Hargreaves Services plc

A Year of Transition

Annual Report and Accounts 2013

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.

Continuing Revenue	Continuing Underlying Operating Profit
£103.2m	**£16.7m**
+15.0%	+0.0%

The continuing Production division results for the year ended 31 May 2013 encompassed the operations at Monckton, our own surface mining operations and our joint venture investment at Tower. The results also include the smaller non-core businesses of MR&R and RocPower, neither of which were material contributors to the division's results. Gross revenues from the division's continuing operations increased by £13.5m from £89.7m to £103.2m while underlying continuing operating profit remained at £16.7m. The last financial year was significant for the Surface Mining business. In addition to completing the first full year of production at our joint venture operation at Tower in South Wales, the Group secured an equity fund raising in April of £42.3m to allow the Group to pursue the acquisition of assets from the liquidators of Aardvark (TMC) Limited and Scottish Coal Company Limited.

Find out more about this division and its performance in 2013 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.

Continuing Revenue	Continuing Underlying Operating Profit
£585.0m	**£31.9m**
+42.0%	+12.4%

The Energy & Commodities division had another very strong year. Gross revenues increased by £173.0m from £412.0m to £585.0m, reflecting increased Bulk Coal sales volumes to power stations and steel works. Underlying operating profit increased by £3.5m from £28.4m to £31.9m driven largely by a strong performance in the UK where operating profit increased by £4.4m from £20.0m to £24.4m due to increased activity levels in the bulk coal markets. Following a difficult year in the coke markets, underlying operating profit attributable to our German operation reduced from £7.5m to £6.3m. Despite the headline reduction this represents a very strong performance given the backdrop of low volumes in the market.

Find out more about this division and its performance in 2013 from page 10

Transport

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

Continuing Revenue	Continuing Underlying Operating Profit
£82.7m	**£4.0m**
+6.9%	-1.4%

Overall the Transport division performed well last year. The Transport division's gross revenues increased by £5.4m from £77.3m to £82.7m reflecting a strong year from the Bulk fleet. Underlying operating profit reduced by £0.1m to £4.0m (2012: £4.1m). The Bulk fleet exceeded our internal expectations having benefitted from higher than normal coal shipments as power stations increased their coal burn and rebuilt coal stocks. The Tanker fleet had a quieter year following the loss of the Petroplus contract. By the end of the year the Tanker fleet had successfully re-positioned itself and we would expect Tankers to deliver a stronger performance in this financial year.

Find out more about this division and its performance in 2013 from page 15

Industrial Services

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

Continuing Revenue	Continuing Underlying Operating Profit
£149.3m	**£3.0m**
+84.9%	-30.0%

Revenues increased by £68.6m from £80.7m to £149.3m. This significant increase in revenue was mainly due to two large biomass conversion projects undertaken during the last financial year. These, together with other non-recurring contracts and projects generated an additional £37.1m of revenue. Operating profits for the core material handling business increased from £3.6m to £5.0m. The revenue increase in the core business benefitted from a full year of revenues from the contracts that were won in the preceding year in the steel sector. This strong performance from the core Industrial Services business was adversely impacted by a poor result on the biomass conversion projects, offset by contributions from other non-recurring contracts.

Find out more about this division and its performance in 2013 from page 14

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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.

Integration

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

Quality

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

Repositioning

The closure of Maltby Colliery together with the expansion of the Group's surface mining activity reduces the capital intensity of the business and increases the stability and predictability of our operating cash flows.

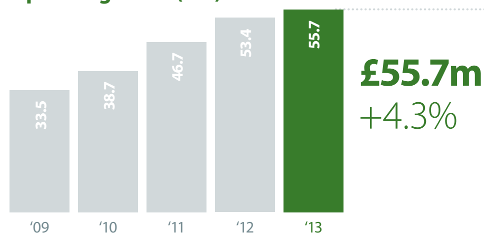
Highlights of the Year

- Strong performances from coal distribution business in the UK and from core material handling services business.
- Coke trading operations remain exposed to significant steel sector volatility.
- Underlying profit before tax from continuing operations increased by £2.9m from £49.3m to £52.2m.
- Acquisition of surface mining assets of ATH Resources completed in May 2013 following successful £42m equity raise in April 2013.
- Coal production underway at ATH sites and performing in line with plans.
- Acquisition of assets from Scottish Coal completed post year end in July 2013, with steps underway to commence production at various sites.
- Discontinued activities – Maltby closure and Belgium wind-down both progressing in line with expectations.
- Net debt at year end broadly in line with expectations at £77.9m.
- Recommended final dividend of 13.6p, an increase of 15.3% year-on-year.

	Year ended 31 May 2013	Restated Year ended 31 May 2012	Change %
Continuing Revenue	**£843.3m**	£617.9m	+36.5%
Continuing Operating Profit	**£44.0m**	£48.9m	-10.0%
Continuing Underlying Operating Profit(1)	**£55.7m**	£53.4m	+4.3%
Continuing Profit Before Tax	**£43.1m**	£45.0m	-4.2%
Continuing Underlying Profit Before Tax(2)	**£52.2m**	£49.3m	+5.9%
Continuing Diluted EPS	**111.0p**	113.7p	-2.4%
Continuing Underlying Diluted EPS(2)	**134.6p**	125.0p	+7.7%
Dividend (including proposed final dividend)	**20.5p**	17.8p	+15.2%
Net Debt(3)	**£77.9m**	£77.7m	+0.3%

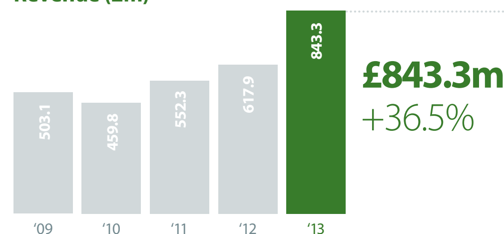
(1) Continuing Underlying Operating Profit is stated excluding the amortisation and impairment of acquired intangibles and impairment of goodwill and including share of profit in jointly controlled entities before tax.
(2) Continuing Underlying Profit Before Tax and EPS are stated excluding the amortisation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

Continuing Underlying Operating Profit (£m)



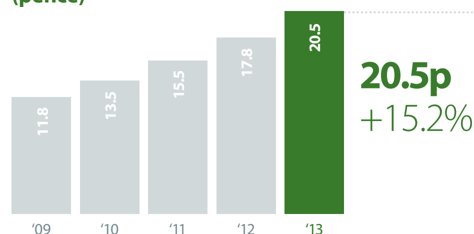
£55.7m
+4.3%

Continuing Revenue (£m)



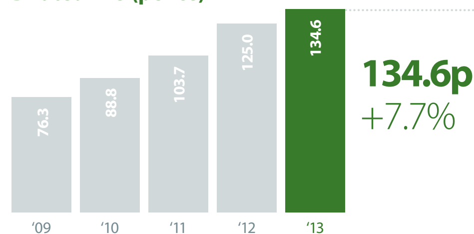
£843.3m
+36.5%

Dividend Per Share (pence)



20.5p
+15.2%

Continuing Underlying Diluted EPS (pence)



134.6p
+7.7%

Review of the Year
Corporate Governance
Financial Statements

Chairman's Statement
Tim Ross, Group Chairman

Results
The year ended 31 May 2013 was both challenging and rewarding for the Group. The closure of Maltby and the fraud in the Belgium business were both setbacks although they did not prevent the Group from making significant strategic progress. In contrast, the successful equity raise in April 2013 was well supported by our shareholders and other investors and allowed the Group to acquire surface mining assets from the former ATH Resources in May 2013 and from the former Scottish Resources Group in July 2013. The opportunity to develop the Hargreaves surface mining business has allowed the Group to take a significant strategic step forward in its UK business.

Underlying Profit Before Tax from Continuing Operations increased by £2.9m from £49.3m to £52.2m but the overall reported financial results show a net loss after the exceptional impact of the Maltby and Belgium losses of £49.6m. The increased Profit from Continuing Operations was underpinned by a strong performance from our UK coal distribution operations. In addition, the surface mining operations at Tower contributed significantly in the second half following the exceptionally wet weather during the first half of the year. It is reassuring to note that the strong performances at Tower and in our coal distribution business have continued into the current financial year. The core material handling operations in the Industrial Services division grew again although profits for that segment were pulled down by significant shortfalls on two one-off biomass conversion contracts. The Transport division and the Monckton coke operations also reported a solid year.

Underlying Diluted EPS from Continuing Operations increased by 7.7% from 125.0p to 134.6p. The overall loss per share, taking account of the exceptional impacts from the Discontinued Operations, was 166.7p per share, compared with Earnings per Share of 109.0p in the prior year.

Dividend
In view of the strong underlying performance from Continuing Operations the Board has confidence in recommending an increase of 15.3% in the final dividend from 11.8p to 13.6p. This will bring the dividend for the full year to 20.5p compared with 17.8p in the previous year, an overall increase of 15.2% for the year. The proposed final dividend will be paid on 12 December 2013 to all shareholders on the register at the close of business on 8 November 2013.

The Board believes that the Group's dividend cover remains conservative. The average dividend cover over the past three years has been set at between six and seven times. The closure of Maltby together with the expansion of the Group's surface mining activity reduces the capital intensity of the business and increases the stability and predictability of our operating cash flows. The Board has therefore set a target of increasing the dividend payout progressively over the next three years towards a dividend cover of around four times.

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. The closure of Maltby was a difficult decision that we recognised would affect a large number of people both within and outside the Group. With the acquisition of assets from ATH we were pleased to be able to welcome over 200 new employees and we will be working hard to increase employment levels over the coming months as we seek to commence production and restoration activities at a number of other opencast sites.

Board
There were no changes to the Board during the year being reported. On 9 September, following the end of the year, Peter Gillatt resigned from his Non-Executive Director role on the Board and assumed a full time executive role as Managing Director of the Production division. In this role Peter will run the Group's expanding surface mining operations. The search for a replacement Non-Executive Director is underway.

+7.7%

Continuing Underlying Diluted EPS
Increased by 7.7% from 125.0p to 134.6p.

It has been both a challenging and rewarding year. Whilst the Group suffered setbacks at both Maltby and Belgium, we have made significant strategic progress.

Outlook

Whilst there remain challenges ahead, particularly due to the uncertain economic climate and its knock-on effects on the major coal users in the power generation and steel sectors, we believe that the Group's resilience leaves it well positioned to deal with any further market volatility. The UK business, strengthened by the recent surface mining investments provides a sound platform to look selectively at additional expansion opportunities. Recent trading in the UK has been encouraging and we remain confident of achieving expectations for further growth in the current financial year.

Tim Ross
Chairman
23 September 2013

Group Business Review
Gordon Banham, Group Chief Executive

The results for the Group this year reflect significant further progress and changes in business mix. The Group reported revenues from continuing operations of £843.3m, an increase of £225.4m over the prior year.

The reported loss after tax was £49.6m compared with a profit in the prior year of £30.8m. The loss this year arose due to the geological problems that led to the decision to close Maltby Colliery, combined with the fraud that led to the decision to close the operations in Belgium. The exceptional financial impact of these events offset an underlying profitable performance from the rest of the Group, which saw further growth across our operations. We have separated the results between those relating to Continuing Operations and those related to the Discontinued Operations of Maltby and Belgium. We comment on each of these in the Business and Operating review below. Before reviewing these performances. I will provide an update on the UK coal market and how developments and trends in this market are shaping our strategy for the Group.

Future for Coal in the UK
Based on Department of Energy & Climate Change ("DECC") statistics, the UK coal burn increased from 44m tonnes in the year ended 30 April 2011 to 61m tonnes in the year ended 30 April 2012. Coal continues to provide a significant portion of the electricity generated in the UK and contrary to the longer term trend, coal demand from power stations in the UK has been increasing recently, reflecting the cost effectiveness of coal compared with other energy sources such as gas.

We are often asked by investors for our view on future coal demand and although there are many views and opinions there are no reliable forecasts for future coal usage in the UK. There are however many obvious and well known factors which, over time, will drive an inevitable reduction in the amount of coal consumed in the UK. These include the following:

- A number of coal fired power stations have opted out of the Large Plant Combustion Directive ("LPCD") and are in the process of closing; all will be closed by the end of 2014. To put this into context, this affects some five power stations which in the year ended 30 April 2011 consumed only 5m tonnes (11%) of coal out of the total of 44m tonnes burnt in UK power stations in that year.
- For power stations that have implemented Flue Gas Desulphurisation technology to comply with the LPCD to permit operation beyond 2015, the next technology and investment hurdle for these remaining power stations is the implementation of technology to allow the nitrogen oxide emissions targets to be achieved. Stations have until 2020 to comply with this requirement. At this time, it is not clear which stations will undertake this investment and it is likely that many generators will be waiting to better understand the future energy landscape in the UK before making a commitment.
- The implementation of the carbon tax will penalise coal generation more than gas generation. The carbon tax will add significantly to the cost of coal consumed in power stations and will reduce the cost effectiveness of coal generation compared with generation from gas.
- The future price of coal relative to gas will also have an impact on the future demand for coal. Prices tend to be set by the international world markets and the future price of both coal and gas is uncertain. If the coal price including the cost of carbon taxes, rises relative to gas, generation load will shift to gas. If shale gas can be commercialised in the UK, or if US shale gas starts to export significant quantities at low cost, then this could indeed reduce the price of gas relative to coal and hence reduce demand for coal.
- The rate of implementation of renewable energy will also impact on the demand for energy from coal. Renewable generation is very expensive. Development is also lagging behind the DECC targets.

24.2m tonnes

Production: Surface Mining Expansion

Following the acquisition of certain assets relating to the businesses of Aardvark and Scottish Coal, we have increased our Proven Reserves to 24.2m tonnes.

It is likely that many of these measures, particularly the carbon tax and the cost of renewable energy will have far reaching implications on the price of energy for both consumers and industry in the UK. Significant increases in that cost of generation may well place upward pressure on energy prices. Whilst this may take some pressure off the generation industry it may also prompt future Governments to make policy changes which in turn could have significant implications for coal generation and the UK energy landscape more widely.

Our own view is that coal fired generation will remain an important element of the UK energy mix well into the second half of the 2020's and probably even beyond. We believe that forecasts of the rapid demise of coal usage in the UK are not well founded and depend on assumptions about the rate of additional new capacity being added, whether in renewable, gas or nuclear, that are simply unrealistic and will not occur.

Outside of electricity generation a number of markets influence the Group's activities. Coal demand from the steel sector is an increasingly important market for us as we commence the supply of meaningful quantities of coking coal and coal for PCI (pulverised coal injection). Demand from the domestic and commercial heating markets will undoubtedly decline over time, although the decline of these markets to date has been much slower than expected and may be further arrested if electricity prices rise. Demand for coal usage in other industrial processes, such as cement manufacture, is likely to continue and, importantly, will follow different economic cycles to those of electricity generation. Across these markets we see a continuing demand for coal for many years to come.

In summary, we believe that, whilst overall demand in the UK is set to shrink over the coming years, the size of the coal market in the UK will be more than adequate to sustain our business for many years to come.

Strategic Priorities

Our strategy therefore remains unchanged. The production of indigenous coal fits our UK distribution model and offers significant synergies across the Group. This was a major driver of the Group's decision to acquire Maltby Colliery in 2007 and the recent investment in surface mining assets replaces Maltby as a source of indigenous coal. The transition from deep mining to surface mining delivers a significantly lower risk profile and lowers the capital intensity of the production operations. In the UK we aim to continue to be the leading independent importer and distributor of coal products to all markets requiring and using coal, and we will achieve that goal by reliably providing quality coal products at competitive prices. Our ability to source coals from international markets and serve a broad range of different coal markets differentiates us from other UK indigenous coal producers. The Group will continue to look for further expansion opportunities as consolidation in the market continues.

Whilst the UK continues to offer many attractions and much opportunity, we also remain committed to looking at opportunities to deploy our skills and competencies into international markets, where coal demand is forecast to increase for decades to come. In order to mitigate risks and optimise returns new markets are likely to be accessed initially on a service-led basis with capital deployed across a broader range of opportunities.

Group Business Review
Continued

Commodity Prices

Commodity prices remain depressed. The current API2 coal price is approximately US$78, a reduction of around US$50 from the recent peak in 2011.

We have always adopted a business model where we attempt to eliminate or at least smooth the impact of changing commodity prices. 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 or, more commonly, through the use of back-to-back purchase and sale contracts. This business model provides significant profit-protection when rapid or major price changes are being experienced.

In the Production division, with Maltby now closed, our key commodity price exposure to manage is in the new surface mining assets. Our strategy will be to sell firm production to our customers up to three years forward on a fixed price basis allowing us to hedge any key input cost. Where long-term contracts are not available to protect the forward position we will use hedging instruments to ensure a fixed level of forward proceeds is secured. In contrast to deep mines, three years is usually sufficient to provide security and pay-back for the capital that is deployed into a new site, given that the life of a surface mine project is significantly shorter and the production plant can be readily transferred or sold.

As we move forward with surface mining we will ensure that any investment is underpinned by long-term coal and fuel contracts. We will also ensure that we are optimally placed to bring on additional production streams. The Group is developing a broad and well managed development pipeline which will ensure that new incremental production can be brought on line quickly and flexibly. This creates a significant volume and profit upside opportunity should future coal prices rise, without exposing the Group to any downside risk should prices fall further.

Since the closure of Maltby, the only other material commodity exposure in the Group is at Monckton. Monckton sells most of its coke into niche markets such as ferro-alloy and soda ash production. Demand for Monckton coke has remained buoyant and continues to be strong, driven by the quality characteristics of the coke. We now manage this exposure by ensuring that coking coal input and coke output contracts are negotiated in tandem. Although this cannot guarantee a fixed margin it is important to note that there continues to be a general correlation between the price of coking coal and coke itself. Historically a significant portion of Monckton's coke production has been sold on annual contracts. Current conditions in the coke markets are very poor with coke prices having fallen significantly during the last few weeks. Monckton currently benefits from a long-term contract that will protect half of its output through to the end of 2015 but some customers are pressing for increased flexibility including shorter, quarterly contracts. Although this is undoubtedly a temporary feature, it does add risk to the normal management of margin as we approach the period of contract negotiations for calendar 2014 and we will continue to monitor prices very closely.

