Tower project contributed £3.6m of underlying operating profit to the Production Division during the year through a combination of our 35% share of TRL's profit, profit made by Hargreaves Surface Mining and management charges.

Overall, we are very pleased with how the project has progressed through the start-up phase, which included overcoming the challenge presented by the wettest summer in 100 years. Production during the summer has been impacted but we are still confident of achieving the full year profit targets for the project, assuming of course that the exceptional bad weather does not continue.

We still expect that the joint venture will be deploying approximately £40.0m of plant and equipment. By the year end £19.2m of plant had been delivered. The balance has been delivered over the summer and is now fully operational. Financing to the joint venture at 31 May 2012 is in line with previous guidance. At 31 May 2012 we had advanced £22.8m to the Tower project including a short-term loan of £4.0m that was provided from the Group to TRL to fund the initial restoration escrow account. This £4.0m loan remains in place as we investigate the feasibility of replacing the cash escrow account with restoration bonds.

Outside of the Tower project we were also pleased to announce the receipt of planning permission for our first small surface mine. The site at Well Hill in Northumberland is expected to produce 130k tonnes and we are hoping the site will have cleared pre-commencement conditions around or just after the end of this financial year. We remain on track to fulfil our previous target of getting an additional two sites into the planning process before the end of this financial year.

Other
The Group continues to provide management services to Hatfield Colliery Limited. As reported in the Interim Statement, the contract to provide services has been extended from the initial 12-month term to a 36-month term. In addition to, and separate from the management contract, the Energy & Commodities Division continues to market the output from Hatfield. The off-take contract has also been extended to the same 36-month period.

Industrial Services Division
The Industrial Services Division delivered a strong year. We set the target of breaking into the Steel sector where we felt our expertise in material handling and processing would add value. The highlight of last year was winning four major contracts in the Steel sector. Since winning these, we are also pleased to announce that we have secured in excess of £30m of contract work to support customers as they convert from coal handling to biomass handling.

In terms of financial performance, gross revenues increased by £11.2m from £69.5m to £80.7m reflecting the impact of previously announced power station contract wins and the first revenues flowing through the new Steel sector contracts. The new contracts contributed around £5.9m to revenues in the year ended 31 May 2012 and are expected to contribute £16m in the first full year ending 31 May 2013. Underlying operating profit remained flat at £4.3m, with the second half being impacted by the costs of starting and ramping up the new Steel sector contracts. In line with our standard policy, all bidding and mobilisation costs have been expensed. Profitability was also impacted by investment in business development and tendering activities relating to the provision of engineering solutions aimed at converting facilities to handle biomass. As noted below this investment has delivered two significant further contract wins.

The highlight of the strong performance was winning contracts at each of the three largest steel plants in the UK. The largest contract was the five-year £60m contract awarded by Sahaviriya Steel Industries UK Limited ('SSI') to provide coal and coke handling and processing services at the Redcar Steelworks. We have worked closely with SSI as they have worked through the difficult and challenging process of re-commissioning the Redcar Steelworks, the first time such a project has been attempted in the UK. We are also pleased to note that in our first year as a contractor at Tata's Scunthorpe steelworks, we were awarded the honour of being nominated the 'Contractor of the Year'.

Outside of the Steel sector the core business delivered further contract wins in the power station sector, with new contracts agreed at SSE's Fiddlers Ferry power station. In April 2012 the division also secured an £11m project to convert coal handling facilities at EON's Ironbridge power station to handle biomass. Based on a successful commencement of that project the Division has just been awarded a £21m contract for biomass conversion work at Liverpool Bulk Terminal.

The Group continues to develop opportunities in Hong Kong and we still expect the first significant contract opportunities to be tendered before the end of this calendar year. We are in the process of stepping up business development activities across the region.

Transport Division
Both our Bulk and Tanker fleets performed well in markets that continue to be challenging. The Transport Division's gross revenues decreased slightly from £78.7m to £77.3m due principally to decreased Tanker revenues, with the Tanker business experiencing a soft second half, as it successfully repositioned itself following the loss of a contract with Petroplus as a result of it going into administration. Underlying operating profit increased by £0.3m from £3.8m to £4.1m. Underlying margins remained consistent. The restructuring costs taken in the prior year and the impact of the harsh winter in the prior year largely accounted for the improvement in profits.

We are pleased with the performance of both fleets and they continue to make a valuable contribution to the Group's activities in the UK.

Iain Cockburn
Group Finance Director

Gordon Banham
Group Chief Executive
24 September 2012

"Commitment is a word that is often misused, but at Hargreaves it runs through every part of the Group. I came to work for the Group as a HGV driver. Impressed by the commitment to safety and training, I progressed to become a driver trainer and foreman, encouraged all the way by my managers. Management's commitment to providing career opportunities is second-to-none. I won my manager's CPC 'badge' in 2005 and I now manage a large part of our Yorkshire transport fleet."

Wilf Claydon, Transport Manager

Moving forward together:
Quality

Commitment to quality, service and safety is a core element of our business strategy.

We are one of the largest logistics providers in the UK, moving vast quantities of carbon-based materials, waste products, chemicals and other materials smoothly, efficiently and safely every day for our customers. Our commitment to quality, service and expertise has earned us an enviable reputation within the industry.

Financial Review
Iain Cockburn, Group Finance Director

The Group reported an improvement in Operating Profit from £43.1m to £49.5m, a 14.9% increase year on year.

Results Overview
Revenue for the year ended 31 May 2012 increased by 24.6% from £552.3m to £688.3m. Underlying operating profit increased by 15.6% from £46.7m to £54.0m which generated an increase in underlying profit before taxation of £7.0m from £40.5m to £47.5m. Reported profit before taxation increased from £36.9m to £43.1m generating diluted earnings per share of 106.1p *(2011: 90.5p)*.

Revenue
Revenue for the year ended 31 May 2012 totalled £688.3m *(2011: £552.3m)*.

The Energy and Commodities Division, which represented 62.5% of Group revenue in the year, grew by 33% during the year from £323.6m to £430.5m and was the key driver behind the growth in Group revenue. A strong performance from our coal trading business in the UK and Europe more than offset a subdued European coke market. We also saw strong growth in our Industrial Services Division on the back of a number of successful contract wins with revenue increasing from £66.8m to £77.8m during the year, an increase of 16.4%.

Operating Profit
The Group reported an improvement in operating profit from £43.1m to £49.5m, a 14.9% increase year on year. The Energy and Commodities division was the most significant driver of the increase with the UK coal business outperforming our expectations due to increased power station volumes and resilient margins in the speciality markets.

Interest
Net financing costs incurred during the year totalled £6.5m compared to £6.2m for the previous year. Higher net debt levels, driven by investment in the Tower project, and a one-off amortisation charge of £0.4m relating to the bank fees on the previous facility were partially offset by interest income from jointly controlled entities of £0.5m.

Taxation
The UK mainstream corporation tax rate reduced from 26% to 24% in April 2012 giving an average mainstream rate of 25.67%. The effective rate of taxation for the Group for the year ended 31 May 2012 was 28.6% *(2011: 27.5%)* with the higher rate on profit in our European business combined with the timing of deductions on share-based payments being the significant reasons for the increase against the backdrop of a reduction in the mainstream UK Corporation tax rate.

Earnings Per Share
Basic earnings per share for the year were 109.0 pence *(2011: 91.9 pence)* and diluted earnings per share were 106.1 pence *(2011: 90.5 pence)*. Underlying diluted earnings per share, after adding back amortisation of acquired intangibles, increased by 17.6% from 103.7 pence to 121.9 pence.

Dividend
The Board has proposed a final dividend of 11.8 pence *(2011: 10.4 pence)* bringing the dividend for the full year to 17.8 pence *(2011: 15.5 pence)*, an increase of 14.8% in the total dividend for the year. The proposed dividend is covered 6.1 times by underlying earnings *(2011: 5.9 times)*.

Pension Liability
Both Monckton and Maltby continue to operate unfunded concessionary fuel schemes and Maltby continues to operate its two defined benefit pension schemes. The combined liability of all the schemes has increased over the year from £3.9m to £6.0m and resulted in an actuarial loss of £3.3m during the year. A difference between the expected and actual return on scheme assets, and a reduction in the assumed discount rate from 5.4% to 4.7% were the key reasons for the actuarial loss and increased deficit. During the year, it was agreed with the Trustees to maintain the base deficit recovery payments at a rate of just under £1.0m per annum with the payments increasing to a maximum of £1.4m if asset returns fall below an agreed threshold.

Operating Cash Flow

Earnings before interest, tax, depreciation, amortisation and other non-cash movements increased by £10.2m from £64.5m to £74.7m.

Working capital requirements consumed an additional £35.3m during the year. Whilst overall inventory levels increased by £8.7m, Group inventory days (measured against forward purchases) reduced by 10 days from 98.0 as at 31 May 2011 to 88.0 as at 31 May 2012 reflecting continuing tight management of inventory within the Group. As predicted in the Interim Statement, overall levels of inventory have increased as the Group has maximised the benefits of its stocking yards by forward purchasing physical stock to take advantage of the forward price curve. This net increase in inventory levels has happened against a backdrop of falling commodity prices with the API2 coal price falling by approximately 29% during the year.

Trade and other receivables increased by £29.4m during the year in line with the growth in activity in the Group. Notably, Group debtor days reduced by 1 day from 27.8 days to 27.0 days. In addition, amounts advanced to the Tower joint venture increased by £18.8m from £3.6m at 31 May 2011 to £22.4m at 31 May 2012.

An increase in trade and other payables of £22.4m benefitted from the timing of coal vessels at the year end, as noted in the pre-close statement. Notwithstanding this, Group creditor days reduced by 5 days from 41.7 days to 37.0 days.

After interest payments of £5.4m and income tax payments in the year of £5.0m, resultant net cash from operating activities during the year was £29.0m compared to £44.7m in the previous year. The Group benefitted by £0.8m from the timing difference in cash tax payments arising from a sale and leaseback transaction conducted in the previous financial year.

Capital Expenditure

Total net capital expenditure for the year was £30.7m compared to £18.0m in the previous year. Of the capital expenditure, £10.7m was financed through finance leases. The depreciation charge for the year was £20.6m *(2011: £17.1m)*. The capital programme has exceeded ongoing depreciation during the year as we have strategically invested across the business. We anticipated in our Interim Statement that following the recent success of our Industrial Services business in the steel sector, we would be investing in plant and equipment to support these contracts at all three major steel plants in the UK. In addition, during the year, we completed the investment in T15's face equipment at Maltby and further invested in the face equipment for the next face, T125. Other significant investments included fleet upgrades at our Tankers business and the purchase of the new site to act as a regional head office and transport facility near Leeds. This site is ideally located to provide much needed expansion for our Yorkshire-based staff and to provide a Yorkshire base for a significant portion of the transport fleet.

With regard to acquisitions and other investments, the Group purchased Oxbow Coal Limited's 50% share in our joint venture Eastgate Materials Handling Limited for a cash consideration of £1.8m and also increased its effective share in its European businesses to 82% during the year.

Financing Activities

During the year the Group utilised an additional £31.0m of its banking facilities and made payments of £8.9m against finance lease liabilities. Dividend payments during the year included £3.6m paid to minority shareholders of the European subsidiaries.

Net Debt

Group net debt, comprising cash and cash equivalents, bank overdraft and other interest-bearing loans and borrowings was £77.7m at 31 May 2012, an increase of £11.7m from the £66.0m reported at 31 May 2011. Net debt as a ratio of net assets of the Group at 31 May 2012 was 57% compared to 58% at 31 May 2011.

Borrowings and Facilities

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

In April 2012, the Group secured a new multi-bank committed facility increasing its core UK facilities from £115m to £175m. The new facility consists of a £50m invoice finance facility and a £125m revolving credit facility ('RCF'). The arrangement was concluded with a five bank group comprising of RBS, HSBC, Lloyds, Santander and Barclays and is committed through to 30 October 2015.

The decision to secure new facilities early has locked in slightly improved pricing and, critically, provides the Group with increased debt capacity to support its growth aspirations.

The Group continues to operate comfortably within its banking covenants. The key covenants on the RCF are interest cover and leverage, measured as a ratio of net debt to EBITDA. As at 31 May 2012 interest cover was 11.6 times, comfortably over the covenant minimum of 4 times and leverage was 1.0 times, comfortably under the maximum 2.5 times permitted.

The European business continues to operate on a facility of £52m (€65m) from Commerzbank. At the end of the year the net debt on this facility was £21.0m.

Capital Management

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

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

"I've had 36 years in the coal and coke industry, so have seen some pretty big changes in my time. I started at Monckton as a weigh-bridge operator and, encouraged by managers and colleagues, I have learned much about our industry and the products we make. These days I work as a stock yard supervisor at our coke plant, making sure our coal supplies and blends are always 'spot on' for the production of top-quality Monckton coke which is used in the glass, detergents and steel-making industries in the UK and abroad."

Phil Rushforth, Stock Yard Supervisor

Moving forward together:
Strength

Our robust business model provides a platform for growth.

The production of coal and coke remains a key profit generator for Hargreaves. It's a long time since the UK was an exporter of carbon products, but the Hargreaves reputation for quality sees our Monckton coke works doing just that. The strength of our business model allowed us to develop surface mining operations which will provide the Group with further market opportunities.

Financial Review
Continued

Summary of Net Debt

	2012 £000	2011 £000
Cash and cash equivalents	**(45,852)**	(17,243)
Bank overdraft	**31,215**	23,994
Revolving credit facility	**73,076**	43,016
Finance lease liabilities	**16,398**	14,640
Promissory note facility	**5,025**	–
Hire purchase receivable	**(2,192)**	–
Pre-lease creditor	**–**	1,593
	77,670	66,000

Going Concern
The Group 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 4 to 12. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 14 to 18. In addition Note 26 to the financial statements includes the Group objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

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

Statement on Risks Relating to the Group's Business
This statement is an integral part of the business review.

Operational
Deep Mining Risk
As demonstrated by recent events at Maltby, deep mining is an inherently high risk activity. Disruption of either a geological or mechanical nature can adversely affect production. Whilst we expect and budget for a certain degree of variability in production, major geological or mechanical failures could result in prolonged periods when no production can take place. Whilst the geology of the mine is very well understood having been worked for over 100 years and these instances are rare, the impact of a prolonged period of production disruption could have a material impact on the results of the Group. The Group mitigates this risk by investing in state of the art mining equipment, operating a rigorous preventative maintenance plan, engaging a highly skilled engineering team and operating a carefully managed spare parts strategy.

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 coal. Appropriate levels of site investigation are undertaken to minimise the risks, but these risks could include unusual and unexpected geological formations, geo-technical instability, flooding and other conditions involved in the extraction of material.

Markets and Commodity Prices
The Group produces and trades in coal, coke and other mineral commodities, the prices of which are subject to variations that are both uncontrollable and unpredictable. Further trading risks are created through foreign currency exposures. The Group mitigates these risks, wherever practical, through the use of measures including fixed price contracts, hedging instruments and 'back-to-back' purchase and sale agreements. Although short-term trading risks are managed in this way, through the ownership of the Maltby Colliery, Monckton Coke Works and our interest in the surface mining activities at Tower, the Group does have a longer-term exposure to price movements, favourable or unfavourable, in international coal and coke prices.

