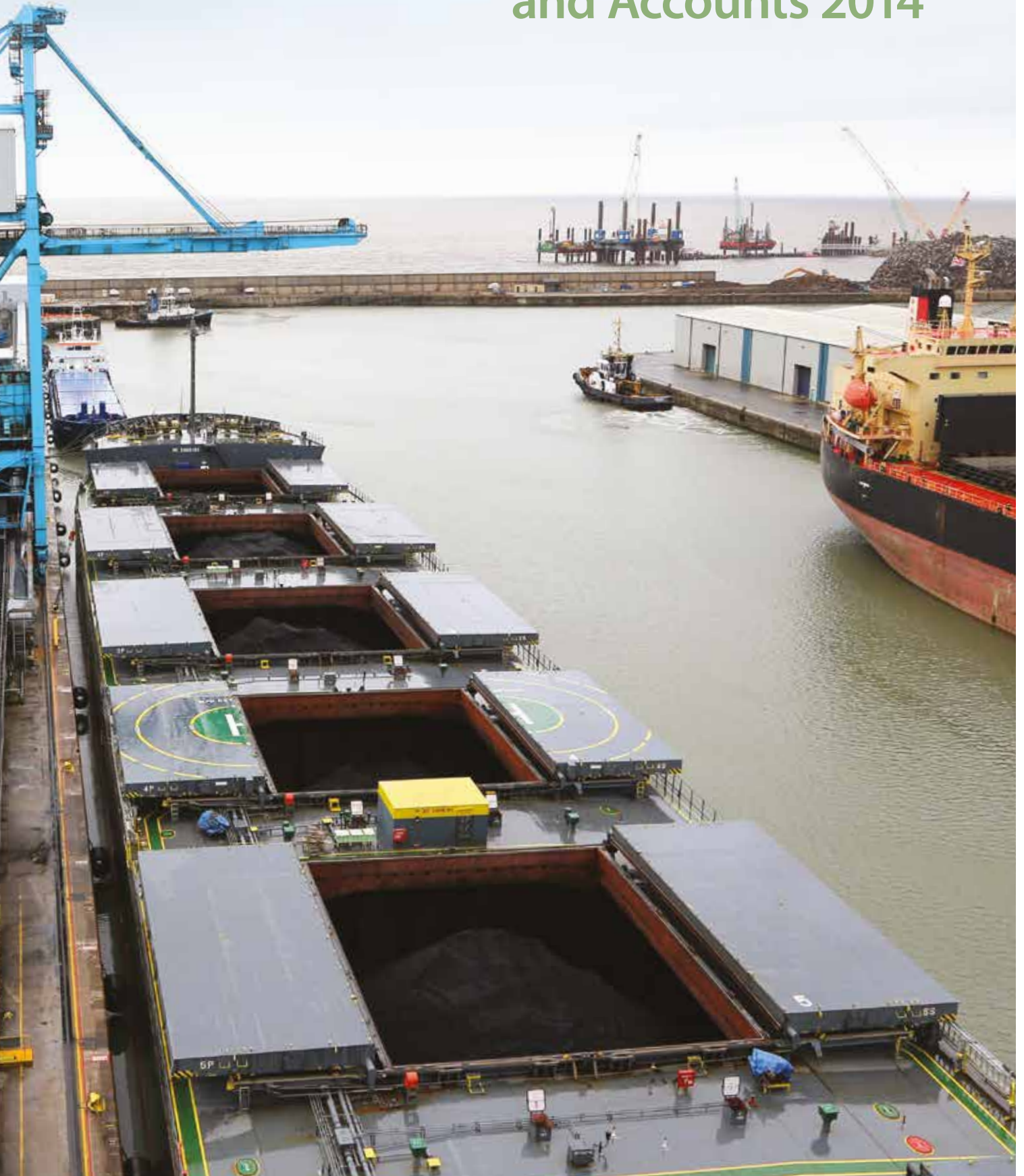




**Hargreaves Services plc**

# Annual Report and Accounts 2014



# Contents

## Strategic Report

- IFC An Overview of the Group
- 1 Highlights of the Year
- 2 Chairman's Statement
- 4 Group Business Review
- 8 Review of Operating Performance by Business Unit
- 12 Financial Review
- 16 Statement on Risks Relating to the Group's Business

## Directors' Report

- 20 Board of Directors and Group Executive Management Team
- 23 Directors' Report
- 26 Corporate Governance
- 30 Remuneration Report
- 33 Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

## Financial Statements

- 34 Independent Auditor's Report to the Members of Hargreaves Services plc
- 35 Consolidated Statement of Profit and Loss and Other Comprehensive Income
- 36 Balance Sheets
- 38 Statements of Changes in Equity
- 41 Cash Flow Statements
- 42 Notes (forming part of the financial statements)
- 82 Notice of Annual General Meeting
- 88 Investor Information

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.

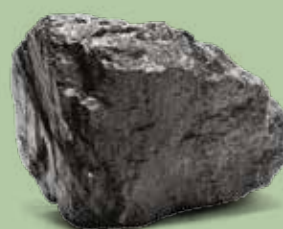
### Unrivalled Scale



We are the largest surface mining operator in the UK and the largest independent importer of coal. Our teams collectively handle over 50 million tonnes of coal per year.

# 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 for customers throughout the UK and Europe.

Production Division gross revenues increased by £64.5m from £103.2m to £167.7m reflecting a full year of surface mining in Scotland. Whilst Scotland contributed significantly to the Division's result during the year, underlying operating profit for the division remained at £16.7m reflecting reduced profits at Monckton.

Continuing Gross Revenue

**£167.7m**

+62.5%

Continuing Underlying Operating Profit

**£16.7m**

+0.0%

## Energy & Commodities

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

The Energy & Commodities Division performed in line with overall divisional expectations. Gross revenues increased by £8.3m from £585.0m to £593.3m reflecting a significant increase in metallurgical coal volumes sold in our UK bulk business offset by the deconsolidation of European revenues. Underlying operating profits increased slightly from £31.9m to £32.5m.

Continuing Gross Revenue

**£593.3m**

+1.4%

Continuing Underlying Operating Profit

**£32.5m**

+1.9%

**Find out more** about this division and its performance in 2014 from page 8



**Find out more** about this division and its performance in 2014 from page 10





## Transport

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

Transport Division gross revenues increased significantly during the year from £82.7m to £89.0m. Strong volumes in the period within our Dry Bulk business contributed £59.3m. Underlying operating profit also increased significantly from £4.0m to £4.5m reflecting increased contribution from both the Dry Bulk and Tankers business units with Bulk contributing £2.2m and Tankers contributing £2.3m.

Continuing Gross Revenue

**£89.0m**

+7.6%

Continuing Underlying Operating Profit

**£4.5m**

+12.5%

## Industrial Services

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

Industrial Services Division revenues reduced by £26.7m from £149.3m to £122.6m. This reduction on the prior year is substantially due to the incremental contribution to revenue made by the biomass conversion projects in the prior year.

Continuing Gross Revenue

**£122.6m**

-17.9%

Continuing Underlying Operating Profit

**£5.7m**

+90%

**Find out more** about this division and its performance in 2014 from page 11



**Find out more** about this division and its performance in 2014 from page 11





# Highlights of the Year

- Underlying profit before tax from continuing operations increased by 6% to £55.1m
- Strong UK trading volumes and successful expansion of production activities
- Positive end to the year for surface mining with excellent production run rates after earlier delays and exceptional weather conditions
- Five-year Industrial Services contract secured with China Light and Power in Hong Kong
- Maltby closure progressing in line with plan
- Strong operating cash flows – net debt reduced to £68.8m at year end
- Recommended full-year dividend increased 24.4% to 25.5p
- Group review and simplification strategy underway
- Disposal of Imperial Tankers for a cash consideration of £26.9m now announced

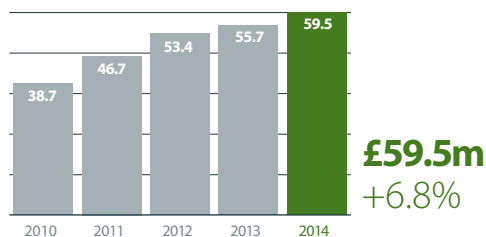
	Year ended 31 May 2014	Year ended 31 May 2013	Change %
Continuing Revenue	<b>£869.2m</b>	£843.3m	+3.1%
Continuing Operating Profit	<b>£50.9m</b>	£44.0m	+15.7%
Continuing Underlying Operating Profit <sup>(1)</sup>	<b>£59.5m</b>	£55.7m	+6.8%
Continuing Profit Before Tax	<b>£52.1m</b>	£43.1m	+20.9%
Continuing Underlying Profit Before Tax <sup>(2)</sup>	<b>£55.1m</b>	£52.2m	+5.6%
Continuing Diluted EPS	<b>122.2p</b>	111.0p	+10.1%
Continuing Underlying Diluted EPS <sup>(2)</sup>	<b>124.8p</b>	134.6p	(7.3%)
Dividend (including proposed final dividend)	<b>25.5p</b>	20.5p	+24.4%
Net Debt <sup>(3)</sup>	<b>£68.8m</b>	£77.9m	(11.7%)

(1) Continuing Underlying Operating Profit is stated excluding the amortisation of acquired intangibles and impairment of goodwill, impairment of non-current assets, and including share of profit in associates and jointly controlled entities before tax.

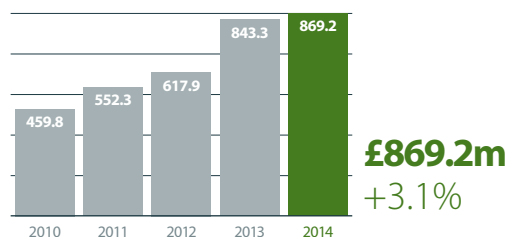
(2) Continuing Underlying Profit before Tax and EPS are stated excluding the amortisation and impairment of acquired intangibles, impairment of non-current assets and gain on disposal of subsidiaries.

(3) Net debt comprises cash and cash equivalents, bank overdrafts and other interest bearing loans and borrowings.

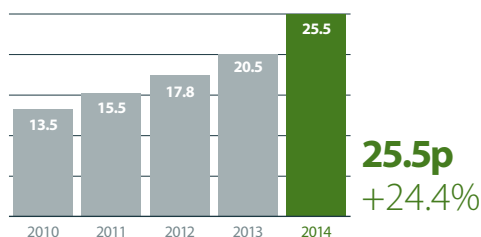
Continuing Underlying Operating Profit (£m)



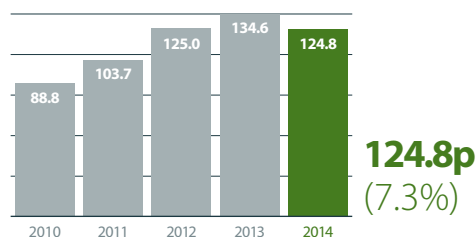
Continuing Revenue (£m)



Dividend per Share (pence)



Continuing Underlying Diluted EPS (pence)



**Chairman's Statement**  
Tim Ross, Group Chairman



## Results

Underlying Profit Before Tax from Continuing Operations increased by £2.9m from £52.2m to £55.1m. Reported Profit Before Tax was £52.1m compared with £43.1m in 2013. All divisions performed robustly in the financial year, which was despite a slow start for our surface mining operations in Scotland, exacerbated by poor weather and by the impact of challenging coke markets on profits of the Monckton and German coke trading operations.

Underlying Diluted EPS from Continuing Operations decreased by 7.3% from 134.6p to 124.8p, following the issue of equity in April 2013.

## Review of Strategy

Over the years Hargreaves has developed to become the most successful and profitable coal operator in the UK and has established a unique range of skills and services. The diversification of the business to encompass trading, production, industrial services and logistics has provided a resilient base for the Group since it was listed in 2005. The focus on diversification beyond thermal coal into industrial, domestic and steel markets has helped broaden and diversify the Group's footprint. However, it has also added to the complexity of the Group and has required significant working capital investment.

The coal and coke markets in the UK have continued to be volatile and uncertain. International coal and coke prices are at their most depressed levels for many years. Although we are confident that markets for coal will continue in the UK, the Board has elected to take a proactive stance and to set about reviewing strategy. On 1 September 2014 we announced the sale of Imperial Tankers (Imperial) and the implementation of a new strategy to focus the Group on its core strengths; simplifying operations and ensuring that the business is optimally placed to respond as market conditions continue to evolve.

These actions are being undertaken with shareholder value firmly in our minds. The sale of Imperial is the first step and the Board and management team have been working intensively for months considering strategy and assessing risks and opportunities of various options. Several of these were outlined in our announcement on 1 September 2014. These are set out again in the report below and we will update shareholders on progress as appropriate.

## Dividend

In view of the strong underlying performance from Continuing Operations the Board has confidence in recommending an increase of 23% in the final dividend from 13.6p to 16.7p. This will bring the dividend for the full year to 25.5p compared with 20.5p in the previous year, an overall increase of 24.4% for the year. The proposed final dividend will be paid on 21 November 2014 to all shareholders on the register at the close of business on 24 October 2014.

This increase in dividend is in line with the intention we outlined last year to progressively increase the dividends over a three-year period to bring the dividend cover down to around four times. The Board will continue to review this policy in light both of progress in underlying trading and any developments arising from the ongoing actions to refocus the Group operations.

## People

As always, our staff remain key to the business and once again I would like to thank them for their loyalty and hard work. I am pleased to note that we have achieved our stated target of creating or safeguarding at least 500 jobs in our surface mining operations in Scotland. Whilst shareholder value remains a primary focus for us, our employees will always be a key stakeholder group. We respect the loyalty and commitment of our staff and will ensure that we take appropriate consideration of their interests as we progress through the review. We recognise a strong and profitable Group is in the common interest of all stakeholders.



## Board

Following the resignation of Peter Gillatt from his Non-Executive Director role on the Board when he assumed a full-time executive role as Managing Director of the Production Division, we were pleased to announce the appointment of Peter Jones to the Board on 6 June 2014. Peter is already bringing significant commercial acumen to the Board alongside his experience and knowledge around ports and logistics.

## 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 better positioned than any other coal operator to work through the current market volatility and support the sector in the longer term. It is very early in the year and although we await the commencement and development of winter trading, recent trading in the UK has been encouraging. We also note recent improvements, albeit modest, in the sterling value of international coal prices.

## Tim Ross Chairman

8 September 2014

**On 1 September we announced the sale of Imperial Tankers and the implementation of a new strategy to focus the Group on its core strengths.**



# Group Business Review

Gordon Banham, Group Chief Executive







### Review of Strategy

On 1 September 2014 we announced the disposal of Imperial Tankers and the implementation of a new strategy for the Group. The disposal of Imperial Tankers is a first step in implementing a new strategy to focus the Group on its core strengths, simplify operations and ensure the business is optimally placed to respond to changes in market conditions.

The low current coal and coke prices and the ongoing market volatility has prompted the Board to reassess Group strategy and look for opportunities to minimise earnings risk and volatility. This process has identified a number of earnings streams where we feel that the rate of return and longer term prospects does not justify the capital deployed. The review will identify opportunities to generate cash through the release of working capital or the sale or closure of operations that are not clearly core activities. These objectives when taken together will result in the generation of cash and will deliver a more simplified and streamlined group.

As the review progresses and the outcome of the current strategic initiatives take shape, the Board will consider the optimal capital structure and distribution policy for the Group, ensuring that they are properly aligned to the long term expectations and requirements of both shareholders and the Group. It is anticipated that any capital that is liberated by the review may be utilised to reduce debt, distribute to shareholders or re-invest in the business depending upon the opportunities identified. Any re-investment would be focussed on attractive and value enhancing projects related to the Group's core business activities. In the event that no appropriate investment opportunities are identified then the Board is currently minded to pursue a strategy of running the UK operation to maximise cash returns with a view to distributing these to shareholders.

In terms of any other investment opportunity or requirement, the Group's short and medium term priority will continue to be focused on securing and under-pinning the core UK coal trading, production and distribution businesses. The Group is actively reviewing and seeking a number of opportunities to obtain control over at least four million tonnes of annual thermal coal flows and exposure to a degree of clean dark spread to help manage the impact of coal price risk on the Production activities. The Group has expended significant time and effort to date, in parallel with consideration of the simplification and streamlining initiative. We continue to actively identify and review opportunities to acquire more direct control over significant outlets for coal, by contract, acquisition or joint venture. Long term coal supply contracts underpin our coal production and coal trading operations by providing greater long term visibility over coal offtake. In turn, this will help underpin the ability and control that we have over the core UK coal operations to deliver future cash returns.

Outside of the UK, the Group will continue to carefully grow its Industrial Services business, building on its recent contract wins, which include a five-year contract with China Light and Power, and its increased credentials and experience in the steel sector. The Group does not expect to need to deploy significant capital to support this initiative.

In assessing the Group's wider activities, the Board has already identified a number of additional areas where it sees opportunity to release and redeploy capital.

The Group produces and trades coke through its Monckton coke plant. As we have previously reported, coke markets and pricing have been very volatile and this continues to hamper Monckton's activities. Difficulties in the financial and commercial position of some producers and customers are adding to the challenging trading conditions. The Group has always recognised the importance of balancing risk with maximising return on capital employed and is aware of the high levels of working capital already invested at Monckton and in its wider coke trading activities. We remain committed to minimising operational risk wherever possible, by avoiding significant open contractual positions. Against this background, the Board will, in the coming weeks, review whether Monckton can achieve sufficient contractual certainty in current market conditions to justify the level of working capital deployed to support the operation. At the end of May 2014 the coal and coke stocks at Monckton amounted to £17.5m. The Group will also look for opportunities to cut working capital levels in our German associate by reducing trading levels until normal market conditions resume.

The Group views its UK coal trading businesses as an important part of the Group and highly synergistic with its coal production activities. Although there will continue to be a key focus on developing production, trading and distribution activities in the UK, the Group does recognise that coal trading poses very intensive working capital demands. Opportunities will be sought to focus trading activities on core streams where the Group is best placed to add value, optimise its return on capital and maximise synergies and profits from its thermal and speciality coal markets. To achieve this focus, we currently envisage reducing bulk trading volumes by around 1.5m tonnes per annum and reducing working capital accordingly. A key focus of the Group will be to protect our market share and margins from the supply of coal into the thermal and speciality markets.

Other non-core activities are also under review, including the tyre crumbing operation, the joint venture with Mir Trade in Europe and the Rocpower operation. Notice has already been given to our joint venture partners to seek to wind down the activities of the Mir Trade joint venture in an orderly fashion. The Group has recently received early stage interest from a third party in the acquisition of Rocpower's Commonsense Lane facility and grid connection. In light of the decision to streamline the Group, the Board is willing to consider a disposal of the Rocpower assets and has written down the value of the assets in the Group balance sheet accordingly.

