



Annual Report and Accounts 2022
Hargreaves Services plc

About us

The value proposition of Hargreaves Services plc is built on creating, delivering and realising value from its three business pillars of Services, Hargreaves Land and its investment in its German Joint Venture.

Hargreaves operations are managed across the following structure:



Services

Services provides critical support to many core industries including Energy, Environmental, UK Infrastructure and certain industries through the provision of materials handling, mechanical and electrical contracting services, logistics and major earthmoving.



Land

Hargreaves Land is focused on the sustainable development of brownfield sites for both residential and commercial purposes.



Hargreaves Raw Material Services

Trades in specialist commodity markets and owns DK Recycling, a specialist recycler of steel waste material.

 [Read more at www.hsgplc.co.uk](http://www.hsgplc.co.uk)

1. Strategic Report

- 01 Highlights of the Year
- 02 Chairman's Statement
- 04 Chief Executive's Review
- 06 Operating Review
- 12 Financial Review
- 14 Audit & Risk Committee Report
- 16 Risk Management
- 20 Environmental, Social & Governance

2. Directors' Report

- 26 Board of Directors
- 27 Directors' Report
- 31 Corporate Governance
- 35 Remuneration Report
- 39 Statement of Directors' Responsibilities in Respect of the Financial Statements

3. Financial Statements

- 40 Independent Auditors' Report
- 46 Consolidated Statement of Profit and Loss and Other Comprehensive Income
- 48 Group and Parent Company Balance Sheets
- 50 Group and Parent Company Statements of Changes in Equity
- 52 Group and Parent Company Cash Flow Statements
- 53 Notes (forming part of the financial statements)
- 94 Alternative Performance Measure Glossary
- 95 Notice of Annual General Meeting – Hargreaves Services plc
- 100 Shareholder Information

Highlights of the Year

1 | **Strong balance sheet – net assets of £183.1m from £144.3m**

2 | **Profit before tax increased to £34.5m from £14.4m**

3 | **Full year dividend of 20.4p proposed compared with 19.2p**

Trading

- Revenue of £177.9m (2021: £204.8m)
- Underlying* profit before tax of £32.7m ("UPBT") (2021: £21.2m)
- Basic underlying* EPS from continuing operations of 103.2p (2021: 70.7p)

Services

- Revenue reduced as expected to £162.8m (2021: £193.0m) following exit from coal activities in 2021
- Like-for like Services revenue increased by 18.7% to £162.8m (2021: £137.2m)
- Services UPBT increased to £7.6m from £5.1m as HS2 contract progresses

Hargreaves Land

- Further sales at Blindwells delivered
- £50m of conditional contracts exchanged at Unity JV
- Renewable energy land portfolio records first rental incomes

German Joint Venture

- Strong trading performance with underlying* profit after tax of £27.3m (2021: £13.6m)
- Very strong commodity market conditions
- DK Recycling sustainable cost reductions and operational improvements

Balance Sheet

- Cash and cash equivalents of £13.8m (2021: £28.3m) excluding £15m loaned to German Joint Venture
- Net Asset Value** per share at 31 May 2022 of £5.63 (2021: £4.47)

Dividend

- Final dividend increase of 24.4% to 5.6p (2021: 4.5p) and additional dividend of 12.0p (2021: 12.0p) proposed

Notes:

* Underlying results are stated prior to exceptional items and impairment of intangible assets. See Alternative Performance Measure Glossary, page 94.

** Net Asset Value defined in glossary on page 94.

Chairman's Statement

Roger McDowell, Group Chairman

This year the Group has built strong momentum in all three business areas.



Introduction

The Group performed strongly throughout the financial year achieving a 54.2% increase in underlying profit before tax ("UPBT")* of £32.7m (2021: £21.2m). We have seen strong growth in both our Services business, which has been buoyed by the commencement of the HS2 contract, and the Group's investment in the German Joint Venture ("HRMS"). Hargreaves Land continued to progress its major developments at Blindwells and the Unity Joint Venture whilst also seeing the first incomes arise from its renewable asset land portfolio which promises so much potential future value. Profit before tax from continuing operations was £34.5m (2021: £14.4m). Basic underlying earnings per share from continuing operations* have increased to 103.2p compared to 70.7p in the prior year. Basic earnings per share was 113.8p (2021: 50.8p).

On behalf of the Board, I would like to thank everyone at Hargreaves for their hard work, dedication and passion, without which the Group would not be what it is today. Over the last few years the Group has undertaken a dramatic strategic transformation, which is now creating, delivering and beginning to realise substantially increased shareholder value.

Continuing Momentum

This year the Group has built strong momentum in all three business areas of Services, Hargreaves Land and HRMS.

The Services business has started work in earnest on the major earthmoving project at HS2, which has led to a growth in UPBT. I am also pleased to see the expansion of our mechanical and electrical engineering capabilities, as demonstrated by our appointment to two major engineering contracts on HS2 collectively worth over £18m. Further environmentally positive business initiatives have been undertaken including the remediation of over 100 acres of previously unusable former mining land in Scotland.

Strategic progress has also been seen within Hargreaves Land. Further sales have been completed and exchanged at Blindwells and the wider pipeline looks strong with the conditional exchange of contracts for the development and sale of the first logistics units at the Unity Joint Venture near Doncaster due to complete over the coming years. The Group's value creation from its renewable land assets has also taken a big step forward in the year as Brockwell Energy announced they had achieved financial close on their Energy from Waste plant, which is under construction on our Westfield site. The first windfarm is now under construction by BayWa AG on our site at Dalquhandy. The creation of value from our renewable asset land portfolio over the next few years is an exciting prospect.

The HRMS team continues to demonstrate its ability to be agile in an ever-changing commodities market, which has allowed them to take advantage of recent favourable pricing to deliver an excellent profit for the year, following a very strong performance in the prior year. Whilst the current result is pleasing, I am more excited by the underlying and sustainable improvements made in the steel recycling business, DK Recycling und Roheisen GmbH ("DK"). Since acquisition by HRMS in 2019, the management team has implemented improvements to operating processes and administrative functions which should deliver a sustainable improvement of around €10m per annum compared to their pre-acquisition performance. DK contributed approximately 43% of the HRMS result for the year.

Cash and Leasing Debt

The Group remains free from any bank debt and held net cash of £13.8m on 31 May 2022, compared to £28.3m in the prior year. This reduction is due to the decision to loan £15m to HRMS to enable them to capitalise on the current trading conditions. I am pleased to see that this funding provided to our Joint Venture has helped to deliver substantial returns. £12m of this loan was repaid in July 2022. Notwithstanding this, cash generated from operations has been primarily invested into Hargreaves Land assets and leased plant and equipment, principally for the HS2 contract.

The only debt held by the Group relates to specific leasing debts for the acquisition of fixed assets. At the year end this borrowing stood at £18.4m, which is an increase of £6.6m when compared to 31 May 2021 due to the initial investment required to mobilise the HS2 earthmoving contract within Services.

Dividend

The Group paid an interim dividend of 2.8p, which represented a 3.7% increase year on year. The continued strong performance of the Group throughout the remainder of the year has enabled the Board to announce an increase of nearly 25% to the final dividend, which is proposed to be 5.6p (2021: 4.5p). This brings the underlying full year dividend to 8.4p (2021: 7.2p) representing an overall increase of 16.7%.

In addition to the final dividend of 5.6p, the Board is also proposing an additional dividend of 12.0p per share (2021: 12.0p) in relation to dividends to be received from previously undistributed profits at HRMS. Combined this brings the total dividend for the year ended 31 May 2022 to 20.4p (2021: 19.2p).

If approved at the Annual General Meeting, the final dividend of 5.6p and the additional dividend of 12.0p will be paid on 31 October 2022 to all shareholders on the register at the close of business on 23 September 2022. The shares will become ex-dividend on 22 September 2022.

Environmental, Social and Governance (“ESG”)

The Group has established a cross-business working group (“ESG Group”) which is focused on identifying the risks and opportunities arising from climate change and other social and governance matters. The ESG Group reports directly into the Audit and Risk Committee and contains representatives from each aspect of the business. I am pleased to see the high levels of engagement in this group and the fact that the drive for sustainability is coming from all parts of the Group.

Hargreaves has taken significant strides in the last year to develop our Employee Assistance Programme and train our mental health first aiders. The well being of our employees is essential in delivering value to all of our stakeholders. We have also established a dedicated Corporate Social Responsibility fund for supporting local charities and activities in which our employees are actively involved.

Strategy and Shareholder Value

The Group remains focused on its strategy to create, deliver and realise value for shareholders through the three core businesses of Services, Hargreaves Land and HRMS.

Create

The commencement of the major earthmoving contract at HS2 and the growing mechanical and electrical capabilities of the Services business have enabled opportunities for the Group to create value for shareholders. The Hargreaves Land team are creating substantial shareholder value through the development of the renewable energy land portfolio and HRMS continues to create value through its ability to adapt to market conditions.

Deliver

The Services business has secured over 50 term contracts and framework agreements and is focused on their successful delivery. The long term land development assets at Blindwells and Unity are continuing to deliver returns as we are now seeing regular revenues and profit generation. The delivery of value from the renewable land portfolio will increase steadily over the next few years. The transformation of the operations within DK, part of HRMS, is now delivering recurring and more sustainable returns, enabling the base level of profitability to be increased within HRMS.

Realise

We are increasing the underlying full year dividend by 16.7% to 8.4p in recognition of the successful delivery of the value created within the Group. Additionally, the value within HRMS continues to be repatriated to shareholders via the additional 12.0p annual dividend. The Board is confident that this increase is sustainable and fairly reflects the value that is being delivered within the Group. Further value realisation opportunities remain in the forefront of the Board's considerations.

Outlook

The Group now has significant momentum, which has resulted in the highest UPBT for the Group in seven years. The Balance Sheet remains free from bank debt and third party security and provides a strong platform for growth allowing the Group to remain agile to opportunities. Our net tangible assets now stand at £178.3m (2021: £139.5m) representing 548p per share (2021: 432p).

The Board is acutely aware of the uncertainties in current global economic outlook and has strategies in place to mitigate the challenges of UK inflation. HRMS is also taking steps to plan for potential threats to German energy supplies. The Board has great confidence in the strategy and expectations for the Group's financial performance heading into the year ending 31 May 2023.

Roger McDowell Chairman

26 July 2022



The Board has great confidence in the strategy and expectations for the Group's financial performance heading into the year ending 31 May 2023.”

* The basis of underlying profit before tax and basic underlying EPS is set out in the Alternative Performance Measures Glossary on page 94.

Chief Executive's Review

Gordon Banham, Group Chief Executive

Hargreaves has undertaken significant changes over recent years and I believe we have navigated the challenges which have arisen well.



| £'m | Services | Hargreaves Land | HRMS | Central Costs | Total |
|---|--------------|-----------------|-------------|---------------|--------------|
| Revenue (2022) | 162.8 | 15.1 | – | – | 177.9 |
| Revenue (2021) | 193.0 | 11.8 | – | – | 204.8 |
| Underlying profit/(loss) before tax* (2022) | 7.6 | 2.1 | 27.3 | (4.3) | 32.7 |
| Underlying profit/(loss) before tax* (2021) | 5.1 | 6.3 | 13.6 | (3.8) | 21.2 |
| Profit/(loss) before tax from continuing operations (2022) | 9.4 | 2.1 | 27.3 | (4.3) | 34.5 |
| (Loss)/profit before tax from continuing operations (2021) | (1.7) | 6.3 | 13.6 | (3.8) | 14.4 |

* The basis of underlying profit before tax is set out in the Alternative Performance Measures Glossary on page 94.

Services

The Services business recorded a reduction in revenue from £193.0m to £162.8m due to the decision taken in the prior year to cease all material coal activities, which accounted for £55.8m in the year ended 31 May 2021. Like for like Services revenue has grown from £137.2m to £162.8m, an increase of 18.7%. This growth has predominantly come from the major earthmoving contract on HS2, which commenced during the year.

The business unit delivered an UPBT of £7.6m, representing growth of nearly 50% over the prior year. Whilst much of this improvement is delivered by the HS2 contract, operating margins have also improved across the business unit from 2.6% to 4.7%, reflecting the move away from the low margin coal activities.

In my previous report, I highlighted two specific contracts which were on the horizon and I would like to provide an update on both of them.

HS2

I am pleased to report that the major earthmoving contract with the EKFB Consortium on HS2 has begun well. We now have over 350 people working on the project, with almost 300 items of plant being put to work. In addition to the earthmoving activities, we have also developed a solution to reduce the carbon emissions on the project through the installation of an overland conveyor system to remove excess material from site, which will eliminate over 78,000 lorry movements amounting to over 700,000 miles. This will not only reduce the carbon emissions through less miles driven, but also reduce the noise pollution for local residents.

Hemerdon

Following the listing of Tungsten West plc ("TW") on AIM in October 2021, we received the first of eight annual payments of £1m relating to maintaining our capability at site. TW announced in April 2022 that it intended to pause their development plan for the site and evaluate alternative approaches. A further announcement was made by TW on 19 July 2022 which indicates that TW plans to commence production in the first half of calendar year 2023. TW states that it has to put further funding in place to achieve this. Whilst this news does mean that any growth that was expected to come from the commencement of mining activities may be delayed, the Group remains in a strong contractual position with security over the mineral rights. The Group remains in close contact with TW.

Profitability within Services has remained weighted to the second half of the year, however, in the coming year this is likely to level out as the works undertaken on HS2 provide greater profitability in the summer months, reducing the seasonality.

With over 50 framework and term contracts in place and approximately 75% of next year's revenue secured, the Services business has resilience to the current inflationary pressures. Most term contracts include a form of price escalation, particularly in relation to fuel increases for our logistics operations. The main HS2 contract is a defined cost plus fee arrangement so that increases in defined costs will be recovered. With inflation in the UK rising to over 7% in the second half of the last financial year, the business has seen the benefit of these clauses in the contracts in mitigating the impact of such risks.

Our mechanical, electrical and civil capabilities were enhanced on 7 July 2022 by the acquisition for £750,000 in cash of SBU Limited and its subsidiary S&B Utilities Limited ("SBU"). SBU has long standing framework contracts with Yorkshire Water and Severn Trent Services together with a very recent appointment with Northumbrian Water. The business, which has annual revenue of around £4m and over 40 employees, will strengthen our business offering in the utilities sector.

Hargreaves Land

Hargreaves Land recorded revenue of £15.1m (2021: £11.8m) and a profit before tax of £2.1m (2021: £6.3m) for the year. This reduction of £4.2m in profitability is due to the timing of sales at the Unity Joint Venture, near Doncaster. In April 2021, the Unity Joint Venture completed a material sale to a national retailer, which was several months ahead of the original plan. This sale pulled forward £4.1m of profit into the year ended 31 May 2021, which has led to the reduction recorded in 2022.

Further progress has been made at Unity, with the exchange of contracts announced in February 2022 for the conditional sale of a total of 29 acres to Aver Property and the development of two logistics units for £50m consideration. Completion is expected to occur over the next 24 months. The Unity Joint Venture is independently funded from Hargreaves.

During the year, the business has completed a further sale at Blindwells. A 12.9 acre plot was sold to Persimmon in January 2022 for a total consideration of £9.6m, which is payable in three annual instalments. In February, the Group announced the exchange of contracts with Ogilvie Homes for the sale of a 4.6 acre plot, which is expected to complete in the next financial year. This demonstrates continuing progress within the Blindwells development, which welcomed its first residents in the financial year. The site remains a long term, regular annual profit stream for Hargreaves Land, with approximately 120 acres still remaining to be sold within Phase 1. The first phase is expected to be developed out by 2031 with Phase 2, known as Greater Blindwells, comprising approximately 1,000 acres progressing through the local plan process with a planning allocation for up to 8,000 homes expected to be secured before 2030. The Group has an effective 25% share of the land in this second phase.

An exciting development within Hargreaves Land has been the increasing momentum behind the Group's renewable energy land assets. The Group's former subsidiary, Brockwell Energy Limited, achieved financial close on their Energy from Waste plant at Westfield, Fife,

which provided an immediate £2m of deferred consideration from the original sale of the business. Additionally, Brockwell entered into a 35-year minimum term index linked lease, which will deliver annual rental income of £0.4m following the construction of the plant which is expected to take about three years.

This marks the first significant income relating to the Group's renewable energy land portfolio, which in addition to Westfield includes options over land with wind farm developers needed to produce 580 MWs of power on various long-term agreements, which are expected to begin delivering value over the next 24 months. This represents more than 2% of the UK's total installed wind power capacity in 2021*. This is a particularly exciting area for Hargreaves Land and represents an opportunity to create substantial value for the Group.

Hargreaves Land acts solely as a landlord in this area and does not undertake any construction work or ownership of the energy generating assets themselves.

HRMS

HRMS contributed £27.3m (2021: £13.6m) to the Group's profit before tax. This represents an increase of 101% and demonstrates the continuing strong performance that was seen from HRMS in the second half of the previous year.

The traditional trading business has seen a substantial increase in volumes of minerals traded, which has accompanied the increase in commodity prices seen over the past 18 months. The trading team at HRMS have always been skilled at maximising opportunities whilst minimising the risk profile taken. This has been highlighted in the current year's result.

The performance by the trading team has been complemented by the significant turn around in the profitability of the steel waste recycling business, DK. Prior to acquisition by HRMS in December 2019, this business was loss making. Since then, the management team has introduced a number of measures which have led to an approximate €10m of sustainable improvement in profitability. In addition to this sustainable improvement, DK has also benefited from high commodity prices, in particular zinc and pig iron, which have augmented the result.

The third aspect of HRMS is the Carbon Pulverisation Plant. The plant is fully operational and producing 100kt of pulverised product per annum, which represents around 25% of the plant's full capacity. The facility delivered a break even result in the year, which is in line with the prior year result. It is not expected to move into profitability until the year ending 31 May 2024 whilst economic uncertainties persist in German industrial markets as a result of the war in Ukraine.

HRMS mitigates against its exposure to commodity prices by both hedging forward sales positions and by ensuring that it does not enter into open trading positions so that purchases of commodities are back to back with secured sales. DK is considering the installation of a liquid gas tank to provide resilience in the event of a gas supply shortage although only small quantities of gas are used in the production process.

Summary

This year has been one of real momentum, particularly within Services and Hargreaves Land, whilst HRMS continues to demonstrate its ability to capitalise on market opportunities.

I am particularly pleased with the resilience of the Services business, given the challenges faced by many businesses regarding cost inflation and supply chain difficulties. Hargreaves Land continues to deliver long term and recurring profits from the two flagship projects at Blindwells and Unity, whilst developing an exciting pipeline of opportunities, not least of which is the renewable energy land portfolio. Finally, the sustainable improvements made at DK have highlighted the ability of the management team to identify and take advantage of opportunities, which can deliver substantial value.

Hargreaves has undertaken significant changes over recent years and I believe we have navigated the challenges which have arisen well. The business has a strong, debt-free balance sheet and I look to the future with optimism.

Gordon Banham Group Chief Executive

26 July 2022

* Source: <https://www.statista.com/statistics/421861/wind-power-capacity-in-the-united-kingdom>

Hargreaves has reasons to look forward to a bright future with opportunities for growth within each sector.

Overview

Over the past few years, the Group has streamlined and simplified its business model to focus on the three core pillars of Services, Hargreaves Land and HRMS. Each sector has a clearly defined target market and service offering, with a distinct and clear geographical focus.

The Group is managed in these three pillars as they are each distinct from each other with limited interaction. Whilst they are complementary, they are not reliant on each other for support or growth.



Services

Revenue 2022

£162.8m

↓ £193.0m 2021

UPBT 2022

£7.6m

↑ £5.1m 2021

Key markets

- Energy
- Environmental
- Infrastructure
- Industrial

Geographical focus

- UK and South East Asia

Services provided

- Materials handling
- Mechanical and electrical engineering
- Bulk logistics
- Major earthmoving
- Environmental land improvement



Hargreaves Land

Revenue 2022

£15.1m

↑ £11.8m 2021

UPBT 2022

£2.1m

↓ £6.3m 2021

Key markets

- Mixed use, residential and commercial
- Renewables

Geographical focus

- Scotland and North of England

Services provided

- Multi-phase master developer
- Land promotion
- Commercial and logistics development



HRMS

UPBT 2022

£27.3m

↑ £13.6m 2021

Key markets

- Steel
- Cement
- Industrial

Geographical focus

- Germany
- Rest of Europe

Services provided

- Mineral trading
- Steel waste recycling
- Pig Iron and Zinc production
- Carbon pulverisation



Services Core Capabilities

The Services business has an extensive and complementary service offering for a wide range of industrial customers. The services include, but are not limited to:

- Bulk materials handling in industrial complexes;
- Mechanical and electrical engineering;
- Major earthmoving subcontractor;
- Pre-construction design advice on major earthmoving infrastructure projects;
- Bulk logistics;
- Land remediation and improvement solutions;
- Carbon sequestration;
- Waste brokering;
- Quarrying and aggregates management.

Progress

During the year, there has been tangible growth within the Services business. In particular, the Earthmoving operation which has commenced works on the HS2 contract for the Eiffage Kier Ferrovial BAM joint venture ("EKFB"). This has led to the employment of over 350 people in the Aylesbury region. A key strength of the Earthmoving operation is the training provided to our employees and on the HS2 contract alone, we have trained over 50 plant operatives, giving them the skills to operate large plant efficiently and safely.

We have also seen the complementary nature of our Services offering to deliver a low carbon solution to the transportation of over 1.3m tonnes of disturbed earth. Our engineering capabilities were able to work in collaboration with the Earthmoving team to identify the issue that is created by the transportation of such a volume of material by road, which would cause a substantial level of carbon emissions. Our teams were able to design and propose an innovative 750m 5-conveyor system, which reduces the amount of road haulage which would otherwise have been required and saves on emissions by removing over 78,000 lorry movements amounting to over 700,000 miles. Work on the installation of the conveyor system began in April 2022.

Additionally, we have secured a contract for the provision of storage silos and a lime dosing and mixing system for HS2. This is a further demonstration of the growth in capability that the business has in delivering engineering solutions for large scale infrastructure projects.



The services business remains well positioned to identify, create and deliver value for shareholders.

In Hong Kong, a specialist team of linesmen and electrical specialists undertake a range of services as part of the Overhead Lines Works contract with CLP Power ("CLPP"). This is a 5-year framework which supports CLPP's 950 sqkm distribution network which services over 4m residents in Kowloon, New Territories and the outlying islands of Hong Kong. The ongoing development of the Hargreaves Power Services business and diversification into this market is a key facet of future growth opportunities, underlining the diversity of the offering within the Services business in Asia.

The logistics operation was impacted by the well-publicised HGV driver shortages as well as the rising price of fuel. The impact of driver shortages has now been largely overcome. The team was able to mitigate the fuel price challenges through strong customer relationships and the application of contractual escalation factors which protected the Group from the worst of the potential impact.

Our operations within the environmental sector have also seen progress in the year. Our land remediation operations have improved over 100 acres of land in the year. This land was previously contaminated and unable to support plant life. As a result of our actions this land is now capable of growing and sustaining trees and other plant life. An application has also been made to apply for carbon sequestration on one of the sites controlled by the Group and notification of award is expected by the end of the calendar year. In total the business is seeking to plant approximately 1.7 million trees on 700 hectares on three specific former open cast mining sites in Scotland for future carbon sequestration. This would represent a significant step in the offering of the business.

Markets and Strategic Focus

The Services business holds over 50 term and framework contracts, which has provided the Group with strong levels of revenue visibility.

The market sectors in which we operate are generally core industries within the UK and South East Asia; specifically the Energy, Environmental, Infrastructure and Industrial sectors. During the period of the pandemic, the Services business continued largely unaffected as a result of operating in these critical industries.

The business remains focused on growing the number of term and framework contracts it holds within the areas of core capability. Specific areas of target growth are focused on major earthmoving and mechanical and electrical engineering. There are several major earthmoving projects on the horizon, which represent opportunities comparable with the current HS2 project. Additionally, the capability of the Group's mechanical and electrical engineering team is growing and recent contract wins, not only on HS2 are demonstrating this capability to the wider market. Market position in the utilities market has been enhanced by the recent acquisition of S&B Utilities Limited in July 2022, providing framework positions with Yorkshire Water, Severn Trent Services and Northumbrian Water.

Outlook

Revenue and margins within Services are resilient, as demonstrated by the response to recent challenges (Covid-19, inflation etc) and is underpinned by a strong pipeline of contracted works, term contracts and framework positions. Growth opportunities exist within the earthworks, engineering and environmental services work streams which means that the Services business remains well positioned to identify, create and deliver value for all stakeholders.



Hargreaves Land

Hargreaves Land has developed significantly over the last couple of years and now has two clear areas of focus:

- Property and Land development
- Renewable land assets

Property and Land development

The property development aspect of Hargreaves Land has, until recently, been the most visible aspect of the business unit. The business model includes the identification of strategic land opportunities, development and promotion of such land opportunities and the realisation of value. The business does not build residential homes, instead value is realised by the sale of serviced plots to house builders. Within the commercial and logistics sectors the business may enter into contracts to facilitate the construction of warehousing or similar structures. Such work would be subcontracted in its entirety.

The core projects within property development are Blindwells and the Unity Joint Venture which are both large and enduring schemes providing a stream of revenue over many years.

Blindwells

The site at Blindwells remains the largest investment within Hargreaves Land. Phase 1, which represents 150 acres and the potential for over 1,600 homes is well established, with a total of 27 acres sold to date and construction by housebuilders well under way. Due to the nature of the site and the requirement to settle each parcel of land prior to sale to housebuilders there will be a consistent stream of around 10-15 acres per year available for sale. This provides a good level of predictability to revenues and profits from this project for the next 8-9 years.

Further to Phase 1, there is Phase 2, known as Greater Blindwells, which does not yet have planning permission. Greater Blindwells has the potential for up to 8,000 additional homes and a further 75 acres of commercial use over 1,000 acres. Hargreaves Land effectively controls approximately 25% of the Greater Blindwells site. Planning allocation is anticipated in 2026/27 and, if allocated, should provide at least another 10 years of revenue from Blindwells following the completion of Phase 1.

Unity

The Unity project is a joint venture between Hargreaves Land and Waystone Limited. The site, which is near Doncaster, is set on over 300 acres and has outline planning for 3,100 homes and over 2m sq ft of commercial and logistics space. This scheme is also well established, with a number of commercial sales already completed. Unity also provides a long-term sustainable level of earnings as commercial and residential plots become available for sale. The overall scheme is expected to run until 2035, with a relatively consistent sale of approximately 15 acres per annum.