Commercial Relationships
The Group benefits from many long-term and partnership arrangements with key customers and suppliers. Damage to, or loss of these relationships could be detrimental to the Group results. In addition, due to the nature of the sectors in which the Group operates, it does have a concentration of business with a small number of large energy companies. The Group believes that these risks have been adequately mitigated through the close working relationships that it has developed over a long period of time with key clients and suppliers and through careful monitoring of service levels and price competitiveness.

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. Our Production units benefit from long-term contracts, typically ranging from one year to three years. Although elements of the Energy & Commodities 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, particularly in Europe. 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 impact of such downturns will increase as the scale of the European business increases. 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.

Health and Safety
Our working environments have numerous and varied risks which we strive to mitigate by providing systems, equipment, training and supervision. Risk is evaluated by internal and external resources so it is continuously managed and mitigated.

Environmental
There is risk of ground and air contamination at our production sites, in particular at the Monckton Coke Works. We mitigate this risk by careful monitoring of groundwater discharge. Our Transport fleet carries hazardous chemicals, which could lead to contamination in the event of a spillage. The Group mitigates this risk through deploying properly maintained equipment, utilising well-trained personnel and enforcing tight operational procedures.

Human Resources and Operations
People are the Group's most important asset and are key to ensuring that our quality systems operate effectively. We work hard at recruiting, training and developing staff to mitigate the risk of system or human error.

Financial Review
Continued

Energy Costs
The Group's energy usage is very high, both throughout the Transport and Plant fleets and at the Group's four production facilities. An increase in energy cost has been a risk that to date we have been successful in mitigating by indexing key transport contracts against fuel price rises and through our ability to essentially balance and therefore intrinsically hedge electricity generation and usage between the Monckton Coke Works and Maltby Colliery.

Financial
Treasury activities have the objective of minimising both risk and finance costs and are centralised in the Group's Head Office. Group Treasury is responsible for the management of liquidity, interest and foreign exchange risks and operates within policies and authority limits approved by the Board. The use of financial instruments, including derivatives, is permitted when approved by the Board and where the effect is to minimise risk to the Group.

Coal, coke and minerals stocks that are purchased for re-sale are predominantly hedged by matching the currency of purchase with the currency of sale.

Interest Rate
The Group borrows in US Dollars, Euros and Sterling. These borrowings are predominantly at floating rates and where appropriate the Group will use derivatives to generate the desired effective currency and interest rate exposure. As at 31 May 2012, 59.6% of net financial liabilities were at fixed rates *(2011: 61.0%)*.

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

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

Counterparty Risks
The Group does routinely enter term contracts for the purchase or supply of minerals. Although price risk is hedged where appropriate on these transactions, the Group is exposed to risk through the potential failure of counterparties to perform to contract. This risk and strength 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 2012, the largest customer represented 7.4% of the Group trade receivables balance of £69.0m and the top ten accounts represented approximately 49%.

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

Iain Cockburn
Group Finance Director
24 September 2012

Corporate Governance

Financial Statements

Board of Directors and Group Executive Management Team

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Board of Directors

The following Directors served on the Board throughout the year:

1. Tim Ross* (aged 63)
Non-Executive Chairman

Tim read law at Oxford University and qualified as a solicitor, working in the City of London and as a company legal adviser, before attending London Business School and moving into general management. He has considerable experience of the construction, aggregates, waste disposal and opencast coal industries. Previously a Main Board Director of George Wimpey PLC, he is currently Non-Executive Chairman of Superglass Holdings plc and a Non-Executive Director of May Gurney Integrated Services plc and Lavendon Group plc, in addition to board positions with a number of private venture capital-backed companies.

2. Gordon Banham (aged 48)
Group Chief Executive

Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels, Gordon being appointed as General Manager of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, Gordon was made Distribution Director responsible for the enlarged group's coal distribution activities. Gordon joined Hargreaves in 2001, subsequently being appointed as Group Chief Executive. Gordon led a management buyout in 2004 and subsequent flotation on the London Stock Exchange the following year. He has since guided a series of major acquisitions.

3. Iain Cockburn (aged 47)
Group Finance Director

Iain is a Chartered Accountant. After five years with PricewaterhouseCoopers in the UK and Luxembourg he held a number of finance roles, in both the UK and USA, within Courtaulds plc and GenRad Inc groups. Prior to joining Hargreaves he was Finance Director and subsequently CEO and Finance Director of Knowledge Support Systems plc ('KSS').

4. Kevin Dougan MIQ (aged 57)
Group Contracts Director

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

Appointed 1 September 2011

5. Peter Gillatt* (aged 52)
Non-Executive Director

Peter is a Chartered Mining Engineer with over 30 years experience in the waste, recycling, mining and aggregate industries, including roles with SITA, Tarmac Ltd, Lafarge and British Coal. He is currently the Group Managing Director of Longcliffe Group Limited and is a Director of a number of private companies in the waste treatment and recycling sector.

Appointed 24 February 2012

6. David Morgan* (aged 54)
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 the Executive Director, Corporate Development from 1999 to 2009. 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.

* Current member of Audit, Remuneration and Nominations Committees.

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Group Executive Management Team

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

1. Nigel Barraclough
Chief Operating Officer
Previously: Non-Executive Director, Hargreaves Services plc; Investment Director, YFM Group Ltd.

2. Steve Anson
Managing Director
Energy & Commodities Division
Previously: Regional Director, Tarmac Ltd; Commercial Director, Tilcon Ltd.

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

4. 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.

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

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

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2012.

Principal Activities

The principal activities of the Group are the provision of haulage services, waste transportation, mineral import, mining and processing, together with coke manufacture and related activities.

Business Review

The results for the year are set out on page 35.

Information that fulfils the requirements of the business review can be found in the accompanying information. In particular:

- A balanced and comprehensive analysis of the development and performance of the Group's business during the financial year, and of its position at the end of the year, is included in the Group Business Review, the Review of Operating Performance by Business Unit and the Financial Review. Key performance indicators have been included in these reviews where appropriate; and
- The principal risks and uncertainties facing the business have been included in the Financial Review within the 'Statement on Risks Relating to the Group's Business' on page 17. This includes information on environmental matters and employee issues.

Financial Instruments

The financial risks faced by the Group and its policy towards these risks are set out in Note 26 of the accounts.

Proposed Dividend

The Directors recommend a final dividend in respect of the current financial year of 11.8p per share to be paid to shareholders on the register on 9 November 2012. The shares will be ex-dividend on 7 November 2012. 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 2012 for the Group were 37 days *(2011: 42 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 subsequent to the year end were as follows:

TS Ross	
GFC Banham	
ID Cockburn	
KJ Dougan	
N Barraclough	(resigned 30 September 2011)
P Gillatt	(appointed 1 September 2011)
D Morgan	(appointed 24 February 2012)

The Directors who held office at the end of the financial year had the following disclosable interests in the shares of the Company according to the register of Directors' interests:

	Class of share	Interest at end of year	Interest at beginning of year
GFC Banham	Ordinary	3,029,831	3,029,831
KJ Dougan	Ordinary	172,856	172,856
ID Cockburn	Ordinary	7,680	7,680
TS Ross	Ordinary	3,086	3,086

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

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

All the Directors benefited from qualifying third-party indemnity provisions in place during the year and at the date of this report.

According to the register of Directors' interests, no rights to subscribe for shares in Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year and up to the date of this report except as indicated below:

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	June 2011 to April 2018	49,180
KJ Dougan	–	June 2011 to April 2018	17,213
ID Cockburn	–	June 2011 to April 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. None of the share options have been exercised.

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	June 2012 to June 2019	60,000
KJ Dougan	–	June 2012 to June 2019	21,000
ID 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. None of the share options have been exercised.

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	June 2013 to December 2020	39,031
KJ Dougan	–	June 2013 to December 2020	13,661
ID Cockburn	–	June 2013 to December 2020	19,133

These options were granted under the Long-Term Incentive Plan on 15 December 2010 and are outstanding at the end of the year. None of the share options have been exercised.

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	June 2014 to September 2021	34,657
KJ Dougan	–	June 2014 to September 2021	12,130
ID 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. None of the share options have been exercised.

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

	Scheme	Options at end of year	Options at beginning of year
GFC Banham	Savings-Related Share Option scheme 7	819	–

In accordance with the Articles of Association one-third of Directors retire by rotation each year. The Directors retiring by rotation are Gordon Banham and Iain Cockburn who, being eligible, offer themselves for re-election.

Directors' Report
Continued

Significant Shareholdings
At 31 August 2012, the Company had been notified or was aware of the following shareholders with 3% or more of the issued share capital of the Company:

Shareholder	Number of ordinary shares in which interested	% of issued share capital
GFC Banham	3,029,831	11.11%
Odey CfD Holding	1,521,882	5.58%
Black Rock	1,252,433	4.59%
Fidelity Management & Research	1,220,807	4.48%
Liberty Square Asset Management	1,122,010	4.12%
M&G Investment Management	1,107,933	4.06%
Legal & General Investment Management	1,032,000	3.79%
Octopus Investments	1,015,949	3.73%
Hansa Capital Partners	1,000,000	3.67%
Schroder Investment Management	944,844	3.47%
JP Morgan Asset Management	881,362	3.23%

Employees
Applications for employment by disabled persons are always fully considered. Employment policies are designed to provide opportunities irrespective of colour, ethnic or national origin, nationality, sex or marital status. In the event of employees becoming disabled every effort is made, including appropriate training, to ensure that their employment with the Company continues.

The Directors recognise the importance of good communications and good relations with employees. A quarterly in-house magazine is sent to all employees.

Political and Charitable Contributions
The Group made no political contributions during the current or prior year. Donations to UK charities amounted to £29,921 *(2011: £60,175)*.

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.

Auditor
In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company and to authorise the Directors to agree their remuneration is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Iain Cockburn
Group Finance Director
24 September 2012

Corporate Governance

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

The Group Board

The Group is headed by an effective Board, which both controls and leads the Group. A biography of each Director and details of the membership of the Committees of the Group Board is provided on page 20.

The Group Board currently comprises three Executive Directors, and three Non-Executive Directors. The Group Board meets at least six times per year, receiving appropriate information from management on a timely basis, and making further detailed enquiries where necessary which enables the Board to discharge its duties.

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

There is a defined division of responsibilities between the Non-Executive Chairman and the Group Chief Executive. The Chairman is primarily responsible for leadership of the Board and the 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 active participation 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.

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

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.

Non-Executive Directors

Non-Executive Directors bring a wide range of experience to the Group and Tim Ross, David Morgan and Peter Gillatt are considered by the Board to be independent.

Board Committees

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

- Remuneration
- Audit
- Nomination

The memberships, roles and activities of each are detailed in separate reports. Each Committee reports to, and has its terms of reference approved by, the Board and the minutes of the Committee meetings are circulated to and reviewed by the Board. Each Committee's terms of reference can be found on our website.

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.
- **Risk Committee** – recently formed in 2012 and responsible for driving effective risk management throughout the business and reporting and making recommendations to the Audit Committee as appropriate; 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 Iain Cockburn and senior 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 is fully embedded. 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.

Corporate Governance
Continued

Board Meetings
The Group 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 which enables the Board to discharge its duties. At each meeting, the Board receives certain regular reports, for example, covering current trading, treasury, health and safety. At particular points in the year, the Board reviews budgets, capital expenditure, risks and financial statements. The Board also has regular updates on strategy and also reviews other topics, in particular to cover material risks and uncertainties facing the business or to address Board evaluation. In addition, each year the senior management succession plan for the Group is reviewed with the Head of Human Resources.

Attendance at meetings	Board meetings	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	10	2	3	Recently formed. No meeting held in this financial year
Tim Ross	10 attended	2 attended	3 attended	
Gordon Banham	10 attended	–	–	
David Morgan (appointed 24.2.12)	3 meetings 3 attended	1 meeting 1 attended	2 meetings 2 attended	
Peter Gillatt (appointed 1.9.11)	7 meetings 7 attended	2 attended	3 attended	
Iain Cockburn	10 attended	–	–	
Kevin Dougan	10 attended	–	–	
Nigel Barraclough (resigned 30.9.11)	3 meetings 3 attended	1 meeting 1 attended	–	

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. We recognise that our Directors have a diverse range of experience, and so we encourage 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 and 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.

Appointment and Replacement of Directors
Directors are appointed by the Board and then are the subject of election by the shareholders at the first opportunity after his/her appointment. The Company's articles of association also state that each Director must retire from office at the third Annual General Meeting held after the Annual General Meeting at which he/she was elected. It is part of the Chairman's role to discuss the time commitment and contribution of each Non-Executive Director as part of his individual appraisal, and the Nomination Committee unanimously recommends the reappointment of each of the Directors.

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

Board Performance Evaluation
To further strengthen Group compliance the Board has recently implemented an annual performance review that reviews and measures its performance and that of its committees. Alongside this review each Director receives an appraisal conducted by the Chairman for the CEO and by the Senior Independent Director (following discussions with the other Non-Executive Directors) for the Chairman. The Board performance evaluation is now well underway.

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 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 Group Board however believes that a well designed system of internal reporting and control is necessary as the Group grows from strength to strength. The Group Board therefore continues to develop and strengthen internal controls further. The Group Board has overall responsibility for the system of internal control within the Group. The Audit Committee, on behalf of the Group Board, has 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.

Relations with Shareholders
An important role of the Group 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.

Safety, Health and the Environment
Hargreaves Services plc has a proactive approach to Safety, Health and the Environment and is committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts.

The Group Board ensures that Health and Safety issues for employees, customers and the public are of foremost concern in all Group activities. The Group Chief Executive, supported by external advice, is charged with overall responsibility. The Group encourages both internal and external training through a formal network of full-time officers and Health and Safety nominated 'champions' at all levels. Statistical analysis is used to highlight any areas where additional training or improved working practices would be beneficial, and positive action is promptly implemented. We are currently striving to achieve OHSAS 18001 Occupation Health and Safety Assessment Series for health and safety management systems and ISO 14000 environmental management.

Compliance with Laws
Hargreaves Services plc has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice. The Group rolled out its Bribery Policy in the prior year ensuring compliance with the Bribery Act 2010. This involved the introduction of an Anti-Corruption Policy and a Group Whistle Blowing Policy, which can be found on the website.

Remuneration Report

On behalf of the Remuneration Committee, I am pleased to present the Directors' report on remuneration for the year ended 31 May 2012.

Responsibilities and Role of the Remuneration Committee

The Committee's principal function is to review the remuneration of the Executive Directors, and is structured to attract, retain and motivate Executive Directors. The total remuneration package is designed to align the interests of the Executive Directors with those of the shareholders. The remuneration strategy, policy and approach for all staff is also reviewed annually by the Committee.