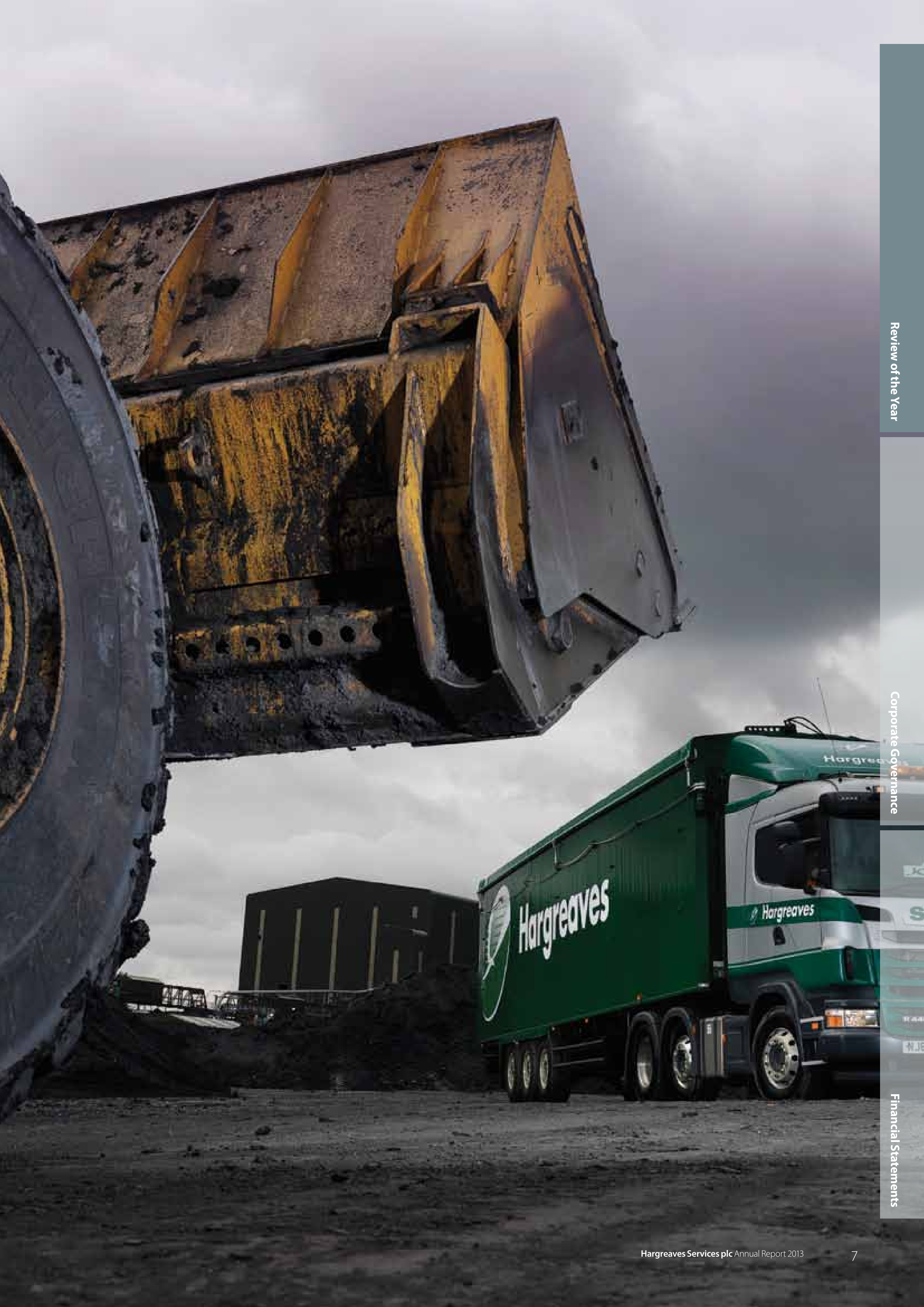
In contrast to Monckton, our coke trading activities in Europe are largely unaffected by movements in coke prices but instead are subject to greater sales volume volatility, upwards and downwards. Our coke trading activities largely serve the steel sector and trade a lot of blast furnace coke. The outlook for steel production in the UK and Europe in the short term remains uncertain.

Whilst the Group has made significant progress in reducing its volatility of earnings in its coal production, distribution and services businesses, the volatility in coke markets continues to present risk to the Group.

We are also cognisant that the difficult economic conditions are placing increasing pressure on many of our larger customers and counter-parties. We are particularly aware of counter-party and credit risks and continue to proactively manage these risks as best we can.

+2.2m tonnes

Energy & Commodities Growth:
The Energy & Commodities division had another very strong year. Gross revenues increased by £173.0m from £412.0m to £585.0m, reflecting increased Bulk Coal sales volumes to power stations and steel works.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Group Business Review
Continued

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 personally continue to take an active role as a Group health and safety champion, working alongside the health and safety team to drive high quality health and safety performance throughout the business, not just in terms of developing processes and systems, but in ensuring substance in terms of actions and culture to 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 the Group 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 31% in the year ended 31 May 2013 to 1.04 (year ended 31 May 2012: 1.5).

Strategic Outlook

The completion of the fundraising in April followed by the two acquisitions of Scottish surface mining assets further consolidated our position as the key coal producer and distributor in the UK market. The UK continues to be our core market and major profit generator. We are confident that our UK business model is robust and will continue to generate cash and profits even as coal burn reduces in the years to come. Our coal distribution business continues to be well positioned to add value and address the needs of niche markets effectively. We started the new financial year with coal production already underway in Scotland with the opportunity of commencing other mining and restoration projects.

As we enjoy the benefit of a strongly cash-generative UK business, we will step up our efforts to identify opportunities to grow the business on both a UK and international basis, searching for opportunities where risk can be adequately managed and our services and skills can be deployed to create value.

Gordon Banham
Group Chief Executive
23 September 2013

Review of Operating Performance by Business Unit

Revenues from Continuing Operations for the full year increased by 36.5% from £617.9m to £843.3m, driven mainly by the Energy & Commodities division which enjoyed a substantial increase in the volume of coal supplied to power stations and the steel sector.

Underlying Group Operating profit from continuing operations increased by 4.3% from £53.4m to £55.7m. Reported continuing operating profit decreased from £48.9m to £44.0m reflecting the impacts of the one off impairment of goodwill and intangibles of £4.1m during the year. Underlying Group operating margin decreased from 8.6% to 6.6%, mainly reflecting a changing product mix in the Energy & Commodities division, with a significant increase in low margin sales to power stations and the steel sector.

Energy & Commodities Division

Our Energy & Commodities division encompasses the Group's solid fuel trading activities. These split into two broad categories. The first, Bulk Coal Supply, includes the supply of coal into power stations and steel works. This includes the lower margin markets for thermal coal, coking coal and coal supplied for the use of injection into the blast furnace PCI. The second, Speciality Coal covers the supply of sized coals, low ash coals and coke products. These more specialised products, such as sized coals for the domestic and commercial heating markets, and industrial coals for customers in the cement 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 £173.0m from £412.0m to £585.0m, reflecting increased Bulk Coal sales volumes to power stations and steel works. Underlying operating profit increased by £3.5m from £28.4m to £31.9m driven largely by a strong performance in the UK where operating profit increased by £4.4m from £20.0m to £24.4m due to increased activity levels in the bulk coal markets. Following a difficult year in the coke markets, underlying operating profit attributable to our German operation reduced from £7.5m to £6.3m. Despite the headline reduction this represents a very strong performance given the backdrop of low volumes in the market.

The average profit per tonne and margin is 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 sales relative to the higher margin speciality product saw overall operating profit per tonne sold decrease from £7.32 to £5.17 and the average divisional profit margin reduce from 6.9% to 5.4%.

Profit per tonne in the bulk coal market fell from £2.64 per tonne to £2.35 per tonne. This reduction was driven by the addition of lower margin coking coal sales into the steel sector. The average profit per tonne in the core power station markets remained fairly steady. Average profit per tonne in the UK specialty markets increased slightly from £20.53 to £21.68. Profit per tonne in the European speciality markets reduced from £14.68 to £9.77 reflecting a challenging year in the coke markets in our German operation.

	Production 2013 £000	Energy & Commodities 2013 £000	Transport 2013 £000	Industrial Services 2013 £000	Total 2013 £000
Continuing Operating Profit/(Loss)	**13,179**	**27,456**	**3,814**	**(477)**	**43,972**
Intangible amortisation/impairment	131	4,152	197	3,505	7,985
Share of profit in jointly controlled entities (net of tax)	2,364	209	–	–	2,573
Share of tax in jointly controlled entities	1,071	60	–	–	1,131
Continuing Underlying Operating Profit	**16,745**	**31,877**	**4,011**	**3,028**	**55,661**
Net financing costs – Continuing Operations	(374)	(1,550)	(694)	(864)	(3,482)
Continuing Underlying Profit before Tax	**16,371**	**30,327**	**3,317**	**2,164**	**52,179**

	Production 2012 £000 Restated	Energy & Commodities 2012 £000 Restated	Transport 2012 £000 Restated	Industrial Services 2012 £000 Restated	Total 2012 £000 Restated
Continuing Operating Profit	**16,597**	**25,921**	**3,674**	**2,755**	**48,947**
Intangible amortisation	–	2,429	393	1,570	4,392
Share of profit in jointly controlled entities (net of tax)	76	23	–	–	99
Continuing Underlying Operating Profit	**16,673**	**28,373**	**4,067**	**4,325**	**53,438**
Net financing costs – Continuing Operations	(500)	(2,315)	(749)	(530)	(4,094)
Continuing Underlying Profit before Tax	**16,173**	**26,058**	**3,318**	**3,795**	**49,344**

The table below provides a breakdown on volumes and margins within the Energy & Commodities division. The comparatives in the table have been restated to remove the discontinued operations in Belgium.

UK – Bulk Coal Supply (Power Stations and Steel)
The Energy & Commodities business exceeded our targets for the last year due to high demand for coal from the UK power stations. This demand was driven by strong base load generation as generators took advantage of the price differential that coal enjoyed over gas during the year. It is pleasing to note that the high levels of demand have continued into the current financial year. The supply of low grade coals, including pond fines, continues to be an important driver for increased power station demands. The ability of the Group to reliably and efficiently blend such coals into the coal flows, either at the importation port or at the power station, has been a key driver of this demand. Although only one million tonnes of pond fines remained at Maltby when the decision was taken to close the mine, the Group has since secured rights to a number of other sites including the Prince of Wales Colliery site from UK Coal. The Group estimates it has secured rights to approximately four million tonnes of pond fines in aggregate.

UK – Specialised Coal (Industrial and Domestic)
The Group was disappointed, but not surprised, when UK Coal announced its insolvency and re-structuring. This terminated the Group's supply contract with UK Coal, under which UK Coal had been contractually bound to supply around 270,000 tonnes of coal for the industrial and domestic markets. During the last 18 months UK Coal had been struggling to meet its obligations and the Group has taken measures to source sized coal from the international markets and more recently from other sources, including Hatfield Colliery. The acquisition of assets in Scotland should also provide an opportunity to diversify the Group's sources of supply and the Group will work hard to increase the level of potential supply from indigenous and international markets over the coming years.

As a result of the failure of UK Coal, we have impaired the remaining £1.6m of acquired intangible asset relating to the UK Coal supply agreement that was operating when the Group acquired UK Coal's 50% stake in Coal4Energy Limited in January 2009. The intangible asset associated with that contract was being amortised over the original duration of the contract which was due to run from May 2009 to May 2014.

Europe
Separate from our discontinued operations in Belgium, the German business performed well last year in very difficult coke markets. Demand from traditional customers in the steel sector was very low as many European steel makers struggled to balance their own coke production with low levels of steel production. The coke trading business benefited from a number of significant coke purchases from SSI at Redcar Steel works. Growing trading interest in the ferro-alloy markets provides an additional opportunity for the current financial year.

Elsewhere in Europe, the Group continued to develop its joint venture with Mir Trade AG, a large Russian coal producer, to build a power station supply operation in Europe. Thermal coal sales in the financial year to 31 May 2013 increased to 320k tonnes. This business continues to grow steadily and the Group will continue to support its development. Although the profit contribution remains small at £0.3m, if greater scale can be achieved, the opportunity to drive additional profits will arise.

Production Division

The continuing Production division results for the year ended 31 May 2013 encompassed the operations at Monckton, our own surface mining operations and our joint venture investment at Tower. The results also include the smaller non-core businesses of MR&R (formerly MRT) and RocPower, neither of which were material contributors to the division's results. Gross revenues from the division's continuing operations increased by £13.5m from £89.7m to £103.2m while underlying continuing operating profit remained at £16.7m.

As anticipated, the division delivered a very strong second half performance aided by steady production rate at Tower Colliery following the poor weather encountered in the first half.

Monckton
The closure of Maltby Colliery has necessitated sourcing coking coal for Monckton from the international markets, and we were able to source coal that was very similar to that of Maltby. Our subsequent testing and production has shown that the coke produced from this coal has very similar properties to that produced historically from Maltby coal and we believe that there will continue to be sustained demand for this type of coke.

2013	UK Bulk	UK Speciality	UK Total	European Speciality	Total
Tonnes sold (000s)	4,679	618	5,297	645	5,942
Operating profit per tonne (£)	2.35	21.68	4.61	9.77	5.17
Operating profit from trading (£m)	11.0	13.4	24.4	6.3	30.7
JCE & non-trading (£m)					1.2
Segment Continuing Underlying Operating Profit (£m)					**31.9**

2012	UK Bulk	UK Speciality	UK Total	European Speciality	Total
Tonnes sold (000s)	2,609	638	3,247	511	3,758
Operating profit per tonne (£)	2.64	20.53	6.16	14.68	7.32
Operating profit from trading (£m)	6.9	13.1	20.0	7.5	27.5
JCE & non-trading (£m)					0.9
Segment Continuing Underlying Operating Profit (£m)					**28.4**

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

Review of Operating Performance by Business Unit Continued

Production at Monckton remained steady and revenues decreased by £3.3m from £56.4m to £53.1m. Coke sales fell by £4.5m from £54.1m to £49.6m, whilst by-product income fell by £0.5m to £4.1m through a combination of lower volumes and lower power prices.

Annual coke volumes sold fell by 25k tonnes from 261k tonnes to 236k tonnes in the year, due to a combination of slowing coke demand coupled with the effect of de-stocking experienced in the year ended 31 May 2012. Included within annual volumes were 51k tonnes of third party manufactured coke, sold in addition to Monckton's own manufactured product.

Surface Mining
The last financial year was significant for the Surface Mining business. In addition to completing the first full year of production at our joint venture operation at Tower in South Wales, the Group secured an equity fund raising in April of £42.3m (£40.7m after issue costs) to allow the Group to pursue the acquisition of assets from the liquidators of Aardvark (TMC) Limited (the main operating subsidiary of the former ATH Resources PLC) and Scottish Coal Company Limited (the main operating subsidiary of Scottish Resources Group Limited). The opportunities presented by these acquisitions are very exciting and will provide the Group the springboard to rapidly develop its surface mining operation, becoming the largest surface mining coal producer in the UK.

Acquisition of Assets from Aardvark TMC Limited
On 16 May 2013, Hargreaves acquired a number of assets related to the business of Aardvark (TMC) Limited ("Aardvark") for £10.4m. The acquisition process commenced with the purchase of the secured debt from Better Capital in March 2013 following extensive discussions with many of the key stakeholders of the former ATH group. We worked for two months with the management of Aardvark and other stakeholders to ensure continuity of operations following the liquidation of Aardvark.

As part of the transaction, ATH's interests in two active mining sites, Netherton and Duncanziemere were hived down into separate new companies (the "Hivecos") which will continue to be owned by Aardvark. The objective of these Hivecos will be to resolve outstanding restoration liabilities. Hargreaves has and continues to actively assist with the process of seeking an optimal solution in light of the level of funding available through continued mining activity at the sites and the existing restoration bonds.

Going forward Hargreaves has an exclusive option to purchase the shares in the Hivecos for a nominal sum. As and when the outstanding restoration issues on each site are resolved on commercially acceptable terms, Hargreaves will acquire the relevant Hiveco from Aardvark and fully integrate it into the Group. This will only happen after all planning permissions are in place and would be expected to take approximately between three and twelve months. In this interim period, it is expected that Hargreaves will continue to provide mining, coal marketing and restoration services to ensure the sites are held safely, restoration activities are commenced, and jobs are preserved.

The successful acquisition has secured over 200 jobs at Netherton and Duncanziemere, protecting employment in East Ayrshire and we are hopeful that we will soon be able to recruit additional personnel as we start operations at other sites. We expect to produce over one million tonnes of surface coal from the ATH sites during this financial year.

The Surface Mining business is working with various stakeholders to provide restoration activities at other sites including Glenmuckloch in Dumfries and Galloway and we are optimistic that both mining and restoration projects at other sites will be commenced before the end of this financial year.

As part of the transaction Hargreaves assisted with the formation of the Scottish Mines Restoration Trust ("SMRT"). This trust has been established as an independent charity to help address outstanding legacy restoration issues. Following the acquisition of ATH, Hargreaves made a donation to the SMRT of £1.1m.

Post Balance Sheet Event – Acquisition of Assets from Scottish Coal Company Limited
Following an intensive period of due diligence we announced on 5 July 2013 the completion of a transaction to acquire certain assets from the joint liquidators of Scottish Coal Company Limited ("Scottish Coal") for £8.4m.

The transaction was complex and initially involved the acquisition of a property portfolio of approximately 30,000 acres together with unencumbered plant and equipment. The property interests include Scottish Coal's rights and interests in various wind farm projects that were being progressed through design and planning. Scottish Coal will share in any near-term profits realised on the wind farms.

Hargreaves intends to progress the wind farm projects, together with one specific development property, as a joint venture with the SMRT, to provide a future potential income stream to the Trust. The Group does not currently intend to take these projects beyond the realisation of the design and planning stages.