The Board expects this set of initiatives to liberate substantial cash resources, which will be available to enhance returns for shareholders.

### Disposal of Imperial Tankers

The Board was very pleased to announce the disposal of Imperial on 1 September 2014. Imperial has been part of the Group since it was acquired in 2007 for a total consideration of £6.3m. Our existing tanker fleet at the time was integrated into the Imperial fleet. The overall book value of Imperial in the Group accounts at the time of the disposal was approximately £9.5m. The tanker operation had grown steadily under the Group's ownership and has been consistently profitable. However it offered limited synergies with other Group operations and fell outside the Group's core activities. Imperial generated profit after tax of approximately £1.6m on revenue of £29.7m during the year ended 31 May 2014. EBITDA in the year ended 31 May 2014 was approximately £4m. The business unit has been sold inclusive of cash balances of £1.6m and £2.7m of asset finance debt, resulting in an effective enterprise value and reduction in overall net debt of £28.1m.

# Group Business Review

## continued

Imperial is a quality business and the Board would like to commend and thank the staff and management for their hard work and commitment in developing Imperial into one of the strongest tanker brands in the country. The very favourable valuation reflects the quality of the business and strong recent growth. We are pleased that the business has been sold to a high calibre operator who is seeking to invest in expansion and is well placed to drive synergies from the business, which the Hargreaves Group is unable to access. This is a good outcome both for the Group and for the management and employees of Imperial. Following the disposal we are left with the fleet of dry bulk vehicles; which remains a key part of the Group, offering synergies with our trading and production activities.

### Commodity Prices

Recent significant falls in the international coal price have been compounded by a strengthening of Sterling against the US Dollar. The effect of this has been to reduce the Sterling price of thermal coal in the UK to around £46 per tonne. The Board remains of the opinion that current price levels are unsustainably low and expects some recovery in the foreseeable future.

Hargreaves has 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 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. A falling or even a volatile coal price does not therefore present a significant problem for our trading operation, with the exception that a low or falling coal price reduces the value of pond fines that are added to a coal blend.

In the Production Division, coal price has a very direct impact on profitability. At its current level the coal price presents near term challenges to investment in and the development of the Production Division's surface mining operations. Since acquiring the surface mining assets of Scottish Coal Company Limited and Aardvark (TMC) Limited, the Sterling price of coal, as measured by the API 2 Index, has fallen from around £55 per tonne to £46 currently. These surface assets were acquired at prices that represent good long term value for the Group and the Group remains committed to the development of surface mining opportunities in the UK and building on its strong pipeline of sites.

The table below shows the current mining reserves for the Group.

Millions of tonnes	With planning permission	In planning process	Pre-planning	Total
Wales	5.3	–	–	5.3
Scotland	14.8	2.8	4.3	21.9
England	0.1	0.5	–	0.6
<b>Total</b>	<b>20.2</b>	<b>3.3</b>	<b>4.3</b>	<b>27.8</b>

To date, for existing sites, the impact of the falling coal price has been minimised by hedging or fixing the price of the coal that was planned to be extracted. In the longer term, for new and future sites, the challenge of low coal prices can be partially mitigated through re-designing mining schemes to focus on the lower cost of recovery coals that exist within our extensive pipeline of sites, reducing production costs but also reducing the total amount of coal that can be extracted. Whilst this will reduce absolute production levels it will assist in protecting the profitability of the coal that is produced. The Group will only commence operations at new sites if the output can be fixed or hedged at an economic level.

In the current financial year we are targeting to maintain a production rate of just under 2 million tonnes of profitable coal, in addition to the coal produced at the Tower joint venture. The financial results of the current year ending 31 May 2015 will benefit from the contracts and hedges that were put in place to protect the value of coal extracted from these sites. The contracts and hedges add between £8m and £9m of value when compared to the current average market coal prices for the year ending 31 May 2016. Over the coming months, the Board will monitor the coal price and consider various mining plan scenarios to mitigate this impact. The Board is committed to keeping its surface mining operations active and viable as the Board believes that there is considerable value in mining reserves.

Indigenous coal will continue to be an important fuel for UK power generation and therefore the surface mining pipeline is a core strategic asset and store of long term value for the Group. The strength of the Group's position in surface mining leaves it uniquely placed to capitalise on any future upturn in coal prices and coal fired power generation.

We will not commence production of a site and hence create a restoration liability without having sufficient certainty of the price at which the coal can be sold. Such a practice would expose the Group to significant market risks that could exceed the impact of merely reducing mining levels and potentially mothballing some sites and equipment.

### UK Coal and Coke Markets

In our report last year we outlined our view as to how the coal markets would develop in the UK. We expressed an opinion 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. Today our view has not changed and we are still of the opinion 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.

Whilst that core view on longer term coal demand and requirement in the UK has not changed, the markets in which we operate and to which we are exposed continue to be volatile and uncertain. Government policy around the UK Energy sector remains unclear and this uncertainty is exacerbated by the prospect of an upcoming general election.

The steel sector in the UK and Europe continues to face significant challenges and difficult market conditions. This continues to significantly impact coke demand across Europe. Supply imbalance in Europe has been exacerbated by exports of surplus coke from China. This has resulted in significant falls in coke prices and a disconnect between coking coal and coke prices. These conditions have resulted in very difficult trading conditions for our associate's German coke trading operation and continue to present challenges in managing Monckton coke output to ensure that coking coal input prices and coke output commitments and prices are appropriately aligned to minimise open positions.

The drive towards renewable energy and the reduction of CO<sub>2</sub> emissions continues to present uncertainty about the quantity of coal that will continue to be burned by power generators to satisfy UK energy market demands. Although recent substantial and unexpected falls in short term gas prices have significantly reduced current coal burn and despite the imposition of carbon taxes and the upcoming impact of the Industrial Emissions Directive, the Board remains of the opinion that coal and in particular indigenous coal will continue to be an important constituent of the UK energy mix for many years to come. Indigenous coal will continue to be an important element of this mix. Current data indicates that the UK coal market, principally led by the demand of power generators, will remain of sufficient size to support comfortably the Group's plans for its UK coal production and distribution businesses in the medium term. The Board remains confident that Hargreaves can add value and generate profit from this market.

In the nearer term, increasing uncertainty around Government policy, the weakness in international coal prices and current volatility in gas prices, and hence coal burn, are leading UK generators to delay purchase contracts or source coal on shorter term contracts. This reduces revenue visibility in the Energy & Commodities Division and creates longer-term challenges for the Production Division, where substantial contract visibility is required to underpin longer term investment decisions in the Group's surface mining activities.

Other changes are also affecting the supply and demand for coal products. Uncertainty still exists over the future of the operations of the former UK Coal PLC, both in terms of the deep and surface mines, whilst proposed changes in Irish government policy could also reduce demand for domestic coals.

#### Strategic Outlook and Priorities

Our priority remains the creation and protection of shareholder value. We are experts in the markets in which we operate and will continue to carefully monitor not only current market conditions but also future opportunities, risks and trends. Our view is that the level of risk and volatility in our markets necessitates a thorough review of our business and, alongside that, our strategy to deliver value to shareholders. We remain committed to the production, trading and distribution of thermal and speciality coals and the development of complementary services and logistics operations. All other activities will be subject to careful and stringent review.

The sale of Imperial Tankers and the announcement of the process to review and streamline our operations is a proactive step that demonstrates that we are acting decisively to respond to market changes. We will look carefully for opportunities to protect shareholder value through either, or a combination of, seeking to maximise cash generation to improve returns to shareholders or seeking investment opportunities that help us further protect the value in our core UK activities by better positioning the Group to deal with challenging market conditions. We will also ensure that the Group remains well placed to capitalise on any improvements in coal prices and market conditions. In that respect we are encouraged by the significant mining reserves that we have access to in Scotland and the platform we have in Europe to rapidly resume and expand trading activities when market conditions normalise.

**Gordon Banham**  
Group Chief Executive

8 September 2014

**Strategic Review**  
**£26.9m cash consideration for the disposal of Imperial Tankers represents the first step of the strategic review.**



# Review of Operating Performance by Business Unit

Revenues from continuing operations for the full year increased by 3.1% from £843.3m to £869.2m, reflecting a strong performance in our Energy & Commodities ("E&C") division and the first full year of our Scottish surface mining operations. Underlying Group operating profit increased by £3.8m from £55.7m to £59.5m. Underlying profit before tax was £55.1m, an increase of 5.6% on the prior year with robust performances across all of our divisions.

## Production Division

Production Division revenues increased by £64.5m from £103.2m to £167.7m reflecting a full year of surface mining in Scotland, with Scotland coal revenues contributing £50.5m during the year.

Whilst Scotland contributed significantly to the Division's result during the year, underlying operating profit for the division remained at £16.7m reflecting reduced profits at Monckton. Mining profits from our Tower joint venture were below our original expectations, affected by adverse weather conditions.

## Surface Mining

Although it has been a challenging year for our surface mining operations on a number of fronts we are pleased with the progress made in developing our Scottish operations. As previously reported, a slower than anticipated start in commencing operations in Scotland resulted in a shortfall in production output during the first half. This shortfall was expected to be recovered through the second half as the Group became operational across the planned seven sites shortly after the end of the first half of the year. However, as previously announced, the exceptional rainfall in December, January and February significantly hampered operations in the second half such that it was not possible to fully recover all of the shortfall in production output during the year. Notwithstanding these challenges, the Scottish business finished the year strongly and the Group is pleased with the current production run rates that are being achieved.

	Production 2014 £000	Energy & Commodities 2014 £000	Transport 2014 £000	Industrial Services 2014 £000	Total 2014 £000
<b>Segment Continuing Operating profit</b>	<b>11,772</b>	<b>29,255</b>	<b>4,508</b>	<b>5,405</b>	<b>50,940</b>
Intangible amortisation/impairment	143	847	–	329	1,319
Impairment of property, plant and equipment	2,829	–	–	–	2,829
Share of profit in associates and jointly controlled entities (net of tax)	1,639	1,860	–	–	3,499
Share of tax in associates and jointly controlled entities	357	555	–	–	912
<b>Underlying Continuing Operating Profit</b>	<b>16,740</b>	<b>32,517</b>	<b>4,508</b>	<b>5,734</b>	<b>59,499</b>
Net financing costs – Continuing Operations	(209)	(2,731)	(933)	(574)	(4,447)
<b>Underlying Continuing Profit before Tax</b>	<b>16,531</b>	<b>29,786</b>	<b>3,575</b>	<b>5,160</b>	<b>55,052</b>
	Production 2013 £000	Energy & Commodities 2013 £000	Transport 2013 £000	Industrial Services 2013 £000	Total 2013 £000
<b>Segment Continuing Operating profit/(loss)</b>	<b>13,179</b>	<b>27,456</b>	<b>3,814</b>	<b>(477)</b>	<b>43,972</b>
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
<b>Underlying Continuing Operating Profit</b>	<b>16,745</b>	<b>31,877</b>	<b>4,011</b>	<b>3,028</b>	<b>55,661</b>
Net financing costs – Continuing Operations	(374)	(1,550)	(694)	(864)	(3,482)
<b>Underlying Continuing Profit before Tax</b>	<b>16,371</b>	<b>30,327</b>	<b>3,317</b>	<b>2,164</b>	<b>52,179</b>

The Scottish operation delivered first year coal revenues of £50.5m during the year and generated an operating profit of £5.8m. This result reflected the sale of 845,000 tonnes, marketed and sold through our E&C business, at just over £5 operating profit per tonne, as expected, and also benefitted from some restoration activity during the year and the sale of surplus mining assets. We are also pleased to be contributing to significant restoration efforts at a number of key sites. Whilst this does not by any means deal with the significant restoration liability left behind by ATH and SRG, we are actively providing restoration at a number of sites. We have already delivered significant improvement at sites such as Glenmuckloch in Dumfries and Galloway and Muir Dean in Fife. At these sites we have utilised world class heavy plant and equipment and expertise to deliver on our contractual commitments. Restoration services have been provided on time and to the highest standards. Our specialised heavy duty equipment is providing the maximum possible impact for the money available. Even at sites where there is minimal or no restoration funding available, such as Duncanziemere, Netherton and House of Water, we are working to extract remaining reserves of coal whilst providing the greatest possible improvement to site conditions and environmental impact.

The Tower project contributed £5.8m of operating profit during the year through a combination of our 35% share of mining profits and profit made by Hargreaves Surface Mining. Whilst the profit earned by our contract mining business remained steady, our share of joint venture profits suffered as a result of the record wet weather. Production output of 470,000 tonnes fell short of the joint venture's target. We remain encouraged by the prospects for the operation and will be working with the joint venture and offtake customers to ensure that we can establish mine and offtake plans to support an increase in production in the second phase of the project.

In England, our small site at Well Hill in Northumberland contributed its first tonnes during the year and we continue to make progress in getting additional sites through the planning process.

### Monckton

Monckton performed broadly in line with plan during the first half of the year as domestic and export volumes were largely contracted through to the end of the calendar year. Monckton operated against a very challenging backdrop during the second half of the year across all markets. In the export markets, the negotiation of new contracts resulted in significant pricing pressure through the second half. In particular, a number of Monckton's export customers opted to minimise offtake contracts and seek shorter term arrangements until greater visibility could be achieved in the market place.

In the domestic market, Tata Chemicals Europe (TCE) announced a restructure of its UK-based soda ash production plants at the start of the second half of the year. Initially we sought to enforce the contract on advice that the contract remained fully enforceable through the end of its term to December 2015. In August we reached a commercially acceptable agreement whereby we obtained an extension and a reduction in the rate of offtake to 36,000 tonnes per annum. The Group is continuing commercial discussions with a number of other customers in an effort to place the additional volumes in the market. The market volatility and short term nature of customers' offtake appetite is making it very difficult to lock down a high degree of contractual certainty for Monckton to ensure that coking coal input costs and commitments are sufficiently linked with the associated coke offtake contracts.

Against this backdrop of challenging and volatile steel markets, Monckton's operating profit contribution fell from £6.6m to £2.9m during the year ended 31 May 2014. Monckton revenues fell from £53.1m to £42.8m reflecting a significant reduction in average selling price from £217 to £198 with production volumes remaining relatively stable at 190,000 tonnes. The drop in revenue reflected a drop in the volume of third party coke products that could be sold by Monckton alongside its own production.

### Maltby

Maltby ceased to trade during the year and has remained a discontinued operation throughout the year as the closure programme continues in line with plan. At the date of this report, the mine shafts have been filled and capped as part of Maltby's overall restoration programme and the Group awaits formal certification of this completion. The process to sell the underground equipment continues to progress; there have been a number of enquiries to date and £2.9m of realisations were achieved during the year leaving a residual net book value to recover of £6.7m (FY13: £9.5m). These assets have been transferred to our plant pool team for management and disposal. The Group remains very confident of achieving an amount in excess of book value for the assets. The Board is very pleased with the progress that has been made in closing the Maltby operation and thanks all the staff and other stakeholders involved. The project has been completed on time, on budget and to a high quality. The Group is working hard with local authorities to optimise the value of land to the Group and to the local community.

# £50.5m

### Scottish Surface Mining

Our investment in Scottish Surface Mining activities has produced first year revenues of £50.5m.

# Review of Operating Performance by Business Unit continued

## Energy & Commodities Division

The Energy & Commodities Division performed in line with overall divisional expectations during the year. Gross revenues increased by £8.3m from £585.0m to £593.3m reflecting a significant increase in metallurgical coal volumes sold in our UK bulk business offset by the deconsolidation of European revenues from the Group revenue number during the second half of the year as our German operation became an associate. Underlying operating profit increased slightly by £0.6m from £31.9m to £32.5m with a better than expected UK bulk performance offsetting the impact of challenging coke markets experienced in Europe.

### Bulk Coal

Our UK Bulk Coal operations exceeded management expectations during the year with 5.4m tonnes of coal delivered to customers in the coal and steel markets, an increase of approximately 700,000 tonnes on the prior year. Whilst thermal volumes increased slightly during the year, the division saw a significant increase in metallurgical volumes. With a full year of operation at Redcar, volumes of coking coal increased by almost 300,000 tonnes and the Group began supplying PCI coal during the year contributing almost 300,000 tonnes. We continue to closely manage counterparty risk exposure, whilst maximising opportunities, particularly within the challenging steel markets. Total coking coal and PCI coal volumes shipped in the year were 1.5m tonnes.

Profit per tonne in the UK bulk market increased slightly to £2.52 operating profit per tonne during the year with the addition of PCI coals and a slightly stronger thermal margin. The Group shipped approximately 1.2m tonnes to Eggborough power station during the year. The Group has continued to support Hatfield Colliery and is working closely with the owners to assist with product offtake for the upcoming coal panel when the current panel finishes in November. In the current financial year the Group marketed 0.8m tonnes of coal produced at Hatfield.

The table below provides a breakdown of volumes and margins within the Energy & Commodities division.

	UK Bulk	UK Speciality	UK Total	European Speciality	Total
<b>2014</b>					
Tonnes sold (000s)	5,411	680	6,091	491	6,582
Operating profit per tonne (£)	2.52	18.78	4.34	9.29	4.70
Operating profit from trading (£m)	13.6	12.8	26.4	4.6	31.0
Associates, JCE & non-trading (£m)					1.5
<b>Total Segment Underlying Operating Profit (£m)</b>					<b>32.5</b>
<b>2013</b>					
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
<b>Total Segment Underlying Operating Profit (£m)</b>					<b>31.9</b>

## Speciality Coal

Our UK speciality coal business performed largely in line with expectations during the year. Volumes were increased to 680,000 tonnes through aggressive pricing. This pricing pressure reduced the operating profit per tonne from £21.68 to £18.78, resulting in a slight reduction in overall operating profit from £13.4m to £12.8m. This is a very pleasing performance in light of the announcement of UK Coal's insolvency and restructuring last year, which required the Group to mitigate the loss of the associated speciality coal supply contract. In particular, the acquisition of the surface mining operation in Scotland has provided the Group with the opportunity to diversify the sources of the Group's speciality coal supply. The Group retains a strong position in these markets and is well placed to source and deliver a high quality of competitively priced coal. The Group continues to closely monitor developments in these important markets to ensure that it is best placed to deal with any challenges that arise from changes in the balance of supply and demand.

Throughout last year our associate German operations traded in increasingly subdued and difficult coke markets. Volume during the year reduced to 491,000 tonnes with a comparable margin to the prior year. This was an excellent result that reflected the trading synergies available from both the Monckton operation and the trading relationship with SSI's steel operation at Redcar. Whilst existing contract positions at the end of the first half provided a platform for a robust second half performance, these challenging underlying trading conditions have remained. As a consequence, activity within the German business has been managed down to a lower level, ensuring the business does not take any unnecessary risks. Efforts are being made to reduce working capital to maximise cash generation.