The Committee invites individuals to attend meetings to provide advice so as to ensure that the Committee's decisions are informed and take account of pay and conditions across the Group.

The Committee adheres to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance.

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 operating profit targets set by the Remuneration Committee. Such bonus is capped at 100% of salary. No bonus counts in the calculation of pension entitlement.

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 Earnings Per Share growth targets over a three-year period.

Benefits in Kind and Pensions

In addition to basic salary, Gordon Banham, Iain Cockburn and Kevin Dougan are entitled to the following benefits: Long-Term Incentive share plan, paid holiday, company car, contributions to a personal pension plan and life assurance.

The full Terms of Reference of the Committee are available on our website at www.hsgplc.co.uk.

Membership of the Committee

The members of the Committee during the year were as follows:

Peter Gillatt	(appointed 1 September 2011)	Chairman
Nigel Barraclough	(resigned 6 September 2011)	
Tim Ross		
David Morgan	(appointed 24 February 2012)	

All members of the Committee are Independent Non-Executive Directors. Independence is important and means that the pay of the Executive Directors is set by persons who are independent of the Executives. The Chairman and the Group Chief Executive are consulted and invited to attend meetings when appropriate but no Director is allowed to be present when his own remuneration is discussed.

Main Activities of the Committee During the Year

The main focus of the Committee's activities during the year was:

1. Review and set remuneration for the Executive Directors.
2. Employee share scheme.
3. Agreements and conditions of service.
4. Service contracts.

The Committee met three times during the year.

Directors' Remuneration

Remuneration was as follows:

	2012 Salary £000	2012 Bonus £000	2012 Benefits £000	2012 Total £000	2011 Total £000	2012 Pension £000	2011 Pension £000
Gordon Banham	**425**	**–**	**36**	**461**	537	**106**	43
Iain Cockburn	**250**	**–**	**17**	**267**	353	**50**	21
Kevin Dougan	**176**	**–**	**31**	**207**	223	**–**	–
Tim Ross	**60**	**–**	**–**	**60**	60	**–**	–
Nigel Barraclough	**12**	**–**	**–**	**12**	36	**–**	–
Peter Gillatt	**26**	**–**	**–**	**26**	–	**–**	–
David Morgan	**10**	**–**	**–**	**10**	–	**–**	–
	959	**–**	**84**	**1,043**	1,209	**156**	64

Directors' Service Contracts

The Directors have entered into letters of appointment with the Company and the principal terms are as follows:

Date	Name	Position	Commencement of period of office	2013 Remuneration £	Termination
24 November 2005	Tim Ross	Non-Executive Chairman	30 November 2005	62,883	12 months' notice
24 November 2005	Gordon Banham	Group Chief Executive	1 October 2001	434,562	12 months' notice
24 November 2005	Kevin Dougan	Group Contracts Director	23 June 1997	184,050	12 months' notice
1 August 2007	Iain Cockburn	Group Finance Director	8 October 2007	255,625	12 months' notice
2 September 2011	Peter Gillatt	Non-Executive Director	1 September 2011	38,290	6 months' notice
27 February 2012	David Morgan	Senior Independent Director	24 February 2012	40,787	6 months' notice

The services of Tim Ross are provided by Crosswater Resources Limited, a company in which Mr Ross has a significant interest.

Directors' Share Options

Details of Directors' share options, held under the Savings-Related Share Option Scheme and Executive Long-Term Incentive Plan, are noted in the Directors' Report on page 23.

Savings-Related Share Option Scheme

The Sharesave Scheme is a savings-related share option scheme and was implemented in December 2005.

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 60 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.

Remuneration Report
Continued

Executive Long-Term Incentive Plan ('LTIP')
The LTIP scheme was implemented in November 2006.

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

The vesting of an award granted to an Executive Director of the Company shall, or in the case of an award granted to any other Group employee may, be subject to the satisfaction of one or more Performance Conditions. The Remuneration Committee may determine or recommend to the Trustee that the vesting of an award will be subject to any other objective condition in addition to the Performance Conditions. The performance conditions on current awards, including those made in September 2011, are included in Note 23.

The rules of the LTIP schemes were amended in the year, allowing 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.

By order of the Board

Peter Gillatt
Non-Executive Director
24 September 2012

Audit Committee Report

The Audit Committee comprises the three Non-Executive Directors, Tim Ross, David Morgan and Peter Gillatt. David Morgan joined the Committee on 24 February 2012 and sits as Chairman of the Committee. David Morgan is a chartered accountant with a corporate governance background and brings a high level of relevant financial and governance experience to the Committee. The Chairman, Group Chief Executive and Finance Director attend meetings by invitation when appropriate. The external auditor also attends the Committee.

They meet at least twice per year, with the external auditor attending by invitation at least twice per year. The Committee provides a forum by which the external auditor reports to the Group Board.

Responsibilities and Role of the Audit Committee
The Audit Committee is responsible for reviewing the integrity of the Group's financial statements; the Group's compliance with applicable legal and regulatory requirements; the external auditor's qualifications and independence; the adequacy of the Group's financial disclosure, and the effectiveness of the Group's risk management and internal control systems. The Audit Committee also reviews the scope and results of the audit together with its cost effectiveness. The objectivity of the auditor is enhanced by ensuring that they have direct access to the Group Board. Non-audit work undertaken by the auditor is limited to work that requires detailed knowledge derived from the statutory audit or work where the fees involved are not considered to be material; exceptions to this are specifically approved by the Committee.

Membership of the Committee
The members of the Committee during the year were as follows:

David Morgan	(appointed 24 February 2012)	Chairman
Peter Gillatt	(appointed 1 September 2011)	
Tim Ross		
Nigel Barraclough	(resigned 6 September 2011)	

At least once per year a meeting is convened with the external auditor without members of management.

The Committee met twice during the year.

Main Activities of the Committee During the Year
1. Review of the annual business plan.
2. Review of the Group's five-year forecast.
3. Review of the external auditor's independence and objectivity and the effectiveness of the audit process.
4. Consideration of, and recommendations to the Board on, the appointment, reappointment and removal of external auditors including the setting of their remuneration.
5. Consideration of the financial statements and other information published by the Group.
6. Review of the Risk Committee to ensure the effectiveness of the Group's internal controls.
7. Review of the Anti-Bribery and Corruption policy and Group awareness programme.
8. Monitoring and reviewing of the whistle blowing policy.

By order of the Board

David Morgan
Senior Independent Director
24 September 2012

Nominations Committee Report

Responsibilities and Role of the Nomination Committee
The Group Board has this year established a Nominations Committee comprising the three Non-Executive Directors, Tim Ross, David Morgan and Peter Gillatt. Tim Ross sits as Chairman of the Committee. They will meet at least twice per year.

The Nominations Committee is responsible for reviewing succession planning for main Board, leadership requirements, performance evaluation of the Non-Executive Directors and a review of the Group Board generally. It evaluates the balance of skills, experience, independence and knowledge on the Board and in light of this evaluation prepares a description of the role and capabilities required for a particular appointment.

The appointment of David Morgan was effected through the use of an external consultant.

Membership of the Committee
The members of the Committee during the year were as follows:

David Morgan	(appointed 24 February 2012)	Chairman
Tim Ross		
Peter Gillatt	(appointed 1 September 2011)	

The Committee was recently formed in 2012 and is yet to convene.

Main Activities of the Committee During the Year
1. Succession planning.
2. Strategic and commercial issues.
3. Performance evaluation of Non-Executive Directors.
4. Annual review and update of notified conflicts of interest.
5. Appointment of new Non-Executive Directors.

By order of the Board

David Morgan
Senior Independent Director
24 September 2012

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 profit or loss of the Group 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 2012, set out on pages 35 to 80. 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 33, 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 (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

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 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which We Are Required to Report by Exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

24 September 2012

Consolidated Statement of Comprehensive Income
for year ended 31 May 2012

	Note	2012 £000	2011 £000
Revenue	1,2	**688,262**	552,259
Cost of sales		**(593,329)**	(468,045)
Gross profit		**94,933**	84,214
Other operating income	4	**835**	469
Administrative expenses		**(46,288)**	(41,619)
Operating profit	1,5,6	**49,480**	43,064
Financial income	8	**2,304**	1,443
Financial expenses	8	**(8,764)**	(7,602)
Share of profit in jointly controlled entities (net of tax)		**99**	23
Profit before tax		**43,119**	36,928
Income tax expense	9	**(12,312)**	(10,108)
Profit for the year		**30,807**	26,820
Other comprehensive (expense)/income			
Foreign exchange translation differences		**(2,201)**	705
Effective portion of changes in fair value of cash flow hedges		**3,068**	(1,418)
Actuarial gains and losses on defined benefit pension plans		**(3,274)**	891
Tax recognised on other comprehensive (expense)/income	9	**(6)**	17
Other comprehensive (expense)/income for the year, net of tax		**(2,413)**	195
Total comprehensive income for the year		**28,394**	27,015
Profit attributable to:			
Equity holders of the company		**29,455**	24,600
Non-controlling interest		**1,352**	2,220
Profit for the year		**30,807**	26,820
Total comprehensive income attributable to:			
Equity holders of the company		**27,310**	24,671
Non-controlling interest		**1,084**	2,344
Total comprehensive income for the year		**28,394**	27,015
Basic earnings per share (pence)	10	**109.00**	91.85
Diluted earnings per share (pence)	10	**106.12**	90.50

Balance Sheets
at 31 May 2012

	Note	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Non-current assets					
Property, plant and equipment	11	**98,340**	87,120	**–**	–
Intangible assets	12	**29,831**	31,616	**–**	–
Investments in jointly controlled entities	13	**140**	–	**42**	42
Investments in subsidiary undertakings	13	**–**	–	**32,064**	29,504
Derivative financial instruments	14	**–**	–	**–**	–
Deferred tax assets	16	**–**	–	**123**	123
		128,311	118,736	**32,229**	29,669
Current assets					
Inventories	17	**112,027**	105,944	**–**	–
Derivative financial instruments	14	**6,051**	266	**–**	–
Trade and other receivables	18	**114,779**	66,072	**329,805**	299,120
Cash and cash equivalents	19	**45,852**	17,243	**22,270**	1
		278,709	189,525	**352,075**	299,121
Total assets		**407,020**	308,261	**384,304**	328,790
Non-current liabilities					
Other interest-bearing loans and borrowings	20	**(82,405)**	(51,190)	**(73,076)**	(43,016)
Retirement benefit obligations	22	**(5,969)**	(3,886)	**–**	–
Provisions	24	**(9,282)**	(8,815)	**–**	–
Derivative financial instruments	15	**(3,258)**	(168)	**–**	–
Deferred tax liabilities	16	**(3,482)**	(3,883)	**–**	–
		(104,396)	(67,942)	**(73,076)**	(43,016)
Current liabilities					
Bank overdraft	19	**(31,215)**	(23,994)	**–**	(5,017)
Other interest-bearing loans and borrowings	20	**(12,094)**	(8,059)	**–**	–
Trade and other payables	21	**(100,462)**	(79,205)	**(260,530)**	(238,301)
Income tax liabilities		**(20,117)**	(11,788)	**–**	–
Derivative financial instruments	15	**(2,375)**	(2,623)	**(121)**	–
		(166,263)	(125,669)	**(260,651)**	(243,318)
Total liabilities		**(270,659)**	(193,611)	**(333,727)**	(286,334)
Net assets		**136,361**	114,650	**50,577**	42,456

	Note	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Equity attributable to equity holders of the parent					
Share capital	25	**2,709**	2,683	**2,709**	2,683
Share premium		**32,105**	31,490	**32,105**	31,490
Other reserves		**211**	211	**–**	–
Translation reserve	25	**(1,383)**	550	**–**	–
Merger reserve		**1,022**	1,022	**1,022**	1,022
Hedging reserve	25	**525**	(1,759)	**–**	–
Capital redemption reserve		**1,530**	1,530	**1,530**	1,530
Retained earnings		**97,804**	74,158	**13,211**	5,731
		134,523	109,885	**50,577**	42,456
Non-controlling interest		**1,838**	4,765	**–**	–
Total equity		**136,361**	114,650	**50,577**	42,456

These financial statements were approved by the Board of Directors on 24 September 2012 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 2012

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 2010	2,660	30,429	(31)	(690)	211	1,530	1,022	51,813	86,944	2,840	89,784
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	24,600	24,600	2,220	26,820
Other comprehensive income											
Foreign exchange translation differences	–	–	581	–	–	–	–	–	581	124	705
Effective portion of changes in fair value of cash flow hedges	–	–	–	(1,418)	–	–	–	–	(1,418)	–	(1,418)
Actuarial gains and losses on defined benefit pension plans	–	–	–	–	–	–	–	891	891	–	891
Tax recognised on other comprehensive income	–	–	–	349	–	–	–	(332)	17	–	17
Total other comprehensive income	–	–	581	(1,069)	–	–	–	559	71	124	195
Total comprehensive income for the year	–	–	581	(1,069)	–	–	–	25,159	24,671	2,344	27,015
Transactions with owners recorded directly in equity											
Issue of shares	23	1,061	–	–	–	–	–	–	1,084	–	1,084
Equity settled share-based payment transactions	–	–	–	–	–	–	–	1,067	1,067	–	1,067
Dividends	–	–	–	–	–	–	–	(3,892)	(3,892)	–	(3,892)
Total contributions by and distributions to owners	23	1,061	–	–	–	–	–	(2,825)	(1,741)	–	(1,741)
Changes in ownership interests											
Acquisition of non-controlling interest without a change in control	–	–	–	–	–	–	–	11	11	(419)	(408)
Total transactions with owners	23	1,061	–	–	–	–	–	(2,814)	(1,730)	(419)	(2,149)
Balance at 31 May 2011	2,683	31,490	550	(1,759)	211	1,530	1,022	74,158	109,885	4,765	114,650

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 2011	2,683	31,490	550	(1,759)	211	1,530	1,022	74,158	109,885	4,765	114,650
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	29,455	29,455	1,352	30,807
Other comprehensive income											
Foreign exchange translation differences	–	–	(1,933)	–	–	–	–	–	(1,933)	(268)	(2,201)
Effective portion of changes in fair value of cash flow hedges	–	–	–	3,068	–	–	–	–	3,068	–	3,068
Actuarial gains and losses on defined benefit pension plans	–	–	–	–	–	–	–	(3,274)	(3,274)	–	(3,274)
Tax recognised on other comprehensive income	–	–	–	(784)	–	–	–	778	(6)	–	(6)
Total other comprehensive income	–	–	(1,933)	2,284	–	–	–	(2,496)	(2,145)	(268)	(2,413)
Total comprehensive income for the year	–	–	(1,933)	2,284	–	–	–	26,959	27,310	1,084	28,394
Transactions with owners recorded directly in equity											
Issue of shares	26	615	–	–	–	–	–	–	641	–	641
Equity settled share-based payment transactions	–	–	–	–	–	–	–	1,332	1,332	–	1,332
Dividends	–	–	–	–	–	–	–	(4,428)	(4,428)	(3,642)	(8,070)
Total contributions by and distributions to owners	26	615	–	–	–	–	–	(3,096)	(2,455)	(3,642)	(6,097)
Changes in ownership interests											
Acquisition of non-controlling interest without a change in control	–	–	–	–	–	–	–	(217)	(217)	(369)	(586)
Total transactions with owners	26	615	–	–	–	–	–	(3,313)	(2,672)	(4,011)	(6,683)
Balance at 31 May 2012	2,709	32,105	(1,383)	525	211	1,530	1,022	97,804	134,523	1,838	136,361

