Annual Report and Accounts 2016

Hargreaves Services plc

Hargreaves Services plc delivers key projects and services in the infrastructure, energy and property sectors.

The Group continues to evolve our strategy to reflect the changing market.

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www.hsgplc.co.uk

Highlights of the Year

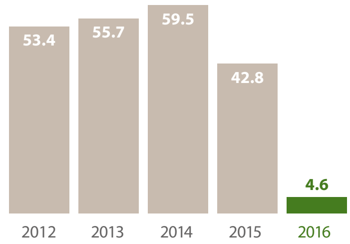
- The Group has delivered Continuing Underlying Operating Profit of £4.6m
- Trading since Interim results in line with management's expectations
- Coal production and trading successfully reduced and now focussing on speciality markets
- Decision taken to shorten mine life at the Tower project with mining due to finish March 2017; the Group expects full repayment of loans after write off of equity investment and other balances of £4.7m
- Charge of £12.4m for exceptional costs arising from re-structuring activities
- Successful acquisition of CA Blackwell in January 2016 broadens Group's Services operations and delivers significant heavy plant synergies
- Establishment of Property & Energy Division to drive £35-50m of value creation in next five to seven years
- Aggressive targets set for new business for Industrial Services operations in face of accelerated UK coal fired station closures
- Coal stocks built to £26.0m in face of negligible demand from UK coal stations, confident of sale of surplus stocks this financial year
- Balance sheet remains strong and well financed to allow orderly run-out of £60m of coal stocks and other legacy assets which include land, property, equipment, stocks and loans, into cash
- Final dividend of 2.3 pence in line with Group's 40% pay-out ratio target

	Year ended 31 May 2016	Year ended 31 May 2015	Change %
Continuing Revenue	**£340.7m**	£662.2m	(48.6)
Continuing Operating Profit[1]	**£5.2m**	£38.1m	(86.4)
Continuing Underlying Operating Profit[2]	**£4.6m**	£42.8m	(89.3)
Exceptional Costs[3]	**£(12.4)m**	£(12.2)m	(1.6)
Continuing (Loss)/Profit Before Tax	**£(10.6)m**	£24.9m	(142.6)
Continuing Underlying Profit Before Tax[4]	**£3.0m**	£40.3m	(92.6)
Continuing Diluted EPS	**(30.0)p**	64.2p	(146.7)
Continuing Underlying Diluted EPS[4]	**5.6p**	93.9p	(94.0)
Dividend (including proposed final dividend)	**2.3p**	30.0p	(92.3)
Net Debt[5]	**£32.3m**	£1.0m	3,130.0

(1) Continuing Operating Profit is stated before exceptional costs of £12,378,000 (2015: £9,130,000).
(2) Continuing Underlying Operating Profit is stated excluding the exceptional costs, the impact of the Biomass conversion project settlement, the amortisation of acquired intangibles and impairment of goodwill, impairment of non-current assets, and including share of profit in associates and joint ventures before tax.
(3) Exceptional costs for the year ended 31 May 2015 are stated after including an amount of £3,080,000 in respect of unrealised fair value losses on derivative financial instruments.
(4) Continuing Underlying Profit before Tax and Continuing Underlying Diluted EPS are stated excluding the exceptional costs, the impact of the Biomass conversion project settlement, the amortisation and impairment of acquired intangibles, impairment of non-current assets and gain on disposal of subsidiaries.
(5) Net debt comprises cash and cash equivalents, bank overdrafts and other interest bearing loans and borrowings.

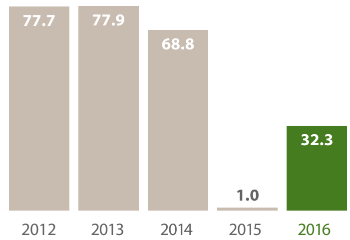
Underlying Operating Profit (£m)

£4.6m
(89.3)%



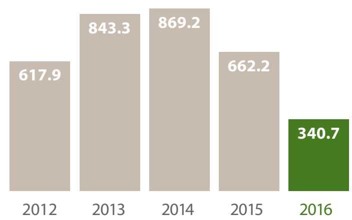
Net Debt (£m)

£32.3m
3,130%



Continuing Revenue (£m)

£340.7m
(48.6)%



At a Glance

Focussing on developing and demonstrating value from three clear areas.

Distribution & Services Operations

Our Distribution & Services operations form the long term core of our business. Continuing underlying operating profit for these units is as follows:

Industrial Services

£3.3m

Coal Distribution

£(0.9)m

Specialist Earthworks

£1.1m

Logistics

£1.2m

For more information – see page 4

Property & Energy Portfolio

The development and realisation of value from our extensive land portfolio through property and energy projects.

Property and Energy Five Year Value Creation Target

£35m-£50m

For more information – see page 5

Releasing Cash from Legacy Assets

Legacy Asset Book Value

£60.1m

For more information – see page 6

Chairman's Statement
David Morgan, Group Chairman

With the restructuring and re-positioning fundamentally complete, our objective and priority is to demonstrate the intrinsic value of the business.

Results
The period just ended has once again seen a significant transition in our business and this is reflected in these results. Underlying Profit before Tax from Continuing Operations decreased by £37.3m from £40.3m to £3.0m. The reported Loss before Tax from Continuing Operations was £10.6m after a net exceptional charge of £12.4m arising from the continuing restructuring, the accelerated closure of a number of significant customer sites and the decision to impair our equity investment in the Tower project. Underlying Diluted EPS from Continuing Operations decreased from 93.9p to 5.6p.

Net debt increased by £31.3m to finish the year with net debt of £32.3m. The Blackwell acquisition accounted for £13.4m of this increase in net debt. The collapse in thermal coal demand in the UK resulted in an unplanned build of coal stocks which we are confident will be cleared in this financial year.

Strategy
Faced by very challenging market conditions we have spent the last two years making changes to the very nature of the Group and have been successful in achieving a fundamental re-positioning. In the year ended 31 May 2014, the Group generated revenues of £761.0m and operating profit of £49.3m from coal and coke production and trading where we produced and traded over seven million tonnes. In the year to 31 May 2016 revenues and operating profits/losses from coal and coke trading and production fell to £179.3m and a £0.9m loss respectively. We produced or traded less than two million tonnes and are on track to reduce activity further as we respond to reduced thermal coal demand and consequently focus greater efforts on specialised coal products and markets.

The management team have been proactive and have responded well to these challenges. Excellent progress has been made and a clear strategy has been set out to develop long term value through a portfolio of complementary Services businesses and through the development of value in a property and energy project portfolio that is rich with opportunity. Over the last two years, we have established a strong team with a focus on developing and delivering value from that portfolio. Looking forward, we will start to see that investment generating and demonstrating value. The acquisition of C.A. Blackwell Group Limited ("Blackwell") in January 2016 was an exciting and positive step to building our long term Services offering.

Throughout this process, we have maintained a strong balance sheet and as we move forward the business will utilise this to generate significant amounts of cash from the realisation of various assets related to our legacy operations. These steps are outlined in more detail in the Strategic Report, which is included within the Annual Report and Accounts.

Dividend
The Board proposes a final dividend of 0.6p, consistent with the targeted 40% pay-out ratio. If approved at the Annual General Meeting, this will result in a dividend for the full year of 2.3p compared with 30.0p in the previous year, an overall decrease of 92.3%. The proposed final dividend will be paid on 21 October 2016 to all shareholders on the register at the close of business on 23 September 2016.

People
Our staff will always play a key role in the development and operation of the Group. This last financial year has been another tough and challenging year during which further significant redundancies have been necessary. Whilst such redundancies are highly regrettable, the Group's restructuring programme is fundamentally complete and the acquisition of Blackwell demonstrates the Group's ability and appetite to invest in the future. I would also like to make special note of the contribution and achievements by our team in Hong Kong as their skills and teamwork have increased our revenues from that operation by 104% to £11.0m.

Board
During the year there were a number of Board changes. I assumed the role of Chairman following the retirement of Tim Ross after the AGM on 7 October 2015. I would like to thank Tim for his contribution to the Group since its flotation in 2005. As a result of my planned succession to Chairman, Nigel Halkes joined the Board on 21 August 2015. I would like to welcome Nigel to the Board as Non-executive director and Chair of the Audit Committee. I am pleased to see how quickly he has integrated into the Board and developed his understanding of the Group's operations.

Summary
In the last two years the Group has been through a radical restructuring and re-positioning programme, undertaken in the face of tumultuous market conditions. With the restructuring and re-positioning of the Group fundamentally complete, our objective and priority is to demonstrate the intrinsic value of the business as reflected in the Group's considerable asset base. We now have a clear strategy to generate significant shareholder value through the development of a profitable services offering that leverages our core skills, as well as the significant value that can be unlocked in our property and energy portfolio. As we recently announced, our target is to generate between £35m and £50m of incremental value from our property and energy project portfolio over the next five to seven years. Across the transition the Group has protected and maintained its strong balance sheet. The successful conversion of over £60m of legacy assets into cash will further improve the Group's flexibility and allow us to consider strategic options to enhance shareholder value.

David Morgan
Chairman
8 August 2016

Group Business Review
Gordon Banham, Group Chief Executive

In the last year we have started to see the benefits materialise from two years of restructuring, simplification and re-positioning.

Results
Group revenues decreased from £662.2m to £340.7m, reflecting the actions taken to reduce the scale of our coal production and coal trading activities. Underlying Continuing Group Operating Profit reduced from £42.8m to £4.6m reflecting the reduction in coal trading volumes and the impact of falling coal prices on the profits of our residual mining activity. Underlying Continuing Profit before Tax fell in line with Operating Profit from £40.3m to £3.0m. The transformation of the Group has required significant actions, which in the period incurred exceptional costs of £12.4m. These charges related to scaling down the Group's mining activities, the impairment of the Group's equity investment in the Tower joint venture and provisions taken for redundancy and contract demobilisation costs at a number of client sites following early closure announcements. These exceptional costs are reviewed in more detail in the Financial Review below. The reported Continuing Loss before Tax was £10.6m compared with a Profit before Tax of £24.9m in the prior year.

Coal Exposure Successfully Reduced
Our key focus in the last two years has been to reduce exposure to thermal coal production, trading and related ancillary services. The recent power station closure announcements, continuing falls in coal prices and low UK demand has hastened our scaling-down of operations. The reductions in gas prices and the increases in UK carbon taxes have significantly reduced electricity generation from coal and have precipitated the announcement of the early closure or changes to operating regimes that will significantly reduce coal usage. Stations closed or otherwise likely to be burning less coal include Longannet, Rugeley, Fiddlers Ferry, Eggborough and Ferrybridge. A strengthening of Government sentiment against coal fired generation increases the probability of further closures.

Whilst these developments have presented more challenges to us in the last year, they have also validated our decision to reduce our exposure to the thermal coal markets through trading and production operations. Although coal prices have firmed slightly over the last few months, helped by the weakening of Sterling following the "Brexit" vote, we see no evidence of any market trends in coal price or market demand that would cause us to re-consider the decisions we have taken.

Strategy
In the last year we have started to see the benefits materialise from two years of restructuring, simplification and repositioning. On the 27 April 2016 we published an update on the progress we had made with repositioning the Group; this statement marks an important turning point for the Group. Following the actions taken, we are now focused on developing and demonstrating the value within the Group.

As outlined in the recent update, we now have three clear areas of focus to generate value:

- Distribution & Services
- Property & Energy
- Legacy Asset Realisation

These focus areas clearly identify the long term, on-going business opportunities which offer medium term development and value creation opportunities and the short term process to release cash from the significant amount of legacy assets which we have protected as our businesses have been closed or activities stepped down.

Reflecting the anticipated momentum and importance of Property and Energy, this will become a segment in its own right from the start of this financial year 1 June 2016. It is currently reported under the Coal Distribution Division. Profits and losses and cash flows related to legacy assets will also be reported in a separate Legacy segment, until such times as these have run to a de minimis level. From 1 June 2016, we will also separately report central group overhead and this will no longer be allocated between individual operations and will also not be allocated between Distribution & Services, Property & Energy and Legacy Asset Realisation. Central group overhead spend was £6.1m in the year ended 31 May 2016 compared with £7.1m in the prior year. The reductions made during the year should reduce the overhead to around £5.0m in the next financial year.

We believe this enhanced segmentation will provide greater transparency on profits, cash flows and capital allocation leading to a clearer understanding of the development of underlying business and the release of cash from legacy asset realisations.

DISTRIBUTION & SERVICES
Supplementing our Coal Distribution operation, we have a portfolio of three complementary Services businesses. We have set ourselves the aspiration of achieving an Operating Profit of between £10m and £15m from these operations in the medium term. These businesses are reviewed in more detail below.

Specialist Earthworks Services
Our heritage in coal production left us with the skills and plant necessary to undertake contract mining and earthworks projects. The acquisition of Blackwell, which was completed in January 2016, complements that capability and provides a significant step forward in the Group's transition plan. The acquisition establishes our new Specialist Earthworks Division and offers an important opportunity for the Group to grow its Services operations in the UK. A new internal team was established to manage and optimise the utilisation of heavy plant across the Group. The synergies between Blackwell's operations and the Group's mining and restoration experience are very compelling and give us confidence that we can grow the size and scale of our activities in this area. The backing and financial support available from the Group will allow Blackwell to tender, resource and deliver larger scale projects that were not possible as a standalone operation.

Logistics Services
Our Logistics business had a difficult year, however we are confident it is a business with long term profit potential. The recent acquisition of Blackwell offers both synergies and a number of joint bidding opportunities. In the period the business was impacted by a combination of low coal movements and a major change in waste flows following an HMRC landfill tax ruling. These pressures are continuing but the team are working hard to re-build routes and flows. Logistic volumes have not returned to the level enjoyed in the previous financial year and it is unlikely that these will fully recover before the end of this financial year, however the team is confident that the opportunity is there to re-build revenues and profits. In the meantime, every effort is being made to manage overheads and optimise fleet operations to protect profits in the short term. We are encouraged by recent trading. A lease signed in April on a new depot in Harlow, Essex presents a first opportunity for the Division to start to build significant operations in the South East.

Industrial Services
The Industrial Services Division operates a number of key contracts at coal power stations, steel-works and ports in the UK, Hong Kong and South Africa. Although UK coal fired generation has been facing a limited life for a number of years, the recent announcements of closure or reductions in coal burn have been earlier than expected.

Over recent years the Industrial Services Division has made good progress with its strategy of expanding its international activities; in particular its operation in Hong Kong generated revenues of £11.0m in the year. The establishment of Hargreaves South Africa (Pty) Limited in 2014, which followed the Algol acquisition, provided a foothold in the South African steel sector, a market that offered long-term opportunities to deploy the Division's skills. Over the last twelve months the world steel sector has faced considerable challenges, therefore we have decided to suspend any further capital investment to support a larger market share in the steel market in South Africa until the outlook becomes more stable.

The key focus for Industrial Services is to deliver quality services from an efficient cost base. The division has set itself an ambitious target of delivering £2.0m of operating profit from new business in the next financial year to replace the business lost through recent closures. This represents a significant challenge and every care will be taken to ensure that business is only taken on if the risk weighted return is deemed acceptable. The outlook for the Division's operations in Hong Kong and other key Asian markets is encouraging and development of these operations is key to achieving the Division's new business target.

Coal Distribution
The Coal Distribution operation will focus on the supply of specialist coal and coal products (briquettes) into the speciality markets. These markets include:

- Domestic home heating
- Space heating (including prisons, schools and hospitals operating coal boilers)
- Industrial markets
- Cement manufacturers
- Steam railways

For a long time the Group has been the leading supplier of specialist coals to markets in England and Wales. Our geographical reach was increased three years ago by the acquisition of the Scottish mining assets that provided a platform to supply parts of the Scottish market. Although we have more work to do to align overheads with activity levels and we see significant short term challenges in disposing of inferior coals that arise from the production of speciality coals, we also see potential for sustaining a profitable distribution business servicing these diverse specialist coal markets. The Group expects that losses on disposal of inferior coals in the current challenging market could reduce profitability of speciality coal trading by around £2m per annum in current market conditions. Fixed costs of around £1m will add further pressure until leases and other fixed overheads can be cut.

The Group will work to minimise the cost of the coal that we supply into these markets through our expertise in coal sourcing and carefully managing the balance between indigenous and imported coals. The Group will also work to minimise the amount of inferior coal that arises from the production and preparation of speciality coals and the investment at Killoch in improved coal preparation equipment is a key action. The coal that we supply into the specialist markets will be from a combination of sources; our own mining operation at the House of Water site in East Ayrshire, other UK producers and imported coal. The average cost of acquiring specialist coal will increase for several reasons. These reasons include, the loss of bulk coal volumes over which fixed overheads can be recovered and the reduced value of non-speciality coal that arises in the process, particularly in the current difficult thermal coal markets.

Imported coal is generally cheaper but can generate significant quantities of lower grade finer coals that may prove difficult to sell in the UK given the challenges of low demand in the thermal sector. Although we will retain the ability to import significant volumes of coal, we will continue to seek to manage and optimise our fixed cost base that supports coal imports. These efforts to reduce the fixed cost base and finding channels to dispose of the non-speciality coal that arises will continue through the current financial year, with the Group working to have an optimal cost structure in place before the start of the financial year ended 31 May 2018 to support a speciality focussed business. Although we believe that the speciality coal markets offer a long term return that justifies the capital deployment, we are aware that the visibility of prices, costs and margins in the next two years is very low.

We expect the House of Water site in East Ayrshire to offer a supply of around 350,000 tonnes of coal for at least the next five years. An investment of £1.0m was made at our railhead in Killoch to improve the processing of speciality coals.

PROPERTY & ENERGY PROJECTS
As a legacy of our coal operations we have a diversified 18,500 acre portfolio of property, which includes a range of agricultural and development land including a number of sites with grid connections. We have built a team to focus on the development of value in that portfolio with a view to optimising the conversion of these assets into cash over the next five to seven years and have set ourselves the target of creating between £35m and £50m of value over and above the £24.9m book value of these assets. The initial focus will be on developing value and realising cash from the assets we currently own.

We have been working on this portfolio over the last two years and we are confident that there is very significant value that will be delivered. We will continue to challenge the

> "Our key focus in the last two years has been to reduce exposure to thermal coal production, trading and related ancillary services."

Group Business Review *continued*

allocation of capital but we are confident that the returns from development more than justify the cost of holding these sites and taking them through at least the early stages of the development cycle. We are confident that the incremental return on capital compared with an outright sale would far exceed our hurdle rate and compare very favourably with the 10-15% Return on Capital Employed ("ROCE") rate found in typical property development operations.

The Blindwell site, East of Edinburgh, represents a particularly exciting development opportunity. A planning application for a major residential scheme is currently under consideration by the local authority. The table at the foot of the page lists some of the key development sites that present the greatest immediate opportunity for value creation through development.

In the energy space, the key focus of development effort at this time is around the two flagship Energy-from-Waste (EfW) projects, where we continue to progress planning and development; one at the Earls Gate Energy Centre at Grangemouth and one on the Westfield site. These projects are complex but offer a very significant value creation opportunity for the Group. Both projects have been carefully appraised and the Board is confident that they are both well founded and deliverable.

In addition, our energy team continue to appraise carefully the opportunities for the 75MW of grid connections that are owned by the Group. Our portfolio also includes 70MW of consented wind energy in South Lanarkshire and we have a number of other sites that offer significant wind potential. All of these key sites benefit from high wind speed and whilst market conditions and prices do not allow commercial development at this time, if onshore sites do become financeable, many of these sites will be very attractive. Like most other operators, we have suspended the bulk of speculative investment in solar and onshore wind whilst the market evolves.

LEGACY ASSET REALISATION

The Group also owns a portfolio of surplus assets obtained through our coal and coke trading and extensive mining operations. All of these assets are marketable and represent an opportunity to generate a significant amount of cash for the Group. Many of the markets into which these assets are sold are however depressed or illiquid at this time.

These assets comprise largely of stock, plant and equipment and loans to the Tower joint venture and are held on the balance sheet at the lower of cost and net realisable value. The estimated net realisable value is based on our assessment of the fair market value that could be expected from the sale of these assets in an orderly manner. Whilst the realisation of cash is likely to be lumpy, the recent weakness of Sterling should improve prospects for a speedy realisation.

The carrying value of legacy assets as at 31 May 2016 was £60.1m, following the £4.7m impairment of the Tower equity investment and other asset balances. The translation of these assets into cash is a key priority for the Group and we see this as an area of focus over the remainder of the project.

The most significant balances are the £22.4m of loans and balances relating to the Tower joint venture and £19.7m of coal and coke stocks. It is our current view that as Tower completes its final seven months of mining and two years of restoration, the joint venture will generate enough cash to repay these loans. A large proportion of these loan repayments will be achieved through the sale of plant, equipment and land. We are currently looking at options to achieve plant sales as early as possible, both to pay down debt and reduce the interest cost to the Tower joint venture itself.

Shareholder Value

As we manage these areas of activity we will remain focussed on shareholder value. At this time, we believe that the operational and value generation objectives we have set ourselves can be achieved with relatively little incremental investment. The cash that we will realise from legacy assets will create significant opportunity to look at delivering shareholder value through dividends, special dividends or share-buy backs. The Board remains open to the re-investment of capital should the right opportunities arise and provided such opportunities clearly offer a better investment return compared with the return of surplus capital to shareholders. As we review options, we will be careful to maintain a strong balance sheet position with an appropriate level of leverage.

Outlook

The reduction in thermal coal distribution and production combined with our exit from coke production and coke and coking coal trading has significantly reduced the risk and volatility of the business. Whilst the streamlining process has been long and hard and the profitability of the Group has significantly reduced, the Group emerges from this process with a clear strategic and operational focus and a strong balance sheet.