As previously reported, the Group successfully completed a reorganisation of its German business on 28 November 2013. Whilst the Group retains the same economic interest and therefore a similar level of contribution to the Group's results, the resultant lower equity participation and greater autonomy means that the German business was treated as an associate in the second half of the year with its profit being included in the Group numbers as a one line entry in the income statement.

### Industrial Services Division

Industrial Services Division revenues reduced by £26.7m from £149.3m to £122.6m. This reduction on the prior year is substantially due to the incremental contribution to revenue made by the two biomass conversion projects in the prior year. Core material handling revenues of £104.2m (2013: £104.3m) in the current year have remained at a strong level and are comparable with the prior year.

Underlying operating profit of the division of £5.7m represents an increase of £2.7m on the prior year. If the impact of the biomass conversion projects is removed, the underlying profit from the core material handling operations was comparable with the prior year at £5.1m (2013: £5.0m).

The core materials handling business has performed well during the year. Whilst the division encountered some delays in expected key contract awards that impacted the underlying result for the year, the division was able to support the operating profit with some one-off profits on the sale of surplus plant from its plant pool trading business. Pleasingly, the Division has made good commercial progress through the second half of the year, and into the current year, winning a number of these key contracts and positioning the underlying business to deliver a strong result in the next 12 months. In particular, the Division was awarded a five-year integrated maintenance services contract with China Light and Power at the end of 2013. The contract was mobilised successfully in January 2014 and we are pleased to report a number of months of trading in line with plan.

The Group is pleased to report that the first biomass conversion project has been commercially concluded with payment received in July 2014, with no material impact on profit. On the second larger biomass conversion project, the Group is pleased to report that this project is now complete and has been handed over to the client with final commercial discussions now underway. The Group has worked closely and collaboratively with EON to support and deliver a quality solution despite significant scope changes and resulting cost over-runs. The Group has focussed on the delivery of the project and is now in commercial discussions with EON to agree final contract values and payment. We do not anticipate any further provisions being required to commercially conclude this second project.

### Transport Division

Transport revenues increased significantly during the year from £82.7m to £89.0m. Strong volumes in the period within our Dry Bulk business contributed £59.3m. Underlying operating profit also increased significantly from £4.0m to £4.5m reflecting increased contribution from both the Dry Bulk and Tankers business units with Bulk contributing £2.2m and Tankers contributing £2.3m.

### Health and Safety

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

The whole Board takes an active role in health and safety. The Group Chief Executive personally acts 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, resources 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. In addition to a top down management style we have worked hard to ensure that a positive engaging health and safety culture is encouraged throughout our operations. Although we focus on safety at the business unit level, we have regular accountability meetings and a Group Health and Safety Forum to define best practice and to promote high standards of communication and coordination across the Group.

Health and safety statistics continue to be monitored at a divisional and business unit level, with regular main Board review, as well as pro-active health and safety strategies in place at each division.

The Group is committed to a philosophy of continuing improvement across all Group operations. During the last 18 months the Group has reshaped its health and safety team and invested in additional resources where appropriate. Our strategy has been to identify risks and eliminate them before an accident and not to rely on "lessons learned". To this effect the team have embarked on a number of accident prevention initiatives including "step back and speak up", greater emphasis on hazard spotting and analysis of near misses.

For the year ended 31 May 2014, accident rates within the Group are monitored on the basis of the number of lost time accidents per 100,000 hours worked. Following last year's 31% reduction we are pleased to note that the accident rate has seen a further 61% reduction from 1.04 to 0.41 in the year ended 31 May 2014.

The incidence of lost time accidents at Hargreaves has been strongly trending downwards for a number of years. Whilst the rate of improvement is slowing the downward trend is continuing in the current year.

**Iain Cockburn**  
Group Finance Director

**Gordon Banham**  
Group Chief Executive

8 September 2014



## Financial Review

Iain Cockburn, Group Finance Director





### Results Overview

Revenue from continuing operations for the year ended 31 May 2014 increased by 3.1% from £843.3m to £869.2m. Underlying operating profit from continuing operations increased by 6.8% from £55.7m to £59.5m, which generated an increase in underlying profit before tax of £2.9m from £52.2m to £55.1m. Reported profit before taxation, as set out in note 2, increased significantly from £43.1m to £52.1m, despite a one-off impairment of Rocpower's assets amounting to £2.8m during the year. This significant increase reflected the improvement in underlying profits but also the one-off impairment of goodwill and intangible assets in the prior year, the consequent reduction in amortisation this year and also the one-off profit on the disposal of our German subsidiary during the year of £2.1m. Continuing diluted earnings per share is reported at 122.2p (2013: 111.0p).

### Revenue

Continuing revenues in the Group increased by £25.9m from £843.3m to £869.2m. Production division revenues grew by 63% from £103.2m to £167.7m, reflecting the first year of operations in our Scottish surface mining business. Overall E&C revenues grew by £8.3m from £585.0m to £593.3m with over £80m expansion in UK bulk revenues. Of this UK bulk revenue growth, £50.5m was the Scottish 'pass through' revenue, as all Scottish coal production is sold to and marketed by our E&C division; the balance of the increase related to additional metallurgical coal volumes during the year. This significant increase was offset by the removal of revenue generated by our German business at the start of the second half following its 'deconsolidation' from the Group. Finally, there was a significant reduction in Industrial Services revenues from £149.3m to £122.6m reflecting the revenue contribution from the biomass conversion projects in the prior year.

### Operating Profit and Margins

Underlying Operating Profit increased by £3.8m from £55.7m to £59.5m reflecting a robust contribution from all Divisions. The Production Division delivered Underlying Operating Profit of £16.7m in line with the prior year with the first year contribution from our Scottish operations offsetting the challenges at Tower and Monckton. Our E&C division delivered a strong year with an increase in metallurgical volumes compensating for the shortfall in volume in Germany. Industrial Services operating profit increased by £2.7m reflecting the losses taken in the prior year on the biomass conversion projects and the downsizing of the engineering business.

### Gain on Disposal of Subsidiary

As previously announced, a reorganisation of our European operations was completed on 28 November 2013, resulting in a lower equity participation for the Group, whilst retaining the same economic interest. From a financial reporting perspective, this resulted in the sale by the Group of our German business, and the deconsolidation of its net assets, including net debt, from the Group balance sheet. This was then immediately followed by

re-acquisition of the same entity as an associate and recognition of the fair value of the investment in the associate, in accordance with IAS 27. Sale of a subsidiary from the Group required recycling of the associated translation and non-controlling interest reserves into the income statement. These accounting entries resulted in a one-off, non-recurring profit on disposal of £2.1m during the year. This has been excluded from Underlying Operating Profit.

### Impairment of Non-Current Assets

As noted in our announcement on 1 September 2014 the Group has received early stage interest in the acquisition of Rocpower's Commonsides Lane facility. As a result of the decision to streamline the Group, the Board is minded to consider the disposal of the Commonsides Lane facility and other Rocpower assets. Having considered this course of action as an alternative to holding the assets for a prolonged period, the Board has elected to impair some of the operating assets of Rocpower by £2.8m. This impairment reflects the view that it is unlikely that, in current market conditions, any buyer of Commonsides Lane would elect to continue to use the heavy fuel oil engines that are currently in place.

### Interest

As expected, the second half of the year showed reduced interest charges as the Group net debt reduced and the European interest was removed following the reorganisation of our European operation. Net financing costs on continuing operations during the year totalled £4.4m compared with £3.5m for the previous year. With similar levels of net debt to the prior year, the increase in continuing interest charge year-on-year partly reflects the significant discontinued operations in the prior year with both Maltby and Belgium incurring a large proportion of Group interest.

### Taxation

Income tax expense for the year is £11.5m compared with £10.9m for the year ended 31 May 2013; including the share of tax of equity accounted investees of £0.9m (2013: £1.1m) results in a total tax expense of £12.4m (2013: £12.1m). This charge represents an effective tax rate for the Group of 23.47% (2013: 27.3%).

The reduction from the 27.3% rate for the year ended 31 May 2013 to the underlying rate of 23.47% is driven by the fall in the UK corporation tax rate from 23% to 21%, the non-taxable profit on disposal of subsidiaries and the exceptional goodwill write-off last year that was treated as non-deductible.

Following a recent change in legislation introduced as part of the 2014 Finance Act, HMRC may now request payment in advance of concluding discussions in respect of certain disclosable tax planning schemes. Consequently, over the next 12 months, the Group may be required to pay cash in respect of the cash flow benefit taken in the year ended 31 May 2011



**Full year dividend of 25.5p, a 24% increase over the prior year.**



# Financial Review

## continued

on a corporation tax planning arrangement which is still subject to ongoing negotiation with HMRC. Should such a notice be received, and HMRC in due course accept the Group's view on how this arrangement should be treated for corporation tax purposes, any cash paid under the 2014 Finance Act notice will be subsequently repaid by HMRC. As previously reported, no P&L benefit was taken at the time and no benefit will be taken until the returns have been fully agreed. The quantum of tax involved is around £10m.

### Earnings per Share

Reported continuing basic earnings per share increased from 112.5p to 123.2p. Underlying fully diluted earnings per share decreased by 7.3% from 134.6p to 124.8p. The weighted average number of shares in the period increased from 27.9m to 33.1m following the equity raise in May 2013.

### Discontinued Operations

The loss for the period from discontinued operations, largely relating to costs incurred at Maltby colliery as part of the overall restoration programme and orderly closure of the mine, was £3.7m during the year. The closure programme continues to progress well and in line with plan. The closure at Belgium is also proceeding as expected with a small amount of cost relating to discontinued operations incurred during the year.

### Dividend

In line with the Board's previously announced target of increasing the dividend payout progressively over three years towards a dividend cover of around four times, the Board has recommended an increase of 22.8% in the final dividend from 13.6p to 16.7p. This will result in a full year dividend of 25.5p, a 24% increase over the prior year, representing dividend cover of 4.9 times (2013: 6.6 times). The dividend will be paid on 21 November 2014 to all shareholders on the register at the close of business on 24 October 2014.

### Net Debt

Net debt reduced by £9.1m from £77.9m at 31 May 2013 to £68.8m at 31 May 2014. The reduction in the net debt figure reflects the deconsolidation of the German debt which was £10.2m at the point of change in ownership.

Group net assets increased from £118.3m at 31 May 2013 to £150.1m at 31 May 2014. Gearing (measured as net debt compared to net assets) at the end of May 2014 was 46%, compared to 66% at 31 May 2013.

The Group's financial position remains strong with net debt at 31 May 2014 equal to 1.0 times earnings before interest, tax, depreciation and amortisation ("EBITDA") pre-exceptional profit, comfortably below our maximum covenant levels.

### Operating Cash Flow

Net cash flow from continuing operating activities generated a cash inflow of £42.2m during the year. This cash generation has reflected a strong EBITDA of £67.2m partly offset by £20.3m working capital investment detailed below. By the half year end, the Group had invested £45.6m in working capital. Strong inflows in the second half reduced this to £20.3m over the year.

Whilst the Group consumed working capital of £20.3m during the year, this included the one-off acquisition of the SRG property portfolio of £8.4m and the Work in Progress ("WIP") build on the Lot 4 biomass conversion project of £11.8m. Consequently, the underlying core working capital increase year-on-year was £0.1m. Efforts are ongoing to prepare the property portfolio for sale and the Group is pleased with general progress.

Inventory is the key driver of our working capital movement. Looking specifically at inventories it is noted that they increased by a net £28.4m during the year. German inventories started the year at £34.8m and reduced by £9.0m between the start of the year and the date of deconsolidation. At the date of deconsolidation, the inventory level in Germany was £24.8m. German inventory ended the year at £13.7m, a reduction of £21.1m across the full year, of which only £9.0m, pre-deconsolidation, is reflected in the Group cash flow.

Underlying inventory, setting aside the impacts of Germany, the SRG property portfolio acquisition and the impact of the Lot1/4 WIP builds, increased by £17.2m. The underlying increase in inventory was mainly driven by two new business streams within the Group during the year. Firstly, £14m of the increase relates to E&C inventory where PCI coal flows to the steel sector began during the year and, secondly, £7.8m reflects routine inventory levels built in Scotland during its first year of operation. Other movements include a stock build in Monckton during the first half of the year offset by a number of other stock unwinds across the Group.

Group inventory days increased from 77 days to 87 days. Whilst the deconsolidation of Germany improved this figure, this was more than offset by the stock build in our UK bulk business. The increase in stock days reflects that shipments of coal to UK power station customers slowed in May and June resulting in higher than expected stock and a compensating reduction in trade debtors. Since the end of the year many customers have been trying to reduce stocks as coal burn dropped. This position is expected to unwind during the year and we would expect to see stock days reduce to historic levels. In addition to this dynamic there was also an element of stock build at Monckton.

Debtor days have reduced slightly during the year to 21 days. The efficiency of the Group cash cycle has been maintained year-on-year and it is the removal of the higher debtor days in our German business that has resulted in a slight overall reduction in this metric. Trade creditor days have increased from 18 days to 23 days. Whilst this was also partly driven by the deconsolidation of Germany during the year, the increase in surface mining activities following the start up in Scotland also contributed to the increase.

Net income tax paid of £0.8m reflects last year's tax losses at Maltby.

The discontinued operation at Maltby resulted in a net cash outflow from operating activities of £9.1m during the year as the mining shafts were filled and capped as part of the overall restoration programme.

### Capital Expenditure

Net capital expenditure during the year was £34.5m. Of this, £12.3m relates to mine stripping costs capitalised under IFRIC 20 and development in our new Scottish business, the cash benefit of which will be realised over the next 12 months. The balance of £22.2m was higher than normal due to the £12.3m invested in mining equipment in Scotland, as previously reported. £5m was invested in our Transport business. £13.0m of the £22.2m of capital expenditure was financed through finance leases.

The cash flow in relation to the disposal of subsidiaries relates to the reorganisation of our German business. The net debt figure of the German business was £10.2m at 28 November 2013 which was deconsolidated from net debt at the point of disposal.

Net cash from investing activities in discontinued operations resulted in a cash inflow of £2.9m as good progress was made in realising an element of the remaining Maltby mining asset portfolio. The majority of the remaining plant of £6.7m is expected to be sold in the current financial year.

### Financing Activities

Net cash outflow from financing activities in continuing operations was £15.6m. The Group has repaid £4m of its banking facilities and made payments of £5m against finance lease liabilities. Dividend payments made during the year amounted to £7.4m.

Net cash from financing activities in discontinued operations resulted in a cash outflow of £1.9m (2013: £5.4m) relating to the repayment of finance lease liabilities during the year.

### 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 ("RCF") are interest cover and leverage, measured as a ratio of net debt to EBITDA. As at 31 May 2014 interest cover was 15.1 times, comfortably over the covenant minimum of four times and leverage was 1.0, comfortably under the maximum 2.5 times permitted.

### Capital Management

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

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

### Summary of Net Debt

	2014 £000	2013 £000
Cash and cash equivalents	(30,768)	(61,435)
Bank overdraft	–	42,476
Revolving credit facility	80,190	83,632
Finance lease liabilities	19,353	15,500
Hire purchase receivable	–	(2,276)
	<b>68,775</b>	<b>77,897</b>

### Going Concern

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

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

### Iain Cockburn

#### Group Finance Director

8 September 2014

# £42.2m

### Net cash from continuing operating activities

Cash generation reflected a strong EBITDA of £67.2m partly offset by working capital investment.

# Statement on Risks Relating to the Group's Business

This statement is an integral part of the Strategic Report.

## Operational

### Deep Mining Risk

With the mothballing of the underground operations at Maltby, 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 continues to be the successful management and completion of the closure and restoration programme.

### Surface Mining Risk

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

### Markets and Commodity Prices

The Group produces and trades in coal, coke and other mineral commodities, the prices of which are subject to variations that are both uncontrollable and unpredictable. Further trading risks are created through foreign currency exposures. The Group mitigates these risks, wherever practical, through the use of 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 surface mining activities, 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 materials, 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 in foreign currency for re-sale are predominantly hedged by matching the currency of purchase with the currency of sale.

### Interest Rate

The Group predominantly borrows in Sterling. These borrowings are largely at floating rates and where appropriate the Group will use derivatives to generate the desired effective currency and interest rate exposure. As at 31 May 2014, 28.1% of net financial liabilities were at fixed rates (2013: 72.3%).

### Foreign Currency

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

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



**Counterparty Risks**

The Group does routinely enter term contracts for the purchase or supply of minerals. Although price risk is hedged where appropriate on these transactions, the Group is exposed to risk through the potential failure of counterparties to perform to contract. This risk is judged against the scale and duration of the specific contract on a case-by-case basis. As the Group expands into new geographies, the inherent counterparty risk profile may increase and the information available to assess counterparties may decrease. The Group will mitigate this risk by, as far as possible, carefully selecting and monitoring counterparties and structuring transactions to minimise counterparty exposure.

**Credit Risk**

Credit risk arises from the possibility that customers may not be able to pay their debts. To manage this risk the Group periodically assesses the financial reliability of customers. The majority of the Group's trade receivables are due for payment within 45 days. The Credit Control function closely monitors and chases any overdue debts.

Although the Group has a diverse customer base of many hundreds of trade debtors, concentrations of credit risk with respect to trade receivables can arise. These concentrations, when they do arise tend to relate to the larger power generation companies. These concentrations and exposures are closely monitored by the Credit Control function. As at 31 May 2014, the largest customer represented 16% of the Group trade receivables balance of £60.6m.

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





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## Directors' Report

- 20 Board of Directors and Group Executive Management Team
- 23 Directors' Report
- 26 Corporate Governance
- 30 Remuneration Report
- 33 Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

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## Financial Statements

- 34 Independent Auditor's Report to the Members of Hargreaves Services plc
- 35 Consolidated Statement of Profit and Loss and Other Comprehensive Income
- 36 Balance Sheets
- 38 Statements of Changes in Equity
- 41 Cash Flow Statements
- 42 Notes (forming part of the financial statements)
- 82 Notice of Annual General Meeting
- 88 Investor Information



# Board of Directors



**Tim Ross\* (aged 65)**  
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 other companies in the construction sector.

\* Current member of Audit, Remuneration and Nominations Committees.



**Gordon Banham (aged 50)**  
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 49)**  
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 60)**  
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 Golithly 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 56)**  
Senior Independent Director

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

\* Current member of Audit, Remuneration and Nominations Committees.



**Peter Jones\* (aged 59)**  
Non-Executive Director

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

\* Current member of Audit, Remuneration and Nominations Committees.