The two aforementioned schemes are large and long-term, however Hargreaves Land is also engaged in a number of smaller development opportunities. These opportunities are typically capital light, with limited requirement for upfront investment. Risk is managed through the use of conditional contracts, options and development agreements to secure planning, occupiers and forward funding ahead of any significant commitment. The business is currently working on pipeline opportunities with an estimated Gross Development Value in excess of £200m (2021: £66m), ranging from residential to industrial and mixed commercial use.

Renewable Land Assets

The renewables land portfolio within Hargreaves Land is gaining some real momentum. The Group owns over 3,000 acres which is consented for the construction of either Energy from Waste plants, wind farms or other renewable energy assets. In each case, Hargreaves Land acts as the landlord and does not construct or own any of the renewable energy assets.

Westfield – Energy from Waste

The most advanced scheme is at Westfield, in Fife, which is a 100-acre site owned by Hargreaves Land, upon which a 32MW Energy from Waste plant will be constructed on 8 acres of the site. This plant will deliver a 35-year minimum lease term at £420,000 per annum (annual RPI review). To facilitate the construction of the plant, the Group is required to invest £7m in the infrastructure of the site. This will not only allow for the construction of the plant but will also open up approximately 40 further acres for other industrial uses. Interest in the site is buoyed by the potential for low-cost heat and power from the Energy from Waste Plant. In addition to this, there is a further 50 acres that may be developed in the future, however, this would require further infrastructure spend. Additionally, the site also has consent for an 80-acre 30MW solar farm and battery storage, which would be constructed by others, under a 28 year lease with a potential £0.1m annual income.



Hargreaves Land has developed significantly over the last couple of years and there are exciting opportunities for value creation within the Group

Property development – target criteria

1

Midlands, North of England and Scotland

Serviced from existing HL offices

2

Longer term large scale “Master Developer” opportunities

Good medium term visibility of activity and earnings

3

Bespoke commercial projects on pre let/forward funded basis

Ability to minimise direct investment and derisk

4

Planning led strategic land opportunities

Longer term projects but low cost and potential for high returns

Wind Farms

The Group owns three areas of land, which have options to lease to wind farm operators. One such lease option has been taken up already. In addition to this, the Group also holds land over which access agreements are in place for other wind farm operators. In total, there are seven such access agreements, of which two are granted and five are due to be taken up in the next few years. In total, the wind farms would provide for approximately 580MW of renewable energy.

The options on the wind farms and access agreements are due to come online over the next two to three years. Each option is specific; however, they will follow a standard makeup:

- Minimum 28 year term;
- 2-4% of gross generating income;
- Rising to 4-6% after year 12

For access agreements, whilst the 28 year minimum term is consistent, the value will be either a fixed annual rental or 1% of the gross income generated by the operator.

These renewable assets represent an exciting opportunity for value creation with the Group for the following key reasons:

- Long term asset backed income;
- Income is typically index linked;
- Minimal requirement for capital investment;
- Predictable and sustainable income profile;
- Typically sub 4% investment yields;
- Sector is evolving with potential to add further value.

Outlook

The renewable energy landscape is rapidly evolving, which gives further potential to create value from the land controlled by the Group. Focus is on securing further access agreements, also enhancing value through potential opportunities with hydrogen production plants and battery storage on land owned by the Group.



Hargreaves Raw Materials Services GmbH ("HRMS")

The Group has held an investment in the German based joint venture, HRMS, for over 15 years. Initially a minerals and solid fuels trading business, the last three years has seen a significant transformation in the scale of offering within the entity. Hargreaves Services Europe Limited ("HSEL") is the parent company of HRMS, which is in turn the parent of DK. These entities combined represent the HRMS joint venture.

The business now has three fully integrated revenue streams. The traditional trading business sells minerals and other solid fuels throughout Europe, including the supply into the Carbon Pulverisation Plant ("CPP"). The CPP grinds the carbon into a fine dust, which is used in many industries across Germany, in particular steel and cement manufacture. A key customer of the CPP is DK Recycling und Roheisen GmbH ("DK"), which is the third part of the HRMS business. DK takes steel waste, which would otherwise be sent to land fill, and produces 285kt of pig iron and 6kt of zinc annually, which is in turn traded by the trading team.

The Hargreaves Group owns 49.9% of the voting shares in HSEL, with the remaining 50.1% of voting shares held by the local management team. Hargreaves also owns a number of shares which carry an economic benefit but no voting rights. It is these non-voting shares which mean that Hargreaves is entitled to 86% of the profits of the joint venture. See accounting judgements in Note 1 to the Financial Statements for more detail.

Business Model

Trading

The trading team comprises 16 individuals who trade in pig iron, ferro-alloys and other mineral products. The target market opens when there is a need for additional supply over and above the traditional supply contracts within the steel and cement industries of Europe.

Profitability is determined by two principal factors, volume and margin. Margins are largely static and consistent however, the volumes can be variable. Recent increases in commodity prices have been linked to a substantial increase in demand for product, which HRMS has been able to fulfil.

The trading business will typically secure deliveries for specific sales contracts. The team does not take principal positions on stock. Typically, around 95% of all stock held by HRMS is already forward sold, which reduces any perceived risk around fluctuations in commodity prices. Stock purchases are primarily funded by a flexible borrowing base facility of up to €70m.

CPP

The CPP has a total production capacity of 400,000 tonnes per annum, which involves taking carbon products and grinding them into a very fine powder. This product is intended to displace the highly polluting brown lignite coal dust which is expected to be phased out in the coming years by the German government.

The facility is currently producing 100,000 tonnes per annum and delivering a breakeven result. The total accessible market is estimated to be 2Mt per annum, meaning that the CPP is an area of potential growth for HRMS as it seeks to fill up the available production capacity. The key markets to address are the chemical, cement and steel manufacturers in Northern Europe.

DK

The facility at DK is one of the world's largest recycling centres for ferrous waste materials. The blast furnace takes in approximately 500kt of steel waste dusts and recycles them into 285kt of pig iron and 6kt of zinc. The operation is also a net energy producer.

This business has performed very well since its acquisition by HRMS in December 2019 due to the sustainable improvements made by the management team, including procurement efficiencies, improved sales strategies, process improvements and waste reduction. In addition to this, DK has also benefited from the high commodity prices seen over recent times, in particular zinc and pig iron. To protect against the risk posed by variable commodity prices, DK now hedges up to 50% of all zinc sales up to 12 months ahead.

Cash Repatriation

When HRMS began the construction of the CPP in late 2017, a term loan was taken out to complete the build. Under the terms of that loan HRMS was restricted from making any dividend payments to shareholders until after 31 May 2021. During that time, Hargreaves recognised the profit created by HRMS, however did not receive any cash repatriation.

Since May 2021, the Group has received the first repatriation of £4m from HRMS, the Group used this to fund the 12.0p additional dividend to our shareholders, which was paid in October 2021. The Board expects that repatriation from HRMS will continue at this level as a minimum for the next few years, which will be used to fund further additional dividends.

Outlook

The integrated HRMS business model is well placed to capitalise on favourable commodity pricing and DK is now well positioned to deliver a sustainable level of profitability following the turnaround since acquisition. Additionally, the CPP is producing a high-quality product and provides an opportunity for sustainable growth within the joint venture.

Key Performance Indicators

The Group has established a number of Key Performance Indicators ("KPIs") which are used to measure its performance in a number of areas. These include some non-financial measures which reflect the Board's emphasis on health and safety.

The KPIs for the Services business include:

- Underlying profit before tax against budget
- Return on capital employed against budget
- Average working capital against budget
- Lost time accident ratios against annually determined minimum targets
- "Near Miss" reporting

The KPIs for the Hargreaves Land business include:

- Underlying profit before tax against budget
- Cash performance against budget
- Return on capital employed against individual project targets

Group level KPIs include:

- Underlying profit before tax against budget
- Net debt (inclusive of leasing debt) against budget
- Lost time accident ratios against annually determined minimum targets

The Group achieved all of its KPIs in the year ended 31 May 2022. Similar challenging KPIs have been set for the year ending 31 May 2023.

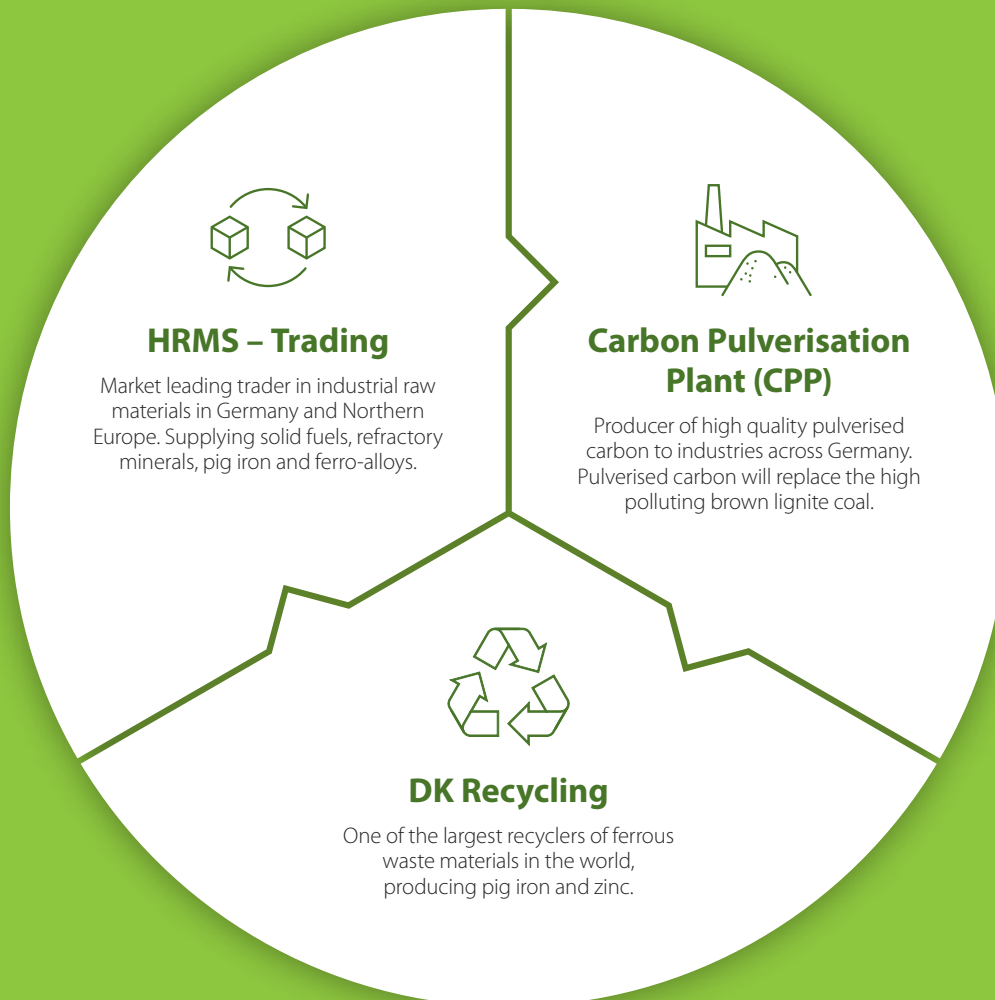
Summary

Whilst Hargreaves remains a diverse organisation, I believe the three pillars of Services, Hargreaves Land and HRMS provide a clear and straight-forward view of our operations. Each business has reasons to look forward to a bright future with opportunities for growth within each.

By order of the Board

Gordon Banham
Group Chief Executive
26 July 2022

Hargreaves Raw Materials Services GmbH ("HRMS") Business Model



Financial Review

John Samuel, Group Finance Director



Results

Group revenue from continuing activities was £177.9m (2021: £204.8m) and UPBT was £32.7m (2021: £21.2m). The reduction in revenue relates to the cessation of coal related activities in December 2020, which accounted for £55.8m of the prior year revenue. The increase in UPBT is due in large part to the performance of the Group's Joint Ventures, which contributed £28.2m (2021: £17.7m). Growth has also been recorded within the fully consolidated Services business, in particular the earthmoving activities. Gross profit margin has improved to 17% (2021: 11%) due to the cessation of the low margin coal revenues. Profit before tax from continuing operations was £34.5m (2021: £14.4m) after accounting for an exceptional gain of £1.8m (2021: charge of £2.2m). The current year gain relates to the release of an aged accrual dating from the year ended 31 May 2015 whereby the potential for payment has now lapsed due to time.

Net finance income was £0.1m (2021: expense of £1.2m). The reduction in finance expense is due to the substantially lower average borrowings following the repayment of the Group's previous main banking facilities during the previous year.

The Group recorded £28.2m (2021: £17.7m) of profits from Joint Ventures. £27.3m (2021: £13.6m) of this was attributable to HRMS, which is stated after tax. There was a reduction in the profit coming from the Unity joint venture, £0.9m (2021: £4.1m), due to the early completion of a substantial land sale in the prior financial year.

Discontinued operations profit of £2.0m (2021: £nil) represents deferred consideration relating to the sale of Brockwell Energy Limited, which completed in October 2018 and became payable following their successful financial close in December 2021 at the Westfield energy from waste plant.

Taxation

The income tax credit for the year is £0.3m (2021: £2.0m). The tax credit has been heavily impacted by the decision in the prior year to cease mining activities. This cessation of mining has given rise to a substantial balancing allowance which is in excess of depreciation recorded. The prior year credit was impacted by the change in the rate at which deferred tax is measured increasing from 19% to 25% which created a credit of £2.7m.

In 2011, after taking professional advice, the Group engaged in a disclosable tax planning scheme relating to leasing, the legality of which has been challenged by HMRC. In previous years, the Group has paid all cash payment obligations in relation to the scheme to HMRC. The Board has been advised that the scheme was lawful. The matter was heard by the First Tier Tribunal in June 2019 and in a decision released on 23 March 2020, the determination was in favour of HMRC. Following further advice, the determination was submitted for appeal, which was heard in June 2022 and the outcome was successful for the taxpayers. This represents the next step in the process and a further appeal may yet be forthcoming from HMRC.

The Group is one of five appellants in the matter, who would benefit from a successful outcome of this case. The Group is not carrying any asset related to this case and has provided for associated professional fees.

Cash Flow

The profit for the year from continuing operations of £34.8m (2021: £16.4m) generated an EBITDA* of £13.6m (2021: £5.5m), after adjusting for depreciation and impairment charges of £8.7m (2021: £6.6m), the profit from investments in joint ventures of £28.2m (2021: £17.7m) and other non-cash items. Movement in working capital in the year was a cash outflow of £20.7m (2021: inflow of £42.9m) including the £15m additional funding provided to HRMS in the year. The prior year movement in working capital included a significant unwind in stocks following the sale of all coal inventories.

The Group received total proceeds of £2.3m (2021: £8.9m) relating to the sale of fixed assets and invested £2.7m (2021: £3.1m) into capital items, including £1.1m (2021: £0.4m) into investment properties. The Group also received a £3.9m dividend (2021: £nil) from its Joint Venture HRMS which was passed through to shareholders in the form of an additional dividend of 12p per share.

During the year the Group repaid £5.5m (2021: £6.1m) being the principal element of leases and paid a total of £6.2m (2021: £2.3m) to shareholders through dividends.



The Board is recommending a 24.4% increase in the final dividend.

Capital Expenditure

Capital expenditure including that on right of use assets and investment properties totalled £14.8m (2021: £6.4m). Depreciation and impairment charges for the year were £8.7m (2021: £6.6m), the increase primarily relating to an impairment charge of £1.5m against some unproductive plant.

Banking Facilities

At 31 May 2022 the Group had cash of £13.8m (2021: £28.3m). In July 2022, the cash balance was enhanced following a loan repayment of £12m by the German Joint Venture. In addition to the cash reserves, the Group also has access to an undrawn £12m invoice discounting facility with Santander. This facility provides the Group with additional flexibility to deal with any short-term working capital fluctuations. The Group's assets are not secured by any debenture and the invoice discounting facility has no associated covenants.

Pensions

The Group has the obligation to fund two industry-wide defined benefit pension schemes and an unfunded concessionary fuel scheme, all of which are closed to new members and are related to the former mining operations at Maltby Colliery. Under the assumptions used to calculate the defined benefit schemes' position at 31 May 2022, an asset of £10.4m (2021: £2.9m) has been recorded. This excludes the £2.7m (2021: £2.9m) liability associated with the unfunded concessionary fuel scheme.

Contributions in the year of £2.0m (2021: £2.0m) have been offset by interest and expenses of £0.3m (2021: £0.2m) and net changes in actuarial measurements of £6.0m (2021: £2.0m). The actuarial movement is accounted for through the Statement of Other Comprehensive Income. The next triennial valuation of the schemes is due as at 31 December 2021 but the outcome of that is not expected to be known for some months yet.

Covid-19

The Group has previously taken advantage of the UK Government's support for businesses impacted by Covid-19. In the financial year, £0.1m (2021: £0.8m) was claimed under the Coronavirus Job Retention Scheme. Additionally, as permitted by law, the Group deferred £4.8m of VAT payments in the year ended May 2020, which was paid back in full by the end of March 2022.

Dividends

The Board is recommending a final dividend of 5.6p (2021: 4.5p) per share bringing the total for the year to 8.4p (2021: 7.2p), a full year increase of 17%. Additionally, the Board is proposing an additional dividend of 12.0p (2021: 12.0p) per share which will be paid at the same time as the final dividend. The additional dividend will be funded by the receipt of an equivalent amount from HRMS.

Share Capital

There are 33,138,756 (2021: 33,138,756) ordinary shares of 10p each in issue of which the Company holds 611,118 (2021: 827,150) in treasury. During the year, 216,032 (2021: 29,260) shares were released from treasury to satisfy the exercise of share options.

Going Concern

The Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. The Group holds cash resources and has the availability of a further £12m Invoice Discounting facility which provide the Board with confidence that the Group has appropriate liquidity to meet any foreseeable cash requirements. A rigorous process of reviewing cash flow forecasts and testing for a range of challenging downside sensitivities has been undertaken. Only remedies to these downsides which are entirely within the Group's control have been assumed to be achievable mitigations to those sensitivities. Therefore, and after making appropriate enquiries, including reviewing budgets and strategic plans, 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, the Board continues to adopt the going concern basis in preparing the Annual Report and Accounts.

Directors' Section 172(1) Statement

The Board acknowledges its responsibility under section 172(1) of the Companies Act 2006, which is presented within the Directors Report.

John Samuel Group Finance Director

26 July 2022

* EBITDA is defined as profit before tax from continuing operations prior to charges for depreciation and impairment and interest and excludes the share of profit from jointly controlled entities and gains and losses on the sale of fixed assets.

Audit & Risk Committee Report

Nigel Halkes FCA, Chair of the Audit & Risk Committee

The Audit & Risk Committee is responsible for reviewing financial reporting matters, monitoring internal controls and key corporate risks.



On behalf of the Audit & Risk Committee I am pleased to present the Committee's Report for the year ended 31 May 2022.

Membership of the Committee

The Committee consists of the four Non-executive Directors and is chaired by me as the Senior Independent Non-executive Director. The composition of the Committee has been unchanged throughout this financial year. The Board believes that the Committee members have the skills, qualifications and experience to discharge their duties in accordance with the Committee's terms of reference and have appropriate knowledge and experience in the sectors within which the Group operates.

Committee Meeting Schedule

The Committee met on four occasions during the year with all members at the time in attendance. The Group Finance Director attends committee meetings by invitation to ensure that the Committee is fully informed of all material matters within the Group. The external auditor attended two of the meetings and, for part of one of those meetings, the external auditor met with the Committee without any of the Executive Directors being present. The internal auditor attended two of the meetings.

For the financial year ending 31 May 2023, the Committee intends to continue with its programme of four meetings to be held during the year so that the work of the Committee is evenly spread, particularly with respect to Risk Management and internal audit.

Terms of Reference of the Committee

The Committee is established by and is responsible to the Board. It has written terms of reference, which are available for review at: www.hsgplc.co.uk. The terms of reference are formally reviewed annually to ensure that they meet the Board's expectations of the Committee's remit.

The Committee is responsible for reviewing a wide range of financial reporting and related matters including the half-year and annual accounts before their submission to the Board. In particular, the Committee is required to consider all critical accounting policies and practices adopted by the Group, and any significant areas of judgement that could materially impact reported results. The Committee provides a forum for reporting by the Group's external auditor, and advises the Board on the appointment, independence and objectivity of the external auditor and on their remuneration both for statutory audit and non-audit work. It also discusses and agrees the nature, scope, planning and timing of the statutory audit with the external auditor.

The Committee is also responsible for monitoring the internal controls that are operated by management to ensure the integrity of the information reported to the shareholders. An internal audit function, which reports directly to the Chair of the Audit & Risk Committee, supports the Committee in this process. The Committee reviews the appropriateness of the annual internal audit programme for the Group and ensures that the internal audit function is adequately sponsored and resourced.

Additionally, the Committee receives reports on, and is responsible for, reviewing the Group's arrangements and processes which exist for employees and others to raise concerns over possible wrongdoing in financial reporting or other matters. This work includes reviewing the Group's systems for the prevention and detection of fraud and bribery and considering any matters arising under the General Data Protection Regulations or any whistleblowing matters which are reported. The Committee also receives reports on all litigation which the Group is engaged with either as plaintiff or defendant and recommends actions in respect of such to the Board.

The Group's ESG Working Group is chaired by one of the business unit managing directors and includes members from every business within Hargreaves. It reports quarterly to the Committee. The Committee is responsible for reviewing the Group's ESG report and recommending it to the Board.

Activities of the Committee

During the year, the Committee's principal activities comprised:

- Reviewing and approving the Internal Audit programme for the year and monitoring the progress and outcome of that, including reviewing reports from the Internal Auditor;
- Receiving quarterly reports from the Group's ESG Working Group, considering and recommending to the Board that group's proposals for actions, targets and metrics to be adopted to illustrate the Group's response to climate change in preparation for reporting in compliance with the requirements of the Task Force on Climate-related Financial Disclosures;

- Reviewing the Quarterly Risk Report and recommending appropriate actions and responses to the Board;
- Receiving quarterly reports on legal actions with which the Group is concerned;
- Receiving reports on any whistleblowing matters;
- Reviewing and approving changes in the Group's internal control policies and procedures;
- Reviewing the Group's procedures in respect of GDPR;
- Reviewing the draft interim financial statements;
- Reviewing and approving the audit plan proposed by the external auditor;
- Reviewing the draft report and accounts for the year ended 31 May 2022 and recommending their approval to the Board including:
 - Considering the accounting policies adopted for the preparation of the accounts;
 - Considering the key accounting estimates and judgements used in their preparation including but not restricted to contract revenue, contract provisions, impairment of assets and Goodwill, mining restoration costs and provisions and post retirement employee benefits;
 - Considering the assumptions used to support the adoption of the going concern basis of accounting;
 - Considering the Risk Management section of the annual report and in particular its completeness and relevance to the accounts;
 - Reviewing the ESG report included in the annual report.

External Auditor

The external auditor provides the Audit & Risk Committee with information about its internal procedures for maintaining independence and the rotation of personnel engaged on the audit, including the audit partner. After considering this information, the Committee is satisfied that the external auditor is independent.

All non-audit services to be provided by the external auditor which exceed £10,000 in cost must be approved by the Committee in advance. During the financial year, £16,000 of non-audit services were provided by PricewaterhouseCoopers LLP relating to miscellaneous tax and other assurance services. The Committee is satisfied that the provision of these services did not compromise the external auditor's independence.

After due and careful enquiry and after reviewing the external auditor's Report to the Audit Committee and discussing the findings with the auditor, the Committee is satisfied that the scope of the audit was appropriate and that all significant accounting judgements exercised by management had been suitably challenged and tested including, but not limited to, the

matters referred to in the long form Audit Report. The Committee recommended to the Board that in their opinion the audit had been carried out effectively and that the report of the external auditor be accepted.

The Committee has recommended to the Board that PricewaterhouseCoopers LLP be proposed for re-election as auditor at the forthcoming Annual General Meeting.

Internal Audit

Before the start of each financial year, the Committee agrees a programme of work for the internal audit function. The programme is designed to test the effectiveness of the internal control systems and seeks to recommend improvements to processes, covering key financial and other controls which the Committee recognises are important in ensuring the integrity of the Group's operations, as well as its financial reporting. The programme includes self-assessment questionnaires, detailed testing of processes and the review of appropriate documentation. The Committee receives each full internal audit report, including any comments by management and any recommendations for improvement made by the internal audit function. The use of computer aided audit techniques to monitor transactional data using the Group's existing management information systems also continue to be developed and monitored, improving the efficiency, scope and effectiveness of the Internal Audit function.

During the year, the Internal Auditor developed an Audit Universe which has been adopted as the governing document in setting the scope and frequency of internal audit work across the Group. Each audit area is cross-referenced to the related corporate risk to ensure an integrated and targeted approach to the annual internal audit programme.

The 2021/22 programme included reviews of compliance with the Approvals and Authorisations Mandate and compliance with a number of the Group's regulatory and legislative requirements. Business unit finance teams are required to complete a self-assessment questionnaire around their key financial controls before Internal Audit carries out targeted testing of particularly high-risk areas to ensure that the controls are operating as described. IT business system access controls and disaster recovery processes formed an important piece of the programme as did testing the procedures for management of the HS2 contract at Blackwell. Customer credit limit monitoring, compliance with the requirements of IR35 and the Construction Industry Scheme (CIS), the efficiency of insurance claim reporting and certain safety related procedures relating to the use of plant and heavy goods vehicles were also reviewed and tested. No material findings were raised across the audit programme.

The 2022/23 programme will again include cyclical reviews of compliance with the Approvals and Authorisations Mandate, key financial controls and various regulatory requirements. Assurance will also be provided around the tendering and contract management framework in the Services business. Contract management in Hargreaves Land and Groupwide business continuity planning form major parts of the programme. The Group's recruitment processes and its employee training procedures feature in the plan as the Board puts particular emphasis on the skills and quality of its workforce at a time of low unemployment.

Risk Management

The internal audit function reports quarterly to the Committee on the key risks identified by the Board as being so material that they need to be regularly monitored as to whether those risks have increased or decreased during the period and what remedial actions may need to be taken to counter them. Risk registers at a Business Unit level are reviewed on a quarterly basis, with any material changes being escalated to the Board.