As part of the transaction, Scottish Coal's interests in five former active mining sites, most notably at Broken Cross and House of Water, were hived down into separate new companies (the "Hivecos") which will continue to be owned by Scottish Coal. This structure was similar to that used for the Aardvark transaction. The key difference to the Aardvark transaction was that operations at all sites ceased when Scottish Coal was liquidated. Like the Aardvark Hivecos, the objective of these Hivecos will be to resolve outstanding restoration liabilities. Hargreaves is actively assisting with the process of seeking an optimal solution in light of the level of funding available through continued mining activity at the sites and the existing restoration bonds.

It is our intention to resume operations to support revised mining and restoration plans as quickly as possible and Hargreaves expects to bring approximately one million tonnes of production capacity on line in the current financial year. Hargreaves will acquire the necessary plant and equipment, to support the target of one million tonnes of production and would expect to invest between £12m and £15m of capital expenditure. Significant efforts are underway to achieve this goal.

As with the Aardvark transaction, Hargreaves has an exclusive option to purchase the shares in the Hivecos for a nominal sum. As and when the outstanding restoration issues on each site are resolved on commercially acceptable terms, Hargreaves will acquire the relevant Hiveco from Scottish Coal and fully integrate it into the Group. This will only happen after all planning permissions are in place and would be expected to take approximately twelve months. In this interim period, it is expected that Hargreaves will continue to provide mining, coal marketing and restoration services to ensure the sites are held safely, restoration activities are commenced, and workers are re-employed.

It is inevitable given the rapid growth of the business that we would reach a stage where our acquisitions exceeded the technical thresholds laid down in the Enterprise Act 2002 and would give rise to a dialogue with the Office of Fair Trading ("OFT"). In anticipation of this next stage in our growth and following this transaction, Hargreaves voluntarily approached the OFT to commence a dialogue on competition issues relating to any further consolidation opportunities that may arise in the coal sector in the UK. The Group will continue to work closely with the OFT to ensure there are no competition concerns in the UK coal market during this period of consolidation and uncertainty.

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Review of Operating Performance by Business Unit Continued

Tower Joint Venture
The Tower project contributed £8.3m 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.

This was the first full year of production after operations at the site commenced just before the start of the last financial year. The first six months of operations were significantly hampered by exceptional rainfall. The weather improved in the second half and higher production levels were achieved. Total sales of 574k tonnes were split 179k tonnes in the first half and 395k tonnes in the second half of the year.

Strong production levels have been maintained since the end of the year. We remain confident that the site will deliver coal in the average ratio that was planned and expected. Off-take from two steel plants that were interested in buying PCI grade coal from Tower have been delayed. As a result we will continue to focus on production of coal to support the RWE contract.

Other Surface Mining
Outside of the Tower project we were also pleased to announce the receipt of planning permission for our first wholly owned small surface mine. The site at Well Hill in Northumberland, our first mine in England, is expected to produce 130k tonnes and as anticipated and announced at the interim results we expect coaling to commence within the next month. 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.

Surface Mining Reserves
Following the activity of the last twelve months the Group has significantly progressed its pipeline of potential mining sites. The sites targeted in the UK will continue to be smaller sites with a typical mining life of between two and four years. After careful consideration we have decided that the most informative way to provide guidance on reserves is to focus on "Proven Reserves."

Proven Reserves are defined as reserves where, in the opinion of management, sufficient drilling has been undertaken to form an opinion with reasonable certainty on the quality and quantity of coal that would be available from that site. Before capital is committed to a site, Hargreaves' internal assessment of coal reserves, coal quality, overburden ratios and mining plans will be independently reviewed and confirmed by independent external consultants.

As planning permission is a key process and control, Proven Reserves will be analysed into three categories:
(1) "With Planning Permission" are reserves where all the necessary planning permissions are in place to operate the site;
(2) "In Planning Process" are reserves where planning applications have been submitted; and
(3) "Pre-Planning" are reserves where land rights have been secured and the process for submitting a planning preparation is underway. This category would most typically include sites where the typical 12 month Environmental Impact Assessment is underway.

We have elected not to report Probable Reserves, even where property rights have been secured, as they are deemed to be too early stage having still to undergo both proving and planning. We have not elected to adopt JORC reporting regime on the grounds of cost and the greater flexibility to present reserves in the way we consider is most informative to the reader in terms of understanding the development of the pipeline.

As the surface mining business grows and evolves we will review the presentation of information on a regular basis.

Other Continuing Activities
The Group continues to provide management services and support to Hatfield Colliery Limited from Maltby Colliery Limited. In light of recent production challenges at Hatfield Colliery, Hargreaves has elected to waive management fees at this time. The coal produced by Hatfield continues to be marketed by the Energy & Commodities division. The ongoing commercial arrangement is currently being reviewed as operations at Maltby are wound down.

Following the landslip in February 2013, the rail link at Hatfield Colliery re-opened in July 2013. Network Rail has indicated that it intends to bring a claim against, among others, Maltby Colliery Limited and Hargreaves Services plc. However, no claim has been issued and it is therefore unclear as to the basis on which a claim may be brought by Network Rail and the remedy which may be sought. It is intended that any claim will be vigorously defended by both Maltby Colliery Limited and Hargreaves Services plc, and we are currently working with our insurers and solicitors. In the circumstances, the Board does not feel that any provision for a claim or costs is necessary based on the facts available at this time.

Industrial Services Division
Revenues increased by £68.6m from £80.7m to £149.3m. This significant increase in revenue was mainly due to two large biomass conversion projects undertaken during the last financial year. These, together with other non-recurring contracts and projects generated an additional £37.1m of revenue.

The core material handling operations enjoyed another year of growth that saw revenues increase from £64.7m to £96.2m. Operating profits for the core material handling business increased from £3.6m to £5.0m. The revenue increase in the core business benefitted from a full year of revenues from the contracts that were won in the preceding year in the steel

Proven Reserves (million tonnes)

	With Planning Permission	In Planning Process	Pre-Planning	Total
Joint Venture	5.8	–	–	5.8
Former ATH Operating Sites	1.5	–	–	1.5
Former Scottish Coal Operating Sites	–	3.0	–	3.0
Other Operating Sites	0.1	–	–	0.1
Other Sites	–	1.8	12.0	13.8
Total	**7.4**	**4.8**	**12.0**	**24.2**

Of the 24.2 million tonnes of proven reserves, 0.1 million tonnes are at Hargreaves owned sites.

sector. In the steel sector, the division is in the process of tendering a number of other significant contracts. The division has continued to perform well in the power generation sector, although we have seen cost and competitive pressures rising in the UK power generation market. We continue to be encouraged by interest from overseas operators and the division is working on a number of tenders in overseas countries. We are pleased to note that the division won its first maintenance contracts in Hong Kong last year with China Light and Power and is awaiting the results of a major tender to outsource core material handling services.

This strong performance from the core Industrial Services business was adversely impacted by a poor result on the biomass conversion projects, offset by contributions from other non-recurring contracts. This, along with a disappointing performance in our engineering services business where some restructuring costs have been incurred, reduced the profitability of the division by £2.7m resulting in a fall in overall underlying divisional operating profit from £4.3m to £3.0m.

We are pleased to note that one of the two biomass conversion projects has now been completed. The second major project is ongoing and is expected to complete in the next quarter. These contracts have placed significant pressures on our engineering services business and whilst they have been problematic and loss making, we have remained committed to delivering a quality solution. We have reviewed the lessons learnt on these projects and decided before the end of the year not to pursue further contracts of this nature, resulting in impairment to goodwill of £2.5m. Accordingly we have scaled back our engineering services business unit to focus on small scale projects undertaken in support of the core material handling business. We would expect this decision to reduce the future volatility of earnings in the division.

Transport Division

Overall the Transport division performed well last year. The Transport division's gross revenues increased by £5.4m from £77.3m to £82.7m reflecting a strong year from the Bulk fleet. Underlying operating profit reduced by £0.1m to £4.0m (2012: £4.1m). The Bulk fleet exceeded our internal expectations having benefitted from higher than normal coal shipments as power stations increased their coal burn and rebuilt coal stocks. The Tanker fleet had a quieter year following the loss of the Petroplus contract. By the end of the year the Tanker fleet had successfully re-positioned itself and we would expect Tankers to deliver a stronger performance in this financial year.

Discontinued Operations

Discontinued operations incurred a loss of £81.8m net of tax during the year. This overall result reflects a loss of £59.8m in Maltby and a loss of £22m in Belgium, including both the exceptional write off and the trading loss.

Maltby

Following consultation with employees and trade union representatives, the decision to proceed with the mothballing of Maltby Colliery on health and safety, geological and financial grounds was announced on 17 December 2012. The timing of the decision to mothball the mine means that the results of the underground operations at Maltby have been classified within discontinued operations in the current and prior year.

The mothballing process has progressed well with a reported loss (including closure costs) of £59.8m net of tax incurred in the year ended 31 May 2013 were in line with plan. These costs included the operating loss to the point of decision to mothball the mine, redundancy costs, closure and settlement costs to the end of the year and non-cash write offs relating to plant and equipment, development costs and other related assets.

The sale of the methane assets to Alkane Energy plc, announced on 22 May 2013, allowed the Group to achieve its target asset realisation for the year ended 31 May 2013. Hargreaves received an initial payment of £5.5m in cash in May 2013 and this will be followed during the year ending 31 May 2014 by a further £2m payable six months after the mine shafts have been filled and capped as part of Maltby's planned closure and restoration programme.

The process to sell the remainder of the plant and equipment is ongoing and the closure and restoration programme remains on track to be completed during the current financial year. At this stage we have not made any changes to our estimates of the amounts recoverable from the sale of equipment. We do however note that the mining equipment markets remain subdued.

Overground operations at Maltby continue to trade and surface coal fines remaining amount to approximately one million tonnes and the harvesting and processing of these reserves will continue. Further, Maltby will continue to provide mining management services to Hatfield Colliery Limited.

The loss of jobs at Maltby is very regrettable. The Group, management and unions worked together closely to minimise the inevitable socio-economic impacts. In this regard, great efforts continue to be made to find alternative jobs for as many of the workforce as possible.

Belgium

The fraud in our Belgian business, which was set up as a joint venture in 2008, was an extremely disappointing development. Following the work that has been done we remain confident that we have accurately estimated the direct financial impact of the fraud. The net loss is reported at £17.3m net of tax before any potential recovery from those involved in perpetrating the fraud.

A detailed review of stock quantities and qualities was completed to assess the true value of the book stock and a significant misstatement in the value of the stock was identified. We also reviewed all other balance sheet values and identified those that were also fraudulently reported. Finally we reviewed the contract position and identified the quantity and value of coal that needed to be purchased to allow us to complete the delivery of valid and genuine customer contracts. This provided us with a high degree of confidence in our estimate of the impact.

As previously stated, significant detailed work has been ongoing to ensure all necessary and appropriate steps are undertaken to achieve the maximum possible recovery.

We have also previously stated that we are confident that no such issues exist in other parts of the Group. To provide additional confidence, PricewaterhouseCoopers were engaged to carry out a detailed forensic investigation into certain balance sheet items in the German business. This forensic investigation identified no issues or concerns.

The Belgian business has been closed before the year end and consequently, in addition to the exceptional write off relating to the fraud, the trading loss of £4.7m in the year has also been included within the discontinued operations result.

Iain Cockburn
Group Finance Director

Gordon Banham
Group Chief Executive
23 September 2013

Financial Review

Iain Cockburn, Group Finance Director

The Group reported an improvement in Continuing Underlying Operating Profit from £53.4m to £55.7m, a 4.3% increase year-on-year.

Results Overview

Revenue from continuing operations for the year ended 31 May 2013 increased by 36.5% from £617.9m to £843.3m. Underlying operating profit from continuing operations increased by 4.3% from £53.4m to £55.7m which generated an increase in underlying profit before taxation of £2.9m from £49.3m to £52.2m. Reported profit before taxation decreased from £45.0m to £43.1m generating continuing diluted earnings per share of 111.0p (2012: 113.7p).

Discontinued operations incurred a loss of £81.8m net of tax during the year, resulting in an overall loss for the year of £49.6m (2012: £30.8m profit).

Revenue

Revenue for the year ended 31 May 2013 totalled £843.3m (2012: £617.9m), an increase of 36.5%. The Energy and Commodities division revenue grew by 42.0% from £412.0m to £585.0m and was the key driver behind the growth in Group revenue reflecting excellent power station demand and volumes. There was also a significant increase in revenue in our Industrial Services division from £80.7m to £149.3m; growth in our core material handling business generated £31.5m of this increase with the balance generated largely by the two biomass conversion projects undertaken during the year.

Operating Profit

The Group reported a decrease in operating profit from £48.9m to £44.0m, largely due to the one-off impairment of goodwill and intangibles of £4.1m during the year relating to the Coal4Energy business within our Energy and Commodities division and the downsizing of AJS, our Engineering Services business within the Industrial Services division.

Pleasingly, the Group reported an improvement in underlying operating profit from £53.4m to £55.7m, a 4.3% increase year-on-year. This result reflects the strength of the underlying business. The Production division remains strong, performing in line with expectations. The Energy and Commodities division, exceeded our expectations, reflecting an excellent year in the UK coal business where record volumes were achieved.

Interest

Net financing costs on continuing operations incurred during the year totalled £3.5m compared with £4.1m for the previous year. Higher net debt levels due to trading opportunities were offset by interest income from jointly controlled entities of £0.8m.

Taxation

The UK mainstream corporation tax rate reduced from 24% to 23% in April 2013 giving an average mainstream rate of 23.83%. The effective rate of taxation on continuing operations for the Group for the year ended 31 May 2013 was 27.3% (2012: 27.5%) with the higher rate on profit in our European business combined with the non-deductible nature of the goodwill impairments being the key reasons for the lower reduction versus the drop in mainstream UK Corporation tax rate.

Dividend

The Board has proposed a final dividend of 13.6 pence (2012: 11.8 pence) bringing the dividend for the full year to 20.5 pence (2012: 17.8 pence), an increase of 15.2% in the total dividend for the year. The proposed dividend is covered 6.6 times by underlying diluted earnings (2012: 7.0 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 decreased over the year from £6.0m to £3.6m due to a net actuarial gain of £0.7m and deficit contributions of £1.7m during the year. There is a curtailment event as a result of the closure at Maltby but this has not resulted in a curtailment gain or charge as the rate of salary increase is equal to inflation and there are not a significant number of early retirements.

Earnings Per Share

Continuing basic earnings per share for the year were 112.5 pence (2012: 116.7 pence) and continuing diluted earnings per share were 111.0 pence (2012: 113.7 pence). Underlying diluted earnings per share, after adding back amortisation and the one-off impairment of acquired intangibles and goodwill, increased by 7.7% from 125.0 pence to 134.6 pence.

Discontinued Operations

The Group's discontinued operations made a loss of £81.8m after tax during the year. These losses relate to events at Maltby and in Belgium and the associated results have been reclassified as Discontinued in the current and prior year. In addition, certain related assets have been reclassified in the balance sheet as "assets held for sale".

Following the discovery of a fraud in our Belgian subsidiaries in early December 2012, a post-tax exceptional charge of £17.3m was recorded during the year. This charge relates to the write off of numerous balance sheet items including inventory and receivables. Whilst the overstatement appears to have arisen from the inception of the business in 2008, due to the intricacies of the fraud and the lack of documentation for many of these transactions, it is not possible to allocate the write off to specific accounting periods with any precision and it has therefore been accounted for in full in the current year.

In addition to the above exceptional write off, the trading result of Belgium, an operating loss of £4.7m was classified as a discontinued operation during the year.

Also within Discontinued Operations is the impact of the mothballing of the underground operations at Maltby Colliery during December 2012. The post-tax loss during the year was £59.8m, in line with previous guidance, including the operating loss up to the point of decision to mothball the mine, redundancy costs, closure costs and non-cash write offs relating to plant and equipment, development costs and other related assets.

Operating Cash Flow

Net cash flow from continuing operating activities generated a cash inflow of £21.2m during the year, an increase of £2.3m on the previous year. This was driven by a strong continuing profit during the year offset by investment in working capital.

Working capital requirements consumed an additional £26.5m during the year. Taking into account the write offs in Belgium and at Maltby, inventory levels in the continuing business increased by £23.2m during the year. This increase in inventory was driven by significant purchases of coke towards the end of the financial year for sale in the first half of the current financial year. We also saw the UK coal business unwind its forward purchased coal, as anticipated at the interim results, which offset the overall increase. Group inventory days (measured against forward purchases) reduced by 21 days from 98.0 as at 31 May 2012 to 77.0 as at 31 May 2013 reflecting the overall net reduction in total Group inventory balances due to the significant write offs at Maltby and in Belgium.

Trade and other receivables increased by £34.3m during the year in line with the significant growth in activity in the Group. Group debtor days reduced by five days from 27.0 days to 22.0 days continuing to reflect the efficient cash cycle of the Energy and Commodities division, the most significant contributor to the growth. In addition, amounts advanced to the Tower joint venture increased by £0.7m from £22.4m at 31 May 2012 to £23.1m at 31 May 2013.

An increase in trade and other payables of £31.0m also reflects the growth in the business, and in particular the Energy and Commodities business, as mentioned above. Resultant Group creditor days reduced by 19 days from 37.0 days to 18 days in line with the working capital cycle in the Energy & Commodities division.

After interest payments of £2.7m and income tax payments in the year of £9.9m, resultant net cash from continuing operating activities during the year was £20.9m compared to £21.2m in the previous year.

The discontinued operations at Maltby and in Belgium resulted in a net cash outflow from operating activities of £45.8m during the year. At Maltby, the cash outflow was driven by the significant operating loss and cash outflow up to the point of the decision to mothball the mine, and also the subsequent closure, settlement and redundancy costs following that decision. The write offs relating to the plant and equipment, development costs and other related assets at Maltby were non-cash. In Belgium, whilst the exceptional write off was non-cash, the funding of the operating loss resulted in a further cash outflow.

Combining continuing and discontinued operating activities resulted in an overall net cash outflow from operating activities of £24.6m for the Group during the year.

Capital Expenditure

Total capital expenditure for the year was £16.7m (2012: £33.2m) including £6.2m relating to discontinued operations, a significant reduction on the prior year, reflecting the mothballing of Maltby during the year. Of the capital expenditure, £8.2m was financed through finance leases.