## Group Executive Management Team

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



### Steve Anson

Managing Director

#### Energy & Commodities Division

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



### Julie Haynes

Managing Director

#### Industrial Services Division

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



### 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 2014.

## Principal Activities

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

## Financial Instruments

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

## Proposed Dividend

Following the payment of an interim dividend of 8.8p per share on 21 March 2014, the Directors recommend a final dividend for the year ended 31 May 2014 of 16.7p per share to be paid on 21 November 2014 to shareholders on the register on 24 October 2014. The shares will be ex-dividend on 23 October 2014. 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 2014 for the Group were 23 days (2013: 18 days). It is not meaningful to disclose a similar statistic for the Company since it does not trade in its own right.

## Directors

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

Tim Ross  
Gordon Banham  
Iain Cockburn  
Kevin Dougan  
David Morgan  
Peter Jones (appointed 6 June 2014)  
Peter Gillatt (resigned 9 September 2013)

The names and biographical details of the Directors at the date of this Directors' Report appear on pages 20 and 21.

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

# Directors' Report

## continued

The Company provided indemnities to each of its Directors in accordance with the provisions of the Company's Articles of Association. Additional information relating to Directors' remuneration, service contracts and interests in the Company's shares is given on pages 30 to 32.

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

	Class of share	Interest at end of year	Interest at beginning of year
Gordon Banham	Ordinary	2,149,831	3,029,831
Kevin Dougan	Ordinary	75,000	175,000
Iain Cockburn	Ordinary	7,680	7,680
Tim Ross	Ordinary	3,086	3,086

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

Details of Directors' emoluments are set out in the Remuneration Report on page 30.

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

According to the register of Directors' interests, no rights to subscribe for shares in Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year and up to the date of this Directors' Report except as indicated below. The options referred to below which have vested are held by ESOT Trustees Limited. Options that have vested are held on trust until such time as the Directors exercise their options. Vested options are therefore included within the total issued share capital.

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

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

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Gordon Banham	–	June 2012 to June 2019	60,000
Kevin Dougan	–	June 2012 to June 2019	21,000
Iain Cockburn	–	June 2012 to June 2019	28,500

These options were granted under the Long-Term Incentive Plan on 30 June 2009 and are outstanding at the end of the year. None of the share options have been exercised.

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Gordon Banham	–	June 2013 to December 2020	39,031
Kevin Dougan	–	June 2013 to December 2020	13,661
Iain Cockburn	–	June 2013 to December 2020	19,133

These options were granted under the Long-Term Incentive Plan on 15 December 2010 and the scheme lapsed due to non-performance. None of the share options have been exercised. No awards are to be made under this scheme.

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Gordon Banham	–	June 2014 to September 2021	34,657
Kevin Dougan	–	June 2014 to September 2021	12,130
Iain Cockburn	–	June 2014 to September 2021	16,989

These options were granted under the Long-Term Incentive Plan on 16 September 2011 and are outstanding at the end of the year. None of the share options have vested to date and are subject to performance conditions as outlined in note 23.

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

These options were granted under the Long-Term Incentive Plan on 29 October 2013 and are outstanding at the end of the year. None of the share options have vested and are subject to performance conditions as outlined in note 23.

No options were granted under a Long-Term Incentive Plan in 2012.

As at 8 September 2014, no decision has been taken to implement a Long-Term Incentive Plan for 2014.

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

	Scheme	Options at end of year	Options at beginning of year
Iain Cockburn	Savings-Related Share Option Scheme 6	1,093	1,093
Gordon Banham	Savings-Related Share Option Scheme 7	819	819

### Retirement of Directors

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

### Significant Shareholdings

At 8 September 2014 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
Artemis Investment Management	4,023,408	12.16%
Shareholder Value Management	2,970,123	8.98%
Schroder Investment Management	2,596,924	7.85%
Gordon Banham	2,149,831	6.50%
M&G Investment Management	1,898,328	5.74%
Fidelity Worldwide Investment	1,857,358	5.61%
J O Hambro Capital Management Group Limited	1,627,622	4.92%
NFU Mutual	1,480,000	4.47%
Octopus Investments	1,059,186	3.20%

### Employees

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

The Directors recognise the importance of good communications and good relations with employees. 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 6 November 2013. No purchases were made during the year. The Directors will seek renewal of this authority at the 2014 Annual General Meeting (full details are available in the 2014 Notice of Annual General Meeting).

### Approval to Issue Shares

The Directors will seek authority to allot up to a maximum aggregate nominal amount of £1,102,928 at the 2014 Annual General Meeting (full details are available in the 2014 Notice of Annual General Meeting).

### Employee Share Schemes

The Company operates share option schemes for the benefit of employees. Information regarding the schemes and the number of options outstanding is given in Note 23 on page 72.

### Political Contributions

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

### Disclosure of Information to Auditor

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

### Independent Auditor

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

By order of the Board

**Andrew Robertson**  
Company Secretary  
8 September 2014

# Corporate Governance

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

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

## The Board

The Group is headed by an effective Board, which controls and leads the Group. A biography of each Director and details of the membership of the Board and its associated committees are provided on pages 20 and 21.

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

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

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

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

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

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

## Non-Executive Directors

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

## Board Meetings

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

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

Attendance at meetings	Board	Audit Committee	Remuneration Committee	Nominations Committee
<b>Number of meetings</b>	10	3	5	2
Tim Ross	10 attended	3 attended	5 attended	2 attended
Gordon Banham	10 attended	n/a	n/a	n/a
David Morgan	10 attended	3 attended	5 attended	2 attended
Peter Gillatt (resigned 9 September 2013)	3 attended	1 attended	1 attended	n/a
Iain Cockburn	10 attended	n/a	n/a	n/a
Kevin Dougan	10 attended	n/a	n/a	n/a

## Board Committee

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

- Remuneration;
- Audit; and
- Nominations.

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



### Remuneration Committee

The composition and work of the Remuneration Committee is described in the Remuneration Report found on page 30.

### The Audit Committee and Independent Auditor

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

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

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

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

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

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

### Nominations Committee

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

During the year the Nominations Committee reviewed the composition of the Board, leadership requirements and succession planning, together with a performance evaluation of Non-Executive time-commitment. The specification for the role of an additional Non-Executive Director was agreed with the Board. A short-list of potential appointees was produced with the assistance of external search agencies. Peter Jones was interviewed and asked to attend a Board meeting before being formally appointed to the Board and its committees on 6 June 2014. The Committee also reviews its own effectiveness.

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

All Directors have service agreements or letters of appointment and the details of their terms are set out in the Remuneration Report on page 30.

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

### Executive Management Committee

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

- **Executive Management Team** – responsible under the leadership of the Group Chief Executive for the day-to-day management of the business, setting performance targets and implementing the Group's strategy and direction as determined by the Board. Monthly meetings attended by the Group Executive Management Team are held to review operational performance and assess the strategic development of each division.

# Corporate Governance

## continued

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

### Induction, Development and Support

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

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

### Board Performance Evaluation

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

### Conflicts of Interest

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

### Internal Control

Management has considerable autonomy to run and develop the business of the Group. The Board believes that a well designed system of internal reporting and control is necessary. The Board therefore continues to have overall responsibility to develop and strengthen internal controls further. The Audit Committee, on behalf of the Board, has the responsibility for reviewing internal controls. The system is designed to provide reasonable, but not absolute, assurance that the assets of the Group are safeguarded, that proper accounting records are maintained, and that reliable financial information is produced.

All subsidiary undertakings are required to adhere to specified internal control procedures. The Audit Committee receives regular reports on internal control. Monitoring of compliance with the Group's system of internal control is undertaken by all levels of management and reinforced by the role fulfilled by the Audit Committee.

### Relations with Shareholders

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

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

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

### Safety, Health and the Environment

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

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

**Compliance with Laws**

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

**Going Concern**

The Group's business activities and financial position; the factors likely to affect its future development and performance; and its objectives and policies in managing financial risks are discussed in the Financial Review on page 12.

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



# Remuneration Report

## Responsibilities and Role of the Remuneration Committee

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

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

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

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

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

## Membership of the Committee

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

Peter Jones	Chairman (appointed 6 June 2014)
David Morgan	(stepped down as Chairman on 6 June 2014)
Tim Ross	
Peter Gillatt	(resigned 9 September 2013)

Following Peter Gillatt's resignation as a Non-Executive Director on 9 September 2013, David Morgan chaired the Committee on an interim basis. Peter Jones brings a wealth of knowledge to the Committee and has chaired the Committee from 6 June 2014.

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

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

## Components of Remuneration

### Basic Salary

This is a fixed cash sum, payable monthly. Salaries are reviewed annually by the Remuneration Committee in the light of individual performance, experience in the role and market comparisons.

### Annual Bonus

Executive Directors participate in an annual incentive bonus scheme linked to the actual achievement of operating profit targets set by the 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.

## Directors' Remuneration for the Year to 31 May 2014

	Salary/Fees		Bonus in Cash		Benefits		Total		Pension	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Gordon Banham	443	433	–	–	39	38	482	471	111	109
Iain Cockburn	261	256	130	–	18	17	409	273	52	51
Kevin Dougan	242	218	110	–	34	31	386	249	–	–
Tim Ross	53	63	–	–	–	–	53	63	–	–
Peter Gillatt* (resigned 09.09.2013)	10	38	–	–	–	–	10	38	–	–
David Morgan	43	41	–	–	–	–	43	41	–	–
<b>Total</b>	<b>1,052</b>	<b>1,049</b>	<b>240</b>	<b>–</b>	<b>91</b>	<b>86</b>	<b>1,383</b>	<b>1,135</b>	<b>163</b>	<b>160</b>

\* P Gillatt received an additional £18,000 during 2013 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	2014/15 Salary (£)	Notice period
3 September 2013	Tim Ross	Non-Executive Chairman	30 November 2005	65,000	12 months' notice
3 September 2013	Gordon Banham	Group Chief Executive	1 October 2001	452,119	12 months' notice
3 September 2013	Kevin Dougan	Group Commercial Director	23 June 1997	224,473	12 months' notice
3 September 2013	Iain Cockburn	Group Finance Director	8 October 2007	265,952	12 months' notice
3 September 2013	David Morgan	Senior Independent Director	24 February 2012	42,500	6 months' notice
6 June 2014	Peter Jones	Non-Executive Director	6 June 2014	40,000	N/A

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

### Directors' Share Options

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

### Savings-Related Share Option Scheme

The Sharesave Scheme is a savings-related share option scheme and was implemented in December 2005. This is a ten-year scheme which will be up for renewal in 2015.

All employees (including Executive Directors) of the Group, or any participating member of the Group whose earnings are subject to income tax and who have the requisite minimum period of continuous employment, are eligible to participate.

The exercise price of an option shall be fixed by the Group and shall normally be at a 10% discount on the market value of a share on the date invitations are issued to eligible employees. In the case of an option to subscribe for shares the exercise price may not be less than the nominal value of a share.

Participants may, at the absolute discretion of the Committee, be invited to apply for three, five or seven year options. All options must be linked to a contractual savings scheme entered into by each participant with the savings institution nominated by the Company and approved by HMRC. Participants may save between £5 and £250 per month (or weekly equivalent), such sums to be deducted from the relevant participant's pay.

At the end of the chosen savings period, a bonus is payable.

No option shall be granted under the Sharesave Scheme on any date if, as a result, the total number of shares issued or issuable pursuant to options and other rights granted under the Sharesave Scheme and any other employees share scheme established by the Company on or after Admission, would exceed 10% of the issued ordinary share capital of the Company on that date of grant.

Ordinary Shares issued pursuant to the Sharesave Scheme shall rank *pari passu* in all respects with the ordinary shares already in issue.

In normal circumstances, options may be exercised during the period of six months commencing on the maturity (that is the relevant bonus date) of the savings contract. Options will become exercisable immediately on the death of a participant for a period of 12 months after the date of death or the bonus date, whichever is earlier. If a participant ceases to be an employee on reaching the age of 65 or at such other age at which that employee is bound to retire in accordance with the terms of his contract of employment or ceases to be in employment due to injury, disability, redundancy, or as a result of the sale of the business or subsidiary by which the participant is employed, options will become exercisable for a period of six months. If a participant has held an option for at least three years, it will become exercisable for a period of six months. Options will also become exercisable on an employee attaining the age of 65 if they should continue in employment and on a change in control, reconstruction, amalgamation or voluntary winding-up of the Company.

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

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

The LTIP scheme was implemented in November 2006.

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 23.

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.

# Remuneration Report continued

## **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

**Peter Jones**

**Non-Executive Director**

8 September 2014

# Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# Independent Auditor's Report to the Members of Hargreaves Services plc

We have audited the financial statements of Hargreaves Services plc for the year ended 31 May 2014, set out on pages 35 to 81. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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](http://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 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

## Nick Plumb

### (Senior Statutory Auditor)

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

8 September 2014

# Consolidated Statement of Profit and Loss and Other Comprehensive Income for year ended 31 May 2014

Continuing activities	Note	2014 £000	2013 £000
<b>Revenue</b>	1,2	<b>869,244</b>	843,298
Cost of sales		<b>(771,626)</b>	(756,930)
<b>Gross profit</b>		<b>97,618</b>	86,368
Other operating income	3	<b>970</b>	355
Administrative expenses – Impairment of non-current assets		<b>(2,829)</b>	(4,131)
Other administrative expenses	4	<b>(44,819)</b>	(38,620)
<b>Operating profit</b>	1,4-6	<b>50,940</b>	43,972
Gain on disposal of subsidiaries	2	<b>2,087</b>	–
Financial income	7	<b>1,121</b>	831
Financial expenses	7	<b>(5,568)</b>	(4,313)
Share of profit in associates and jointly controlled entities (net of tax)	13	<b>3,499</b>	2,573
<b>Profit before tax</b>		<b>52,079</b>	43,063
Income tax expense	9	<b>(11,525)</b>	(10,933)
<b>Profit for the year from continuing operations</b>		<b>40,554</b>	32,130
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	8	<b>(3,734)</b>	(81,757)
<b>Profit/(loss) for the year</b>		<b>36,820</b>	(49,627)
<b>Other comprehensive income/(expense)</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gains and losses on defined benefit pension plans	22	<b>(2,738)</b>	655
Tax recognised on items that will not be reclassified to profit or loss		<b>460</b>	(151)
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation differences		<b>(754)</b>	530
Effective portion of changes in fair value of cash flow hedges		<b>10,576</b>	(8,086)
Tax recognised on items that are or may be reclassified subsequently to profit or loss		<b>(2,118)</b>	1,869
Other comprehensive income/(expense) for the year, net of tax		<b>5,426</b>	(5,183)
<b>Total comprehensive income/(expense) for the year</b>		<b>42,246</b>	(54,810)
<b>Profit/(loss) attributable to:</b>			
Equity holders of the Company		<b>36,995</b>	(46,438)
Non-controlling interest		<b>(175)</b>	(3,189)
<b>Profit/(loss) for the year</b>		<b>36,820</b>	(49,627)
<b>Total comprehensive income/(expense) attributable to:</b>			
Equity holders of the Company		<b>42,443</b>	(51,640)
Non-controlling interest		<b>(197)</b>	(3,170)
<b>Total comprehensive income/(expense) for the year</b>		<b>42,246</b>	(54,810)
Basic earnings per share (pence)	10	<b>111.88</b>	(166.68)
Diluted earnings per share (pence)	10	<b>110.99</b>	(166.68)
Basic earnings per share from continuing operations (pence)	10	<b>123.18</b>	112.53
Diluted earnings per share from continuing operations (pence)	10	<b>122.19</b>	110.96
<b>Non-GAAP measures (continuing)</b>			
Basic underlying earnings per share (pence)	10	<b>125.77</b>	136.52
Diluted underlying earnings per share (pence)	10	<b>124.76</b>	134.63

# Balance Sheets

## at 31 May 2014

	Note	Group		Company	
		2014 £000	2013 £000	2014 £000	2013 £000
<b>Non-current assets</b>					
Property, plant and equipment	11	80,293	60,070	–	–
Intangible assets	12	17,801	19,149	–	–
Investments in associates and jointly controlled entities	13	6,843	2,719	5,027	42
Investments in subsidiary undertakings	13	–	–	32,574	32,578
Derivative financial instruments	14	2,965	37	–	–
Deferred tax assets	16	–	4,108	123	123
		<b>107,902</b>	86,083	<b>37,724</b>	32,743
<b>Current assets</b>					
Assets held for sale	8	8,171	14,997	–	–
Inventories	17	100,437	96,193	–	–
Derivative financial instruments	14	4,178	3,216	–	–
Trade and other receivables	18	133,518	149,558	600,525	469,152
Cash and cash equivalents	19	30,768	61,435	427	11,845
		<b>277,072</b>	325,399	<b>600,952</b>	480,997
<b>Total assets</b>		<b>384,974</b>	411,482	<b>638,676</b>	513,740
<b>Non-current liabilities</b>					
Other interest-bearing loans and borrowings	20	(92,328)	(92,686)	(80,190)	(83,632)
Retirement benefit obligations	22	(5,580)	(3,640)	–	–
Provisions	24	(8,641)	(7,620)	–	–
Derivative financial instruments	15	(1,343)	(3,150)	–	–
Deferred tax liabilities	16	(2,172)	–	–	–
		<b>(110,064)</b>	(107,096)	<b>(80,190)</b>	(83,632)
<b>Current liabilities</b>					
Bank overdraft	19	–	(42,476)	–	–
Other interest-bearing loans and borrowings	20	(7,215)	(6,446)	–	–
Trade and other payables	21	(99,612)	(117,841)	(430,520)	(341,705)
Income tax liabilities		(14,823)	(9,344)	(496)	–
Provisions	24	(550)	(2,285)	–	–
Derivative financial instruments	15	(2,586)	(7,664)	(1)	(12)
		<b>(124,786)</b>	(186,056)	<b>(431,017)</b>	(341,717)
<b>Total liabilities</b>		<b>(234,850)</b>	(293,152)	<b>(511,207)</b>	(425,349)
<b>Net assets</b>		<b>150,124</b>	118,330	<b>127,469</b>	88,391

	Note	Group		Company	
		2014 £000	2013 £000	2014 £000	2013 £000
<b>Equity attributable to equity holders of the parent</b>					
Share capital	25	<b>3,309</b>	3,296	<b>3,309</b>	3,296
Share premium		<b>73,952</b>	73,208	<b>73,952</b>	73,208
Other reserves	25	<b>211</b>	211	–	–
Translation reserve	25	<b>(1,965)</b>	(872)	–	–
Merger reserve	25	<b>1,022</b>	1,022	<b>1,022</b>	1,022
Hedging reserve	25	<b>2,766</b>	(5,692)	–	–
Capital redemption reserve	25	<b>1,530</b>	1,530	<b>1,530</b>	1,530
Retained earnings		<b>69,073</b>	47,265	<b>47,656</b>	9,335
		<b>149,898</b>	119,968	<b>127,469</b>	88,391
<b>Non-controlling interest</b>		<b>226</b>	(1,638)	–	–
<b>Total equity</b>		<b>150,124</b>	118,330	<b>127,469</b>	88,391