The Risk Management report which follows this report sets out these risks and the steps the Group has taken to mitigate them. The impact of the Covid-19 pandemic on operations both in the UK and abroad remains a risk to the business, although the Group has moved quickly to mitigate the risk where possible in line with evolving government guidance.

Going Concern Basis of Accounting

The Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. The Group's cash flow model prepared as part of the annual budget and five-year plan process was subjected to a number of stress tests. These included measuring the impact of the deferral of certain specific anticipated revenues (for example in Hargreaves Land) alongside other more general sensitivity tests related to reductions in revenue. These assumptions and sensitivities were subjected to thorough analysis and review by the external auditor. The Committee questioned both management and the external auditor on the assumptions and testing they had applied and were satisfied to recommend to the Board that the going concern basis of accounting remains appropriate.

The Audit & Risk Committee Report was approved by the Board on 26 July 2022 and signed on its behalf by:

Nigel Halkes FCA
Chair of the Audit & Risk Committee
 26 July 2022

The Board retains overall responsibility for the identification, assessment and mitigation of risk throughout the Group.

The Group is exposed to a number of risks, which it must assess, manage and control in the ordinary course of business in the interest of all stakeholders to deliver shareholder value. It is accepted that some risks may never be entirely eliminated. However, the Board recognises that it is essential that management have robust risk management systems and practices in place to identify, assess and prioritise the mitigation of risks affecting the Group.

Safety, Health and the Environment

The Board has identified that the risk of a material incident in the areas of Safety, Health and the Environment (SHE) is a particularly significant area and, as such, the Board continues to receive a detailed monthly report from the Group Head of Health & Safety. The Group's approach to SHE is set out below.

The Board's vision is to maintain an environment where all its employees, contractors and third parties experience zero harm as a result of its activities. To achieve this, the Group takes a proactive approach and is committed to achieving the highest standards of safety and health management and the minimisation of any adverse environmental impacts.

The Board ensures that the Health and Safety of employees, customers and the public are at the forefront of all Group activities. The Group Chief Executive, supported by both internal and external competent and experienced advice, is charged with overall responsibility. All businesses have formulated and implemented SHE management arrangements consisting of competent staff along with policies, procedures and objectives to meet both legislative and best practice requirements. SHE performance and delivery is ingrained in the operational delivery and day-to-day activities and not seen as a bolt on to each business. Where appropriate the management procedures are externally certified to internationally recognised standards.

Alongside management systems and legal compliance, the Group recognises the benefits that effective leadership and the setting of clear expectations has upon workplace behaviour. Therefore, the Group has visible performance metrics, which are communicated at all levels throughout the organisation and are designed to enable the early identification of adverse trends and the development of suitable intervention and improvement measures. The Board usually carries out annual random site visits each year to see SHE processes at first hand and to emphasise to employees the importance the Board places on SHE activities. Due to the Covid-19 site arrangements with regard to visitors these visits have not been possible during the last two financial years but are planned to recommence shortly.

During the year, the Board has carried out a visit to Duisburg, Germany to meet with the management of its German Joint Venture and also to inspect its operational facilities. The visit included presentations by the HRMS management on its operating capabilities, financial performance, strategy and objectives.

The Board has been intensely focused on managing the ongoing risk to the business posed by the Covid-19 pandemic. A Covid-19 steering Group, chaired by the Chief Executive and reporting regularly to the Board, was in place to ensure a consistent approach was applied across the Group with regards to the application of best practice in keeping our work environments Covid-19 secure and to also ensure a fair and caring approach to employee management and support. As local and national controls changed then the Group reviewed on a regular basis the working practices required for both legal compliance and effective operational management. An ongoing audit and inspection process remains in place in all work locations to ensure controls relevant to the risk of infection are in place and adhered to at all times although the Board assesses the risk associated with Covid-19 to be considerably reduced in comparison to one year ago.

The year ended 31 May 2022 was a year with 6 lost time incidents reported, an increase from the prior year when the Group had zero such incidents. Clearly, this was disappointing however when looking at the long-term 5-year trend, this is a 50% improvement on the incident frequency rate from the years ended 31 May 2017 and 2018. The total number of all accidents recorded was 30, against a prior year of 35, a reduction of 14%. There were no significant environmental incidents reported in the year within the Group and there are no SHE incidents currently within the Group under investigation by enforcing bodies.

Insurance

Over the last two years, the Group has worked closely with its risk advisors, Marsh, to develop processes and reporting in respect of motor and liability claims. This has resulted in the Group having greater insight in respect of ongoing claims, historic claims and claims trends. Learnings and best practice taken from this has resulted in an improved understanding of risk in relation to the Group's operational activities and a reduction in incidents and associated claims.

Corporate Risks

The Board undertakes a full annual review of the Group's risk profile and strategic approach to risk in light of the ongoing substantial changes to the Group's operations. A condensed high-level Risk Register, which identifies key areas of corporate risk which the Board has determined are the most critical, has been reviewed and updated to reflect the Group's current risk profile. These areas of risk have been selected on the basis that a material adverse event in any one of them could potentially either:

- prevent the Group from achieving its financial or operational objectives or
- cause material loss or damage to the Group's assets or reputation.

The identified areas of risk are monitored, reviewed and investigated as necessary by the internal audit function. The Audit & Risk Committee receives a written report on these risks every quarter, including a commentary which notes any material changes which have been identified. This report assesses whether each area has increased or decreased in the level of risk and where necessary corrective actions are implemented.

The areas of critical corporate risk which have been identified are as follows:

- Contractual Risk
- Recruitment & Retention of Key Individuals
- Regulatory & Legislative Compliance
- Environmental
- Fraud
- IT Security
- Liquidity & Credit Risk
- Failure of a Material Business Unit
- Impact of Covid-19
- Inflation

Due to the current economic circumstances in the UK, inflation has been added as an additional key risk.

The Audit & Risk Committee has considered an assessment of the risks which the Group may face as a result of climate change but at this stage does not assess those risks as material. Each business unit within the Group has carried out a risk assessment process and identified and implemented mitigation procedures where appropriate.

A table describing these risks and the mitigations in place throughout the Group to protect against them is set out on pages 17 to 19.

Key risks

Mitigation

Contractual Risk

Multiple businesses of the Group enter into and manage diverse and complex contracts as part of their core operations. Bad planning, agreement to onerous terms, ineffective management and delivering services outside of the Group's core competencies could all erode the value of the contract and increase the risk exposure to the Group. Attached to the risk surrounding contracts are the potential financial and reputational impacts on the resolution of defective works and warranty claims following contract completion.

- Delegated Authority Mandates in place throughout the Group requiring appropriate levels of senior personnel to approve contracts.
- Requirement for legal review of all potential contracts which meet the agreed criteria, detailed within the Delegated Authority Mandates.
- Recruitment and employment of suitably qualified and competent personnel at all levels to undertake works to minimise risk relating to defective works and associated warranty claims.
- Targeting of contracts where scope of work fits core competency of available resources.
- Contracts have specific risk registers, which are prepared at tender stage and maintained throughout the progress of the contract. These registers highlight the potential risks inherent in a particular contract as well as the controls required to mitigate them. They form a critical part of the management of the contract and are updated regularly throughout.

Recruitment and Retention of Key Executives and Skilled Employees

Key executives, senior management and skilled employees possess the industry knowledge and experience without which our strategic objectives may not be achieved. 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.
- Identification of key strategic roles across the Group.
- Succession planning for these identified key strategic roles.

Regulatory and Legislative Compliance

Failure of the Group or a business within the Group to comply with its applicable regulatory and legislative obligations, resulting in financial, reputational, and potentially criminal implications for the Group or its responsible employees.

- Appropriate and specialist management systems are in place across the Group to ensure compliance with our obligations.
- Competent and appropriately skilled individuals hold key roles in assuring our compliance to our regulatory and legislative obligations.
- Memberships to various trade bodies to highlight any issues, allowing for early planning and appropriate representation.

Risk Management continued

Key risks

Mitigation

Environmental

There are inherent environmental risks within some of the Group's operations. If not properly managed, these risks could result in environmental contamination with disruption to business, financial costs and loss of reputation.

- Provision of clear guidance on the environmental standards which the Group's operations must adhere to.
- Compliance with laws, regulations and industry best practice is a priority across the business.
- Environmental management strategies are in place at all applicable sites and all mining ceased in July 2020.
- The Group is in the process of developing its procedures for compliance with the requirements of the Taskforce for Climate-Related Financial Disclosures which are set out in the ESG section of this report.

Fraud

In the course of its operations, the Group is exposed to fraud risks from a number of internal and external sources.

- Fraud risk management policy is in place across the Group.
- Fraud risk awareness training has been rolled out across the Group.
- Fraud risk is discussed regularly in the Audit & Risk Committee with both internal and external audit.
- The Group has many controls and procedures in place to limit the risk of fraud. These controls include, but are not limited to, detailed Authorisation and Approvals Mandates, system automated controls, segregation of duties on particular processes and periodic Internal Audit reviews.

IT Security

There is an increasing reliance on the stability and security of the IT network for delivering day-to-day operations, whilst the volume and types of data held within it increases. This reliance on IT increases the potential for sophisticated cyber-attacks to target the Group's computer systems, infrastructure, networks and personal devices with the intention of paralysing operations for an immeasurable amount of time, carrying material financial and reputational implications for the Group.

- The Group has a dedicated IT function, with a high degree of skill and experience in maintaining and monitoring the IT infrastructure.
- A risk-based IT strategy is in place focusing on four strategic initiatives: technology and innovation, compliance, culture and education and delivery.
- Third party hosting of core business applications with a full business continuity and disaster recovery infrastructure as well as regular tiered backup solutions.
- Mobile device management applied to all company devices to protect network and data via mobile platforms.
- Full Checkpoint security application in place to cover our end-points, VPN connectivity and access to cloud platforms.
- Global leading email security application presides over all email traffic, protecting against all targeted threats, phishing, malware and URL protection.
- Full user security awareness programme with regular training videos rolled out to all users across the Group.

Liquidity and Credit Risk

The failure of the Group to maintain access to liquidity could result in a material adverse financial impact for the Group.

The Group needs to ensure that sufficient liquid funds are available to meet its contractual demands and wider operational uncertainties, either through available cash reserves or external funding capacity. The Group has put in place a limited invoice discounting facility which provides working capital flexibility in addition to the Group's cash reserves. The Group is no longer dependent on bank borrowings.

The Group's trading relationships require contract and credit exposures to specific customers that are material to the results of the Group, sometimes over a long period. Credit risk arises from the possibility that customers may not be able to pay their debts.

- Whilst the Group is in a positive cash position, it maintains strong relationships with prospective lenders and seeks to put in place appropriate finance facilities aligned to both the short and medium-term requirements of the business with sufficient flexibility to manage liquidity fluctuations within reasonable parameters.
- Short and medium-term cash flow forecasting is in place across the Group, ranging from daily cash flow forecasting to five year planning together with the annual in-depth going concern review.
- The Group regularly 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.
- Authorisation of credit limits is restricted to a limited number of individuals, with the input of third-party credit scoring.
- A robust capital expenditure procedure is in place Group-wide to control investment in illiquid assets.

Key risks**Mitigation****Failure of a Material Business Unit**

The Board assesses that the failure of HRMS in particular would create a material risk to the Group. HRMS is a key supplier of specialist raw materials to major European customers in the steel, foundry, smelting, ferroalloy, sugar, limestone, insulation, refractory and ceramic industries. HRMS has invested in the construction of a carbon pulverisation plant and owns a material steel waste recycling business, however this has not yet achieved critical mass. The Group's share of HRMS profits represents a material contribution to the Group profit before tax. HRMS is independently funded from the Group, however HRMS owes the Group substantial monies in respect of undistributed profits and loans. Additionally, the Group has provided a €5m guarantee to HRMS' bankers.

HRMS is exposed to the movements in certain commodity prices which can be variable and which could cause material fluctuations in profits. The Group's share of HRMS' profits represents a material contribution to the Group profit before tax.

HRMS' subsidiary business, DK, recycles steel waste into pig iron and zinc. DK uses a small amount of gas in its production process. Additionally, DK's supply of waste for processing comes mainly from steel mills which are large consumers of gas. Were there to be a gas shortage in Germany as a result of the conflict in Ukraine, the DK business could suffer a material adverse impact.

- The Group's investment in HRMS is governed by a shareholders' agreement which provides a series of protective rights to the Group including controls over the approval of budgets, the granting of security and business activities.
- The agreement provides step in rights to the Group in the event of a material breach of the agreement.
- The Group Chief Executive is a member of the Board of HRMS which meets each month.
- Monthly financial information is submitted to the Group and subject to review by Group Finance.
- HRMS mitigates against its exposure to commodity prices by both hedging forward sales positions and ensuring that it does not enter into open trading positions so that purchases of commodities are back to back with secured sales.
- DK is considering the installation of a liquid gas tank to provide resilience in the event of a gas supply shortage.

Impact of Covid-19

The continued spread and associated effects of the Covid-19 coronavirus may have a significant impact on operations both in the UK and abroad, with key employees potentially requiring self-isolation, customers' business operations being curtailed, and travel and communications being disrupted.

- Pandemic policy has been issued to all staff.
- All working locations have been made as Covid-19 secure as possible to protect the safety of our employees and visitors.
- IT systems in place to enable key employees to work from home and robust controls implemented in both office and site working environments providing appropriate social distancing and hygiene measures.

Inflation

The cost of living in the UK has been rising since early 2021, with inflation now reaching its highest recorded level in decades. Not only does this affect the ability of customers to afford goods and services, but increased costs along the supply chain may lead to reduced margins. Additionally, increased overhead costs and pressures to increase wages and salaries could affect the profitability of the Group.

- Contracts have been renegotiated where necessary to include cost escalation clauses to limit the impact of inflation on fuel costs for example.
- Many contracts are based upon "cost plus" principles which mitigates the impact of cost increases.

Nigel Halkes FCA
Chair of the Audit & Risk Committee
 26 July 2022

ESG refers to the three central factors in measuring the sustainability and societal impact of a company or business.

Environmental

Monitors and reports how the Company controls its impact on the environment.

Social

Examines how the Company manages its relationship with employees, suppliers and communities.

Governance

Controls and monitors how the Company deals with its leadership, internal controls and shareholders.



Environmental

Hargreaves recognises the potential impact of its activities on the environment. The Group is committed to demonstrating its environmental performance in accordance with relevant legislation through robust measuring systems and appropriate goal setting, tracking and reporting on an ongoing basis. We have developed an ESG Working Group, chaired by a Business Unit Managing Director, which contains representatives from all Business Units. The ESG Working Group meets regularly to discuss risks and opportunities which climate change presents. Additionally, at each meeting, plant and transport activities, supply chains, social responsibility initiatives, and metrics and standards are analysed and reviewed to establish policies and minimum standards with a focus on embedding these within each of the businesses. This process is ongoing to ensure we remain vigilant and proactive to change.

Climate Change Assessment

Each business unit has carried out a risk assessment of the impact of climate change and embedded this into their risk register. No material impacts were identified. Climate change mitigation is reviewed by the ESG Working Group and changes and policies are implemented where necessary. This Group has representatives from all areas of the business to ensure collaborative action.

Waste Reduction & Mitigation

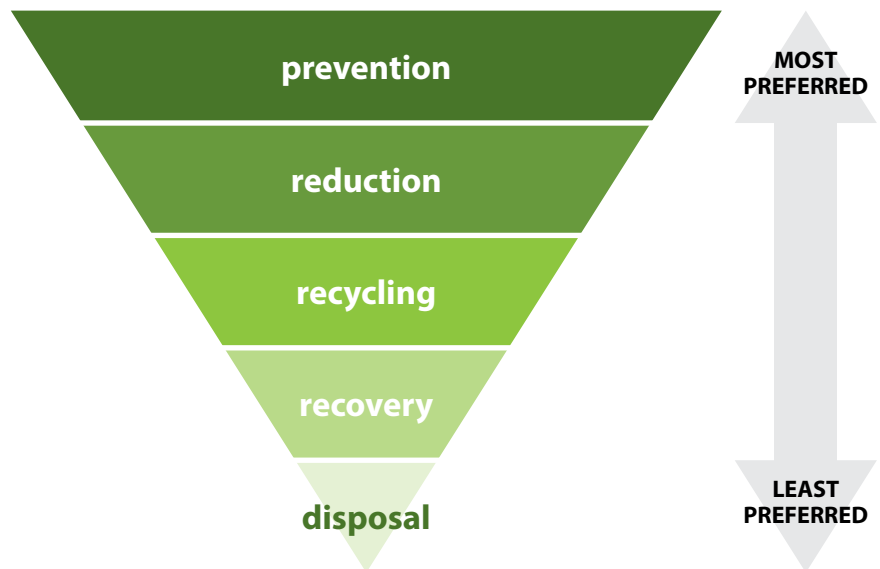


Staff are encouraged to reduce waste where possible. All office-based facilities recycle paper, card, plastic and aluminium. These are responsibly disposed

of through an external provider. In addition, refillable printer cartridges are also used, where possible, to reduce waste and the amount being disposed of in landfill. Where printing is necessary, all printers are set to automatically default to print double-sided to reduce the amount of paper used. Where possible, IT hardware such as laptops and mobile phones are reallocated when an individual starts/leaves the business. These items have an approximate lifespan of four years, at which point they are assessed and, if deemed necessary, disposed of via an appropriate certified external provider.

The Group embraces the five steps of the Waste Hierarchy which are followed to reduce waste and limit landfill. When the use of cleaning products and chemicals are required, they are carefully and responsibly disposed of, following good working practices and in accordance with COSHH Regulations 2002, environmental permits and discharge consents.

Waste Hierarchy



In the event that waste transportation is required, only hauliers with an appropriate and valid waste carrier licence are used. The disposal of both non-hazardous and hazardous substances is carried out in accordance with Environmental Agency guidelines to prevent discharges into water systems and prevent pollution.

Recycling/Waste Recovery Activities

Hargreaves is actively involved in projects to re-use waste streams from established steel plants. These projects focus on the removal of chemicals to ensure the waste is benign leaving re-usable products such as zinc, carbon and iron which would have ordinarily gone to landfill. Hargreaves has recently appointed a Waste Brokerage Manager to identify improved ways of recycling and disposing of all forms of waste in a more sustainable and environmentally conscious manner. Working with several selected partners, the Waste Brokerage business has, during this financial year, recycled 600 tonnes of large mixed earthmover tyres (approximately 500 tyres) which would have previously gone to landfill. The tyres have been recycled/recovered through a shredding and granulation process before being converted into recycled rubber products or a fuel source. In addition, in the region of £50,000 has been saved on the disposal and transportation of this type of waste.

In Hargreaves Land, our major joint-venture regeneration scheme known as Unity, in Doncaster, which is being developed around the site of the former Hatfield Colliery, is recycling historic colliery spoil waste to create valid fill material for use in land-raising across the Unity site.

Reduce Carbon Footprint



We actively seek to reduce our energy usage. Offices and units have LED lights fitted, low energy heating and efficient air-con units. Many office lights are movement sensitive, however, signs are in place to remind staff to switch off to reinforce the need for energy efficiency. The need for efficiency has also been highlighted in employee toolbox talks. We endeavour to reduce our paper usage and, as a result, stationery deliveries have been significantly reduced, as well as office waste collections. The Group is attempting to reduce Greenhouse Gas ("GHG") emissions by ensuring buildings are suitably insulated, installation of more efficient boilers, and turning down thermostats in offices. Hargreaves Land endeavours to embed sustainability principles in all its new developments, wherever practicable, and subject to individual occupiers' requirements, in particular incorporating renewable technologies and constructing unit specifications in accordance with BREEAM Sustainability Principles, where appropriate.

Environmental continued

At our major joint venture regeneration scheme, known as Unity in Doncaster, two units will shortly be delivered on Unity 'Connect' which will target a BREEAM 'Very Good' rating as part of their construction specifications.

On sites of existing buildings, renewable energy and green technology have been utilised wherever possible and incorporated into business practices and functions. In other areas of the business, land has been remediated and restored to green spaces, in addition to the creation of renewable energy sources. We are working towards carbon sequestration through a programme of tree planting on three remediated former opencast coal mining sites. Via the Scottish Conservatory, we are in the final application stage for proposed new woodland to plant a potential 1.6m trees, covering approximately 700 hectares. Once complete, there is the potential for 195kt of CO₂ to be sequestered.

From November 2021, we have monitored and recorded the reduction in CO₂ emissions due to the use of digital platforms, such as Teams and Zoom. We estimate, using Government statistics, that the tonnes of CO₂ equivalent emission reduction from November 2021 to the end of May 2022 was 596 tonnes.

Alternative methods of working are encouraged to reduce the need for unnecessary travel. To complement these working arrangements, employees take part in car sharing schemes and commuter clubs. We have also made electric and hybrid vehicles available to company car users, including a planned salary sacrifice scheme for these vehicles, and are also increasing the number of charging points at our sites, where practicable.

We strive to reduce product miles by using local suppliers. We work collaboratively with suppliers and request them to complete an annual sustainability questionnaire which, amongst other things, questions their ESG credentials and attempts to ensure they streamline their activities. We have carried out training through the Supply Chain Sustainability School to help adopt and develop good working practices. Where possible, we also purchase sustainably sourced personal protective equipment.

Within our fleet of HGVs, we have trialled the use of hydrogenated vegetable oil, with a view to sourcing it as an alternative to diesel, however, there are practical difficulties for longer journeys through the lack of ability to refuel. Additionally, alternative fuels are being sought for equipment such as heavy plant that is currently diesel powered.

Hargreaves has committed to installing telemetry into its entire vehicle fleet by 31 December 2022. This initiative is aimed at improving driving skills and efficiency leading to reductions in fuel consumption. It should also lead to safety improvement.

To further support Hargreaves' drive for fuel efficiency and carbon reduction, it has employed two in-house driver trainers to deliver its own training requirements and to ensure the training offered is specific to the tasks encountered on a day-to-day basis. The driver trainers are also used to roll out sub-contractor inductions. Offering JAAPT approved training courses, including induction, means Hargreaves can deliver driver CPC training.

All drivers receive competency-based assessments and mentor training during their initial commencement period. During employment, they will also receive a further two days minimum training per annum including Safe And Fuel-Efficient Driving training and manufacture specific training for each vehicle type, to again ensure efficient operating.

In another area of the business, Hargreaves was appointed by EKFB, the principal contractor for the central section of HS2, to design, construct, commission, operate and maintain a 750m conveyor system to move excavated material to a holding area for use on a project at a later date. The use of the conveyor reduces the amount of road haulage which would otherwise have been required and saves on emissions by eliminating over 78,000 lorry movements amounting to over 700,000 miles.

Employees are informed how they may assist the Company to aid the reduction in energy consumption and reduce the waste we produce. Relevant items and news stories are included in the Group's bi-annual e-newsletter, and online training is also being produced to

ensure individuals have an awareness of ESG and what the business carries out and legislation it adheres to, as well as how they can help, both at work and at home.

Metrics and Targets



The Group currently measures and reports on the Energy Savings Opportunity Scheme (ESOS), Scottish Pollutant Release Inventory (SPRI) and Streamlined Energy and Carbon Reporting (SECR). The reporting period for Greenhouse Gas (GHG) emissions is 1 June 2021 to 31 May 2022. The table below highlights the reduction in GHG emissions for this reporting period compared to the previous year.

Reductions have been achieved in Scope 1 and 2 emissions, primarily as a result of the cessation of mining activities notwithstanding the substantial increase in activity in Specialist Earthworks. Scope 3 emissions have increased although it should be noted that the 2021 emissions were lower than might have been expected as travel was restricted due to Covid-19.

Hargreaves has established metrics and targets which have been approved by the Audit & Risk Committee in the following areas:

Electricity and Gas Consumption

A target to reduce the MWh consumed per office based employee by 2% per annum.

Fuel Consumption

- A target to improve the kilometres per litre attained by the haulage fleet by 3% per annum.
- A target to reduce idling time in yellow plant from 34% to 32%, which would equate to a 6% reduction.

| Scope 1 and 2 Global GHG emissions: | Tonnes of CO ₂ e 2022 | Tonnes of CO ₂ e 2021 | Reduction/ (increase) | kWh 2022 | kWh 2021 |
|---|----------------------------------|----------------------------------|-----------------------|--------------|--------------|
| Combustion of fuels in operations and services provided | 24,703 | 28,200 | 12.4% | 962 | 1,090 |
| Electricity, steam, heat and cooling for own use | 453 | 546 | 17.0% | 2,140 | 2,575 |
| Total footprint | 25,156 | 28,746 | 12.5% | 3,102 | 3,665 |
| Emissions reported above per employee | 20.5 | 22.7 | 9.7% | 2.5% | 2.9% |
| Scope 3 | | | | | |
| Business travel (air, rail and vehicles) | 4,479 | 4,237 | (5.7)% | 172 | 170 |

Social

Employee Wellbeing



People are our most important asset, and we are committed to supporting our employees to enjoy a satisfactory work-life balance. To facilitate this, we provide flexible

working opportunities, childcare subsidies, maternity and paternity leave. At point of recruitment, and whilst in employment, all employees are subject to our Recruitment and Selection Policy, Equal Opportunities Policy, Positive Work Environment Policy, Grievance Procedure Policy and Further Education Policy. These policies are strictly adhered to in addition to occupational health screening when appropriate to the role in question. We nurture promotional opportunities by offering development training which fosters staff loyalty, bolsters morale and encourages the retention of employees. Employees benefit from the Hargreaves Rewards platform which offers discounts at numerous high street and online retailers. In recent months, following a staff survey, a Breakout Room has been created to give employees a relaxed space away from their desks to take time out and for lunch breaks. The room provides refreshment facilities and is also stocked regularly with free fresh fruit.

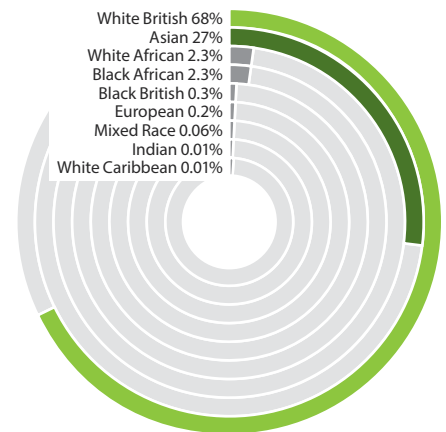
In addition, an Employee Assistance Programme can be accessed free of charge for confidential mental health and physical support, as well as legal advice. To help support employees, we have a number of qualified Mental Health First Aiders who are the first point of contact around the Group. As illustrated by the certificate to the right, one of our Hong Kong businesses has been commended as a Mental Health Friendly Organisation. This is in recognition of the training delivered to their employees and for raising awareness of mental health issues in the workplace. The certification is recognised as a positive step forward by the Construction Industry Council, Health Department, and Labour Department in Hong Kong. Additionally, employees have access to a confidential whistleblowing helpline, managed by an independent external provider. Hargreaves is associated with the Government Apprenticeship Scheme and associated Levy which helps encourage and support young people in the world of work, as well as welcoming pupils and students for work experience.