Following the mothballing of Maltby, the rebased continuing depreciation charge for the year was £8.3m, a significant reduction on the prior year total of £20.6m (which included £12.9m relating to the now discontinued activities).

Taking into account the capital expenditure at Maltby during the year, net cash from investing activities in discontinued operations of £4.2m was generated. This was largely achieved on the sale by Maltby of certain coal mine methane assets to Alkane Energy plc in May 2013 for £5.5m. This was an initial payment and a further £2.0m is payable six months after the mine shafts have been filled and capped as part of Maltby's planned closure and restoration programme. It is anticipated that these tasks will be completed during the year ending 31 May 2014.

Financial Review
Continued

Financing Activities
Net cash inflow from financing activities in continuing operations was £37.5m, an increase of £15.4m from the £22.1m reported in the prior year.

During the year, the Group utilised an additional £10m of its banking facilities and made payments of £3.8m against finance lease liabilities. Dividend payments made during the year amounted to £5.4m.

In April 2013, the Group completed a successful fund raising in the amount of £40.7m, net of £1.6m of issue costs resulting in the issue of 5.46m new shares.

Net cash from financing activities in discontinued operations resulted in a cash outflow of £5.4m (2012: £8.2m) relating to the repayment of finance lease liabilities during the year.

Net Debt
Group net debt, comprising cash and cash equivalents, bank overdraft and other interest-bearing loans and borrowings was £77.9m at 31 May 2013, an increase of £0.2m from the £77.7m reported at 31 May 2012. Net debt as a ratio of net assets of the Group at 31 May 2013 was 66% compared to 57% at 31 May 2012.

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.

The Group continues to operate comfortably within its banking covenants. The key covenants on the revolving credit facility are interest cover and leverage, measured as a ratio of net debt to EBITDA. As at 31 May 2013 interest cover was 12.6 times, comfortably above the covenant minimum of four times and leverage was 1.5 times, comfortably below the maximum 2.5 times permitted.

The European business continues to operate on a facility of £55m (€65m) from Commerzbank. At the end of the year the net debt drawn on this facility was £33.7m.

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 and 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.

Summary of Net Debt

	2013 £000	2012 £000
Cash and cash equivalents	**(61,435)**	(45,852)
Bank overdraft	**42,476**	31,215
Revolving credit facility	**83,632**	73,076
Finance lease liabilities	**15,500**	16,398
Promissory note facility	**–**	5,025
Hire purchase receivable	**(2,276)**	(2,192)
	77,897	77,670

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 8. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 16 to 21. In addition Note 27 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

With the mothballing of the underground operations at Maltby during the year, and the closure plan that is now progressing, the Group's exposure to deep mining risk has significantly reduced. A key focus for the Group during the current financial year is the successful management and completion of the closure and restoration programme to ensure that the mine shafts have been filled and capped safely.

Surface Mining Risk

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

Markets and Commodity Prices

The Group produces and trades in coal, coke and other mineral commodities, the prices of which are subject to variations that are both uncontrollable and unpredictable. Further trading risks are created through foreign currency exposures. The Group mitigates these risks, wherever practical, through the use of 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 Monckton Coke Works and our interest in the surface mining activities at Tower and the former Aardvark and Scottish Coal sites, the Group does have a longer-term exposure to price movements, favourable or unfavourable, in international coal and coke prices.

Commercial Relationships

The Group benefits from many long-term and partnership arrangements with key customers and suppliers. Damage to, or loss of, these relationships could be detrimental to the Group results. In addition, due to the nature of the sectors in which the Group operates, it does have a concentration of businesses with a small number of large energy 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 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.

Energy Costs

The Group's energy usage is very high, both throughout the Transport and Plant fleets and at the Group's production facilities. An increase in energy cost has been a risk that to date we have been successful in mitigating by indexing key 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 other sites.

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 2013, 72.3% of net financial liabilities were at fixed rates (2012: 59.6%).

Foreign Currency

The Group has operations in three 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 2013, the largest customer represented 17% of the Group trade receivables balance of £86.5m and the top ten accounts represented approximately 36%.

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
23 September 2013

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Board of Directors

Tim Ross* (aged 64)
Non-Executive Chairman
Tim read law at Oxford University and qualified as a solicitor. He worked in the City of London and as a company legal adviser, before attending London Business School and moving into general management. He has considerable experience of the construction, aggregates, waste disposal and opencast coal industries. He is a past Chairman of May Gurney Integrated Services plc and other public companies and has served on the boards of several other quoted companies, including George Wimpey plc and Lavendon plc. He is the current Chairman of a number of venture capital-backed companies in the construction sector.

Gordon Banham (aged 49)
Group Chief Executive
Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels and was appointed as General Manager of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, he was made Distribution Director responsible for the enlarged group's coal distribution activities. Gordon joined Hargreaves in 2001, subsequently being appointed as Group Chief Executive. He led the management buyout in 2004 and subsequent flotation on the London Stock Exchange, the following year. He has since guided a series of major acquisitions.

Iain Cockburn (aged 48)
Group Finance Director
Iain is a Chartered Accountant. After five years with PricewaterhouseCoopers in the UK and Luxembourg he held a number of finance roles in both the UK and the USA, within Courtaulds plc and GenRad Inc groups. Prior to joining Hargreaves he was Finance Director and subsequently CEO and Finance Director of Knowledge Support Systems plc.

Kevin Dougan MIQ (aged 58)
Group Commercial Director
Kevin spent the early part of his career with British Coal, specialising in opencast coal mining becoming Assistant Regional Engineer. In 1986, Kevin joined Andrew Golightly Limited as Contracts Director, subsequently joining the Group in 1995 as a Divisional Director. He was appointed to the Group Board in April 2004.

David Morgan* (aged 55)
Senior Independent Director
David, a Chartered Accountant, has had wide ranging board and senior management experience. Having trained with KPMG, he then spent over 20 years with Johnson Matthey plc, a FTSE 100 global business and was Executive Director, Corporate Development from 1999 to 2009. He is a Non-Executive Director of Nord Gold N.V. and The Royal Mint as well as a number of other companies. His career has involved general and financial management as well as corporate governance and he has had M&A experience in all parts of the world.

* Current member of Audit, Remuneration and Nominations Committees.

Group Executive Management Team

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

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

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

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.

Peter Gillatt
Managing Director
Production Division
Previously: Non-Executive Director, Hargreaves Services plc; Group Managing Director Longcliffe Group Limited; Deputy Managing Director, Lafarge UK; Chief Operating Officer, SITA UK.

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2013.

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 37.

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 20. 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 27 of the accounts.

Proposed Dividend

Following the payment of an interim dividend of 6.9p per share on 28 March 2013, the Directors recommend a final dividend for the year ended 31 May 2013 of 13.6p per share to be paid on 12 December 2013 to shareholders on the register on 8 November 2013. The shares will be ex-dividend on 6 November 2013. 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 2013 for the Group were 18 days (2012: 37 days). It is not meaningful to disclose a similar statistic for the Company since it does not trade in its own right.

Directors

The Directors who held office during the year and to date were as follows:

TS Ross
GFC Banham
ID Cockburn
KJ Dougan
D Morgan
P Gillatt (resigned 9 September 2013)

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

	Class of share	Interest at end of year	Interest at beginning of year
GFC Banham	Ordinary	3,029,831	3,029,831
KJ Dougan	Ordinary	175,000	175,000
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:

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	June 2011 to June 2018	49,180
KJ Dougan	–	June 2011 to June 2018	17,213
ID Cockburn	–	June 2011 to June 2018	20,287

These options were granted under the Long-Term Incentive Plan on 20 June 2008 and are outstanding at the end of the year. None of the share options have been exercised.

Director	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.

Director	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.

Director	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	819

In accordance with the Articles of Association one-third of Directors retire by rotation each year. The Directors retiring by rotation are Tim Ross and Kevin Dougan who, being eligible, offer themselves for re-election.

Directors' Report
Continued

Significant shareholdings
At 30 August 2013, the Company had been notified or was aware of the following shareholders with 3% or more of the issued share capital of the Company:

Shareholder	Number of ordinary shares	% of issued share capital
GFC Banham	3,029,831	9.2%
Odey Asset Management LLP	2,211,789	6.7%
The Bank of New York Mellon Corporation	2,026,430	6.1%
J O Hambro Capital Management Group Limited	1,670,323	5.1%
M&G Investment Management	1,661,773	5.0%
Fidelity Worldwide Investment	1,494,078	4.5%
Fidelity Management & Research	1,223,748	3.7%
Liberty Square Asset Management	1,202,667	3.6%
Hansa Capital Partners	1,000,000	3.0%

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.

Purchase of Own Shares
The Directors are authorised to make market purchases of the Company's own shares under an authority granted at the Annual General Meeting held on 23 November 2012. No purchases were made during the year. The Directors will seek renewal of this authority at the 2013 Annual General Meeting (full details are available in the 2013 Notice of Annual General Meeting).

Approval to Issue Shares
During the year the Company issued ordinary shares to a nominal amount of £273,004 for cash on a non-pre-emptive basis in line with an authority given at the Annual General Meeting held on 23 November 2012. It also issued shares to a nominal amount of £273,004 for cash on a non-pre-emptive basis following approval by shareholders at a General Meeting held on 7 May 2013. A total of 415,839 shares (a nominal amount of £41,583.90) were also issued under the employee share schemes. The Directors will seek authority to allot up to a maximum aggregate nominal amount of £2,204,000 at the 2013 Annual General Meeting (full details are available in the 2013 Notice of Annual General Meeting).

Employee Share Schemes
The Company operates share option schemes for the benefit of employees. Information regarding the schemes and number of options outstanding is given in Note 24 on page 74.

Articles of Association
Changes to the Articles of Association must be approved by special resolution of the Company. The Directors are seeking authority at the 2013 Annual General Meeting to amend Article 44 to allow laser signatures on share certificates, which is an administrative amendment only and will assist with the management of the share register by the Company's registrar (full details are available in the 2013 Notice of Annual General Meeting).

Political and Charitable Contributions
The Group made no political contributions during the current or prior year. Donations to UK charities amounted to £29,453 (2012: £29,921).

Disclosure of Information to Auditor
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditor
Our auditor, KPMG Audit Plc has instigated an orderly wind down of business. The Board has therefore decided, to put KPMG LLP forward to be appointed as auditor and resolutions concerning their appointment and to authorise the Directors to agree their remuneration will be put to the forthcoming AGM of the Company (full details are available in the Notice of Annual General Meeting).

By order of the Board

Stephen MacQuarrie
Company Secretary
23 September 2013

Corporate Governance

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

The following sections set out how the Company and the Group has applied the principles and spirit of corporate governance.

The 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 24.

During the year the Board comprised a Non-Executive Chairman, three Executive Directors, and two independent Non-Executive Directors, one of whom acts as the Senior Independent Director. It meets at least six times per year, receiving appropriate information from management on a timely basis, and making further detailed enquiries where necessary to enable it to fully discharge its duties. The Board is collectively responsible for the long term success of the Company and has ultimate responsibility for the management, direction and performance of the Group and its businesses. The Board is required to exercise objective judgment on all corporate matters and is accountable to shareholders for the proper conduct of the business.

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

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

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

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

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

Non-Executive Directors

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

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 regular reports covering, for example, current trading, treasury, health and safety issues and capital expenditure proposals. There is a detailed process to ensure that the Board formally reviews and approves annual budgets and business plans. Throughout the year, the Board reviews performance against these annual budgets and business plans.

The Board also has regular updates on strategy and reviews other topics, notably 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	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	10	4	6	No meeting held in this financial year
Tim Ross	10 attended	4 attended	6 attended	
Gordon Banham	10 attended	–	–	
David Morgan	10 attended	4 attended	6 attended	
Peter Gillatt (resigned 9 September 2013)	10 attended	4 attended	6 attended	
Iain Cockburn	10 attended	–	–	
Kevin Dougan	10 attended	–	–	

Board Committees

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

- Remuneration;
- Audit; and
- Nominations.

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

Corporate Governance
Continued

Remuneration Committee
The composition and work of the Remuneration Committee is described in the Remuneration Report found on page 32.

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

The Committee met four times during the year. The minutes of the Committee are circulated to all Directors for information and the Committee's terms of reference are available on the Company's website.

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

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

The Board recognises the importance of safeguarding auditor objectivity and has taken the following steps to ensure that auditor independence is not compromised:

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

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

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

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

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

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

Induction, Development and Support
All new Directors receive a full, formal and tailored induction on joining the Board, including meetings with senior management and advisers and visits to the Group's operational locations. The Board calendar is planned to ensure that Directors are briefed on a wide range of topics throughout the year and are given the opportunity to visit sites and discuss aspects of the business with employees. 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.

Board Performance Evaluation
To further strengthen Group compliance the Board undertakes an annual performance review that reviews and measures its effectiveness and that of its Committees. Alongside this review each Director receives an appraisal conducted by the Chairman for the Group Chief Executive and Non-Executive Directors, by the Senior Independent Director (following discussions with the other Directors) for the Chairman and by the Group Chief Executive for other Executive Directors.

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

Internal Control
Management has considerable autonomy to run and develop the business of the Group. The 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 have overall responsibility to develop and strengthen internal controls further. 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. All divisions have formulated safety management systems. We continue our programme to achieve OHSAS 18001 Occupation Health and Safety Assessment Series for health and safety management systems and ISO 14000 environmental management.

Compliance with Laws
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. Compliance with the Bribery Act 2010 involves an Anti-Corruption Policy and a Group Whistle Blowing Policy, which can be found on the website. Training is given to all appropriate employees through the use of online tools to ensure that there is full understanding of the Bribery Act and awareness of the consequences of not adhering to Group policies.

Remuneration Report

Responsibilities and Role of the Remuneration Committee

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

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

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

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

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

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

Benefits in Kind and Pensions

In addition to basic salary, Executive Directors are entitled to the following benefits: paid holiday, company car, contributions to a personal pension plan and life assurance.

Membership of the Committee

The members of the Committee which met on 6 occasions during the year were:

Peter Gillatt Chairman
Tim Ross
David Morgan

Following Peter Gillatt's resignation as a Non-Executive Director on 9 September 2013, David Morgan is chairing the Committee on an interim basis until a new Non-Executive Director, who will chair the committee going forward, is appointed.

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

Directors' Remuneration for the Year to 31 May 2013

	2013 Salary £000	2013 Bonus £000	2013 Benefits £000	2013 Total £000	2012 Total £000	2013 Pension £000	2012 Pension £000
Gordon Banham	**433**	–	**38**	**471**	461	**109**	106
Iain Cockburn	**256**	–	**17**	**273**	267	**51**	50
Kevin Dougan	**218**	–	**31**	**249**	207	–	–
Tim Ross	**63**	–	–	**63**	60	–	–
Peter Gillatt* (resigned 9 September 2013)	**38**	–	–	**38**	26	–	–
David Morgan	**41**	–	–	**41**	10	–	–
Nigel Barraclough (resigned 30 September 2011)	–	–	–	–	12	–	–
Total	**1,049**	–	**86**	**1,135**	1,043	**160**	156

* P Gillatt received an additional £18,000 during the year in respect of consultancy fees.

Directors' Service Contracts and Letters of Appointment

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

Date of latest agreement	Name	Position	Commencement of period of office	2013/14 Salary (£)	Notice period
3 September 2013	Tim Ross	Non-Executive Chairman	30 November 2005	64,141	12 months' notice
3 September 2013	Gordon Banham	Group Chief Executive	1 October 2001	443,254	12 months' notice
3 September 2013	Kevin Dougan	Group Commercial Director	23 June 1997	220,072	12 months' notice
3 September 2013	Iain Cockburn	Group Finance Director	8 October 2007	260,738	12 months' notice
3 September 2013	David Morgan	Senior Independent Director	24 February 2012	41,603	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 27.

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 65 if they should continue in employment and on a change in control, reconstruction, amalgamation or voluntary winding-up of the Company.

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

Executive Long-Term Incentive Plan ("LTIP")

The LTIP scheme was implemented in November 2006.

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

The vesting of an award granted to an Executive Director of the Company shall, or in the case of an award granted to any other Group employee may, be subject to the satisfaction of one or more Performance Conditions. The Remuneration Committee may determine or recommend to the Trustee that the vesting of an award will be subject to any other objective condition in addition to the Performance Conditions. The performance conditions on current awards, are included in Note 24.