These financial statements were approved by the Board of Directors on 8 September 2014 and were signed on its behalf by:

**Gordon Banham**  
Director

**Iain Cockburn**  
Director

Registered Number: 4952865



# Statements of Changes in Equity

## for year ended 31 May 2014

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
<b>Total comprehensive income for the year</b>											
Loss for the year	-	-	-	-	-	-	-	(46,438)	(46,438)	(3,189)	(49,627)
<b>Other comprehensive income</b>											
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)
<b>Transactions with owners recorded directly in equity</b>											
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
<b>Changes in ownership interests</b>											
Acquisition of non-controlling interest without a change in control	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	587	41,103	-	-	-	-	-	(4,605)	37,085	(306)	36,779
<b>Balance at 31 May 2013</b>	<b>3,296</b>	<b>73,208</b>	<b>(872)</b>	<b>(5,692)</b>	<b>211</b>	<b>1,530</b>	<b>1,022</b>	<b>47,265</b>	<b>119,968</b>	<b>(1,638)</b>	<b>118,330</b>

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

# Statements of Changes in Equity

## for year ended 31 May 2014

### 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 2012	2,709	32,105	1,530	1,022	13,211	50,577
<b>Total comprehensive income for the year</b>						
Profit for the year	–	–	–	–	729	729
Total comprehensive income for the year	–	–	–	–	729	729
<b>Transactions with owners recorded directly in equity</b>						
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
<b>Balance at 31 May 2013</b>	3,296	73,208	1,530	1,022	9,335	88,391
Balance at 1 June 2013	3,296	73,208	1,530	1,022	9,335	88,391
<b>Total comprehensive income for the year</b>						
Profit for the year	–	–	–	–	44,503	44,503
Total comprehensive income for the year	–	–	–	–	44,503	44,503
<b>Transactions with owners recorded directly in equity</b>						
Issue of shares	13	744	–	–	–	757
Equity settled share-based payment transactions	–	–	–	–	1,224	1,224
Dividends paid	–	–	–	–	(7,406)	(7,406)
Total transactions with owners	13	744	–	–	(6,182)	(5,425)
<b>Balance at 31 May 2014</b>	3,309	73,952	1,530	1,022	47,656	127,469

# Cash Flow Statements

## for year ended 31 May 2014

	Note	Group		Company	
		2014 £000	2013 £000	2014 £000	2013 £000
<b>Cash flows from operating activities</b>					
Profit for the year from continuing operations		40,554	32,130	44,503	729
Adjustments for:					
Depreciation		9,407	8,345	–	–
Impairment of property, plant and equipment		2,829	–	–	–
Depreciation of mining assets		2,873	–	–	–
Amortisation and impairment of goodwill and intangible assets		1,319	7,985	–	–
Dividend income		–	–	(41,770)	(1,394)
Net finance expense		4,447	3,482	835	1,222
Share of profit in associates and jointly controlled entities (net of tax)		(3,499)	(2,573)	–	–
Profit on sale of property, plant and equipment		(970)	(355)	–	–
Profit on disposal of subsidiaries		(2,087)	–	(3,756)	–
Equity settled share-based payment expenses		1,050	307	–	–
Income tax expense		11,525	10,933	496	188
(Loss)/gain on derivative financial instruments		(199)	–	11	(110)
Translation of non-controlling interest		(22)	19	–	–
		67,227	60,273	319	635
Change in inventories		(28,434)	(23,231)	–	–
Change in trade and other receivables		13,435	(34,253)	(93,874)	(138,140)
Change in trade and other payables		(6,461)	30,951	88,791	81,174
Change in provisions and employee benefits		1,115	35	–	–
		46,882	33,775	(4,764)	(56,331)
Interest paid		(3,871)	(2,688)	(278)	(665)
Income tax paid		(793)	(9,868)	–	–
		42,218	21,219	(5,042)	(56,996)
Net cash from continuing operating activities		42,218	21,219	(5,042)	(56,996)
Net cash from operating activities in discontinued operations		(9,149)	(45,801)	–	–
<b>Net cash from operating activities</b>		<b>33,069</b>	<b>(24,582)</b>	<b>(5,042)</b>	<b>(56,996)</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		2,089	1,289	–	–
Dividends received		4,273	–	4,273	–
European reorganisation		10,242	–	–	–
Acquisition of property, plant and equipment	11	(23,618)	(6,954)	–	–
		(7,014)	(5,665)	4,273	–
Net cash from investing activities in continuing operations		(7,014)	(5,665)	4,273	–
Net cash from investing activities in discontinued operations		2,910	4,225	–	–
<b>Net cash from investing activities</b>		<b>(4,104)</b>	<b>(1,440)</b>	<b>4,273</b>	<b>–</b>
<b>Cash flows from financing activities</b>					
Proceeds from the issue of share capital (net of directly attributable expenses)	25	755	41,690	757	41,690
Payment of finance lease liabilities		(4,960)	(3,754)	–	–
Dividends paid	25	(7,406)	(5,425)	(7,406)	(5,119)
Repayment of promissory notes (net of expenses)		–	(5,025)	–	–
(Repayment of)/proceeds from revolving credit facility	20	(4,000)	10,000	(4,000)	10,000
		(15,611)	37,486	(10,649)	46,572
Net cash from financing activities in continuing operations		(15,611)	37,486	(10,649)	46,572
Net cash from financing activities in discontinued operations		(1,923)	(5,390)	–	–
<b>Net cash from financing activities</b>		<b>(17,534)</b>	<b>32,096</b>	<b>(10,649)</b>	<b>46,572</b>
		11,431	6,074	(11,418)	(10,425)
Net increase/(decrease) in cash and cash equivalents		11,431	6,074	(11,418)	(10,425)
Cash and cash equivalents at 1 June		18,959	14,637	11,845	22,270
Effect of exchange rate fluctuations on cash held		378	(1,752)	–	–
<b>Cash and cash equivalents at 31 May</b>	19	<b>30,768</b>	<b>18,959</b>	<b>427</b>	<b>11,845</b>



# Notes

## (forming part of the financial statements)

### 1 Accounting Policies

Hargreaves Services plc (the "Company") is a company incorporated in the UK.

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

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

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

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

- Amendment to IAS 1 "Presentation of items of Other Comprehensive Income";
- IAS 19 (Revised) Employee Benefits;
- IFRS 13 Fair Value Measurement;
- Amendments to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"; and
- Annual Improvements to IFRSs 2009-2011.

#### Presentation of Items of Other Comprehensive Income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its consolidated statement of profit or loss and OCI, to present separately items that are or may be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

#### IAS 19 (Revised) Employee Benefits

The Group adopted IAS 19 (Revised) Employee Benefits from 1 June 2013. As a result of IAS 19 (Revised), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans. Under previous IAS 19, the interest cost on the defined benefit obligation and an expected return on plan assets were recognised in profit or loss within finance cost and finance income respectively. Under IAS 19R, these two amounts have been replaced by a single measure called 'net interest' calculated on the net defined benefit liability. This change affects the difference between actual and expected returns on plan assets, which is recognised in full within OCI as part of remeasurements.

The comparative financial information in the consolidated financial statements has not been restated as the effect of the adjustment is not considered material.

#### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements. IFRS 13 replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

None of these or the other 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 and assets held for sale

This requires the identification of appropriate cash-generating units and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash-generating units, the discount rate applied in the calculations and the comparison of the cash flows to the carrying value of the goodwill. Management have assessed the sensitivity of carrying amounts of cash-generating units containing goodwill to reasonably possible changes in key assumptions. Assets held for sale relate to residual equipment from discontinued operations. Estimates have been made of the net proceeds from these disposals.

## 1 Accounting Policies (continued)

### Accounting Estimates and Judgements (continued)

#### b) Mining production and profitability

The Group has a growing surface mining business through the Tower joint venture and the operations in Scotland. Estimates of mine life and production levels, and the profitability of future production (which in the medium-term 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 24) are based on the nature and extent of the contamination and the estimated costs of restoration. These key assumptions are reviewed on a regular basis and these reviews may lead to adjustments to the provisions over their lives.

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.

#### 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 7. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 12 to 15. In addition, Note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

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 8 September 2014.

### 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.

# Notes

## (forming part of the financial statements)

### continued

#### 1 Accounting Policies (continued)

##### Basis of Consolidation (continued)

##### Associates and Jointly Controlled Entities (continued)

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. When a foreign operation is disposed of, such that control, joint control or significant influence is lost, the entire accumulated amount in the translation reserve, net of amounts previously attributed to non-controlling interests, is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests.

##### Classification of Financial Instruments Issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

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

##### Financial Instruments

##### Non-Derivative Financial Instruments

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

##### Derivative Financial Instruments

The Group uses interest rate swaps to help manage its interest rate risk, and forward foreign currency contracts to manage its exchange rate risk. The Group also uses derivative sale and purchase contracts to mitigate the risk of fluctuating coal prices and exchange rate risk.

Derivative financial instruments are recognised initially at fair value and 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.

## 1 Accounting Policies (continued)

### Cash Flow Hedges (continued)

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 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.

### Mining Assets

#### Surface Mine Development Asset

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

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

During the production phase, a non-current "stripping activity asset" is 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 is initially measured at cost and subsequently carried at cost or its revalued amount less amortisation and impairment. The stripping activity asset is amortised over the units of production of the coal deposit identified as being made more accessible as a result of the 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.



# Notes

## (forming part of the financial statements)

### continued

#### **1 Accounting Policies** (continued)

##### **Business Combinations** (continued)

##### **Acquisitions on or After 1 June 2010** (continued)

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

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

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

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

##### **Acquisitions Between 1 June 2006 and 1 June 2010**

Goodwill arising on acquisitions that have occurred between 1 June 2006 and 1 June 2010 is capitalised and subject to impairment review, both annually and when there are indications the carrying value may not be recoverable. Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

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

Goodwill arising on acquisitions prior to 1 June 2006 was capitalised and amortised under UK GAAP. This goodwill is carried at the UK GAAP carrying value at the date of transition to adopted IFRS and is subject to impairment reviews as described above.

##### **Acquisitions and Disposals of Non-Controlling Interests**

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

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

##### **Intangible Assets and Goodwill**

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

Other intangible assets that are acquired by the Group, which have finite useful economic lives, are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

##### **Assets Held for Sale**

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

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

##### **Inventories**

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

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

##### **Trade and Other Receivables**

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost less any impairment losses. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the agreed terms of the receivables concerned.

##### **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

##### **Trade and Other Payables**

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

## 1 Accounting Policies (continued)

### Investments

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment in the parent company accounts.

### Interest-Bearing Borrowings

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

### Impairment

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

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

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

### Reversals of Impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Employee Benefits

#### Defined Benefit Pension Plans

Following the acquisition of The Monckton Coke & Chemical Company Limited on 17 June 2005 and Maltby Colliery Limited on 26 February 2007, the Group operates two concessionary fuel retirement benefit schemes.

In addition, following the acquisition of Maltby Colliery, the Group is a member of two pension schemes providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

The retirement benefit scheme liabilities are calculated by a qualified actuary using the projected unit method. The concessionary fuel retirement benefit schemes are unfunded retirement benefits and as such there are no assets in the schemes. The retirement benefit deficits are recognised in full, the movement in the scheme deficits is split between operating charges, finance items and, in other comprehensive income, actuarial gains and losses.

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

#### Defined Contribution Pension Plans

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

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

#### Share-Based Payment Transactions

The Group operates a share option scheme for certain employees. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

# Notes

## (forming part of the financial statements)

### continued

#### 1 Accounting Policies (continued)

##### 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.

##### Taxation

Tax on the profit or loss for the period comprises both current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

##### Provisions

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

## 1 Accounting Policies (continued)

### 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:

- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosure of Interests in Other Entities';
- 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 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';
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting; and
- Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets.

## 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 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, jointly controlled entities, associates and divisions, have separate management teams and offer different products and services. These four operating segments are also reportable segments.



# Notes

## (forming part of the financial statements)

### continued

#### 2 Segmental Information (continued)

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

	Production 2014 £000	Energy & Commodities 2014 £000	Transport 2014 £000	Industrial Services 2014 £000	Total 2014 £000
<b>Revenue</b>					
Total revenue	167,654	593,338	88,975	122,599	972,566
Inter-segment revenue	(79,091)	(6,858)	(12,467)	(4,906)	(103,322)
<b>Revenue from external customers</b>	88,563	586,480	76,508	117,693	869,244
<b>Underlying operating profit</b>	16,740	32,517	4,508	5,734	59,499
Gain on disposal of subsidiaries	–	2,087	–	–	2,087
Impairment of property, plant and equipment	(2,829)	–	–	–	(2,829)
Amortisation of intangibles/goodwill	(143)	(847)	–	(329)	(1,319)
Taxation on associates and jointly controlled entities	(357)	(555)	–	–	(912)
Net financing costs	(209)	(2,731)	(933)	(574)	(4,447)
<b>Profit before taxation</b>	13,202	30,471	3,575	4,831	52,079
<b>Depreciation charge</b>	(5,374)	(2,626)	(3,196)	(1,084)	(12,280)
<b>Capital expenditure</b>	26,383	1,588	6,251	1,336	35,558
<b>Net assets</b>					
Segment assets	128,660	121,196	30,518	52,111	332,485
Segment liabilities	(38,888)	(52,465)	(20,631)	(22,111)	(134,095)
<b>Segment net assets</b>	89,772	68,731	9,887	30,000	198,390
Associates and jointly controlled entities	4,078	2,764	–	–	6,842
<b>Segment net assets including share of associates and jointly controlled entities</b>	93,850	71,495	9,887	30,000	205,232
Unallocated net assets					(55,108)
<b>Total net assets</b>					150,124

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

## 2 Segmental Information (continued)

	Production 2013 £000	Energy & Commodities 2013 £000	Transport 2013 £000	Industrial Services 2013 £000	Total 2013 £000
<b>Revenue</b>					
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)
<b>Revenue from external customers</b>	87,305	546,331	71,150	138,512	843,298
<b>Underlying operating profit</b>	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)
<b>Profit before taxation</b>	15,169	26,115	3,120	(1,341)	43,063
<b>Depreciation charge</b>	(1,706)	(622)	(3,212)	(2,805)	(8,345)
<b>Capital expenditure</b>	8,566	1,340	2,343	4,467	16,716
<b>Net assets</b>					
Segment assets	92,494	198,293	27,882	36,749	355,418
Segment liabilities	(25,192)	(110,805)	(17,330)	(25,490)	(178,817)
<b>Segment net assets</b>	67,302	87,488	10,552	11,259	176,601
Jointly controlled entities	2,439	280	–	–	2,719
<b>Segment net assets including share of jointly controlled entities</b>	69,741	87,768	10,552	11,259	179,320
Unallocated net assets					(60,990)
<b>Total net assets</b>					118,330

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

### Information About Key Customers

Included in revenue is an amount of £155,595,000 (2013: £146,699,000) 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:

	2014 £000	2013 £000
Sale of goods	675,043	633,636
Rendering of services	194,201	209,662
	<b>869,244</b>	843,298

### Geographical Information

	2014		2013	
	UK £000	Overseas £000	UK £000	Overseas £000
<b>Revenue</b>	<b>816,274</b>	<b>52,970</b>	740,459	102,839
<b>Non-current assets</b>	<b>107,902</b>	–	81,567	371

# Notes

## (forming part of the financial statements)

### continued

#### 2 Segmental Information (continued)

On 28 November 2013 a group reorganisation took place, whereby the Group's share of the voting rights in its German subsidiary reduced from 86% to 49%, which together with changes in board composition and shareholder rights, resulted in the Group losing control of the German business but retaining significant influence. In accordance with IAS 27, this is accounted for as a disposal of subsidiary and acquisition of an associate; the latter is accounted for at its fair value at the date of the acquisition, resulting in a gain on disposal of £2,087,000.

Prior to the deemed disposal of Hargreaves Raw Materials Services GmbH which was completed on 28 November 2013, the revenue and trading results of this entity have been included in the consolidated profit and loss and other comprehensive income on a line by line basis.

From 28 November 2013, from which date Hargreaves Services plc ceased to control the entity, the trading results of Hargreaves Raw Material Services GmbH continue to be included within continuing operations, albeit as part of the share of profit in associates.

This also resulted in the deconsolidation of its net assets from the group balance sheet and the recycling of the associated translation and non-controlling interest reserves into the income statement resulting in a profit on disposal of £2.1m.

#### 3 Other Operating Income

	2014 £000	2013 £000
Net gain on disposal of property, plant and equipment	970	355

#### 4 Expenses and Auditors' Remuneration

Included in profit are the following:

	2014 £000	2013 £000
Amortisation of intangibles	1,319	3,854
Impairment of intangibles	–	1,629
Impairment of goodwill	–	2,502
Impairment loss on inventories	694	384
Impairment loss on trade and other receivables	19	197
Impairment of property, plant and equipment	2,829	–
Depreciation of property, plant and equipment owned	5,765	2,728
Depreciation of property, plant and equipment held under finance lease	3,642	5,617
Depreciation of mining assets	2,873	–

#### Auditors' Remuneration:

	2014 £000	2013 £000
Audit of these financial statements	27	23
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	208	230
Audit related assurance services	5	5
Taxation compliance services	67	72
Other tax advisory services	45	59
Other assurance services	–	150
All other services	47	512

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.

#### 5 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	
	2014	2013
Directors	22	25
Traffic and administration	557	651
Production, maintenance and drivers	2,176	2,134
	2,755	2,810

## 5 Staff Numbers and Costs (continued)

The aggregate payroll costs of these persons were as follows:

	Group	
	2014 £000	2013 £000
Wages and salaries	97,966	109,916
Share-based payments (see Note 23)	1,224	514
Social security costs	9,643	9,636
Contributions to defined contribution plans (see Note 22)	1,765	1,756
Current service costs of defined benefit plans (see Note 22)	89	1,216
	<b>106,890</b>	123,038

## 6 Directors' Remuneration

	2014 £000	2013 £000
Directors' emoluments	1,277	993
Company contributions to money purchase pension plans	163	160
Amounts paid to third-parties in respect of Directors' services	106	160

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £482,000 (2013: £471,000), and company pension contributions of £110,813 (2013: £108,641) were made to a money purchase scheme on his behalf.