The biggest challenge to delivering our profit expectations for the coming year is the need for our Industrial Services Division to contract new business to replace that lost in the UK through the early closure of its customers' sites. Pleasingly, the Division is already making good progress in this regard. Compensating that risk, we have an exciting opportunity to grow the Specialist Earthworks Division. Whilst many of our recent statements have focussed on the challenges around the wider coal markets, the specialist coal markets have consistently remained robust. The operational opportunities presented by these markets in the coming years should not be overlooked and we will work hard to maximise the profit opportunity. We have budgeted for profits from Property & Energy and Industrial Services to be second half weighted.

Turning to the balance sheet, the net assets at the end of the year were £131m, equivalent to £3.96 pence per share. As noted above, we have set ourselves the medium term target of adding £35m to £50m of value to the property assets included within these net assets and at the same time converting our legacy assets into cash. Whilst, by their nature, the delivery of the increased development value and legacy cash realisations is likely to be lumpy, we are confident that very significant value can be delivered. This represents an exciting opportunity to create significant shareholder value that is very material in the context of the size and scale of the Group.

Gordon Banham
Group Chief Executive
8 August 2016

Key Development Sites

Project	Location	Acres	Development Focus
Blindwell	East Lothian	390	Large scale residential development
Westfield	Fife	390	Renewable energy through EfW and mixed industrial
St Ninians	Fife	1,155	Leisure led, mixed use development
North Killingholme	Lincolnshire	33	Industrial
Eggborough	Yorkshire	10	Energy, including existing consent for a EfW plant
Maltby	Yorkshire	84	Mixed residential and Industrial development
Monckton	Yorkshire	35	Mixed residential and Industrial development

Review of Operating Performance by Business Unit

Review of Underlying Performance
Revenues from Continuing Operations during the year reduced by £321.5m from £662.2m to £340.7m, reflecting the significant decrease in coal sales caused by low UK coal demand for both imported and indigenous coals and through the cessation of supply of metallurgical coals following the closure of Redcar Steelworks. Underlying Group Operating Profit from Continuing Operations for the year reduced by £38.2m from £42.8m to £4.6m. Underlying Profit before Tax was £3.0m, a decrease of £37.3m on the prior year, due largely to the impact of reduced trading volumes on revenues and margins in Coal Distribution. Reported Profit before Tax of the Group reduced by £35.5m from £24.9m to a loss of £10.6m after exceptional costs totalling £12.4m. The bulk of the exceptional costs related to the early closure of a number of mining sites to support a move towards a single operating site model and redundancy and contract demobilisation costs following the closure of major steel, coal and port sites at which the Group provided industrial services as well as impairment of the equity investment and other assets in Tower.

The commentary below reflects the continuing underlying performance of the four Divisions.

	Industrial Services 2016 £000	Logistics 2016 £000	Specialist Earthworks 2016 £000	Total Services 2016 £000	Coal Distribution 2016 £000	Total 2016 £000
Segment Continuing Operating Profit/(Loss)	**3,297**	**1,173**	**1,076**	**5,546**	**(341)**	**5,205**
Intangible amortisation/impairment	–	–	–	–	584	584
Share of loss in jointly controlled entities (net of tax)	–	–	–	–	(1,792)	(1,792)
Share of tax in associates and jointly controlled entities	–	–	–	–	628	628
Underlying Continuing Operating Profit/(Loss)	**3,297**	**1,173**	**1,076**	**5,546**	**(921)**	**4,625**
Net financing costs – Continuing Operations	(211)	(356)	(71)	(638)	(994)	(1,632)
Underlying Continuing Profit/(Loss) before Tax	**3,086**	**817**	**1,005**	**4,908**	**(1,915)**	**2,993**

	Industrial Services 2015 £000	Logistics 2015 £000	Specialist Earthworks 2015 £000	Total Services 2015 £000	Coal Distribution 2015 £000	Total 2015 £000
Segment Continuing Operating Profit	**3,260**	**2,267**	**–**	**5,527**	**32,547**	**38,074**
Intangible amortisation/impairment	–	–	–	–	143	143
Impact of Biomass conversion project settlement	2,400	–	–	2,400	–	2,400
Share of profit in jointly controlled entities (net of tax)	–	–	–	–	1,504	1,504
Share of tax in associates and jointly controlled entities	–	–	–	–	634	634
Underlying Continuing Operating Profit	**5,660**	**2,267**	**–**	**7,927**	**34,828**	**42,755**
Net financing costs – Continuing Operations	(609)	(421)	–	(1,030)	(1,435)	(2,465)
Underlying Continuing Profit before Tax	**5,051**	**1,846**	**–**	**6,897**	**33,393**	**40,290**

Review of Operating Performance by Business Unit *continued*

Coal Distribution Division

As the Group's coal mining activities reduced, the focus of the Division shifted last year to Coal Distribution. The table below shows the breakdown of operating profit within the Coal Distribution Division by key activity.

	Bulk		Industrial and Domestic		Total	
	2016	2015	2016	2015	2016	2015
Third Party Traded Volumes ('000s tonnes)	602	4,157	556	515	1,158	4,672
Profit per tonne (£)	0.89	1.39	9.26	16.78	4.91	3.09
Third Party Trading (£000)	**534**	**5,792**	**5,147**	**8,644**	5,681	14,436
Mining Operations (£000)					(8,089)	19,972
Germany (Associate) (£000)					1,776	663
Property and Energy (£000)					395	767
Monckton (£000)					(341)	(139)
Other (£000)					(343)	(871)
Division Underlying Continuing Operating (Loss)/Profit (£000)					**(921)**	**34,828**

Coal Distribution revenues fell from £485.9m to £179.3m principally due to the lower volumes of third party coal being traded, as demand for coal in the steel and thermal markets fell significantly. Following the decisions to reduce levels of thermal coal imports and to cease importing metallurgical coals, third party bulk coal volumes traded by the Division fell from 4,157,000 tonnes to 602,000 tonnes. The Operating Profit generated from coal trading fell from £14.4m to £5.7m.

The volume of speciality coal traded was 556,000 tonnes compared with 515,000 tonnes, whilst the average Operating Profit per tonne achieved fell from £16.78 to £9.26 in the comparative year. The pressure on margins reflected the impact of a number of factors including strong competition in the cement sector, a significant quantity of stock remaining unsold in the market following the closure of Kellingley Colliery by its operator UK Coal and a second successive exceptionally mild winter. The Board expects market supply and demand balance to improve in the coming years and is focussed on managing the future acquisition cost of speciality coals to support the Coal Distribution business.

Revenues from coal production activity also fell sharply, from £96.4m to £46.0m, as the Group scaled down its production activity in the face of low coal prices. Mining Operations recorded a £8.1m operating loss during the year ended 31 May 2016 compared with £20.0m operating profit in the prior year. This performance reflected the impact of lower coal prices combined with the decision to reduce output levels in response to the low coal prices. The mining operations supplied 126,000 tonnes of speciality coal to support the Third Party Trading operations.

Coal production was 506,000 tonnes compared with 1,399,000 tonnes in the prior year. The Division started the year producing coal at six sites and finished the year producing coal at only two; Glenmuckloch and House of Water. Production activity at Glenmuckloch will be concluded by the end of September 2016 due to low coal prices and low demand, at which time the only active coal production site operated by the Group will be House of Water. During the year, coal production ended at Netherton, Duncanziemere and St Ninians. Following the announcement of Longannet's closure the decision was taken to cease mining early at Muir Dean. The Group incurred an exceptional charge of £4.0m to support the early closure of Glenmuckloch and Muir Dean. As the mining operations have reduced in scale, mining operations will no longer be separately reported and instead will be reported as part of the residual Coal Distribution operation.

The Group retains options and planning permissions over a number of sites. These sites represent the best and most cost effective options available to the Group. The balance sheet contains £2.1m of development costs in respect of these sites and options which are held as strategic assets and represent reserves of approximately 4.1 million tonnes.

The Group continues to provide mining services to Tower Regeneration Limited ("TRL"), a joint venture in which the Group owns a 35% beneficial stake. Mining operations at Tower performed satisfactorily last year and 813,000 tonnes of coal were sold compared with 713,000 tonnes in the previous year. TRL, however, had a challenging year due to low coal prices and posted a loss of £8.4m. The Group's 35% share of that loss was £2.9m. Overall, the Tower project contributed a net profit at the operating level of £0.3m compared with £5.5m in the prior year.

Although the UK and European steel sectors continue to face significant challenges, our European associate performed well last year and exceeded its targets. The European operation generated revenue of £89m from the trading of 652,000 tonnes of product compared with £64m of revenue from 304,000 tonnes in the prior year. The Group's 86% share of Operating Profit increased from £0.7m to £1.8m. Revenue visibility remains low but we note that the operation continues, as it always has, to manage its fixed cost base closely.

Property and Energy

The Property and Energy results for the year ended 31 May 2016 were reported within the Coal Distribution Division and are shown in the table above. The Property team generated an Operating Profit in the year ended 31 May 2016 of £0.4m. This figure was lower than the £0.8m reported in the prior year simply due to the timing of sundry non-core property sales.

Beyond the Operating Profit generated, the Group has continued to invest in the development of its Property and Energy portfolio. The team supporting these development projects has been grown from eight to twelve. The operation delivered a net Operating Profit of £0.4m, arising from sundry trading property sales. The key focus of the Property team has been the development of seven key sites listed in the table in the Group Business Review. Investment of £2.1m on property and project development was capitalised during the year.

The Group is pleased with the progress being made in the development of the Earls Gate Energy Centre project in the last financial year and notes that the planning application was formally submitted in May 2016. The project aims to deliver a 75MW replacement Combined Heat and Power plant using refuse derived fuels at a chemical complex in Grangemouth in Scotland.

The Group has continued to complete and formalise their consents for the three wind projects that have received planning consent in the last twelve months. These are Dalquhandy, Broken Cross and Poniel and total 70MW. Financial investment in these projects in the prior year was negligible and restricted to the formalisation of the planning permissions to preserve the option value in these schemes.

Specialist Earthworks Division
On 11 January 2016, the Group completed the acquisition of Blackwell, establishing the Group's Specialist Earthworks Division. In the four and a half months between acquisition and 31 May 2016, the Division reported an Operating Profit of £1.1m from revenues of £31.3m. The performance was slightly ahead of management's expectations. Since the acquisition, good progress has been made with the Blackwell team in developing the short term contract pipeline. The Board was encouraged by the news in April that the Division has been selected as the preferred provider for the earthworks related to two sections of the Government's £1.5 billion A14 improvement scheme.

Industrial Services Division
The Industrial Services business faced a number of significant challenges in the UK in the last financial year as a consequence of the pressures in the coal and steel sectors. The last year also saw announcements or closure decisions at a number of key client sites including Liverpool Bulk Terminal and Ferrybridge. Changes in operating regimes that will result in reduced coal burn have taken place at both Fiddlers Ferry and Eggborough.

In October 2015, the Redcar steelworks was forced to close whilst both the Scunthorpe and Port Talbot steelworks were the subject of sale processes during the year. We continue to provide services at Port Talbot and Scunthorpe, however the closure of the Redcar operation resulted in an exceptional charge for the Group of £1.6m in respect of redundancies and other contract demobilisation costs. Excellent stewardship and structuring of trading arrangements ensured that bad debts and losses on stock positions were avoided.

Revenue for the Division reduced by £44.3m from £127.8m to £83.5m in the prior year. The table below shows the split of revenue by geography. The challenges in the UK market were reflected by a £51.9m reduction in revenues rising from the various site closures. Excellent progress and development in the Hong Kong operation saw revenues increase by £5.6m or 104% from £5.4m to £11.0m.

Total revenue by destination

£m	FY14	FY15	FY16
UK	119.8	120.9	69.0
Hong Kong	2.8	5.4	11.0
Other	–	1.5	3.5
Total	**122.6**	**127.8**	**83.5**

The bulk of the reduction in UK revenue was attributable to the closure of Redcar Steelworks and Liverpool Bulk Terminal. Orders for additional works at coal power stations and other steel sites were also lower than the prior year due to the economic and business challenges faced by many of our key customer sites and operations.

Six key customer sites were closed or announced closure in the last financial year. These operations contributed £20.2m of revenue and £2.1m of gross margin in the year ended 31 May 2016. In addition to the loss of revenue and profits, the closures resulted in exceptional charges in respect of redundancy and other contract demobilisation costs which are outlined in the Financial Review.

Offsetting the challenges faced by the UK business, good progress was made in developing operations in Hong Kong. Revenues in Hong Kong grew from £5.4m to £11.0m, an increase of 104%. The operating profit generated from international operations accounted for £0.3m. Efforts continue to develop the business, particularly in Hong Kong where ambitious targets have been set for growth.

Logistics Division
The Logistics Division had a challenging year. Revenues for the operation fell from £68.3m to £54.5m. £7.3m of that fell related to Imperial Tankers which was disposed of in the prior year. The balance of the reduction in revenues stemmed from a major change in the movement of waste flows following a clarification of waste classification for landfill tax purposes by HMRC. The Division's activity levels were also impacted by very low seasonal flows of coal and rock salt following the mild winter. As a result of reduced activity levels and the disruption to established waste routes, Operating Profit for the Division fell by £1.1m from £2.3m to £1.2m.

Safety, Health and the Environment
Our vision is to create an environment where all employees can work with zero harm to them. To achieve this, the Group takes a proactive approach to Safety, Health and the Environment and remains 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. 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.

During the previous year, we continued to strengthen our approach to behavioural safety training, with emphasis on raising the awareness and understanding of our supervisory staff, who form the "front line" in delivering our standards within the workplace. This is being achieved through internal safety champions and external accredited training providers.

We have also developed our Senior Manager Safety Engagement Programme to deliver leadership across our operating sites. This Programme is led by the Board members and involves all senior managers undertaking site based safety visits, engaging directly with the workforce to discuss issues that impact on them. This Programme has proved to be effective in delivering a consistent approach across the Group and will continue to be a cornerstone of our safety strategy.

It is disappointing to report that, despite our best efforts, our safety performance deteriorated slightly during the year, as measured by Lost Time Incident Frequency Rate ("LTIFR"). This performance was in some part influenced by the period being a year of transition for the Group, with a number of operating units closing and others downsizing their workforce. Notwithstanding these influences, this remains a disappointing result and addressing the challenges of the changing environment remains a key focus for the Group.

Iain Cockburn
Group Finance Director

Gordon Banham
Group Chief Executive
8 August 2016

Strategic Sites

A portfolio of over 18,000 acres with significant potential.

With over 18,000 acres of land throughout the UK, Hargreaves has developed a pipeline of exciting opportunities including renewable energy, residential & commercial property and industrial use. This land bank includes strategic railheads and in excess of 75MW of grid connections. The Hargreaves Services plc Head Office can be found in Durham and we have a number of operational centres throughout the UK.

Forestry & Agriculture

Location: Across Scotland
Scale: Over 9,000 acres

1 Westfield

Location: Fife
Scale: 390 acres
Project: Energy Park with 'Energy from Waste' plant as the anchor. Site includes 35MW grid connection

See case study on page 15

2 St Ninians

Location: Fife
Scale: 1,155 acres
Project: Regeneration of former abandoned surface mine with proposal for mixed use leisure destination

3 Blindwells

Location: East Lothian
Scale: 390 Acres
Project: 1,600 home residential property development

See case study on page 12

4 Earls Gate

Location: Grangemouth
Scale: 15MW steam & 15MW electrical output
Project: Energy from Waste plant, consuming c.200,000t of waste p.a.

See case study on page 15

5 Approved Wind Farms

Location: 3 sites across South Lanarkshire
Scale: 4,400 acres
Project: Up to 75MW approved wind farms

6 Grid Connections

Location: Across Yorkshire Region
Scale: c.50MW grid connections
Project: Active grid connections across a number of strategic sites in Yorkshire

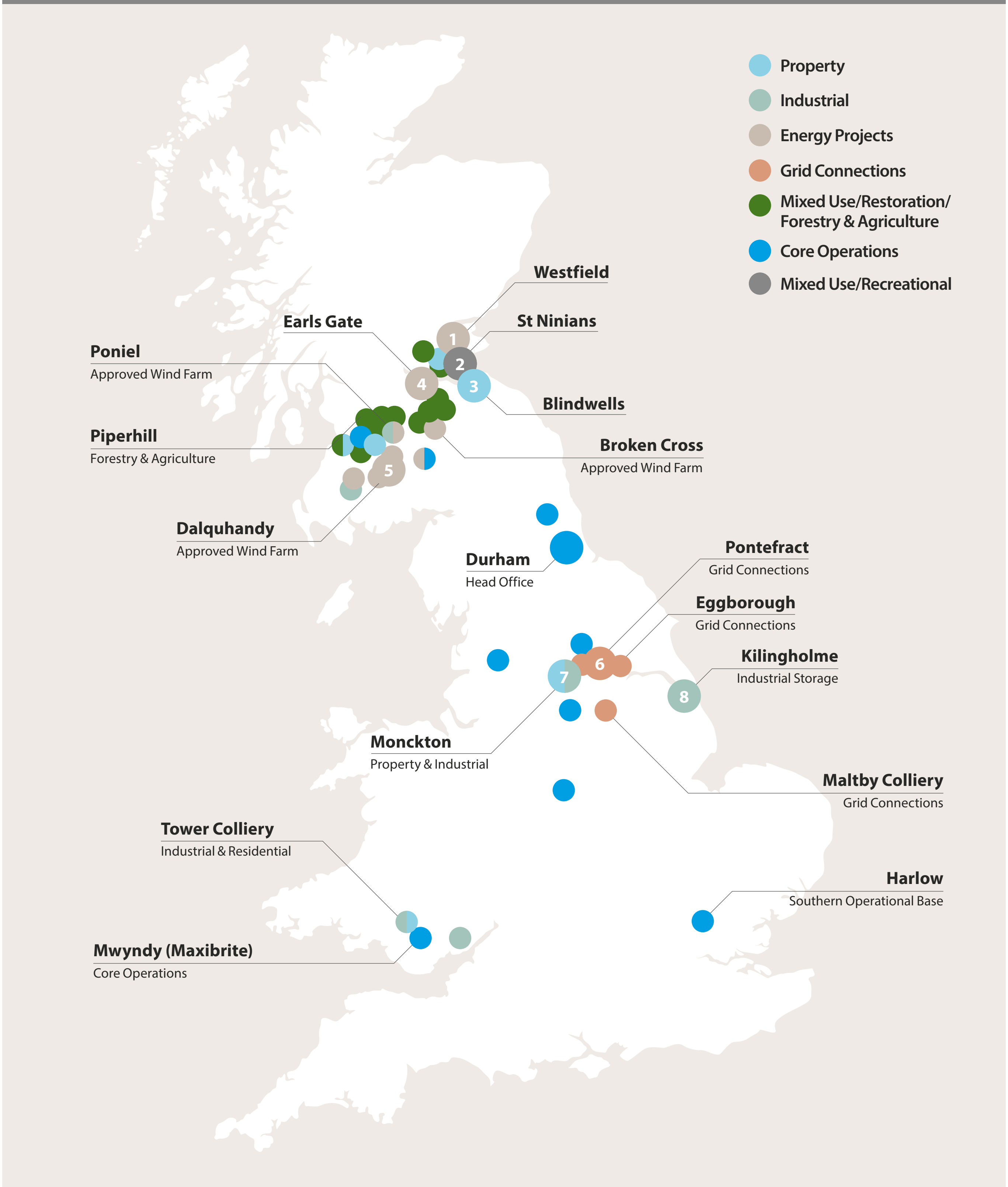
7 Monckton

Location: Monckton, Barnsley
Scale: 35 Acres
Project: Regeneration of former coke works to include residential property and commercial office buildings

8 Industrial Storage

Location: Killingholme
Scale: 33 acres
Project: Extensive industrial storage, located close to Immingham Docks

Map of operations



Case Studies

Blindwells

A new settlement for East Lothian

The Blindwells development is ideally located close to the A1 in East Lothian, with far reaching views over the Firth of Forth. Hargreaves' proposal includes plans for up to 1,600 new homes, which will include social housing, education facilities, a healthcare hub, local retail outlets and many other services needed for a new community.

The masterplan for the development provides an integrated and creative solution for an area which has already been identified in the East Lothian Local Plan.

The project is currently going through the planning process, with a decision expected late in 2016.

Location: East Lothian, Scotland

Project type: Housing

Site Area: 114 Hectares

Features: Up to 1,600 homes, retail outlets, education & healthcare facilities

Case Studies *continued*

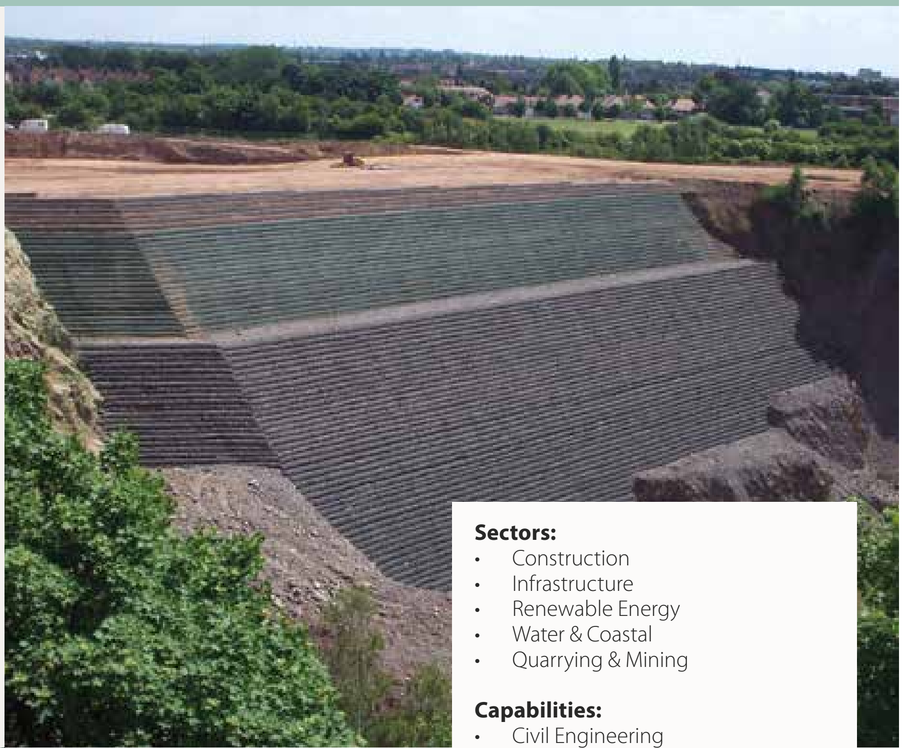
CA Blackwell

Strong synergies to develop and grow

Established in 1956, CA Blackwell has a strong reputation throughout the UK in the specialist earthworks, civil engineering and remediation sectors having worked on the construction of most UK motorways and key projects such as Terminal 5 and the Olympic Park in London.