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

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

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

Executive Long-Term Incentive Plan ("LTIP") (continued)
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

David Morgan
Senior Independent Director
23 September 2013

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 2013, set out on pages 37 to 83. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements
In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2013 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006
In our opinion the information given in the 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

23 September 2013

Consolidated Statement of Comprehensive Income
for year ended 31 May 2013

Continuing activities	Note	2013 £000	Restated 2012 £000
Revenue	1,2	**843,298**	617,924
Cost of sales		**(756,930)**	(533,974)
Gross profit		**86,368**	83,950
Other operating income	4	**355**	723
Administrative expenses – Impairment of goodwill and intangible assets		**(4,131)**	–
Other administrative expenses	5	**(38,620)**	(35,726)
Operating profit	1,5,6	**43,972**	48,947
Financial income	8	**831**	660
Financial expenses	8	**(4,313)**	(4,754)
Share of profit in jointly controlled entities (net of tax)	14	**2,573**	99
Profit before tax		**43,063**	44,952
Income tax expense	10	**(10,933)**	(12,345)
Profit for the year from continuing operations		**32,130**	32,607
Discontinued operations			
Loss for the year from discontinued operations	9	**(81,757)**	(1,800)
(Loss)/profit for the year		**(49,627)**	30,807
Other comprehensive income/(expense)			
Foreign exchange translation differences		**530**	(2,201)
Effective portion of changes in fair value of cash flow hedges		**(8,086)**	3,068
Actuarial gains and losses on defined benefit pension plans	23	**655**	(3,274)
Tax recognised on other comprehensive income/(expense)		**1,718**	(6)
Other comprehensive expense for the year, net of tax		**(5,183)**	(2,413)
Total comprehensive (expense)/income for the year		**(54,810)**	28,394
(Loss)/profit attributable to:			
Equity holders of the Company		**(46,438)**	29,455
Non-controlling interest		**(3,189)**	1,352
(Loss)/profit for the year		**(49,627)**	30,807
Total comprehensive (expense)/income attributable to:			
Equity holders of the Company		**(51,640)**	27,310
Non-controlling interest		**(3,170)**	1,084
Total comprehensive (expense)/income for the year		**(54,810)**	28,394
Basic earnings per share (pence)	11	**(166.68)**	109.00
Diluted earnings per share (pence)	11	**(166.68)**	106.12
Basic earnings per share from continuing operations (pence)	11	**112.53**	116.73
Diluted earnings per share from continuing operations (pence)	11	**110.96**	113.65
Non-GAAP measures (continuing)			
Basic underlying earnings per share (pence)	11	**136.52**	128.43
Diluted underlying earnings per share (pence)	11	**134.63**	125.04

Balance Sheets
at 31 May 2013

		Group		Company	
	Note	2013 £000	2012 £000	2013 £000	2012 £000
Non-current assets					
Property, plant and equipment	12	**60,070**	98,340	**–**	–
Intangible assets	13	**19,149**	29,831	**–**	–
Investments in jointly controlled entities	14	**2,719**	140	**42**	42
Investments in subsidiary undertakings	14	**–**	–	**32,578**	32,064
Derivative financial instruments	15	**37**	–	**–**	–
Deferred tax assets	17	**4,108**	–	**123**	123
		86,083	128,311	**32,743**	32,229
Current assets					
Assets held for sale	9	**14,997**	–	**–**	–
Inventories	18	**96,193**	112,027	**–**	–
Derivative financial instruments	15	**3,216**	6,051	**–**	–
Trade and other receivables	19	**149,558**	114,779	**469,152**	329,805
Cash and cash equivalents	20	**61,435**	45,852	**11,845**	22,270
		325,399	278,709	**480,997**	352,075
Total assets		**411,482**	407,020	**513,740**	384,304
Non-current liabilities					
Other interest-bearing loans and borrowings	21	**(92,686)**	(82,405)	**(83,632)**	(73,076)
Retirement benefit obligations	23	**(3,640)**	(5,969)	**–**	–
Provisions	25	**(7,620)**	(9,282)	**–**	–
Derivative financial instruments	16	**(3,150)**	(3,258)	**–**	–
Deferred tax liabilities	17	**–**	(3,482)	**–**	–
		(107,096)	(104,396)	**(83,632)**	(73,076)
Current liabilities					
Bank overdraft	20	**(42,476)**	(31,215)	**–**	–
Other interest-bearing loans and borrowings	21	**(6,446)**	(12,094)	**–**	–
Trade and other payables	22	**(117,841)**	(100,462)	**(341,705)**	(260,530)
Income tax liabilities		**(9,344)**	(20,117)	**–**	–
Provisions	25	**(2,285)**	–	**–**	–
Derivative financial instruments	16	**(7,664)**	(2,375)	**(12)**	(121)
		(186,056)	(166,263)	**(341,717)**	(260,651)
Total liabilities		**(293,152)**	(270,659)	**(425,349)**	(333,727)
Net assets		**118,330**	136,361	**88,391**	50,577

	Note	Group 2013 £000	Group 2012 £000	Company 2013 £000	Company 2012 £000
Equity attributable to equity holders of the parent					
Share capital	26	**3,296**	2,709	**3,296**	2,709
Share premium		**73,208**	32,105	**73,208**	32,105
Other reserves	26	**211**	211	**–**	–
Translation reserve	26	**(872)**	(1,383)	**–**	–
Merger reserve	26	**1,022**	1,022	**1,022**	1,022
Hedging reserve	26	**(5,692)**	525	**–**	–
Capital redemption reserve	26	**1,530**	1,530	**1,530**	1,530
Retained earnings		**47,265**	97,804	**9,335**	13,211
		119,968	134,523	**88,391**	50,577
Non-controlling interest		**(1,638)**	1,838	**–**	–
Total equity		**118,330**	136,361	**88,391**	50,577

These financial statements were approved by the Board of Directors on 23 September 2013 and were signed on its behalf by:

Gordon Banham
Director

Iain Cockburn
Director

Registered Number: 4952865

Review of the Year

Corporate Governance

Financial Statements

Statements of Changes in Equity
for year ended 31 May 2013

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

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 2012	2,709	32,105	(1,383)	525	211	1,530	1,022	97,804	134,523	1,838	136,361
Total comprehensive income for the year											
Loss for the year	–	–	–	–	–	–	–	(46,438)	(46,438)	(3,189)	(49,627)
Other comprehensive income											
Foreign exchange translation differences	–	–	511	–	–	–	–	–	511	19	530
Effective portion of changes in fair value of cash flow hedges	–	–	–	(8,086)	–	–	–	–	(8,086)	–	(8,086)
Actuarial gains and losses on defined benefit pension plans	–	–	–	–	–	–	–	655	655	–	655
Tax recognised on other comprehensive income	–	–	–	1,869	–	–	–	(151)	1,718	–	1,718
Total other comprehensive expense	–	–	511	(6,217)	–	–	–	504	(5,202)	19	(5,183)
Total comprehensive expense for the year	–	–	511	(6,217)	–	–	–	(45,934)	(51,640)	(3,170)	(54,810)
Transactions with owners recorded directly in equity											
Issue of shares	587	41,103	–	–	–	–	–	–	41,690	–	41,690
Equity settled share-based payment transactions	–	–	–	–	–	–	–	514	514	–	514
Dividends	–	–	–	–	–	–	–	(5,119)	(5,119)	(306)	(5,425)
Total contributions by and distributions to owners	587	41,103	–	–	–	–	–	(4,605)	37,085	(306)	36,779
Changes in ownership interests											
Acquisition of non-controlling interest without a change in control	–	–	–	–	–	–	–	–	–	–	–
Total transactions with owners	587	41,103	–	–	–	–	–	(4,605)	37,085	(306)	36,779
Balance at 31 May 2013	3,296	73,208	(872)	(5,692)	211	1,530	1,022	47,265	119,968	(1,638)	118,330

Statements of Changes in Equity
for year ended 31 May 2013
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 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
Balance at 1 June 2012	2,709	32,105	1,530	1,022	13,211	50,577
Total comprehensive income for the year						
Profit for the year	–	–	–	–	729	729
Total comprehensive income for the year	–	–	–	–	729	729
Transactions with owners recorded directly in equity						
Issue of shares	587	41,103	–	–	–	41,690
Equity settled share-based payment transactions	–	–	–	–	514	514
Dividends	–	–	–	–	(5,119)	(5,119)
Total transactions with owners	587	41,103	–	–	(4,605)	37,085
Balance at 31 May 2013	3,296	73,208	1,530	1,022	9,335	88,391

Cash Flow Statements
for year ended 31 May 2013

	Note	Group 2013 £000	Group Restated 2012 £000	Company 2013 £000	Company 2012 £000
Cash flows from operating activities					
Profit for the year from continuing operations		**32,130**	32,607	**729**	10,576
Adjustments for:					
Depreciation		**8,345**	7,682	**–**	–
Amortisation and impairment of goodwill and intangible assets		**7,985**	4,392	**–**	–
Dividend income		**–**	–	**(1,394)**	(10,769)
Net finance expense		**3,482**	4,094	**1,222**	1,235
Share of profit in jointly controlled entities		**(2,573)**	(99)	**–**	–
Profit on sale of property, plant and equipment		**(355)**	(723)	**–**	–
Equity settled share-based payment expenses		**307**	1,090	**–**	–
Income tax expense		**10,933**	12,345	**188**	(238)
Loss on derivative financial instruments		**–**	–	**(110)**	121
Translation of non-controlling interest		**19**	(269)	**–**	–
		60,273	61,119	**635**	925
Change in inventories		**(23,231)**	(6,064)	**–**	–
Change in trade and other receivables		**(34,253)**	(46,100)	**(138,140)**	(25,447)
Change in trade and other payables		**30,951**	17,991	**81,174**	21,569
Change in provisions and employee benefits		**35**	(135)	**–**	–
		33,775	26,811	**(56,331)**	(2,953)
Interest paid		**(2,688)**	(2,986)	**(665)**	(149)
Income tax paid		**(9,868)**	(4,860)	**–**	–
Net cash from continuing operating activities		**21,219**	18,965	**(56,996)**	(3,102)
Net cash from discontinued operating activities	9	**(45,801)**	10,062	**–**	–
Net cash from operating activities		**(24,582)**	29,027	**(56,996)**	(3,102)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**1,289**	2,354	**–**	–
Dividends received		**–**	–	**–**	5,769
Acquisition of subsidiaries, net of cash acquired	3	**–**	(2,940)	**–**	(568)
Acquisition of property, plant and equipment	12	**(6,954)**	(9,329)	**–**	–
Net cash from investing activities in continuing operations		**(5,665)**	(9,915)	**–**	5,201
Net cash from investing activities in discontinued operations	9	**4,225**	(13,050)	**–**	–
Net cash from investing activities		**(1,440)**	(22,965)	**–**	5,201
Cash flows from financing activities					
Proceeds from the issue of share capital (net of directly attributable expenses)	26	**41,690**	641	**41,690**	641
Payment of finance lease liabilities		**(3,754)**	(4,496)	**–**	–
Dividends paid	26	**(5,425)**	(8,070)	**(5,119)**	(4,428)
(Repayment of)/Proceeds from promissory notes (net of expenses)		**(5,025)**	5,025	**–**	–
Proceeds from revolving credit facility	21	**10,000**	28,974	**10,000**	31,000
Debt refinancing costs		**–**	–	**–**	(2,026)
Net cash from financing activities in continuing operations		**37,486**	22,074	**46,572**	25,187
Net cash from financing activities in discontinued operations	9	**(5,390)**	(8,230)	**–**	–
Net cash from financing activities		**32,096**	13,844	**46,572**	25,187
Net increase/(decrease) in cash and cash equivalents		**6,074**	19,906	**(10,425)**	27,286
Cash and cash equivalents at 1 June		**14,637**	(6,751)	**22,270**	(5,016)
Effect of exchange rate fluctuations on cash held		**(1,752)**	1,482	**–**	–
Cash and cash equivalents at 31 May	20	**18,959**	14,637	**11,845**	22,270

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 accordance with IFRS 5, the comparative figures within the statement of comprehensive income, cashflow statement and related notes have been restated to reflect the impact on prior period results of the operations that were discontinued in the current financial year (see Note 9).

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

- Amendments to IFRS 7 "Disclosures – Transfers of Financial Assets"; and
- Amendments to IAS 12 "Deferred Tax: Recovery of Underlying Assets".

The company has chosen to early adopt IFRIC 20 (stripping costs in the production phase of a surface mine), which is effective for annual periods beginning on or after 1 January 2013.

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. In the current year assets held for sale relate to residual equipment from discontinued operations. Estimates have been made of the net proceeds from these disposals.

b) Mining production and profitability

Whilst the Group's deep mining activities have ceased following the closure of Maltby, it has a growing surface mining business through the Tower joint venture and the recent transactions in Scotland. 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. Estimates of mine life and production levels also form the basis of depreciation of capitalised mining costs.

c) Restoration costs

Obligations exist at both Maltby Colliery and Monckton Coke Works to carry out restoration at the end of the productive life. The related provisions (see Note 25) are based on the nature and extent of the contamination and the estimated costs of restoration. These key assumptions are reviewed on a regular basis and these reviews may lead to adjustments to the provisions over their lives.

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

d) Post retirement employee benefits

The Group operates both funded defined benefit schemes and unfunded concessionary fuel schemes. The determination of the Group's obligation under these schemes is 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.

1 Accounting Policies (continued)

Accounting Estimates and Judgements (continued)

f) Deferred tax asset

A deferred tax asset is recognised only to the extent that it is probably that future taxable profits will be available against which the asset can be utilised.

Measurement Convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments and financial instruments classified as fair value through the profit or loss or as available-for-sale are stated at their fair value.

Going Concern

The Group's business activities, together with the factors likely to affect its future development performance and position are set out in the Group Business Review on pages 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 16 to 21. In addition Note 27 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.

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 23 September 2013.

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.

1 Accounting Policies (continued)

Classification of Financial Instruments Issued by the Group (continued)

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

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

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

Financial Instruments

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 were capitalised and depreciated over the working life of the area of the mine to which the costs are attributable. Mine development costs at the Group's surface mining operations are depreciated on a tonnage extracted basis over the estimated production life of the site.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful 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.
Mining assets		
Surface mine development	–	units of production coal
Restoration asset	–	units of production coal
Stripping activity asset	–	units of production coal from the specific box cut to which the stripping relates

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

1 Accounting Policies (continued)

Mining Assets

Surface Mine Development Asset

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

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

This asset is amortised to the statement of comprehensive income on a units of production method. Production is deemed to commence when work to extract coal from the first production box cut begins.

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

Stripping Costs

The company has chosen to early adopt IFRIC 20 (stripping costs in the production phase of a surface mine), which is effective for annual periods beginning on or after 1 January 2013.

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

Business Combinations

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill arises from the acquisition of businesses and represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Acquisitions on or After 1 June 2010

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

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

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

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

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

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests 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.

1 Accounting Policies (continued)

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.

Assets held for sale

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

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

Inventories

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

Prior to the closure of Maltby Colliery, the cost of preparing proceeding coal faces was 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.

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.

1 Accounting Policies (continued)

Employee Benefits (continued)

Defined Benefit Pension Plans (continued)

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

Coal, Coke and Other Mineral Sales

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

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

Services

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

Leases

As Lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease'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.

1 Accounting Policies (continued)

Income Tax (continued)
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

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

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

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

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

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

Adopted IFRSs Not Yet Applied
At the date of issue of these financial statements the following Adopted IFRSs have been endorsed but have not been applied in these financial statements. The potential implications of IFRS 10, 11 and 12 are currently being reviewed. The other Adopted IFRSs are not expected to have a material effect on the financial statements:

- Amendments to IAS 1 "Presentation of items of Other Comprehensive Income".
- Amendments to IAS 19 "Employee Benefits".
- IFRS 11 "Joint Arrangements".
- IFRS 12 "Disclosure of Interests in Other Entities".
- IFRS 13 "Fair Value Measurement".
- IFRS 10 "Consolidated Financial Statements".
- Amendments to IAS 27 "Separate Financial Statements".
- Amendments to IAS 28 "Investments in Associates and Joint Ventures".
- Amendments to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities".
- Annual Improvements to IFRSs 2009-2011.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance".
- Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities".
- Amendments to IFRS 10, IFRS 12 and IAS 27 "Investment Entities".

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:

Restated	Production 2013 £000	Energy & Commodities 2013 £000	Transport 2013 £000	Industrial Services 2013 £000	Total 2013 £000
Revenue					
Total revenue	103,189	585,022	82,686	149,276	920,173
Inter-segment revenue	(15,884)	(38,691)	(11,536)	(10,764)	(76,875)
Revenue from external customers	87,305	546,331	71,150	138,512	843,298
Underlying operating profit	16,745	31,877	4,011	3,028	55,661
Amortisation of intangibles/goodwill	(131)	(4,152)	(197)	(3,505)	(7,985)
Taxation on jointly controlled entities	(1,071)	(60)	–	–	(1,131)
Net financing costs	(374)	(1,550)	(694)	(864)	(3,482)
Profit before taxation	15,169	26,115	3,120	(1,341)	43,063
Depreciation charge	(1,706)	(622)	(3,212)	(2,805)	(8,345)
Capital expenditure	8,566	1,340	2,343	4,467	16,716
Net assets					
Segment assets	92,494	198,293	27,882	36,749	355,418
Segment liabilities	(25,192)	(110,805)	(17,330)	(25,490)	(178,817)
Segment net assets	67,302	87,488	10,552	11,259	176,601
Jointly controlled entities	2,439	280	–	–	2,719
Segment net assets including share of jointly controlled entities	69,741	87,768	10,552	11,259	179,320
Unallocated net assets					(60,990)
Total net assets					118,330

Unallocated net assets include goodwill and intangibles (£19.1m), revolving credit facility (£83.6m), cash and cash equivalents (£12.6m), derivative financial instruments (£7.6m), deferred tax asset (£4.1m) and other corporate items (£9.6m).

2 Segmental Information (continued)

Restated	Production 2012 £000	Energy & Commodities 2012 £000	Transport 2012 £000	Industrial Services 2012 £000	Total 2012 £000
Revenue					
Total revenue	89,698	412,012	77,326	80,722	659,758
Inter-segment revenue	(13,129)	(15,739)	(10,034)	(2,932)	(41,834)
Revenue from external customers	76,569	396,273	67,292	77,790	617,924
Underlying operating profit	16,673	28,373	4,067	4,325	53,438
Amortisation of intangibles	–	(2,429)	(393)	(1,570)	(4,392)
Net financing costs	(500)	(2,315)	(749)	(530)	(4,094)
Profit before taxation	16,173	23,629	2,925	2,225	44,952
Depreciation charge	(1,491)	(730)	(3,551)	(1,910)	(7,682)
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 equivalent (£24.3m) derivative financial instruments (£0.4m) and other corporate items (£1.9m).

Information About Key Customers

Included in revenue is an amount of £146,699,000 (2012: £82,371,000) arising from sales to the Group's largest customer, relating to the Energy and Commodities and Industrial Services divisions.

The following table analyses revenue by significant category:

	2013 £000	Restated 2012 £000
Sale of goods	**575,225**	446,676
Rendering of services	**268,073**	171,248
	843,298	617,924

Geographical Information

	2013		Restated 2012	
	UK £000	Overseas £000	UK £000	Overseas £000
Revenue	**740,459**	102,839	**508,862**	109,062
Non-current assets	**81,567**	371	**127,203**	1,108

3 Acquisition of Subsidiaries

Current Year

During the current year, the Group has not acquired any new subsidiaries.