Hargreaves believes in a fairer future for all. We believe everyone has the right to live without fear or prejudice regardless of race, age, gender, disability, sexual orientation, social class, religion, and belief. To help us achieve this we have a Recruitment and Selection Policy and an Equal Opportunities Policy. We also abide by the values of our "4 Rs" in our everyday work. These are: Responsible – sharing ownership and accountability for project outcomes at strategic, corporate and individual levels by engendering a collaborative, honest and transparent approach; Respectful – emphasising the wellbeing of those whom we encounter by understanding and recognising the sensitivities and values of other project parties, stakeholders, as well as our people; Relentless – adopting a high energy delivery-focused approach throughout the lifecycle of a project without falter; and Resilient – ensuring that we persevere when challenges and obstacles arise.

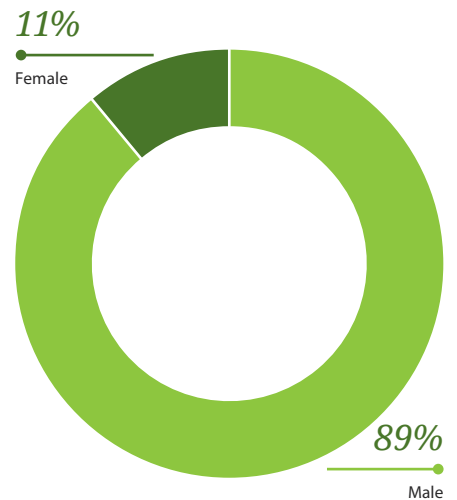
We have an emphasis on local employment initiatives. Our commitment, when mobilising a site within the community, is to recruit locally whenever possible by working with local councils and DWP initiative programmes. We work with clients to help achieve their Skills, Employment and Education Strategy by recruiting locally and upskilling and training to help the next generation develop technical skills for future infrastructure projects for the country, in conjunction with local training academies, where appropriate. We adapt to the ever-changing employment market and skills shortages, which helps to ensure a pipeline of skilled employees needed to deliver our business. We also engage with schools, universities and apprenticeship programmes as part of staff development. In addition, we partner with local training academies to train and develop heavy plant operators and HGV drivers to help overcome the national skills shortages in the relevant business areas.

The graphical information to the right illustrates the diverse nature of the Group, identifying the ethnicity and gender split of our workforce. The number of individuals who have identified themselves as disabled is 3.

Group Ethnicity Split



Group Gender Split



Mental Health Workplace Charter



Social continued

Gender Pay Gap Report

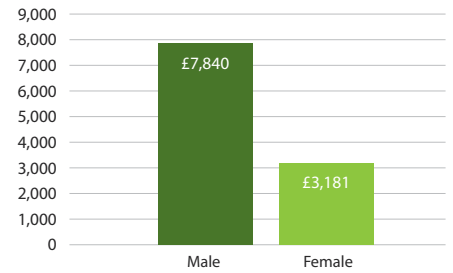
The charts to the right show the difference in mean (average) hourly rate between men and women employed in the UK Group. Within that Group, the main areas of work are logistics, production and industrial services, including materials handling and maintenance. The majority of roles within these sectors are direct workers i.e. labourers, drivers, machine operators, shift workers with irregular working patterns. The median gender pay gap was 29.15%.

Whilst the hourly rates are higher for males, the median bonus average is higher for females. The percentage of females receiving a bonus (43%) is also greater than the percentage of males receiving a bonus (25%).

Difference in Mean Hourly Rate (£)



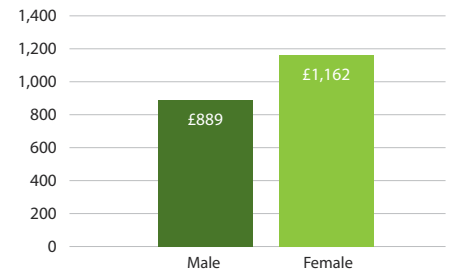
Bonus Pay – Mean Average (£)



Difference in Median Hourly Rate (£)



Bonus Pay – Median Average (£)



Social Engagement

Hargreaves believes in teamwork and through our global Corporate Social Responsibility Fund (“CSR Fund”), the Group donates £50,000 per annum and employee time towards a number of charities. These are provided through a combination of employee sponsorships, charities and clubs directly linked with employees, and office-based charity events, in addition to a number of employees giving their time to distribute food in their local communities. The Group supports a local charity that offers opportunities, facilities and support to those in various stages of recovery, counselling and rehabilitation, including a community allotment. For a number of years, many employees have given their time, and use of their vehicles, to deliver Christmas hampers, donated by local schools, to various nominated charities, including Age Concern. We also support the national annual campaigns for Wear It Pink Day and Jeans for Genes Day. In both cases, Hargreaves matches the donations of employees. We have also supported various charities through employee events, from donating in aid of Huntingdon’s Disease and

The Alzheimer’s Society, to Macmillan and a local cancer trust. In addition to the monies allocated through the CSR Fund, we recently donated £25,000 to a Ukrainian charity.

Our involvement is publicised internally via Hargreaves’ employee bi-annual newsletter and externally via the Group’s social media platforms of LinkedIn and Twitter.

The Group maintains its important link with Durham Cathedral, as one of their Gold Corporate Partners, which contributes to their work in supporting the local communities of the World Heritage site.



Grassroots Football

Hargreaves sponsors many local children and young adult teams. We sponsor the home and training team kits of Georgina, the daughter of Group Legal Counsel, David Hankin, who plays for her local under-8 girls team.



Governance

Hargreaves is committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("QCA Code"). The Company complies with each of the ten principles of the QCA Code.

Around the Group, businesses hold various accreditations including ISO45001, 9001 and 14001. These highlight the high standards we continue to achieve. In addition, our Logistics business holds FORS accreditation. This is a voluntary accreditation scheme for fleet operators which aims to raise the level of quality within a fleet operation and demonstrates which operators are achieving exemplary levels of best practice, efficiency and environmental protection.

Hargreaves' ESG Working Group reviews the Group's strategy on environmental and social matters. The ESG Working Group aims to ensure that we have a consistent Group-wide approach to assessing environmental and social issues, including climate related risks and mitigation. Furthermore, the ESG Working Group considers future strategy on managing climate related risks and disclosures in light of the forthcoming implementation of the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD"). The ESG Working Group reports to the Audit & Risk Committee and, through that, the Group's ESG activities have Board level engagement. The Board is acutely aware of the Group's ESG responsibilities and will continue to develop its governance arrangements in respect of environmental and social matters in the forthcoming year, including any changes required as a result of the requirements of TCFD.

Christmas Spirit

Prior to Christmas 2021, we repaired Santa's sleigh to enable his annual visit to the local children of Cumnock, gainfully assisted by Hargreaves' employee, Andy Caldwell.



Barnsley Hospice Golf Day

Hargreaves recently sponsored two holes at a golf day in aid of Barnsley Hospice. The day raised over £7,000 in total and Team Hargreaves, Richard Gill, Anthony Kelley, Dean Jones, Neil Atkinson, finished in second place.



Ukrainian Donation

Professor Makarov, head of military surgeons in Kharkiv, showing one of the Medtronic devices purchased as a result of the Group's £25,000 donation. The devices allow them to continue essential thoracic trauma surgery.



CSR Accreditation

In May 2022, Hargreaves was awarded Gold CSR Accreditation, of which we are very proud. The accreditation is an effective way to benchmark what the Group does with regard to social responsibility. The process involves collation, measurement and reporting on the full range of socially responsible activities. Accreditation also provides a roadmap for planning future activity. The application process records activity against the four pillars of Social Responsibility – environment, workplace, community and philanthropy. Each pillar of Social Responsibility is designed for a company to report their impact on areas such as energy performance, recycling, staff engagement, health and well being, community engagement and supporting local and national charities.

The accreditation is for three years and a tree is planted, in our name, as part of the Green Earth Appeal.



Board of Directors



Roger McDowell (aged 67)
Non-Executive Chairman

Roger was appointed Chairman of the Company and the Nominations Committee on 1 August 2018 after joining the Board in May 2018. He is also a member of the Remuneration and Audit & Risk Committees. Roger spent his executive career working in his family's business, pipeline products distributor Oliver Ashworth. He was Managing Director for eighteen years, leading the business through dramatic growth (from £1m to £100m turnover), main market listing and ultimate sale to St Gobain. Thereafter he has taken on Chairman or non-executive roles in private equity backed and listed businesses in a variety of sectors including; engineering, manufacturing, waste management, renewable energy, financial services, IT, and telecoms. Roger currently serves as Chairman of Avingtrans plc and Flowtech Fluidpower plc. He is also a Non-Executive Director of Tribal Group plc, Proteome Sciences plc, British Smaller Companies VCT2 PLC, Brand Architekts Group plc and Koheilan Ltd. As can be seen from the above, Roger has extensive business management experience in both executive and non-executive roles which provides the Board with relevant commercial and governance experience. He also has strong relationships with many of the Company's major shareholders, built up over several years with a number of companies.



Gordon Banham (aged 58)
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 of the Company in 2004 and its subsequent flotation on the London Stock Exchange the following year. Gordon's knowledge of the Group and its various business interests is unrivalled, and he continues to have a detailed involvement in all material matters with which the Group is engaged. Gordon is a Director of Robertson Homes (East Anglia) Limited.



John Samuel (aged 65)
Group Finance Director

John is a Chartered Accountant and qualified with Deloitte & Co in 1981. He became a partner with Baker Tilly in 1986, leaving that firm to join Filtronic plc in 1991, leading its flotation in 1994 and serving as finance director until 2004. He then served as Chief Financial Officer of Zetex plc for two years, before serving as Group Finance Director of Renew Holdings plc for twelve years from 2006, prior to joining the Company in January 2018. John is a Director of Ilkley Toy Museum Limited. John's experience as the senior financial officer in a number of public companies, including those which have experienced substantial growth through business change, is particularly relevant to the Group.



David Anderson (aged 55)
Group Property Director

David joined the Board as Group Property Director in November 2018. David joined from Henry Boot Developments Limited, the principal property development subsidiary of Henry Boot PLC, where he had served as a Director since 1996 and as Managing Director since 2005. He led the growth in revenue of that business from less than £10m in 2005 to over £220m in 2017. David's 25 years of experience and success in the field of property development brings the appropriate knowledge and understanding of that market necessary to assist the Group's growth in that business area.



Nigel Halkes (aged 66)
Non-Executive Director

Nigel was appointed to the Board in August 2015 and serves as Chairman of the Audit & Risk Committee. He is also a member of the Remuneration Committee. He is a Chartered Accountant and 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, key relationships, and business development. 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 a Non-Executive Director of Tribal Group plc and is a Trustee of Polka Children's Theatre and the Hugo Halkes Foundation. Nigel's extensive professional experience brings rigour and insight to the Board particularly with regard to financial accounting and risk management.



Chris Jones (aged 56)
Non-Executive Director

Chris joined the Board in April 2020 and serves as Chairman of the Remuneration Committee. He is also a member of the Audit & Risk Committee. He is a property consultant and chartered surveyor with over 30 years' direct experience working with a broad range of organisations within the UK investment and development sectors of the commercial property market. As a founding partner of his investment practice – Christopher Dee, based in Manchester, he has provided advice to a range of private and institutional clients on all aspects of commercial property investment, development, and funding work. Chris retains a role within Christopher Dee LLP to manage a UK wide unit linked property investment fund, where he reports directly to their board on all strategic matters. Chris is a Director of The Creative Property Group Ltd and Doon Villa Holdings Ltd.



Nicholas Mills (aged 31)
Non-Executive Director

Nick joined the Board in 2020 as Non-Executive Director. He serves on both the Audit & Risk and Remuneration Committees. He has been employed by Harwood Capital LLP since 2019 after spending 5 years at Gabelli Asset Management in New York. He acted primarily as a Research Analyst covering the multi-industrial space and also gained experience in Merger Arbitrage strategies and marketing Closed End Funds. He has a Bachelor of Science degree from Boston College's Carroll School of Management. Nick is a Director of Harwood Capital Management Limited, Harwood Capital Management (Gibraltar) Limited, Growth Financial Services Limited, 62 Pont Street (Freehold) Ltd, Circassia Group Plc, North Atlantic Investment Services Limited and Northbridge Industrial Services plc.

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2022.

Principal Activities

The principal activities of the Group during the year were the provision of haulage services, waste transportation, processing of minerals, mechanical and electrical engineering and materials handling, dealing in plant and machinery, the development and sale of land, civil engineering, and specialist earthworks.

Results and Proposed Dividend

The profit for the year from continuing operations was £34,828,000 (2021: profit after tax of £16,406,000). Following the payment of an interim dividend of 2.8p per share on 6 April 2022, the Directors recommend a final dividend for the year ended 31 May 2022 of 5.6p per share.

The Directors also propose to declare an additional dividend of 12.0p per ordinary share in respect of dividends to be paid to the Company by Hargreaves Services Europe Limited, which owns HRMS.

It is proposed that the final dividend and additional dividend will be paid on 31 October 2022 to shareholders on the register on 23 September 2022. The shares will be ex-dividend on 22 September 2022. The proposed dividends have not been provided for in these financial statements as they were not declared and approved before the year end.

Outlook

The current trading and outlook for the Group is disclosed within the Chairman's Statement in the Strategic Report above.

Financial Instruments

The financial risks faced by the Group and its policy in respect of these risks are set out in Note 30 of the accounts.

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.

Directors

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

Roger McDowell
Nigel Halkes
Gordon Banham
John Samuel
David Anderson
Christopher Jones
Nicholas Mills

The names and biographical details of the Directors at the date of this Directors' Report are given in the Board of Directors section of this Annual Report.

All Directors are required to retire by rotation every three years, in line with the Articles of Association. An 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 95.

The Company provides 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 in the Remuneration Report.

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

| | Class of share | Interest at end of year | Interest at beginning of year |
|--|----------------|-------------------------|-------------------------------|
| Gordon Banham (held by GB Holdings (2021) Limited) | Ordinary | 2,646,825 | 2,646,825 |
| Gordon Banham | Ordinary | 29,704 | – |
| Roger McDowell | Ordinary | 442,557 | 350,000 |
| Nigel Halkes | Ordinary | 5,000 | 5,000 |
| Christopher Jones | Ordinary | 79,369 | 62,910 |
| Nicholas Mills* | Ordinary | – | – |
| John Samuel | Ordinary | 28,000 | 28,000 |
| David Anderson | Ordinary | 58,100 | 32,775 |

* Nicholas Mills is an employee of Harwood Capital LLP, which owns 9,200,000 ordinary shares of the Company, being 28.28% of the issued share capital.

Directors' Report continued

Details of Directors' emoluments are set out in the Remuneration Report. All the Directors benefited from qualifying third-party indemnity provisions in place during the year and at the date of this Directors' Report.

Except as listed below, 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. None of the awards listed below may be exercised prior to 3 August 2024.

Grant of Options

| Director | Exercise price per share | Date of share award | Number of shares awarded |
|----------------|-----------------------------|---------------------|--------------------------|
| Gordon Banham | 10 pence per ordinary share | 2 August 2021 | 41,611 |
| John Samuel | 10 pence per ordinary share | 2 August 2021 | 41,611 |
| David Anderson | 10 pence per ordinary share | 2 August 2021 | 22,292 |

The above options were granted under the Hargreaves Services plc Executive Share Option Scheme 2020.

Exercise of Options

| Director | Exercise price per share | Date of exercise | Number of shares exercised |
|----------------|-----------------------------|------------------|----------------------------|
| Roger McDowell | 10 pence per ordinary share | 4 April 2022 | 112,557 |
| Gordon Banham | 10 pence per ordinary share | 4 April 2022 | 29,704 |
| David Anderson | 10 pence per ordinary share | 4 April 2022 | 25,325 |

The above options were granted under the Hargreaves Services plc 2019 Share Option Scheme.

Retirement of Directors

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

Disclosable Interests

As at 22 July 2022, the Company had been notified 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 |
|-----------------------------|---------------------------|---------------------------|
| Harwood Capital LLP | 9,200,000 | 28.28% |
| Canaccord Genuity Group Inc | 3,929,921 | 12.08% |
| GB Holdings (2021) Limited | 2,646,825 | 8.14% |
| Downing LLP | 1,925,951 | 5.92% |

The above disclosures are in accordance with the last TR1 notification to the Company by shareholders.

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. Regular meetings are held between the Chief Executive and senior managers who cascade relevant information through their reporting systems. The Group intranet also provides regular information to employees to inform them of developments within the Group. An employee e-newsletter is issued on a six-monthly basis to inform individuals in relation to various topics around the Group including employee benefits and human-interest stories.

Directors' Section 172(1) Statement

The Board acknowledges its responsibility under section 172(1) of the Companies Act 2006 and sets out below the key processes and consideration that demonstrate how the Directors promote the success of the Group.

The below statement sets out the requirements of the Act, section 172(1), and notes how the Directors discharge their duties.

As noted in the Corporate Governance Report on pages 31 to 34, the Group is headed by an experienced and effective Board, which controls and leads the Group. 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. Each decision that is made by the Directors is supported by papers which analyse the possible outcomes so that an appropriate decision can be made based upon the likely impact on the performance and position of the Group. This enables a decision to be made which best promotes the success of the Group and considers the impact on the wider stakeholder group. Factors below are all considered during the decision-making process.

Likely consequences of any decisions in the long term

As part of the Board's decision-making process, they are given access to management papers which set out the potential outcome of decisions. The papers evaluate both the financial impact against forecast, as well as non-financial factors and how the decision fits with the strategy of the Group. Through a well-designed system of internal reporting and control the Board has devolved certain levels of autonomy to management to run and develop the business of the Group.

The Group has an annual budget and five-year plan which is reviewed regularly to benchmark performance and achievements against its long-term strategy. Each year, the Board holds a session with each of the business unit Managing Directors and other senior management to review and reconsider the strategy of each business unit. This includes consideration of market conditions and opportunities, investment requirements and capital allocation, the overhead cost base and margins. The Board then considers the outlook for the entire Group and the opportunities to create, deliver and realise value for shareholders. The Board's strategy is focused on delivering reliable and growing profits in its Services business, strengthening the pipeline of development projects in Hargreaves Land and supporting the growth of value in its German Joint Venture.

During the year, the Board recognised that some temporary surplus cash was available due to delays in investment in plant caused by global supply chain issues. Whilst the impact of those delays was managed through short term rental arrangements, the Board recognised that it could provide assistance to its German Joint Venture, HRMS, to take advantage of market opportunities by lending the surplus cash to HRMS on a temporary basis. The Board authorised the provision of these funds through a number of short-term loans. This meant that the Group's surplus cash was being efficiently deployed in a low-risk manner and also provided HRMS with the ability to increase its trading capacity.

Interests of the Group's employees

The Directors actively consider the interest of employees in all major decisions. The Board encourages feedback from employees to improve the culture and working environment of the Group. The Group Chief Executive holds regular meetings with senior managers both to keep them informed of Board decisions and shareholder feedback but also to gather views and input from the business units. The senior managers then cascade that information down through the businesses through their reporting channels. Additionally, the Group's intranet carries a range of statements and information updates which employees can access.

As part of the Group's response to Covid-19, senior management, including the CEO, business unit managing directors and HR representatives, met regularly to consider and implement actions to safeguard our employees. Government advice has been monitored, followed and any necessary steps implemented both in the office and site environments to minimise the risk to employees. These steps include the provision of appropriate personal protective equipment, hand sanitisers and signage and precautions to maintain social distancing. Working from home has been facilitated in accordance with government guidance where employees have been able to carry out their duties from home.

The Group also operates various LTIP schemes for the Directors and other senior employees based on performance criteria. The Board believes this encourages employee engagement in promoting the success of the Group and in aligning the financial interests of the Executive Directors and other senior employees with those of the shareholders.

The need to foster the Group's business relationships with suppliers, customers and others

The Directors have identified the stakeholders of the Group and review regularly to ensure adequate communication and engagement is ongoing with each stakeholder group. The Board recognises that the Group's customers, suppliers and employees are crucial to its success. The Group has established long-term relationships with key customers and suppliers and the Board encourages feedback from them to improve decision making. For key customers and suppliers, appropriate due diligence is undertaken around their working practices and ethics as well as their financial stability and viability.

One of our strategic priorities is our commitment to the highest practicable standards of health and safety, which has enabled us to secure and maintain valuable contracts, as detailed in "Impact of the Group's operations on the community and environment" below.

Impact of the Group's operations on the community and environment

The Group takes its responsibility within the community and wider environment seriously. There are specific information channels in respect of health & safety matters. 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 (as further detailed in the Environmental, Social and Governance report at pages 20 to 25 and "Principle 8: Promote a corporate culture that is based on ethical values and behaviours" of the Corporate Governance Report). The Group publishes its annual global emissions in compliance with the streamlined energy and carbon reporting ("SECR") regulations detailed in "Carbon emissions" below. This demonstrates the Group's reducing carbon footprint following the cessation of coal mining operations.

The desirability of the Group maintaining a reputation for high standards of business conduct

The Group is committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code"). The Group's approach in relation to complying with each of the ten principles of the QCA Code is set out in the Corporate Governance Report on pages 31 to 34.

To strengthen further Group compliance with corporate governance, the Board undertakes a self-assessment annual performance review. The assessment provides an effective platform for reviewing performance and, over time, a greater focus has developed on particular recommendations, which has prompted fruitful discussions among the Board and influenced its operation. The 2022 review has been carried out with the Board focusing on those areas where one or more of the Directors had indicated a concern. In particular, the Board considered that Board diversity and ESG are areas for focus in the future.

Directors' Report continued

The Group has a strong ethical culture based upon its Code of Ethics which can be found on the Group's website. The Group's reputation is built on its values as a Group, the values of its employees, and the collective commitment to acting at all times with integrity. Part of the work of the Audit & Risk Committee involves reviewing the Group Whistleblowing Policy by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties. Where there is a need to seek advice on particular issues, the Board will liaise with its lawyers and nominated advisors to ensure the consideration of business conduct, and its reputation is maintained.

The need to act fairly between members of the Group

An important role of the Board is to represent and promote the interests of the Group's shareholders as well as being accountable to them for the performance and activities of the Group. The Board engages with its shareholders 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 has also introduced the use of online real time webcasting of its results presentations which enables all interested parties, including private shareholders, to access information and to ask questions of Executive Directors. 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 and Financial PR Advisors following investor road shows after half-year and year-end results. The Board incorporates this feedback into its decision-making processes. All Directors attended the Annual General Meeting in 2021 and engaged in discussion with the shareholders present. The Group provides contact details on the investor relations page of its website and in the notice to the 2022 Annual General Meeting which investors can use to contact the Group, giving equal access to all investors and potential investors.

Carbon Emissions

Information on carbon emissions in accordance with the SECR regulations is set out in the ESG report on pages 20 to 25.

Methodology

The Group follows ISO14064:1 standard for its reporting and takes the operational control approach to reporting. The conversion of units of fuel used into tonnes of CO₂e has been done utilising the UK Government Conversion Factors 2022.

Scope 1 emissions have been calculated by taking the total number of litres of fuel used in operations during the reporting period and converting them to tonnes of CO₂e using the appropriate conversion factor.

Scope 2 emissions have been calculated by taking the total kWh of electricity and gas used at the Groups premises during the reporting period and converting them to tonnes of CO₂e using the appropriate conversion factor.

Scope 3 emissions have been calculated by taking the total litres of fuel purchased for business travel as well as an estimate of emissions for business flights.

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 27 October 2021. The Directors will seek authority to make market purchases of up to fifteen per cent of the Company's own shares at the 2022 Annual General Meeting (full details are available in the 2022 Notice of Annual General Meeting).

Approval to Issue Shares

The Directors will seek authority to allot up to a maximum aggregate nominal amount of £1,084,255 at the 2022 Annual General Meeting (full details are available in the 2022 Notice of Annual General Meeting).

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 PricewaterhouseCoopers LLP as auditor. Resolutions concerning their continued appointment and to authorise the Audit & Risk Committee of the Board of Directors to agree their remuneration will be put to the forthcoming Annual General Meeting of the Company (full details are available in the 2022 Notice of Annual General Meeting).

By order of the Board

John Samuel
Company Secretary
26 July 2022

Corporate Governance

The Company is committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code"). The Company's approach in relation to complying with each of the ten principles of the QCA Code is set out below.

Deliver Growth

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

The Board has established a strategy and business model which seek to promote long-term value for shareholders. This is set out in the Strategic Report section of this Annual Report. The Board's strategy is focused on delivering reliable and growing profits in its Services business, strengthening the pipeline of development projects in Hargreaves Land and supporting the growth of value in its German Joint Venture. The risks to the Group posed by this transition have been evaluated by the Board and continue to be on a regular basis. These risks and the Board's views on the mitigations which balance them are set out in the Risk Management section of this report.

Principle 2: Seek to understand and meet shareholder needs and expectations

An important role of the Board is to represent and promote the interests of the Company's 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 aims to do this 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 has also introduced the use of online real time webcasting of its results presentations which enables all interested parties, including private shareholders, to access information and to ask questions of Executive Directors. The Board is updated on the latest shareholder information by the receipt of shareholder register movements, analyst reports and feedback from the Company's brokers and Financial PR Advisors 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. The Company provides contact details on the investor relations page of its website which investors can use to contact the Company.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board recognises that the Group's customers, suppliers and employees are crucial to its success. The Group has established long-term relationships with key customers and suppliers and the Board encourages feedback from employees to improve the culture and working environment of the Group. The Group Chief Executive holds regular meetings with senior managers both to keep them informed of Board decisions and shareholder feedback but also to gather views and input from the business units. The senior managers then cascade that information down through the businesses through their reporting channels. Additionally, the Group's intranet carries a range of statements and information updates which employees can access. There are specific information channels in respect of health & safety matters. 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 (as further detailed below at "Principle 8: Promote a corporate culture that is based on ethical values and behaviours").