Statements of Changes in Equity
for year ended 31 May 2012 Continued

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1 June 2010	2,660	30,429	1,530	1,022	4,586	40,227
Total comprehensive income for the year						
Profit for the year	–	–	–	–	3,883	3.883
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	3,883	3,883
Transactions with owners recorded directly in equity						
Issue of shares	23	1,061	–	–	–	1,084
Equity settled share-based payment transactions	–	–	–	–	1,067	1,067
Dividends	–	–	–	–	(3,805)	(3,805)
Total transactions with owners	23	1,061	–	–	(2,738)	(1,654)
Balance at 31 May 2011	2,683	31,490	1,530	1,022	5,731	42,456
Balance at 1 June 2011	2,683	31,490	1,530	1,022	5,731	42,456
Total comprehensive income for the year						
Profit for the year	–	–	–	–	10,576	10,576
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	10,576	10,576
Transactions with owners recorded directly in equity						
Issue of shares	26	615	–	–	–	641
Equity settled share-based payment transactions	–	–	–	–	1,332	1,332
Dividends	–	–	–	–	(4,428)	(4,428)
Total transactions with owners	26	615	–	–	(3,096)	(2,455)
Balance at 31 May 2012	2,709	32,105	1,530	1,022	13,211	50,577

Cash Flow Statements
for year ended 31 May 2012

	Note	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Cash flows from operating activities					
Profit for the year		**30,807**	26,820	**10,576**	3,883
Adjustments for:					
Depreciation		**20,555**	17,120	**–**	–
Amortisation of intangible assets		**4,392**	3,592	**–**	–
Dividend income		**–**	–	**(10,769)**	(4,500)
Net finance expense		**6,460**	6,159	**1,235**	1,143
Share of profit in jointly controlled entities		**(99)**	(23)	**–**	–
Profit on sale of property, plant and equipment		**(836)**	(469)	**–**	–
Equity settled share-based payment expenses		**1,332**	1,067	**–**	–
Income tax expense		**12,312**	10,108	**(238)**	(305)
Loss on derivative financial instruments		**–**	–	**121**	–
Translation of non-controlling interest		**(269)**	124	**–**	–
		74,654	64,498	**925**	221
Change in inventories		**(8,717)**	(22,936)	**–**	–
Change in trade and other receivables		**(48,189)**	(5,540)	**(25,447)**	(80,361)
Change in trade and other payables		**22,350**	21,248	**21,569**	83,465
Change in provisions and employee benefits		**(713)**	(1,732)	**–**	–
		39,385	55,538	**(2,953)**	3,325
Interest paid		**(5,384)**	(6,083)	**(149)**	(1,143)
Income tax paid		**(4,974)**	(4,732)	**–**	–
Net cash from operating activities		**29,027**	44,723	**(3,102)**	2,182
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**2,468**	1,452	**–**	–
Dividends received		**–**	–	**5,769**	4,500
Acquisition of subsidiaries, net of cash acquired	3	**(2,940)**	(730)	**(568)**	–
Acquisition of property, plant and equipment	11	**(22,493)**	(12,777)	**–**	–
Acquisition of other investments	13	**–**	(44)	**–**	(42)
Net cash from investing activities		**(22,965)**	(12,099)	**5,201**	4,458
Cash flows from financing activities					
Proceeds from the issue of share capital	25	**641**	1,084	**641**	1,083
(Repayment of)/proceeds from pre-lease creditor	20	**(1,593)**	1,593	**–**	–
Issue of secured loan		**(2,192)**	–	**–**	–
Payment of finance lease liabilities		**(8,941)**	(10,068)	**–**	–
Repayment of invoice discounting facility		**–**	(9,827)	**–**	–
Dividends paid	25	**(8,070)**	(3,892)	**(4,428)**	(3,805)
Proceeds from promissory notes (net of expenses)		**5,025**	–	**–**	–
Proceeds from/(repayment of) revolving credit facility	20	**31,000**	(10,857)	**31,000**	(10,857)
Debt refinancing costs		**(2,026)**	–	**(2,026)**	–
Net cash from financing activities		**13,844**	(31,967)	**25,187**	(13,579)
Net increase/(decrease) in cash and cash equivalents		**19,906**	657	**27,286**	(6,939)
Cash and cash equivalents at 1 June		**(6,751)**	(7,206)	**(5,016)**	1,923
Effect of exchange rate fluctuations on cash held		**1,482**	(202)	**–**	–
Cash and cash equivalents at 31 May	19	**14,637**	(6,751)	**22,270**	(5,016)

Notes
(forming part of the financial statements)

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

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

Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

In these financial statements various Adopted IFRSs which are effective for the first time, have been adopted including the following standards, amendments and interpretations:

- Revised IAS 24 'Related Party Disclosure';
- Improvements to IFRSs (issued May 2010);
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments';
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement; and
- Amendment to IAS 32 'Financial Instruments: Presentation: Classification of Rights Issues'.

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

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
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.

b) Mining production and profitability
Estimates of mine life and production levels, and the profitability of future production (which in the medium-term is in 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. If a decision was made to close or mothball Maltby Colliery, a substantial impairment charge would be incurred.

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 24) 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.

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 are dependent on a number of long-term assumptions including the discount rate, inflation rate, mortality rates and expected return on scheme assets. 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 as to 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.

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.

1 Accounting Policies (continued)

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 4 to 8. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 14 to 18. In addition Note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. In making this assessment, the Board has reviewed projections for the next five years, taking into account key assumptions and uncertainties, including the status of Maltby.

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 24 September 2012.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial information 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 interest even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated when preparing the consolidated financial information.

Associates and Jointly Controlled Entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic, financial and operating decisions. The consolidated accounts include the Group's share of the total comprehensive income and equity movements of jointly controlled entities and associates on an equity accounted basis. The results of jointly controlled entities and associates are included in the consolidated accounts from the date that joint control or significant influence respectively, commences until the date that it ceases. When the Group's share of losses exceeds its interest in an equity accounting investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Foreign Currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are 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 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. They are recycled to profit or loss upon disposal.

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.

Notes
Continued

1 Accounting Policies (continued)

Classification of Financial Instruments Issued by the Group (continued)
Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

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

Financial Instruments
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 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 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 lives, they are accounted for as separate items of property, plant and equipment.

Mine development costs at Maltby Colliery are capitalised and depreciated over the working life of the area of the mine to which the costs are attributable.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation rates are as follows:

Mineral reserves	–	12.5% p.a.
Freehold buildings	–	2% to 4% p.a.
Leasehold improvements	–	15% p.a.
Motor vehicles and plant	–	10% to 20% p.a.
Furniture and equipment	–	25% p.a.
Fixtures and fittings	–	15% p.a.

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.

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.

1 Accounting Policies (continued)

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 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.

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 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.

Inventories

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

At Maltby Colliery, the cost of preparing proceeding coal faces is held on the balance sheet within work in progress and is charged on a tonnage-extracted basis over the estimated production life of the relevant face. Work in progress also 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.

Notes
Continued

1 Accounting Policies (continued)
Investments
Investments in jointly controlled entities, 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, actuarial gains and losses.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in other comprehensive income, actuarial gains and losses.

Defined Contribution Pension Plans
The Group operates a Group personal pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the financial period.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-Based Payment Transactions
The Group operates a share option scheme for certain employees. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

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

Revenue
Revenue is measured at the fair value of consideration received or receivable, excluding value added tax, for goods and services supplied to external customers. All directly attributable expenses in respect of services provided are recognised in the income statement in the period to which they relate.

1 Accounting Policies (continued)

Revenue (continued)

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 large proportion of sales, particularly from Maltby, are sold on long-term contracts. 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.

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's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest costs charged to the income statement on the outstanding balance. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the 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.

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 expected returns on plan assets and interest on the pension scheme liability.

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

Income Tax

Income tax on the profit or loss for the period comprises both current and deferred tax. 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.

Notes
Continued

1 Accounting Policies (continued)

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. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets';
- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'; and
- Amendments to IAS 19 'Defined Benefit Plans'.

Of the other IFRSs that are available for early adoption, none are expected to have a material effect on the financial statements.

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

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

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

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:

	Production 2012 £000	Energy & Commodities 2012 £000	Transport 2012 £000	Industrial Services 2012 £000	Total 2012 £000
Revenue					
Total revenue	134,873	446,214	77,326	80,722	739,135
Inter–segment revenue	(22,168)	(15,739)	(10,034)	(2,932)	(50,873)
Revenue from external customers	**112,705**	**430,475**	**67,292**	**77,790**	**688,262**
Underlying operating profit	**15,225**	**30,354**	**4,067**	**4,325**	**53,971**
Amortisation of intangibles	–	(2,429)	(393)	(1,570)	(4,392)
Net financing costs	(1,831)	(3,350)	(749)	(530)	(6,460)
Profit before taxation	**13,394**	**24,575**	**2,925**	**2,225**	**43,119**
Depreciation charge	**(14,255)**	**(839)**	**(3,551)**	**(1,910)**	**(20,555)**
Capital expenditure	**21,178**	**2,427**	**4,055**	**5,547**	**33,207**
Net assets					
Segment assets	129,988	150,666	28,447	22,134	331,235
Segment liabilities	(52,573)	(86,809)	(17,177)	(17,949)	(174,508)
Segment net assets	**77,415**	**63,857**	**11,270**	**4,185**	**156,727**
Jointly controlled entities	76	64	–	–	140
Segment net assets including share of jointly controlled entities	**77,491**	**63,921**	**11,270**	**4,185**	**156,867**
Unallocated net assets					(20,506)
Total net assets					**136,361**

Unallocated net assets include goodwill and intangibles (£29.8m), revolving credit facility (£73.1m), cash and cash equivalents (£24.3m), derivative financial instruments (£0.4m) and other corporate items (£9.5m).

2 Segmental Information (continued)

	Production 2011 £000	Energy & Commodities 2011 £000	Transport 2011 £000	Industrial Services 2011 £000	Total 2011 £000
Revenue					
Total revenue	110,119	330,814	78,690	69,452	589,075
Inter–segment revenue	(15,870)	(7,232)	(11,082)	(2,632)	(36,816)
Revenue from external customers	**94,249**	**323,582**	**67,608**	**66,820**	**552,259**
Underlying operating profit	**12,652**	**25,867**	**3,843**	**4,317**	**46,679**
Amortisation of intangibles	–	(1,630)	(393)	(1,569)	(3,592)
Net financing costs	(2,698)	(2,042)	(829)	(590)	(6,159)
Profit before taxation	**9,954**	**22,195**	**2,621**	**2,158**	**36,928**
Depreciation charge	**(11,168)**	**(1,101)**	**(3,261)**	**(1,590)**	**(17,120)**
Capital expenditure	**10,889**	**842**	**5,061**	**2,681**	**19,473**
Net assets					
Segment assets	94,373	133,687	30,396	16,165	274,621
Segment liabilities	(36,391)	(63,750)	(17,773)	(17,160)	(135,074)
Segment net assets	**57,982**	**69,937**	**12,623**	**(995)**	**139,547**
Jointly controlled entities	–	–	–	–	–
Segment net assets including share of jointly controlled entities	**57,982**	**69,937**	**12,623**	**(995)**	**139,547**
Unallocated net assets					(24,897)
Total net assets					**114,650**

Unallocated net assets include goodwill and intangibles (£31.6m), revolving credit facility (£43.0m), derivative financial instruments (£2.5m) and other corporate items (£11.0m).

Information About Key Customers

Included in revenue is an amount of £82,371,000 *(2011: £43,400,000)* arising from sales to the Group's largest customer.

The following table analyses revenue by significant category:

	2012 £000	2011 £000
Sale of goods	**517,014**	415,118
Rendering of services	**171,248**	137,141
	688,262	552,259

Geographical Information

	2012 UK £000	2012 Overseas £000	2011 UK £000	2011 Overseas £000
Revenue	**541,610**	**146,652**	377,302	174,957
Non-current assets	**127,203**	**1,108**	117,909	827

Notes
Continued

3 Acquisition of Subsidiaries
Current Year
Acquisition of Eastgate Materials Handling Limited
On 1 June 2011, the Group acquired the remaining 50% share capital of Eastgate Materials Handling Limited, a jointly controlled entity with Oxbow Coal Limited, satisfied by £1,826,000 cash. The company operates port handling facilities at Immingham, UK.

In the 12 months to 31 May 2012, Eastgate Materials Handling Limited contributed profit after tax of £202,000 to the consolidated profit after tax for the year.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	267	–	267
Intangible assets	–	2,540	2,540
Current assets			
Trade and other receivables	3,178	–	3,178
Cash and cash equivalents	54	–	54
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	(6)	(582)	(588)
Current liabilities			
Trade and other payables	(3,909)	–	(3,909)
Net identifiable assets and liabilities	**(416)**	**1,958**	**1,542**
Share of Eastgate Materials Handling owned			**193**
Goodwill on acquisition			**91**
Net purchase consideration			**1,826**
Satisfied by:			
Consideration paid			**1,826**

Included in the consideration is the estimated fair value of the existing 50% stake which has been valued at £193,000.

The principal fair value adjustment was the recognition of an intangible asset of £2,540,000 for the guaranteed income based on discounted future cash flows for the duration of a customer contract. Goodwill comprises principally the benefits to the wider Group of control of the facility at Immingham.

The intangible asset is being amortised over the expected life of the contract, which is 36 months. The goodwill is not being amortised but is being reviewed annually for impairment.

Reorganisation of European Businesses
The acquisition of the non-controlling interest comprises the acquisition in November 2011 of a further 8.5% of Hargreaves Raw Material Services GmbH for €660,000. This shareholding was subsequently swapped for an 82% shareholding in the newly formed European holding company, Hargreaves Services Europe Limited.

Acquisition of DWL Engineering Services Limited
On 16 January 2012, the Group acquired 100% of the share capital of DWL Engineering Services Limited for £5,000 satisfied in cash, resulting in the creation of £4,800 goodwill. The company is dormant, therefore contributed £nil to the consolidated profit after tax for the year.

Other
In July 2011 and November 2011, £180,000 of the £250,000 deferred consideration payable on the acquisition of trade and assets from Stiller Tankers Limited in October 2009 was paid in final settlement. The remaining £70,000 was released to profit.

In June 2011 and August 2011, €467,000 was paid in relation to the acquisition of the 5% non-controlling interest in Hargreaves Raw Material Services GmbH in June 2010.