The acquisition of CA Blackwell by Hargreaves in January 2016 has enabled strong synergies and has created one of the largest fleets of mobile plant in Europe.

Hargreaves' financial backing will also enable CA Blackwell to tender on much larger projects than they were previously able, offering even greater potential.



Sectors:
- Construction
- Infrastructure
- Renewable Energy
- Water & Coastal
- Quarrying & Mining

Capabilities:
- Civil Engineering
- Bulk Earthworks
- Plant & Engineering
- Remediation & Soil Stabilisation

Notable Projects: Hemerdon Tungsten Mine, Glensanda Granite Quarry, sections of most of the UK's motorways, Heathrow Terminal 5, the Olympic Park.

Earls Gate Energy Centre

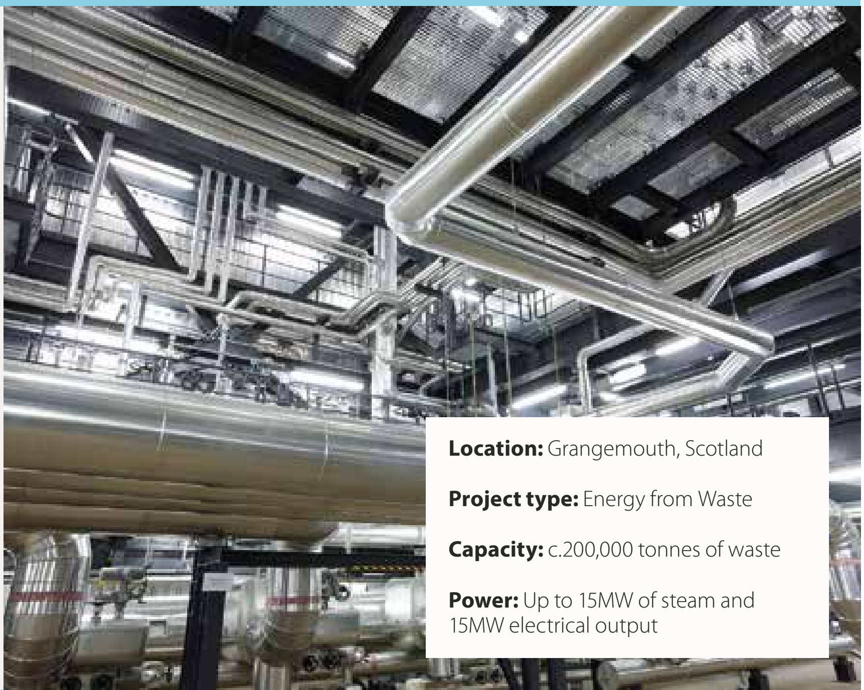
Utilising Scottish waste to generate energy

This new energy plant will use the latest technology to provide energy to businesses on Earls Gate Park in Grangemouth. It will utilise Scottish Refuse Derived Fuel (RDF), which is produced by transforming commercial and household waste, once materials that can be practicably recycled have been removed, into a relatively dry fuel.

It is anticipated that the plant would require in the region of 200,000 tonnes of RDF per year and contribute towards targets for the Zero Waste Plan for Scotland.

The Combined Heat and Power ("CHP") plant will be one of the most efficient plants of its type in the UK and will provide essential heat and power to support four separate chemical manufacturers on the Earls Gate site.

The project is currently going through the planning process, with a decision expected late in 2016.



Location: Grangemouth, Scotland

Project type: Energy from Waste

Capacity: c.200,000 tonnes of waste

Power: Up to 15MW of steam and 15MW electrical output

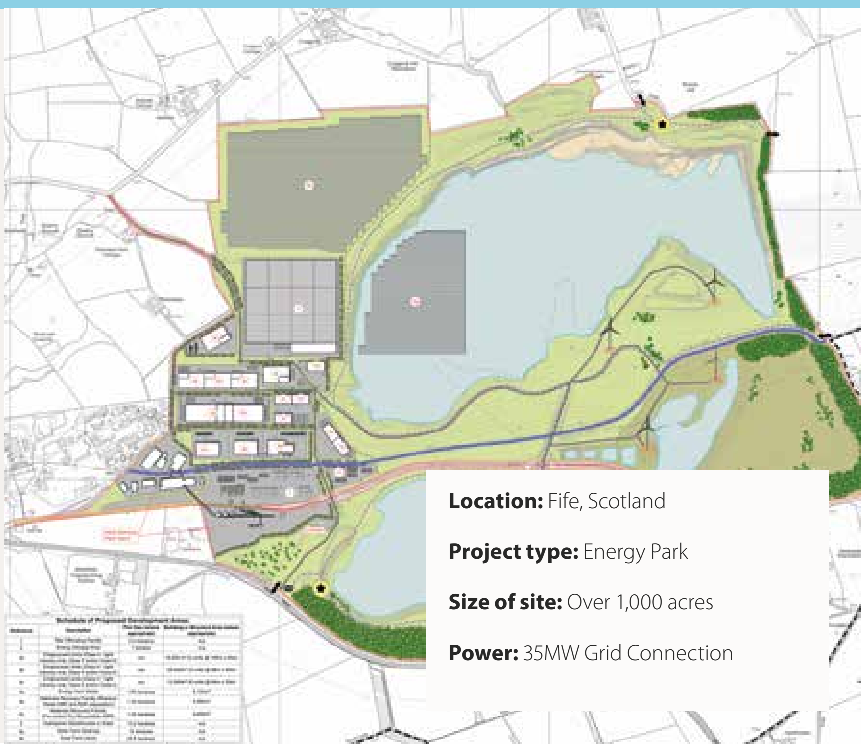
Westfield Masterplan

An innovative solution to one of Scotland's largest brownfield sites

The Westfield Masterplan is a unique innovation in the restoration and development of a large brownfield site. Hargreaves believes that with proper investment, the site's location, scale, railhead and road connectivity can be exploited through visionary and innovative regeneration and development projects.

The Masterplan illustrates the creation of an energy generation centre, based on the recovery of renewable energy to act as anchor developments. One of the major components of the plan is an Energy from Waste plant.

The project is in the early stages of the planning process, with the application expected to be submitted in Q3 2016.



Location: Fife, Scotland

Project type: Energy Park

Size of site: Over 1,000 acres

Power: 35MW Grid Connection

Financial Review
Iain Cockburn, Group Finance Director

The Group has continued to be faced with significant challenges within the coal sector in the UK.

Revenue

The Group has continued to be faced with significant challenges within the coal sector in the UK with continued coal price weakness and lower levels of demand for power station grade coal, arising from the accelerated programme of coal generation plant closures. These market pressures together with the Group's decision to scale down its coal activities have resulted in a reduction in revenue of £321.5m from £662.2m to £340.7m in the current year.

Operating Profit and Margins

Underlying Operating Profit from Continuing Operations reduced by £38.2m from £42.8m to £4.6m, mainly driven by a reduced contribution from our Third Party Trading business, due to the aforementioned challenges within the coal markets. Additionally, underlying operating profit within the Industrial Services division has reduced in the year, linked to the closure of Redcar Steelworks and the accelerated closure programme of many UK coal power generation plants.

The initial period of operation within the newly established Specialist Earthworks division has been promising, delivering an Underlying Operating Profit of £1.1m in the first period of operation. This contribution has helped to offset the reduction in Underlying Operating Profit of £1.1m delivered by our Logistics division. The Logistics division was impacted by a reduction in coal and rock salt volumes combined with some significant challenges within the waste sector. These factors contributed to the reduction in Underlying Operating Profit from £2.3m in the prior year to £1.2m in the year ended 31 May 2016.

Reported Group Continuing Operating Profit before exceptional costs fell from £38.1m to £5.2m whilst Continuing Profit before Tax fell more sharply from £24.9m to a loss of £10.6m reflecting £12.4m of exceptional costs as the Group continues to transition the business away from thermal coal exposure within the UK.

Acquisition of Blackwell

On 11 January 2016, the Group completed the acquisition of Blackwell for a consideration of £11.85m. The consideration was settled by a net cash payment of £8.5m and the transfer to the Blackwell shareholders of a property at Earls Colne with a market value of £3.35m. The property was owned by Blackwell. Of the £8.5m net cash payment, £5.25m was placed in escrow pending the settlement of a number of historic claims and the realisation of proceeds from the disposal of two other investment properties, which will be marketed post-acquisition. These property disposals are expected to be completed by 31 December 2016. The net debt of Blackwell at the date of the acquisition was £4.9m.

In our calculation of fair value, we have impaired the value of assets to which the escrow relates and assumed that the balance of £5.25m is returned to the Group. This has resulted in the establishment of a £5.25m debtor and an investment of £6.6m. The value of net assets acquired was £5.8m, resulting in goodwill of £0.8m.

Following the acquisition of Blackwell, a new Specialist Earthworks Services Division was established and will be managed and reported as a new separate business segment. The operation will continue to trade as "Blackwell".

Exceptional Costs

The Group continued its re-structuring to reduce exposure to thermal coal volatility and production within the UK. The various port, power station and steel plant closures that were announced last year required further steps to restructure and reduce costs. As a direct result of this, the Group has incurred non-recurring costs relating to redundancy and asset write downs of £12.4m. Included within these exceptional costs in the year to 31 May 2016 is a one off impairment on the Tower project of £4.7m. This impairment has arisen following the announcement from Aberthaw power station to cease the purchasing of Welsh coal at the end of the current contract, which has in turn led to the decision to shorten the mine life at Tower.

Item	£m
Impairment of investment and other assets relating to the Tower project	4.7
Redundancy and related site closure cost at Redcar Steelworks	1.6
Redundancy and related site closure costs in Industrial Services	1.1
Cost associated with early closure of certain mining operations	4.0
Cost attributable to the acquisition of Blackwell	0.7
Redundancy costs from central overhead cost reduction programme	0.3
	12.4

As a result of the strategic move to transition away from exposures to thermal coal, in light of continued price and volume pressures, the Group took the decision in the prior financial year to cease operations at a number of our mining sites in Scotland. This led to a write off of mining assets and associated redundancy costs. The Group will now only operate coal extraction from a single site at House of Water.

These costs do not form part of the Group's ongoing activities, are considered exceptional by size and nature, and are therefore excluded from the Group's underlying result.

Interest

In the year to 31 May 2016, continuing net finance expenses for the Group reduced by £0.9m from £2.5m to £1.6m. This is driven partially by the success of the simplification programme in the prior year, which has led to a reduced level of average net debt.

Taxation

The income tax credit for the year is £1.1m compared with a tax charge of £3.6m for the year ended 31 May 2015; including the share of tax of equity accounted investees of £0.6m (2015: £0.6m) this results in a total tax credit of £0.5m (2015: charge of £4.2m). Whilst this credit represents a reported effective tax rate for the

Group of 4.5% (2015: 16.4%), this rate is affected by a number of exceptional costs that are not tax deductible, including the write off of certain Tower balances and acquisition of Blackwell.

Dividend
The Board is proposing a final dividend of 0.6p per share (2015: 20.0p), bringing the dividend for the full year to 2.3p per share (2015: 30.0p). Whilst this reflects a decrease of 92.3% in the total dividend for the year, this increases the dividend pay out ratio to 40% (2015: 31.9%) of underlying diluted earnings per share. The proposed final dividend will be paid on 21 October 2016 to all shareholders on the register at the close of business on 23 September 2016.

Share Buybacks
The Group has continued the programme of purchasing its own shares as a means of returning value to shareholders. In the year to 31 May 2016 the Group purchased 175,000 (2015: 1,053,072) shares for a total consideration of £0.6m (2015: £6.3m). The Group now holds 1,228,072 of its own shares in treasury.

Pensions
Our former deep mining operation at Maltby Colliery was a member of two industry wide defined benefit pension schemes. Whilst our operations at the mine have ceased, the obligation to fund the schemes remains within the Group, and the Directors remain committed to funding the schemes.

In addition to the two industry wide defined benefit pension schemes, Maltby Colliery also operates an unfunded concessionary fuel scheme. The combined liability of both elements as at 31 May 2016 is £5.7m, increased from £5.5m at 31 May 2015. Contributions in the year of £1.2m (2015: £2.1m) have been offset by interest and expenses of £0.3m (2015: £0.3m) and a net re-measurement loss of £1.0m (2015: £2.1m).

In the prior year, the Group also maintained a concessionary fuel scheme for former employees of The Monckton Coke & Chemical Company Limited. As noted in the prior year Annual Report and Accounts, the scheme has ended and a final settlement was made in June 2015. The Group has no further obligation in relation to this scheme.

Earnings per Share
Reported basic earnings per share from Continuing Operations decreased from 65.3p to a loss of 30.0p reflecting the impact of the reduced underlying profits and the exceptional costs. Underlying diluted earnings per share decreased by 94.0% from 93.9p to 5.6p. The weighted average diluted number of shares reduced slightly during the year from 33.1m to 32.3m. The share buy-back programme, which was approved on 5 November 2014 resulted in the purchase of 1,228,072 shares as at 31 May 2016, and therefore reduced the weighted average number of shares.

Net Debt
Net debt increased by £31.3m from £1.0m at 31 May 2015 to £32.3m at 31 May 2016. The net debt figure has increased following the Group's acquisition of Blackwell, as well as plant and mining asset investment.

Group net assets decreased from £148.5m at 31 May 2015 to £131.4m at 31 May 2016. Gearing (measured as net debt compared with net assets) at the end of May 2016 was 24.6%, compared with 0.7% at 31 May 2015.

Net cash flow from continuing operating activities before interest and tax generated a cash inflow of £20.2m during the year. This cash generation reflected positive EBITDA of £14.9m, despite the significant pressures faced across the group on profits. The cash impact of exceptional costs in the year, included within the £14.9m was £2.9m.

The movement within the Group's working capital balances was a £5.3m inflow. Reductions in coking coal, coke and PCI coal, following the closure of Redcar Steelworks offset the impact of increased coal stocks in Scotland. The release of working capital was lower than expected in the last year due to the lack of demand last winter. The Group is confident that these stocks will be saleable during the coming year, although visibility of demand remains low.

Interest payments included amounts of £3.0m in respect of the cash settlement of ineffective derivative financial instruments, for which the cost had been provided within the previous year's Income Statement.

Tax payments in the year included £6.3m in respect of a disclosable tax planning scheme implemented in 2011. An additional amount of £5.2m was paid in June 2016. Following this payment the Group has no further cash payment obligations in relation to the scheme. The Group and its advisors, KPMG are still confident that the scheme was sound and lawful. Should HMRC ultimately accept the Group's view on how this arrangement should be treated for corporation tax purposes, the £11.5m of cash paid will be repaid by HMRC. As previously reported, no profit benefit was taken at the time the scheme was enacted.

Movement in Net Debt

Item	2016 £m	2015 £m
EBITDA	**14.9**	46.1
Movement in working capital	**5.3**	22.9
Cash from operating activities before interest and tax	**20.2**	69.0
Interest payable	**(4.0)**	(1.4)
Taxation payable	**(6.7)**	(4.7)
Net capital expenditure	**(13.5)**	(8.3)
New finance leases	**(3.5)**	(2.1)
Business combinations	**(13.7)**	26.9
Dividends received	**0.8**	2.2
Dividends paid	**(6.9)**	(8.7)
Purchase of own shares	**(0.6)**	(6.3)
Discontinued cash flows	**(3.4)**	1.2
Total movement in cash and cash equivalents	**(31.3)**	67.8

Financial Review *continued*

> "The change in structure of the bank facility has resulted in improved pricing, which has had a positive impact on the net finance expense for the year. The new structure was also designed to provide a greater degree of flexibility for the Group in financing working capital."

No provision has been made for approximately £1m of interest that would be payable should the planning scheme not be successful.

Net capital expenditure in the last financial year was £13.5m (2015: £8.3m) and includes disposal proceeds of £1.6m (2015: £2.9m). Gross cash on capital expenditure was £15.1m (2015: £11.2m) and related to investment of £8.5m to supplement our existing plant fleet and further investment in mine development assets across our Scottish operations of £3.0m to develop the House of Water site. The Group have also continued to invest in its property portfolio as assets are developed for future use or sale.

The acquisition of Blackwell resulted in an increase in net debt of £13.4m. This was made of cash payments to settle the acquisition consideration of £6.6m, an amount of £5.25m paid into escrow, net debt included in the acquisition balance sheet of £4.9m, less the £3.35m received in relation to the disposal of the head office property. Additionally, the Group also acquired Earls Gate Energy Centre Limited for net cash of £0.3m.

In addition to the cash flows described above, the Group paid dividends totalling £6.9m, reflecting the prior year final dividend of 20.0p and the current year interim dividend of 1.7p. The Group have also purchased a number of shares as part of the share buy back programme for £0.6m (2015: £6.3m) and reduced the long term loans balance by £1.6m (2015: £53.9m).

Coal stocks are expected in to increase by around 100k tonnes in the first half of the current financial year before sales commence in earnest during next winter. The Group also expects to offer stocking deals to coal merchants of around £6m in the first half, in line with normal practice.

Capital Management and Bank Facilities
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.

The Group's current UK banking arrangements consists of a £70m borrowing base facility ("BBF") and a £40m revolving credit facility ("RCF"). The arrangement was concluded with a three bank group comprising of HSBC, Lloyds and Barclays and is committed through to August 2018. The change in structure of the facility has resulted in improved pricing, which has had a positive impact on the net finance expense for the year. The new structure was also designed to provide a greater degree of flexibility for the Group in financing working capital. This was judged to be important given the reductions that were anticipated to occur with Group EBITDA. Although the Group's RCF is subject to a Debt:EBITDA leverage covenant maximum of only 2:1, the Group's BBF facility sits outside the leverage test and leverage test parameters as it is secured against the underlying working capital assets.

As a result of this innovative arrangement the Group benefits from a flexible facility structure, and with the reduced need to finance significant coal stocks and plant assets, the Board does not foresee any covenant stress or pressure, in light of the reduced current profitability.

Summary of Net Debt

	2016 £000	2015 £000
Cash and cash equivalents	**(21,161)**	(43,853)
Interest bearing borrowings	**37,593**	32,772
Finance lease liabilities	**15,906**	12,049
Net Debt	**32,338**	968

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 August 2016

Statement on Risks Relating to the Group's Business

This statement is an integral part of the Strategic Report.

Key Risks	Description	Mitigation
OPERATIONAL		
Operational and Project Performance Risk	Ineffective and inefficient project management could lead to additional costs being incurred, which will affect the overall project performance and therefore the financial performance of the Group. Managing contract risk is essential, as there is a risk that the Group may commit to contractual terms and conditions that expose the Group to excessive financial risks and potential cost overruns. Whilst the Group has always been exposed to this type of risk, the acquisition of Blackwell increases our exposure to construction sector contracts and heightens this risk.	• Policies and procedures in place for contract approval include bid approval models, peer review and Board approval of key contracts. • Experienced management teams in place for all service offerings with the relevant technical and industry knowledge. • Review of all contracts by internal legal support, involving external resource on material contractual commitments. • Monthly project performance reviews are undertaken involving finance, commercial and operational personnel.
UK Housing Market Risk	As the Property and Energy division gains more prominence within the Group, we will become more exposed to risks associated with the UK housing market. Demand for UK housing can have a marked impact on property and land valuations, which may affect the viability of sites.	• The Group's policy is to only progress and develop land where it considers that significant value uplift will be deliverable, resulting in a focus on the land that is deemed to be of high quality and in prime locations. • Although "Brexit" has raised some additional concerns over the UK property sector, the Group's investment in Property and Energy is long term and should not be seriously affected by short term events, or economic cycles.
Property Development	The Group also now has a growing portfolio of property assets, the value of which will be dependent on successful development and commercial exploitation. These land assets present the risk of variations in the market value of property assets. Development projects, including those in the energy sector, are also subject to receiving appropriate permissions from the relevant planning and other regulatory bodies.	• The Group has developed a focussed in-house team with considerable expertise in this area, supported by external specialists where necessary. • The Group adopts a prudent approach to investment in development projects taking account of the costs and risks associated with each project on a case by case basis, with material investment decisions coming to the Board for approval. • Progress on projects is carefully monitored and continuing or further investment is regularly challenged.
Planning	Increased complexity, cost and delay in the planning process may slow down the project pipeline. Changes in Government or Government strategy towards planning policies could impact on the speed of the planning consent process or the value of sites.	• The Group's highly skilled in-house technical and planning teams monitor changes in the market and in the planning process and react accordingly to ensure that planning consents are achieved in the most cost-effective and timely manner, whilst ensuring a broad spread of developments remain in the planning system at any one time. • Whilst the Group has sought to constrain and prioritise the number of projects being taken through planning, the portfolio does provide a good spread of different types of projects in different planning jurisdictions.
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 employs experienced management teams with the relevant technical and surface mining industry knowledge. • 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.