Prior Year

Acquisition of Eastgate Materials Handling Limited

On 1 June 2011, the Group acquired the remaining 50% share capital of Eastgate Materials Handling Limited ("EMHL"), a jointly controlled entity with Oxbow Coal Limited, satisfied by £1,826,000 cash. The company operates port handling facilities at Immingham, UK. The acquisition was conditional on Oxbow Coal Limited entering into an exclusive contract with EMHL, and the consideration of £1,826,000 comprises a payment of £1,958,000 for the contract and a receipt of £132,000 for assuming the liabilities of EMHL. Total consideration for EMHL, including the Group's existing stake of £(193,000) was a receipt of £325,000 giving rise to goodwill of £91,000.

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.

	Recognised values on acquisition £000
ASSETS	
Non-current assets	
Property, plant and equipment	267
Current assets	
Trade and other receivables (gross and net)	3,178
Cash and cash equivalents	54
LIABILITIES	
Non-current liabilities	
Deferred tax liabilities	(6)
Current liabilities	
Trade and other payables	(3,909)
Net identifiable assets and liabilities	**(416)**
Share of Eastgate Materials Handling owned	**(193)**
Goodwill on acquisition	**91**
Net purchase consideration	**(325)**
Acquisition of exclusive contract	**1,958**
	1,633
Satisfied by:	
Cash paid	**1,826**
Existing stake in EMHL (fair value)	**(193)**
Consideration paid	**1,633**

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

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.

4 Other Operating Income

	2013 £000	Restated 2012 £000
Net gain on disposal of property, plant and equipment	**355**	723

5 Expenses and Auditors' Remuneration

Included in profit are the following:

	2013 £000	Restated 2012 £000
Amortisation of intangibles	**3,854**	4,392
Impairment of intangibles	**1,629**	–
Impairment of goodwill	**2,502**	–
Impairment loss on inventories	**384**	160
Impairment loss on trade and other receivables	**197**	147
Depreciation of property, plant and equipment owned – continuing	**2,728**	4,457
Depreciation of property, plant and equipment held under finance lease – continuing	**5,617**	3,215

The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 is mandatory for periods starting after 1 October 2011. The comparatives in respect of the disclosures of Auditor Remuneration have been restated accordingly.

Auditors' Remuneration:

	2013 £000	Restated 2012 £000
Audit of these financial statements	**23**	19
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**230**	172
Audit related assurance services	**5**	–
Taxation compliance services	**72**	64
Other tax advisory services	**59**	34
Other assurance services	**150**	–
All other services	**512**	110

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

6 Staff Numbers and Costs

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

	Number of employees Group 2013	2012
Directors	**25**	26
Traffic and administration	**651**	660
Production, maintenance and drivers	**2,134**	1,967
	2,810	2,653

The aggregate payroll costs of these persons were as follows:

	Group 2013 £000	2012 £000
Wages and salaries	**109,916**	97,368
Share-based payments (see Note 24)	**514**	1,332
Social security costs	**9,636**	10,091
Contributions to defined contribution plans (see Note 23)	**1,756**	1,338
Current service costs of defined benefit plans (see Note 23)	**1,216**	1,419
	123,038	111,548

7 Directors' Remuneration

	2013 £000	2012 £000
Directors' emoluments	**993**	935
Company contributions to money purchase pension plans	**160**	156
Amounts paid to third-parties in respect of Directors' services	**160**	108

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £471,000 (2012: £461,000), and company pension contributions of £108,641 (2012: £106,250) were made to a money purchase scheme on his behalf.

	Number of Directors	
	2013	2012
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

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	182,868	182,868	–
GFC Banham (under SRSOSs)	819	819	1,098
KJ Dougan	64,004	64,004	–
ID Cockburn	84,909	84,909	–

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

8 Finance Income and Expense

Recognised in Profit or Loss

	2013 £000	Restated 2012 £000
Finance income		
Interest income on unimpaired financial assets	**54**	205
Interest received from jointly controlled entities	**777**	455
Total finance income	**831**	660
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**4,292**	4,732
Interest on defined benefit pension plan obligation	**21**	22
Total finance expense	**4,313**	4,754

9 Discontinued Operations

The Group's discontinued operations made a loss of £81.8m after tax during the year. These losses relate to events at Maltby and in Belgium and the associated results have been reclassified as Discontinued in the current and prior year. In addition, certain related assets have been reclassified in the balance sheet as "assets held for sale".

Following the discovery of a fraud in our Belgian subsidiaries in early December 2012, a post-tax exceptional charge of £17.3m was recorded during the year. This charge relates to the write off of numerous balance sheet items including inventory and receivables. Whilst the overstatement appears to have arisen from inception of the business in 2008, due to the intricacies of the fraud and the lack of documentation for many of these transactions, it is not possible to allocate the write off to respective accounting periods with any precision and it has therefore been accounted for in full in the current year.

In addition to the above exceptional write off, the trading result of Belgium of £4.7m was classified as a discontinued operation during the year.

9 Discontinued Operations (continued)

Also within discontinued operations is the impact of the mothballing of the underground operations at Maltby Colliery during December 2012. The post-tax loss during the year was £59.8m, in line with previous guidance, including the operating loss up to the point of decision to mothball the mine, redundancy costs, closure costs and non-cash write offs relating to plant and equipment, development costs and other related assets. An analysis of the result of discontinued operations is as follows:

	2013 £000	2012 £000
Revenue	**37,148**	70,338
Direct depreciation	**(7,756)**	(12,873)
Cost of sales – Belgium exceptional item	**(18,710)**	–
Impairment of property, plant and equipment	**(24,845)**	–
Inventory write down	**(19,426)**	–
Other direct cost of sales	**(49,832)**	(46,482)
Gross (loss)/profit	**(83,421)**	10,983
Other operating income	**2,403**	112
Impairment of goodwill	**(2,727)**	–
Administrative expenses	**(14,401)**	(10,562)
Operating (loss)/profit	**(98,146)**	533
Net finance expense	**(2,235)**	(2,366)
Loss before tax of discontinued operations	**(100,381)**	(1,833)
Taxation	**18,624**	33
Loss for the year from discontinued operations	**(81,757)**	(1,800)

During the year, the discontinued operations contributed the following to the Group's cash flows:

	2013 £000	2012 £000
Operating cash flows	**(45,801)**	10,062
Investing cash flows	**4,225**	(13,050)
Financing cash flows	**(5,390)**	(8,230)
Total cash flows	**(46,966)**	(11,218)

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

	£000
Intangible assets	
Opening net book value	**2,727**
Impairment of intangible assets	**(2,727)**
Carrying value of intangibles assets	**–**
Property, plant and equipment	
Cost transferred to held for sale	**78,086**
Accumulated depreciation transferred to held for sale (pre-impairment)	**(39,971)**
Net book value transferred to held for sale	**38,115**
Net book value of assets disposed	**(3,535)**
Impairment of assets held for sale	**(24,845)**
Carrying value of property, plant and equipment held for sale	**9,735**
Other non-current assets	**5,262**
Total assets held for sale	**14,997**

10 Taxation

Recognised in the Statement of Comprehensive Income

	2013 £000	Restated 2012 £000
Current tax expense		
Current year	**11,775**	11,867
Adjustments for prior years	**(555)**	(404)
Foreign tax – current year	**1,026**	1,588
Current tax expense	**12,246**	13,051
Deferred tax credit		
Origination and reversal of temporary differences	**(1,699)**	(419)
Adjustments for prior years	**467**	26
Reduction in tax rate	**(81)**	(313)
Deferred tax credit	**(1,313)**	(706)
Tax expense in income statement (excluding share of tax of equity accounted investees)	**10,933**	12,345
Share of tax of equity accounted investees	**1,131**	25
Total tax expense from continuing operations	**12,064**	12,370

Recognised in Other Comprehensive Income

	2013 £000	2012 £000
Deferred tax income/(expense)		
Effective portion of changes in fair value of cash flow hedges	**1,869**	(784)
Actuarial gains and losses on defined benefit pension plans	**(151)**	778
	1,718	(6)

Reconciliation of Effective Tax Rate

	2013 Rate	2013 £000	Restated 2012 Rate	Restated 2012 £000
Profit for the year from continuing operations		**32,130**		32,607
Total tax expense (including tax on equity accounted investees)		**12,064**		12,370
Profit excluding taxation from continuing operations		**44,194**		44,977
Tax using the UK corporation tax rate of 23.83% (2012: 25.67%)	**23.83%**	**10,532**	25.67%	11,545
Effect of tax rates in foreign jurisdictions	**0.64%**	**284**	0.78%	354
Unrecognised tax losses	**0.65%**	**286**	(0.19%)	(85)
Non-deductible expenses	**2.54%**	**1,122**	2.58%	1,159
Reduction in tax rate on deferred tax balances	**(0.18%)**	**(81)**	(0.50%)	(225)
Over provided in prior years	**(0.18%)**	**(79)**	(0.84%)	(378)
Effective tax rate and total tax expense	**27.30%**	**12,064**	27.50%	12,370

The UK corporation tax rate reduced to 23% on 1 April 2013, giving an effective base rate of 23.83% (2012: 25.67%).

Factors That May Affect Future Current and Total Tax Charges

The March 2013 budget announced that the main rate of corporation tax will further reduce to 20% by 1 April 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. These changes were not substantively enacted during the year and are therefore not included in the figure above.

11 Earnings Per Share

	2013		2012	
	Continuing and discontinued	Continuing	Continuing and discontinued	Continuing
Ordinary Shares				
Basic earnings per share	**(166.68)p**	**112.53p**	109.00p	116.73p
Diluted earnings per share	**(166.68)p**	**110.96p**	106.12p	113.65p

The calculation of earnings per share is based on the (loss)/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.

	2013		2012	
	Continuing and discontinued	Continuing	Continuing and discontinued	Continuing
(Loss)/profit for the year attributable to equity holders (£000)	**(46,438)**	**31,351**	29,455	31,543
Weighted average number of shares	**27,860,668**	**27,860,668**	27,022,535	27,022,535
Basic earnings per share	**(166.68)p**	**112.53p**	109.00p	116.73p

The calculation of diluted earnings per share is based on the (loss)/profit for the year and the weighted average number of ordinary shares in issue in the year adjusted for the dilutive effect of the share options outstanding (effect on weighted average number of shares is 392,241 (2012: 732,494); effect on earnings per ordinary share is nil (2012: 2.88p) as there is no dilutive effect when a loss is made. Effect on continuing earnings per ordinary share is 1.57p (2012: 3.08p).

	2013		2012	
	Continuing and discontinued	Continuing	Continuing and discontinued	Continuing
(Loss)/profit for the year attributable to equity holders (£000)	**(46,438)**	**31,351**	29,455	31,543
Weighted average number of shares	**28,252,909**	**28,252,909**	27,755,029	27,755,029
Diluted earnings per share	**(166.68)p**	**110.96p**	106.12p	113.65p

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

	2013 £000	Restated 2012 £000
Profit for the year attributable to equity holders from continuing operations	**31,351**	31,543
Amortisation/impairment of intangibles/goodwill	**7,985**	4,392
Tax effect of amortisation	**(1,299)**	(1,230)
Underlying profit after tax	**38,037**	34,705

12 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 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**
Balance at 1 June 2012	21,249	1,456	5,641	130,817	446	9,571	169,180
Other acquisitions	663	639	791	14,520	103	–	16,716
Disposals	(68)	–	(118)	(2,497)	–	–	(2,683)
Transferred to assets held for sale	(305)	–	(628)	(77,128)	(25)	–	(78,086)
Effect of movements in foreign exchange	18	–	16	109	–	–	143
Balance at 31 May 2013	**21,557**	**2,095**	**5,702**	**65,821**	**524**	**9,571**	**105,270**
Depreciation and impairment							
Balance at 1 June 2011	2,936	–	4,560	49,339	320	3,252	60,407
Depreciation charge for the year – continuing	456	–	321	6,869	36	–	7,682
Depreciation charge for the year – discontinued	2	–	33	11,593	5	1,240	12,873
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**
Balance at 1 June 2012	3,372	–	4,903	57,712	361	4,492	70,840
Depreciation charge for the year – continuing	363	–	328	7,617	37	–	8,345
Depreciation charge for the year – discontinued	7	–	42	6,885	5	817	7,756
Impairment losses	–	–	–	20,583	–	4,262	24,845
Transferred to assets held for sale (including impairment)	(234)	–	(561)	(63,994)	(27)	–	(64,816)
Disposals	(42)		(112)	(1,712)	–	–	(1,866)
Effect of movements in foreign exchange	13	–	6	77	–	–	96
Balance at 31 May 2013	**3,479**	**–**	**4,606**	**27,168**	**376**	**9,571**	**45,200**
Net book value							
At 1 June 2011	**17,870**	**773**	**677**	**64,311**	**103**	**3,386**	**87,120**
At 31 May 2012 and 1 June 2012	**17,877**	**1,456**	**738**	**73,105**	**85**	**5,079**	**98,340**
At 31 May 2013	**18,078**	**2,095**	**1,096**	**38,653**	**148**	**–**	**60,070**

The Group has £2,095,000 (2012: £1,456,000) property, plant and equipment under construction.

The Company has no property, plant and equipment.

Leased Plant and Machinery

At 31 May 2013 the net carrying amount of leased plant and machinery was £21,675,316 (2012: £24,329,678). The leased equipment secures lease obligations (see Note 21).

Security

The Group's property, plant and equipment is used to secure some of its interest-bearing loans and borrowings (see Note 21).

13 Intangible Assets

Group

	Goodwill £000	Negative goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
Cost						
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**
Balance at 1 June 2012	22,290	(93)	14,229	8,148	1,015	45,589
Effect of movements in foreign exchange	30	–	–	–	–	30
Balance at 31 May 2013	**22,320**	**(93)**	**14,229**	**8,148**	**1,015**	**45,619**
Amortisation and impairment						
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**
Balance at 1 June 2012	–	(93)	10,961	4,890	–	15,758
Amortisation for the year	–	–	2,094	1,629	131	3,854
Impairment losses for the year – continuing	2,502	–	–	1,629	–	4,131
Impairment losses for the year – discontinued	2,727	–	–	–	–	2,727
Balance at 31 May 2013	**5,229**	**(93)**	**13,055**	**8,148**	**131**	**26,470**
Net book value						
At 31 May 2011	**22,223**	**–**	**3,490**	**4,888**	**1,015**	**31,616**
At 31 May 2012 and 1 June 2012	**22,290**	**–**	**3,268**	**3,258**	**1,015**	**29,831**
At 31 May 2013	**17,091**	**–**	**1,174**	**–**	**884**	**19,149**

The supply contracts were being amortised over the weighted average expected life of the contracts, of 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 being amortised over the expected life of the project to which it relates, which is expected to be seven years.

Amortisation and Impairment Charge

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

	2013 £000	2012 £000
Administrative expenses – Impairment of intangible assets	**4,131**	–
Other administrative expenses	**3,854**	4,392
Discontinued operations	**2,727**	–

13 Intangible Assets (continued)

Impairment Testing

During the year the following impairments to goodwill and intangible assets have been charged in response to specific events:

- The closure of Maltby underground mining operations and Mekol NV triggered the impairment of £2,138,000 and £589,000 in goodwill respectively;
- Following the decision to scale back and restructure the engineering services business to focus on small scale projects undertaken to support the core material handling business an impairment of £2,502,000 was made against goodwill allocated to AJS Contracts Limited; and
- The supply contracts were fully impaired due to the termination of the UK Coal contract.

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

	Goodwill	
	2013 £000	2012 £000
Norec Limited	**1,252**	1,252
AJS Contracts Limited	**–**	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	**–**	2,138
Coal4Energy Limited/Maxibrite Limited	**6,140**	6,140
Mekol NV	**–**	589
Other	**757**	727
	17,091	22,290

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:

	2013	2012
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; and
- A pre-tax discount rate of 12% (2012: 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.

The Company has no intangible assets.

14 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 2013	Ownership 2012
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%	82%
Hargreaves Surface Mining Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Technical Resources Limited	Contract management service	UK	Ordinary	100%	–
Hargreaves Services Australia Limited	Coal trading	UK	Ordinary	100%	–
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%	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%	82%
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%	82%
Mekol NV	Port facilities	Belgium	Ordinary	82%	82%
Hargreaves Carbon Products Polska Sp Zo.o	Sale of carbon-based materials	Poland	Ordinary	82%	82%
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%	100%
Eastgate Materials Handling Limited	Port facilities	UK	Ordinary	100%	100%
Hargreaves Services Europe Limited	Import and sale of carbon-based materials	UK	Ordinary	82%	82%
Hargreaves Surface Mining Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Technical Resources Limited	Contract management service	UK	Ordinary	100%	–
Hargreaves Services Australia Limited	Coal trading	UK	Ordinary	100%	–
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%	50%
Tower Regeneration Leasing Limited	Lease of heavy plant	UK	Ordinary	50%	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 2013 was a profit of £2,573,000 (2012: profit of £99,000).

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

Group	Interests in jointly controlled entities £000
Cost	
At beginning and end of year	**66**
Share of post acquisition reserves	
At beginning of year	74
Profit for the financial year	2,573
Effect of movements in foreign exchange	6
At end of year	**2,653**
Net book value	
At 31 May 2013	**2,719**
At 31 May 2012	**140**

	Ownership %	Current assets £000	Non-current assets £000	Current liabilities £000	Non-current liabilities £000	Revenue £000	Expenses (including tax) £000
2013							
Tower Regeneration Limited	50%	38,263	19,182	(35,149)	(15,354)	42,718	(35,991)
Tower Regeneration Leasing Limited	50%	1,115	33,619	(2,833)	(31,874)	5,019	(4,990)
MIR Trade Services Limited	50%	6,058	–	(5,576)	–	19,123	(18,704)
MIR Trade Services BV	50%	85	–	–	–	–	–
		45,521	**52,801**	**(43,558)**	**(47,228)**	**66,860**	**(59,685)**

	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	17,577	(26,434)	(10,749)	5,557	(5,341)
Tower Regeneration Leasing Limited	50%	4,111	19,007	(6,793)	(16,325)	250	(250)
MIR Trade Services Limited	50%	4,722	–	(4,673)	–	3,139	(3,092)
MIR Trade Services BV	50%	80	–	–	–	–	–
		28,735	**36,584**	**(37,900)**	**(27,074)**	**8,946**	**(8,683)**

The Group also has options to acquire 100% of the shares in two subsidiaries of Aardvark (TMC) Limited (the Hivecos – see page 12). These options are measured at fair value which, at 31 May 2013, was £2.