3 Acquisition of Subsidiaries (continued)

Prior Year

Acquisition of Mekol NV and Hargreaves Carbon Products Polska Sp Zo.o.

On 15 March 2011, the Group acquired 100% of the share capital of Mekol NV through Hargreaves Carbon Products NV for £700,000 satisfied in cash. The company owns and operates a coal wash plant facility at Ghent coal terminal, Belgium.

On 16 March 2011 the Group acquired 80% of the share capital of Hargreaves Carbon Products Polska Sp Zo.o. This acquisition has been combined in the table below as it is not material.

The result that these acquisitions contributed to the consolidated profit after tax for the two and a half months following acquisition was immaterial.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	158	–	158
Current assets	49	–	49
LIABILITIES			
Current liabilities			
Trade and other payables	(100)	–	(100)
Net identifiable assets and liabilities	**107**	**–**	**107**
Satisfied by:			
Consideration paid			**710**
Goodwill on acquisition			**603**

Acquisition of trade and assets of DWL Engineering Services Limited

In April 2011, the remaining £20,000 of deferred consideration was paid in relation to the acquisition of trade and assets of DWL Engineering Services Limited.

Acquisition of additional stake in Hargreaves Raw Material Services GmbH

The acquisition of the non-controlling interest comprised the acquisition in June 2010 of a further 5% of Hargreaves Raw Material Services GmbH at its net asset value of €467,000.

4 Other Operating Income

	2012 £000	2011 £000
Net gain on disposal of property, plant and equipment	**835**	469

5 Expenses and Auditors' Remuneration

Included in profit are the following:

	2012 £000	2011 £000
Amortisation of intangibles	**4,392**	3,592
Impairment loss on inventories	**160**	446
Impairment loss on trade and other receivables	**147**	159
Depreciation of property, plant and equipment owned	**12,841**	11,262
Depreciation of property, plant and equipment held under finance lease	**7,714**	5,858

Notes
Continued

5 Expenses and Auditors' Remuneration (continued)
Auditors' remuneration:

	2012 £000	2011 £000
Audit of these financial statements	**19**	25
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**172**	163
Other services relating to taxation	**98**	92
All other services	**110**	82

Amounts paid to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

6 Staff Numbers and Costs
The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees Group	
	2012	2011
Directors	**26**	27
Maintenance and washery	**201**	197
Traffic and administration	**459**	434
Drivers	**510**	543
Production	**1,457**	1,225
	2,653	2,426

The aggregate payroll costs of these persons were as follows:

	Group	
	2012 £000	2011 £000
Wages and salaries	**97,368**	84,379
Share-based payments (see Note 23)	**1,332**	1,067
Social security costs	**10,091**	8,571
Contributions to defined contribution plans (see Note 22)	**1,338**	1,156
Current service costs of defined benefit plans (see Note 22)	**1,419**	1,382
	111,548	96,555

7 Directors' Remuneration

	2012 £000	2011 £000
Directors' emoluments	**935**	1,113
Company contributions to money purchase pension plans	**156**	64
Amounts paid to third-parties in respect of Directors' services	**108**	96

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £461,000 *(2011: £537,000)*, and company pension contributions of £106,250 *(2011: £43,000)* were made to a money purchase scheme on his behalf.

	Number of Directors	
	2012	2011
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	**–**	–
The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes was	**3**	3

7 Directors' Remuneration (continued)

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

	Number of options At start of year	At end of year	Exercise price pence
GFC Banham	148,211	182,868	–
GFC Banham (under SRSOSs)	–	819	1,098
KJ Dougan	51,874	64,004	–
ID Cockburn	67,920	84,909	–

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

8 Finance Income and Expense

Recognised in Profit or Loss

	2012 £000	2011 £000
Finance income		
Interest income on unimpaired financial assets	**275**	135
Expected return on defined benefit pension plan assets	**1,574**	1,224
Net gain on financial instruments designated as fair value through the income statement	**–**	84
Interest received from jointly controlled entities	**455**	–
Total finance income	**2,304**	1,443
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**7,200**	6,218
Interest on defined benefit pension plan obligation	**1,564**	1,384
Total finance expense	**8,764**	7,602

The total interest expense on financial liabilities measured at amortised cost includes £424,000 of unamortised facility fees in relation to the three-year UK banking facilities signed in September 2009. These unamortised facility fees were expensed upon the early refinancing of the facility in April 2012.

9 Taxation

Recognised in the Statement of Comprehensive Income

	2012 £000	2011 £000
Current tax expense		
Current year	**11,623**	8,727
Adjustments for prior years	**(225)**	(1,131)
Foreign tax – current year	**1,909**	4,435
Current tax expense	**13,307**	12,031
Deferred tax credit		
Origination and reversal of temporary differences	**(915)**	(1,617)
Adjustments for prior years	**233**	275
Reduction in tax rate	**(313)**	(581)
Deferred tax credit	**(995)**	(1,923)
Tax expense in income statement (excluding share of tax of equity accounted investees)	**12,312**	10,108
Share of tax of equity accounted investees	**25**	81
Total tax expense	**12,337**	10,189

Notes
Continued

9 Taxation (continued)
Recognised in Other Comprehensive Income

	2012 £000	2011 £000
Deferred tax		
Effective portion of changes in fair value of cash flow hedges	**(784)**	349
Actuarial gains and losses on defined benefit pension plans	**778**	(332)
	(6)	17

Reconciliation of Effective Tax Rate

	2012 Rate	2012 £000	2011 Rate	2011 £000
Profit for the year		**30,807**		26,820
Total tax expense (including tax on equity accounted investees)		**12,337**		10,189
Profit excluding taxation		**43,144**		37,009
Tax using the UK corporation tax rate of 25.67% *(2011: 27.67%)*	**25.67%**	**11,075**	27.67%	10,240
Effect of tax rates in foreign jurisdictions	**1.01%**	**434**	1.98%	734
Unrecognised tax losses	**–0.20%**	**(85)**	0.12%	44
Non-deductible expenses	**2.83%**	**1,220**	1.63%	602
Reduction in tax rate on deferred tax balances	**–0.73%**	**(314)**	–1.57%	(581)
(Over)/under provided in prior years	**0.02%**	**7**	–2.30%	(850)
Effective tax rate and total tax expense	**28.60%**	**12,337**	27.53%	10,189

The UK corporation tax rate reduced to 24% on 1 April 2012, giving an effective base rate of 25.67% *(2011: 27.67%)*.

Factors That May Affect Future Current and Total Tax Charges
On 26 March 2012 the Chancellor proposed changes to further reduce the main rate of corporation tax by 1% per annum to 22% by 1 April 2014, but these changes were not substantively enacted during the year and therefore are not included in the figures above.

10 Earnings Per Share

All earnings per share disclosures relate to continuing operations as the Group had no discontinued operations in either 2011 or 2012.

Earnings per share for the ordinary shares are as follows:

	2012	2011
Ordinary shares		
Basic earnings per share	**109.00p**	91.85p
Diluted earnings per share	**106.12p**	90.50p

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.

	2012	2011
Profit for the year attributable to equity holders (£000)	**29,455**	24,600
Weighted average number of shares	**27,022,535**	26,782,240
Earnings per ordinary share	**109.00p**	91.85p

The calculation of diluted earnings per share is based on the profit for the year and on the weighted average number of ordinary shares in issue in the year adjusted for the dilutive effect of the share options outstanding (effect on weighted average number of shares: 732,494; effect on earnings per ordinary share: 2.88 pence).

	2012	2011
Profit for the year attributable to equity holders (£000)	**29,455**	24,600
Weighted average number of shares	**27,755,029**	27,181,904
Diluted earnings per ordinary share	**106.12p**	90.50p

Underlying diluted Earnings per Share is calculated on the same weighted average number of shares in the table above, and on Underlying Profit after Tax, as reconciled below:

	2012 £000	2011 £000
Profit for the year attributable to equity holders	**29,455**	24,600
Amortisation of intangibles	**4,392**	3,592
Underlying profit after tax	**33,847**	28,192

Notes
Continued

11 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	Mineral reserves £000	Total £000
Cost							
Balance at 1 June 2010	20,614	–	4,974	98,000	394	6,638	130,620
Acquisitions through business combinations	–	–	–	158	–	–	158
Other acquisitions	192	773	260	18,219	29	–	19,473
Disposals	–	–	–	(2,739)	–	–	(2,739)
Effect of movements in foreign exchange	–	–	3	12	–	–	15
Balance at 31 May 2011	**20,806**	**773**	**5,237**	**113,650**	**423**	**6,638**	**147,527**
Balance at 1 June 2011	20,806	773	5,237	113,650	423	6,638	147,527
Acquisitions through business combinations	267	–	–	–	–	–	267
Other acquisitions	193	3,165	417	26,476	23	2,933	33,207
Disposals	–	–	–	(11,637)	–	–	(11,637)
Transfers	8	(2,482)	–	2,474	–	–	–
Effect of movements in foreign exchange	(25)	–	(13)	(146)	–	–	(184)
Balance at 31 May 2012	**21,249**	**1,456**	**5,641**	**130,817**	**446**	**9,571**	**169,180**
Depreciation and impairment							
Balance at 1 June 2010	2,421	–	4,076	35,833	263	2,422	45,015
Depreciation charge for the year	515	–	471	15,247	57	830	17,120
Disposals	–	–	–	(1,751)	–	–	(1,751)
Effect of movements in foreign exchange	–	–	13	10	–	–	23
Balance at 31 May 2011	**2,936**	**–**	**4,560**	**49,339**	**320**	**3,252**	**60,407**
Balance at 1 June 2011	2,936	–	4,560	49,339	320	3,252	60,407
Depreciation charge for the year	458	–	354	18,462	41	1,240	20,555
Disposals	–	–	–	(9,990)	–	–	(9,990)
Effect of movements in foreign exchange	(22)	–	(11)	(99)	–	–	(132)
Balance at 31 May 2012	**3,372**	**–**	**4,903**	**57,712**	**361**	**4,492**	**70,840**
Net book value							
At 1 June 2010	**18,193**	**–**	**898**	**62,167**	**131**	**4,216**	**85,605**
At 31 May 2011 and 1 June 2011	**17,870**	**773**	**677**	**64,311**	**103**	**3,386**	**87,120**
At 31 May 2012	**17,877**	**1,456**	**738**	**73,105**	**85**	**5,079**	**98,340**

The Group has £1,456,000 *(2011: £773,000)* property, plant and equipment under construction.

The Company has no property, plant and equipment.

Leased Plant and Machinery
At 31 May 2012 the net carrying amount of leased plant and machinery was £24,329,678 *(2011: £23,010,175)*. The leased equipment secures lease obligations (see Note 20).

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

12 Intangible Assets

Group

	Goodwill £000	Negative goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
Cost						
Balance at 1 June 2010	21,622	(93)	11,689	8,148	1,015	42,381
Acquisitions through business combinations	603	–	–	–	–	603
Effect of movements in foreign exchange	(2)	–	–	–	–	(2)
Balance at 31 May 2011	**22,223**	**(93)**	**11,689**	**8,148**	**1,015**	**42,982**
Balance at 1 June 2011	22,223	(93)	11,689	8,148	1,015	42,982
Acquisitions through business combinations	96	–	2,540	–	–	2,636
Effect of movements in foreign exchange	(29)	–	–	–	–	(29)
Balance at 31 May 2012	**22,290**	**(93)**	**14,229**	**8,148**	**1,015**	**45,589**
Amortisation and impairment						
Balance at 1 June 2010	–	(93)	6,237	1,630	–	7,774
Amortisation for the year	–	–	1,962	1,630	–	3,592
Balance at 31 May 2011	**–**	**(93)**	**8,199**	**3,260**	**–**	**11,366**
Balance at 1 June 2011	–	(93)	8,199	3,260	–	11,366
Amortisation for the year	–	–	2,762	1,630	–	4,392
Balance at 31 May 2012	**–**	**(93)**	**10,961**	**4,890**	**–**	**15,758**
Net book value						
At 31 May 2010	**21,622**	**–**	**5,452**	**6,518**	**1,015**	**34,607**
At 31 May 2011 and 1 June 2011	**22,223**	**–**	**3,490**	**4,888**	**1,015**	**31,616**
At 31 May 2012	**22,290**	**–**	**3,268**	**3,258**	**1,015**	**29,831**

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

£2,032,000 of the customer contracts is being amortised over 62 months, £2,596,000 of the customer contracts is being amortised over 71 months, £7,061,000 of the customer contracts is being amortised over 75 months and £2,540,000 of the customer contracts is 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 not yet being amortised as the agreement had not yet commenced at 31 May 2012. The life of the intangible is expected to be seven years, the expected life of the project to which the agreement relates.

Amortisation and Impairment Charge

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

	2012 £000	2011 £000
Administrative expenses	**4,392**	3,592

Notes
Continued

12 Intangible Assets (continued)

Impairment Testing

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

	Goodwill 2012 £000	Goodwill 2011 £000
Norec Limited	**1,252**	1,252
AJS Contracts Limited	**2,502**	2,502
Imperial Tankers Limited/Hargreaves (Bulk Liquid Transport) Limited	**3,523**	3,523
The Monckton Coke & Chemical Company Limited	**5,419**	5,419
Maltby Colliery Limited	**2,139**	2,139
Coal4Energy Limited/Maxibrite Limited	**6,140**	6,140
Mekol NV	**593**	593
Other	**722**	655
	22,290	22,223

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:

	2012	2011
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond approved forecast period	**2%**	2%
Discount rate	**12%**	12%

The growth rates used in value in use calculations reflect a conservative estimate of the average industry growth rate.

The recoverable amount of each cash generating unit has been calculated with reference to its value in use. In calculating this value, management have used the following assumptions:

- Cash flows were projected based on budgeted operating results for the proceeding year with the short-term growth rate applied to the next four years. A conservative growth rate of 2% has been applied in perpetuity. This rate does not exceed the long-term average growth rate for any of the cash generating units' industries;
- Sustaining capital expenditure in each cash generating unit has been included in the calculations equivalent to the current levels of annual depreciation;
- A pre-tax discount rate of 12% *(2011: 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 used if the initial 12% 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, with the exception of the possible closure or mothballing of Maltby, in which case it is likely that there would be an impairment of goodwill and certain other assets.

The Company has no intangible assets.