Statement on Risks Relating to the Group's Business *continued*

Key Risks	Description	Mitigation
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 has significantly reduced its activity levels around commodity trading, however a residual level of risk remains as a result of exposure to the continuing production activities at House of Water and Tower and through the need to liquidate legacy stocks.	• The Group continues to seek, where possible to minimise price and foreign exchange risks through the use of fixed-price contracts, hedging instruments and "back-to-back" purchase and sale agreements. • The Group has not hedged the value of current coal stocks in the face of significant uncertainty on market demand but closely monitors market prices. When a sale is contracted, steps will be taken to fix or hedge any price exposures. In the meantime the Group closely monitors the carrying value of surplus and unsold coal stocks to ensure they are appropriately valued. • The Group also carefully monitors the fuel requirements of any fixed price logistics or earthworks contracts seeking to ensure that the cost of fuel to support these contracts is also fixed through hedges.
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.	• The Group seeks to expand its commercial relationships to reduce its dependence on any one specific relationship, although the opportunities to do so in practice can be restricted, particularly as sectors such as coal-fired generation are reducing in size and number of participants.
Political & Economic Risks	There is a potential impact on the Group from political, security and economic conditions both in the UK and globally. In the UK alone we operate across the energy, property and construction sectors, each of which is subject to risk of sporadic or cyclical economic or political turbulence. The UK energy sector in particular is subject to the risk of changes in political polices. We now have international operations in countries including South East Asia, South Africa and India, where political and economical risk can be magnified due to geographical constraints.	• Despite operating over a number of sectors, we are at risk of declining revenue and profit streams during economic downturns. • We carefully appraise the risks and capital requirements associated with any new contracts in the UK steel sector. • We continue to be prudent in advancing any proposal for investment in the UK energy sector. The two EfW projects are both premised on the assumption that no Contract for Difference subsidy will be available. • A similar assumption is also made in regard to potential developments in the on-shore wind sector. • In light of the political, economic and foreign exchange risks surrounding South Africa at this time, the decision has been taken to pause any further deployment of capital. Investment in other foreign jurisdictions will only be made following careful appraisal by the Board.
HEALTH, SAFETY & ENVIRONMENTAL RISKS		
Health and Safety	Any safety or environmental issue involving our employees, members of the public or third party partners could result in commercial and/or reputational damage to the Group. Our growing portfolio of property holdings also presents health and safety risks, in particular those related to unauthorised public access. Health and Safety incidents carry the risk of significant financial penalties.	• Health & Safety remains a priority consideration of all Group and subsidiary board meetings. • Robust training, policies, procedures and monitoring are in operation. • Internal Health & Safety Managers who conduct regular random inspections. • Regular externally reviewed mock incidents. • Clear site signage stressing health and safety risk is provisioned across all our locations. • The provision of onsite security and/or fencing is made where it is deemed practical and measured.
Environmental	Operations, if not properly managed, could result in environmental contamination with disruption of business, financial costs and loss of reputation. In particular, the processes used in the mining of coal present environmental risks which may affect not only our property but also property belonging to third parties.	• Provision of clear guidance on the environmental standards we expect all our operations to achieve. • Compliance with laws, regulations and industry best practice is a priority across the business.
Recruitment and Retention of Key Executives and Skilled Employees	Key executives, senior management and skilled employees possess the industry knowledge and experience without which the strategic objectives may not be advanced. If the Group is unable to recruit or retain both key executives and skilled employees, this could adversely affect the Group both operationally and financially.	• The provision of remuneration and terms of employment that are competitive in the market.

Key Risks	Description	Mitigation
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.	
Credit Risk	By necessity the nature of the Group's trading and Industrial Services relationships necessitate contract and credit exposures to individual customers that are material to the results of the Group, sometimes over a long tenor. Credit risk arises from the possibility that customers may not be able to pay their debts. As the Group has reduced the scale of its coal production and trading relationships, the relative materiality of some of these exposures has increased.	• The Group periodically assesses the financial reliability of customers. • The Credit Control function closely monitors and chases any overdue debts and the majority of the Group's trade receivables are due for payment within 45 days. • The Group remains vigilant to monitoring and controlling counterparty exposures that are material to the results of the Group. All such exposures are carefully considered before contractual commitments are made to take account of the risks presented by the contract or relationship, the returns available and the opportunities that are, or are not, available to mitigate that exposure. • The Group continues to carefully monitor its exposures and Management are mindful of the continuation of difficult trading conditions being experienced in a number of sectors, particularly the coal and steel markets.
Interest Rate	The Group predominantly borrows in Sterling at floating rates. If interest rates rise the cost of borrowing for the Group will rise accordingly. As at 31 May 2016 £15.9m of the Group's financial liabilities were at fixed rates (2015: £12.0m).	• Where appropriate the Group will use derivatives to generate the desired effective currency and interest rate exposure. • At current levels of debt and interest rates the Group's exposure to changes in interest rates is not considered significant, particularly in light of the considerable amount of cash realisations expected over the coming period.
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. Transactional 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.	• The translation risk is reduced by ensuring that net assets are financed where possible by borrowing in local currency. • 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.
Pension	The Group operates a defined benefit pension scheme. Times of economic instability can have an impact on scheme asset values with the result that the reported pension deficit increases. Furthermore, the relationship between implied inflation and long-term gilt yields has a major impact on the pension deficit and the business has little control over those variables.	• The Group seeks to engage with the Trustees to ensure that an optimal balance is struck between managing risk and volatility in asset values and seeking a reasonable long term return on the assets. • The Group operates a Trustee approved deficit recovery plan. • The scheme has been closed to new members since the acquisition of Maltby Colliery in 2007 and, following the closure of that operation in 2012 there are no active members or continuing service accrual. • The Group make use of high quality external experts for actuarial and investment advice.

Board of Directors

David Morgan (aged 58)

Non-Executive Chairman

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 Nordgold S.E. and of Econic Technologies Ltd and a Non-Executive director of The Royal Mint as well as a number of other companies. His career has involved general and financial management as well as corporate governance and he has had M&A experience in all parts of the world.

David is a member of the Remuneration and Nominations Committees (Chairman).

Gordon Banham (aged 52)

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 51)

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, with Courtaulds PLC and GenRad Inc (now Terradyne). Prior to joining Hargreaves he was Finance Director and subsequently CEO and Finance Director of Knowledge Support Systems plc. Iain has worked in senior roles in a variety of industries and has significant experience around financing, acquisitions, joint ventures and financial structuring. He also brings significant international experience to the Group.

Kevin Dougan (aged 62)

Group Commercial Director

Kevin spent the early part of his career with British Coal, specialising in opencast coal mining becoming Assistant Regional Engineer. In 1986, Kevin joined Andrew Golightly Limited as Contracts Director, subsequently joining the Group in 1995 as a Divisional Director. He was appointed to the Group Board in April 2004. Kevin is an expert in deep mining and has had significant experience in the earthworks sector. He is also one of the UK leading experts in heavy plant and has been and continues to be responsible for the Group's significant heavy plant fleet.

Peter Jones (aged 61)

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.

Peter is a member of the Audit, Remuneration (Chairman) and Nominations Committees.

Nigel Halkes (aged 60)

Non-Executive Director

Nigel was a partner at Ernst & Young for 25 years, rising to become Managing Partner of Markets for the UK and Ireland, responsible for the firm's growth strategy, relationship with major clients and the business development function. He served some of the firm's largest clients, including auditing British Coal in the period up to privatisation. He served three years as an elected member of the CBI London Council. He retired from Ernst & Young at the end of 2013 to pursue a portfolio non-executive career spanning the public, private and charitable sectors. Nigel is currently a Non-Executive Director of Management Consulting Group plc and sits on the board of Visit England and the advisory board of the Victoria & Albert museum.

Nigel is a member of the Audit (Chairman), Remuneration and Nominations Committees.

Group Executive Management Team

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

Steve Anson

Managing Director

Coal Distribution Division

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

Steve, a qualified Civil and Structural Engineer has developed a successful career working for leading companies in the construction materials industry. He has in excess of 30 years' experience in mineral extraction and associated sectors at senior operating level. Steve has been part of the Executive Management team at Hargreaves for over 10 years developing and managing key areas of Group operations.

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.

Julie has over 20 years' experience in providing outsourced services to UK & International industry. She has been a member of the Executive Management Team for 4 years and has been with the company for over 9 years. Julie has personally overseen the development of the business in Asia in both Hong Kong and Malaysia, and, diversified the UK service offering away from coal fired power stations.

Andrew Spence-Wolrich

Managing Director

Logistics Division

Previously: Managing Director, The Spence-Wolrich Partnership; Business Director, Bulmers Transport Ltd; Commercial Manager, Hoyer GmbH.

Andrew has led the Logistics business at Hargreaves for over 6 years and has 35 years' experience in the sector. An MBA with a detailed knowledge of all aspects of logistics services and change management, he has implemented industry leading technology to improve safety, productivity and efficiency. Andrew is also the regional Chair for the Road Haulage Association.

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2016.

Principal Activities
The principal activities of the Group are the provision of haulage services, waste transportation, mineral import, mining and processing, together with specialist earthworks and related activities.

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

Proposed Dividend
Following the payment of an interim dividend of 1.7p per share on 8 April 2016, the Directors recommend a final dividend for the year ended 31 May 2016 of 0.6p per share to be paid on 21 October 2016 to shareholders on the register on 23 September 2016. The shares will be ex-dividend on 22 September 2016. 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 2016 for the Group were 26 days (2015: 20 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:

David Morgan
Gordon Banham
Iain Cockburn
Kevin Dougan
Peter Jones
Nigel Halkes (appointed 21 August 2015)
Tim Ross (resigned 8 October 2015)

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

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

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

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

	Class of share	Interest at end of year	Interest at beginning of year
David Morgan	Ordinary	30,000	–
Gordon Banham	Ordinary	2,478,466	2,273,466
Kevin Dougan	Ordinary	118,272	118,272
Iain Cockburn	Ordinary	7,680	7,680
Peter Jones	Ordinary	10,000	–
Nigel Halkes	Ordinary	5,000	n/a

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

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

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

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Iain Cockburn	–	June 2011 to June 2018	20,287

These options were granted under the Long-Term Incentive Plan on 20 June 2008 and are outstanding at the end of the year.

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Iain Cockburn	–	June 2012 to June 2019	28,500

These options were granted under the Long-Term Incentive Plan on 30 June 2009 and are outstanding at the end of the year.

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

These options were granted under the Long-Term Incentive Plan on 16 September 2011, and are outstanding at the end of the year. The options partially vested at 41.71%. Iain Cockburn's beneficial holding is therefore 7,086.

No options were granted under a Long-Term Incentive Plan in 2012, 2014 nor 2015. The options awarded under a Long-Term Incentive Plan in 2010 and 2013 lapsed.

Director	Exercise price per share	Period during which option is exercisable	Number of options granted
Gordon Banham	–	October 2017 to May 2018	31,109
Iain Cockburn	–	October 2017 to May 2018	20,642
Kevin Dougan	–	October 2017 to May 2018	16,990

These options were granted under Deferred Share Bonus Scheme A and are outstanding at the end of the year. The options are subject to conditions as outlined in Note 26.

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 Gordon Banham and Peter Jones. Gordon Banham and Peter Jones, being eligible, offer themselves for re-election. As previously announced, Tim Ross retired as Chairman and Non-Executive Director on 8 October 2015.

Significant Shareholdings

At 5 August 2016 the Company had been notified or was aware of the following shareholders with 3% or more of the issued share capital of the Company:

Shareholder	Number of ordinary shares	% of issued share capital
Schroder Investment Management Ltd	5,850,616	18.33%
Artemis Investment Management LLP	3,576,397	11.21%
Fidelity Worldwide Investment (UK) Ltd	3,208,568	10.05%
Shareholder Value Management AG	2,970,123	9.31%
Gordon Banham	2,478,466	7.77%
The NFU Mutual Insurance Society Limited	1,460,000	4.58%
M & G Investment Management Ltd	1,320,444	4.14%

Directors' Report *continued*

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

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

Purchase of Own Shares
The Directors are authorised to make market purchases of the Company's own shares under an authority granted at the Annual General Meeting held on 7 October 2015. In accordance with the Company buy back policy 175,000 shares were purchased during the year. The Directors will seek authority to make market purchases of up to fifteen per cent of the Company's own shares at the 2016 Annual General Meeting (full details are available in the 2016 Notice of Annual General Meeting).

Approval to Issue Shares
The Directors will seek authority to allot up to a maximum aggregate nominal amount of £1,069,523 at the 2016 Annual General Meeting (full details are available in the 2016 Notice of Annual General Meeting).

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

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

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

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

By order of the Board

Andrew Robertson
Company Secretary
8 August 2016

Corporate Governance

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

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

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

During the year the Board comprised a Non-Executive Chairman, three Executive Directors, and three independent Non-Executive Directors. David Morgan was appointed Chairman with effect from 7 October 2015 upon Tim Ross' retirement as Chairman and Non-Executive Director.

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

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

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

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

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

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

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

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

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

Attendance at meetings	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	11	3	7	1
David Morgan	11 attended	3 attended	7 attended	1 attended
Gordon Banham	11 attended	n/a	n/a	n/a
Peter Jones	11 attended	3 attended	7 attended	1 attended
Iain Cockburn	11 attended	n/a	n/a	n/a
Kevin Dougan	10 attended	n/a	n/a	n/a
Nigel Halkes	9 attended	2 attended	5 attended	1 attended
Tim Ross (retired)	3 attended	1 attended	4 attended	n/a

Corporate Governance *continued*

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

- Remuneration;
- Audit; and
- Nominations.

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

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

The Audit Committee and Independent Auditor
During the year the Audit Committee comprised the Non-Executive Directors, excluding the Chairman. Nigel Halkes replaced David Morgan as Chairman of the Committee on 7 October 2015. Nigel Halkes 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 Chairman, 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, paying particular attention to the accounting policies, judgements and estimates disclosed in Note 1 to the Financial Statements. 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 Group Whistle-Blowing Policy by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties, and the Anti-Corruption Policy. The minutes of the Committee are circulated to all Directors for information.

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

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

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

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

During the year the Nominations Committee reviewed the composition of the Board, leadership requirements and succession planning, together with a performance evaluation of Non-Executive time-commitment. The Committee also reviews its own effectiveness.

The Committee's members are the independent Non-Executives. 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 31.

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. Regular meetings attended by the Group Executive Management Team are held to review operational performance and assess the strategic development of each division.
- **Risk Committee –** responsible for driving effective risk management throughout the business; reporting and making recommendations to the Audit Committee as appropriate; and, monitoring and reporting on all material business risks which might impact the delivery of the Group's strategic goals and objectives. Members of the Committee include the Group Finance Director 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 Non-Executive Directors (following discussions with the other Directors) conducts the Chairman's appraisal; and, the Group Chief Executive conducts appraisals in respect of the other Executive Directors.

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

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

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

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

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

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

Corporate Governance *continued*

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 2010 and awareness of the consequences of not adhering to Group policies.

The Group has taken the appropriate steps to comply with the provisions of the Market Abuse Regulation.

The Group has also taken the appropriate steps to comply with the Modern Slavery Act 2015. A copy of the Group's Anti-Slavery and Human Trafficking Policy Statement is found below.

> Modern slavery is a despicable form of organised crime in which people are exploited for criminal gain. It is inhumane, unethical and damaging to society, yet it remains an issue in corporate supply chains around the world. Hargreaves Services plc ("Hargreaves") is committed to the eradication of slavery and human trafficking and this statement is made in compliance with section 54(1) of the Modern Slavery Act 2015. It sets out Hargreaves' policy and the steps that Hargreaves is taking to prohibit any form of forced labour or slavery throughout its supply chain.
>
> Hargreaves has six divisions: Coal Production and Distribution; Industrial Services; Logistics; Renewable Energy; Property; and Earthworks/Civil Engineering. It has operations across the globe and has approximately 2000 employees worldwide.
>
> Hargreaves will not knowingly use forced labour, slavery or unlawful child labour in providing any of its services or products, nor will it accept services or products from suppliers that employ or utilise forced or unlawful child labour or any form of slavery.
>
> This policy reflects Hargreaves' commitment to acting ethically and with integrity in all its business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in its supply chains.
>
> Hargreaves has reviewed, and will continue to monitor, its policies and processes to ensure they meet both the legal and ethical standards required in its supply chain.

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 16.

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 seven occasions during the year, were:

Peter Jones	Chairman
David Morgan	
Nigel Halkes	(appointed 21 August 2015)
Tim Ross	(resigned 8 October 2015)

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

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

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

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

Long-Term Incentives
The Executive Directors and other senior employees have traditionally been invited to participate in Long-Term Incentive Plans, whereby shares in the Group are awarded subject to performance criteria. The Group LTIP scheme was replaced by a deferred bonus scheme in 2014.

The Remuneration committee decided not to award LTIPs in the year ended 31 May 2016.

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

Remuneration Report *continued*

Directors' Remuneration for the Year to 31 May 2016

	Salary/Fees		Bonus in Cash		Benefits		Total		Pension	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Gordon Banham	**407**	452	**–**	181	**45**	43	**452**	676	**113**	113
Iain Cockburn	**270**	300	**–**	120	**27**	24	**297**	444	**75**	75
Kevin Dougan	**224**	247	**–**	90	**25**	28	**249**	365	**–**	–
Tim Ross (resigned 8 October 2015)	**27**	65	**–**	–	**–**	–	**27**	65	**–**	–
David Morgan	**85**	55	**–**	–	**–**	–	**85**	55	**–**	–
Peter Jones	**40**	40	**–**	–	**–**	–	**40**	40	**–**	–
Nigel Halkes (appointed 21 August 2015)	**28**	–	**–**	–	**–**	–	**28**	–	**–**	–
Total	**1,081**	1,159	**–**	391	**97**	95	**1,178**	1,645	**188**	188

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	2016/17 Salary (£)	Notice period
3 September 2013	David Morgan	Non-Executive Chairman	24 February 2012	100,000	6 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	300,000	12 months' notice
6 June 2014	Peter Jones	Non-Executive Director	6 June 2014	40,000	n/a
21 August 2015	Nigel Halkes	Non-Executive Director	21 August 2015	40,000	n/a

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

Directors' Share Options

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

Savings-Related Share Option Scheme

The Sharesave Scheme is a ten year savings-related share option scheme and was implemented in December 2005. This was not renewed in 2016.

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

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

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

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

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

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

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

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

Executive Long-Term Incentive Plan ("LTIP")
The LTIP scheme was implemented in November 2006. No LTIP awards were granted in the year ended 31 May 2016.

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

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

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

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

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

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

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

The Scheme was designed to allow awards to be made to Executive Directors selected by the Remuneration Committee. The value of any award made under the Scheme was sixty percent of any bonus received under the Group Annual Bonus Scheme for the year ended 31 May 2015. This figure in turn was converted into shares using the mid closing price of a Hargreaves Services plc share on the day preceding the award.

By order of the Board

Peter Jones
Non-Executive Director
8 August 2016

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 their 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 2016, set out on pages 36 to 83. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on Financial Statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006
In our opinion the information given in the 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 August 2016

Consolidated Statement of Profit and Loss and Other Comprehensive Income
for year ended 31 May 2016

Continuing operations	Note	2016 £000	2015 £000
Revenue	1,2	**340,665**	662,161
Cost of sales		**(299,764)**	(588,390)
Gross profit		**40,901**	73,771
Other operating income	4	**265**	733
Administrative expenses	5	**(48,339)**	(45,560)
Operating (loss)/profit		**(7,173)**	28,944
Analysed as:			
Operating profit (before exceptional costs)		**5,205**	38,074
Exceptional costs – Cost of sales	6	**(3,473)**	–
Exceptional costs – Administrative expenses	6	**(8,905)**	(9,130)
Exceptional costs		**(12,378)**	(9,130)
Operating (loss)/profit (after exceptional costs)		**(7,173)**	28,944
Financial income	9	**1,153**	1,152
Financial expenses	9	**(2,785)**	(3,617)
Unrealised fair value gains and losses on derivative financial instruments	6	**–**	(3,080)
Share of (loss)/profit in associates and joint ventures (net of tax)	16	**(1,792)**	1,504
(Loss)/profit before tax		**(10,597)**	24,903
Income tax credit/(expense)	11	**1,082**	(3,554)
(Loss)/profit for the year from continuing operations		**(9,515)**	21,349
Discontinued operations			
Loss for the year from discontinued operations	10	**(940)**	(779)
(Loss)/profit for the year		**(10,455)**	20,570
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans	25	**(1,098)**	(1,733)
Tax recognised on items that will not be reclassified to profit or loss	11	**181**	368
Items that are or may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		**149**	(1,766)
Effective portion of changes in fair value of cash flow hedges		**1,119**	(4,769)
Tax recognised on items that are or may be reclassified subsequently to profit or loss	11	**(40)**	862
Other comprehensive income/(expense) for the year, net of tax		**311**	(7,038)
Total comprehensive (expense)/ income for the year		**(10,144)**	13,532

	Note	2016 £000	2015 £000
(Loss)/profit attributable to:			
Equity holders of the Company		**(10,498)**	20,454
Non-controlling interest		**43**	116
(Loss)/profit for the year		**(10,455)**	20,570
Total comprehensive (expense)/income attributable to:			
Equity holders of the Company		**(10,187)**	13,416
Non-controlling interest		**43**	116
Total comprehensive (expense)/income for the year		**(10,144)**	13,532
Basic earnings per share (pence)	12	**(32.96)**	62.91
Diluted earnings per share (pence)	12	**(32.96)**	61.88
Basic earnings per share from continuing operations (pence)	12	**(30.01)**	65.31
Diluted earnings per share from continuing operations (pence)	12	**(30.01)**	64.24
Non GAAP Measures			
Basic underlying earnings per share from continuing operations (pence)		**5.70**	95.41
Diluted underlying earnings per share continuing operations (pence)		**5.63**	93.85