	Number of Directors	
	2014	2013
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		Exercise price pence
	At start of year	At end of year	
GFC Banham	182,868	194,321	–
GFC Banham (under SRSOSs)	819	819	1,098
KJ Dougan	64,004	69,141	–
ID Cockburn	84,909	91,018	–
ID Cockburn (under SRSOSs)	1,093	1,093	825

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

## 7 Finance Income and Expense Recognised in Profit or Loss

	2014 £000	2013 £000
<b>Finance income</b>		
Interest income on unimpaired financial assets	185	54
Interest received from jointly controlled entities	936	777
Total finance income	<b>1,121</b>	831
<b>Finance expense</b>		
Total interest expense on financial liabilities measured at amortised cost	5,427	4,292
Interest on defined benefit pension plan obligation	141	21
Total finance expense	<b>5,568</b>	4,313



# Notes

## (forming part of the financial statements)

### continued

#### 8 Discontinued Operations

The Group's discontinued operations made a loss of £3.7m (2013: 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 classified as discontinued in the current and prior year. In addition, certain related assets were reclassified in the balance sheet as "assets held for sale".

	2014 £000	2013 £000
<b>Revenue</b>	–	37,148
Direct depreciation	–	(7,756)
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)
<b>Gross profit/(loss)</b>	–	(83,421)
Other operating income	–	2,403
Impairment of goodwill	–	(2,727)
Administrative expenses	<b>(4,174)</b>	(14,401)
<b>Operating loss</b>	<b>(4,174)</b>	(98,146)
Net finance expense	<b>(895)</b>	(2,235)
<b>Loss before tax of discontinued operations</b>	<b>(5,069)</b>	(100,381)
Taxation		
Current tax credit	<b>6,725</b>	14,065
Deferred tax (charge)/credit	<b>(5,390)</b>	4,559
	<b>1,335</b>	18,624
<b>Loss for the year from discontinued operations</b>	<b>(3,734)</b>	(81,757)

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

	2014 £000	2013 £000
Property, plant and equipment	<b>6,774</b>	9,735
Other non-current assets	<b>1,397</b>	5,262
	<b>8,171</b>	14,997

## 9 Taxation

### Recognised in the Statement of Profit and Loss

	2014 £000	2013 £000
<b>Current tax expense</b>		
Current year	11,444	11,775
Adjustments for prior years	472	(555)
Foreign tax – current year	377	1,026
Current tax expense	<b>12,293</b>	12,246
<b>Deferred tax credit</b>		
Origination and reversal of temporary differences	(710)	(1,699)
Adjustments for prior years	(98)	467
Reduction in tax rate	40	(81)
Deferred tax credit	<b>(768)</b>	(1,313)
Tax expense in income statement (excluding share of tax of equity accounted investees)	<b>11,525</b>	10,933
Share of tax of equity accounted investees	<b>912</b>	1,131
Total tax expense from continuing operations	<b>12,437</b>	12,064

### Recognised in Other Comprehensive Income

	2014 £000	2013 £000
Deferred tax (expense)/income		
Effective portion of changes in fair value of cash flow hedges	(2,118)	1,869
Actuarial gains and losses on defined benefit pension plans	460	(151)
	<b>(1,658)</b>	1,718

### Reconciliation of Effective Tax Rate

	2014 Rate	2014 £000	2013 Rate	2013 £000
Profit for the year from continuing operations		40,554		32,130
Total tax expense (including tax on equity accounted investees)		12,437		12,064
Profit excluding taxation from continuing operations		<b>52,991</b>		44,194
Tax using the UK corporation tax rate of 22.67% (2013: 23.83%)	<b>22.67%</b>	<b>12,011</b>	23.83%	10,532
Effect of tax rates in foreign jurisdictions	<b>0.43%</b>	<b>228</b>	0.64%	284
Unrecognised tax losses	<b>0.02%</b>	<b>13</b>	0.65%	286
Non-deductible (income)/expenses	<b>(0.36%)</b>	<b>(187)</b>	2.54%	1,122
Reduction in tax rate on deferred tax balances	–	<b>(2)</b>	(0.18%)	(81)
Under/(over) provided in prior years	<b>0.71%</b>	<b>374</b>	(0.18%)	(79)
Effective tax rate and total tax expense	<b>23.47%</b>	<b>12,437</b>	27.30%	12,064

The UK corporation tax rate reduced to 21% on 1 April 2014, giving an effective base rate of 22.67% (2013: 23.83%).

### 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 substantively enacted during the year and are therefore included in the figure above.

# Notes

## (forming part of the financial statements)

### continued

#### 10 Earnings Per Share

	2014		2013	
	Continuing and discontinued	Continuing	Continuing and discontinued	Continuing
<b>Ordinary Shares</b>				
Basic earnings per share	<b>111.88p</b>	<b>123.18p</b>	(166.68)p	112.53p
Diluted earnings per share	<b>110.99p</b>	<b>122.19p</b>	(166.68)p	110.96p

The calculation of earnings per share is based on the profit/(loss) for the year attributable to equity holders and on the weighted average number of shares in issue and ranking for dividend in the year.

	2014		2013	
	Continuing and discontinued	Continuing	Continuing and discontinued	Continuing
Profit/(loss) for the year attributable to equity holders (£000)	<b>36,995</b>	<b>40,729</b>	(46,438)	31,351
Weighted average number of shares	<b>33,065,926</b>	<b>33,065,926</b>	27,860,668	27,860,668
Basic earnings per share	<b>111.88p</b>	<b>123.18p</b>	(166.68)p	112.53p

The calculation of diluted earnings per share is based on the profit/(loss) 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 266,277 (2013: 392,241)); effect on earnings per ordinary share is 0.89p (2013: nil). Effect on continuing earnings per ordinary share is 0.99p (2013: 1.57p).

	2014		2013	
	Continuing and discontinued	Continuing	Continuing and discontinued	Continuing
Profit/(loss) for the year attributable to equity holders (£000)	<b>36,995</b>	<b>40,729</b>	(46,438)	31,351
Weighted average number of shares	<b>33,332,203</b>	<b>33,332,203</b>	28,252,909	28,252,909
Diluted earnings per share	<b>110.99p</b>	<b>122.19p</b>	(166.68)p	110.96p

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

	2014 £000	2013 £000
Profit for the year attributable to equity holders from continuing operations	<b>40,729</b>	31,351
Disposal of subsidiaries	<b>(2,087)</b>	–
Amortisation/impairment of intangibles/goodwill	<b>1,319</b>	7,985
Tax effect of amortisation	<b>(299)</b>	(1,299)
Impairment of property, plant and equipment	<b>2,404</b>	–
Tax effect of impairment	<b>(481)</b>	–
Underlying profit after tax	<b>41,585</b>	38,037

## 11 Property, Plant and Equipment Group

	Freehold land and buildings and leasehold improvements £000	Assets under the course of construction £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Mining assets £000	Mineral reserves £000	Total £000
<b>Cost</b>								
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
<b>Balance at 31 May 2013</b>	<b>21,557</b>	<b>2,095</b>	<b>5,702</b>	<b>65,821</b>	<b>524</b>	<b>–</b>	<b>9,571</b>	<b>105,270</b>
Balance at 1 June 2013	21,557	2,095	5,702	65,821	524	–	9,571	105,270
Other acquisitions	408	615	760	22,890	56	12,770	–	37,499
Disposals	(552)	(260)	(255)	(4,608)	(4)	–	(9,571)	(15,250)
Transfers	2,342	(2,450)	–	108	–	–	–	–
Effect of movements in foreign exchange	–	–	(3)	(3)	–	–	–	(6)
<b>Balance at 31 May 2014</b>	<b>23,755</b>	<b>–</b>	<b>6,204</b>	<b>84,208</b>	<b>576</b>	<b>12,770</b>	<b>–</b>	<b>127,513</b>
<b>Depreciation and impairment</b>								
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
<b>Balance at 31 May 2013</b>	<b>3,479</b>	<b>–</b>	<b>4,606</b>	<b>27,168</b>	<b>376</b>	<b>–</b>	<b>9,571</b>	<b>45,200</b>
Balance at 1 June 2013	3,479	–	4,606	27,168	376	–	9,571	45,200
Depreciation charge for the year	334	–	359	8,660	44	2,883	–	12,280
Impairment losses	–	–	–	2,829	–	–	–	2,829
Disposals	(201)	–	(200)	(3,110)	(4)	–	(9,571)	(13,086)
Effect of movements in foreign exchange	–	–	(2)	(1)	–	–	–	(3)
<b>Balance at 31 May 2014</b>	<b>3,612</b>	<b>–</b>	<b>4,763</b>	<b>35,546</b>	<b>416</b>	<b>2,883</b>	<b>–</b>	<b>47,220</b>
<b>Net book value</b>								
<b>At 1 June 2012</b>	<b>17,877</b>	<b>1,456</b>	<b>738</b>	<b>73,105</b>	<b>85</b>	<b>–</b>	<b>5,079</b>	<b>98,340</b>
<b>At 31 May 2013 and 1 June 2013</b>	<b>18,078</b>	<b>2,095</b>	<b>1,096</b>	<b>38,653</b>	<b>148</b>	<b>–</b>	<b>–</b>	<b>60,070</b>
<b>At 31 May 2014</b>	<b>20,143</b>	<b>–</b>	<b>1,441</b>	<b>48,662</b>	<b>160</b>	<b>9,887</b>	<b>–</b>	<b>80,293</b>

The Group has £nil (2013: £2,095,000) property, plant and equipment under construction.

The Company has no property, plant and equipment.

### Leased Plant and Machinery

At 31 May 2014 the net carrying amount of leased plant and machinery was £21,350,279 (2013: £21,675,316). The leased equipment secures lease obligations (see Note 20).

### Security

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



# Notes

## (forming part of the financial statements)

### continued

#### 12 Intangible Assets Group

	Goodwill £000	Negative goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
<b>Cost</b>						
Balance at 1 June 2012	22,290	(93)	14,229	8,148	1,015	45,589
Effect of movements in foreign exchange	30	–	–	–	–	30
<b>Balance at 31 May 2013</b>	<b>22,320</b>	<b>(93)</b>	<b>14,229</b>	<b>8,148</b>	<b>1,015</b>	<b>45,619</b>
Balance at 1 June 2013	22,320	(93)	14,229	8,148	1,015	45,619
Effect of movements in foreign exchange	–	–	–	–	–	–
Disposal of subsidiary	–	93	–	–	–	93
<b>Balance at 31 May 2014</b>	<b>22,320</b>	<b>–</b>	<b>14,229</b>	<b>8,148</b>	<b>1,015</b>	<b>45,712</b>
<b>Amortisation and impairment</b>						
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
<b>Balance at 31 May 2013</b>	<b>5,229</b>	<b>(93)</b>	<b>13,055</b>	<b>8,148</b>	<b>131</b>	<b>26,470</b>
Balance at 1 June 2013	5,229	(93)	13,055	8,148	131	26,470
Amortisation for the year	–	–	1,174	–	145	1,319
Disposal of subsidiary	–	93	–	–	–	93
Exchange movements	29	–	–	–	–	29
<b>Balance at 31 May 2014</b>	<b>5,258</b>	<b>–</b>	<b>14,229</b>	<b>8,148</b>	<b>276</b>	<b>27,911</b>
<b>Net book value</b>						
<b>At 31 May 2012</b>	<b>22,290</b>	<b>–</b>	<b>3,268</b>	<b>3,258</b>	<b>1,015</b>	<b>29,831</b>
<b>At 31 May 2013 and 1 June 2013</b>	<b>17,091</b>	<b>–</b>	<b>1,174</b>	<b>–</b>	<b>884</b>	<b>19,149</b>
<b>At 31 May 2014</b>	<b>17,062</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>739</b>	<b>17,801</b>

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 were being amortised over 62 months, £2,596,000 of the customer contracts were being amortised over 71 months, £7,061,000 of the customer contracts were being amortised over 75 months and £2,540,000 of the customer contracts were being amortised over 36 months, each being the weighted average expected life of the contracts.

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

#### Amortisation and Impairment Charge

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

	2014 £000	2013 £000
Administrative expenses – Impairment of intangible assets	–	4,131
Other administrative expenses	1,319	3,854
Discontinued operations	–	2,727

## 12 Intangible Assets (continued)

### Impairment Testing

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

	Goodwill	
	2014 £000	2013 £000
Hargreaves Industrial Services Limited (formerly Norec Limited)	1,252	1,252
Imperial Tankers Limited/Hargreaves (Bulk Liquid Transport) Limited	3,523	3,523
The Monckton Coke & Chemical Company Limited	5,419	5,419
Coal4Energy Limited/Maxibrite Limited	6,140	6,140
Other	728	757
	<b>17,062</b>	17,091

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:

	2014	2013
Period on which management approved forecasts are based	<b>5 years</b>	5 years
Growth rate applied beyond approved forecast period	<b>2%</b>	2%
Discount rate	<b>12%</b>	12%

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

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

- Cash flows were projected based on budgeted operating results for the proceeding year with the short-term growth rate applied to the next four years. A conservative growth rate of 2% has been applied in perpetuity. This rate does not exceed the long-term average growth rate for any of the cash-generating units' industries;
- sustaining capital expenditure in each cash-generating unit has been used in the calculations equivalent to the current levels of annual depreciation; and
- a pre-tax discount rate of 12% (2013: 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.

# Notes

## (forming part of the financial statements)

### continued

#### 13 Investments in Subsidiaries, Associates and Jointly Controlled Entities

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

Company	Nature of business	Country of incorporation	Class of shares held	Ownership	
				2014	2013
<b>Company</b>					
<b>Subsidiary undertakings</b>					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Industrial Services Limited (formerly Norec Limited)	Contract management service	UK	Ordinary	100%	100%
Coal4Energy Limited	Light industrial and domestic coal sales	UK	Ordinary	100%	100%
Forward Sound Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Europe Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Services (HK) Limited	Holding company	Hong Kong	Ordinary	100%	100%
Hargreaves Surface Mining Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Technical Resources Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves Services Australia Limited	Coal trading	UK	Ordinary	100%	100%
Hargreaves Maltby Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Services (Westfield) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services (Castlebridge) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services (Blindwells) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services (Piperhill) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services (Killoch) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Forestry Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (Damside) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (Broken Cross) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (Glentaggart) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (House of Water) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (Chalmerston) Limited	Property holding	UK	Ordinary	100%	–
<b>Jointly controlled entities</b>					
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%
<b>Associate undertakings</b>					
Hargreaves Services Europe Limited	Import and sale of carbon-based materials	UK	Ordinary	86%	86%
<b>Group</b>					
<b>Subsidiary undertakings</b>					
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%
Hargreaves Industrial Services Limited (formerly Norec Limited)	Contract management service	UK	Ordinary	100%	100%
Maltby Colliery Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Metallurgical Supplies Limited	Mineral distribution	UK	Ordinary	100%	100%
Imperial Tankers Limited	Haulage	UK	Ordinary	100%	100%
Hargreaves Engineering & Contracts Limited (formerly AJS Contracts Limited)	Engineering maintenance services	UK	Ordinary	100%	100%
Maxibrite Limited	Smokeless fuel briquette manufacturing	UK	Ordinary	85.2%	85.2%
RocFuel Limited	Renewable energy solutions	UK	Ordinary	50.1%	50.1%
RocPower Limited	Renewable energy solutions	UK	Ordinary	85%	85%
Hargreaves Carbon Products NV	Import and sale of carbon-based materials	Belgium	Ordinary	100%	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 Surface Mining Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Technical Resources Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves Services Australia Limited	Coal trading	UK	Ordinary	100%	100%
Mekol NV	Port facilities	Belgium	Ordinary	100%	86%
Hargreaves Services (Westfield) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services (Castlebridge) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services (Blindwells) Limited	Property holding	UK	Ordinary	100%	–

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

	Nature of business	Country of incorporation	Class of shares held	Ownership	
				2014	2013
Hargreaves Services (Piperhill) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services (Killoch) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Forestry Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (Damside) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (Broken Cross) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (Glentaggart) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (House of Water) Limited	Property holding	UK	Ordinary	100%	–
Hargreaves Services Wind Farm (Chalmerston) Limited	Property holding	UK	Ordinary	100%	–
<b>Jointly controlled entities</b>					
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%
517EPA Limited	Holding company	UK	Ordinary	50%	50%
<b>Associate undertakings</b>					
Hargreaves Raw Material Services GmbH	Import and sale of carbon-based materials	Germany	Ordinary	86%	86%
Hargreaves Carbon Products Polska Sp Zo.o	Sale of carbon-based materials	Poland	Ordinary	86%	86%
Hargreaves Services Europe Limited	Import and sale of carbon-based materials	UK	Ordinary	86%	86%

During the year the Group increased its stake in Hargreaves Carbon Products NV from 86% to 100%. The consideration of £2.8m has been posted to equity in accordance with IAS 27 in the Group balance sheet.

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

In addition to the above, the Group has approximately 19 dormant subsidiary undertakings. A full list of subsidiaries will be annexed to the next annual return of Hargreaves Services plc delivered to the Registrar of Companies.

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 2014 was a profit of £3,499,000 (2013: profit of £2,573,000).

Group	Interests in associate undertakings £000	Interests in jointly controlled entities £000	Total £000
<b>Cost</b>			
<b>At beginning and end of year</b>	–	66	66
<b>Share of post acquisition reserves</b>			
At beginning of year	–	2,653	2,653
Acquisition of associates	4,984	–	4,984
Dividends received	(4,273)	–	(4,273)
Profit for the financial year	1,850	1,649	3,499
Effect of movements in foreign exchange	(79)	(7)	(86)
<b>At end of year</b>	<b>2,482</b>	<b>4,295</b>	<b>6,777</b>
<b>Net book value</b>			
<b>At 31 May 2014</b>	<b>2,482</b>	<b>4,361</b>	<b>6,843</b>
<b>At 31 May 2013</b>	–	2,719	2,719

The acquisition of associates in the year relates to the interest in the German associate which is measured at fair value.

# Notes

## (forming part of the financial statements)

### continued

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

	Ownership %	Current assets £000	Non-current assets £000	Current liabilities £000	Non-current liabilities £000	Revenue £000	Expenses (including tax) £000
<b>2014</b>							
Tower Regeneration Limited	50%	39,240	19,641	(35,835)	(11,560)	35,647	(31,104)
Tower Regeneration Leasing Limited	50%	1,264	29,765	(5,790)	(25,072)	5,262	(5,262)
Mir Trade Services Limited	50%	5,033	–	(4,586)	–	44,209	(44,225)
Mir Trade Services BV	50%	85	–	–	–	–	–
Hargreaves Raw Material Services GmbH	86%	32,295	130	(28,669)	–	54,983	(53,187)
Hargreaves Services Europe Limited	86%	1,911	2,442	(1,087)	–	1,422	(1,053)
Hargreaves Carbon Products Polska Sp Zo.o	86%	–	191	(389)	–	59	(110)
		<b>79,828</b>	<b>52,169</b>	<b>(76,356)</b>	<b>(36,632)</b>	<b>141,582</b>	<b>(134,941)</b>
<b>2013</b>							
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	–	–	–	–	–
		<b>45,521</b>	<b>52,801</b>	<b>(43,558)</b>	<b>(47,228)</b>	<b>66,860</b>	<b>(59,685)</b>

The Group also has options to acquire 100% of the shares in two subsidiaries of Aardvark (TMC) Limited. These options are measured at fair value which, at 31 May 2014, was £2 (31 May 2013: £2). Fair value is deemed to be negligible given the scale of the related restoration liabilities existing within these entities.