13 Investments in Subsidiaries, Associates and Jointly Controlled Entities

The Group and Company have the following investments in subsidiaries, associates and jointly controlled entities:

	Nature of business	Country of incorporation	Class of shares held	Ownership 2012	Ownership 2011
Company					
Subsidiary undertakings					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Norec Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Dormant	UK	Ordinary	50%	50%
			Preference	50%	50%
Coal4Energy Limited	Light industrial and domestic coal sales	UK	Ordinary	100%	100%
Forward Sound Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Europe Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Services (HK) Limited	Holding company	Hong Kong	Ordinary	100%	100%
Hargreaves Services Europe Limited	Import and sale of carbon-based materials	UK	Ordinary	82%	–
Jointly controlled entities					
Mir Trade Services BV	Import and sale of carbon-based materials	Netherlands	Ordinary	50%	50%
Mir Trade Services Limited	Import and sale of carbon-based materials	UK	Ordinary	50%	–
Group					
Subsidiary undertakings					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves (UK) Services Limited	Haulage, mineral import and processing	UK	Ordinary	100%	100%
The Monckton Coke & Chemical Company Limited	Manufacture of coke	UK	Ordinary	100%	100%
Norec Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Dormant	UK	Ordinary	100%	100%
			Preference	100%	100%
Maltby Colliery Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Raw Material Services GmbH	Import and sale of carbon-based materials	Germany	Ordinary	82%	77.5%
Hargreaves Metallurgical Supplies Limited	Mineral distribution	UK	Ordinary	100%	100%
Imperial Tankers Limited	Haulage	UK	Ordinary	100%	100%
AJS Contracts Limited	Engineering maintenance services	UK	Ordinary	100%	100%
Maxibrite Limited	Smokeless fuel briquette manufacturing	UK	Ordinary	85.2%	85.2%
RocFuel Limited	Renewable energy solutions	UK	Ordinary	50.1%	50.1%
RocPower Limited	Renewable energy solutions	UK	Ordinary	85%	85%
Hargreaves Carbon Products NV	Import and sale of carbon-based materials	Belgium	Ordinary	82%	62%
Mekol NV	Port facilities	Belgium	Ordinary	82%	62%
Hargreaves Carbon Products Polska Sp Zo.o	Sale of carbon-based materials	Poland	Ordinary	82%	80%
Hargreaves Europe Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Services (HK) Limited	Holding company	Hong Kong	Ordinary	100%	100%
Hargreaves Industrial Services (HK) Limited	Contract management service	Hong Kong	Ordinary	100%	–
Eastgate Materials Handling Limited	Port facilities	UK	Ordinary	100%	50%
Hargreaves Services Europe Limited	Import and sale of carbon-based materials	UK	Ordinary	82%	–
Jointly controlled entities					
Tower Regeneration Limited	Coal mining	UK	Ordinary	50%	50%
Mir Trade Services BV	Import and sale of carbon-based materials	Netherlands	Ordinary	50%	50%
Mir Trade Services Limited	Import and sale of carbon-based materials	UK	Ordinary	50%	–
Tower Regeneration Leasing Limited	Lease of heavy plant	UK	Ordinary	50%	–

Mekol NV is a 100% owned subsidiary of Hargreaves Carbon Products NV.

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

In addition to the above, the Group has approximately 13 dormant subsidiary undertakings.

The Group's share of post-acquisition total recognised profit or loss in the above associates and jointly controlled entities for the year ended 31 May 2012 was a profit of £99,000 *(2011: profit of £23,000).*

Notes
Continued

13 Investments in Subsidiaries, Associates and Jointly Controlled Entities (continued)

Group	Interests in jointly controlled entities £000
Cost	
At beginning of year	81
Additions	–
Disposals	(15)
At end of year	**66**
Share of post acquisition reserves	
At beginning of year	(81)
Transferred from current liabilities within other payables	(149)
Profit for the financial year	99
Disposals	208
Effect of movements in foreign exchange	(3)
At end of year	**74**
Net book value	
At 31 May 2012	**140**
At 31 May 2011	**–**

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

	Ownership %	Current assets £000	Non-current assets £000	Current liabilities £000	Non-current liabilities £000	Revenue £000	Expenses (including tax) £000
2012							
Tower Regeneration Limited	50%	19,822	37,351	(26,434)	(30,523)	5,557	(5,341)
Tower Regeneration Leasing Limited	50%	4,111	19,007	(6,793)	(16,325)	250	(250)
MIR Trade Services Ltd	50%	4,722	–	(4,673)	–	3,139	(3,092)
MIR Trade Services BV	50%	80	–	–	–	–	–
		28,735	**56,358**	**(37,900)**	**(46,848)**	**8,946**	**(8,683)**

	Ownership %	Current assets £000	Non-current assets £000	Current liabilities £000	Non-current liabilities £000	Revenue £000	Expenses (including tax) £000
2011							
Eastgate Materials Handling Limited	50%	2,813	268	(3,490)	(7)	11,269	(11,316)
Tower Regeneration Limited	50%	–	4,596	(4,596)	–	–	132
MIR Trade Services BV	50%	87	–	–	–	–	–
		2,900	**4,864**	**(8,086)**	**(7)**	**11,269**	**(11,184)**

13 Investments in Subsidiaries, Associates and Jointly Controlled Entities (continued)

Company	Group undertakings £000	Jointly controlled entities £000	Total £000
Shares at cost and net book value			
At 1 June 2010	28,436	–	28,436
Additions	1	42	43
Capital contribution arising on share options	1,067	–	1,067
At 31 May 2011	**29,504**	**42**	**29,546**
At 31 May 2011	29,504	42	29,546
Additions	2,456	–	2,456
Disposals	(1,228)	–	(1,228)
Capital contribution arising on share options	1,332	–	1,332
At 31 May 2012	**32,064**	**42**	**32,106**

14 Other Financial Assets

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Current				
Currency contracts designated as fair value through profit or loss	**306**	57	**–**	–
Currency contracts designated as fair value through hedging reserve	**374**	–	**–**	–
Other derivatives designated as fair value through hedging reserve	**5,371**	209	**–**	–
	6,051	266	**–**	–

15 Other Financial Liabilities

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Non-current				
Interest rate swaps designated as fair value through profit or loss	**–**	168	**–**	–
Interest rate swaps designated as fair value through hedging reserve	**2,373**	–	**–**	
Other derivatives designated as fair value through hedging reserve	**885**	–	**–**	–
	3,258	168	**–**	–
Current				
Interest rate swaps designated as fair value through profit or loss	**72**	30	**–**	–
Currency contracts designated as fair value through profit or loss	**482**	6	**121**	–
Other derivatives designated as fair value through hedging reserve	**1,794**	2,587	**–**	–
Other derivatives designated as fair value through profit or loss	**27**	–	**–**	–
	2,375	2,623	**121**	–

Notes
Continued

16 Deferred Tax Assets and Liabilities

Group

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2012 £000	Assets 2011 £000	Liabilities 2012 £000	Liabilities 2011 £000
Property, plant and equipment	**–**	–	**5,806**	6,564
Intangible assets	**–**	–	**1,635**	2,282
Financial assets	**–**	(655)	**178**	–
Employee benefits	**(1,482)**	(1,010)	**–**	–
Share-based payments	**(250)**	(817)	**–**	–
Provisions	**(2,419)**	(2,493)	**–**	–
Tax value of loss carry-forwards	**(23)**	(25)	**–**	–
Other	**–**	–	**37**	37
Tax (assets)/liabilities	**(4,174)**	(5,000)	**7,656**	8,883

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 2011 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 May 2012 £000
Property, plant and equipment	6,564	(764)	–	6	**5,806**
Intangible assets	2,282	(1,229)	–	582	**1,635**
Financial assets	(655)	49	784	–	**178**
Employee benefits	(1,010)	306	(778)	–	**(1,482)**
Share-based payments	(817)	567	–	–	**(250)**
Provisions	(2,493)	74	–	–	**(2,419)**
Tax value of loss carry-forwards utilised	(25)	2	–	–	**(23)**
Other	37	–	–	–	**37**
	3,883	(995)	6	588	**3,482**

Movement in Deferred Tax During the Prior Year

	31 May 2010 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 May 2011 £000
Property, plant and equipment	7,804	(1,240)	–	–	6,564
Intangible assets	3,528	(1,246)	–	–	2,282
Financial assets	(333)	27	(349)	–	(655)
Employee benefits	(1,729)	387	332	–	(1,010)
Share-based payments	(534)	(283)	–	–	(817)
Provisions	(2,614)	121	–	–	(2,493)
Tax value of loss carry-forwards utilised	(36)	11	–	–	(25)
Other	(263)	300	–	–	37
	5,823	(1,923)	(17)	–	3,883

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16 Deferred Tax Assets and Liabilities (continued)

Company

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2012 £000	2011 £000	2012 £000	2011 £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 2010 and at 31 May 2011 £000	Recognised in income £000	Recognised in equity £000	31 May 2012 £000
Share-based payments	(123)	–	–	**(123)**

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

Deferred tax assets and liabilities have been recognised at 24%, the tax rate which was substantively enacted on 26 March 2012. The Chancellor also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 22% by 1 April 2014, but these changes were not substantively enacted during the year and therefore are not included in the figures above. The overall effect of the further reduction from 24% to 22%, if these applied to the deferred tax balance at 31 May 2012, would be to further reduce the deferred tax liability by approximately £167,000.

17 Inventories

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Raw materials and consumables	**30,285**	26,282	**–**	–
Work in progress	**21,170**	19,418	**–**	–
Finished goods	**60,572**	60,244	**–**	–
	112,027	105,944	**–**	–

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

The write-down of inventories to net realisable value amounted to £160,000 *(2011: £446,000)*. The reversal of write-downs amounted to £nil *(2011: £nil)*. The write-down is in cost of sales.

Included within inventories is nil *(2011: £6.2m)* of advanced payments on account from customers.

18 Trade and Other Receivables

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade receivables	**69,010**	53,415	**–**	–
Trade receivables due from Group undertakings	**–**	–	**318,580**	298,423
Trade receivables due from undertakings in which the Company has a participating interest	**24,668**	4,231	**7,302**	–
Other receivables	**11,372**	2,118	**3,101**	126
Prepayments and accrued income	**7,537**	6,308	**13**	–
Corporation tax	**–**	–	**809**	571
Hire purchase receivable	**2,192**	–	**–**	–
	114,779	66,072	**329,805**	299,120

Included within trade and other receivables is £1,009,000 *(2011: £nil)* for the Group and £nil *(2011: £nil)* for the Company expected to be recovered in more than 12 months.

Notes
Continued

18 Trade and Other Receivables (continued)

The Hire Purchase receivable comprises future minimum lease payments of £1,183,000 due within one year and £1,009,000 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 2012 trade receivables are shown net of an allowance for bad debts of £ 129,000 *(2011: £110,000)* arising from the ordinary course of business, as follows:

	2012 £000	2011 £000
Group		
Balance at 1 June	**110**	593
Provided during the year	**147**	159
Released	**(67)**	(586)
Utilised during the year	**(61)**	(56)
Balance at 31 May	**129**	110

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:

2012	Gross trade receivables £000	Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	58,193	(36)	58,157
Past due date (0–90 days)	10,817	(56)	10,761
Past due date (over 90 days)	129	(37)	92
Individually impaired amounts	–	–	–
	69,139	**(129)**	**69,010**

2011	Gross trade receivables £000	Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	39,330	–	39,330
Past due date (0–90 days)	13,577	(109)	13,468
Past due date (over 90 days)	618	(1)	617
Individually impaired amounts	–	–	–
	53,525	(110)	53,415

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

The Group's most significant trade receivable at 31 May 2012 is with DK Recycling und Roheisen GmbH which accounts for £5,089,000 (€6,335,000) of trade receivables carrying amount at 31 May 2012 *(2011: Tata Steel UK Limited £3,528,000).*

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

	2012 £000	2011 £000
UK	**51,857**	43,430
European customers	**16,377**	9,055
Other regions	**776**	930
	69,010	53,415

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

19 Cash and Cash Equivalents/Bank Overdrafts

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Cash and cash equivalents per balance sheet	**45,852**	17,243	**22,270**	1
Bank overdrafts	**(31,215)**	(23,994)	**–**	(5,017)
Cash and cash equivalents per cash flow statements	**14,637**	(6,751)	**22,270**	(5,016)

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

20 Other Interest-bearing Loans and Borrowings

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

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Non-current liabilities				
Finance lease liabilities	**9,329**	8,174	**–**	–
Invoice discounting facility	**–**	–	**–**	–
Revolving credit facility	**73,076**	43,016	**73,076**	43,016
	82,405	51,190	**73,076**	43,016
Current liabilities				
Pre-lease creditor	**–**	1,593	**–**	–
Promissory note facility	**5,025**	–	**–**	–
Current portion of finance lease liabilities	**7,069**	6,466	**–**	–
	12,094	8,059	**–**	–
Bank overdraft	**31,215**	23,994	**–**	5,017
	43,309	32,053	**–**	5,017

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2012 £000	Carrying amount 2012 £000	Face value 2011 £000	Carrying amount 2011 £000
Finance lease liabilities	Sterling	4.0% – 5.0%	2012–2017	**16,398**	**16,398**	14,640	14,640
Bank overdraft facility	EUR/USD/ Sterling	4.87% – 5.0%	2013	**31,215**	**31,215**	23,994	23,994
Invoice discounting facility	Sterling	Base Rate + 2%	2015	**–**	**–**	–	–
Revolving credit facility	Sterling	LIBOR + 2.35%	2015	**75,000**	**73,076**	44,000	43,016
Pre-lease creditor	Sterling	Non-interest bearing	2011	**–**	**–**	1,593	1,593
Promissory note facility	USD	LIBOR + 1.5%	2012	**5,039**	**5,025**	–	–
				127,652	**125,714**	84,227	83,243

In April 2012, the Group completed a new 43-month multi-bank committed facility consisting of a £50m invoice finance facility and a £125m revolving credit facility. This facility is secured by a debenture over the Group's assets.

The invoice discounting facilities are committed 43-month facilities from 3 April 2012 which permit 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 2012 was £nil *(2011: £nil)*. At the year end the invoice discounting facility was unused, with a credit with a balance of £2,574,000 which was included in cash and cash equivalents.

The overdraft facility is a 24-month facility from 23 September 2011, and can be drawn down in Euros, US Dollars and Sterling. The rate of interest is fixed and dependent on the currency drawn down.

The pre-lease creditor related to the financing of equipment at Maltby Colliery. This reverted to a standard finance lease liability once the equipment had been delivered.

Notes
Continued

20 Other Interest-bearing Loans and Borrowings (continued)

Finance Lease Liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2012 £000	Interest 2012 £000	Principal 2012 £000	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000
Less than one year	**7,693**	**624**	**7,069**	7,243	777	6,466
Between one and five years	**9,844**	**515**	**9,329**	8,670	496	8,174
More than five years	**–**	**–**	**–**	–	–	–
	17,537	**1,139**	**16,398**	15,913	1,273	14,640

21 Trade and Other Payables

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Current				
Trade payables	**62,137**	53,733	**–**	–
Trade payables due to Group undertakings	**–**	–	**257,295**	237,884
Trade payables due to undertakings in whichthe Company has a participating interest	**–**	–	**–**	–
Other trade payables	**17,036**	11,803	**–**	–
Non-trade payables and accrued expenses	**21,289**	13,011	**3,235**	417
Deferred consideration	**–**	658	**–**	–
	100,462	79,205	**260,530**	238,301

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months *(2011: £nil)*.

22 Pension Schemes and Other Retirement Benefits

Defined Contribution Plans

The Group operates a Group personal pension scheme. The pension cost charge for the year represents contributions payable by the Group to the employees' funds and amounted to £1,338,000 *(2011: £1,156,000)*. There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

Defined Benefit Plans

The Group acquired a concessionary fuel retirement benefit scheme on the acquisition of The Monckton Coke & Chemical Company Limited on 17 June 2005.