Balance Sheets
at 31 May 2016

	Note	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Non-current assets					
Property, plant and equipment	13	**68,095**	57,144	**–**	–
Investment property	14	**5,126**	5,126	**–**	–
Intangible assets	15	**9,475**	9,472	**–**	–
Investments in associates and joint ventures	16	**1,043**	5,963	**4,984**	4,984
Investments in subsidiary undertakings	16	**–**	–	**40,123**	32,902
Deferred tax assets	19	**3,207**	2,512	**185**	123
		86,946	80,217	**45,292**	38,009
Current assets					
Assets held for sale	10	**5,040**	5,040	**–**	–
Inventories	20	**46,983**	57,803	**–**	–
Derivative financial instruments	17	**32**	1,088	**–**	–
Trade and other receivables	21	**117,310**	108,750	**218,873**	545,063
Cash and cash equivalents	22	**21,161**	43,853	**–**	19,906
		190,526	216,534	**218,873**	564,969
Total assets		**277,472**	296,751	**264,165**	602,978
Non-current liabilities					
Other interest-bearing loans and borrowings	23	**(46,098)**	(7,165)	**(37,593)**	–
Retirement benefit obligations	25	**(5,699)**	(5,516)	**–**	–
Provisions	27	**(4,189)**	(5,762)	**–**	–
Derivative financial instruments	18	**(66)**	(1,308)	**–**	(1,308)
		(56,052)	(19,751)	**(37, 593)**	(1,308)
Current liabilities					
Other interest-bearing loans and borrowings	23	**(7,401)**	(37,656)	**(3,895)**	(32,772)
Trade and other payables	24	**(75,096)**	(73,078)	**(116,877)**	(456,401)
Income tax liabilities		**(6,271)**	(13,414)	**–**	–
Provisions	27	**(867)**	–	**–**	–
Derivative financial instruments	18	**(430)**	(4,351)	**(268)**	(224)
		(90,065)	(128,499)	**(121,040)**	(489,397)
Total liabilities		**(146,117)**	(148,250)	**(158,633)**	(490,705)
Net assets		**131,355**	148,501	**105,532**	112,273

	Note	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Equity attributable to equity holders of the parent					
Share capital	28	**3,314**	3,314	**3,314**	3,314
Share premium		**73,955**	73,955	**73,955**	73,955
Other reserves	28	**211**	211	**–**	–
Translation reserve	28	**(3,582)**	(3,731)	**–**	–
Merger reserve	28	**1,022**	1,022	**1,022**	1,022
Hedging reserve	28	**(62)**	(1,141)	**(268)**	(466)
Capital redemption reserve	28	**1,530**	1,530	**1,530**	1,530
Retained earnings		**54,582**	72,999	**25,979**	32,918
		130,970	148,159	**105,532**	112,273
Non-controlling interest		**385**	342	**–**	–
Total equity		**131,355**	148,501	**105,532**	112,273

These financial statements were approved by the Board of Directors on 8 August 2016 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 2016

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

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 2015	3,314	73,955	(3,731)	(1,141)	211	1,530	1,022	72,999	148,159	342	148,501
Total comprehensive income for the year											
Loss for the year	–	–	–		–	–	–	(10,498)	(10,498)	43	(10,455)
Other comprehensive income/(expense)											
Foreign exchange translation differences	–	–	149	–	–	–	–	–	149	–	149
Effective portion of changes in fair value of cash flow hedges	–	–	–	1,119	–	–	–	–	1,119	–	1,119
Remeasurements of defined benefit pension plans	–	–	–	–	–	–	–	(1,098)	(1,098)	–	(1,098)
Tax recognised on other comprehensive income	–	–	–	(40)	–	–	–	181	141	–	141
Total other comprehensive (expense)	–	–	149	1,079	–	–	–	(917)	311	–	311
Total comprehensive income/(expense) for the year	–	–	149	1,079	–	–	–	(11,415)	(10,187)	43	(10,144)
Transactions with owners recorded directly in equity											
Equity settled share-based payment transactions	–	–	–	–	–	–	–	520	520	–	520
Dividends paid	–	–	–	–	–	–	–	(6,924)	(6,924)	–	(6,924)
Purchase of own shares	–	–	–	–	–	–	–	(598)	(598)	–	(598)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	(7,002)	(7,002)	–	(7,002)
Balance at 31 May 2016	3,314	73,955	(3,582)	(62)	211	1,530	1,022	54,582	130,970	385	131,355

Statements of Changes in Equity
for year ended 31 May 2016 *continued*

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Hedging reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1 June 2014	3,309	73,952	1,530	1,022	–	47,656	127,469
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	425	425
Other comprehensive expense							
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(466)	–	(466)
Total comprehensive income for the year	–	–	–	–	(466)	425	(41)
Transactions with owners recorded directly in equity							
Issue of shares	5	3	–	–	–	–	8
Equity settled share-based payment transactions	–	–	–	–	–	(89)	(89)
Dividends paid	–	–	–	–	–	(8,744)	(8,744)
Purchase of own shares	–	–	–	–	–	(6,330)	(6,330)
Total transactions with owners	5	3	–	–	–	(15,163)	(15,155)
Balance at 31 May 2015	3,314	73,955	1,530	1,022	(466)	32,918	112,273
Balance at 1 June 2015	3,314	73,955	1,530	1,022	(466)	32,918	112,273
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	63	63
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	198	–	198
Total comprehensive income for the year	–	–	–	–	198	63	261
Transactions with owners recorded directly in equity							
Issue of shares	–	–	–	–	–	–	–
Equity settled share-based payment transactions	–	–	–	–	–	520	520
Dividends paid	–	–	–	–	–	(6,924)	(6,924)
Purchase of own shares	–	–	–	–	–	(598)	(598)
Total contributions by and distributions to owners	–	–	–	–	–	(7,002)	(7,002)
Balance at 31 May 2016	3,314	73,955	1,530	1,022	(268)	25,979	105,532

Cash Flow Statements
for year ended 31 May 2016

	Note	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Cash flows from operating activities					
(Loss)/profit for the year from continuing operations		**(9,515)**	21,349	**63**	425
Adjustments for:					
Depreciation		**9,261**	10,009	**–**	–
Impairment of property, plant and equipment		**–**	10,078	**–**	–
Depreciation of mining assets		**7,263**	8,901	**–**	–
Amortisation and impairment of goodwill and intangible assets		**1,026**	5,567	**–**	–
Dividend income		**–**	–	**(839)**	(2,153)
Net finance expense		**1,632**	2,465	**(128)**	1,011
Share of profit in associates and joint ventures (net of tax)		**1,792**	(1,504)	**–**	–
Impairment of investment in joint venture		**4,302**	–	**–**	–
Profit on sale of property, plant and equipment		**(265)**	(733)	**–**	–
Profit on disposal of subsidiaries		**–**	(16,253)	**–**	–
Equity settled share-based payment expenses		**520**	(123)	**–**	–
Income tax (credit)/expense		**(1,082)**	3,554	**(1,098)**	(490)
Loss/(gain) on derivative financial instruments		**–**	3,080	**(1,066)**	1,105
Translation of non-controlling interest and investments		**(5)**	(298)	**–**	–
		14,929	46,092	**(3,068)**	(102)
Change in inventories		**15,541**	37,627	**–**	–
Change in trade and other receivables		**10,696**	11,257	**327,257**	55,458
Change in trade and other payables		**(21,775)**	(22,666)	**(339,554)**	25,881
Change in provisions and employee benefits		**754**	(3,334)	**–**	–
		20,145	68,976	**(15,365)**	81,237
Interest paid		**(4,011)**	(1,362)	**(52)**	(430)
Income tax paid		**(6,702)**	(4,716)	**–**	–
Net cash from continuing operating activities		**9,432**	62,898	**(15,417)**	80,807
Net cash from operating activities in discontinued operations		**(3,156)**	1,055	**–**	–
Net cash from operating activities		**6,276**	63,953	**(15,417)**	80,807
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**1,613**	2,927	**–**	–
Dividends received		**839**	2,153	**839**	2,153
Disposal of subsidiaries		**–**	24,807	**–**	364
Acquisition of subsidiaries (net of cash acquired)		**(4,110)**	(637)	**(6,701)**	(779)
Acquisition of property, plant and equipment	13	**(15,075)**	(11,263)	**–**	–
Net cash from investing activities in continuing operations		**(16,733)**	17,987	**(5,862)**	1,738
Net cash from investing activities in discontinued operations		**–**	1,677	**–**	–
Net cash from investing activities		**(16,733)**	19,664	**(5,862)**	1,738
Cash flows from financing activities					
Proceeds from the issue of share capital (net of directly attributable expenses)	28	**–**	8	**–**	8
Payment of finance lease liabilities		**(6,591)**	(5,636)	**–**	–
Payment of other loan balances		**(2,890)**	–		
Dividends paid	28	**(6,924)**	(8,744)	**(6,924)**	(8,744)
Purchase of own shares		**(598)**	(6,330)	**(598)**	(6,330)
Proceeds from/(repayment of) Group banking facilities	23	**5,000**	(48,000)	**5,000**	(48,000)
Net cash from financing activities in continuing operations		**(12,003)**	(68,702)	**(2,522)**	(63,066)
Net cash from financing activities in discontinued operations		**(282)**	(1,578)	**–**	–
Net cash from financing activities		**(12,285)**	(70,280)	**(2,522)**	(63,066)
Net (decrease)/Increase in cash and cash equivalents		**(22,742)**	13,337	**(23,801)**	19,479
Cash and cash equivalents at 1 June		**43,853**	30,768	**19,906**	427
Effect of exchange rate fluctuations on cash held		**50**	(252)	**–**	–
Cash and cash equivalents at 31 May	22	**21,161**	43,853	**(3,895)**	19,906

Notes
(forming part of the financial statements)

1 Accounting Policies

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

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

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

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

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

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

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

Accounting Estimates and Judgements

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

a) Measurement of the recoverable amounts of cash-generating units containing goodwill, assets held for sale and other property assets

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

b) Mining production and profitability

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

c) Restoration costs

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

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

d) Post retirement employee benefits

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

e) Share-based payments

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

f) Deferred tax asset

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

1 Accounting Policies *continued*

Accounting Estimates and Judgements *continued*

g) Revenue and margin recognition on construction contracts

The Group's revenue and margin recognition policies in respect of construction contracts require forecasts to be made in respect of the outcomes of long-term contracts and services. These forecasts require assessments and judgements to be made, not least in respect of estimated contract costs and project scope changes. Use of the percentage of completion method also requires the Group to estimate the contract work performed to date as a proportion of the total contract work to be performed. Differences arising from unforeseen changes or events as the contract progresses may be reflected in future years.

Measurement Convention

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

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 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 16 to 18. In addition, Note 29 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

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

The financial statements were approved by the Board of Directors on 8 August 2016.

Basis of Consolidation

Subsidiaries

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

Change in Subsidiary Ownership and Loss of Control

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

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

Joint Arrangements

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

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

Associates

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

Application of the Equity Method to Associates and Joint Ventures

Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Transactions Eliminated on Consolidation

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

Notes
(forming part of the financial statements) *continued*

1 Accounting Policies *continued*
Basis of Consolidation *continued*
Separate Parent Company Financial Statements
In the parent company financial statements, all investments in subsidiaries, joint ventures, and associates are carried at cost less impairment.

Foreign Currency
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on qualifying cashflow hedges which are recognised directly in other comprehensive income.

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

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

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

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

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

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

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

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

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

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

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Derivatives are intended to be highly effective in mitigating the above risks, and hedge accounting is adopted where the required hedge documentation is in place and the relevant test criteria are met.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement as part of financing costs.

Intra-Group Financial Instruments
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

1 Accounting Policies *continued*

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful economic lives, they are accounted for as separate items of property, plant and equipment.

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

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

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

Mining Assets

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

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

Mining Assets

Surface Mine Development Asset

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

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

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

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

Stripping Asset

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

Business Combinations

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

Acquisitions on or After 1 June 2010

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

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

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

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

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

Notes
(forming part of the financial statements) *continued*

1 Accounting Policies *continued*
Business Combinations *continued*

Acquisitions on or After 1 June 2010 *continued*

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

Acquisitions Between 1 June 2006 and 1 June 2010

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

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

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

Acquisitions and Disposals of Non-Controlling Interests

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

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

Intangible Assets and Goodwill

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

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

Investment Property

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

Assets Held for Sale

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

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

Inventories

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

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

Properties Held for Development and Resale

Properties held for development and resale are included within inventories on the basis that their carrying value will be recovered principally through sale in the ordinary course of business, rather than through continuing use within the Group. These assets are not available for immediate sale and will be subject to further development before being available for sale. Properties held for development and resale are shown in the financial statements at the lower of cost and net realisable value. Cost represents the acquisition price including legal and other professional costs associated with the acquisition together with subsequent development costs net of amounts transferred to cost of sales. Net realisable value is the expected net sales proceeds of the developed property.

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.

1 Accounting Policies *continued*

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

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

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

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

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

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

Reversals of Impairment
An impairment loss in respect of goodwill is not reversed.

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

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

Employee Benefits
Defined Benefit Pension Plans
Following the acquisition of The Monckton Coke & Chemical Company Limited on 17 June 2005 and Maltby Colliery Limited on 26 February 2007, the Group operates two concessionary fuel retirement benefit schemes. The scheme in respect of The Monckton Coke & Chemical Company Limited was settled in full during the year, however, the scheme in respect of Maltby Colliery Limited remains.

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

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

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

Defined Contribution Pension Plans
The Group operates a Group defined contribution 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.

Shares purchased by the Group are deducted from retained earnings at the total consideration paid or payable.

Notes
(forming part of the financial statements) *continued*

1 Accounting Policies *continued*

Employee Benefits *continued*

Simplification Costs

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

Exceptional Items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the Income Statement. Any future movement on items previously classified as exceptional will also be classified as exceptional.

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.

Construction Contract Revenue

When the outcome of individual contracts can be estimated reliably, contract revenue and costs are recognised as revenue and expenses respectively by reference to the stage of completion at the reporting date. Costs are recognised as incurred, and revenue is recognised using the percentage of completion method. The stage of completion of a contract is assessed by reference to completion of a physical proportion of the contract work. Revenue includes the initial amount agreed in the contract plus any variations in contracted work, to the extent that it is probable that they will result in revenue and can be measured reliably. Provision is made for all known or expected losses on an individual contract as soon as they are foreseen.

Construction Contract Debtors

Construction contract debtors represent the gross unbilled amount for contract work performed to date. It is measured at cost plus profit recognised to date (see the construction contract revenue accounting policy) less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contract debtors are presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

Leases

As Lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease inception date at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest costs charged to the Income Statement on the outstanding balance. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful economic life and the lease term.

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

As Lessor

Where the Group also acts as lessor and substantially all the risks and rewards of ownership have passed to the lessee, the Group derecognises the related equipment and recognises a receivable for the minimum lease payments discounted at a rate which reflects a constant periodic rate of return over the life of the lease.

1 Accounting Policies *continued*

Net Financing Costs

Net financing costs comprise interest payable, finance charges on finance leases and interest receivable on funds invested together with changes in the fair values of interest rate swaps and foreign currency forward contracts recognised through the profit and loss and the net interest on the defined benefit pension scheme liability. This is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit asset/liability.

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

Taxation

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

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

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

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

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

Provisions

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

Restoration and Rehabilitation Costs

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

Restoration provisions are adjusted for changes in estimates, which are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the unamortised capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the statement of comprehensive income. Changes to the capitalised cost result in an adjustment to future amortisation and financial charges.

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

Adopted IFRSs Not Yet Applied

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

- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 41: Bearer Plants

Notes
(forming part of the financial statements) *continued*

2 Segmental Information
The following analysis by industry segment is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to assess performance and make strategic decisions about allocation of resources.

The sectors distinguished as operating segments are Coal Distribution, Industrial Services, Logistics and Specialist Earthworks. Specialist Earthworks has been identified as a new operating segment following the acquisition of Blackwell during the year ended 31 May 2016. A short description of these sectors is as follows:

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

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

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

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

	Industrial Services 2016 £000	Logistics 2016 £000	Specialist Earthworks 2016 £000	Total Services £000	Coal Distribution 2016 £000	Total 2016 £000
Revenue						
Total revenue	83,512	54,512	31,338	169,362	179,316	348,678
Inter-segment revenue	(2,333)	(4,680)	(5)	(7,018)	(995)	(8,013)
Revenue from external customers	**81,179**	**49,832**	**31,333**	**162,344**	**178,321**	**340,665**
Underlying operating profit/(loss)	**3,297**	**1,173**	**1,076**	**5,546**	**(921)**	**4,625**
Amortisation of intangibles	(256)	–	–	(256)	(328)	(584)
Taxation on associates and joint ventures	–	–	–	–	(628)	(628)
Net financing costs	(211)	(356)	(71)	(638)	(994)	(1,632)
Profit/(loss) before taxation (pre-exceptional)	**2,830**	**817**	**1,005**	**4,652**	**(2,871)**	**1,781**
Exceptional costs						(12,378)
Loss before taxation						**(10,597)**
Depreciation charge	**(2,411)**	**(2,674)**	**(1,013)**	**(6,098)**	**(12,860)**	**(18,958)**
Capital expenditure	**2,172**	**4,573**	**–**	**6,745**	**11,969**	**18,714**
Net assets						
Segment assets	37,816	23,095	42,789	103,700	162,520	266,220
Segment liabilities	(20,755)	(12,178)	(30,662)	(63,595)	(46,760)	(110,355)
Segment net assets	**17,061**	**10,917**	**12,127**	**40,105**	**115,760**	**155,865**
Associates and joint ventures	–	–	–	–	1,043	1,043
Segment net assets including share of associates and joint ventures	**17,061**	**10,917**	**12,127**	**40,105**	**116,803**	**156,908**
Unallocated net assets						(25,553)
Total net assets						**131,355**

2 Segmental Information *continued*

Unallocated net assets include goodwill and intangibles (£9.5m), Group banking facilities liability (£37.6m), cash and cash equivalents (£4.5m liability), derivative financial instruments (£0.4m liability), deferred tax asset (£3.2m) and other corporate items (£4.2m).

	Industrial Services 2015 £000	Logistics 2015 £000	Specialist Earthworks 2015 £000	Total Services £000	Coal Production & Distribution 2015 £000	Total 2015 £000
Revenue						
Total revenue	127,769	68,309	–	196,078	485,948	682,026
Inter-segment revenue	(6,840)	(11,693)	–	(18,533)	(1,332)	(19,865)
Revenue from external customers	**120,929**	**56,616**	**–**	**177,545**	**484,616**	**662,161**
Underlying operating profit	**5,660**	**2,267**	**–**	**7,927**	**34,828**	**42,755**
Loss on Biomass conversion project	(2,400)	–	–	(2,400)	–	(2,400)
Amortisation of intangibles	–	–	–	–	(143)	(143)
Taxation on associates and joint ventures	–	–	–	–	(634)	(634)
Net financing costs	(609)	(421)	–	(1,030)	(1,435)	(2,465)
Profit before taxation (pre-simplification)	**2,651**	**1,846**	**–**	**4,497**	**32,616**	**37,113**
Simplification costs						(9,130)
Unrealised fair value gains and losses on derivative financial instruments						(3,080)
Profit before taxation						**24,903**
Depreciation charge	**(3,427)**	**(2,411)**	**–**	**(5,838)**	**(13,120)**	**(18,958)**
Capital expenditure	**397**	**1,864**	**–**	**2,261**	**11,163**	**13,424**
Net assets						
Segment assets	46,012	17,111	–	63,123	186,300	249,423
Segment liabilities	(23,150)	(10,649)	–	(33,799)	(67,929)	(101,728)
Segment net assets	**22,862**	**6,462**	**–**	**29,324**	**118,371**	**147,695**
Associates and joint ventures	–	–	–	**–**	5,963	5,963
Segment net assets including share of associates and joint ventures	**22,862**	**6,462**	**–**	**29,324**	**124,334**	**153,658**
Unallocated net assets						(5,157)
Total net assets						**148,501**

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

Information About Key Customers

Included in revenue is an amount of £12,751,000 (2015: £95,236,000) arising from sales to the Group's largest customer, relating to the Coal Distribution division.

The following table analyses revenue by significant category:

	2016 £000	2015 £000
Sale of goods	**178,321**	484,616
Rendering of services	**131,011**	177,545
Construction contracts	**31,333**	–
	340,665	662,161

Geographical Information

	2016		2015	
	UK £000	Overseas £000	UK £000	Overseas £000
Revenue	**326,128**	**14,537**	649,816	12,345
Non-current assets	**85,758**	**1,188**	79,889	328

Notes
(forming part of the financial statements) *continued*

3 Acquisition of Subsidiaries
Current Year

Acquisition of CA Blackwell Group Limited

On 11 January 2016, the Group acquired 100% share capital of CA Blackwell Group Limited. The principal activity of the company is that of bulk earthmoving and civil engineering.

In the five months to 31 May 2016, CA Blackwell Group Limited contributed profit after tax of £857k to the consolidated loss after tax for the year.

	Recognised values on acquisition £000
ASSETS	
Non-current assets	
Property, plant and equipment	13,379
Current assets	
Inventories	4,794
Trade and other receivables	16,028
Cash and cash equivalents	4,663
	25,485
LIABILITIES	
Current liabilities	
Trade and other payables	(33,088)
Net identifiable assets and liabilities	5,776
Net purchase consideration	6,600
Goodwill on consolidation	824
Satisfied by:	
Consideration paid	6,600

£5,250,000 is held in escrow pending certain performance measurements. The fair value of this contingent payment is estimated at £5,250,000.

Acquisition of Earls Gate Energy Centre Limited

In November 2015, the Group acquired 100% of the share capital of Earls Gate Energy Centre Limited. The principal activity of the company is the development of a replacement Combined Heat and Power (CHP) Plant at Earls Gate Business Park, Grangemouth. The fair value of the assets and liabilities at the date of acquisition was a net liability position of £66,000. The acquisition price of £317,000 was settled in cash. The company had net cash at acquisition of £44,000.