Company	Group undertakings £000	Jointly controlled entities £000	Total £000	
<b>Shares at cost and net book value</b>				
At 1 June 2012		32,064	42	32,106
Capital contribution arising on share options		514	–	514
<b>At 31 May 2013</b>		<b>32,578</b>	<b>42</b>	<b>32,620</b>
At 1 June 2013		32,578	42	32,620
Disposals		(1,228)	–	(1,228)
Acquisitions		–	4,984	4,984
Capital contribution arising on share options		1,224	–	1,224
<b>At 31 May 2014</b>		<b>32,574</b>	<b>5,027</b>	<b>37,601</b>



## 14 Other Financial Assets

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Non-current</b>				
Currency contracts designated as fair value through hedging reserve	701	–	–	–
Other derivatives designated as fair value through hedging reserve	2,264	37	–	–
	<b>2,965</b>	<b>37</b>	<b>–</b>	<b>–</b>
	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Current</b>				
Currency contracts designated as fair value through profit or loss	46	14	–	–
Currency contracts designated as fair value through hedging reserve	1,617	2,477	–	–
Other derivatives designated as fair value through hedging reserve	2,515	725	–	–
	<b>4,178</b>	<b>3,216</b>	<b>–</b>	<b>–</b>

## 15 Other Financial Liabilities

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Non-current</b>				
Interest rate swaps designated as fair value through hedging reserve	962	2,839	–	–
Currency contracts designated as fair value through hedging reserve	88	–	–	–
Other derivatives designated as fair value through hedging reserve	293	311	–	–
	<b>1,343</b>	<b>3,150</b>	<b>–</b>	<b>–</b>
	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Current</b>				
Currency contracts designated as fair value through hedging reserve	1,089	263	–	–
Currency contracts designated as fair value through profit or loss	13	183	1	12
Other derivatives designated as fair value through hedging reserve	1,484	7,218	–	–
	<b>2,586</b>	<b>7,664</b>	<b>1</b>	<b>12</b>

# Notes

## (forming part of the financial statements)

### continued

#### 16 Deferred Tax Assets and Liabilities

##### Group

##### Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2014 £000	2013 £000	2014 £000	2013 £000
Property, plant and equipment	–	–	<b>4,306</b>	579
Intangible assets	–	–	–	336
Financial assets	–	(1,769)	<b>613</b>	–
Employee benefits	<b>(1,162)</b>	(883)	–	–
Share-based payments	<b>(293)</b>	(450)	–	–
Provisions	<b>(1,275)</b>	(1,890)	–	–
Tax value of loss carry-forwards	<b>(17)</b>	(20)	–	–
Other	–	(11)	–	–
<b>Tax (assets)/liabilities</b>	<b>(2,747)</b>	(5,023)	<b>4,919</b>	915

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

##### Movement in Deferred Tax During the Prior Year

	31 May 2012 £000	Recognised in income £000	Recognised in equity £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)

The amount recognised in income includes £5,390,000 deferred tax charge (2013: £4,559,000 deferred tax credit) in relation to discontinued operations, see note 8.

## 16 Deferred Tax Assets and Liabilities (continued)

### Company

#### Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2014 £000	2013 £000	2014 £000	2013 £000
Share-based payments	(123)	(123)	–	–
Tax assets	(123)	(123)	–	–
Net of tax liabilities	–	–	–	–
Net tax assets	(123)	(123)	–	–

#### Movement in Deferred Tax During the Year

	At 31 May 2013 and at 31 May 2012 £000	Recognised in income £000	Recognised in equity £000	31 May 2014 £000
Share-based payments	(123)	–	–	(123)

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

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

The Chancellor proposed changes to further reduce the main rate of corporation tax by 1% per annum to 20% by 1 April 2015. As these changes were substantively enacted during the year, deferred tax assets and liabilities have been recognised at 20%.

## 17 Inventories

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Raw materials and consumables	7,104	9,242	–	–
Work in progress	17,064	4,799	–	–
Finished goods	67,851	82,152	–	–
Properties held for development and resale	8,418	–	–	–
	100,437	96,193	–	–

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

The write-down of inventories to net realisable value amounted to £694,000 (2013: £384,000). The reversal of write-downs amounted to £nil (2013: £nil). The write-down is in cost of sales. The properties held for development and resale were included in assets acquired in respect of the Scottish surface mining activities.

## 18 Trade and Other Receivables

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Trade receivables	60,601	86,545	–	–
Trade receivables due from Group undertakings	–	–	590,379	461,868
Trade receivables due from undertakings in which the Company has a participating interest	30,439	24,520	7,405	4,288
Other receivables	20,717	18,371	2,041	2,069
Prepayments and accrued income	20,287	16,476	77	304
Corporation tax	1,462	1,370	623	623
Hire purchase receivable	12	2,276	–	–
	133,518	149,558	600,525	469,152

Included within trade and other receivables is £nil (2013: £nil) for the Group and £nil (2013: £nil) for the Company expected to be recovered in more than 12 months.

# Notes

## (forming part of the financial statements)

### continued

#### 18 Trade and Other Receivables (continued)

The Hire Purchase receivable comprises future minimum lease payments of £12,321 (2013: £2,276,000) due within one year and £nil (2013: £nil) due within one to two years.

The Group has a variety of credit terms depending on the customer. The majority of the Group's sales are made to blue-chip companies and consequently have very low historical default rates.

At 31 May 2014 trade receivables are shown net of an allowance for bad debts of £125,000 (2013: £171,000) arising from the ordinary course of business, as follows:

	2014 £000	2013 £000
<b>Group</b>		
Balance at 1 June	171	129
Provided during the year	40	164
Released	(69)	(64)
Utilised during the year	(17)	(58)
<b>Balance at 31 May</b>	<b>125</b>	<b>171</b>

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	2014 Doubtful debt £000	Net trade receivables £000
<b>Group</b>			
Not past due date	47,172	(10)	47,162
Past due date (0-90 days)	11,061	(10)	11,051
Past due date (over 90 days)	2,493	(105)	2,388
Individually impaired amounts	-	-	-
	<b>60,726</b>	<b>(125)</b>	<b>60,601</b>
	Gross trade receivables £000	2013 Doubtful debt £000	Net trade receivables £000
<b>Group</b>			
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

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

The Group's most significant trade receivable at 31 May 2014 is with EDF Energy plc which accounts for £9,422,000 of the trade receivables carrying amount at 31 May 2014 within the Energy and Commodities and Industrial Services segments (2013: EDF Energy plc £14,651,000).

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

	2014 £000	2013 £000
UK	58,033	65,775
European customers	2,104	14,620
Other regions	464	6,150
	<b>60,601</b>	<b>86,545</b>

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

## 19 Cash and Cash Equivalents/Bank Overdrafts

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Cash and cash equivalents per balance sheet	<b>30,768</b>	61,435	<b>427</b>	11,845
Bank overdrafts	–	(42,476)	–	–
Cash and cash equivalents per cash flow statement	<b>30,768</b>	18,959	<b>427</b>	11,845

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

## 20 Other Interest-bearing Loans and Borrowings

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

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Non-current liabilities</b>				
Finance lease liabilities	<b>12,138</b>	9,054	–	–
Invoice discounting facility	–	–	–	–
Revolving credit facility	<b>80,190</b>	83,632	<b>80,190</b>	83,632
	<b>92,328</b>	92,686	<b>80,190</b>	83,632
<b>Current liabilities</b>				
Current portion of finance lease liabilities	<b>7,215</b>	6,446	–	–
	<b>7,215</b>	6,446	–	–
Bank overdraft	–	42,476	–	–
	<b>7,215</b>	48,922	–	–

## Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2014 £000	Carrying amount 2014 £000	Face value 2013 £000	Carrying amount 2013 £000
Finance lease liabilities	Sterling	4.0% – 5.0%	2013-2018	<b>19,353</b>	<b>19,353</b>	15,500	15,500
Bank overdraft facility	EUR/USD/Sterling	2.55% – 3.1%	N/A	–	–	42,476	42,476
Invoice discounting facility	Sterling	Base Rate + 2%	2015	–	–	–	–
Revolving credit facility	Sterling	LIBOR + 2.35%	2015	<b>81,000</b>	<b>80,190</b>	85,000	83,632
				<b>100,353</b>	<b>99,543</b>	142,976	141,608

In April 2012, the Group completed a new 43-month multi-bank committed facility consisting of a £40m invoice finance facility and a £135m 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 2014 was £nil (2013: £nil). At the year end the invoice discounting facility was unused, with a credit balance of £5,922,000 (2013: £2,223,000) which was included in cash and cash equivalents.

On 28 November 2013 the Group restructured its European operations, resulting in a lower equity participation for the Group. As a result the Group net debt improved by £10.2m, which included the deconsolidation of the overdraft facility present in the prior year.



# Notes

## (forming part of the financial statements)

### continued

#### 20 Other Interest-bearing Loans and Borrowings (continued)

##### Finance Lease Liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2014 £000	2014 £000	2014 £000	2013 £000	2013 £000	2013 £000
Less than one year	7,782	567	7,215	6,947	501	6,446
Between one and five years	12,727	589	12,138	9,415	361	9,054
	<b>20,509</b>	<b>1,156</b>	<b>19,353</b>	16,362	862	15,500

#### 21 Trade and Other Payables

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Current</b>				
Trade payables	41,321	59,397	–	–
Trade payables due to Group undertakings	–	–	429,032	341,333
Trade payables due to undertakings in which the Company has a participating interest	–	–	–	–
Other trade payables	19,311	17,156	39	–
Non-trade payables and accrued expenses	38,980	41,288	1,449	372
	<b>99,612</b>	117,841	<b>430,520</b>	341,705

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months (2013: £nil).

#### 22 Pension Schemes and Other Retirement Benefits

##### Defined Contribution Plans

The Group operates a Group personal pension scheme. The pension cost charge for the year represents contributions payable by the Group to the employees' funds and amounted to £1,605,000 (2013: £1,756,000). 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 2014.

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

	2014 £000	2013 £000
Present value of unfunded defined benefit obligations	411	424

##### Movements in Present Value of Defined Benefit Obligation

	2014 £000	2013 £000
At beginning of year	424	450
Current service cost	9	7
Contributions paid	(21)	(21)
Other finance cost	19	21
Actuarial gain	(20)	(33)
At the end of the year	411	424

## 22 Pension Schemes and Other Retirement Benefits (continued)

### Defined Benefit Plans (continued)

#### Expense Recognised in the Income Statement

	2014 £000	2013 £000
Current service cost	9	7
Interest on defined benefit obligation	19	21
	<b>28</b>	28

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

	2014 £000	2013 £000
Administrative expenses	9	7
Finance expense	19	21
	<b>28</b>	28

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

	2014 £000	2013 £000
Cumulative amount at 1 June	41	8
Recognised in the year	20	33
Cumulative amount at 31 May	<b>61</b>	41

The major assumptions used in these valuations were:

	2014	2013
Average retirement age	<b>65 years</b>	65 years
Rate of leaving services	<b>2.5%</b>	2.5%
Coal price inflation	<b>2.55%</b>	2.55%
Discount rate applied to scheme liabilities	<b>4.25%</b>	4.6%
Inflation assumption	<b>3.55%</b>	3.55%

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

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

Current pensioner aged 65: 20.0 years (male), 22.2 years (female).

Future retiree upon reaching 65: 20.6 years (male), 23.0 years (female).

#### Sensitivity Analysis

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

	2014 £000	2013 £000
Discount rate (1% movement)	<b>(90)</b>	(88)
Coal price inflation (1% movement)	<b>90</b>	88

# Notes

## (forming part of the financial statements)

### continued

#### 22 Pension Schemes and Other Retirement Benefits (continued)

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 2014 by a qualified independent actuary.

	2014 £000	2013 £000
Present value of unfunded defined benefit obligations	(1,361)	(1,371)
Present value of funded defined benefit obligations	(39,813)	(37,681)
Fair value of assets	36,005	35,836
Deficit in the scheme – Pension liability	(5,169)	(3,216)

#### Movements in Present Value of Defined Benefit Obligation

	2014 £000	2013 £000
At the beginning of the year	39,052	32,177
Current service cost	–	1,209
Interest cost	1,752	1,553
Actuarial loss	2,207	3,240
Contributions paid	–	266
Benefits paid	(2,060)	(342)
Obligation acquired	223	949
At the end of the year	41,174	39,052

#### Movements in the Fair Value of Plan Assets

	2014 £000	2013 £000
Fair value of plan assets at beginning of year	35,836	26,658
Expected return on plan assets	1,630	1,504
Actuarial (loss)/gain	(551)	3,862
Employer contributions	1,007	2,939
Plan members' contributions	–	266
Benefits paid	(2,060)	(342)
Expenses paid	(80)	–
Plan assets acquired	223	949
Fair value of plan assets at end of year	36,005	35,836

The plan assets and obligations acquired during the current year relate to transfers into the schemes of members under TUPE arrangements with UK Coal. All original 140 eligible members have now transferred their entitlement.

#### Expense Recognised in the Income Statement

	2014 £000	2013 £000
Current service cost	80	1,209
Expected return on defined benefit pension plan	(1,630)	(1,504)
Interest on defined benefit pension plan obligation	1,752	1,553
	202	1,258

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

In discontinued operations	2014 £000	2013 £000
Administrative expenses	80	1,209
Finance income	(1,630)	(1,504)
Finance expense	1,752	1,553
	202	1,258

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

## 22 Pension Schemes and Other Retirement Benefits (continued)

	2014 £000	2013 £000
Cumulative amount at 1 June	(284)	(906)
Recognised in the year	2,758	622
Cumulative amount at 31 May	2,474	(284)

### 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 2014 £000	Fair value at 2013 £000
Equities and hedge funds	18,454	17,058
Bonds	12,070	10,894
Property	1,995	1,769
Alternative investment mandate	3,140	3,217
Other – cash	346	2,898
	<b>36,005</b>	35,836
Actual return on plan assets	1,079	5,366

The major assumptions used in this valuation were:

	2014	2013
Rate of increase in salaries	–	–
Rate of increase in pensions in payment and deferred pensions	3.4%	3.4%
Discount rate applied to scheme liabilities	4.25%	4.6%
Inflation assumption	3.55%	3.55%

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

There was a curtailment event as a result of the mothballing of underground activities at Maltby Colliery in the prior year, but this did not result 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: 21.7 years (male), 25.5 years (female).

Future retiree upon reaching 60: 22.5 years (male), 26.4 years (female).

### IWCSSS

Current pensioner aged 60: 24.4 years (male), 26.7 years (female).

Future retiree upon reaching 60: 25.1 years (male), 27.6 years (female).

# Notes

## (forming part of the financial statements)

### continued

#### 22 Pension Schemes and Other Retirement Benefits (continued)

##### Sensitivity Analysis

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

	2014 £000	2013 £000
Discount rate (1% movement)	(9,058)	(8,123)
Inflation (1% movement)	9,058	8,123

The Group expects to contribute approximately £1,593,000 to its defined benefit plans in the next financial year.

#### 23 Employee Share Schemes

The Group has established a Savings-Related Share Option scheme 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
Long-Term Incentive Plan 2	June 2008	Senior employees	128,621	3 years' service and EPS growth of 35.4% (30% award) – 63.5% (100% award) over RPI over those 3 years	3.5 years
Long-Term Incentive Plan 3	June 2009	Senior employees	193,658	3 years' service and EPS growth of 18.9% (30% award) – 30.0% (100% award) over RPI over those 3 years	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
Long-Term Incentive plan 6	October 2013	Senior employees	192,098	3 years' service and EPS growth of 3% pa (30% award) – 9% pa (100% award) over those 3 years	3.5 years
Savings-related share option scheme 9	April 2014	All employees	140,346	3 years' service	3.5 years



### 23 Employee Share Schemes (continued)

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

#### Savings-Related Share Option Schemes

	2014 Weighted average exercise price	2014 Number of options	2013 Weighted average exercise price	2013 Number of options
Outstanding at beginning of year	828p	457,561	748p	626,450
Granted during the year	733p	140,346	794p	134,986
Lapsed during the year	895p	(152,599)	953p	(118,980)
Exercised during the year	660p	(110,678)	450p	(184,895)
Outstanding at the end of the year	813p	334,630	828p	457,561
Exercisable at the end of the year	825p	47,075	656p	121,395

The options outstanding at 31 May 2014 have an exercise price in the range of 733p to 1098p and have a weighted average contractual life of two years.

The options exercised during the year had a weighted average market value of 819p (2013: 773p).

#### Long-Term Incentive Plans

	2014 Weighted average exercise price	2014 Number of options	2013 Weighted average exercise price	2013 Number of options
Outstanding at beginning of year	26p	551,274	45p	630,593
Granted during the year	–	192,098	–	–
Lapsed during the year	–	(123,425)	–	(7,000)
Exercised during the year	165p	(52,584)	–	(72,319)
Outstanding at the end of the year	10p	567,363	197p	551,274
Exercisable at the end of the year	22p	246,416	26p	229,000

The options outstanding at 31 May 2014 have an exercise price in the range of £nil to 393.5p and have a weighted average contractual life of 0.9 years.

The options exercised during the year had a weighted average market value of 814p (2013: 738p).

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.

	2014	2013	
	Savings- Related Share Option Scheme 9	Long-Term Incentive Plan 6	Savings- Related Share Option Scheme 8
Fair value at grant date	285p	826p	302p
Exercise price	733p	–	794p
Share price	814p	878p	873p
Expected volatility	40.0%	20.0%	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 836p (2013: 754p).

# Notes

## (forming part of the financial statements)

### continued

#### 23 Employee Share Schemes (continued)

##### Long-Term Incentive Plans (continued)

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

	2014 £000	2013 £000
Share options granted in 2010	–	149
Share options granted in 2011	126	(279)
Share options granted in 2012	632	621
Share options granted in 2013	136	23
Share options granted in 2014	330	–
	<b>1,224</b>	514

#### 24 Provisions

Group	Surface mining restoration £000	Monckton ground water contamination £000	Maltby restoration £000	Maltby subsidence provision £000	Total £000
Balance at 1 June 2013	–	1,687	6,312	1,906	9,905
Provisions made during the year	1,081	49	444	–	1,574
Provisions utilised during the year	–	–	(1,335)	(953)	(2,288)
Balance at 31 May 2014	1,081	1,736	5,421	953	9,191

Included within the Maltby restoration provision is an amount of £550,000 (2013: £2,285,000) that is expected to be utilised in the next 12 months.