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Company's approach to risk is set out within the Risk Management section of this Annual Report. The Board has devolved considerable levels of autonomy to management 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. The Audit & Risk 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 & Risk 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 the internal audit function. This is reinforced by the role fulfilled by the Audit & Risk Committee (as further detailed below at "Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board").

Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chair

The Board

The Group is headed by an effective Board, which controls and leads the Group. 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 Directors attended the following meetings in the year ended 31 May 2022:

| Attendance at meetings | Board | Audit & Risk Committee | Remuneration Committee | Nominations Committee |
|------------------------|-------------|------------------------|------------------------|-----------------------|
| Number of meetings | 11 | 4 | 2 | 1 |
| Gordon Banham | 11 attended | n/a | n/a | 1 attended |
| Nigel Halkes | 11 attended | 4 attended | 2 attended | 1 attended |
| John Samuel | 11 attended | n/a | n/a | n/a |
| Roger McDowell | 11 attended | 4 attended | 2 attended | 1 attended |
| David Anderson | 11 attended | n/a | n/a | n/a |
| Christopher Jones | 11 attended | 4 attended | 2 attended | 1 attended |
| Nicholas Mills | 11 attended | 4 attended | 2 attended | 1 attended |

Corporate Governance continued

The Board is collectively responsible for the long-term success of the Group and has ultimate responsibility for the management, direction and performance of the Group and its businesses. The Board is required to exercise objective judgement on all corporate matters and is accountable to shareholders for the proper conduct of the business. All Directors have access to the advice and services of Group Legal Counsel who assists the Company Secretary. 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 participate actively in Board discussions;
- leading the performance evaluation of the Board, its Committees and individual Directors;
- promoting high standards of corporate governance;
- ensuring timely and accurate distribution of information to the Directors and effective communication with shareholders;
- periodically holding meetings with the Non-Executive Directors without the Executive Directors present; and
- establishing an effective working relationship with the Group Chief Executive by providing support and advice whilst respecting executive responsibility.

The Group Chief Executive is responsible for the executive management of the Group and for ensuring the implementation of Board strategy and policy within approved business plans, budgets and timescales. Further details of the composition of the Board and Director's attendance at Board and Committee meetings are set out in this Annual Report.

Non-Executive Directors

Non-Executive Directors bring a wide range of experience to the Group. The QCA Code states that the Board should have at least two independent Non-Executive Directors and that, since independence can easily be compromised, Non-Executive Directors should not normally participate in performance-related remuneration schemes. The Board currently has four Non-Executive Directors including the Non-Executive Chairman. The Non-Executive Chairman is a participant in the Company's Long-Term Incentive Plan scheme entitled the Hargreaves Services plc Share Option Scheme 2019, which was approved by shareholders at a general meeting of the Company on 22 January 2019. Whilst the Board considers that the Non-Executive Chairman is independent, save for his participation in the Hargreaves Services plc Share Option Scheme 2019, in any event, the Board has three other independent Non-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 reviews conflicts of interests when considering new Board appointments.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

Details of the Directors' skills and experience are set out in Directors' biography page within this Annual Report. The Directors bring a wide range of expertise on issues related to operations, strategy and governance. The Board is satisfied that, between the Directors, it has an effective and appropriate mix of skills and experience.

All newly appointed 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 Group'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 Group Legal Counsel who assists the Company Secretary, who is responsible to the Board for ensuring compliance with Board procedures.

Whilst there have been no significant matters during the year on which the Board or any Committee has sought external advice, the Board is advised by its nominated adviser Singer Capital Markets.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

To further strengthen Group compliance, the Board undertakes annual performance reviews that review and measure its effectiveness and that of its Committees. Each Board/Committee member completes an assessment, which provides numeric scoring against specific categories. Each Board/Committee member also provides recommendations for improvement of the effectiveness of the Board/Committee. The assessments provide an effective platform for reviewing performance and, over time, a greater focus has developed on particular recommendations, which has prompted fruitful discussions among the Board and influenced its operation.

The criteria for effectiveness include assessing:

- Key Board/Committee functions;
- Board/Committee composition (including succession planning);
- External reporting and information flows;
- Board/Committee culture;
- Board/Committee information for meetings and the meetings themselves; and
- Board development.

Following this year's annual performance review, which was carried out using a self-assessment questionnaire, the Board debated categories where at least one Director awarded a score of less than 3 out of 5.

The 2022 review was carried out with the Board focusing on those areas where one or more of the Directors had indicated a concern. In particular, the Board considered that Board gender and ethnic diversity and ESG are areas for focus in the future.

Alongside the annual performance review, the Chairman conducts an informal appraisal in respect of the Group Chief Executive and the Group Chief Executive conducts appraisals in respect of the other Executive Directors. For details regarding succession planning and the process for senior management appointments, please refer to the section entitled "Nominations Committee" (under the heading "Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board") below.

Principle 8: Promote a corporate culture that is based on ethical values

Culture

The Company has a strong ethical culture based upon its Code of Ethics which can be found on the Company's website. The Company's reputation is built on its values as a company, the values of its employees, and the collective commitment to acting at all times with integrity. Part of the work of the Audit & Risk Committee involves reviewing the Group Whistleblowing Policy by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties. The appropriateness of the Board's corporate governance structures is reviewed as part of the Board and Committee effectiveness process described above.

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 Whistleblowing Policy. 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 competition law and awareness of the consequences of not adhering to Group policies. The Group's Whistleblowing Policy is used to encourage staff to raise concerns in the knowledge that concerns raised in good faith will be taken seriously and investigated.

The Group has taken the appropriate steps to comply with the provisions of the Market Abuse Regulation and the Modern Slavery Act. The Group has put in place processes and policies to comply with the General Data Protection Regulation ("GDPR") and has a Data Protection Officer who is responsible for: managing information governance; implementing the requirements of GDPR; and arranging for online training to be given to appropriate employees.

Safety, Health and 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 and ingrained in day-to-day 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. To protect employees, customers and contractors, the Group implemented, and continues to have, a series of measures to safeguard against the threat posed by Covid-19 both in the office environment and at sites details of which are set out in the Risk Management section of this Annual Report.

Environmental, Social and Governance

The Group has established a cross-business ESG Working Group to assess procedures, review methods and identify goals to enable balanced judgements to be made going forward. The ESG Working Group is working towards the requirements of the Task Force on Climate-related Financial Disclosures ("TCFD"), which the Group will be obliged to report on for the year ending 31 May 2023. The ESG Working Group's findings form an integral part of financial reports and investor presentations. Further details can be found together within the Environmental, Social and Governance report at pages 20 to 25.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board

Please see details above at "Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chair". The Board has a schedule of matters which are specifically reserved for its decision which can be viewed on the Company's website.

Board Committees

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

- Remuneration;
- Audit & Risk; and
- Nominations.

Remuneration Committee

The Remuneration Committee, which has been chaired by Christopher Jones since the 2020 Annual General Meeting and comprises the Non-Executive Directors, is responsible for making recommendations to the Board on the Group's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the Non-Executive Directors. Further details on the composition and work of the Remuneration Committee are set out in the Remuneration Committee Report within this Annual Report. The Terms of Reference of the Remuneration Committee can be viewed on the Company's website.

Corporate Governance continued

Audit & Risk Committee

The Audit & Risk Committee, which is chaired by Nigel Halkes and comprises the Non-Executive Directors, is responsible for reviewing a wide range of financial reporting and related matters including the half-year and annual accounts before their submission to the Board. The Committee is required to focus in particular on critical accounting policies and practices adopted by the Group, and any significant areas of judgement that materially impact reported results. It is also responsible for monitoring the internal controls that are operated by management to ensure the integrity of the information reported to the shareholders. An internal audit function, which reports directly to the Chair of the Audit & Risk Committee, supports the Audit & Risk Committee in this process. The Committee provides a forum for reporting by the Group's external auditors, and advises the Board on the appointment, independence and objectivity of the external auditors and on their remuneration both for statutory audit and non-audit work. It also discusses the nature, scope and timing of the statutory audit with the external auditors. The Committee also reviews the appropriateness of the annual internal audit programme for the Group and ensures that the business risk management and internal audit functions are adequately sponsored and resourced. The ESG Working Group reports quarterly to the Committee. The Committee meetings are also attended, by invitation, by the Chief Executive and Group Finance Director. The Committee meets not less than four times annually. Further details on the composition and work of the Audit & Risk Committee are set out in the Audit & Risk Committee Report within this Annual Report. The Terms of Reference of the Audit & Risk Committee can be viewed on the Company's website.

Nominations Committee

The Nominations Committee, which is chaired by Roger McDowell and comprises the Non-Executive Directors and the Group Chief Executive, is responsible for reviewing the structure, size and composition required of the Board when compared to its current position. It makes recommendations to the Board with regard to any changes and considers and reviews succession planning for Board Directors, taking into account the challenges and opportunities facing the Group. It identifies and nominates for Board approval suitable candidates to fill Board vacancies as and when they arise, and it keeps under review both the Executive and Non-Executive leadership needs of the Company to enable the Group to compete effectively in the marketplace. The Nominations Committee also has responsibility for evaluating the performance of Non-Executive Directors, recommending as appropriate re-appointment of Non-Executive Directors at the end of their specified terms of office, and overseeing the re-election by shareholders of any Director under the "retirement by rotation" provisions in the Company's articles of association. The Terms of Reference of the Nominations Committee can be viewed on the Company's website.

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

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 and minority representation. In making senior appointments the Board will give particular weight to addressing diversity in the constitution of senior management including directors.

Evolution of Governance Framework

The Board continuously monitors its composition and governance framework taking into account effectiveness and the Group's strategy.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and relevant stakeholders

In addition to this Annual Report, the Company's website contains full information on the governance, management and activities of the Group and features all presentations given by the Executive Directors to shareholders.

Approval

The Board approved the Corporate Governance Report on 26 July 2022.

Roger McDowell
Chairman

26 July 2022

Remuneration Report

Christopher Jones, Chair of the Remuneration Committee



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:

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

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

Membership of the Committee

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

Christopher Jones (Chair)
Nigel Halkes
Roger McDowell
Nicholas Mills

All members of the Committee are Non-Executive Directors and are recognised by the Board as capable of bringing independent judgement to bear. Christopher Jones has chaired the Committee throughout the year and its membership has been unchanged. The Group Chief Executive is consulted and invited to attend meetings, when appropriate. The Group Finance Director also attended meetings as required and provided relevant information to the Committee to ensure that the Committee's decisions are informed and take account of pay and conditions across the Group. No Director can be present when his own remuneration is discussed.

During the year the Committee reviewed and considered the proposed appointment of all new employees whose basic salary was in excess of £100,000; annual pay rises and conditions of service for all employees earning over £100,000 per annum; bonus scheme arrangements; the vesting and granting of Long-Term Incentive Plans; the principles governing the Group's annual pay review; and the effectiveness of the Committee.

Components of Executive and Senior Management 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. Considering the current economic conditions prevalent in the UK, a cost of living increase of 6% was awarded at 1 June 2022 to all UK employees including the Executive Directors. The Executive Directors did not receive any increase to their basic salaries as at 1 June 2021. During the year, there have been no changes to the benefits which the Executive Directors receive.

Remuneration Report continued

Annual Bonus

Executive Directors participate in an annual incentive bonus scheme linked to the actual achievement of a Group profit before tax target set by the Committee. Additionally, should that target be achieved, a deduction of 10% is made if the Group Health & Safety target is not achieved. For the year ended 31 May 2022, the Committee also set some specific cash targets for the Group which would have resulted in a further deduction of 10% of any bonus earned should they not have been achieved. The total bonus which could have been earned was capped at 100% of salary in respect of the Chief Executive and the Group Finance Director and 75% in respect of the Group Property Director. Bonuses do not count towards the calculation of pension entitlement. The bonus target for the financial year ended 31 May 2022 was achieved and accordingly total bonuses amounting to £879,000 have been earned. Total bonuses of £919,000 were earned in respect of the financial year ended 31 May 2021. Similar criteria have been set in respect of bonus arrangements for the financial year ending 31 May 2023. As part of the terms of his recruitment, David Anderson received a guaranteed bonus of £40,000 for the year ended 31 May 2021. No such entitlement applied for the year ending 31 May 2022.

Long-Term Incentives

From time to time, the Executive Directors and other senior employees have been invited to participate in Long-Term Incentive Plans ("LTIPs"), whereby shares in the Group are awarded subject to performance criteria. The Board believes that such plans are an important element of overall executive remuneration and assist in aligning the financial interests of Executive Directors and other senior employees with those of the shareholders.

At the Annual General Meeting held on 30 October 2019, shareholders approved a new Long Term Incentive Plan, the Hargreaves Services plc Executive Share Option Scheme, under which all awards are now made. Details of this LTIP and awards made under it are set out below.

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. No Director has benefits under any of the Group's defined benefit pension schemes.

Non-Executive Directors' Remuneration

The Non-Executive Chairman's basic salary was £80,000 per annum and other Non-Executive Directors received a basic salary of £40,000 per annum. These basic salaries increased by 6% from 1 June 2022. Additionally, the other Non-Executive Directors receive an additional £2,500 per annum for chairing each Board Committee and N Halkes receives £2,500 for acting as Senior Independent Director. From 1 June 2022, the additional sum paid for the chairing of a Board Committee and acting as Senior Independent Director has been increased to £2,750.

Directors' Remuneration for the Year to 31 May 2022 (Audited)

| | Salary/Fees | | Bonus | | Benefits | | LTIPs | | Total | | Pension | |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 | 2022 £000 | 2021 000 | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Gordon Banham | 470 | 470 | 470 | 470 | 45 | 56 | 167 | - | 1,152 | 996 | 118 | 118 |
| John Samuel | 280 | 280 | 280 | 280 | 18 | 19 | - | - | 578 | 579 | 42 | 42 |
| David Anderson | 225 | 225 | 84 | 169 | 13 | 17 | 142 | - | 464 | 411 | 45 | 45 |
| Roger McDowell | 80 | 80 | - | - | - | - | 632 | - | 712 | 80 | - | - |
| Nigel Halkes | 45 | 45 | - | - | - | - | - | - | 45 | 45 | - | - |
| Christopher Jones | 43 | 43 | - | - | - | - | - | - | 43 | 43 | - | - |
| Nicholas Mills | 40 | 29 | - | - | - | - | - | - | 40 | 29 | - | - |
| Total | 1,183 | 1,172 | 834 | 919 | 76 | 92 | 941 | - | 3,034 | 2,183 | 205 | 205 |

Notes:

David Anderson's contract includes a guaranteed bonus of £40,000 for the year ended 31 May 2021.

Nicholas Mills' emoluments in 2021 represent the period from 9 September 2020 to 31 May 2021.

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 | 2021/22 annual salary (£) | Notice period |
|--------------------------|-------------------|-------------------------|----------------------------------|---------------------------|---------------|
| 3 September 2013 | Gordon Banham | Group Chief Executive | 23 February 2004 | 470,442 | 12 months |
| 2 January 2018 | John Samuel | Group Finance Director | 2 January 2018 | 280,000 | 6 months |
| 14 November 2018 | David Anderson | Group Property Director | 12 November 2018 | 225,000 | 6 months |
| 11 May 2018 | Roger McDowell | Non-Executive Chairman | 11 May 2018 | 80,000 | 3 months |
| 21 August 2015 | Nigel Halkes | Non-Executive Director | 21 August 2015 | 45,000 | 3 months |
| 1 April 2020 | Christopher Jones | Non-Executive Director | 1 April 2020 | 42,500 | 3 months |
| 9 September 2020 | Nicholas Mills | Non-Executive Director | 9 September 2020 | 40,000 | 3 months |

Non-Executive Directors are not generally 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, although, as a condition of Roger McDowell's appointment, he was granted LTIPs as set out below.

Directors' Share Options

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. At 31 May 2022, no Director holds any rights to subscribe for shares in Group companies other than those related to options which have vested but not yet exercised.

Long-Term Incentive Plan ("LTIP") (Audited)

The Hargreaves Services plc Executive Share Option Scheme

At the Annual General Meeting held on 30 October 2019, the Hargreaves Services plc Executive Share Option Scheme ("the Executive Share Option Scheme") was approved by shareholders. The scheme contains performance criteria measuring both the Company's own Total Shareholder Return over a three-year period and its comparative performance against a basket of other listed companies. It is envisaged that awards with a value up to 50% of a recipient's base salary will be made annually under the Executive Share Option Scheme to Executive Directors and other senior management as determined by the Committee. During the year ended 31 May 2022, a total of 146,532 awards were made of which 105,514 related to Executive Directors awards as set out below:

| Director | Date of grant | Exercise price | No. of options granted | Exercise period |
|----------------|---------------|----------------|------------------------|-----------------------|
| Gordon Banham | 2 August 2021 | 10p per share | 41,611 | 3 Aug 2024-2 Aug 2026 |
| John Samuel | 2 August 2021 | 10p per share | 41,611 | 3 Aug 2024-2 Aug 2026 |
| David Anderson | 2 August 2021 | 10p per share | 22,292 | 3 Aug 2024-2 Aug 2026 |

Additionally, the following awards were granted in the year ended 31 May 2021:

| Director | Date of grant | Exercise price | No. of options granted | Exercise period |
|----------------|---------------|----------------|------------------------|-----------------------|
| Gordon Banham | 5 August 2020 | 10p per share | 63,927 | 6 Aug 2023-5 Aug 2025 |
| John Samuel | 5 August 2020 | 10p per share | 63,927 | 6 Aug 2023-5 Aug 2025 |
| David Anderson | 5 August 2020 | 10p per share | 51,370 | 6 Aug 2023-5 Aug 2025 |

The performance criteria use the average mid-market closing Share price for the 21 Trading Days preceding 1 June during the year of the grant of the Option as a "Base Value". The number of Shares to be acquired on the exercise of an Option is dependent on the Total Shareholder Return on the third anniversary of the Date of Grant ("Strike Date") calculated by reference to the average Share price for the 21 Trading Days preceding the Strike Date.

The performance parameters for Total Shareholder Return are split equally between two parts as follows:

- 50% of the Option is based upon the Company's performance (the "Company Performance Option"). If the Total Shareholder Return figure on the Strike Date reflects 100% or more growth in excess of the Base Value, the Company Performance Option may be exercised in full. If the Total Shareholder Return figure at the Strike Date reflects less than 25% growth in excess of the Base Value, the Company Performance Option lapses and ceases to be exercisable. In the event that the Total Shareholder Return figure at the Strike Date reflects percentages between 25% growth and 100% growth above the Base Value, the number of shares to be acquired under the Company Performance Option is based on a linear calculation between the 25% growth and 100% growth outcomes from zero at 25% growth to 100% at 100% growth or greater.
- 50% of the Option is based upon benchmarking the Company's performance against the Peer Group (the "Peer Group Performance Option"). The growth of each of the companies in the Peer Group is measured using the average mid-market closing share price of such company for the 21 Trading Days preceding 1 June during the year of grant of the Option and calculating the growth at the Strike Date by reference to the average share price for the 21 Trading Days preceding the Strike Date. The growth of the Company (measured using the Base Value and the Strike Value) is then ranked in the "Peer Group TSR List" alongside the growth of the companies in the Peer Group. If the Company:
 - is ranked below the median position of the Peer Group TSR List, the Peer Group Performance Option lapses and is not exercisable;
 - is ranked first in the Peer Group TSR List, the Peer Group Performance Option may be exercised in full; and
 - is ranked at or above the median of the Peer Group TSR List but below first, the number of shares in respect of which the Peer Group Performance Option may be exercised shall be calculated on a straight line basis from 25% at the median position to 100% for ranking first (rounded up to the nearest whole number of Shares).

No option shall be granted under the Executive Share Option 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 Executive Share Option Scheme together with any other employee share scheme established by the Company on or after Admission, would exceed 10% of the issued ordinary share capital of the Company on the date of grant.

Remuneration Report continued

The Hargreaves Services plc Share Option Scheme 2019

On 22 January 2019, shareholders in general meeting approved an LTIP scheme, the Hargreaves Services plc Share Option Scheme 2019 ("the Share Option Scheme 2019"). The following awards were granted in the year ended 31 May 2019:

| Director | Date of grant | Exercise price | No. of options granted | Exercise period |
|----------------|-----------------|----------------|------------------------|-------------------------|
| Roger McDowell | 30 January 2019 | 10p per share | 285,144 | 31 Jan 2022-30 Jan 2024 |
| Gordon Banham | 30 January 2019 | 10p per share | 75,250 | 31 Jan 2022-30 Jan 2024 |
| John Samuel | 30 January 2019 | 10p per share | 75,250 | 31 Jan 2022-30 Jan 2024 |
| David Anderson | 30 January 2019 | 10p per share | 64,157 | 31 Jan 2022-30 Jan 2024 |

The Share Option Scheme 2019 requires a minimum 35% Total Shareholder Return to be achieved over the three-year period ending on 31 July 2021 ("the Vesting Period") from a base value of £3.52 ("Base Value") before vesting can commence. 100% vesting would occur at an 85% Total Shareholder Return over the above period from the Base Value. The rules of the Share Option Scheme 2019 allow participants to exercise options, to the extent they have satisfied the performance conditions, after the expiry of the Vesting Period. An option lapses five years after the date of the grant, except if the participant dies, in which case the option lapses 12 months following death, whichever date is earlier. No disposal may be made of any shares arising from the exercise of an option until five years after the date of grant other than to satisfy any tax liability arising on exercise. The options under the Share Option Scheme 2019 lapse if the minimum performance criterion is not met. No further options will be granted under the Share Option Scheme 2019.

During the year 167,586 of these options vested and were exercised as set out below. Each director has retained ownership of the shares following their exercise. John Samuel holds 29,704 of these options which have vested but which he has not yet exercised. The remaining options which were issued under the Share Option Scheme 2019 have lapsed.

Exercise of Options

| Director | Exercise price per share | Date of exercise | Number of shares exercised |
|----------------|-----------------------------|------------------|----------------------------|
| Roger McDowell | 10 pence per ordinary share | 4 April 2022 | 112,557 |
| Gordon Banham | 10 pence per ordinary share | 4 April 2022 | 29,704 |
| David Anderson | 10 pence per ordinary share | 4 April 2022 | 25,325 |

Ordinary shares issued pursuant to either the Executive Share Option Scheme or the Share Option Scheme 2019 scheme shall rank pari passu in all respects with the ordinary shares already in issue.

Deferred Bonus Scheme

A Deferred Bonus Scheme ("the Deferred Bonus Scheme") was implemented in December 2019. Deferred Bonus Scheme J was implemented on 2 August 2021 when a total of 14,820 options were granted to an employee who is not a Director. Details are set out in Note 27 to the financial statements.

The Deferred Bonus Scheme is designed to allow awards to be made to Executive Directors and eligible employees in order to attract and retain key members of staff. The awards under the Deferred Bonus Scheme are based on a percentage of salary. This figure is then converted into a number of shares using the mid-closing price of a Hargreaves Services plc ordinary share on the day preceding the award. Other than serving the retention period of three years from the date of award, the Deferred Bonus Scheme has no performance criteria.

The Remuneration Committee Report was approved by the Board on 26 July 2022 and signed on its behalf by:

Christopher Jones
Chair of the Remuneration Committee

26 July 2022

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

Independent Auditors' Report to the members of Hargreaves Services plc

Report on the audit of the financial statements

Opinion

In our opinion, Hargreaves Services plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 May 2022 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Parent Company Balance Sheets as at 31 May 2022; the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Group and Parent Company Statements of Changes in Equity and the Group and Parent Company Cash Flow Statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- The group is structured along four segments being Services, Hargreaves Land, Hargreaves Services Europe 'HSEL' with the remaining areas of the group included in an Unallocated segment. The group financial statements are a consolidation of the 120 reporting units within these four segments including the group's centralised functions.
- Given the significance of the components to the group's revenue and results, Hargreaves Industrial Services Limited, the bulk haulage and minerals divisions of Hargreaves (UK) Services Limited, DK Recycling und Roheisen GmbH and Hargreaves Raw Material Services GmbH were considered significant components.
- For further coverage Hargreaves Services plc, Blackwell Earthmoving Limited and Hargreaves Industrial Services (HK) Limited were included as full scope components. Specific audit procedures were performed over certain financial statement line items across a further 20 reporting units.

Key audit matters

- Risk of impairment to assets – Investments in subsidiary undertakings and Amounts due from group undertakings (parent)
- Valuation of land (Properties held for development and resale and Investment Property) (group)

Materiality

- Overall group materiality: £1,779,000 (2021: £2,050,000) based on 1% of revenue.
- Overall company materiality: £1,200,000 (2021: £1,200,000) based on 1% of total assets.
- Performance materiality: £1,334,250 (2021: £1,537,500) (group) and £900,000 (2021: £900,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Valuation of land is a new key audit matter this year. Impact of Covid-19, which was a key audit matter last year, is no longer included because of the current status of the pandemic and the limited impact it had on the group results. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

Risk of impairment to assets – Investments in subsidiary undertakings and Amounts due from group undertakings (parent)

The parent company has investments in subsidiary undertakings of £31.4 million (2021: £21.0 million) and amounts due from group undertakings of £54.9 million (2021: £66.5 million). No impairment has been recorded by management in the current year in respect of investments and/or amounts due from group undertakings within Hargreaves Services plc. The risk we have focused on is that these assets could be overstated and impairment charges may be required.

The determination of whether or not these assets are impaired involves subjective judgement and estimates about the future results and cash flows of the business.

On an annual basis, management calculates the amount of headroom between the value in use of the parent company's Cash Generating Units ("CGUs") and their carrying value to determine whether there is a potential impairment of the investment and/or amounts due from group undertakings relating to those CGUs.

The value in use of the CGU with respect to investments and amounts due from group undertakings in Hargreaves Services plc is dependent on a number of key assumptions which include:

- The forecast cash flows for the next five years;
- A long-term (terminal) growth rate applied beyond the end of the five year forecast period; and
- A discount rate applied to the model.

See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates, note 16 for detailed investments disclosure and note 21 for disclosure on amounts due from group undertakings within the financial statements.