Prior Year

Acquisition of Algol Recycling Services (Pty) Limited

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

3 Acquisition of Subsidiaries *continued*
Prior Year *continued*
Acquisition of Algol Recycling Services (Pty) Limited *continued*

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

4 Other Operating Income

	2016 £000	2015 £000
Net gain on disposal of property, plant and equipment	**265**	733

5 Expenses and Auditor's Remuneration
Included in (loss)/profit are the following:

	2016 £000	2015 £000
Amortisation of intangibles	**399**	143
Impairment of goodwill	**187**	5,424
Impairment of other intangibles	**440**	–
Impairment loss on inventories	**4,242**	1,024
Impairment loss on trade and other receivables*	**2,062**	–
Impairment of property, plant and equipment	**–**	10,078
Depreciation of property, plant and equipment owned	**5,579**	5,872
Depreciation of property, plant and equipment held under finance lease	**3,682**	4,185
Depreciation of mining assets	**7,263**	8,901

* Includes impairment of £2,000k (2015: nil) in respect of other receivables due from Tower Colliery Limited

Auditor's Remuneration:

	2016 £000	2015 £000
Audit of these financial statements	**30**	30
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**224**	169
Taxation compliance services	**6**	55
Other tax advisory services	**36**	21
Other assurance services	**145**	227
All other services	**90**	64

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.

Notes
(forming part of the financial statements) *continued*

6 Exceptional costs

The Group incurred a number of exceptional costs in the year as it continues to adapt and restructure away from thermal coal.

	2016 £000	2015 £000
Impairment of investment and other assets relating to the Tower project	**(4,743)**	–
Redundancy and related site closure cost at Redcar Steelworks	**(1,559)**	–
Redundancy and related site closure costs in Industrial Services	**(1,091)**	–
Cost associated with early closure of certain mining operations	**(4,033)**	–
Cost attributable to the acquisition of Blackwell	**(679)**	–
Redundancy costs from central overhead cost reduction programme	**(273)**	–
Gain on disposal of Imperial Tankers	**–**	16,253
Impact of closure of Monckton coke works	**–**	(16,951)
Impact of closure of tyre recycling operation (MR&R)	**–**	(2,776)
Restructuring costs	**–**	(1,380)
Write off of mining assets	**–**	(1,187)
Other simplification costs including one-off transaction costs	**–**	(3,089)
	(12,378)	(9,130)
Unrealised fair value gains and losses on derivative financial instruments	**–**	(3,080)
Total	**(12,378)**	(12,210)

Included in the above £12.4m charge (2015: £12.2m) is £nil (2015: £2.1m) relating to management time in dealing with the overall simplification programme, asset impairment/write offs of £4.7m (2015: £7.5m), goodwill impairment of £0.4m (2015: £5.4m) and legal and professional fees of £2.3m.

7 Staff Numbers and Costs

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

	Number of employees Group	
	2016	2015
Directors and senior management	**31**	29
Traffic and administration	**470**	528
Production, maintenance and drivers	**1,604**	2,168
	2,105	2,725

The aggregate payroll costs of these persons were as follows:

	Group	
	2016 £000	2015 £000
Wages and salaries	**81,504**	98,938
Share-based payments (see Note 26)	**520**	(89)
Social security costs	**7,013**	8,891
Contributions to defined contribution plans (see Note 25)	**1,654**	1,817
Current service costs of defined benefit plans (see Note 25)	**174**	145
	90,865	109,702

8 Directors' Remuneration

	2016 £000	2015 £000
Directors' emoluments	**1,178**	1,645
Company contributions to money purchase pension plans	**188**	188

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £452,000 (2015: £676,000), and company pension contributions of £113,000 (2015: £113,000) were made to a money purchase scheme on his behalf.

8 Directors' Remuneration *continued*

	Number of Directors 2016	2015
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	**2**	2
Defined benefit schemes	**–**	–
The number of Directors who exercised share options was	**–**	2
The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes was	**3**	3

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

	Number of options		
	At start of year	At end of year	Exercise price pence
GFC Banham	50,484	31,109	–
GFC Banham (under SRSOSs)	819	–	–
KJ Dougan	18,798	18,798	–
ID Cockburn	81,115	86,418	–

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

9 Finance Income and Expense

Recognised in Profit or Loss

	2016 £000	2015 £000
Finance income		
Interest income on unimpaired financial assets	**31**	85
Interest received from jointly controlled entities	**1,122**	1,067
Total finance income	**1,153**	1,152
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**2,785**	3,392
Interest on defined benefit pension plan obligation	**–**	225
Total finance expense	**2,785**	3,617

10 Discontinued Operations and Assets Held for Sale

All discontinued results are attributable to equity holders.

The Group's discontinued operations made a loss of £0.9m (2015: loss of £0.8m) after tax during the year. These losses relate to residual events arising from the closure of Maltby Colliery and Belgium and the associated results have been classified as discontinued in the current and prior year. In addition, certain related assets were reclassified in the balance sheet as "assets held for sale" in a prior period.

	2016 £000	2015 £000
Administrative expenses	**(552)**	(1,541)
Operating loss	**(552)**	(1,541)
Net finance expense	**(189)**	(843)
Loss before tax of discontinued operations	**(741)**	(2,384)
Taxation		
Current tax (charge)/credit	**(105)**	1,083
Deferred tax (charge)/credit	**(94)**	522
	(199)	1,605
Loss for the year from discontinued operations	**(940)**	(779)

Notes
(forming part of the financial statements) *continued*

10 Discontinued Operations and Assets Held for Sale *continued*
The major classes of assets directly attributable to the discontinued operations are:

Assets Held for Sale	2016 £000	2015 £000
Property, plant and equipment	**5,040**	5,040

11 Taxation
Recognised in the Income Statement

	2016 £000	2015 £000
Current tax (credit)/expense		
Current year	**213**	5,777
Adjustments for prior years	**(738)**	(107)
Current tax (credit)/expense	**(525)**	5,670
Deferred tax credit		
Origination and reversal of temporary differences	**(831)**	(2,262)
Adjustments for prior years	**(128)**	56
Reduction in tax rate	**402**	90
Deferred tax credit	**(557)**	(2,116)
Tax (credit)/expense in income statement (excluding share of tax of equity accounted investees)	**(1,082)**	3,554
Share of tax of equity accounted investees	**628**	634
Total tax (credit)/expense from continuing operations	**(454)**	4,188
Tax expense/(credit) from discontinued operations	**199**	(1,605)
Total tax (credit)/expense	**(255)**	2,583

Recognised in Other Comprehensive Income

	2016 £000	2015 £000
Deferred tax (expense)/income		
Effective portion of changes in fair value of cash flow hedges	**(40)**	862
Remeasurements of defined benefit pension plans	**181**	368
	141	1,230

Reconciliation of Effective Tax Rate

	2016 Rate	2016 £000	2015 Rate	2015 £000
(Loss)/profit for the year from continuing operations		**(9,515)**		21,349
Total tax (credit)/expense (including tax on equity accounted investees)		**(454)**		4,188
(Loss)/profit excluding taxation from continuing operations		**(9,969)**		25,537
Tax using the UK corporation tax rate of 20.0% (2015: 20.83%)	**20.0%**	**(1,994)**	20.8%	5,319
Effect of tax rates in foreign jurisdictions	**(2.8%)**	**276**	0.4%	95
Unrecognised tax losses	**(3.9%)**	**389**	–	–
Non-deductible (income)/expense	**(6.4%)**	**644**	(5.4%)	(1,376)
Reduction in tax rate on deferred tax balances	**(4.2%)**	**417**	0.4%	90
(Over)/under provided in prior years	**1.9%**	**(186)**	0.2%	60
Effective tax rate and total tax (credit)/expense	**4.6%**	**(454)**	16.4%	4,188

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

11 Taxation *continued*

Factors That May Affect Future Current and Total Tax Charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A reduction to 17% has been announced but has not been substantively enacted. This will reduce the Group's current tax charge accordingly. The deferred tax balances at 31 May 2016 has been calculated based on the rate of 18% substantively enacted at the balance sheet date.

12 Earnings per Share

	2016			2015		
	Continuing and discontinued	Continuing	Discontinued	Continuing and discontinued	Continuing	Discontinued
Ordinary Shares						
Basic earnings per share	**(32.96)p**	**(30.01)p**	**(2.95)p**	62.91p	65.31p	(2.40)p
Diluted earnings per share	**(32.96)p**	**(30.01)p**	**(2.95)p**	61.88p	64.24p	(2.40)p

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

	2016			2015		
	Continuing and discontinued	Continuing	Discontinued	Continuing and discontinued	Continuing	Discontinued
(Loss)/profit for the year attributable to equity holders (£000)	**(10,498)**	**(9,558)**	**(940)**	20,454	21,233	(779)
Weighted average number of shares	**31,851,053**	**31,851,053**	**31,851,053**	32,511,083	32,511,083	32,511,083
Basic earnings per share	**(32.96)p**	**(30.01)p**	**(2.95)p**	62.91p	65.31p	(2.40)p

The calculation of weighted average number of shares includes the effect of own shares held of 1,228,072 (2015: 1,053,072). The calculation of diluted earnings per share is based on the (loss)/profit for the year and the weighted average number of ordinary shares in issue in the year adjusted for the dilutive effect of the share options outstanding (effect on weighted average number of shares is 400,444 (2015: 540,262)); effect on earnings per ordinary share is nil p (2015: 1.03p). Effect on continuing earnings per ordinary share is nil p (2015: 1.07p). The effect on earnings per ordinary share and continuing earnings per ordinary share is nil p in the year due to the loss reported.

	2016			2015		
	Continuing and discontinued	Continuing	Discontinued	Continuing and discontinued	Continuing	Discontinued
(Loss)/profit for the year attributable to equity holders (£000)	**(10,498)**	**(9,558)**	**(940)**	20,454	21,233	(779)
Weighted average number of shares	**32,251,497**	**32,251,497**	**32,251,497**	33,051,345	33,051,345	33,051,345
Diluted earnings per share	**(32.96)p**	**(30.01)p**	**(2.95)p**	61.88p	64.24p	(2.40)p

Continuing underlying basic and diluted earnings per share are calculated on the diluted weighted average number of shares of 32,251,497 (2015: 33,051,345) and on underlying (loss)/profit after tax, as reconciled below:

	2016 £000	2015 £000
(Loss)/profit for the year attributable to equity holders from continuing operations	**(9,558)**	21,233
Amortisation/impairment of intangibles/goodwill	**584**	143
Exceptional items	**12,378**	12,210
Loss on Biomass conversion project settlement	**–**	2,400
Tax effect of above items	**(1,587)**	(4,967)
Underlying Profit after Tax from Continuing Operations	**1,817**	31,019

Notes
(forming part of the financial statements) *continued*

13 Property, Plant and Equipment
Group

	Freehold land and buildings and leasehold improvements £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Mining assets £000	Total £000
Cost						
Balance at 1 June 2014	23,755	6,204	84,208	576	12,770	127,513
Other acquisitions	304	514	5,377	6	7,223	13,424
Disposals	(334)	(65)	(7,013)	(145)	–	(7,557)
Acquisitions through business combinations	–	8	1,380	18	–	1,406
Disposals on sale of subsidiaries	(132)	(206)	(16,508)	–	–	(16,846)
Effect of movements in foreign exchange	(6)	8	(40)	–	–	(38)
Balance at 31 May 2015	**23,587**	**6,463**	**67,404**	**455**	**19,993**	**117,902**
Balance at 1 June 2015	23,587	6,463	67,404	455	19,993	117,902
Other acquisitions	5,783	363	9,518	3	3,047	18,714
Disposals	(3,872)	(98)	(18,120)	–	(18,552)	(40,642)
Acquisitions through business combinations	4,298	50	9,417	6	–	13,771
Effect of movements in foreign exchange	(7)	10	(416)	(4)	–	(417)
Balance at 31 May 2016	**29,789**	**6,788**	**67,803**	**460**	**4,488**	**109,328**
Depreciation and impairment						
Balance at 1 June 2014	3,612	4,763	35,546	416	2,883	47,220
Depreciation charge for the year	333	481	9,193	50	8,901	18,958
Impairment losses	4,034	–	6,044	–	–	10,078
Disposals	(79)	(60)	(5,108)	(116)	–	(5,363)
Acquisitions through business combinations	–	2	191	3	–	196
Disposals on sale of subsidiaries	(43)	(183)	(10,081)	–	–	(10,307)
Effect of movements in foreign exchange	(3)	(2)	(18)	(1)	–	(24)
Balance at 31 May 2015	**7,854**	**5,001**	**35,767**	**352**	**11,784**	**60,758**
Balance at 1 June 2015	7,854	5,001	35,767	352	11,784	60,758
Depreciation charge for the year	228	484	8,483	66	7,263	16,524
Disposals	(522)	(98)	(16,707)	–	(18,552)	(35,879)
Effect of movements in foreign exchange	4	21	(194)	(1)	–	(170)
Balance at 31 May 2016	**7,564**	**5,408**	**27,349**	**417**	**495**	**41,233**
Net book value						
At 1 June 2014	**20,143**	**1,441**	**48,662**	**160**	**9,887**	**80,293**
At 31 May 2015 and 1 June 2015	**15,733**	**1,462**	**31,637**	**103**	**8,209**	**57,144**
At 31 May 2016	**22,225**	**1,380**	**40,454**	**43**	**3,993**	**68,095**

The Company has no property, plant and equipment.

Leased Plant and Machinery
At 31 May 2016 the net carrying amount of leased plant and machinery was £21,865,000 (2015: £16,052,000). The leased equipment secures lease obligations (see Note 23).

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

14 Investment Property

At cost	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Balance at 31 May	**5,126**	–	**–**	–
Transfer from inventories – Properties held for development	**–**	5,126	**–**	–
Balance at 31 May	**5,126**	5,126	**–**	–

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

15 Intangible Assets

Group

	Goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
Cost					
Balance at 1 June 2014	22,320	14,229	8,148	1,015	45,712
Additions	–	1,234	–	–	1,234
Disposal of subsidiary	(3,884)	(2,032)	–	–	(5,916)
Balance at 31 May 2015	**18,436**	**13,431**	**8,148**	**1,015**	**41,030**
Balance at 1 June 2015	18,436	13,431	8,148	1,015	41,030
Additions	1,207	–	–	–	1,207
Exchange movements	27	(223)	–	–	(196)
Balance at 31 May 2016	**19,670**	**13,208**	**8,148**	**1,015**	**42,041**
Amortisation and impairment					
Balance at 1 June 2014	5,258	14,229	8,148	276	27,911
Amortisation for the year	–	–	–	143	143
Impairment	5,424	–	–	–	5,424
Disposal of subsidiary	–	(2,032)	–	–	(2,032)
Exchange movements	57	55	–	–	112
Balance at 31 May 2015	**10,739**	**12,252**	**8,148**	**419**	**31,558**
Balance at 1 June 2015	10,739	12,252	8,148	419	31,558
Amortisation for the year	–	256	–	143	399
Impairment	187	–	–	440	627
Exchange movements	–	(18)	–	–	(18)
Balance at 31 May 2016	**10,926**	**12,490**	**8,148**	**1,002**	**32,566**
Net book value					
At 31 May 2014	**17,062**	**–**	**–**	**739**	**17,801**
At 31 May 2015 and 1 June 2015	**7,697**	**1,179**	**–**	**596**	**9,472**
At 31 May 2016	**8,744**	**718**	**–**	**13**	**9,475**

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

£2,596,000 of the customer contracts were being amortised over 71 months, £7,061,000 of the customer contracts were being amortised over 75 months, £2,540,000 of the customer contracts were being amortised over 36 months, and £1,011,000 of the customer contracts are being amortised over 48 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.

Notes
(forming part of the financial statements) *continued*

15 Intangible Assets *continued*

Amortisation and Impairment Charge

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

	2016 £000	2015 £000
Other administrative expenses	**1,026**	143

Impairment Testing

During the year, as a result of the decision taken to shorten the mine life at the Tower project and run to maximise cash following Aberthaw ceasing to buy Welsh coal after the end of the current contract the intangible asset attributed to the Tower exclusivity contract has been fully impaired, resulting in a charge of £440,000.

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

	Goodwill	
	2016 £000	2015 £000
Hargreaves Industrial Services Limited	**1,252**	1,252
Coal 4 Energy Limited/Maxibrite Limited	**6,140**	6,140
CA Blackwell Group Limited	**824**	–
Earls Gate Energy Centre Limited	**383**	–
Other	**145**	305
	8,744	7,697

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:

	2016	2015
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond approved forecast period	**2%**	2%
Discount rate	**9%**	9%

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

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

- Cash flows were projected based on budgeted operating results for the proceeding year with the short-term growth rate applied to the next four years. A conservative growth rate of 2% has been applied in perpetuity. This rate does not exceed the long-term average growth rate for any of the cash-generating units' industries;
- sustaining capital expenditure in each cash-generating unit has been used in the calculations equivalent to the current levels of annual depreciation; and
- a pre-tax discount rate of 9% (2015: 9%) has been used in the first instance. Management consider this to be higher than a market participant's discount rate for each individual cash-generating unit. The latter would be reassessed if the initial 9% indicated potential impairment of any individual cash-generating unit.

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

The Company has no intangible assets.

16 Investments in Subsidiaries, Associates and Joint Ventures

The Group and Company have the following investments in subsidiaries, associates and joint ventures:

	Nature of business	Country of incorporation	Class of shares held	Ownership 2016	Ownership 2015
Company					
Subsidiary undertakings					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Industrial Services Limited	Contract management service	UK	Ordinary	100%	100%
Forward Sound Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Services (HK) Limited	Holding company	Hong Kong	Ordinary	100%	100%
Hargreaves Surface Mining Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Technical Resources Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves Carbon Products Europe Limited	Sale of carbon-based materials	UK	Ordinary	100%	100%
Hargreaves Maltby Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Services (Westfield) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services (Castlebridge) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services (Blindwells) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Forestry Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (Damside) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (Broken Cross) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (Glentaggart) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (House of Water) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves Services Wind Farm (Chalmerston) Limited	Property holding	UK	Ordinary	100%	100%
Hargreaves South Africa (Pty) Limited	Steel	South Africa	Ordinary	100%	100%
Hargreaves Mining India Private Limited	Mining services	India	Ordinary	100%	100%
Hargreaves Energy Projects Limited	Holding company	UK	Ordinary	100%	–
Hargreaves Services (Muir Dean) Limited	Property holding	UK	Ordinary	100%	–
CA Blackwell Group Limited	Holding company	UK	Ordinary	100%	–
Dormant companies					
Coal 4 Energy Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Dormant	UK	Ordinary	100%	100%
R Hanson & Son Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves ESOT Trustee Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Services Australia Limited	Dormant	UK	Ordinary	100%	100%
Redcar Steel & Coal Company Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Europe Limited	Dormant	UK	Ordinary	100%	100%
Joint ventures and associate undertakings					
Mir Trade Services Limited	Import and sale of carbon-based materials	UK	Ordinary	50%	50%
Hargreaves Services Europe Limited	Import and sale of carbon-based materials	UK	Ordinary	86%	86%
Group					
Subsidiary undertakings					
Hargreaves (UK) Services Limited	Haulage, mineral import and processing	UK	Ordinary	100%	100%
The Monckton Coke & Chemical Company Limited	Manufacture of coke	UK	Ordinary	100%	100%
Maltby Colliery Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Engineering & Contracts Limited	Engineering maintenance services	UK	Ordinary	100%	100%
Maxibrite Limited	Smokeless fuel briquette manufacturing	UK	Ordinary	85.2%	85.2%
RocFuel Limited	Renewable energy solutions	UK	Ordinary	50.1%	50.1%
RocPower Limited	Renewable energy solutions	UK	Ordinary	85%	85%
Hargreaves Carbon Products NV	Import and sale of carbon-based materials	Belgium	Ordinary	100%	100%

Notes
(forming part of the financial statements) *continued*

16 Investments in Subsidiaries, Associates and Joint Ventures *continued*

	Nature of business	Country of incorporation	Class of shares held	Ownership 2016	Ownership 2015
Hargreaves Industrial Services (HK) Limited	Contract management service	Hong Kong	Ordinary	100%	100%
Mekol NV	Port facilities	Belgium	Ordinary	100%	100%
OCCW (St Ninians) Limited	Coal working	UK	Ordinary	100%	100%
Earls Gate Energy Centre Limited	Renewable energy solutions	UK	Ordinary	100%	–
OCCW (Duncanziemere) Limited	Coal working	UK	Ordinary	100%	–
OCCW (Chalmerston) Limited	Coal working	UK	Ordinary	100%	–
OCCW (Netherton) Limited	Coal working	UK	Ordinary	100%	–
OCCW (Damside) Limited	Coal working	UK	Ordinary	100%	–
CA Blackwell (Contracts) Limited	Civil engineering	UK	Ordinary	100%	–
HBR Limited	Land remediation	UK	Ordinary	100%	–
Geofirma Soils Engineering Limited	Soil stabilisation	UK	Ordinary	100%	–
Renaissance Land Regeneration Limited	Holding company	UK	Ordinary	100%	–
Renaissance Land (D20) Limited	Property holding	UK	Ordinary	100%	–
Renaissance Land Management Limited	Property holding	UK	Ordinary	100%	–
Renaissance (Padiham) Limited	Property holding	UK	Ordinary	100%	–
Joint ventures and associate undertakings					
Tower Regeneration Limited	Coal mining	UK	Ordinary	50%	50%
Tower Regeneration Leasing Limited	Lease of heavy plant	UK	Ordinary	50%	50%
517EPA Limited	Dormant	UK	Ordinary	50%	50%
Hargreaves Raw Material Services GmbH	Import and sale of carbon-based materials	Germany	Ordinary	86%	86%
Hargreaves Carbon Products Polska Sp. z o.o.	Sale of carbon-based materials	Poland	Ordinary	86%	86%
Dormant companies					
Hargreaves Metallurgical Supplies Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Waste Services Limited	Dormant	UK	Ordinary	100%	100%
R&A Fuels Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Mineral Services Limited	Dormant	UK	Ordinary	100%	100%
Squire Distribution Services Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Transport Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Industrial Dormant Limited	Dormant	UK	Ordinary	100%	100%
GR Wardle & Son Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Transport Services Limited	Dormant	UK	Ordinary	100%	100%
Hargreaves Environmental Services Limited	Dormant	UK	Ordinary	100%	100%
DWL Engineering Services Limited	Dormant	UK	Ordinary	100%	100%
Coalite Limited	Dormant	UK	Ordinary	85.2%	85.2%
SCCL (Option Co) Limited	Dormant	UK	Ordinary	100%	100%
Eastgate Materials Handling Limited	Dormant	UK	Ordinary	100%	100%
Norton Wind Energy Limited	Dormant	UK	Ordinary	100%	–
Premier Lime and Stone Company	Dormant	UK	Ordinary	100%	–
CA Blackwell (Plant) Limited	Dormant	UK	Ordinary	100%	–

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

The Group's share of post-acquisition total recognised profit or loss in the above associates and jointly controlled entities for the year ended 31 May 2016 was a loss of £1,792,000 (2015: profit of £1,504,000).