The Group provides for concessionary fuel retirement benefits, for the current members of the scheme, payable at retirement on attaining the age of 65. The amounts payable are determined in the employee terms and conditions and are subject to a qualifying period of service. The costs of the concessionary fuel benefits are determined by a qualified actuary on the basis of triennial valuations.

The latest full actuarial valuation was carried out on 31 December 2007 and updated for IAS 19 purposes to 31 May 2012.

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

	2012 £000	2011 £000
Present value of unfunded defined benefit obligations	**450**	408

22 Pension Schemes and Other Retirement Benefits (continued)

Defined Benefit Plans (continued)

Movements in Present Value of Defined Benefit Obligation

	2012 £000	2011 £000
At beginning of year	**408**	390
Current service cost	**6**	4
Contributions paid	**(22)**	(20)
Other finance cost	**22**	21
Actuarial loss	**36**	13
At the end of the year	**450**	408

Expense Recognised in the Income Statement

	2012 £000	2011 £000
Current service cost	**6**	4
Interest on defined benefit obligation	**22**	21
	28	25

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

	2012 £000	2011 £000
Administrative expenses	**6**	4
Finance expense	**22**	21
	28	25

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

	2012 £000	2011 £000
Cumulative amount at 1 June	**44**	57
Recognised in the year	**(36)**	(13)
Cumulative amount at 31 May	**8**	44

The major assumptions used in these valuations were:

	2012	2011
Average retirement age	**65 years**	65 years
Rate of leaving services	**2.5%**	2.5%
Coal price inflation	**2.1%**	2.6%
Discount rate applied to scheme liabilities	**4.7%**	5.4%
Inflation assumption	**3.1%**	3.6%

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), 22.1 years (female).
Future retiree upon reaching 65: 20.6 years (male), 22.9 years (female).

Notes
Continued

22 Pension Schemes and Other Retirement Benefits (continued)

History of Plans

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

Balance Sheet

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of the defined benefit obligation	**450**	408	390	364	419

Experience Adjustments

	2012	2011	2010	2009	2008
Experience gains and losses on scheme liabilities:					
Amount (£000)	**(11)**	75	–	–	84
Percentage of year end present value of scheme liabilities	**(2%)**	18%	0%	0%	20%

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 2007 and was updated for IAS 19 purposes to 31 May 2012 by a qualified independent actuary.

	2012 £000	2011 £000
Present value of unfunded defined benefit obligations	**(1,779)**	(1,506)
Present value of funded defined benefit obligations	**(30,398)**	(26,270)
Fair value of assets	**26,658**	24,298
Deficit in the scheme – Pension liability	**(5,519)**	(3,478)

Movements in Present Value of Defined Benefit Obligation

	2012 £000	2011 £000
At the beginning of the year	**27,776**	23,478
Current service cost	**1,413**	1,378
Interest cost	**1,542**	1,363
Actuarial loss	**1,255**	300
Contributions paid	**334**	337
Benefits paid	**(143)**	(191)
Obligation acquired	**–**	1,111
At the end of the year	**32,177**	27,776

Movements in the Fair Value of Plan Assets

	2012 £000	2011 £000
Fair value of plan assets at beginning of year	**24,298**	17,691
Expected return on plan assets	**1,574**	1,224
Actuarial loss/(gain)	**(1,983)**	1,204
Employer contributions	**2,578**	2,922
Plan members' contributions	**334**	337
Benefits paid	**(143)**	(191)
Plan assets acquired	**–**	1,111
Fair value of plan assets at end of year	**26,658**	24,298

The plan assets and obligations acquired during the prior year relate to transfers into the schemes of members under TUPE arrangements with UK Coal. There are still seven members of the original 140, eligible to transfer their entitlement at the year end.

22 Pension Schemes and Other Retirement Benefits (continued)

History of Plans (continued)

Expense Recognised in the Income Statement

	2012 £000	2011 £000
Current service cost	**1,413**	1,378
Expected return on defined benefit pension plan	**(1,574)**	(1,224)
Interest on defined benefit pension plan obligation	**1,542**	1,363
	1,381	1,517

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

	2012 £000	2011 £000
Administrative expenses	**1,413**	1,378
Finance income	**(1,574)**	(1,224)
Finance expense	**1,542**	1,363
	1,381	1,517

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

	2012 £000	2011 £000
Cumulative amount at 1 June	**2,332**	1,428
Recognised in the year	**(3,238)**	904
Cumulative amount at 31 May	**(906)**	2,332

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 2012 £000	Fair value at 2011 £000
Equities and hedge funds	**12,389**	11,842
Bonds	**9,018**	7,194
Property	**1,709**	1,533
Alternative investment mandate	**1,715**	1,705
Other – cash	**1,827**	2,024
	26,658	24,298
Actual return on plan assets	**(409)**	2,428

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

	Long-term rate of return 2012	Long-term rate of return 2011
Equities and hedge funds	**7.0%**	7.8%
Bonds	**4.7%**	5.4%
Property	**7.0%**	7.8%
Alternative investment mandate	**6.0%**	7.1%
Other – cash	**3.0%**	4.1%

Notes
Continued

22 Pension Schemes and Other Retirement Benefits (continued)

Scheme Assets (continued)

The major assumptions used in this valuation were:

	2012	2011
Rate of increase in salaries	**3.1%**	3.6%
Rate of increase in pensions in payment and deferred pensions	**3.0%**	3.4%
Discount rate applied to scheme liabilities	**4.7%**	5.4%
Inflation assumption	**3.1%**	3.6%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

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

IWMPS
Current pensioner aged 60: 21.6 years (male), 25.4 years (female).
Future retiree upon reaching 60: 22.3 years (male), 26.3 years (female).

IWCSSS
Current pensioner aged 60: 24.3 years (male), 26.7 years (female).
Future retiree upon reaching 60: 25.0 years (male), 27.5 years (female).

History of Plans

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

Balance Sheet

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of the defined benefit obligation	**(32,177)**	(27,776)	(23,478)	(16,258)	(16,573)
Fair value of plan assets	**26,658**	24,298	17,691	12,193	11,561
Deficit	**(5,519)**	(3,478)	(5,787)	(4,065)	(5,012)

Experience Adjustments

	2012	2011	2010	2009	2008
Difference between the expected and actual return on scheme assets:					
Amount (£000)	**(1,983)**	1,204	1,857	(3,034)	(1,887)
Percentage of year end scheme assets	**(7.4%)**	5.0%	10.5%	24.9%	16.3%
Experience gains and losses on scheme liabilities:					
Amount (£000)	**(10)**	(82)	(4,862)	2,802	6,457
Percentage of year end present value of scheme liabilities	**0.0%**	0.3%	20.7%	17.2%	31.0%

The Group expects to contribute approximately £3,273,000 to its defined benefit plans in the next financial year.

23 Employee Share Schemes

The Group has established a Savings-Related Share Option scheme, which granted options in April 2009, April 2010, April 2011 and April 2012 and an Executive Long-Term Incentive Plan which granted options in June 2008, June 2009, December 2010 and September 2011. An additional Long-Term Incentive Plan was established for certain senior employees as part of the acquisition of Norec Limited in September 2006.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

	Date of grant	Employees entitled	Number of shares granted	Vesting conditions	Contractual life
Equity Settled Share Option Scheme – 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
Savings-Related Share Option Scheme 4	April 2009	All employees	231,870	3 years' service	3.5 years
Long-Term Incentive Plan 3	June 2009	Senior employees	193,658	3 years' service and EPS growth of 18.9% (30% award) – 30.0% (100% award) over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 5	April 2010	All employees	175,511	3 years' service	3.5 years
Long-Term Incentive Plan 4	December 2010	Senior employees	128,702	3 years' service and EPS growth of 12% (30% award) – 26.0% (100% award over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 6	April 2011	All employees	141,122	3 years' service	3.5 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

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

Savings-Related Share Option Schemes

	2012 Weighted average exercise price	2012 Number of options	2011 Weighted average exercise price	2011 Number of options
Outstanding at beginning of year	**467p**	**504,962**	521p	746,076
Granted during the year	**1,098p**	**167,715**	825p	141,122
Lapsed during the year	**674p**	**(26,412)**	526p	(75,786)
Exercised during the year	**470p**	**(19,815)**	502p	(306,450)
Outstanding at the end of the year	**748p**	**626,450**	616p	504,962
Exercisable at the end of the year	**N/a**	**–**	467p	19,024

The options outstanding at 31 May 2012 have an exercise price in the range of 443p to 1,098p and have a weighted average contractual life of 1.5 years.

The options exercised during the year had a weighted average market value of 1,002p *(2011: 753p)*.

Notes
Continued

23 Employee Share Schemes
Long-Term Incentive Plans

	2012 Weighted average exercise price	2012 Number of options	2011 Weighted average exercise price	2011 Number of options
Outstanding at beginning of year	**54p**	**523,267**	87p	414,022
Granted during the year	**–**	**134,626**	–	128,702
Lapsed during the year	**–**	**(14,972)**	–	–
Exercised during the year	**–**	**(12,328)**	394p	(19,457)
Outstanding at the end of the year	**45p**	**630,593**	54p	523,267
Exercisable at the end of the year	**154p**	**184,661**	394p	72,286

The options outstanding at 31 May 2012 have an exercise price in the range of £nil to 393.5p and have a weighted average contractual life of 2.1 years.

The options exercised during the year had a weighted average market value of 1,209p.

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.

	2012		2011	
	Long-Term Incentive Plan 5	Savings-Related Share Option Scheme 7	Long-Term Incentive Plan 4	Savings-Related Share Option Scheme 6
Fair value at grant date	**960p**	**427p**	741p	321p
Share price	**1,021p**	**1,220p**	788p	917p
Exercise price	**–**	**1,098p**	–	825p
Expected volatility	**40.0%**	**40.0%**	40.0%	40.0%
Option life	**3 years**	**3 years**	3 years	3 years
Expected dividends	**2.0%**	**1.0%**	2.0%	1.0%
Risk-free rate	**5.8%**	**5.4%**	5.8%	5.4%

Volatility was calculated with reference to the Group's daily share price volatility. The average share price in the year was 1,092 pence *(2011: 772 pence)*.

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

	2012 £000	2011 £000
Share options granted in 2008	**–**	89
Share options granted in 2009	**131**	371
Share options granted in 2010	**447**	443
Share options granted in 2011	**442**	164
Share options granted in 2012	**312**	–
	1,332	1,067

24 Provisions

Group	Monckton ground water contamination £000	Maltby restoration £000	Maltby subsidence provision £000	Other £000	Total £000
Balance at 31 May 2011	1,582	5,815	1,243	175	8,815
Provisions made during the year	55	206	440	–	701
Provisions utilised during the year	–	–	(59)	(175)	(234)
Balance at 31 May 2012	**1,637**	**6,021**	**1,624**	**–**	**9,282**

Provisions comprise:

1 A £1,637,000 ground and groundwater contamination provision which relates to Monckton's obligation to address ground and groundwater contamination at its sites. The provision is based on estimates of volumes of contaminated soil and historical contract costs of ground contamination treatment. The costs will usually be payable on the decommissioning of the site.
2 A £6,021,000 restoration provision which relates to Maltby's obligation to restore the site after coal mining has been completed. The provision has increased due to estimates of the future cost of labour and fuel increasing. Payment is not anticipated until the end of the mine life.
3 A statutory provision payable to the UK Coal Mining Board at a set rate, in order to rectify any potential subsidence of the local area around Maltby Colliery. Any unused provision will be released after the statutory period.

The Company has no provisions.

25 Capital and Reserves

Share Capital

	Ordinary shares 2012 Number	2011 Number
In issue at 1 June	**26,827,648**	26,603,345
Issued for cash	**259,168**	224,303
In issue and fully paid at 31 May	**27,086,816**	26,827,648

	2012 £000	2011 £000
Allotted, called up and fully paid		
27,086,816 *(2011: 26,827,648)* Ordinary shares of 10p each	**2,709**	2,683

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Translation Reserve

The translation reserve comprises all foreign exchange differences arising since 1 June 2007, the transition date to Adopted IFRSs, from the translation of the financial statements of foreign operations.

Cash Flow Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Other Reserves

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

Dividends

The aggregate amount of dividends comprises:

	2012 £000	2011 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**2,803**	2,525
Interim dividends paid in respect of the current year	**1,625**	1,367
	4,428	3,892
Proposed dividend of 11.8p per share *(2011: 10.4p)*	**3,196**	2,790

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

Notes
Continued

26 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 Instruments

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 interest rate swaps is calculated as the present value of the estimated future cash flows utilising applicable year end yield curves. The fair value of forward foreign exchange and commodity contracts is determined using quoted forward exchange rates and commodity prices at the reported date and yield curves derived from quoted interest rates matching the maturities of the forward contracts.

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 2012 and 2011 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 values of all financial instruments, in both the current and prior year, approximate to their carrying values.

(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 £69,010,000 *(2011: £53,415,000)* 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 18.

(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. They finance their operations through a mix of short- and medium-term facilities.

The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on a rolling cash forecast.

26 Financial Instruments (continued)

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

Group

	2012						2011					
	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												
Secured bank loans	–	–	–	–	–	–	1,593	1,593	1,593	–	–	–
Finance lease liabilities	16,398	17,537	7,693	4,743	5,101	–	14,640	15,913	7,243	4,879	3,791	–
Bank overdrafts	31,215	31,215	–	31,215	–	–	23,994	23,994	23,994	–	–	–
Trade and other payables*	100,462	100,462	100,462	–	–	–	79,205	79,205	79,205	–	–	–
Invoice discounting facility	(2,574)	(2,574)	(2,574)	–	–	–	(3,214)	(3,214)	(3,214)	–	–	–
Revolving credit facility	73,076	73,076	–	–	73,076	–	43,016	43,016	–	43,016	–	–
Promissory note facility	5,039	5,025	5,025	–	–	–	–	–	–	–	–	–
Derivative financial liabilities												
Interest rate swaps used for hedging	2,445	2,445	72	–	2,373	–	198	198	30	168	–	–
Forward exchange contracts used for hedging:												
Outflow	482	482	482	–	–	–	6	6	6	–	–	–
Inflow	–	–	–	–	–	–	–	–	–	–	–	–
Commodity contracts:												
Outflow	2,706	2,706	1,821	231	654	–	2,587	2,587	2,587	–	–	–
Inflow	–	–	–	–	–	–	–	–	–	–	–	–
	229,249	230,374	112,981	36,189	81,204	–	162,025	163,298	111,444	48,063	3,791	–

* Excludes derivatives (shown separately).