How our audit addressed the key audit matter

We understood and evaluated management's budgeting and forecasting process. Upon obtaining the parent company's impairment and recoverability analysis we tested the reasonableness of the key assumptions, including the following;

- Verifying the mathematical accuracy of the impairment and recoverability models and agreeing the carrying value of assets being assessed for impairment to the balance sheet,
- We challenged management's calculated weighted average cost of capital (WACC) used for discounting future cash flows within the impairment and recoverability models, utilising valuation experts to assess the cost of capital for the group and comparable organisations. It was noted that the WACC used by management was in line with our acceptable range and as such no exceptions were noted;

We traced the forecast financial information within the model to the latest Board approved budget and 5 year plan and challenged management to provide support to corroborate revenue margin assumptions, support for capital expenditure and considered the accuracy of previous forecasts and we consider that the assumptions were supported by appropriate evidence;

We performed sensitivity analysis to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required at the CGU level; and

We have reviewed the financial statements disclosures made with respect to the sensitivity of the WACC, cash flows and growth rates and we considered these to be appropriate.

The recoverability of investment in subsidiaries was also assessed by comparing the net asset values of these subsidiaries against the carrying value of the investment including consideration of the market capitalisation of the Group. There were no indications of impairment identified.

Following the conclusion of our procedures above, we are satisfied that no impairment is required. We also considered the disclosure made within the financial statements and considered these to be appropriate.

Independent Auditors' Report to the members of Hargreaves Services plc continued

Key audit matters continued

Key audit matter

Valuation of land (Properties held for development and resale and Investment Property) (group)

The group has properties held for development and resale of £29.3 million (2021: £24.9 million) and investment properties of £8.3 million (2021: £7.6 million). No provision or impairment has been recorded by management in the current year in respect of these assets. The risk we have focused on is that these assets could be overstated and impairment charges may be required.

Properties held for development and resale are held at lower of cost and net realisable value, while investment properties are held at cost and assessed for impairment on an annual basis.

The determination of whether or not these assets are impaired involves subjective judgement and estimates about the future sales transactions and cash flows of these assets.

On an annual basis, management calculates the amount of headroom between the future cash flows and their carrying value to determine whether there is a potential impairment of properties held for development and resale and/or investment properties.

The value of future cash flows is dependent on a number of key assumptions which include:

- The forecast cash flows for the next ten to fifteen years; and
- A discount rate applied to the model.

See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates, note 14 for detailed disclosures on investment property and note 20 for detailed disclosures on properties held for development and resale in inventory.

How our audit addressed the key audit matter

We understood and evaluated management's budgeting and forecasting process. Upon obtaining the forecasts of management's estimate of future sales, rentals and costs to complete, we tested the reasonableness of the key assumptions, including the following:

- Verifying the mathematical accuracy of future cash flows and agreeing the carrying value of properties held for development and resale and investment properties being assessed for impairment to the balance sheet;
- We challenged management's calculated weighted average cost of capital (WACC) used for discounting future cash flows within the cash flow models, utilising valuation experts to assess the cost of capital for the group and comparable organisations. It was noted that the WACC used by management was in line with our acceptable range and as such no exceptions were noted;
- We performed sensitivity analysis to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required;
- We traced the forecast financial information within the model to recent sales data and challenged management to provide support to corroborate revenue margin assumptions, support for expenditure and considered the accuracy of previous forecasts and we consider that the assumptions were supported by appropriate evidence;
- We have reviewed the financial statements disclosures made with respect to the sensitivity of the WACC, cash flows and growth rates and we considered these to be appropriate;
- We have considered the future plans for each piece of land and considered sales of similar land in recent years for properties held for development and resale in inventory; and
- Inspected lease agreements and calculated the present value of these agreements to verify expected future rental income on land held as investment property.

Following the conclusion of our procedures above, we are satisfied that no impairment is required. We also considered the disclosure made within the financial statements and considered these to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group is structured along four segments being Services, Hargreaves Land, Hargreaves Services Europe 'HSEL' with the remaining areas of the group included in an Unallocated segment. The group financial statements are a consolidation of the 120 reporting units within these four segments including the group's centralised functions.

We, as the group engagement team, audited all in scope components based in the UK. The HSEL segment based overseas, being DK Recycling und Roheisen and Hargreaves Raw Materials Services GmbH, and part of the Services segment based overseas, being Hargreaves Industrial Services (HK) Limited, have been audited by PwC component auditors. The group audit team supervised the direction and execution of the audit procedures performed by the component teams. Our involvement in their audit process, including attending component audit meetings, review of their reporting and supporting working papers, together with the additional procedures performed at group level, gave us the evidence required for our opinion on the financial statements as a whole.

Given the significance of the components to the group's revenue and results, Hargreaves Industrial Services Limited, the bulk haulage and minerals divisions of Hargreaves (UK) Services Limited, DK Recycling und Roheisen GmbH and Hargreaves Raw Material Services GmbH were considered 5 significant components. For further coverage Hargreaves Services plc, Blackwell Earthmoving Limited and Hargreaves Industrial Services (HK) Limited were included as 3 full scope components.

Specific audit procedures were performed over administrative expenses, amounts due from undertakings in which the group has a participating interest, cash and cash equivalents, deferred tax assets, inventory, investment property, cost of sales, retirement benefits obligations, revenue, trade and other payables, trade and other receivables, income tax expenses, property, plant and equipment and contract assets across a further 20 reporting units. This, together with additional procedures performed on the group's centralised functions, gave us the evidence we needed for our opinion on the group financial statements as a whole.

As a result of this scoping we obtained coverage over £149.7 million (84%) of the group's external revenue and £27.2 million (79%) of the group's profit before tax.

The Company audit was performed by the Group audit team. The Company is principally a holding Company and there are no branches or other locations to be considered when scoping the audit. The Company is audited on a stand-alone basis, and hence, testing has been performed on all material financial statement line items.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Financial statements – group | Financial statements – company |
|--|--|---|
| <i>Overall materiality</i> | £1,779,000 (2021: £2,050,000). | £1,200,000 (2021: £1,200,000). |
| <i>How we determined it</i> | 1% of revenue | 1% of total assets |
| <i>Rationale for benchmark applied</i> | Based on the benchmarks used in the annual report, we consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax. Revenue is also used by the shareholders in assessing the performance and growth of the Group, and is a generally accepted auditing benchmark. | We believe that total assets are considered to be more appropriate as it is not a profit oriented company. The parent company is a holding company only and therefore total assets is deemed a generally accepted auditing benchmark. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £308,000 and £1,600,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £1,334,250 (2021: £1,537,500) for the group financial statements and £900,000 (2021: £900,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £88,950 (group audit) (2021: £102,500) and £60,000 (company audit) (2021: £60,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- We obtained and assessed management's board report that details the group's assessment and conclusion with respect to their ability to continue as a going concern;
- We evaluated the historical accuracy of the budgeting process to assess the reliability of the data;
- We evaluated management's board approved base case forecast and downside scenarios, and challenged the adequacy and appropriateness of the underlying assumptions, including the level and period of reduction in revenue and timing of significant cash receipts, and confirmed management's mitigating action are within their control and can be taken on a timely basis if needed. We reviewed the composition of costs at a divisional level within the forecasts to ensure they were prepared on a consistent and appropriate basis;
- We reviewed the latest trading results for the year to date in FY23 and compared to management's budget, FY22 actuals and revised forecasts, and considered the impact of these actual results on the future forecast period; and
- We reviewed the mathematical integrity of management's going concern forecast models, where no exceptions were identified.
- We reviewed the disclosures included within the Annual Report and consider these to be appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent Auditors' Report to the members of Hargreaves Services plc continued

Conclusions relating to going concern continued

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 May 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety regulations and environmental regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as AIM Rules for Companies, tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate reported results and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Inquiries of management and those charged with governance around actual and potential litigation claims;
- Reviewing minutes of meetings of those charged with governance;
- Reviewing financial statements disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Reviewing legal expenditure in the year to identify potential non-compliance with laws and regulations;
- Identifying and testing journal entries, in particular any journal entries with unusual accounts combinations;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Reviewing the internal audit reports.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

**Nicholas Cook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors**

Newcastle upon Tyne
26 July 2022

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 May 2022

| Continuing operations | Note | 2022 £000 | 2021 £000 |
|--|------|------------------|--------------|
| Revenue | 2 | 177,908 | 204,796 |
| Cost of sales | | (148,458) | (181,453) |
| Gross profit | | 29,450 | 23,343 |
| Other operating income | 3 | 1,298 | 3,821 |
| Administrative expenses | | (24,520) | (29,234) |
| Operating profit/(loss) | | 6,228 | (2,070) |
| Analysed as: | | | |
| Operating profit (before exceptional items and impairment charges) | | 4,474 | 4,751 |
| Exceptional items | 5 | 1,754 | (2,186) |
| Impairment of intangible assets | 15 | – | (4,635) |
| Operating profit/(loss) | | 6,228 | (2,070) |
| Finance income | 8 | 823 | 646 |
| Finance expenses | 8 | (770) | (1,882) |
| Share of profit in joint ventures (net of tax) | 16 | 28,200 | 17,680 |
| Profit before tax | | 34,481 | 14,374 |
| Taxation | 9 | 347 | 2,032 |
| Profit for the year from continuing operations | | 34,828 | 16,406 |
| Discontinued operations | | | |
| Profit for the year from discontinued operations | 10 | 2,000 | – |
| Profit for the year | | 36,828 | 16,406 |
| Other comprehensive income/(expense) | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Gain in defined benefit pension schemes | 26 | 5,955 | 1,956 |
| Tax recognised on items that will not be reclassified to profit or loss | 9 | (1,488) | (319) |
| <i>Items that are or may be reclassified subsequently to profit or loss</i> | | | |
| Foreign exchange translation differences | | 313 | (1,806) |
| Effective portion of changes in fair value of cash flow hedges | | 41 | 136 |
| Tax recognised on items that are or may be reclassified subsequently to profit or loss | 9 | (8) | (25) |
| Share of other comprehensive income of joint ventures (net of tax) | 16 | 3,070 | – |
| Other comprehensive income/(expense) for the year net of tax | | 7,883 | (58) |
| Total comprehensive income for the year | | 44,711 | 16,348 |

| | Note | 2022 £000 | 2021 £000 |
|---|------|---------------|--------------|
| Profit/(loss) attributable to: | | | |
| Equity holders of the Company | | 37,040 | 16,426 |
| Non-controlling interest | | (212) | (20) |
| Profit for the year | | | |
| | | 36,828 | 16,406 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 44,923 | 16,368 |
| Non-controlling interest | | (212) | (20) |
| Total comprehensive income for the year | | | |
| | | 44,711 | 16,348 |
| Basic earnings per share (pence) | 11 | 113.80 | 50.84 |
| Diluted earnings per share (pence) | 11 | 110.44 | 49.38 |
| Continuing basic earnings per share (pence) | 11 | 107.62 | 50.84 |
| Diluted continuing basic earnings per share (pence) | 11 | 104.44 | 49.38 |
| Non-GAAP Measures | | | |
| Basic underlying earnings per share from continuing operations (pence)* | 11 | 103.23 | 70.66 |
| Diluted underlying earnings per share from continuing operations (pence)* | 11 | 100.18 | 68.64 |

* See Alternative Performance Measures Glossary on page 94.

Group and Parent Company Balance Sheets at 31 May 2022

| | Note | Group | | Company | |
|---|------|-----------------|---------------------------|-----------------|--------------|
| | | 2022 £000 | Restated* 2021 £000 | 2022 £000 | 2021 £000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 12 | 9,938 | 13,806 | – | – |
| Right-of-use assets | 13 | 22,062 | 13,776 | – | – |
| Investment property | 14 | 8,298 | 7,607 | – | – |
| Intangible assets including goodwill | 15 | 4,824 | 4,824 | – | – |
| Investments in joint ventures | 16 | 58,383 | 31,187 | 4,984 | 4,984 |
| Investments in subsidiary undertakings | 16 | – | – | 31,358 | 21,009 |
| Deferred tax assets | 19 | 11,063 | 10,084 | 7 | – |
| Trade receivables | 21 | 4,224 | – | – | – |
| Retirement benefit surplus | 26 | 10,382 | 2,911 | – | – |
| | | 129,174 | 84,195 | 36,349 | 25,993 |
| Current assets | | | | | |
| Other financial assets | 17 | – | 2 | – | 2 |
| Inventories | 20 | 30,476 | 27,168 | – | – |
| Trade and other receivables | 21 | 88,574 | 78,260 | 81,412 | 77,680 |
| Income tax asset | | – | 59 | – | – |
| Contract assets | 22 | 6,752 | 1,720 | – | – |
| Cash and cash equivalents | 23 | 13,773 | 28,303 | 15 | 18,591 |
| | | 139,575 | 135,512 | 81,427 | 96,273 |
| Total assets | | 268,749 | 219,707 | 117,776 | 122,266 |
| Non-current liabilities | | | | | |
| Other interest-bearing loans and borrowings | 24 | (11,045) | (8,586) | – | – |
| Retirement benefit obligations | 26 | (2,703) | (2,867) | – | – |
| Provisions* | 28 | (2,344) | (3,087) | – | – |
| Deferred tax liabilities | 19 | (1,920) | – | – | – |
| | | (18,012) | (14,540) | – | – |
| Current liabilities | | | | | |
| Other interest-bearing loans and borrowings | 24 | (7,326) | (3,179) | – | – |
| Trade and other payables* | 25 | (50,727) | (49,611) | (20,612) | (25,265) |
| Provisions* | 28 | (9,440) | (8,038) | – | – |
| Income tax liability | | (108) | – | (39) | (382) |
| Other financial liabilities | 18 | – | (43) | – | – |
| | | (67,601) | (60,871) | (20,651) | (25,647) |
| Total liabilities | | (85,613) | (75,411) | (20,651) | (25,647) |
| Net assets | | 183,136 | 144,296 | 97,125 | 96,619 |

| | Note | Group | | Company | |
|--|------|----------------|--------------|---------------|--------------|
| | | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Equity attributable to equity holders of the Parent | | | | | |
| Share capital | 29 | 3,314 | 3,314 | 3,314 | 3,314 |
| Share premium | 29 | 73,972 | 73,955 | 73,972 | 73,955 |
| Other reserves | 29 | 211 | 211 | – | – |
| Translation reserve | 29 | (1,819) | (2,132) | – | – |
| Merger reserve | 29 | 1,022 | 1,022 | 1,022 | 1,022 |
| Hedging reserve | 29 | 318 | 285 | – | 2 |
| Capital redemption reserve | 29 | 1,530 | 1,530 | 1,530 | 1,530 |
| Share-based payment reserve | 29 | 2,029 | 1,680 | 2,029 | 1,680 |
| Retained earnings* | | 102,781 | 64,441 | 15,258 | 15,116 |
| | | 183,358 | 144,306 | 97,125 | 96,619 |
| Non-controlling interest | | (222) | (10) | – | – |
| Total equity | | 183,136 | 144,296 | 97,125 | 96,619 |

* Upon review of the prior year accruals balance it was identified that a number of items should have been classified as provisions. As such a restatement has been undertaken during the year. The impact is an increase in provisions of £3,723,000 and a corresponding reduction in trade and other payables. There is no impact on opening reserves.

The Company's profit after tax for the year was £6.4m (2021: loss of £7.8m).

The notes on pages 53 to 93 form an integral part of these financial statements.

These financial statements on pages 46 to 93 were approved by the Board of Directors on 26 July 2022 and were signed on its behalf by:

Gordon Banham
Director

Registered number: 4952865

Group and Parent Company Statements of Changes in Equity for year ended 31 May 2022

| Group (Note 29) | Share capital £000 | Share premium £000 | Translation reserve £000 | Hedging reserve £000 | Other reserves £000 | Capital redemption reserve £000 | Merger reserve £000 | Share-based payment reserve £000 | Retained earnings £000 | Total Parent equity £000 | Non-controlling interest £000 | Total equity £000 |
|---|-----------------------|-----------------------|-----------------------------|-------------------------|------------------------|------------------------------------|------------------------|-------------------------------------|---------------------------|-----------------------------|----------------------------------|----------------------|
| At 1 June 2020 | 3,314 | 73,955 | (326) | 174 | 211 | 1,530 | 1,022 | 1,462 | 48,703 | 130,045 | 10 | 130,055 |
| Total comprehensive income/ (expense) for the year | | | | | | | | | | | | |
| Profit/(loss) for the year | - | - | - | - | - | - | - | - | 16,426 | 16,426 | (20) | 16,406 |
| Other comprehensive (expense)/income | - | - | (1,806) | 111 | - | - | - | - | 1,637 | (58) | - | (58) |
| Total comprehensive (expense)/income for the year | - | - | (1,806) | 111 | - | - | - | - | 18,063 | 16,368 | (20) | 16,348 |
| Transactions with owners recorded directly in equity | | | | | | | | | | | | |
| Equity-settled share-based payment transactions | - | - | - | - | - | - | - | 218 | - | 218 | - | 218 |
| Dividends paid | - | - | - | - | - | - | - | - | (2,325) | (2,325) | - | (2,325) |
| Total contributions by and distributions to owners | - | - | - | - | - | - | - | 218 | (2,325) | (2,107) | - | (2,107) |
| At 31 May 2021 | 3,314 | 73,955 | (2,132) | 285 | 211 | 1,530 | 1,022 | 1,680 | 64,441 | 144,306 | (10) | 144,296 |
| At 1 June 2021 | 3,314 | 73,955 | (2,132) | 285 | 211 | 1,530 | 1,022 | 1,680 | 64,441 | 144,306 | (10) | 144,296 |
| Total comprehensive income/ (expense) for the year | | | | | | | | | | | | |
| Profit/(loss) for the year | - | - | - | - | - | - | - | - | 37,040 | 37,040 | (212) | 36,828 |
| Other comprehensive (expense)/income | - | - | 313 | 33 | - | - | - | - | 7,537 | 7,883 | - | 7,883 |
| Total comprehensive (expense)/income for the year | - | - | 313 | 33 | - | - | - | - | 44,577 | 44,923 | (212) | 44,711 |
| Transactions with owners recorded directly in equity | | | | | | | | | | | | |
| Issue of shares | - | 17 | - | - | - | - | - | - | - | 17 | - | 17 |
| Equity-settled share-based payment transactions | - | - | - | - | - | - | - | 349 | - | 349 | - | 349 |
| Dividends paid | - | - | - | - | - | - | - | - | (6,237) | (6,237) | - | (6,237) |
| Total contributions by and distributions to owners | - | 17 | - | - | - | - | - | 349 | (6,237) | (5,871) | - | (5,871) |
| At 31 May 2022 | 3,314 | 73,972 | (1,819) | 318 | 211 | 1,530 | 1,022 | 2,029 | 102,781 | 183,358 | (222) | 183,136 |

| Company (Note 29) | Share capital £000 | Share premium £000 | Hedging reserve £000 | Capital redemption reserve £000 | Merger reserve £000 | Share-based payment reserve £000 | Retained earnings £000 | Total Parent equity £000 |
|---|-----------------------|-----------------------|----------------------------|--|---------------------------|---|------------------------------|--------------------------------|
| At 1 June 2020 | 3,314 | 73,955 | – | 1,530 | 1,022 | 1,462 | 25,212 | 106,495 |
| Total comprehensive expense for the year | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | (7,771) | (7,771) |
| Other comprehensive income/(expense) | | | | | | | | |
| Effective portion of changes in fair value of cash flow hedges | – | – | 2 | – | – | – | – | 2 |
| Total comprehensive income/(expense) for the year | – | – | 2 | – | – | – | (7,771) | (7,769) |
| Transactions with owners recorded directly in equity | | | | | | | | |
| Equity-settled share-based payment transactions | – | – | – | – | – | 218 | – | 218 |
| Dividends paid | – | – | – | – | – | – | (2,325) | (2,325) |
| Total contributions by and distributions to owners | – | – | – | – | – | 218 | (2,325) | (2,107) |
| At 31 May 2021 and 1 June 2021 | 3,314 | 73,955 | 2 | 1,530 | 1,022 | 1,680 | 15,116 | 96,619 |
| Total comprehensive income for the year | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | 6,379 | 6,379 |
| Other comprehensive expense | | | | | | | | |
| Effective portion of changes in fair value of cash flow hedges | – | – | (2) | – | – | – | – | (2) |
| Total comprehensive (expense)/income for the year | – | – | (2) | – | – | – | 6,379 | 6,377 |
| Transactions with owners recorded directly in equity | | | | | | | | |
| Issue of shares | – | 17 | – | – | – | – | – | 17 |
| Equity-settled share-based payment transactions | – | – | – | – | – | 349 | – | 349 |
| Dividends paid | – | – | – | – | – | – | (6,237) | (6,237) |
| Total contributions by and distributions to owners | – | 17 | – | – | – | 349 | (6,237) | (5,871) |
| At 31 May 2022 | 3,314 | 73,972 | – | 1,530 | 1,022 | 2,029 | 15,258 | 97,125 |

Group and Parent Company Cash Flow Statements for year ended 31 May 2022

| | Note | Group | | Company | |
|---|-------|-----------------|---------------------------|-----------------|--------------|
| | | 2022 £000 | Restated* 2021 £000 | 2022 £000 | 2021 £000 |
| Cash flows from operating activities | | | | | |
| Profit/(loss) for the year from continuing operations | | 34,828 | 16,406 | 4,379 | (7,771) |
| Adjustments for: | | | | | |
| Depreciation and impairment of property, plant and equipment and right-of-use assets | 12,13 | 8,666 | 6,562 | – | – |
| Impairment of goodwill and intangible assets | 15 | – | 4,635 | – | – |
| Net finance (income)/expense | 8 | (53) | 1,236 | 434 | 1,038 |
| Share of profit in joint ventures (net of tax) | 16 | (28,200) | (17,680) | – | – |
| Dividend received from joint ventures | 16 | – | – | (3,917) | – |
| Impairment of investment in subsidiaries | 16 | – | – | – | 9,149 |
| Profit on sale of property, plant and equipment, investment property and right-of-use assets | 3 | (1,298) | (3,667) | – | – |
| Equity-settled share-based payment expenses | 27 | 349 | 218 | – | – |
| Income tax (credit)/expense | 9 | (347) | (2,032) | 32 | 175 |
| Contributions to defined benefit pension schemes | 26 | (2,002) | (2,039) | – | – |
| Translation of non-controlling interest and investments | | 202 | – | – | – |
| | | 12,145 | 3,639 | 928 | 2,591 |
| Change in inventories | | (3,308) | 36,841 | – | – |
| Change in trade and other receivables | | (19,256) | 2,012 | (3,733) | 52,559 |
| Change in trade and other payables* | | 903 | 5,545 | (14,652) | 2,511 |
| Change in provisions and employee benefits* | | 1,000 | (1,489) | – | (1,000) |
| | | (8,516) | 46,548 | (17,457) | 56,661 |
| Interest received/(paid) | | 34 | (1,194) | (434) | (1,038) |
| Income tax paid | | (44) | (127) | (365) | (361) |
| Net cash (outflow)/inflow from operating activities | | (8,526) | 45,227 | (18,256) | 55,262 |
| Cash flows from investing activities | | | | | |
| Proceeds from sale of property, plant and equipment | | 801 | 3,125 | – | – |
| Proceeds from sale of investment property | | 1,407 | 5,040 | – | – |
| Proceeds from sale of right of use assets | | 78 | 753 | – | – |
| Acquisition of property, plant and equipment | | (1,479) | (2,727) | – | – |
| Acquisition of investment property | | (1,070) | (390) | – | – |
| Acquisition of right of use assets | | (163) | – | – | – |
| Dividends received from joint ventures | | 3,917 | – | 3,917 | – |
| Net cash inflow from investing activities in continuing operations | | 3,491 | 5,801 | 3,917 | – |
| Net cash inflow from investing activities in discontinued operations | 10 | 2,000 | – | 2,000 | – |
| Net cash inflow from investing activities | | 5,491 | 5,801 | 5,917 | – |
| Cash flows from financing activities | | | | | |
| Principal elements of lease payments | 24 | (5,531) | (6,085) | – | – |
| Dividends paid | 29 | (6,237) | (2,325) | (6,237) | (2,325) |
| Repayment of Group banking facilities | 24 | – | (32,000) | – | (32,000) |
| Net cash outflow from financing activities | | (11,768) | (40,410) | (6,237) | (34,325) |
| Net (decrease)/increase in cash and cash equivalents | | (14,803) | 10,618 | (18,576) | 20,937 |
| Cash and cash equivalents at 1 June | | 28,303 | 18,499 | 18,591 | (2,346) |
| Effect of exchange rate fluctuations on cash held | | 273 | (814) | – | – |
| Cash and cash equivalents at 31 May | 23 | 13,773 | 28,303 | 15 | 18,591 |

* Upon review of the prior year accruals balance it was identified that a number of items should have been classified as provisions. As such a restatement has been undertaken during the year. This has resulted in a restatement of change in trade and other payables and change in provisions and employee benefits of £3,723,000. There is no other impact on the cash flow statement.

Notes (forming part of the financial statements)

1 Accounting Policies

Hargreaves Services plc (the "Company", "Parent Company") is a public company limited by shares and incorporated, domiciled and registered in England, 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 joint ventures. The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards. In publishing the Parent Company financial statements 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 financial statements are presented in Sterling since this is the currency in which the majority of the Group's transactions are denominated.

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

The Group has restated the 31 May 2021 balance sheet and cash flow statement due to a review of the prior year accruals balance where it was identified that a number of items should have been classified as provisions. As such a restatement has been undertaken during the year. A third balance sheet has not been presented as the impact of the restatement is not considered to be qualitatively material to users of the accounts and all balances as at the opening balance sheet day are disclosed within the relevant notes.

Accounting Estimates Involving 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 Board considers that the key areas requiring the use of estimates and judgements which may materially affect the financial statements are:

a) Construction Contract Revenue and Assets

IFRS 15, Revenue from Contracts with Customers, applies to all revenue recognition, "Construction Contracts", insofar as the Group carries out construction contracts and represents a key area of judgement. Management must assess the performance obligations under each contract and determine the point at which those obligations have been fulfilled, allocating the transaction price as necessary to each obligation. The estimates and judgements which management must carry out to assess the total expected costs on a contract are also necessary under IFRS 15. The Group has control and review procedures in place to monitor, and evaluate, regularly, the estimates being made to ensure that they are consistent and appropriate. This includes reviewing the independent certification of the value of work done, the progress of work against contracted timescales and the costs incurred against plan. In particular, management makes judgements on the expected recoverability of value recorded in respect of performance obligations which have been completed but not yet agreed with the customer and on the likelihood of the entitlement to any variable consideration. Certain contracts contain key performance indicators which determine the level of fee payable and management estimates performance against these to decide the appropriate fee level within the range contained in the contract. Differences arising on the ultimate completion of the contract and any unforeseen changes or events as the contract progresses may result in material changes to expected financial outcomes. Construction contract revenue in the year ended 31 May 2022 was £37.9m (2021: £27.8m). When revenue recognised in respect of a customer contract exceeds amounts received or receivable from the customer a contract asset is recognised. At 31 May 2022 this value was £6.8m (2021: £1.7m).

b) Dilapidations Provision

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Board makes provisions for liabilities which exist but where judgements have to be made as to the quantification of such liabilities.