Provisions comprise:

- 1 A £1,081,000 restoration provision, which relates to the surface mining obligation to restore the site once mining operation is completed.
- 2 A £1,736,000 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.
- 3 A £5,421,000 restoration provision which relates to Maltby Colliery's obligation to restore the site now that coal mining has been completed. The provision has increased due to estimates of the future cost of labour and fuel increasing.
- 4 A statutory provision payable to the UK Coal Authority at a set rate, in order to rectify any potential subsidence of the local area around Maltby Colliery. Any unused provision will be released after the statutory period.

The Company has no provisions.

#### 25 Capital and Reserves

##### Share Capital

	Ordinary Shares	
	2014 Number	2013 Number
In issue at 1 June	32,962,735	27,086,816
Issued for cash	124,678	5,875,919
In issue and fully paid at 31 May	<b>33,087,413</b>	32,962,735
	2014 £000	2013 £000
<b>Allotted, called up and fully paid</b>		
33,087,413 (2013: 32,962,735) Ordinary Shares of 10p each	<b>3,309</b>	3,296

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.

## 25 Capital and Reserves (continued)

### 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:

	2014 £000	2013 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year (13.6 pence per share (2013: 11.8p))	4,498	3,222
Interim dividends paid in respect of the current year (8.8 pence per share (2013: 6.9p))	2,908	1,897
	<b>7,406</b>	5,119
Proposed dividend (16.7 pence per share (2013: 13.6p))	<b>5,522</b>	4,483

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

## 26 Financial Instruments

The Group's and Company's principal financial instruments comprise short-term receivables and payables, bank loans and overdrafts, invoice discounting advances, obligations under finance leases and cash. Neither the Group nor the Company trades in financial instruments but uses derivative financial instruments in the form of forward rate agreements and forward foreign currency contracts to help manage its foreign currency, interest rate and commodity price exposures. The main purpose of these financial instruments is to raise finance for the Group's and Company's ongoing operations and manage its working capital requirements.

### (a) Fair Values of Financial Assets and Financial Liabilities

#### Derivative Financial Instruments

##### Fair Value Hierarchy

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

- Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.
- Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In both 2014 and 2013 all of the interest rate swaps, the forward exchange contracts and the commodity contracts are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year.

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

### (b) Credit Risk

#### Financial Risk Management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's risk is influenced by the nature of its customers. New customers are analysed for creditworthiness before the Group's standard payment terms and conditions are offered and appropriate credit limits set.

#### Exposure to Credit Risk

The carrying amount of trade receivables represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £60,601,000 (2013: £86,545,000) being the total of the carrying amount of trade receivables.

The allowance account for trade receivables is used to record impairment losses unless the Group or Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly. Further information on credit risk is provided in Note 18.

### (c) Liquidity Risk

#### Financial Risk Management

Liquidity risk is the risk that the Group and Company will not be able to access the necessary funds to finance their operations. We finance operations through a mix of short- and medium-term facilities.

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

# Notes

## (forming part of the financial statements)

### continued

#### 26 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

	Carrying amount £000	2014					Carrying amount £000	2013				
		Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £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
<b>Non-derivative financial liabilities</b>												
Finance lease liabilities	19,353	20,509	7,782	5,757	6,970	–	15,500	16,362	6,947	5,442	3,973	–
Bank overdrafts	–	–	–	–	–	–	42,476	42,476	42,476	–	–	–
Trade and other payables*	99,612	99,612	99,612	–	–	–	117,841	117,841	117,841	–	–	–
Invoice discounting facility	(5,922)	(5,922)	(5,922)	–	–	–	(2,223)	(2,223)	(2,223)	–	–	–
Revolving credit facility	80,190	80,190	–	80,190	–	–	83,632	83,632	–	–	83,632	–
Promissory note facility	–	–	–	–	–	–	–	–	–	–	–	–
<b>Derivative financial liabilities</b>												
Interest rate swaps used for hedging	962	962	–	–	962	–	2,839	2,839	–	–	2,839	–
Forward exchange contracts used for hedging:												
Outflow	1,190	1,190	1,102	88	–	–	418	418	418	–	–	–
Inflow	–	–	–	–	–	–	–	–	–	–	–	–
Commodity contracts:												
Outflow	1,777	1,777	1,484	293	–	–	7,557	7,557	7,246	311	–	–
Inflow	–	–	–	–	–	–	–	–	–	–	–	–
	197,162	198,318	104,058	86,328	7,932	–	268,040	268,902	172,705	5,753	90,444	–

\* Excludes derivatives (shown separately).

#### Company

	Carrying amount £000	2014					Carrying amount £000	2013				
		Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £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
<b>Non-derivative financial liabilities</b>												
Trade and other payables	429,032	429,032	429,032	–	–	–	341,705	341,705	341,705	–	–	–
Revolving credit facility	80,190	80,190	–	80,190	–	–	83,632	83,632	–	–	83,632	–
<b>Derivative financial liabilities</b>												
Forward exchange contracts used for hedging:												
Outflow	1	1	1	–	–	–	12	12	12	–	–	–
Inflow	–	–	–	–	–	–	–	–	–	–	–	–
	509,223	509,223	429,033	80,190	–	–	425,349	423,349	341,717	–	83,632	–

##### (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 is to reduce this exposure through interest rate swaps.

**26 Financial Instruments** (continued)**(d) Market Risk** (continued)**Commodity Price Risk**

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

The Group mitigates these risks wherever practicable, through the use of measures including fixed price contracts, hedging instruments and 'back to back' purchase and sale agreements.

Although short-term trading risks are managed in this way, through the 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 2014**

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

**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
<b>Net exposure</b>		<b>(65)</b>	<b>6,983</b>	<b>242</b>	<b>7,160</b>

# Notes

## (forming part of the financial statements)

### continued

#### 26 Financial Instruments (continued)

##### (d) Market Risk (continued)

##### Foreign Currency Risk (continued)

##### 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 2014 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 2013.

	Equity		Profit or loss	
	2014 £000	2013 £000	2014 £000	2013 £000
€	(226)	6	(226)	6
\$	1,744	(717)	1,744	(717)
PLN	–	(22)	–	(22)
HKD	(81)	–	(81)	–

A 10% strengthening of the above currencies against the pound Sterling at 31 May 2014 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	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Fixed rate instruments</b>				
Financial assets	–	–	–	–
Financial liabilities	(19,353)	(57,976)	–	–
	(19,353)	(57,976)	–	–
<b>Variable rate instruments</b>				
Financial assets	30,768	61,435	427	11,845
Financial liabilities	(80,190)	(83,632)	(80,190)	(83,632)
	(49,422)	(22,197)	(49,422)	(71,787)

##### 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 2013.

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Profit or loss</b>				
Increase/(decrease)	392	312	(27)	(32)



## 26 Financial Instruments (continued)

### (e) Cash Flow Hedges

#### Cash Flow Hedges – Group

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

	Carrying amount £000	2014 Expected cash flows				Carrying amount £000	2013 Expected cash flows			
		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000		1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
<b>Interest rate swaps:</b>										
Assets	–	–	–	–	–	–	–	–	–	–
Liabilities	(962)	–	–	(962)	–	(2,839)	–	–	(2,839)	–
<b>Forward exchange contracts:</b>										
Assets	2,318	1,617	701	–	2,491	2,491	–	–	–	–
Liabilities	(1,177)	(1,089)	(88)	–	(418)	(418)	–	–	–	–
<b>Commodity contracts:</b>										
Assets	4,779	2,515	2,264	–	762	725	37	–	–	–
Liabilities	(1,777)	(1,484)	(293)	–	(7,557)	(7,246)	(311)	–	–	–
	<b>3,181</b>	<b>1,559</b>	<b>2,584</b>	<b>(962)</b>	–	(7,561)	(4,448)	(274)	(2,839)	–

### (f) Capital Management

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

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

The Board believes that the Group's dividend cover remains conservative. The average dividend cover over the past three years has been just under six times, representing an average payout ratio of 16.6%. As previously stated 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.

## 27 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Less than one year	15,318	6,876	–	–
Between one and five years	23,020	9,125	–	–
More than five years	74	1,278	–	–
	<b>38,412</b>	17,279	–	–

### Group

During the year £18,710,000 was recognised as an expense in the income statement in respect of operating leases (2013: £12,100,509).

### Company

During the year £nil was recognised as an expense in the income statement in respect of operating leases (2013: £nil).

# Notes

## (forming part of the financial statements)

### continued

#### 28 Capital Commitments

##### Group

As at 31 May 2014, the Group was committed to contracts to purchase property, plant and equipment for £80,801 (2013: £3,473,093).

#### 29 Contingencies

##### Group and Company

The Company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The Company acts as a guarantor, or surety, for various subsidiary undertakings in banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided exposure is £2,324,000 (2013: £6,267,000).

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

#### 30 Related Parties

##### Identity of Related Parties with which the Group has Transacted

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

The Group restructured its relationship with Hatfield Colliery Limited, following which the Group no longer holds any issued share capital. At 31 May 2013, the Group was owed £2,276,000 under a Hire Purchase agreement.

##### Group

##### Other Related Party Transactions

	Sales to		Purchases from	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Jointly controlled entities</b>				
Tower Regeneration Limited	27,673	23,542	–	–
Tower Regeneration Leasing Limited	–	–	5,262	5,017
Mir Trade Services Limited	882	–	18,980	3,905
<b>Associate undertakings</b>				
Hargreaves Services Europe Limited	965	–	–	–
Hargreaves Raw Materials Services GmbH	1,112	–	762	–
	<b>30,632</b>	23,542	<b>25,004</b>	8,922
	Interest received from		Interest paid to	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Jointly controlled entities</b>				
Tower Regeneration Limited	728	697	–	–
Mir Trade Services Limited	95	80	–	–
<b>Associate undertakings</b>				
Hargreaves Raw Materials Services GmbH	126	–	–	–
	<b>949</b>	777	–	–
	Receivables outstanding		Payables outstanding	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Jointly controlled entities</b>				
Tower Regeneration Limited	24,899	22,245	–	–
Tower Regeneration Leasing Limited	–	869	–	–
517EPA Limited	125	–	–	–
Mir Trade Services Limited	2,236	1,406	–	–
<b>Associate undertakings</b>				
Hargreaves Raw Materials Services GmbH	2,768	–	–	–
Hargreaves Services Europe Limited	37	–	–	–
Hargreaves Carbon Products Polska Sp Zo.o	373	–	–	–
	<b>30,438</b>	24,520	–	–

##### 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 6. In addition to this, the element of the share-based payment charge for the year that relates to key management personnel is £701,000 (2013: £27,000). There are no other post-employment or other long-term benefits.

**30 Related Parties** (continued)**Company****Other Related Party Transactions**

	Sales to		Interest received	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Jointly controlled entities</b>				
Tower Regeneration Limited	600	750	–	–
Mir Trade Services Limited	–	–	95	80
	<b>600</b>	750	<b>95</b>	80
	Receivables outstanding		Payables outstanding	
	2014 £000	2013 £000	2014 £000	2013 £000
<b>Subsidiaries</b>	<b>590,379</b>	461,868	<b>429,032</b>	341,333
Jointly controlled entities	<b>7,405</b>	4,288	–	–
	<b>597,784</b>	466,156	<b>429,032</b>	341,333

**31 Post Balance Sheet Events**

The disposal of Imperial Tankers Limited ('Imperial') for a cash consideration of £26.9m was announced on 1 September 2014. The overall book value of Imperial at the time of disposal was approximately £9.5m. Imperial generated profit after tax of approximately £1.6m on revenue of £29.7m in the year ended 31 May 2014. The business unit was sold inclusive of cash balances of £1.6m and £2.7m of asset finance debt, resulting in an effective enterprise value and reduction in net debt of £28.1m.

# 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 5 November 2014 at 11.00 a.m. for the following purposes:

## Ordinary Business

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

1. To adopt and receive the Directors' Report, the Strategic Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the Financial Statements for the year ended 31 May 2014.
  2. To approve the Directors' Corporate Governance and Remuneration Reports for the year ended 31 May 2014.
  3. To declare a final dividend for the year ended 31 May 2014 of 16.7 pence per ordinary share to bring the dividend for the year ended 31 May 2014 to a total of 25.50 pence per ordinary share.
  4. To re-appoint David Morgan as a Director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
  5. To re-appoint Gordon Banham as a Director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
  6. To re-appoint Peter Jones as a Director of the Company in accordance with article 29.2 of the Company's articles of association, who offers himself for re-appointment.
  7. To appoint KPMG LLP as auditor of the Company to hold office from the conclusion of this meeting to the conclusion of the next meeting at which accounts are laid before the Company.
  8. To authorise the Directors to agree the remuneration of the auditor.
  9. That the Directors of the Company be and are generally granted and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the **Act**) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares in the Company (**Rights**):
    - 9.1 up to an aggregate nominal value of £1,102,928 (representing approximately one-third of the total ordinary share capital in issue as at the date of this notice); and
    - 9.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,205,856 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 9.1) in connection with or pursuant to an offer or invitation by way of a rights issue (as defined below), provided that such authorities conferred by this resolution 9 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless varied, revoked or renewed by the Company in general meeting, save that the Company may at any time before such expiry make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares and grant Rights pursuant to such offers or agreements as if the relevant authorities conferred by this resolution 9 had not expired. These authorities shall be in substitution for all previous authorities previously granted to the Directors to allot shares and grant Rights which are pursuant to this resolution 9 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 9. For the purposes of this resolution 9, **rights issue** means an offer or invitation to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable instrument) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.
  10. That, subject to and conditional upon the passing of resolution 9 above, the Directors be and are empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash:
    - 10.1 pursuant to the authority conferred upon them by resolution 9.1 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act, provided that this power shall be limited to the allotment of equity securities:
      - 10.1.1 in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and
      - 10.1.2 (otherwise than pursuant to sub-paragraph 10.1.1 above) up to an aggregate nominal value of £330,878 (representing approximately 10% of the total ordinary share capital in issue); and
    - 10.2 pursuant to the authority conferred upon them by resolution 9.2, in connection with or pursuant to a rights issue, as if section 561(1) of the Act did not apply to any such allotment and the authorities given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless renewed or extended prior to such expiry, save that the Directors of the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution 10 has expired.
- For the purpose of this resolution 10:
- (a) **rights issue** has the meaning given in resolution 9; and
  - (b) **pre-emptive offer** means a rights issue, open offer or other pre-emptive issue or offer to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date(s) for such allotment; and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.

**Special Business**

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

11. The Company be and is generally and unconditionally authorised for the purpose of section 701 of the Act to make market purchases (which in this resolution shall have the meaning given to this term in section 693 (4) of the Act) of its ordinary shares of 10 pence each in the capital of the Company (**Ordinary Shares**) on the terms set out below:
- 11.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 11 is 3,308,785 (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.

6 October 2014

By order of the Board

**Andrew Robertson**  
Company Secretary

**Registered Office:**

West Terrace Esh Winning  
Durham DH7 9PT

Registered in England and Wales No. 4952865

# Notice of Annual General Meeting – Hargreaves Services plc

## continued

### Notes

1. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at 6.00 p.m. on 3 November 2014 (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 3 November 2014.
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 3 November 2014. 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 3 November 2014. 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 2014 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 33,087,850 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 3 October 2014 are 33,087,850.
14. The following documents will be available for inspection of the Company's registered office at West Terrace, Esh Winning, Durham, DH7 9PT during normal business hours on any week day (Saturdays and English public holidays excepted) from the date of this notice until the close of the Meeting and at the place of that Meeting for at least 15 minutes prior to and during the Meeting:
  - copies of the service contracts for the Executive Directors of the Company; and
  - copies of the letters of appointment of Non-Executive Directors of the Company.



### Explanatory Notes to the Notice of Annual General Meeting

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 9 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 10 and 11 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

#### Resolution 1: Accounts

The Directors will present their Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the audited Financial Statements for the financial year ended 31 May 2014 to the meeting as required by law. These reports and statements are set out on pages 23 to 81 of the Company's annual report.

#### Resolution 2: Approval of the Directors' Remuneration Report

Shareholders are asked to approve the Directors' Remuneration Report for the financial year ended 31 May 2014 which is set out in full on pages 30 to 32 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 2014 of 16.7 pence per share will be paid on 21 November 2014 to shareholders on the register of members on 24 October 2014.

#### 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. David Morgan and Gordon Banham are both offering themselves for re-appointment.

Brief biographical details of David Morgan and Gordon Banham are set out on pages 20 and 21 of this document.

#### Resolution 6: Appointment of a Director

As Peter Jones was appointed to the Board subsequent to the date of the last annual general meeting, he is required by the Company's articles of association to retire at this year's annual general meeting. The directors recommend that Peter Jones be re-appointed as a director and resolution 6 proposes his re-appointment. Brief biographical details of Peter Jones are set out on page 21 of this document.

#### Resolutions 7 and 8: 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 LLP are willing to continue in office for a further year and resolution 7 proposes their re-appointment and, in accordance with standard practice, resolution 8 proposes that their remuneration be fixed by the Directors.

#### Resolution 9: Authority to Allot Shares

Resolution 9.1 grants the Directors authority to allot relevant securities up to an aggregate nominal amount of £1,102,928 being approximately one third of the Company's ordinary share capital in issue at 3 October 2014.

In line with guidance issued by the Association of British Insurers in December 2008, resolution 9.2 grants the Directors of the Company authority to allot unissued share capital in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £2,205,856 (representing £22,058,560 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 9.1. This amount, before any such reduction, represents approximately two thirds of the Company's ordinary share capital in issue at 3 October 2014.

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

#### Resolution 10: Disapplication of 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 £330,878 being approximately 10 per cent of the Company's ordinary share capital in issue at 3 October 2014. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next Annual General Meeting of the Company.

# 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 3,308,785 ordinary shares. This represents approximately 10% of the issued ordinary share capital as at 3 October 2014, 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.

# Notes

# Investor Information

## **Company Secretary**

Andrew Robertson

## **Independent Auditor**

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

## **Bankers**

Royal Bank of Scotland  
1 Trinity Gardens  
Broad Chare  
Quayside  
Newcastle upon Tyne  
NE1 2HF

## **Legal Advisers**

Walker Morris  
Kings Court  
12 King Street  
Leeds  
LS1 2HL

## **Nominated Adviser and Joint Stock Broker**

N+1 Singer  
One Bartholomew Lane  
London  
EC2N 2AX

## **Joint Stock Broker**

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

## **Registered Office**

West Terrace Esh Winning  
Durham  
DH7 9PT

## **Registrar**

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

For more information

Please visit us online at  
[www.hsgplc.co.uk](http://www.hsgplc.co.uk)  
for up to date investor  
information, company news  
and other information.





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