Associates and Joint Ventures

Carrying amount of equity accounted investees:

Group	Tower Regeneration Limited £000	Hargreaves Raw Material Services GmbH £000	Interests in immaterial associate undertakings £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2015	5,181	765	(124)	141	5,963
Dividends received by the Group	–	(802)	–	(37)	(839)
Exchange differences	–	33	(25)	5	13
Group's share of total comprehensive income	(2,940)	1,132	16	–	(1,792)
Impairment of investment	(2,241)	–	–	(61)	(2,302)
At 31 May 2016	**–**	**1,128**	**(133)**	**48**	**1,043**

16 Investments in Subsidiaries, Associates and Joint Ventures *continued*

Associates and Joint Ventures *continued*

	Tower Regeneration Limited		Hargreaves Raw Material Services GmbH	
	2016	2015	2016	2015
Voting rights	**50%**	50%	**49%**	49%
Cash & cash equivalents	**–**	1,455	**–**	5,083
Other current assets	**24,065**	24,652	**30,816**	29,407
Total current assets	**24,065**	26,107	**30,816**	34,490
Non-current assets	**15,742**	19,807	**102**	115
Current liabilities	**(12,815)**	(12,810)	**(29,606)**	(32,934)
Non-current liabilities	**(20,586)**	(18,298)	**–**	–
Net assets (100%)	**6,406**	14,806	**1,312**	1,671
Revenue	**35,996**	50,955	**88,993**	64,077
Depreciation	**(9,834)**	(9,701)	**(35)**	(36)
Other expenses	**(31,836)**	(35,313)	**(86,424)**	(62,761)
Interest income	**75**	17	**31**	332
Interest expense	**(2,801)**	(1,743)	**(516)**	(814)
(Loss)/profit before tax from continuing operations	**(8,400)**	4,215	**2,049**	798
Income tax expense	**–**	(894)	**(730)**	(271)
Post tax (loss)/profit from continuing operations (100%)	**(8,400)**	3,321	**1,319**	527

The total financial liabilities included in current liabilities is: Tower Regeneration Limited £1,039k (2015: £nil); Hargreaves Raw Material Services GmbH £15,566k (2015: £28,091k).

Group Composition

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

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

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

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 2016, was £2 (31 May 2015: £2). Fair value is deemed to be negligible given the scale of the related restoration liabilities existing within these entities.

Company	Group undertakings £000	Joint ventures £000	Total £000
Shares at cost and net book value			
At 1 June 2014	32,574	5,027	37,601
Disposals	(362)	(43)	(405)
Acquisitions	779	–	779
Capital contribution arising on share options	(89)	–	(89)
At 31 May 2015	**32,902**	**4,984**	**37,886**
At 1 June 2015	32,902	4,984	37,886
Acquisitions	6,701	–	6,701
Capital contribution arising on share options	520	–	520
At 31 May 2016	**40,123**	**4,984**	**45,107**

Notes
(forming part of the financial statements) *continued*

17 Other Financial Assets

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Current				
Currency contracts designated as fair value through profit or loss	**32**	5	**–**	–
Currency contracts designated as fair value through hedging reserve	**–**	377	**–**	–
Other derivatives designated as fair value through hedging reserve	**–**	706	**–**	–
	32	1,088	**–**	–

18 Other Financial Liabilities

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Non-current				
Interest rate swaps designated as fair value through hedging reserve	**–**	1,129	**–**	1,129
Interest rate swaps designated as fair value through profit or loss	**–**	179	**–**	179
Other derivatives designated as fair value through hedging reserve	**66**	–	**–**	–
	66	1,308	**–**	1,308

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Current				
Interest rate swaps designated as fair value through hedging reserve	**268**	–	**268**	–
Currency contracts designated as fair value through hedging reserve	**25**	197	**–**	–
Currency contracts designated as fair value through profit or loss	**–**	1	**–**	–
Other derivatives designated as fair value through hedging reserve	**137**	4,153	**–**	224
	430	4,351	**268**	224

19 Deferred Tax Assets and Liabilities
Group

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Property, plant and equipment	**–**	–	**57**	380
Financial assets	**(84)**	(607)	**–**	–
Employee benefits	**(1,008)**	(1,103)	**–**	–
Share-based payments	**(106)**	(147)	**–**	–
Provisions	**(893)**	(942)	**–**	–
Tax value of loss carry-forwards	**(1,102)**	(17)	**–**	–
Other	**(71)**	(76)	**–**	–
Tax (assets)/liabilities	**(3,264)**	(2,892)	**57**	380

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.

19 Deferred Tax Assets and Liabilities *continued*

Group *continued*

Movement in Deferred Tax During the Year

	31 May 2015 £000	Acquisition of subsidiaries £000	Recognised in income £000	Recognised in equity £000	31 May 2016 £000
Property, plant and equipment	380	(36)	(287)	–	**57**
Financial assets	(607)	–	483	40	**(84)**
Employee benefits	(1,103)	–	276	(181)	**(1,008)**
Share-based payments	(147)	–	41	–	**(106)**
Provisions	(942)	–	49	–	**(893)**
Tax value of loss carry-forwards utilised	(17)	(55)	(1,030)	–	**(1,102)**
Other	(76)	–	5	–	**(71)**
	(2,512)	(91)	(463)	(141)	**(3,207)**

Movement in Deferred Tax During the Prior Year

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

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

The amount recognised in income includes £94,000 deferred tax charge (2015: £522,000 deferred tax charge) in relation to discontinued operations, see Note 10.

Company

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2016 £000	2015 £000	2016 £000	2015 £000
Share-based payments	**(123)**	(123)	**–**	–
Temporary timing difference	**(62)**	–	**–**	–
Tax assets	**(185)**	(123)	**–**	–
Net of tax liabilities	**–**	–	**–**	–
Net tax assets	**(185)**	(123)	**–**	–

Movement in Deferred Tax During the Year

	At 31 May 2014 and at 31 May 2015 £000	Recognised in income £000	Recognised in equity £000	31 May 2016 £000
Share-based payments	(123)	–	–	**(123)**
Temporary timing difference	–	(62)	–	**(62)**
	(123)	(62)	–	**(185)**

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

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

The deferred tax asset at 31 May 2016 has been calculated based on the rate of 18% substantively enacted at the balance sheet date.

Notes
(forming part of the financial statements) *continued*

20 Inventories

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Raw materials and consumables	**2,569**	3,607	**–**	–
Work in progress	**7,632**	830	**–**	–
Finished goods	**32,552**	49,964	**–**	–
Properties held for development and resale	**4,230**	3,402	**–**	–
	46,983	57,803	**–**	–

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 £4,242,000 (2015: £1,024,000). The reversal of write-downs amounted to £nil (2015: £nil). The write-down is in cost of sales. The properties held for development and resale were included in assets acquired in respect of the Scottish surface mining activities.

21 Trade and Other Receivables

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade receivables	**43,583**	35,391	**–**	–
Trade receivables due from Group undertakings	**–**	–	**201,113**	537,837
Trade receivables due from undertakings in which the Company has a participating interest	**31,805**	24,750	**10,579**	4,597
Other receivables	**14,661**	17,313	**5,528**	2,012
Construction contract receivables	**7,248**	–	**–**	–
Prepayments and accrued income	**20,013**	31,296	**–**	–
Corporation tax	**–**	–	**1,653**	617
	117,310	108,750	**218,873**	545,063

Included within trade and other receivables is £nil (2015: £nil) for the Group and £nil (2015: £nil) for the Company expected to be recovered in more than 12 months. Included within Other receivables is an amount of £5.25m (2015: £nil) in relation to monies held in escrow following the completion of the acquisition of CA Blackwell Group Limited.

At 31 May 2016 aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £207,308,000 (2015: £nil).

Progress billings and advances received from customers under open construction contracts amounted to £196,336,000 (2015: £nil).

Advances for which related work has not started, and billings in excess of costs incurred and recognised profits are presented as deferred income and amounted to £243,000 (2015: £nil) at 31 May 2016.

At 31 May 2016 trade receivables include retentions of £4,375,000 (2015: £nil) relating to construction contracts in progress.

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 2016 trade receivables are shown net of an allowance for bad debts of £356,000 (2015: £981,000) arising from the ordinary course of business, as follows:

	2016 £000	2015 £000
Group		
Balance at 1 June	**981**	125
Assumed upon acquisition of subsidiaries	**23**	–
Provided during the year	**62**	981
Reversed	**(675)**	–
Utilised during the year	**(35)**	(125)
Balance at 31 May	**356**	981

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.

21 Trade and Other Receivables *continued*

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

31 May 2016:	Gross trade receivables £000	Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	34,553	–	34,553
Past due date (0-90 days)	7,572	–	7,572
Past due date (over 90 days)	1,542	(84)	1,458
Individually impaired amounts	272	(272)	–
	43,939	**(356)**	**43,583**

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

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

The Group's most significant trade receivable at 31 May 2016 is Tata Chemicals Europe Limited which accounts for £3,025,499 of the trade receivables carrying amount at 31 May 2016 within the Coal Distribution segment (2015: Uskmouth Power Company Limited £5,416,650).

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

	2016 £000	2015 £000
UK	**40,912**	35,149
European customers	**339**	44
Other regions	**2,332**	198
	43,583	35,391

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

22 Cash and Cash Equivalents

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Cash and cash equivalents per Balance Sheet	**21,161**	43,853	**–**	19,906
Bank overdrafts per Balance Sheet	**–**	–	**(3,895)**	–
Cash and cash equivalents per Cash Flow Statement	**21,161**	43,853	**(3,895)**	19,906

Included in cash and cash equivalents above is £569,675 (2015: £823,839) in respect of cash which is ring-fenced for settlement of restoration works in the Scottish mining business and £647,654 in respect of cash which is ring-fenced for settlement of subsidence liabilities in relation to Maltby Colliery.

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

Notes
(forming part of the financial statements) *continued*

23 Other Interest-bearing Loans and Borrowings
This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see Note 29.

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Non-current liabilities				
Finance lease liabilities	**8,505**	7,165	**–**	–
Borrowing base facility	**33,000**	–	**33,000**	–
Revolving credit facility	**4,593**	–	**4,593**	–
	46,098	7,165	**37,593**	–
Current liabilities				
Current portion of finance lease liabilities	**7,401**	4,884	**–**	–
Revolving credit facility	**–**	32,772	**–**	32,772
	7,401	37,656	**–**	32,772
Bank overdraft	**–**	–	**3,895**	–
	7,401	37,656	**3,895**	32,772

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2016 £000	Carrying amount 2016 £000	Face value 2015 £000	Carrying amount 2015 £000
Finance lease liabilities	Sterling	2.0% – 4.8%	2016–2019	**15,906**	**15,906**	12,049	12,049
Borrowing base facility	Sterling	LIBOR + 1.5%	2018	**33,000**	**33,000**	–	–
Revolving credit facility	Sterling	LIBOR + 1.6%	2018	**5,000**	**4,593**	33,000	32,772
				53,906	**53,499**	45,049	44,821

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

In accordance with the presentation requirements of IAS32 and IAS39, 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.

Finance Lease Liabilities
Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2016 £000	Interest 2016 £000	Principal 2016 £000	Minimum lease payments 2015 £000	Interest 2015 £000	Principal 2015 £000
Less than one year	**7,837**	**436**	**7,401**	5,255	371	4,884
Between one and five years	**8,854**	**349**	**8,505**	7,612	447	7,165
	16,691	**785**	**15,906**	12,867	818	12,049

24 Trade and Other Payables

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Current				
Trade payables	**31,438**	32,211	**–**	–
Trade payables due to Group undertakings	**–**	–	**116,779**	456,169
Trade payables due to undertakings in which the Group/Company has a participating interest	**455**	940	**11**	–
Other trade payables	**2,219**	6,233	**39**	39
Non-trade payables and accrued expenses	**40,984**	33,694	**48**	193
	75,096	73,078	**116,877**	456,401

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months (2015: £nil).

25 Pension Schemes and Other Retirement Benefits

Defined Contribution Plans

The Group operates a Group personal pension scheme. The pension cost charge for the year represents contributions payable by the Group to the employees' funds and amounted to £1,654,310 (2015: £1,816,734). 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.

During the existence of the scheme, the Group provided for concessionary fuel retirement benefits, for the current members of the scheme, payable at retirement on attaining the age of 65. The amounts payable were determined in the employee terms and conditions and were subject to a qualifying period of service. The costs of the concessionary fuel benefits were determined by a qualified actuary on the basis of triennial valuations. The latest full actuarial valuation was carried out on 31 December 2012 and updated for IAS 19 purposes to 31 May 2016.

Concessionary fuel is an unfunded retirement benefit and as such there were no assets in the scheme. The scheme was settled in full by cash settlement during the year and therefore there is no remaining liability outstanding at the year end.

	2016 £000	2015 £000
Present value of unfunded defined benefit obligations	**–**	15

Movements in Present Value of Defined Benefit Obligation

	2016 £000	2015 £000
At beginning of year	**15**	411
Current service cost	**–**	8
Benefits paid	**(101)**	(30)
Other finance cost	**–**	18
Remeasurement loss/(gain)	**86**	(392)
At the end of the year	**–**	15

Expense Recognised in the Income Statement

	2016 £000	2015 £000
Current service cost	**–**	8
Interest expense on defined benefit obligation	**–**	18
	–	26

The expense is recognised in the following line items in the Income Statement:

	2016 £000	2015 £000
Administrative expenses	**–**	8
Finance expense	**–**	18
	–	26

Notes
(forming part of the financial statements) *continued*

25 Pension Schemes and Other Retirement Benefits *continued*

Defined Benefit Plans *continued*

Remeasurement gains and (losses) recognised directly in equity in the Statement of Other Comprehensive Income since 17 June 2005:

	2016 £000	2015 £000
Cumulative amount at 1 June	**453**	61
Recognised in the year	**(86)**	392
Cumulative amount at 31 May	**367**	453

The major assumptions used in these valuations were:

	2016	2015
Average retirement age	**n/a**	65 years
Rate of leaving services	**n/a**	2.5%
Coal price inflation	**n/a**	2.45%
Discount rate applied to scheme liabilities	**n/a**	3.5%
Inflation assumption	**n/a**	3.45%

The assumptions used by the actuary were 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 were based on standard actuarial mortality tables included an allowance for future improvements in longevity. The assumptions were equivalent to expecting a 65 year old to live for a number of years as follows:

Current pensioner aged 65: n/a (2015: 20.0 years (male), 22.2 years (female))
Future retiree upon reaching 65: n/a (2015: 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.

	2016 £000	2015 £000
Discount rate (1% movement)	**n/a**	–
Coal price inflation (1% movement)	**n/a**	–

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 2012 and was updated for IAS 19 purposes to 31 May 2016 by a qualified independent actuary.

	2016 £000	2015 £000
Present value of unfunded defined benefit obligations	**(1,764)**	(1,528)
Present value of funded defined benefit obligations	**(45,281)**	(45,820)
Fair value of plan assets	**41,346**	41,847
Deficit in the schemes – Pension liability	**(5,699)**	(5,501)

Movements in Present Value of Defined Benefit Obligation

	2016 £000	2015 £000
At the beginning of the year	**47,348**	41,174
Interest cost	**1,639**	1,764
Remeasurement (gains)/losses:		
– Changes in demographic assumptions	**(311)**	(26)
– Changes in financial assumptions	**217**	5,330
– Experience	**(878)**	(44)
Benefits paid	**(970)**	(978)
Obligation acquired	**–**	128
At the end of the year	**47,045**	47,348

25 Pension Schemes and Other Retirement Benefits *continued*

Sensitivity Analysis *continued*

Movements in the Fair Value of Plan Assets

	2016 £000	2015 £000
Fair value of plan assets at beginning of year	**41,847**	36,005
Net interest on plan assets	**1,465**	1,557
Remeasurement (loss)/gain	**(1,984)**	3,135
Employer contributions	**1,162**	2,137
Benefits paid	**(970)**	(978)
Expenses paid	**(174)**	(137)
Plan assets acquired	**–**	128
Fair value of plan assets at end of year	**41,346**	41,847

Expense Recognised in the Income Statement

	2016 £000	2015 £000
Expenses paid from plan	**174**	137
Interest expense on net defined benefit pension plans	**174**	176
	348	313

The expense is recognised in the following line items in the Income Statement:

In discontinued operations	2016 £000	2015 £000
Administrative expenses	**174**	137
Finance expense	**174**	176
	348	313

Remeasurement gains and (losses) recognised directly in equity in the Statement of Other Comprehensive Income since 26 February 2007:

	2016 £000	2015 £000
Cumulative amount at 1 June	**(4,599)**	(2,474)
Recognised in the year	**(1,012)**	(2,125)
Cumulative amount at 31 May	**(5,611)**	(4,599)

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, were:

	Fair value at 2016 £000	Fair value at 2015 £000
Equities and hedge funds	**21,080**	22,003
Corporate bonds	**14,445**	14,073
Property	**2,528**	2,372
Alternative investment mandate	**3,289**	3,291
Other – cash	**4**	108
	41,346	41,847

The major assumptions used in this valuation were:

	2016	2015
Rate of increase in salaries	**–**	–
Rate of increase in deferred pensions	**3.25%**	3.45%
Rate of increase in pensions in payment	**3.20%**	3.30%
Discount rate applied to scheme liabilities	**3.35%**	3.50%
Inflation assumption	**3.25%**	3.45%

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.

Notes
(forming part of the financial statements) *continued*

25 Pension Schemes and Other Retirement Benefits *continued*

Scheme Assets *continued*

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: 21.8 years (male), 25.7 years (female) (2015: 22.0 years (male), 25.8 years (female))
Future retiree upon reaching 60: 22.4 years (male), 26.5 years (female) (2015: 22.6 years (male), 26.6 years (female))

IWCSSS

Current pensioner aged 60: 24.4 years (male), 26.9 years (female) (2015: 24.6 years (male), 27.1 years (female))
Future retiree upon reaching 60: 25.0 years (male), 27.6 years (female) (2015: 25.1 years (male), 27.8 years (female))

Sensitivity Analysis

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

	2016 £000	2015 £000
Discount rate (1% increase)	**(7,662)**	(7,900)
Inflation (1% increase)	**8,015**	8,000

	2016 £000	2015 £000
Discount rate (1% decrease)	**9,918**	10,300
Inflation (1% decrease)	**(7,405)**	(7,300)

The Group expects to contribute approximately £1,259,000 to its defined benefit plans in the next financial year.

26 Employee Share Schemes

The Group has established a Savings-Related Share Option scheme and an Executive Long-Term Incentive Plan. An additional Long-Term Incentive Plan was established for certain senior employees as part of the acquisition of Norec Limited in September 2006. In addition, a deferred bonus scheme was implemented as a temporary replacement for the Executive Long-Term Incentive Plan (LTIP) for the year ended 31 May 2015. No new employee share schemes have been implemented in the year ended 31 May 2016.

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
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
Deferred bonus scheme B (50%)	March 2015	Senior employees	112,213	3 years' service	3 years
Deferred bonus scheme B (50%)	March 2015	Senior employees	112,213	4 years' service	4 years

26 Employee Share Schemes *continued*

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

Savings-Related Share Option Schemes

	2016 Weighted average exercise price	2016 Number of options	2015 Weighted average exercise price	2015 Number of options
Outstanding at beginning of year	**820p**	**133,858**	813p	334,630
Lapsed during the year	**860p**	**(80,779)**	808p	(200,335)
Exercised during the year	**–**	**–**	825p	(437)
Outstanding at the end of the year	**760p**	**53,079**	820p	133,858
Exercisable at the end of the year	**793p**	**23,520**	1,098p	29,022

The options outstanding at 31 May 2016 have an exercise price in the range of 733p to 793p and have a weighted average contractual life of one year.

There were no options exercised during the year. The options exercised during the previous year had a weighted average market value of 791p.

Long-Term Incentive Plans

	2016 Weighted average exercise price	2016 Number of options	2015 Weighted average exercise price	2015 Number of options
Outstanding at beginning of year	**15p**	**292,699**	10p	567,363
Lapsed during the year	**–**	**(192,098)**	–	(87,058)
Exercised during the year	**–**	**–**	–	(187,606)
Outstanding at the end of the year	**55p**	**100,601**	15p	292,699
Exercisable at the end of the year	**55p**	**100,601**	32p	100,601

The options outstanding at 31 May 2016 have an exercise price in the range of £nil to 393.5p and have a weighted average contractual life of no years as all options are now exercisable.

There were no options exercised during the year. The options exercised during the previous year had a weighted average market value of 591p.