The Group has entered into property leases which in turn have contractual obligations to restore the properties to their condition prior to the commencement of the lease. The dilapidations provision, which is set out in Note 28, is based on third party assessments of the cost of the work which has been carried out on behalf of the landlords or internal estimates where appropriate. Currently, the Board has no other evidence as to the likely final cost of the dilapidations work. Significant judgements and estimates are involved in making this assessment and the amount and timing of the associated cash flows. The final cost of the dilapidations works may vary materially from the amount of the provision. The carrying value of the dilapidations provision at 31 May 2022 is £2.3m (2021: £0.1m).

c) Contract Provisions

The Group has made provisions against contract assets and for potential contract liabilities which require judgements to be made regarding recoverable amounts and reasonably possible costs which may be incurred. The nature of these items, which is set out in Note 28, is such that their timing and quantum is uncertain and so the Directors have made judgements based upon the facts as they are known at the date of this report. The view has been taken that all of these items could potentially occur within the next 12 months and so all of the provisions have been classified as current. The carrying value of contract provisions at 31 May 2022 is £6.1m (2021: £5.1m).

Notes (forming part of the financial statements) continued

1 Accounting Policies continued

Accounting Estimates Involving Judgements continued

d) Post Retirement Employee Benefits

The Group operates two funded defined benefit schemes and an unfunded concessionary fuel scheme. Independent actuaries calculate the Group's asset/liability in respect of these schemes. The actuaries make assumptions as to discount rates, salary escalations, net interest on scheme assets/liabilities, future pension increases, mortality rates applicable to members and future rates of inflation. These assumptions are made under the Board's direction. The Board determines the appropriateness of these assumptions by benchmarking them against those used by other schemes and by taking advice from the independent actuaries. If the actual experience of the schemes is different from the assumptions used, then the pension asset/liability may differ from that shown in these financial statements. More information is given in Note 26 to these financial statements. The impact of the equalisation of Guaranteed Minimum Pensions has been assessed to be negligible. The net surplus of the defined benefit schemes and the concessionary fuel scheme in the balance sheet at 31 May 2022 is £7.7m (2021: £0.0m).

e) Measurement of the Recoverable Amounts of Cash-Generating Units ("CGUs") Containing Goodwill, Property Assets, Investments in Subsidiaries and Parent Company Intra-Group Balances

In accordance with IAS 36 "Impairment of Assets", the Board identifies appropriate CGUs and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these CGUs, the discount rate applied in the calculations and the comparison of the cash flows to the carrying value of the goodwill. These are key areas of judgement and include significant accounting estimates. Management has assessed the sensitivity of carrying amounts of CGUs containing goodwill to reasonably possible changes in key assumptions. More information on the assumptions used and the sensitivities applied are set out in Note 15 to these financial statements. Freehold property assets, including investment properties and properties held for development and resale are recorded at the lower of cost and net realisable value. The carrying value is assessed on the basis of the strategy for each asset and the expected net proceeds arising, with reference to estimated market value where relevant. An assessment is made regarding the recoverability of intra-Group balances on a regular basis. This assessment includes, but is not restricted to, a review of net assets and future trading opportunities within each Group business.

f) Valuation of Land

Land held for development, including land in the course of development until legal completion of the sale of the asset, is carried at the lower of cost and net realisable value. Investment properties are stated at cost less impairment. Investment properties are not remeasured to fair value at each reporting date, however, a review for impairment is carried out at each reporting date, giving consideration to the fair value of the property. Regular reviews are carried out to identify any impairment in the value of the land by comparing the total estimated selling prices less estimated selling expenses against the book cost of the land plus estimated costs to complete. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and overheads. Valuations of site/phase work in progress are carried out at regular intervals and estimates of the cost to complete a site/phase and estimates of anticipated revenues are required to enable a development profit to be determined. Management are required to employ judgement in estimating the profitability of a site/phase and in assessing any impairment provisions which may be required.

Accounting Judgements

g) Treatment of Joint Ventures

Management have considered the level of control of each of the Group's individual Joint Venture arrangements 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 purpose of this joint venture was to enable the Group's access to a surface mine in South Wales. The mine ceased to operate in 2016 and restoration work is ongoing. 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 that Board of each investing party and the ownership of voting rights is split 50:50 between both parties.

Hargreaves Services Europe Limited ("HSEL") is a material joint venture to the Group. HSEL owns 100% of Hargreaves Raw Materials Services GmbH ("HRMS") which is a key supplier of specialist raw materials to major European customers in the steel, foundry, smelting, ferroalloy, sugar, limestone, insulation, refractory and ceramic industries. This combined with the Group's historic expertise in production operations, material handling, storage operations and logistics, marketing and technical support, creates an ideal platform for HRMS to compete in the supply of speciality mineral products in Europe. HRMS owns 94.9% of DK Recycling und Roheisen GmbH ("DK") a recycler of steel waste material and producer of pig iron and zinc. The Group is entitled to 86% of the profits of HSEL, however the Group does not exert control over the business. The Group holds 49% of the voting rights in HSEL, with the remainder being held by the HRMS management team. One of the three Directors is appointed by the Group. 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 the Board accounts for the investment as a joint venture.

Waystone Hargreaves Land LLP ("the Unity JV") is a material joint venture between the Group and a third party. The purpose of this joint venture is to develop land owned or controlled by each of the parties. The strategic business decisions of the joint venture are taken by the Board of the Unity JV. This is reflected in the equal representation on that Board of each investing party and the ownership of voting rights is split 50:50 between both parties.

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 Statement of Profit and Loss are stated at their fair value.

Impact of Covid-19

The Group has not seen a significant impact on its trading and results for the year ended 31 May 2022 or 31 May 2021 as a result of Covid-19. The Group continues to monitor the situation. There has been no impact of Covid-19 on the accounting estimates and judgements.

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 Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition, Note 30 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's financing is not dependent on bank borrowings, however the Group has access to a £12m invoice discounting facility, which is currently undrawn and will remain in place until 31 October 2023. Notwithstanding that, a rigorous review of cash flow forecasts including testing for a range of challenging downside sensitivities has been undertaken. Mitigating strategies to these sensitivities considered by the Board exclude any remedies which are not entirely within the Group's control. As a result, and after making appropriate enquiries including reviewing budgets and strategic plans, the Directors have a reasonable expectation that both the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the Annual Report and Accounts.

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.

Application of the Equity Method to Joint Ventures

Joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost, or fair value where cost is lower than fair value at acquisition. 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.

Parent Company Financial Statements

In the Parent Company financial statements, all investments in subsidiaries and joint ventures 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 exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Notes (forming part of the financial statements) continued

1 Accounting Policies continued

Classification of Financial Instruments Issued by the Group continued

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

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

Financial Instruments

Financial Assets

The Group classifies financial assets under the following measurement categories:

- Measured at amortised cost (non-derivative financial assets);
- Measured subsequently at fair value through either profit or loss or comprehensive income.

Recognition and Derecognition

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Non-derivative Financial Assets

Non-derivative financial assets include trade and other receivables and contract assets, as defined by IFRS 15. Neither of these two categories contain a significant financing element and, as such, expected credit losses are measured under IFRS 9 using the simplified impairment approach. This approach requires expected lifetime losses to be recognised upon the initial recognition of the asset.

At initial recognition, the Group measures a non-derivative financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The Group subsequently measures trade and other receivables and contract receivables at amortised cost.

Derivative Financial Instruments

The Group uses forward foreign currency contracts to manage its exchange rate risk.

Derivative financial instruments are recognised initially at fair value and are subsequently remeasured to fair value at each reporting date and changes therein are accounted for as described as follows.

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. The Group continues to apply IAS 39 for the purposes of hedge accounting as permitted under IFRS 9.

Non-Financial Assets

The carrying amounts of the Group's non-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 CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A CGU 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.

Intra-Group Financial Instruments

Where the Company enters into financial guarantee contracts to guarantee the liabilities (including indebtedness) of subsidiary undertakings or joint ventures, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Property, Plant and Equipment

Property, plant and equipment is 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.

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. Freehold land is not depreciated. Depreciation rates are as follows:

| | | |
|--------------------------|---|-----------------|
| Freehold buildings | – | 2% to 4% p.a. |
| Leasehold improvements | – | 15% p.a. |
| Motor vehicles and plant | – | 10% to 33% p.a. |
| Furniture and equipment | – | 25% p.a. |
| Fixtures and fittings | – | 15% p.a. |
| Mining assets | – | 10% to 33% p.a. |

Assets in the course of construction are not depreciated until they are brought into use.

Depreciation of right-of-use assets is based on the same categorisation as above using the straight-line method over the shorter of the estimated life of the asset or the lease term.

Lease Accounting Policy

The Group has relied upon the exemption under IFRS 16 to exclude the impact of low-value leases and leases that are short-term in nature (defined as leases with a term of 12 months or less). Costs on these leases are recognised on a straight-line basis as an operating expense within the Income Statement. All other leases are accounted for in accordance with this policy.

The Group has various lease arrangements for properties (e.g. office buildings and storage facilities), vehicles, and other equipment including plant and machinery. At the inception of a lease contract, the Group assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Group recognises a lease liability and a corresponding right-of-use asset with respect to all such lease arrangements in which it is a lessee.

A right-of-use asset is capitalised on the balance sheet at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of the estimated life of the asset or the lease term and are assessed in accordance with IAS 36 'Impairment of Assets' to determine whether the asset is impaired and to account for any loss.

The lease liability is initially measured at the present value of lease payments as outlined above and is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease payments comprise fixed lease rental payments only with the exception of property, which also includes the associated fixed service charge. Lease liabilities are classified between current and non-current on the balance sheet.

The key estimate applied by management relates to the assessment of the incremental borrowing rate adopted by the Group to discount the future lease rentals to present value in order to measure the lease liabilities. The weighted average rate applied by the Group at transition was 3.7%.

Sub Leases

If an underlying asset is re-leased by the Company to a third party and the Company retains the primary obligation under the original lease, the transaction is deemed to be a sublease. The Company continues to account for the original lease (the head lease) as a lessee and accounts for the sublease as a lessor (intermediate lessor). When the head lease is a short-term lease, the sublease is classified as an operating lease. Otherwise, the sublease is classified using the classification criteria applicable to Lessor Accounting in IFRS 16 by reference to the right-of-use asset in the head lease (and not the underlying asset of the head lease).

After classification lessor accounting is applied to the sublease.

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.

Investment Property

Investment properties are properties which are held with the intention to derive value from either rental income or capital appreciation, or for both. Investment properties are stated at cost less impairment. Investment properties are not remeasured to fair value at each reporting date, however, a review for impairment is carried out at each reporting date, giving consideration to the fair value of the property. An impairment is recognised when the fair value of the property is lower than the book value. Land is not depreciated.

All investment properties within the Group relate to Hargreaves Land.

Business Combinations

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

Acquisitions on or After 1 June 2010

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

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

Notes (forming part of the financial statements) continued

1 Accounting Policies continued

Business Combinations continued

Acquisitions on or After 1 June 2010 continued

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

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

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired, reflecting conditions at the date of acquisition. Adjustments to fair values include those made to bring accounting policies into line with those of the Group. Provisional fair values are finalised within 12 months of the business combination date and, where significant, are adjusted by restatement of the comparative period in which the acquisition occurred.

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 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 CGUs and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. Work in progress includes work to date on service contracts where project milestones have not yet been reached. Where necessary, provisions are made against obsolete, defective or slow-moving inventories.

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.

Cash and Cash Equivalents

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

Trade and Other Payables

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

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.

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 Maltby Colliery Limited on 26 February 2007, the Group operates a concessionary fuel retirement benefit scheme. In addition, following the acquisition of Maltby Colliery, the Group is a member of two pension schemes providing benefits based on final pensionable pay. The assets of the 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 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 year. 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.

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.

Exceptional Items

Exceptional items are defined as items of income and expenditure which are material and non-routine 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 continues to be classified as exceptional.

Revenue

Revenue is recognised when control over a product or service is transferred to the Group's customer. The value attributed to revenue is measured based on the consideration specified in the contract and excludes any amounts collected on behalf of third parties. In circumstances where consideration is not clearly defined in the contract, the revenue is subject to variability. When revenue is variable, the Group estimates the amount of consideration to be recovered. Revenue is only recognised to the extent that it is highly probable that a significant reversal in a future period will not occur. When an amendment to an existing contract arises, the Group reviews the nature of the modification and whether or not it reflects a separate or new performance obligation to be satisfied, or whether it is an amendment to an existing performance obligation.

Revenue is measured excluding value added tax, for goods and services supplied to external customers in line with the fulfilment of contractual performance obligations. All directly attributable expenses in respect of goods supplied and services provided are recognised in the Income Statement in the period to which they relate. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

The Group's activities cover a variety of disciplines, therefore, depending on the nature of the product or service delivered and the timing of when control is passed onto the customer, the Group will account for revenue both over time and at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

Notes (forming part of the financial statements) continued

1 Accounting Policies continued

Sales of Goods

Revenue is recognised at a point in time when delivery of the product has been made and title has passed to the customer. Revenue is recognised on individual sales at a point in time 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 over time as contractual performance obligations are fulfilled. A proportion of sales are subject to long-term contracts, typically on a cost-plus or similar basis. Typically, these contracts take the form of a continuing performance obligation. The revenue and profit on such contracts is recognised (and invoiced) using the input method of measuring progress on completion of the performance obligation. Profit is recognised in line with the recognition of revenue allocating costs to each separate performance obligation as appropriate. Any losses on 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 over time by reference to the fulfilment of performance obligations using the input method of estimating progress of delivery at the reporting date. Costs are recognised as incurred, and revenue is recognised using the input 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. Revenue includes an assessment of any variable consideration which may become receivable based upon relevant performance measures. Variable consideration is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised. Provision is made for all known or expected losses on contracts as soon as they are foreseen. These provisions are reviewed throughout the contract life and are adjusted as required. However, the nature of the risks on contracts are such that it is often not possible to resolve them until the end of the contract and therefore the provisions may not reverse until the contract is concluded.

Rental Income

Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Government Grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. The Group received UK Government grants in relation to the Coronavirus Job Retention Scheme. The Group did not benefit directly from any other forms of UK Government assistance. There are no unfulfilled conditions and other contingencies attaching to the Government assistance that has been recognised.

Property

Sales of freehold land and properties are recognised at a point in time upon legal completion.

Rebates

From time to time the Group may offer a rebate on the sale of goods. The rebate is recognised at the point of sale as a reduction in revenue recorded. Should the rebate not become due then additional revenue is booked to reflect this at the point at which it becomes clear the rebate will not be payable.

Contract Assets

Contract assets represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

Contract Liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Net Finance Costs

Net finance costs comprise interest payable, finance charges on 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 where 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. The effect is not deemed material for any of the Group's provisions.

Restoration and Rehabilitation Costs

The previous mining, extraction and processing activities of the Group gave 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.

Restoration provisions are adjusted for changes in estimates, which are accounted for as a change in the corresponding capitalised cost within non-current assets, 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 and changes in the estimated cost and scope of anticipated activities.

Adopted IFRSs Not Yet Applied

Certain new accounting standards and interpretations have been published that are not mandatory for 31 May 2022 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 Services, Hargreaves Land, Unallocated and HSEL.

- **Services:** Provides materials handling, mechanical and electrical engineering, land restoration, logistics and bulk earthmoving into the energy, environmental, infrastructure and industrial sectors.
- **Hargreaves Land:** The development and realisation of value from the land portfolio including rental income from investment properties and the share of profit of the Unity joint venture.
- **Unallocated:** The corporate overhead contains the central functions that are not devolved to the individual business units.
- **Hargreaves Services Europe ("HSEL"):** The Group's share of its German joint venture, which includes HRMS.

These segments are combinations of subsidiaries and joint ventures. They have separate management teams and provide different products and services. The four operating segments are also reportable segments.

Notes (forming part of the financial statements) continued

2 Segmental Information continued

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

| | Services 2022 £000 | Hargreaves Land 2022 £000 | Unallocated 2022 £000 | HSEL 2022 £000 | Total 2022 £000 |
|---|--------------------------|---------------------------------|-----------------------------|----------------------|-----------------------|
| Revenue | | | | | |
| Total revenue | 163,800 | 15,100 | – | – | 178,900 |
| Intra-segment revenue | (992) | – | – | – | (992) |
| Revenue from external customers | 162,808 | 15,100 | – | – | 177,908 |
| Operating profit/(loss) (before exceptional items) | 8,011 | 1,211 | (4,748) | – | 4,474 |
| Share of profit in joint ventures (net of tax) | – | 858 | – | 27,342 | 28,200 |
| Net finance (expense)/income | (468) | 58 | 463 | – | 53 |
| Exceptional items | 1,754 | – | – | – | 1,754 |
| Profit/(loss) before taxation from continuing operations | 9,297 | 2,127 | (4,285) | 27,342 | 34,481 |
| Taxation | 3,343 | (3,546) | 550 | – | 347 |
| Profit/(loss) after taxation | 12,640 | (1,419) | (3,735) | 27,342 | 34,828 |
| Depreciation and impairment charge | (8,344) | (100) | (222) | – | (8,666) |
| Capital expenditure | (13,507) | (1,165) | (154) | – | (14,826) |
| Net assets/(liabilities) | | | | | |
| Segment assets | 79,155 | 62,505 | 68,706 | – | 210,366 |
| Segment liabilities | (70,104) | (7,391) | (8,118) | – | (85,613) |
| Segment net assets | 9,051 | 55,114 | 60,588 | – | 124,753 |
| Joint ventures | – | 4,836 | – | 53,547 | 58,383 |
| Total net assets | 9,051 | 59,950 | 60,588 | 53,547 | 183,136 |

Unallocated net assets of £60.6m include cash and cash equivalents of £13.8m, deferred tax asset of £11.1m, amounts due from Jointly Controlled Entities of £29.3m, a net pension asset of £7.7m, deferred tax liability of £1.9m and other corporate items (£0.6m asset).

| | Services 2021 £000 | Hargreaves Land 2021 £000 | Unallocated 2021 £000 | HSEL 2021 £000 | Total 2021 £000 |
|--|--------------------------|---------------------------------|-----------------------------|----------------------|-----------------------|
| Revenue | | | | | |
| Total revenue | 194,600 | 11,800 | – | – | 206,400 |
| Intra-segment revenue | (1,604) | – | – | – | (1,604) |
| Revenue from external customers | 192,996 | 11,800 | – | – | 204,796 |
| Operating profit/(loss) (before exceptional items and impairment) | 6,691 | 2,530 | (4,470) | – | 4,751 |
| Share of profit in joint ventures (net of tax) | – | 4,069 | – | 13,611 | 17,680 |
| Net finance (expense)/income | (1,614) | (338) | 716 | – | (1,236) |
| Impairment of intangibles | (4,635) | – | – | – | (4,635) |
| Exceptional items | (2,186) | – | – | – | (2,186) |
| Profit/(loss) before taxation from continuing operations | (1,744) | 6,261 | (3,754) | 13,611 | 14,374 |
| Taxation | 591 | (114) | 1,555 | – | 2,032 |
| Profit/(loss) after taxation | (1,153) | 6,147 | (2,199) | 13,611 | 16,406 |
| Depreciation charge | (6,135) | (103) | (323) | – | (6,561) |
| Capital expenditure* | (5,011) | (1,215) | (216) | – | (6,442) |
| Net assets/(liabilities) | | | | | |
| Segment assets | 77,900 | 55,820 | 54,800 | – | 188,520 |
| Segment liabilities | (60,078) | (6,990) | (8,343) | – | (75,411) |
| Segment net assets | 17,822 | 48,830 | 46,457 | – | 113,109 |
| Joint ventures | – | 4,051 | – | 27,136 | 31,187 |
| Total net assets | 17,822 | 52,881 | 46,457 | 27,136 | 144,296 |

* Upon review of the prior year segmental capital expenditure disclosure it was identified that this note only included capital expenditure relating to property, plant, and equipment. As such a restatement has been undertaken during the year to show total capital expenditure of property, plant, and equipment, right of use assets and investment properties. There is no other impact on the financial statements.

Unallocated net assets of £46.5m include cash and cash equivalents of £28.3m, deferred tax asset of £10.1m, amounts due from Jointly Controlled Entities of £14.5m, VAT liability of £3.8m and other corporate items (£2.6m liability).

The following table analyses revenue by significant category:

| | 2022 £000 | 2021 £000 |
|------------------------|----------------|--------------|
| Sale of goods | 36,123 | 83,589 |
| Provision of services | 103,286 | 93,170 |
| Rental income | 609 | 211 |
| Construction contracts | 37,890 | 27,826 |
| | 177,908 | 204,796 |

The timing of revenue recognition is analysed as follows:

| | Services 2022 £000 | Hargreaves Land 2022 £000 | Total 2022 £000 |
|--------------------|--------------------------|------------------------------------|-----------------------|
| Over time | 74,953 | 13,857 | 88,810 |
| At a point in time | 87,855 | 1,243 | 89,098 |
| Revenue | 162,808 | 15,100 | 177,908 |

| | Services 2021 £000 | Hargreaves Land 2021 £000 | Total 2021 £000 |
|--------------------|--------------------------|------------------------------------|-----------------------|
| Over time | 77,000 | 9,565 | 86,565 |
| At a point in time | 115,996 | 2,235 | 118,231 |
| Revenue | 192,996 | 11,800 | 204,796 |

Geographical Information

| | 2022 | | 2021 | |
|----------------|-----------------|-------------------------------|-----------------|-------------------------------|
| | Revenue £000 | Non-current assets £000 | Revenue £000 | Non-current assets £000 |
| UK | 150,498 | 128,041 | 142,295 | 83,737 |
| Europe | 2,427 | – | 34,971 | – |
| Hong Kong | 22,436 | 224 | 25,387 | 445 |
| Other overseas | 2,547 | 909 | 2,143 | 13 |
| | 177,908 | 129,174 | 204,796 | 84,195 |

3 Other Operating Income/(Expense)

| | 2022 £000 | 2021 £000 |
|---|--------------|--------------|
| Profit on disposal of property, plant and equipment | 308 | 860 |
| Profit on disposal of investment property | 990 | 3,041 |
| Loss on disposal of right-of-use assets | – | (234) |
| Profit on disposal of subsidiary undertakings | – | 154 |
| Total other operating income | 1,298 | 3,821 |

Notes (forming part of the financial statements) continued

4 Expenses and Auditors' Remuneration

The following items have been charged to the Statement of Profit and Loss:

| | 2022 £000 | 2021 £000 |
|---|--------------|--------------|
| Impairment of goodwill and other intangibles | – | 4,635 |
| Impairment of property, plant and equipment owned | 1,531 | – |
| Depreciation of property, plant and equipment owned | 2,513 | 2,604 |
| Depreciation of right-of-use assets | 4,622 | 3,493 |
| Depreciation of mining assets and mineral reserves | – | 465 |
| Interest payable on right-of-use leases | 537 | 577 |
| Expense relating to short-term leases | 4,191 | 2,845 |
| Expense relating to leases of low-value assets that are not shown above as short-term | 1,287 | 676 |

Auditors' Remuneration:

| | 2022 £000 | 2021 £000 |
|---|--------------|--------------|
| Audit of these financial statements | 91 | 116 |
| Amounts receivable by the Company's auditor and its associates in respect of: | | |
| Audit of financial statements of subsidiaries of the Company | 252 | 289 |
| Audit of financial statements of joint ventures of the Company | 222 | 166 |
| Taxation compliance services | 7 | – |
| Other assurance services | 9 | 25 |

5 Exceptional Items

The Group incurred one exceptional item in each year as follows:

| | 2022 £000 | 2021 £000 |
|--|--------------|--------------|
| Exceptional item in Cost of sales | | |
| Losses on legacy contracts in C.A. Blackwell (Contracts) Limited | – | (2,186) |
| Total exceptional item in Cost of sales | – | (2,186) |
| Exceptional item in Administrative expenses | | |
| Release of accrual relating to a liability from the year ended 31 May 2015 | 1,754 | – |
| Total exceptional item in Administrative expenses | 1,754 | – |
| Total | 1,754 | (2,186) |

In the year ending 31 May 2022, an aged accrual dating from the year ended 31 May 2015 totalling £1,754,000 was released as the potential for payment had lapsed due to time.

In the year ending 31 May 2021, further losses were recognised on the legacy contracts within C.A. Blackwell (Contracts) Limited resulting in costs of £2,186,000.

6 Staff Numbers and Costs

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

| | Number of employees Group | |
|---------------------------------|---------------------------|-------|
| | 2022 | 2021 |
| Directors and senior management | 17 | 19 |
| Administration | 234 | 216 |
| Production | 979 | 1,032 |
| | 1,230 | 1,267 |

The aggregate payroll costs of these persons were as follows:

| | Group | |
|--|---------------|--------------|
| | 2022 £000 | 2021 £000 |
| Wages and salaries | 48,756 | 51,819 |
| Share-based payments (see Note 27) | 349 | 218 |
| Social security costs | 3,834 | 3,963 |
| Contributions to defined contribution pension scheme (see Note 26) | 1,696 | 2,113 |
| Expenses of defined benefit pension schemes (see Note 26) | 341 | 141 |
| | 54,976 | 58,254 |

The Company has no employees (2021: nil).

7 Directors' Remuneration

| | 2022 £000 | 2021 £000 |
|---|--------------|--------------|
| Directors' emoluments | 3,034 | 2,183 |
| Emoluments in lieu of Company pension contributions | 205 | 205 |
| | 3,239 | 2,388 |

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £1,152,000 (2021: £997,000), and £118,000 (2021: £118,000) was paid in lieu of Company pension contributions.

The detailed breakdown of the Directors' total emoluments is included within the Remuneration Report.

| | Number of Directors | |
|---|---------------------|------|
| | 2022 | 2021 |
| The number of Directors who exercised share options was | 3 | – |
| The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes was | 4 | 4 |

One Director holds rights to subscribe for 29,704 shares in the Group as a result of options which have vested but have not yet been exercised (2021: nil).