14 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 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**
At 1 June 2012	32,064	42	32,106
Capital contribution arising on share options	514	–	514
At 31 May 2013	**32,578**	**42**	**32,620**

15 Other Financial Assets

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Non-current				
Other derivatives designated as fair value through hedging reserve	**37**	–	**–**	–

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Current				
Currency contracts designated as fair value through profit or loss	**14**	306	**–**	–
Currency contracts designated as fair value through hedging reserve	**2,477**	374	**–**	–
Other derivatives designated as fair value through hedging reserve	**725**	5,371	**–**	–
	3,216	6,051	**–**	–

16 Other Financial Liabilities

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Non-current				
Interest rate swaps designated as fair value through hedging reserve	**2,839**	2,373	**–**	–
Other derivatives designated as fair value through hedging reserve	**311**	885	**–**	–
	3,150	3,258	**–**	–

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Current				
Interest rate swaps designated as fair value through profit or loss	**–**	72	**–**	–
Currency contracts designated as fair value through profit or loss	**418**	482	**12**	121
Other derivatives designated as fair value through hedging reserve	**7,218**	1,794	**–**	–
Other derivatives designated as fair value through profit or loss	**28**	27	**–**	–
	7,664	2,375	**12**	121

17 Deferred Tax Assets and Liabilities

Group

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2013 £000	2012 £000	2013 £000	2012 £000
Property, plant and equipment	**–**	–	**579**	5,806
Intangible assets	**–**	–	**336**	1,635
Financial assets	**(1,769)**	–	**–**	178
Employee benefits	**(883)**	(1,482)	**–**	–
Share-based payments	**(450)**	(250)	**–**	–
Provisions	**(1,890)**	(2,419)	**–**	–
Tax value of loss carry-forwards	**(20)**	(23)	**–**	–
Other	**(11)**	–	**–**	37
Tax (assets)/liabilities	**(5,023)**	(4,174)	**915**	7,656

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 2012 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 May 2013 £000
Property, plant and equipment	5,806	(5,227)	–	–	**579**
Intangible assets	1,635	(1,299)	–	–	**336**
Financial assets	178	(78)	(1,869)	–	**(1,769)**
Employee benefits	(1,482)	448	151	–	**(883)**
Share-based payments	(250)	(200)	–	–	**(450)**
Provisions	(2,419)	529	–	–	**(1,890)**
Tax value of loss carry-forwards utilised	(23)	3	–	–	**(20)**
Other	37	(48)	–	–	**(11)**
	3,482	(5,872)	(1,718)	–	**(4,108)**

Movement in Deferred Tax During the Prior 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

The credit recognised in income includes £4,559,000 (2012: £289,000) in relation to discontinued operations.

17 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	
	2013 £000	2012 £000	2013 £000	2012 £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 2012 and at 31 May 2011 £000	Recognised in income £000	Recognised in equity £000	31 May 2013 £000
Share-based payments	(123)	–	–	**(123)**

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

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

Deferred tax assets and liabilities have been recognised at 23%, the rate which was substantively enacted on 3 July 2012. The Chancellor also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 20% by April 2015, 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 23% to 20%, if these applied to the deferred tax balance at 31 May 2013, would be to reduce the deferred tax asset by approximately £536,000.

18 Inventories

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Raw materials and consumables	**9,242**	30,285	**–**	–
Work in progress	**4,799**	21,170	**–**	–
Finished goods	**82,152**	60,572	**–**	–
	96,193	112,027	**–**	–

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

The write-down of inventories to net realisable value amounted to £384,000 (2012: £160,000). The reversal of write-downs amounted to £nil (2012: £nil). The write-down is in cost of sales.

19 Trade and Other Receivables

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade receivables	**86,545**	69,010	**–**	–
Trade receivables due from Group undertakings	**–**	–	**461,868**	318,580
Trade receivables due from undertakings in which the Company has a participating interest	**24,520**	24,668	**4,288**	7,302
Other receivables	**18,371**	11,372	**2,069**	3,101
Prepayments and accrued income	**16,476**	7,537	**304**	13
Corporation tax	**1,370**	–	**623**	809
Hire purchase receivable	**2,276**	2,192	**–**	–
	149,558	114,779	**469,152**	329,805

Included within trade and other receivables is £nil (2012: £1,009,000) for the Group and £nil (2012: £nil) for the Company expected to be recovered in more than 12 months.

19 Trade and Other Receivables (continued)

The Hire Purchase receivable comprises future minimum lease payments of £2,276,000 (2012: £1,183,000) due within one year and £nil (2012: £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 2013 trade receivables are shown net of an allowance for bad debts of £171,000 (2012: £129,000) arising from the ordinary course of business, as follows:

	2013 £000	2012 £000
Group		
Balance at 1 June	**129**	110
Provided during the year	**164**	147
Released	**(64)**	(67)
Utilised during the year	**(58)**	(61)
Balance at 31 May	**171**	129

The allowance for bad debts records impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly.

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

	Gross trade receivables £000	2013 Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	68,238	(59)	68,179
Past due date (0-90 days)	17,230	(2)	17,228
Past due date (over 90 days)	1,248	(110)	1,138
Individually impaired amounts	–	–	–
	86,716	**(171)**	**86,545**

	Gross trade receivables £000	2012 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

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

The Group's most significant trade receivable at 31 May 2013 is with EDF Energy plc which accounts for £14,651,000 of the trade receivables carrying amount at 31 May 2013 within the Energy and Commodities and Industrial segments (2012: DK Recycling und Roheisen GmbH £5,089,000).

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

	2013 £000	2012 £000
UK	**65,775**	51,857
European customers	**14,620**	16,377
Other regions	**6,150**	776
	86,545	69,010

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in Note 27.

20 Cash and Cash Equivalents/Bank Overdrafts

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Cash and cash equivalents per balance sheet	**61,435**	45,852	**11,845**	22,270
Bank overdrafts	**(42,476)**	(31,215)	**–**	–
Cash and cash equivalents per cash flow statements	**18,959**	14,637	**11,845**	22,270

The Group's exposure to credit and currency risk related to cash and cash equivalents is disclosed in Note 27.

21 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 27.

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Non-current liabilities				
Finance lease liabilities	**9,054**	9,329	**–**	–
Invoice discounting facility	**–**	–	**–**	–
Revolving credit facility	**83,632**	73,076	**83,632**	73,076
	92,686	82,405	**83,632**	73,076
Current liabilities				
Promissory note facility	**–**	5,025	**–**	–
Current portion of finance lease liabilities	**6,446**	7,069	**–**	–
	6,446	12,094	**–**	–
Bank overdraft	**42,476**	31,215	**–**	–
	48,922	43,309	**–**	–

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2013 £000	Carrying amount 2013 £000	Face value 2012 £000	Carrying amount 2012 £000
Finance lease liabilities	Sterling	4.0% - 5.0%	2013-2018	**15,500**	**15,500**	16,398	16,398
Bank overdraft facility	EUR/USD/Sterling	2.55% - 3.1%	2016	**42,476**	**42,476**	31,215	31,215
Invoice discounting facility	Sterling	Base Rate + 2%	2015	**–**	**–**	–	–
Revolving credit facility	Sterling	LIBOR + 2.35%	2015	**85,000**	**83,632**	75,000	73,076
Promissory note facility	USD	LIBOR + 1.5%	2012	**–**	**–**	5,039	5,025
				142,976	**141,608**	127,652	125,714

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 2013 was £nil (2012: £nil). At the year end the invoice discounting facility was unused, with a credit balance of £2,223,000 (2012: £2,574,000) which was included in cash and cash equivalents.

The overdraft facility was renewed on 20 September 2013, extending it until 30 November 2016, and can be drawn down in Euros, US Dollars and Sterling. The rate of interest is fixed and dependent on the currency drawn down.

21 Other Interest-bearing Loans and Borrowings (continued)

Finance Lease Liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2013 £000	Interest 2013 £000	Principal 2013 £000	Minimum lease payments 2012 £000	Interest 2012 £000	Principal 2012 £000
Less than one year	**6,947**	**501**	**6,446**	7,693	624	7,069
Between one and five years	**9,415**	**361**	**9,054**	9,844	515	9,329
	16,362	**862**	**15,500**	17,537	1,139	16,398

22 Trade and Other Payables

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Current				
Trade payables	**59,397**	62,137	**–**	–
Trade payables due to Group undertakings	**–**	–	**341,333**	257,295
Trade payables due to undertakings in which the Company has a participating interest	**–**	–	**–**	–
Other trade payables	**17,156**	17,036	**–**	–
Non-trade payables and accrued expenses	**41,288**	21,289	**372**	3,235
	117,841	100,462	**341,705**	260,530

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months (2012: £nil).

23 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 £1,756,000 (2012: £1,338,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

Defined Benefit Plans

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

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

The latest full actuarial valuation was carried out on 31 December 2009 and updated for IAS 19 purposes to 31 May 2013.

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

	2013 £000	2012 £000
Present value of unfunded defined benefit obligations	**424**	450

23 Pension Schemes and Other Retirement Benefits (continued)

Defined Benefit Plans (continued)

Movements in Present Value of Defined Benefit Obligation

	2013 £000	2012 £000
At beginning of year	**450**	408
Current service cost	**7**	6
Contributions paid	**(21)**	(22)
Other finance cost	**21**	22
Actuarial (gain)/loss	**(33)**	36
At the end of the year	**424**	450

Expense Recognised in the Income Statement

	2013 £000	2012 £000
Current service cost	**7**	6
Interest on defined benefit obligation	**21**	22
	28	28

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

	2013 £000	2012 £000
Administrative expenses	**7**	6
Finance expense	**21**	22
	28	28

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

	2013 £000	2012 £000
Cumulative amount at 1 June	**8**	44
Recognised in the year	**33**	(36)
Cumulative amount at 31 May	**41**	8

The major assumptions used in these valuations were:

	2013	2012
Average retirement age	**65 years**	65 years
Rate of leaving services	**2.5%**	2.5%
Coal price inflation	**2.55%**	2.1%
Discount rate applied to scheme liabilities	**4.6%**	4.7%
Inflation assumption	**3.55%**	3.1%

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

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

Current pensioner aged 65: 20.0 years (male), 22.2 years (female).
Future retiree upon reaching 65: 20.6 years (male), 22.9 years (female).

23 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

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Present value of the defined benefit obligation	**424**	450	408	390	364

Experience Adjustments

	2013	2012	2011	2010	2009
Experience gains and losses on scheme liabilities:					
Amount (£000)	**57**	(11)	75	–	–
Percentage of year end present value of scheme liabilities	**13%**	(2%)	18%	0%	0%

The Group acquired another concessionary fuel retirement benefit scheme and became a member of two defined benefit schemes on the acquisition of Maltby Colliery on 26 February 2007. Details of these three schemes are consolidated in the tables below.

The latest full actuarial valuation of all these schemes was carried out at 31 December 2009 and was updated for IAS 19 purposes to 31 May 2013 by a qualified independent actuary.

	2013 £000	2012 £000
Present value of unfunded defined benefit obligations	**(1,371)**	(1,779)
Present value of funded defined benefit obligations	**(37,681)**	(30,398)
Fair value of assets	**35,836**	26,658
Deficit in the scheme – Pension liability	**(3,216)**	(5,519)

Movements in Present Value of Defined Benefit Obligation

	2013 £000	2012 £000
At the beginning of the year	**32,177**	27,776
Current service cost	**1,209**	1,413
Interest cost	**1,553**	1,542
Actuarial loss	**3,240**	1,255
Contributions paid	**266**	334
Benefits paid	**(342)**	(143)
Obligation acquired	**949**	–
At the end of the year	**39,052**	32,177

Movements in the Fair Value of Plan Assets

	2013 £000	2012 £000
Fair value of plan assets at beginning of year	**26,658**	24,298
Expected return on plan assets	**1,504**	1,574
Actuarial gain/(loss)	**3,862**	(1,983)
Employer contributions	**2,939**	2,578
Plan members' contributions	**266**	334
Benefits paid	**(342)**	(143)
Plan assets acquired	**949**	–
Fair value of plan assets at end of year	**35,836**	26,658

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

23 Pension Schemes and Other Retirement Benefits (continued)

History of Plans (continued)

Expense Recognised in the Income Statement

	2013 £000	2012 £000
Current service cost	**1,209**	1,413
Expected return on defined benefit pension plan	**(1,504)**	(1,574)
Interest on defined benefit pension plan obligation	**1,553**	1,542
	1,258	1,381

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

In discontinued operations	2013 £000	2012 £000
Administrative expenses	**1,209**	1,413
Finance income	**(1,504)**	(1,574)
Finance expense	**1,553**	1,542
	1,258	1,381

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

	2013 £000	2012 £000
Cumulative amount at 1 June	**(906)**	2,332
Recognised in the year	**622**	(3,238)
Cumulative amount at 31 May	**(284)**	(906)

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 2013 £000	Fair value at 2012 £000
Equities and hedge funds	**17,058**	12,389
Bonds	**10,894**	9,018
Property	**1,769**	1,709
Alternative investment mandate	**3,217**	1,715
Other – cash	**2,898**	1,827
	35,836	26,658
Actual return on plan assets	**5,366**	(409)

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

	Long-term rate of return 2013	Long-term rate of return 2012
Equities and hedge funds	**7.3%**	7.0%
Bonds	**4.6%**	4.7%
Property	**–**	7.0%
Alternative investment mandate	**6.3%**	6.0%
Other – cash	**3.3%**	3.0%

23 Pension Schemes and Other Retirement Benefits (continued)

Scheme Assets (continued)

The major assumptions used in this valuation were:

	2013	2012
Rate of increase in salaries	–	3.1%
Rate of increase in pensions in payment and deferred pensions	**3.4%**	3.0%
Discount rate applied to scheme liabilities	**4.6%**	4.7%
Inflation assumption	**3.55%**	3.1%

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

There is a curtailment event as a result of the mothballing of underground activities at Maltby Colliery but this has not resulted in a curtailment gain or charge as the rate of salary increase is equal to inflation and there is not a significant number of early retirements. There is no longer an increase in salaries as a result of this curtailment event.

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), 25.5 years (female).
Future retiree upon reaching 60: 22.4 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

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Present value of the defined benefit obligation	**(39,052)**	(32,177)	(27,776)	(23,478)	(16,258)
Fair value of plan assets	**35,836**	26,658	24,298	17,691	12,193
Deficit	**(3,216)**	(5,519)	(3,478)	(5,787)	(4,065)

Experience Adjustments

	2013	2012	2011	2010	2009
Difference between the expected and actual return on scheme assets:					
Amount (£000)	**3,862**	(1,983)	1,204	1,857	(3,034)
Percentage of year end scheme assets	**10.8%**	(7.4%)	5.0%	10.5%	24.9%
Experience gains and losses on scheme liabilities:					
Amount (£000)	**(866)**	(10)	(82)	(4,862)	2,802
Percentage of year end present value of scheme liabilities	**2.2%**	0.0%	0.3%	20.7%	17.2%

The Group expects to contribute approximately £1,058,000 to its defined benefit plans in the next financial year.

Notes
Continued

24 Employee Share Schemes

The Group has established a Savings-Related Share Option scheme and an Executive Long-Term Incentive Plan. An additional Long-Term Incentive Plan was established for certain senior employees as part of the acquisition of Norec Limited in September 2006.

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

	Date of grant	Employees entitled	Number of shares granted	Vesting conditions	Contractual life
Long-Term Incentive Plan – Norec	September 2006	Senior employees	96,572	3 years' service	11 years
				3 years' service and EPS growth of 35.4% (30% award) – 63.5% (100% award) over RPI over those 3 years	3.5 years
Long-Term Incentive Plan 2	June 2008	Senior employees	128,621	3 years' service	
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
Savings-Related Share Option Scheme 8	April 2013	All employees	134,986	3 years' service	3.5 years

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

Savings-Related Share Option Schemes

	2013 Weighted average exercise price	2013 Number of options	2012 Weighted average exercise price	2012 Number of options
Outstanding at beginning of year	**748p**	**626,450**	467p	504,962
Granted during the year	**794p**	**134,986**	1,098p	167,715
Lapsed during the year	**953p**	**(118,980)**	674p	(26,412)
Exercised during the year	**450p**	**(184,895)**	470p	(19,815)
Outstanding at the end of the year	**828p**	**457,561**	748p	626,450
Exercisable at the end of the year	**656p**	**121,395**	N/A	–

The options outstanding at 31 May 2013 have an exercise price in the range of 656p 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 773p (2012: 1,002p).

24 Employee Share Schemes (continued)

Long-Term Incentive Plans

	2013 Weighted average exercise price	2013 Number of options	2012 Weighted average exercise price	2012 Number of options
Outstanding at beginning of year	**45p**	**630,593**	54p	523,267
Granted during the year	**–**	**–**	–	134,626
Lapsed during the year	**–**	**(7,000)**	–	(14,972)
Exercised during the year	**–**	**(72,319)**	–	(12,328)
Outstanding at the end of the year	**197p**	**551,274**	45p	630,593
Exercisable at the end of the year	**26p**	**229,000**	154p	184,661

The options outstanding at 31 May 2013 have an exercise price in the range of £nil to 393.5p and have a weighted average contractual life of 1.8 years.

The options exercised during the year had a weighted average market value of 738p (2012: 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.

	2013		2012
	Savings-Related Share Option Scheme 8	Long-Term Incentive Plan 5	Savings-Related Share Option Scheme 7
Fair value at grant date	302p	960p	427p
Exercise price	794p	–	1,098p
Share price	873p	1,021p	1,022p
Expected volatility	40.0%	40.0%	40.0%
Option life	3 years	3 years	3 years
Expected dividends	1.0%	2.0%	1.0%
Risk-free rate	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 754p (2012: 1,092p).