Deferred Bonus Scheme

	2016 Weighted average exercise price	2016 Number of options	2015 Weighted average exercise price	2015 Number of options
Outstanding at beginning of year	**–**	**346,956**	–	–
Granted during the year	**–**	**–**	–	346,956
Lapsed during the year	**–**	**(78,389)**	–	–
Exercised during the year	**–**	**–**	–	–
Outstanding at the end of the year	**–**	**268,567**	–	346,956
Exercisable at the end of the year	**–**	**–**	–	–

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

There were no options granted during the year. The fair value per option granted and the assumptions used in these calculation for the options granted in the previous year are as follows:

	2015	
	Deferred Bonus Scheme B (50%)	Deferred Bonus Scheme B (50%)
Fair value at grant date	442p	442p
Exercise price	–	–
Share price	470p	470p
Expected volatility	20%	20%
Option life	3 years	4 years
Expected dividends	2%	2%
Risk-free rate	5.8%	5.8%

Volatility was calculated with reference to the Group's daily share price volatility. The average share price in the year was 274p (2015: 609p).

Notes
(forming part of the financial statements) *continued*

26 Employee Share Schemes *continued*

Long-Term Incentive Plans and Deferred Bonus Schemes

The costs charged/(credited) to the Income Statement relating to share-based payments were as follows:

	2016 £000	2015 £000
Share options granted in 2012	–	(357)
Share options granted in 2013	**113**	136
Share options granted in 2014	**133**	(175)
Share options granted in 2015	**274**	307
	520	(89)

27 Provisions

Group	Surface mining restoration £000	Monckton ground water contamination £000	Maltby restoration £000	Maltby subsidence provision £000	Total £000
Balance at 31 May 2015	2,226	1,708	892	936	5,762
Provisions made during the year	4,143	–	–	–	4,143
Provisions utilised during the year	(2,913)	(1,529)	–	–	(4,442)
Provisions reversed	–	–	(117)	(290)	(407)
Balance at 31 May 2016	**3,456**	**179**	**775**	**646**	**5,056**

Included within the Maltby and Surface mining restoration provision is an amount of £867,000 (2015: £nil) that is expected to be utilised in the next 12 months.

Provisions comprise:

1 A £3,456,000 restoration provision, which relates to the surface mining obligation to restore the sites once mining operation is completed.
2 A £179,000 ground and groundwater contamination provision which relates to Monckton's obligation to address ground and groundwater contamination at its site now that the site is closed.
3 A £775,000 restoration provision which relates to Maltby Colliery's obligation to restore the site now that coal mining has been completed.
4 A statutory provision payable to the UK Coal Authority at a set rate, in order to rectify any potential subsidence of the local area around Maltby Colliery. Any unused provision will be released after the statutory period.

The Company has no provisions.

28 Capital and Reserves

Share Capital

	Ordinary Shares	
	2016 Number	2015 Number
In issue at 1 June	**33,138,756**	33,087,413
Issued for cash	–	51,343
In issue and fully paid at 31 May	**33,138,756**	33,138,756

	2016 £000	2015 £000
Allotted, called up and fully paid		
31,910,684 (2015: 32,085,684) Ordinary Shares of 10p each (excluding own shares held)	**3,191**	3,209
Own shares held of 10p each 1,228,072 (2015: 1,053,072)	**123**	105
	3,314	3,314

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

As at the year end the Group held 1,228,072 within Treasury shares, representing own shares purchased as part of the Group's share buyback programme. These shares have a market value of £2.2m at 31 May 2016 and were purchased for an aggregate consideration of £6.9m.

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.

28 Capital and Reserves *continued*

Cash Flow Hedging Reserve

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

Other Reserves

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

Dividends

The aggregate amount of dividends comprises:

	2016 £000	2015 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year (20.0p per share (2015: 16.7p))	**6,382**	5,534
Interim dividends paid in respect of the current year (1.7p per share (2015: 10.0p))	**542**	3,210
	6,924	8,744
Proposed dividend (0.6p per share (2015: 20.0p))	**191**	6,417

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

29 Financial Instruments

The Group's and Company's principal financial instruments comprise short-term receivables and payables, bank loans and overdrafts, 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 2016 and 2015 all of the interest rate swaps, the forward exchange contracts and the commodity contracts are considered to be Level 2 and the options to acquire subsidiaries Level 3 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.

The fair values of the options has been determined based upon the fair value of the assets and liabilities of the entities.

(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 £75,388,000 (2015: £60,141,000) being the total of the carrying amount of trade receivables and amounts due from undertakings in which the Group has a participating interest.

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 21.

Notes
(forming part of the financial statements) *continued*

29 Financial Instruments *continued*
(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. The Group finances 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.

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

Group

	2016						2015					
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Finance lease liabilities	**15,906**	**16,691**	**7,837**	**5,457**	**3,397**	**–**	12,049	12,867	5,255	4,130	3,482	–
Trade and other payables*	**75,096**	**75,096**	**75,096**	**–**	**–**	**–**	73,078	73,078	73,078	–	–	–
Invoice discounting facility	**–**	**–**	**–**	**–**	**–**	**–**	(7,347)	(7,347)	(7,347)	–	–	–
Group banking facilities	**37,593**	**37,593**	**–**	**–**	**37,593**	**–**	32,772	32,772	32,772	–	–	–
Derivative financial liabilities												
Interest rate swaps used for hedging	**268**	**268**	**268**	**–**	**–**	**–**	1,308	1,308	–	–	1,308	–
Forward exchange contracts used for hedging:												
Outflow	**25**	**25**	**25**	**–**	**–**	**–**	198	198	198	–	–	–
Commodity contracts:												
Outflow	**203**	**203**	**137**	**66**	**–**	**–**	4,153	4,153	4,153	–	–	–
	129,091	**129,876**	**83,363**	**5,523**	**40,990**	**–**	116,211	117,029	108,109	4,130	4,790	–

* Excludes derivatives (shown separately).

Company

	2016						2015					
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Trade and other payables	**116,877**	**116,877**	**116,877**	**–**	**–**	**–**	456,401	456,401	456,401	–	–	–
Group banking facilities	**37,593**	**37,593**	**–**	**–**	**37,593**	**–**	32,772	32,772	32,772	–	–	–
Derivative financial liabilities												
Interest rate swaps used for hedging	**268**	**268**	**268**	**–**	**–**	**–**	1,308	1,308	–	–	1,308	–
Forward exchange contracts used for hedging:												
Outflow	**–**	**–**	**–**	**–**	**–**	**–**	224	224	224	–	–	–
	154,738	**154,738**	**117,145**	**–**	**37,593**	**–**	490,705	490,705	489,397	–	1,308	–

(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.

29 Financial Instruments *continued*
(d) Market Risk *continued*

Commodity Price Risk

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

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

Although short-term trading risks are managed in this way, through the Group's participation in the Tower surface mining jointly controlled entity and the former Aardvark and Scottish Coal sites, the Group does have a longer-term exposure to price movements, favourable or unfavourable, in international coal and coke prices.

Foreign Currency Risk

Group

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

31 May 2016

	Sterling £000	Euro £000	US Dollar £000	Hong Kong Dollar £000	South African Rand £000	Indian Rupee £000	Total £000
Cash and cash equivalents	**19,461**	**161**	**103**	**329**	**252**	**855**	**21,161**
Trade receivables	**41,088**	**205**	**–**	**2,191**	**14**	**85**	**43,583**
Trade receivables due from undertakings in which the Group has a participating interest	**31,805**	**–**	**–**	**–**	**–**	**–**	**31,805**
Trade payables	**(30,050)**	**(221)**	**(421)**	**(659)**	**(81)**	**(6)**	**(31,438)**
Trade payables due to undertakings in which the Group has a participating interest	**(455)**	**–**	**–**	**–**	**–**	**–**	**(455)**
Other trade payables	**(2,137)**	**–**	**–**	**–**	**(25)**	**(57)**	**(2,219)**
Group banking facilities	**(37,593)**	**–**	**–**	**–**	**–**	**–**	**(37,593)**
Balance sheet exposure	**22,119**	**145**	**(318)**	**1,861**	**160**	**877**	**24,844**
Contracted future sales		**136**	**929**	**–**	**–**	**–**	**1,065**
Contracted future purchases		**(513)**	**(1,333)**	**–**	**–**	**–**	**(1,846)**
Gross exposure		**(232)**	**(722)**	**1,861**	**160**	**877**	**1,944**
Forward exchange contracts		**383**	**409**	**(1,259)**	**–**	**–**	**(467)**
Net exposure		**151**	**(313)**	**602**	**160**	**877**	**1,477**

31 May 2015

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

Notes
(forming part of the financial statements) *continued*

29 Financial Instruments *continued*
(d) Market 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 2016 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 2015.

	Equity		Profit or loss	
	2016 £000	2015 £000	2016 £000	2015 £000
€	**(14)**	(906)	**(14)**	(906)
$	**28**	688	**28**	688
HKD	**(55)**	78	**(55)**	78
ZAR	**(15)**	(23)	**(15)**	(23)
INR	**(80)**	1	**(80)**	1

A 10% strengthening of the above currencies against the pound Sterling at 31 May 2016 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	
	2016 £000	2015 £000	2016 £000	2015 £000
Fixed rate instruments				
Financial assets	**–**	–	**–**	–
Financial liabilities	**(15,906)**	(12,049)	**–**	–
	(15,906)	(12,049)	**–**	–
Variable rate instruments				
Financial assets	**21,161**	43,853	**–**	19,906
Financial liabilities	**(37,593)**	(32,772)	**(41,488)**	(32,772)
	(16,432)	11,081	**(41,488)**	(12,866)

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 2015.

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Profit or loss				
Increase/(decrease)	**103**	503	**(2)**	287

29 Financial Instruments *continued*

(e) Cash Flow Hedges

Cash Flow Hedges – Group

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

		2016 Expected cash flows					2015 Expected cash flows			
	Carrying amount £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:										
Assets	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Liabilities	**(268)**	**(268)**	**–**	**–**	**–**	(1,308)	–	–	(1,308)	–
Forward exchange contracts:										
Assets	**32**	**32**	**–**	**–**	**–**	377	377	–	–	–
Liabilities	**(25)**	**(25)**	**–**	**–**	**–**	(198)	(198)	–	–	–
Commodity contracts:										
Assets	**–**	**–**	**–**	**–**	**–**	706	706	–	–	–
Liabilities	**(203)**	**(137)**	**(66)**	**–**	**–**	(4,153)	(4,153)	–	–	–
	(464)	**(398)**	**(66)**	**–**	**–**	(4,576)	(3,268)	–	(1,308)	–

(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, depreciation and amortisation ("EBITDA"). The Board also takes consideration of gearing determined as the proportion of net debt to total capital. It should be noted that the Board reviews gearing taking careful account of the working capital needs and flows of the business. In the trading businesses, where working capital cycles are regular, predictable and generally less than 90 days, the Board is comfortable to maintain higher levels of debt and gearing as measured against EBITDA.

The Board believes that the Group's dividend cover remains conservative. The average dividend cover over the past three years has been just under five times, representing an average pay out ratio of 30.9%.

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

30 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Less than one year	**11,494**	12,028	**–**	–
Between one and five years	**5,477**	13,268	**–**	–
More than five years	**18**	817	**–**	–
	16,989	26,113	**–**	–

Group

During the year £13,594,000 was recognised as an expense in the income statement in respect of operating leases (2015: £19,508,775).

Company

During the year £nil was recognised as an expense in the income statement in respect of operating leases (2015: £nil).

31 Capital Commitments

Group

As at 31 May 2016, the Group was committed to contracts to purchase property, plant and equipment for £nil (2015: £nil).

Notes
(forming part of the financial statements) *continued*

32 Contingencies
Group and Company

The Company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The Company acts as a guarantor, or surety, for various subsidiary undertakings in banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided exposure is £nil (2015: £nil).

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

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

The Group and Company have a related party relationship with their subsidiaries and joint ventures (Note 16) and its Directors.

Group

Other Related Party Transactions

	Sales to		Purchases from	
	2016 £000	2015 £000	2016 £000	2015 £000
Joint ventures				
Tower Regeneration Limited	**28,612**	35,754	**466**	–
Tower Regeneration Leasing Limited	**–**	–	**4,575**	4,934
Mir Trade Services Limited	**–**	125	**–**	1,102
Associate undertakings				
Hargreaves Services Europe Limited	**–**	(419)	**2**	–
Hargreaves Raw Materials Services GmbH	**7,215**	1,312	**–**	–
	35,827	36,772	**5,043**	6,036

	Interest received from		Interest paid to	
	2016 £000	2015 £000	2016 £000	2015 £000
Joint ventures				
Tower Regeneration Limited	**1,060**	857	**–**	–
Associate undertakings				
Hargreaves Raw Materials Services GmbH	**186**	210	**–**	–
	1,246	1,067	**–**	–

	Receivables outstanding		Payables outstanding	
	2016 £000	2015 £000	2016 £000	2015 £000
Joint ventures				
Tower Regeneration Limited	**22,367**	23,064	**–**	–
Tower Regeneration Leasing Limited	**60**	–	**441**	479
Mir Trade Services Limited	**–**	1	**–**	–
Associate undertakings				
Hargreaves Raw Materials Services GmbH	**9,096**	2,114	**10**	–
Hargreaves Services Europe Limited	**–**	40	**4**	–
Hargreaves Carbon Products Polska Sp. z o.o.	**282**	378	**–**	–
	31,805	25,597	**455**	479

Transactions with Key Management Personnel

The Board of Directors are the key management personnel of the Group. Details of Directors' remuneration, share options, pension benefits and other non-cash benefits can be found in Note 8. In addition to this, the element of the share-based payment (credit)/charge for the year that relates to key management personnel is £24,000 (2015: £557,000) and the social security costs is £163,000 (2015: £227,000). There are no other post-employment or other long-term benefits.

33 Related Parties *continued*

Company

Other Related Party Transactions

	Sales to 2016 £000	Sales to 2015 £000	Purchases from 2016 £000	Purchases from 2015 £000
Joint ventures				
Tower Regeneration Limited	**–**	143	**–**	–
Mir Trade Services Limited	**–**	–	**–**	–
	–	143	**–**	–

	Receivables outstanding 2016 £000	Receivables outstanding 2015 £000	Payables outstanding 2016 £000	Payables outstanding 2015 £000
Subsidiaries	**201,113**	537,837	**116,790**	456,169
Joint ventures	**10,579**	4,597	**48**	–
	211,692	542,434	**116,838**	456,169

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 The Solarium, Durham Cathedral, The College, Durham, DH1 3EH on 5 October 2016 at 11.00 a.m. for the following purposes:

Ordinary Business
To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 8 will be proposed as ordinary resolutions and resolution 9 as a special resolution.

1. To adopt and receive the Directors' Report, the Strategic Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the Financial Statements for the year ended 31 May 2016.
2. To approve the Directors' Corporate Governance and Remuneration Reports for the year ended 31 May 2016.
3. To declare a final dividend for the year ended 31 May 2016 of 0.6 pence per ordinary share to bring the dividend for the year ended 31 May 2016 to a total of 2.3 pence per ordinary share.
4. 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.
5. To re-appoint Peter Jones as a Director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
6. To appoint KPMG LLP as auditor of the Company to hold office from the conclusion of this meeting to the conclusion of the next meeting at which accounts are laid before the Company.
7. To authorise the Directors to agree the remuneration of the auditor.
8. That the Directors of the Company be and are generally granted and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the **Act**) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares in the Company (**Rights**):
8.1 up to an aggregate nominal value of £1,063,689 (representing approximately one-third of the total ordinary share capital in issue as at the date of this notice); and
8.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,127,379 (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 8 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless varied, revoked or renewed by the Company in general meeting, save that the Company may at any time before such expiry make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares and grant Rights pursuant to such offers or agreements as if the relevant authorities conferred by this resolution 8 had not expired. These authorities shall be in substitution for all previous authorities previously granted to the Directors to allot shares and grant Rights which are pursuant to this resolution 8 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 8. For the purposes of this resolution 8, **rights issue** means an offer or invitation to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable instrument) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.
9. That, subject to and conditional upon the passing of resolution 8 above, the Directors be and are empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash:
9.1 pursuant to the authority conferred upon them by resolution 8.1 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act, provided that this power shall be limited to the allotment of equity securities:
9.1.1 in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and
9.1.2 (otherwise than pursuant to sub-paragraph 9.1.1 above) up to an aggregate nominal value of £319,107 (representing approximately 10% of the total ordinary share capital in issue); and
9.2 pursuant to the authority conferred upon them by resolution 8.2, in connection with or pursuant to a rights issue, as if section 561(1) of the Act did not apply to any such allotment and the authorities given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless renewed or extended prior to such expiry, save that the Directors of the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution 9 has expired.
For the purpose of this resolution 9:
(a) **rights issue** has the meaning given in resolution 8; and
(b) **pre-emptive offer** means a rights issue, open offer or other pre-emptive issue or offer to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date(s) for such allotment; and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.

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

10. 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:

10.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 10 is 4,786,603 (representing approximately fifteen per cent of the number of Ordinary Shares in issue); and

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

10.3 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) the price stipulated by Commission-adopted Regulatory Technical Standards pursuant to Article 5(6) of the Market Abuse Regulation.

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 10 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 10 had not expired.

30 August 2016
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 October 2016 (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 October 2016.
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 October 2016. 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 October 2016. 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 26 August 2016 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 31,910,684 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 26 August 2016 are 31,910,684.
14. The following documents will be available for inspection of the Company's registered office at West Terrace, Esh Winning, Durham, DH7 9PT during normal business hours on any week day (Saturdays and English public holidays excepted) from the date of this notice until the close of the Meeting and at the place of that Meeting for at least 15 minutes prior to and during the Meeting:

   - copies of the service contracts for the Executive Directors of the Company; and
   - copies of the letters of appointment of Non-Executive Directors of the Company.

Explanatory Notes to the Notice of Annual General Meeting
The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 9 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolution 10 is proposed as a special resolution. This means that for that resolution 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 2016 to the meeting as required by law. These reports and statements are set out on pages 24 to 83 of the Company's annual report.

Resolution 2: Approval of the Directors' Remuneration Report
Shareholders are asked to approve the Directors' Remuneration Report for the financial year ended 31 May 2016 which is set out in full on pages 31 to 33 of the Company's annual report. The vote is advisory and the Directors' entitlement to remuneration is not conditional upon this resolution being passed.

Resolution 3: Final Dividend
The Board proposes a final dividend of 0.6 pence per share. If the meeting approves resolution 3, the final dividend will be paid on 21 October 2016 to shareholders on the register of members on 23 September 2016.

Resolutions 4 and 5: Re-appointment of Directors
At each annual general meeting one-third of the Directors for the time being (other than those appointed since the last Annual General Meeting) are required to retire. If the number of relevant Directors is not a multiple of three, the number nearest to one-third of Directors, but not less than one-third, must retire. Directors due to retire by rotation are those longest in office since their last re-election or re-appointment. A retiring Director is eligible for re-appointment. Gordon Banham and Peter Jones are both offering themselves for re-appointment.

Brief biographical details of Gordon Banham and Peter Jones are set out on page 22 of this document.

Resolutions 6 and 7: Appointment and Remuneration of Auditor
The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the next general meeting. KPMG LLP are willing to continue in office for a further year and resolution 6 proposes their re-appointment and, in accordance with standard practice, resolution 7 proposes that their remuneration be fixed by the Directors.

Resolution 8: Renewal of Board's Authority to Allot Shares
Resolution 8.1 grants the Directors authority to allot relevant ordinary shares up to an aggregate nominal amount of £1,063,689 being approximately one-third of the Company's issued ordinary share capital.

In line with guidance issued by the Association of British Insurers, resolution 8.2 grants the Directors authority to allot ordinary shares in connection with a rights issue up to an aggregate nominal amount of £2,127,379 (representing 21,273,789 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 8.1. This amount, before any such reduction, represents approximately two-thirds of the Company's issued ordinary share capital. Under a rights issue, ordinary shareholders are invited to subscribe for further ordinary shares in proportion (as near as is practicable) to their holdings of shares in the Company and, if they accept the invitation, their holding of shares is not diluted (and if they decline the offer then they can sell their "rights" in the market for value).

Guidelines issued by the Association of British Insurers (ABI) provide that an authority for directors to allot new shares up to an amount equal to one-third of the existing share capital, such as that granted by resolution 8.1, will be regarded as routine. The ABI guidelines also state that an authority for directors to allot a further amount equal to one-third of the existing issued share capital, such as that granted by resolution 8.2, will also be regarded as routine as long as that additional authorisation applies only to fully pre-emptive rights issues.

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

Resolution 9: Disapplication of Pre-emption Rights
This resolution grants the Directors authority to allot shares equivalent to 10 per cent of the issued ordinary share capital for cash (as distinct from non-cash consideration) without first offering them to existing shareholders in proportion to their existing shareholdings. The resolution also allows the Directors to make pre-emptive offers (such as rights issues) to shareholders without following certain detailed procedures in company law. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next Annual General Meeting of the Company.

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

Notice of Annual General Meeting – Hargreaves Services plc *continued*

Resolution 10: Purchase of Own Shares
Resolution 10 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 2016 Company financial year end, whichever is the sooner, up to a total of 4,786,603 ordinary shares. This represents approximately 15% of the issued ordinary share capital. The maximum price payable for a share shall not be more than the higher of 5% above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated in the Commission-adopted Regulatory Technical Standards pursuant to Article 5(6) of the Market Abuse Regulation (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. 175,000 shares were purchased since the last Annual General Meeting of which all are held in Treasury.

The Directors will consider making use of the renewed authorities pursuant to resolution 10 in circumstances which they consider to be in the best interests of shareholders generally after taking account of market conditions prevailing at the time, other investment opportunities, appropriate gearing levels, the effect on earnings per share and the Company's overall financial position. No purchases will be made which would effectively alter the control of the Company without the prior approval of the shareholders in a general meeting.

Investor Information

Company Secretary
Andrew Robertson

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

Bankers
HSBC
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Leeds
LS1 2HL

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

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

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

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

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

Registered Office
West Terrace
Esh Winning
Durham
DH7 9PT

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

For more information

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

Hargreaves

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