Company

	2012						2011					
	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	260,530	260,530	260,530	–	–	–	238,301	238,301	238,301	–	–	–
Bank overdraft	–	–	–	–	–	–	5,017	5,017	5,017	–	–	–
Revolving credit facility	73,076	73,076	–	–	73,076	–	43,016	43,016	–	43,016	–	–
Derivative financial liabilities												
Forward exchange contracts used for hedging:												
Outflow	121	121	121	–	–	–	–	–	–	–	–	–
Inflow	–	–	–	–	–	–	–	–	–	–	–	–
	333,727	333,727	260,651	–	73,076	–	286,334	286,334	243,318	43,016	–	–

Notes
Continued

26 Financial Instruments (continued)
(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.

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 ownership of Maltby Colliery, Monckton Coke Works, and the Group's participation in the Tower surface mining jointly controlled entity, 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 2012

	Sterling £000	Euro £000	US Dollar £000	Polish Zloty £000	Total £000
Cash and cash equivalents	33,502	6,606	3,116	54	43,278
Invoice discounting facility	2,574	–	–	–	2,574
Trade receivables	54,594	8,575	5,841	–	69,010
Trade receivables due from undertakings in which the Company has a participating interest	22,394	–	2,274	–	24,668
Trade payables	(50,082)	(3,290)	(8,765)	–	(62,137)
Other trade payables	(17,036)	–	–	–	(17,036)
Overdraft	(857)	(22,412)	(7,946)	–	(31,215)
Revolving credit facility	(73,076)	–	–	–	(73,076)
Promissory note facility	–	–	(5,025)	–	(5,025)
Balance sheet exposure	(27,987)	(10,521)	(10,505)	54	(48,959)
Estimated forecast sales	–	–	–	–	–
Estimated forecast purchases	–	–	–	–	–
Gross exposure		(10,521)	(10,505)	54	(20,972)
Forward exchange contracts		–	10,457	–	10,457
Net exposure		**(10,521)**	**(48)**	**54**	**(10,515)**

26 Financial Instruments (continued)
(d) Market Risk (continued)
31 May 2011

	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	1,101	10,647	2,281	14,029
Invoice discounting facility	3,214	–	–	3,214
Trade receivables	44,404	5,399	3,612	53,415
Trade payables	(38,398)	(2,327)	(13,008)	(53,733)
Other trade payables	(11,803)	–	–	(11,803)
Overdraft	(2,846)	(8,976)	(12,172)	(23,994)
Revolving credit facility	(43,016)	–	–	(43,016)
Pre-lease creditor	(1,593)	–	–	(1,593)
	(48,937)	4,743	(19,287)	(63,481)
Balance sheet exposure		–	–	–
Estimated forecast sales		–	–	–
Estimated forecast purchases		–	–	–
Gross exposure		4,743	(19,287)	(14,544)
Forward exchange contracts		–	6,416	6,416
Net exposure		**4,743**	**(12,871)**	**(8,128)**

Company
The Company has no exposure to foreign currency risk.

Sensitivity Analysis
Group
A 10% weakening of the following currencies against the pound Sterling at 31 May 2012 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 2011.

	Equity 2012 £000	Equity 2011 £000	Profit or loss 2012 £000	Profit or loss 2011 £000
€	**956**	(431)	**956**	(431)
$	**4**	1,170	**4**	1,170
PLN	**(5)**	–	**(5)**	–

A 10% strengthening of the above currencies against the pound Sterling at 31 May 2012 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 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Fixed rate instruments				
Financial assets	**–**	–	**–**	–
Financial liabilities	**(47,613)**	(40,227)	**–**	(5,017)
	(47,613)	(40,227)	**–**	(5,017)
Variable rate instruments				
Financial assets	**45,852**	17,243	**22,270**	1
Financial liabilities	**(78,101)**	(43,016)	**(73,076)**	(43,016)
	(32,249)	(25,773)	**(50,806)**	(43,015)

Notes
Continued

26 Financial Instruments (continued)
(d) Market Risk (continued)
Sensitivity Analysis
An increase of 1 basis point in interest rates throughout the period would have decreased profit or loss by the amounts shown below. This calculation assumes that the change occurred at all points in the period and had been applied to the average risk exposures throughout the period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2011.

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Profit or loss				
Increase/(decrease)	**252**	(63)	**73**	(185)

(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:

	2012 Carrying amount £000	2012 Expected cash flows 1 year or less £000	2012 Expected cash flows 1 to <2 years £000	2012 Expected cash flows 2 to <5 years £000	2012 Expected cash flows 5 years and over £000	2011 Carrying amount £000	2011 Expected cash flows 1 year or less £000	2011 Expected cash flows 1 to <2 years £000	2011 Expected cash flows 2 to <5 years £000	2011 Expected cash flows 5 years and over £000
Interest rate swaps:										
Assets	–	–	–	–	–	–	–	–	–	–
Liabilities	**(2,445)**	**(72)**	–	**(2,373)**	–	(198)	(30)	(168)	–	–
Forward exchange contracts:										
Assets	**680**	**680**	–	–	–	57	57	–	–	–
Liabilities	**(482)**	**(482)**	–	–	–	(6)	(6)	–	–	–
Commodity contracts:										
Assets	**5,371**	**5,371**	–	–	–	209	209	–	–	–
Liabilities	**(2,706)**	**(1,821)**	**(231)**	**(654)**	–	(2,587)	(2,587)	–	–	–
	418	**3,676**	**(231)**	**(3,027)**	–	(2,525)	(2,357)	(168)	–	–

(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. 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.

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.

27 Operating Leases
Non-cancellable operating lease rentals are payable as follows:

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Less than one year	**6,203**	7,253	**–**	–
Between one and five years	**10,688**	8,628	**–**	–
More than five years	**1,711**	1,232	**–**	–
	18,602	17,113	**–**	–

Group
During the year £6,073,000 was recognised as an expense in the income statement in respect of operating leases *(2011: £6,337,000).*

Company
During the year £nil was recognised as an expense in the income statement in respect of operating leases *(2011: £nil).*

28 Capital Commitments

Group

During the year ended 31 May 2012, the Group entered into contracts to purchase property, plant and equipment for £4,826,000 *(2011: £1,943,000)*. In respect of its interest in jointly controlled entities, the Group is committed to incur capital expenditure of £18,019,000 *(2011: £nil)*. The jointly controlled entities are themselves committed to incur capital expenditure of £nil *(2011: £nil)*.

29 Contingencies

Group and Company

The Company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The Company acts as a guarantor, or surety, for various subsidiary undertakings in banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided exposure is £5,280,000 *(2011: £16,374,000)*.

30 Related Parties

Identity of related parties with which the group has transacted

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

The Group also has a related party relationship with Hatfield Colliery Limited, in which it holds 10% of the issued share capital. At 31 May 2012, the Group is owed £2,192,000 *(2011: £nil)* under a Hire Purchase agreement.

Group

Other related party transactions

	Sales to 2012 £000	Sales to 2011 £000	Purchases from 2012 £000	Purchases from 2011 £000
Jointly controlled entities				
Eastgate Materials Handling Limited	**–**	3,728	**–**	5,520
Tower Regeneration Limited	**6,847**	–	**20**	–
Tower Regeneration Leasing Limited	**–**	–	**250**	–
MIR Trade Services Limited	**715**	–	**–**	–
	7,562	3,728	**270**	5,520

	Interest received from 2012 £000	Interest received from 2011 £000	Interest paid to 2012 £000	Interest paid to 2011 £000
Jointly controlled entities				
Eastgate Materials Handling Limited	**–**	–	**–**	–
Tower Regeneration Limited	**455**	–	**–**	–
Tower Regeneration Leasing Limited	**–**	–	**–**	–
MIR Trade Services Limited	**–**	–	**–**	–
	455	–	**–**	–

	Receivables outstanding 2012 £000	Receivables outstanding 2011 £000	Payables outstanding 2012 £000	Payables outstanding 2011 £000
Jointly controlled entities				
Eastgate Materials Handling Limited	**–**	635	**–**	–
Tower Regeneration Limited	**18,859**	3,596	**–**	–
Tower Regeneration Leasing Limited	**3,535**	–	**–**	–
MIR Trade Services Limited	**2,274**	–	**–**	–
	24,668	4,231	**–**	–

Transactions with key management personnel

The Directors are the key management personnel of the Group. Details of Directors' remuneration, share options, pension benefits and other non-cash benefits can be found in Note 7. In addition to this, the element of the share-based payment charge for the year that relates to key management personnel is £891,000 *(2011: £668,000)*. There are no other post-employment or other long-term benefits.

Notes
Continued

30 Related Parties (continued)
Company
Other related party transactions

	Sales to 2012 £000	Sales to 2011 £000	Purchases from 2012 £000	Purchases from 2011 £000
Jointly controlled entities				
Eastgate Materials Handling Limited	–	–	–	–
Tower Regeneration Limited	**900**	–	–	–
Tower Regeneration Leasing Limited	–	–	–	–
MIR Trade Services Limited	–	–	–	–
	900	–	–	–

	Receivables outstanding 2012 £000	Receivables outstanding 2011 £000	Payables outstanding 2012 £000	Payables outstanding 2011 £000
Subsidiaries	**318,580**	298,423	**257,295**	237,884
Jointly controlled entities	**7,302**	–	–	–
	325,882	298,423	**257,295**	237,884

Notice of Annual General Meeting Hargreaves Services plc

(incorporated and registered in England and Wales under number 4952865)

NOTICE IS HEREBY GIVEN that this year's Annual General Meeting will be held at Prior's Hall, Durham Cathedral, The College, Durham, DH1 3EH on Friday 23 November 2012 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 Directors' Corporate Governance and Remuneration Report, the Auditor's Report and the Financial Statements for the year ended 31 May 2012.

2 To approve the Directors' Corporate Governance and Remuneration Report for the year ended 31 May 2012.

3 To declare a final dividend for the year ended 31 May 2012 of 11.8 pence per ordinary share to bring the dividend for the year ended 31 May 2012 to a total of 17.8 pence.

4 To re-appoint Iain Cockburn as a Director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.

5 To re-appoint Gordon Banham as a Director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.

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

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

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 £910,014 (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 £1,820,028 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 9.1) 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 £273,004 (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.

Notice of Annual General Meeting Hargreaves Services plc
Continued

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 Companies Act 2006 (**the Act**) to make market purchases (which in this resolution shall have the meaning given to this term in section 693 (4) of the Act) of its ordinary shares of 10p each in the capital of the Company (**Ordinary Shares**) on the terms set out below:

11.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 11 is 2,730,043 (representing approximately ten 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.

24 October 2012

By order of the Board

Stephen MacQuarrie
Company Secretary

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

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 21 November 2012 (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 Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 6.00 p.m. on 21 November 2012.
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 Registrars at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

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

   The revocation notice must be received by Capita Registrars at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00 a.m. on 21 November 2012. 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 21 November 2012. 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 23 October 2012 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 27,300,427 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 23 October 2012 are 27,300,427.

Notice of Annual General Meeting Hargreaves Services plc
Continued

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 Report, the Auditor's Report and the audited financial statements for the financial year ended 31 May 2012 to the meeting as required by law. These reports and statements are set out on pages 22 to 80 of this document.

Resolution 2: Approval of the Directors' Corporate Governance and Remuneration Report
In accordance with the Directors' Remuneration Report Regulations 2002, shareholders are asked to approve the Directors' Corporate Governance and Remuneration Report for the financial year ended 31 May 2012 which is set out in full on pages 25 to 30 of the Company's annual report. The vote is advisory and the Directors' entitlement to remuneration is not conditional upon this resolution being passed.

Resolution 3: Declaration of Final Dividend
Final dividends must be approved by shareholders but must not exceed the amount recommended by the Directors. If the meeting approves resolution 3, the final dividend in respect of 2012 of 11.8 pence per share will be paid on 12 December 2012 to shareholders on the register of members on 9 November 2012.

Resolutions 4 and 5: Re-appointment of Directors
At each general meeting one-third of the Directors for the time being (other than those appointed since the last Annual General Meeting) are required to retire. If the number of relevant Directors is not a multiple of three, the number nearest to one-third of directors, but not less than one-third, should be obliged to retire. Directors due to retire by rotation are those longest in office since their last re-election or re-appointment and as between persons who become or were last re-elected or re-appointed on the same day those due to retire shall (unless otherwise agreed among themselves) be determined by lot. A retiring director is eligible for re-appointment. Iain Cockburn and Gordon Banham are both offering themselves for re-appointment.

Brief biographical details of Iain Cockburn and Gordon Banham are set out on page 20 of this document.

Resolution 6: Appointment of a Director
As David Morgan was appointed by 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 David Morgan be re-appointed as a Director and resolution 6 proposes his re-appointment.

Brief biographical details of David Morgan are set out on page 20 of this document.

Resolutions 7 and 8: Re-appointment of Auditor and approval of remuneration
The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the next general meeting. The present auditor, KPMG Audit plc, is willing to continue in office for a further year and resolution 7 proposes its re-appointment and, in accordance with standard practice, resolution 8 authorises the Directors to determine the level of the auditor's remuneration.

Resolution 9: Authority to allot shares
Resolution 9.1 grants the Directors authority to allot relevant securities up to an aggregate nominal amount of £910,014 being approximately one third of the Company's ordinary share capital in issue at 23 October 2012.

In line with guidance issued by the Association of British Insurers in December 2008, resolution 9.2 grants the Directors of the Company authority to allot unissued share capital in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £1,820,028 (representing 18,200,285 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 ordinary share capital in issue at 23 October 2012.

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

Resolution 10: Disapplication of statutory pre-emption rights

This resolution disapplies the statutory pre-emption rights which would otherwise apply on an issue of shares for cash and is limited to allotments in connection with rights issues or other pre-emptive offers where the securities attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of shares held and generally up to a further £273,004 being approximately 10 per cent of the Company's ordinary share capital in issue at 23 October 2012. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next Annual General Meeting of the Company.

Resolution 11: Purchase of own shares

Resolution 11 authorises the Company to purchase its own shares (in accordance with section 701 of the Companies Act 2006) during the period from the date of this Annual General Meeting until the end of the next Annual General Meeting of the Company or the expiration of six months after the 2013 Company financial year end, whichever is the sooner, up to a total of 2,730,043 ordinary shares. This represents approximately 10% of the issued ordinary share capital as at 23 October 2012, the latest practicable date prior to the issue of this circular. The maximum price payable for a share shall not be more than the higher of 5% above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulations 2003 (being the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out). The minimum price payable for a share will be 10 pence. Companies are permitted to retain any of their own shares which they have purchased as treasury stock with a view to possible re-issue at a future date, rather than cancelling them. The Company will consider holding any of its own shares that it purchases pursuant to the authority conferred by this resolution as treasury stock. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively, and would provide the Company with additional flexibility in the management of its capital base.

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

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Investor Information

Company Secretary
Steve MacQuarrie

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

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

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

Nominated Adviser and Joint Stock Broker
N+1 Singer
One Hanover Street
London
W1S 1YZ

Joint Stock Broker
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Vintners Place
68 Upper Thames Street
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Registered Office
West Terrace
Esh Winning
Durham
DH7 9PT

Registrar
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
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For more information

Please visit us online at www.hsgplc.co.uk for up to date investor information, company news and other information.

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