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

	2013 £000	2012 £000
Share options granted in 2009	**–**	131
Share options granted in 2010	**149**	447
Share options granted in 2011	**(279)**	442
Share options granted in 2012	**621**	312
Share options granted in 2013	**23**	–
	514	1,332

Notes
Continued

25 Provisions

Group	Monckton ground water contamination £000	Maltby restoration £000	Maltby subsidence provision £000	Total £000
Balance at 1 June 2012	1,637	6,021	1,624	9,282
Provisions made during the year	50	291	389	730
Provisions utilised during the year	–	–	(107)	(107)
Balance at 31 May 2013	**1,687**	**6,312**	**1,906**	**9,905**

Included within the Maltby restoration provision is an amount of £2,285,000 (2012: £nil) that is expected to be utilised in the next 12 months.

Provisions comprise:

1 A £1,687,000 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 £6,312,000 restoration provision which relates to Maltby Colliery'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. Following the mothballing of underground activities during this financial year restoration activities are now underway.

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.

26 Capital and Reserves

Share Capital

	Ordinary Shares 2013 Number	Ordinary Shares 2012 Number
In issue at 1 June	**27,086,816**	26,827,648
Issued for cash	**5,875,919**	259,168
In issue and fully paid at 31 May	**32,962,735**	27,086,816

	2013 £000	2012 £000
Allotted, called up and fully paid		
32,962,735 (2012: 27,086,816) Ordinary Shares of 10p each	**3,296**	2,709

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. In April 2013, the Group completed a successful fund raising in the amount of £40.7m, net of £1.6m of issue costs resulting in the issue of 5.46m new shares.

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:

	2013 £000	2012 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year (11.8 pence per share (2012: 10.4p))	**3,222**	2,803
Interim dividends paid in respect of the current year (6.9 pence per share (2012: 6.0p)	**1,897**	1,625
	5,119	4,428
Proposed dividend (13.6 pence per share (2012: 11.8p))	**4,483**	3,196

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

27 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 2013 and 2012 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 £86,545,000 (2012: £69,010,000) 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 19.

(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.

27 Financial Instruments (continued)
(c) Liquidity Risk (continued)
Financial Risk Management (continued)

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

Group

	2013						2012					
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Finance lease liabilities	**15,500**	**16,362**	**6,947**	**5,442**	**3,973**	**–**	16,398	17,537	7,693	4,743	5,101	–
Bank overdrafts	**42,476**	**42,476**	**42,476**	**–**	**–**	**–**	31,215	31,215	–	31,215	–	–
Trade and other payables*	**117,841**	**117,841**	**117,841**	**–**	**–**	**–**	100,462	100,462	100,462	–	–	–
Invoice discounting facility	**(2,223)**	**(2,223)**	**(2,223)**	**–**	**–**	**–**	(2,574)	(2,574)	(2,574)	–	–	–
Revolving credit facility	**83,632**	**83,632**	**–**	**–**	**83,632**	**–**	73,076	73,076	–	–	73,076	–
Promissory note facility	**–**	**–**	**–**	**–**	**–**	**–**	5,039	5,025	5,025	–	–	–
Derivative financial liabilities												
Interest rate swaps used for hedging	**2,839**	**2,839**	**–**	**–**	**2,839**	**–**	2,445	2,445	72	–	2,373	–
Forward exchange contracts used for hedging:												
Outflow	**418**	**418**	**418**	**–**	**–**	**–**	482	482	482	–	–	–
Inflow	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Commodity contracts:												
Outflow	**7,557**	**7,557**	**7,246**	**311**	**–**	**–**	2,706	2,706	1,821	231	654	–
Inflow	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
	268,040	**268,902**	**172,705**	**5,753**	**90,444**	**–**	229,249	230,374	112,981	36,189	81,204	–

* Excludes derivatives (shown separately).

Company

	2013						2012					
	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	**341,705**	**341,705**	**341,705**	**–**	**–**	**–**	260,530	260,530	260,530	–	–	–
Revolving credit facility	**83,632**	**83,632**	**–**	**–**	**83,632**	**–**	73,076	73,076	–	–	73,076	–
Derivative financial liabilities												
Forward exchange contracts used for hedging:												
Outflow	**12**	**12**	**12**	**–**	**–**	**–**	121	121	121	–	–	–
Inflow	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
	425,349	**423,349**	**341,717**	**–**	**83,632**	**–**	333,727	333,727	260,651	–	73,076	–

27 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 Monckton Coke Works, and the Group's participation in the Tower surface mining jointly controlled entity and the former Aardvark and Scottish Coal sites, the Group does have a longer-term exposure to price movements, favourable or unfavourable, in international coal and coke prices.

Foreign Currency Risk

Group

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 May 2013

	Sterling £000	Euro £000	US Dollar £000	Polish Zloty £000	Total £000
Cash and cash equivalents	47,166	6,251	5,779	16	59,212
Invoice discounting facility	2,223	–	–	–	2,223
Trade receivables	68,006	11,188	7,123	228	86,545
Trade receivables due from undertakings in which the Company has a participating interest	23,115	–	1,405	–	24,520
Trade payables	(52,600)	(1,112)	(5,683)	(2)	(59,397)
Other trade payables	(17,156)	–	–	–	(17,156)
Overdraft	–	(11,742)	(30,734)	–	(42,476)
Revolving credit facility	(83,632)	–	–	–	(83,632)
Balance sheet exposure	(12,878)	4,585	(22,110)	242	(30,161)
Contracted future sales		1,429	–	–	1,429
Contracted future purchases		–	(11,720)	–	(11,720)
Gross exposure		6,014	(33,830)	242	(27,574)
Forward exchange contracts		(6,079)	40,813	–	34,734
Net exposure		**(65)**	**6,983**	**242**	**7,160**

27 Financial Instruments (continued)
(d) Market Risk (continued)

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)
Gross exposure		(10,521)	(10,505)	54	(20,972)
Forward exchange contracts		–	10,457	–	10,457
Net exposure		**(10,521)**	**(48)**	**54**	**(10,515)**

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 2013 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 2012.

	Equity		Profit or loss	
	2013 £000	2012 £000	2013 £000	2012 £000
€	**6**	956	**6**	956
$	**(717)**	4	**(717)**	4
PLN	**(22)**	(5)	**(22)**	(5)

A 10% strengthening of the above currencies against the pound Sterling at 31 May 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest Rate Risk
Profile
At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Fixed rate instruments				
Financial assets	**–**	–	**–**	–
Financial liabilities	**(57,976)**	(47,613)	**–**	–
	(57,976)	(47,613)	**–**	–
Variable rate instruments				
Financial assets	**61,435**	45,852	**11,845**	22,270
Financial liabilities	**(83,632)**	(78,101)	**(83,632)**	(73,076)
	(22,197)	(32,249)	**(71,787)**	(50,806)

27 Financial Instruments (continued)

(d) Market Risk (continued)

Sensitivity Analysis

An increase of one basis point in interest rates throughout the period would have affected profit or loss by the amounts shown below. This calculation assumes that the change occurred at all points in the period and had been applied to the average risk exposures throughout the period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit and loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2012.

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Profit or loss				
Increase/(decrease)	**312**	252	**(32)**	73

(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:

	2013	2013 Expected cash flows				2012	2012 Expected cash flows			
	Carrying amount £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:										
Assets	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Liabilities	**(2,839)**	**–**	**–**	**(2,839)**	**–**	(2,445)	(72)	–	(2,373)	–
Forward exchange contracts:										
Assets	**2,491**	**2,491**	**–**	**–**	**–**	680	680	–	–	–
Liabilities	**(418)**	**(418)**	**–**	**–**	**–**	(482)	(482)	–	–	–
Commodity contracts:										
Assets	**762**	**725**	**37**	**–**	**–**	5,371	5,371	–	–	–
Liabilities	**(7,557)**	**(7,246)**	**(311)**	**–**	**–**	(2,706)	(1,821)	(231)	(654)	–
	(7,561)	**(4,448)**	**(274)**	**(2,839)**	**–**	418	3,676	(231)	(3,027)	–

(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.

The Board believes that the Group's dividend cover remains conservative. The average dividend cover over the past three years has been just under six times, representing an average payout ratio of 14.5%. The closure of Maltby together with the expansion of the Group's surface mining activity reduces the capital intensity of the business and increases the stability and predictability of our operating cash flows. The Board has therefore set a target of increasing the dividend payout progressively over the next three years towards a dividend cover of around four times.

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.

28 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Less than one year	**6,876**	6,203	**–**	–
Between one and five years	**9,125**	10,688	**–**	–
More than five years	**1,278**	1,711	**–**	–
	17,279	18,602	**–**	–

Group

During the year £12,100,509 was recognised as an expense in the income statement in respect of operating leases (2012: £6,073,000).

Company

During the year £nil was recognised as an expense in the income statement in respect of operating leases (2012: £nil).

29 Capital Commitments

Group

During the year ended 31 May 2013, the Group entered into contracts to purchase property, plant and equipment for £3,473,093 (2012: £4,826,000). In respect of its interest in jointly controlled entities, the Group is committed to incur capital expenditure of £nil (2012: £18,019,000). The jointly controlled entities are themselves committed to incur capital expenditure of £nil (2012: £nil).

30 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 £6,267,000 (2012: £5,280,000).

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

31 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 14) 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 2013, the Group is owed £2,276,000 (2012: £2,192,000) under a Hire Purchase agreement.

Group

Other Related Party Transactions

	Sales to		Purchases from	
	2013 £000	2012 £000	2013 £000	2012 £000
Jointly controlled entities				
Tower Regeneration Limited	**23,542**	6,847	**–**	20
Tower Regeneration Leasing Limited	**–**	–	**5,017**	250
MIR Trade Services Limited	**–**	715	**3,905**	–
	23,542	7,562	**8,922**	270

	Interest received from		Interest paid to	
	2013 £000	2012 £000	2013 £000	2012 £000
Jointly controlled entities				
Tower Regeneration Limited	**697**	455	**–**	–
Tower Regeneration Leasing Limited	**–**	–	**–**	–
MIR Trade Services Limited	**80**	–	**–**	–
	777	455	**–**	–

31 Related Parties (continued)
Group (continued)
Other Related Party Transactions (continued)

	Receivables outstanding 2013 £000	Receivables outstanding 2012 £000	Payables outstanding 2013 £000	Payables outstanding 2012 £000
Jointly controlled entities				
Tower Regeneration Limited	**22,245**	18,859	**–**	–
Tower Regeneration Leasing Limited	**869**	3,535	**–**	–
MIR Trade Services Limited	**1,406**	2,274	**–**	–
	24,520	24,668	**–**	–

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 £27,000 (2012: £891,000). There are no other post-employment or other long-term benefits.

Company
Other Related Party Transactions

	Sales to 2013 £000	Sales to 2012 £000	Interest received 2013 £000	Interest received 2012 £000
Jointly controlled entities				
Tower Regeneration Limited	**750**	900	**–**	–
Tower Regeneration Leasing Limited	**–**	–	**–**	–
MIR Trade Services Limited	**–**	–	**80**	–
	750	900	**80**	–

	Receivables outstanding 2013 £000	Receivables outstanding 2012 £000	Payables outstanding 2013 £000	Payables outstanding 2012 £000
Subsidiaries	**461,868**	318,580	**341,333**	257,295
Jointly controlled entities	**4,288**	7,302	**–**	–
	466,156	325,882	**341,333**	257,295

32 Post Balance Sheet Events
Following an intensive period of due diligence we announced on 5 July the completion of a transaction to acquire certain assets from the joint liquidators of Scottish Coal Company Limited ("Scottish Coal") for £8.4m.

The transaction was complex and initially involved the acquisition of a property portfolio of approximately 30,000 acres together with unencumbered plant and equipment. The consideration for these assets was £8.4m. The property interests include Scottish Coal's rights and interests in various wind farm projects that were being progressed through design and planning. Scottish Coal will share in any near-term profits realised on the wind farms.

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 6 November 2013 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 8 will be proposed as ordinary resolutions and resolution 9 as a special resolution.

1. To adopt and receive the Directors' Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the Financial Statements for the year ended 31 May 2013.

2. To approve the Directors' Remuneration Report for the year ended 31 May 2013.

3. To declare a final dividend for the year ended 31 May 2013 of 13.6 pence per ordinary share to bring the dividend for the year ended 31 May 2013 to a total of 20.5 pence per ordinary share.

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

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

6. To appoint KPMG LLP as auditor of the Company to hold office from the conclusion of this meeting to the conclusion of the next meeting at which accounts are laid before the Company.

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

8. That the Directors of the Company be and are generally granted and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the **Act**) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares in the Company (**Rights**):

8.1 up to an aggregate nominal value of £1,102,000 (representing approximately one-third of the total ordinary share capital in issue as at the date of this notice); and

8.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,204,000 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 8.1) in connection with or pursuant to an offer or invitation by way of a rights issue (as defined below),

provided that such authorities conferred by this resolution 8 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 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 8 had not expired. These authorities shall be in substitution for all previous authorities previously granted to the Directors to allot shares and grant Rights which are pursuant to this resolution 8 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 8.

For the purposes of this resolution 8, **rights issue** means an offer or invitation to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable instrument) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.

9. That, subject to and conditional upon the passing of resolution 8 above, the Directors be and are empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash:

9.1 pursuant to the authority conferred upon them by resolution 8.1 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act, provided that this power shall be limited to the allotment of equity securities:

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

9.1.2 (otherwise than pursuant to sub-paragraph 9.1.1 above) up to an aggregate nominal value of £330,600 (representing approximately 10% of the total ordinary share capital in issue); and

9.2 pursuant to the authority conferred upon them by resolution 8.2, in connection with or pursuant to a rights issue, as if section 561(1) of the Act did not apply to any such allotment and the authorities given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 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 9 has expired.

For the purpose of this resolution 9:

(a) **rights issue** has the meaning given in resolution 8; and

(b) **pre-emptive** offer means a rights issue, open offer or other pre-emptive issue or offer to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date(s) for such allotment; and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.

Special Business

To consider and, if thought fit, pass the following resolutions as special resolutions.

10. That the articles of association be amended by substituting the existing Article 44.2 with a new Article 44.2 as shown below:

"Subject to Article 44.3, every instrument to which the Seal and any Securities Seal shall be affixed shall be signed autographically by one Director and the Secretary or by two Directors or by one Director in the presence of a witness save that as regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures, or either of them, shall be dispensed with or affixed by some method or system of mechanical signature or by laser printer or in such other manner as the Board having regard to the terms of issue, the Companies Acts and the London Stock Exchange may authorise".

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

11.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 11 is 3,306,000 (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.

4 October 2013

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

Notice of Annual General Meeting Hargreaves Services plc
Continued

Notes

1. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at 6.00 p.m. on 4 November 2013 (or, in the event of any adjournment, at 6.00 p.m. two days prior to the day of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
3. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Registrars of the Company, Capita Asset Services, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00 a.m. on 4 November 2013.
4. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
5. If a member appoints a proxy or proxies and then decides to attend the Annual General Meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding. If you do not have a proxy form and/or believe that you should have one or if you require additional forms, please contact the Company at its registered office.
6. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see Note 3 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Asset Services Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
7. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Asset Services at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00 a.m. on 4 November 2013. 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 4 November 2013. 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 3 October 2013 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 33,065,614 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 3 October 2013 are 33,065,614.

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 8 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 9 to 11 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1: Accounts

The Directors will present their Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the audited financial statements for the financial year ended 31 May 2013 to the meeting as required by law. These reports and statements are set out on pages 26 to 83 of this document.

Resolution 2: Approval of the Directors' Remuneration Report

Shareholders are asked to approve the Directors' Remuneration Report for the financial year ended 31 May 2013 which is set out in full on pages 32 to 34 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 2013 of 13.6 pence per share will be paid on 12 December 2013 to shareholders on the register of members on 8 November 2013.

Resolutions 4 and 5: Re-appointment of Directors

At each annual general meeting one-third of the Directors for the time being (other than those appointed since the last Annual General Meeting) are required to retire. If the number of relevant Directors is not a multiple of three, the number nearest to one-third of Directors, but not less than one-third, 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. Tim Ross and Kevin Dougan are both offering themselves for re-appointment.

Brief biographical details of Tim Ross and Kevin Dougan are set out on page 24 of this document.

Resolutions 6 and 7: 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. KPMG Audit Plc have notified the Company that they are not seeking reappointment. Resolution 6 proposes that KPMG LLP are appointed auditors of the Company and will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, and, in accordance with standard practice, resolution 7 proposes that their remuneration be fixed by the Directors.

Resolution 8: Authority to Allot Shares

Resolution 8.1 grants the Directors authority to allot relevant securities up to an aggregate nominal amount of £1,102,000 being approximately one third of the Company's ordinary share capital in issue at 3 October 2013.

In line with guidance issued by the Association of British Insurers in December 2008, resolution 8.2 grants the Directors of the Company authority to allot unissued share capital in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £2,204,000 (representing 22,040,000 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 8.1. This amount, before any such reduction, represents approximately two thirds of the Company's ordinary share capital in issue at 3 October 2013.

It is not the Directors' current intention to exercise either such authorities. The authorities granted by resolution 8 replace the existing authority to allot shares.

Resolution 9: Disapplication of Statutory Pre-emption Rights

This resolution disapplies the statutory pre-emption rights which would otherwise apply on an issue of shares for cash and is limited to allotments in connection with rights issues or other pre-emptive offers where the securities attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of shares held and generally up to a further £330,600 being approximately 10 per cent of the Company's ordinary share capital in issue at 3 October 2013. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next Annual General Meeting of the Company.

Resolution 10: Amendment to Article 44.2

This resolution proposes an amendment to Article 44.2 of the Company's articles of association to enable share certificates to be signed by use of a laser signature. It is an administrative amendment only which is designed to assist the management of the share register by the Company's registrar.

Notice of Annual General Meeting Hargreaves Services plc
Continued

Resolution 11: Purchase of Own Shares

Resolution 11 authorises the Company to purchase its own shares (in accordance with section 701 of the Act) during the period from the date of this Annual General Meeting until the end of the next Annual General Meeting of the Company or the expiration of six months after the 2014 Company financial year end, whichever is the sooner, up to a total of 3,306,000 ordinary shares. This represents approximately 10% of the issued ordinary share capital as at 3 October 2013, 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 a general meeting.

Investor Information

Company Secretary
Stephen MacQuarrie

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

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