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

8 Finance Income and Expense Recognised in Profit or Loss

| | 2022 £000 | 2021 £000 |
|--|--------------|--------------|
| Finance income | | |
| Bank interest receivable | 94 | 114 |
| Early settlement discount | 179 | 228 |
| Foreign exchange gain | – | 96 |
| Interest received from jointly controlled entities | 531 | 208 |
| Interest on defined benefit pension scheme obligation (see Note 26) | 19 | – |
| Total finance income | 823 | 646 |
| Finance expense | | |
| Total interest expense on financial liabilities measured at amortised cost | 26 | 1,263 |
| Interest payable on leases | 537 | 577 |
| Foreign exchange loss | 207 | – |
| Interest on defined benefit pension scheme obligation (see Note 26) | – | 42 |
| Total finance expense | 770 | 1,882 |

Notes (forming part of the financial statements) continued

9 Taxation

Recognised in the Income Statement

| | 2022 £000 | 2021 £000 |
|---|----------------|--------------|
| Current tax | | |
| Current year | 212 | 57 |
| Adjustments for prior years | (4) | 8 |
| Current tax expense | 208 | 65 |
| Deferred tax | | |
| Origination and reversal of temporary timing differences | 1,542 | 764 |
| Impact of increase in tax rate | – | (2,736) |
| Adjustments for prior years | (2,097) | (125) |
| Deferred tax credit | (555) | (2,097) |
| Tax credit in Income Statement (excluding share of tax of equity accounted investees) | (347) | (2,032) |

The deferred tax adjustment in respect of prior years of £2,097,000 relates to losses assumed to be utilised in the previous year, which were ultimately retained.

Recognised in Other Comprehensive Income

| | 2022 £000 | 2021 £000 |
|--|----------------|--------------|
| Deferred tax expense | | |
| Effective portion of changes in fair value of cash flow hedges | (8) | (25) |
| Remeasurements of defined benefit pension schemes | (1,488) | (319) |
| | (1,496) | (344) |

Reconciliation of Effective Tax Rate

| | 2022 £000 | 2021 £000 |
|--|----------------|--------------|
| Profit for the year from continuing operations | 34,828 | 16,406 |
| Total tax credit | (347) | (2,032) |
| Profit before taxation from continuing operations | 34,481 | 14,374 |
| Tax using the UK corporation tax rate of 19.00% (2021: 19.00%) | 6,551 | 2,731 |
| Effect of tax rates in foreign jurisdictions | 37 | (143) |
| Tax effect of joint ventures | (5,194) | (2,586) |
| Previously unrecognised tax losses | 136 | (92) |
| Non-deductible expenses | 407 | 894 |
| Impact of change in tax rates | – | (2,736) |
| Other temporary trading differences | (183) | 17 |
| Adjustment in respect of previous periods | (2,101) | (117) |
| Effective total tax credit | (347) | (2,032) |

The UK corporation tax rate has been 19.00% for the duration of the financial year (2021: 19.00%).

Factors That May Affect Future Current and Total Tax Charges

Following the March 2021 budget, the corporate tax rate will increase from 19% to 25% with effect from 1 April 2023. The deferred tax balances at 31 May 2022 and 31 May 2021 have been calculated based on the rate substantively enacted at the balance sheet date of 25%.

10 Discontinued Operations

All discontinued operation results are attributable to equity holders. The Group's discontinued operations made a profit of £2,000,000 (2021: £nil) after tax during the year.

The profit from discontinued operations represents the contingent consideration received following the disposal of Brockwell Energy Limited ("Brockwell"). The Company disposed of the whole of its shareholding in Brockwell on 19 October 2018 with contingent consideration of £2m which was received in the year ending 31 May 2022. There are no remaining balances relating to this matter.

| | 2022 £000 | 2021 £000 |
|---|--------------|--------------|
| Proceeds from disposal of subsidiary | 2,000 | – |
| Profit before tax of discontinued operations | 2,000 | – |
| Current tax charge | – | – |
| Profit for the year from discontinued operations | 2,000 | – |

11 Earnings Per Share

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

| | 2022 | | | 2021 | | |
|---|------------------|---------------|---------------|------------------|--------------|---------------|
| | Earnings £000 | EPS Pence | DEPS Pence | Earnings £000 | EPS Pence | DEPS Pence |
| Underlying earnings per share from continuing operations | 33,407 | 103.23 | 100.18 | 22,832 | 70.66 | 68.64 |
| Exceptional items, fair value adjustments and impairment (net of tax) | 1,421 | 4.39 | 4.26 | (6,406) | (19.82) | (19.26) |
| Continuing basic earnings per share | 34,828 | 107.62 | 104.44 | 16,426 | 50.84 | 49.38 |
| Discontinued operations | 2,000 | 6.18 | 6.00 | – | – | – |
| Basic earnings per share | 36,828 | 113.80 | 110.44 | 16,426 | 50.84 | 49.38 |
| Weighted average number of shares | | 32,362 | 33,347 | | 32,312 | 33,262 |

The calculation of weighted average number of shares includes the effect of own shares held of 611,118 (2021: 827,150).

The calculation of diluted earnings per share ("DEPS") is based on the profit for the year and the weighted average number of ordinary shares in issue in the year. The potentially dilutive effect of the share options outstanding (effect on weighted average number of shares) is 985,056 (2021: 950,750); effect of basic earnings per ordinary share in the current year is 3.36p (2021: 1.46p). Effect on underlying earnings per ordinary share is 3.05p (2021: 2.02p). Effect on discontinued operations per ordinary share for 2022 is 0.18p (2021: nil).

Notes (forming part of the financial statements) continued

12 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 | Mineral reserves £000 | Total £000 |
|--|--|---------------------------------|----------------------------------|-------------------------------|-----------------------|--------------------------|---------------|
| Cost | | | | | | | |
| At 1 June 2020 | 11,797 | 4,751 | 29,916 | 453 | 14,208 | 2,335 | 63,460 |
| Acquisitions | 69 | 283 | 3,242 | 26 | – | – | 3,620 |
| Disposals | (28) | (736) | (9,207) | (12) | (14,208) | (2,335) | (26,526) |
| Transfers | – | 62 | – | (62) | – | – | – |
| Effect of movements in foreign exchange | (2) | (25) | 94 | (3) | – | – | 64 |
| At 31 May 2021 | 11,836 | 4,335 | 24,045 | 402 | – | – | 40,618 |
| At 1 June 2021 | 11,836 | 4,335 | 24,045 | 402 | – | – | 40,618 |
| Acquisitions | – | 168 | 1,307 | 4 | – | – | 1,479 |
| Disposals | (494) | (936) | (1,864) | – | – | – | (3,294) |
| Transfers to right-of-use assets and investment properties | (38) | – | (811) | – | – | – | (849) |
| Effect of movements in foreign exchange | – | 14 | 107 | 4 | – | – | 125 |
| At 31 May 2022 | 11,304 | 3,581 | 22,784 | 410 | – | – | 38,079 |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 June 2020 | 4,942 | 4,317 | 22,137 | 425 | 13,743 | 2,335 | 47,899 |
| Depreciation | 303 | 312 | 1,978 | 11 | 465 | – | 3,069 |
| Disposals | (12) | (708) | (6,998) | – | (14,208) | (2,335) | (24,261) |
| Transfers | – | 62 | – | (62) | – | – | – |
| Effect of movements in foreign exchange | – | (12) | 119 | (2) | – | – | 105 |
| At 31 May 2021 | 5,233 | 3,971 | 17,236 | 372 | – | – | 26,812 |
| At 1 June 2021 | 5,233 | 3,971 | 17,236 | 372 | – | – | 26,812 |
| Depreciation | 453 | 206 | 1,844 | 10 | – | – | 2,513 |
| Impairment | 356 | – | 1,175 | – | – | – | 1,531 |
| Disposals | (88) | (936) | (1,762) | – | – | – | (2,786) |
| Transfers to right-of-use assets | (11) | – | – | – | – | – | (11) |
| Effect of movements in foreign exchange | (3) | 29 | 58 | (2) | – | – | 82 |
| At 31 May 2022 | 5,940 | 3,270 | 18,551 | 380 | – | – | 28,141 |
| Net book value | | | | | | | |
| At 1 June 2020 | 6,855 | 434 | 7,779 | 28 | 465 | – | 15,561 |
| At 31 May 2021 | 6,603 | 364 | 6,809 | 30 | – | – | 13,806 |
| At 31 May 2022 | 5,364 | 311 | 4,233 | 30 | – | – | 9,938 |

The Company has no property, plant and equipment.

13 Right-of-Use Assets Group

| | Land and buildings £000 | Motor vehicles and plant £000 | Total £000 |
|--|----------------------------|----------------------------------|---------------|
| Cost | | | |
| At 1 June 2020 | 1,711 | 24,134 | 25,845 |
| Additions | 1,199 | 1,233 | 2,432 |
| Disposals | (48) | (3,308) | (3,356) |
| Effect of movements in foreign exchange | (22) | (8) | (30) |
| At 31 May 2021 | 2,840 | 22,051 | 24,891 |
| At 1 June 2021 | 2,840 | 22,051 | 24,891 |
| Additions | 497 | 11,779 | 12,276 |
| Disposals | (131) | (3,152) | (3,283) |
| Transfer from fixed assets | – | 811 | 811 |
| Effect of movements in foreign exchange | (11) | (34) | (45) |
| At 31 May 2022 | 3,195 | 31,455 | 34,650 |
| Accumulated depreciation and impairment | | | |
| At 1 June 2020 | 1,250 | 8,750 | 10,000 |
| Depreciation | 494 | 2,999 | 3,493 |
| Disposals | (48) | (2,321) | (2,369) |
| Effect of movements in foreign exchange | (7) | (2) | (9) |
| At 31 May 2021 | 1,689 | 9,426 | 11,115 |
| At 1 June 2021 | 1,689 | 9,426 | 11,115 |
| Depreciation | 602 | 4,020 | 4,622 |
| Disposals | (131) | (3,063) | (3,194) |
| Transfer from fixed assets | – | 11 | 11 |
| Effect of movements in foreign exchange | 24 | 10 | 34 |
| At 31 May 2022 | 2,184 | 10,404 | 12,588 |
| Net book value | | | |
| At 1 June 2020 | 461 | 15,384 | 15,845 |
| At 31 May 2021 | 1,151 | 12,625 | 13,776 |
| At 31 May 2022 | 1,011 | 21,051 | 22,062 |

The Group leases various offices, warehouses, stores, equipment and vehicles.

The Company has no right-of-use assets.

Security

The Group's ROU assets are used to secure some of its interest-bearing loans and borrowings (see Note 24).

Notes (forming part of the financial statements) continued

14 Investment Property

| | Group | | Company | |
|----------------------------|--------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| At 31 May | 7,607 | 9,216 | – | – |
| Additions | 1,070 | 390 | – | – |
| Disposals | (417) | (1,999) | – | – |
| Transfer from fixed assets | 38 | – | – | – |
| At 31 May | 8,298 | 7,607 | – | – |

The fair value of the Investment Properties is estimated by the Directors at £14,128,000 (2021: £13,404,000). The increase in the estimated fair value is due to the net additions made in the year.

15 Intangible Assets Including Goodwill

| Group | Goodwill £000 | Customer contracts £000 | Total Cost £000 |
|--|------------------|-------------------------------|--------------------|
| Cost | | | |
| At 1 June 2020 | 22,040 | 1,347 | 23,387 |
| Disposals | (3,726) | – | (3,726) |
| Foreign exchange | – | 57 | 57 |
| At 31 May 2021 | 18,314 | 1,404 | 19,718 |
| At 1 June 2021 | 18,314 | 1,404 | 19,718 |
| Disposals | – | (1,404) | (1,404) |
| At 31 May 2022 | 18,314 | – | 18,314 |
| Accumulated amortisation and impairment | | | |
| At 1 June 2020 | 12,622 | 1,347 | 13,969 |
| Impairment | 4,635 | – | 4,635 |
| Disposals | (3,726) | – | (3,726) |
| Exchange movements | (41) | 57 | 16 |
| At 31 May 2021 | 13,490 | 1,404 | 14,894 |
| At 1 June 2021 | 13,490 | 1,404 | 14,894 |
| Disposals | – | (1,404) | (1,404) |
| At 31 May 2022 | 13,490 | – | 13,490 |
| Net book value | | | |
| At 31 May 2020 | 9,418 | – | 9,418 |
| At 31 May 2021 | 4,824 | – | 4,824 |
| At 31 May 2022 | 4,824 | – | 4,824 |

The customer contract included within Intangible Assets came to an end during the year.

The Group does not have any internally generated intangible assets.

Impairment Charge

In the year ended 31 May 2021, the impairment charge is recognised in the following line item in the Income Statement:

| | 2022 £000 | 2021 £000 |
|-------------------------|--------------|--------------|
| Administrative expenses | – | 4,635 |

The Company has no intangible assets (2021: £nil).

Impairment Testing

The remaining goodwill has been allocated to Cash-Generating Units or groups of CGUs as follows:

| | Goodwill | |
|--|--------------|--------------|
| | 2022 £000 | 2021 £000 |
| Hargreaves Industrial Services Limited | 1,252 | 1,252 |
| Specialist Earthworks | 3,572 | 3,572 |
| | 4,824 | 4,824 |

The recoverable amounts of the above CGUs have been calculated with reference to their value in use. The key features of this calculation are shown below:

| Hargreaves Industrial Services Limited: | 2022 | 2021 |
|---|-----------------|----------|
| Period on which management approved forecasts are based | 5 years | 5 years |
| Discount rate | 10.5% | 12% |
| Specialist Earthworks: | 2022 | 2021 |
| Period on which management approved forecasts are based | 10 years | 10 years |
| Discount rate | 10.5% | 12% |

In order to test goodwill for impairment the Group performs value in use calculations by preparing cash flow forecasts for each CGU derived from the most recent financial budget and strategic plan approved by management going forward five years, with the exception of Specialist Earthworks which is based on a 10 year financial budget due to the nature of the business. An annual growth rate of 2% has been assumed after the relevant forecast period. The Board considers that the assumptions of growth provide management with a conservative estimate against which to compare the corresponding CGU carrying values. Sustaining maintenance capital expenditure in each CGU has been included in the calculations but no cash flows relating to enhancement capital expenditure have been included. A post-tax discount rate of 10.5% (2021: 12%) has been used in the first instance. The decrease in the discount rate is due to a change in the Group's weighting of debt to equity. Following the repayment of the Group's previous main banking facilities in the year ended 31 May 2021, there has been a decrease in the Group's cost of debt.

In the year ended 31 May 2021, management identified an impairment within the Coal 4 Energy Limited/Maxibrite goodwill and recognised a reduction of £4,635,000. Of this, £3,035,000 relates to the sale of the coal activities to HRMS, with £1,600,000 relating to the Maxibrite business.

For the year ended 31 May 2022, each of the other CGUs has substantial headroom under the annual impairment review, which remains after allowing for reasonably possible changes in assumptions.

Other than changes to the discount rate, the key assumption which would impact the carrying value of goodwill is the margin generated by each CGU. Whilst the sensitivities vary according to CGU, for a material impairment to take place the discount rate would have to increase to 30% (2021: 26%) or the assumed operating margins would have to decrease by more than 35% (2021: 20%) before any further impact on any single CGU.

The Company has no intangible assets.

16 Investments in Subsidiaries and Joint Ventures

List of Registered Offices:

| | |
|-------|--|
| 16.1 | West Terrace, Esh Winning, Durham, DH7 9PT |
| 16.2 | Tower Colliery, Tirherbert Road, Rhigos, Aberdare, CF44 9UF |
| 16.3 | Böningerstraße 29, 47051 Duisburg, Germany |
| 16.4 | Lange Lozanastraat, 142 bus 2, 2018 Antwerp, Belgium |
| 16.5 | 31F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, HK |
| 16.6 | Plac Rodla, 8/914, 70-419 Szczecin, Polska |
| 16.7 | Flat No.333, 3rd Floor, Devika Tower, 6 Nehru Place, Delhi-110019, India |
| 16.8 | 3 Nobel Boulavard, Cape Gate NE3, Vanderbijlpark, Gauteng, 1900 |
| 16.9 | Lot 6.05, Level 6, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia |
| 16.10 | Room 1117-8, 11th Floor, Tuen Mun Central Square, N0.22 Hoi Wing Road, Tuen Mun, New Territories, HK |
| 16.11 | Cp House, Otterspool Way, Watford, Hertfordshire, WD25 8JJ |
| 16.12 | Werthausser Str. 182, 47053 Duisburg, Germany |
| 16.13 | Suite 2, Park House Earls Colne Business Park, Earls Colne, Colchester, Essex, CO6 2NS |

Notes (forming part of the financial statements) continued

16 Investments in Subsidiaries and Joint Ventures continued

The Group and Company have the following investments in subsidiaries and joint ventures at the end of the year:

| Company | Address of registered office | Class of shares held | Ownership | |
|---|------------------------------|----------------------|-----------|-------|
| | | | 2022 | 2021 |
| Subsidiary undertakings | | | | |
| Hargreaves (UK) Limited | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Industrial Services Limited | 16.1 | Ordinary | 100% | 100% |
| Forward Sound Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services (HK) Limited | 16.6 | Ordinary | 100% | 100% |
| Hargreaves Land Limited | 16.1 | Ordinary | 100% | 100% |
| H Technical Resources Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Maltby Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Property Ventures Limited | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services (Westfield) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services (Castlebridge) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services (Blindwells) Limited | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services Forestry Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services South Africa (Pty) Ltd | 16.8 | Ordinary | 100% | 100% |
| Hargreaves Mining India Private Limited | 16.7 | Ordinary | 100% | 100% |
| C.A. Blackwell Group Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Industrial Services Sdn Bhd | 16.9 | Ordinary | 100% | 100% |
| Hargreaves Pension Company Limited | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Land Holdings Limited* | 16.1 | Ordinary | 100% | 100% |
| Blackwell Earthmoving Limited | 16.13 | Ordinary | 100% | 100% |
| Dormant | | | | |
| Coal 4 Energy Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Carbon Products Europe Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services Wind Farm (Damside) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services Wind Farm (Broken Cross) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services Wind Farm (Glentaggart) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services Wind Farm (House of Water) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services Wind Farm (Chalmerston) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Corporate Director Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Services (Muir Dean) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Industrial Products Limited* | 16.1 | Ordinary | 100% | 100% |
| HBLT Limited* | 16.1 | Ordinary | 100% | 100% |
| R Hanson & Son Limited* | 16.1 | Ordinary | 100% | 100% |
| HESOTT Limited* | 16.1 | Ordinary | 100% | 100% |
| HS Australia Limited* | 16.1 | Ordinary | 100% | 100% |
| H Europe Limited* | 16.1 | Ordinary | 100% | 100% |
| Joint ventures | | | | |
| Mir Trade Services Limited* | 16.1 | Ordinary | 50% | 50% |
| Hargreaves Services Europe Limited | 16.1 | Ordinary | 49% | 49% |
| Group | | | | |
| Subsidiary undertakings | | | | |
| Hargreaves (UK) Services Limited | 16.1 | Ordinary | 100% | 100% |
| The Monckton Coke & Chemical Company Limited * | 16.1 | Ordinary | 100% | 100% |
| Maltby Colliery Limited* | 16.1 | Ordinary | 100% | 100% |
| HE Contracts Limited* | 16.1 | Ordinary | 100% | 100% |
| Maxibrite Limited | 16.1 | Ordinary | 85.2% | 85.2% |
| RocPower Limited * | 16.1 | Ordinary | 85% | 85% |
| Hargreaves Carbon Products NV | 16.4 | Ordinary | 100% | 100% |
| Hargreaves Industrial Services (HK) Limited | 16.5 | Ordinary | 100% | 100% |
| Access Services (HK) Limited | 16.10 | Ordinary | 100% | 100% |
| OCCW (St Ninians) Limited * | 16.1 | Ordinary | 100% | 100% |
| OCCW (Duncanziemere) Limited * | 16.1 | Ordinary | 100% | 100% |
| OCCW (Chalmerston) Limited * | 16.1 | Ordinary | 100% | 100% |

| | Address of registered office | Class of shares held | Ownership | |
|--|------------------------------|----------------------|--------------|-------|
| | | | 2022 | 2021 |
| OCCW (Netherton) Limited * | 16.1 | Ordinary | 100% | 100% |
| OCCW (Damside) Limited * | 16.1 | Ordinary | 100% | 100% |
| OCCW (Broken Cross) Limited * | 16.1 | Ordinary | 100% | 100% |
| OCCW (House of Water) Limited * | 16.1 | Ordinary | 100% | 100% |
| C. A. Blackwell (Contracts) Limited | 16.1 | Ordinary | 100% | 100% |
| Geofirma Soils Engineering Limited * | 16.1 | Ordinary | 100% | 100% |
| Renaissance Land Regeneration Limited * | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Land (North) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Land (South) Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Power Services (HK) Limited | 16.10 | Ordinary | 100% | 100% |
| Joint ventures | | | | |
| Tower Regeneration Limited | 16.2 | Ordinary | 50% | 50% |
| Tower Regeneration Leasing Limited | 16.2 | Ordinary | 50% | 50% |
| Hargreaves Raw Material Services GmbH | 16.3 | Ordinary | 49% | 49% |
| Hargreaves Carbon Products Polska Sp. z o.o. | 16.6 | Ordinary | 49% | 49% |
| Carbon Action Ltd | 16.1 | Ordinary | 50% | 50% |
| Hargreaves Darlington Limited | 16.1 | Ordinary | 50% | 50% |
| Waystone Hargreaves Land LLP | 16.11 | Ordinary | 50% | 50% |
| DK Recycling und Roheisen GmbH | 16.12 | Ordinary | 47% | 47% |
| Hargreaves-EWT Industrieservices GmbH | 16.12 | Ordinary | 25% | 25% |
| Dormant companies | | | | |
| Metallurgical Supplies Limited* | 16.1 | Ordinary | 100% | 100% |
| Tru-Green Limited* | 16.1 | Ordinary | 100% | 100% |
| Eastgate Materials Handling Limited* | 16.1 | Ordinary | 100% | 100% |
| Hargreaves Regeneration Limited* | 16.1 | Ordinary | 100% | 100% |
| Drakelands Holdings Limited* | 16.1 | Ordinary | 100% | 100% |
| Renaissance Land Management Limited* | 16.1 | Ordinary | 100% | 100% |
| 517EPA Limited* | 16.1 | Ordinary | 100% | 100% |
| RocFuel Limited* | 16.1 | Ordinary | 50.1% | 50.1% |
| R&A Fuels Limited* | 16.1 | Ordinary | 100% | 100% |
| Squire Distribution Services Limited* | 16.1 | Ordinary | 100% | 100% |
| Har Transport Limited* | 16.1 | Ordinary | 100% | 100% |
| HS Transport Services Limited* | 16.1 | Ordinary | 100% | 100% |
| DWL Engineering Services Limited* | 16.1 | Ordinary | 100% | 100% |
| Premier Lime and Stone Company* | 16.1 | Ordinary | 100% | 100% |
| C.A. Blackwell (Plant) Limited* | 16.1 | Ordinary | 100% | 100% |
| HBR Limited* | 16.1 | Ordinary | 100% | 100% |

*These UK subsidiaries are exempt from audit by virtue of s479A of the Companies Act 2006.

Tower Regeneration Leasing Limited is a 100% owned subsidiary of Tower Regeneration Limited. Hargreaves Raw Material Services GmbH and Hargreaves Carbon Products Polska Sp. z o.o. are both 100% owned subsidiaries of Hargreaves Services Europe Limited. DK Recycling und Roheisen GmbH is a 94.9% owned subsidiary of Hargreaves Raw Materials Services GmbH. Hargreaves-EWT Industrieservices GmbH is 50% owned by Hargreaves Raw Materials Services GmbH.

The Group's share of post-acquisition total recognised profit or loss in the above jointly controlled entities for the year ended 31 May 2022 was a profit of £28,200,000 (2021: £17,680,000).

In the year ended 31 May 2021, the Group sold 100% of its shares in Hargreaves Hatfield Limited for total consideration of £154,000.

Notes (forming part of the financial statements) continued

16 Investments in Subsidiaries and Joint Ventures continued

Joint Ventures

Carrying amount of equity accounted investees:

| Group | Tower Regeneration Limited £000 | Hargreaves Services Europe Limited £000 | Waystone Hargreaves Land LLP £000 | Interests in immaterial joint ventures £000 | Total £000 |
|--|--|--|--|--|---------------|
| At 1 June 2020 | – | 14,109 | (17) | 1 | 14,093 |
| Group's share of profit in joint ventures (net of tax) | – | 13,611 | 4,069 | – | 17,680 |
| Exchange differences | – | (582) | – | (4) | (586) |
| At 31 May 2021 | – | 27,138 | 4,052 | (3) | 31,187 |
| Group | Tower Regeneration Limited £000 | Hargreaves Services Europe Limited £000 | Waystone Hargreaves Land LLP £000 | Interests in immaterial joint ventures £000 | Total £000 |
| At 1 June 2021 | – | 27,138 | 4,052 | (3) | 31,187 |
| Group's share of profit in joint ventures (net of tax) | – | 27,342 | 858 | – | 28,200 |
| Group's share of other comprehensive income | – | 3,070 | – | – | 3,070 |
| Dividends received | – | (3,917) | – | – | (3,917) |
| Exchange differences | – | (86) | – | (71) | (157) |
| At 31 May 2022 | – | 53,547 | 4,910 | (74) | 58,383 |

The Group recognised £3,070,000 other comprehensive income which relates to the Group's share of the gain on the HSEL defined benefit pension scheme.

| Group | Tower Regeneration Limited £000 | Hargreaves Services Europe Limited £000 | Waystone Hargreaves Land LLP £000 | Interests in immaterial joint ventures £000 | Total £000 |
|--|--|--|--|--|---------------|
| Hargreaves share of net assets/(liabilities) | (5,849) | 29,698 | 4,052 | (3) | 27,898 |
| Amount not recognised | 5,849 | – | – | – | 5,849 |
| Non-distributable reserves | – | (2,560) | – | – | (2,560) |
| Investment at 31 May 2021 | – | 27,138 | 4,052 | (3) | 31,187 |
| Group | Tower Regeneration Limited £000 | Hargreaves Services Europe Limited £000 | Waystone Hargreaves Land LLP £000 | Interests in immaterial joint ventures £000 | Total £000 |
| Hargreaves share of net assets/(liabilities) | (6,924) | 56,679 | 4,910 | (74) | 54,591 |
| Amount not recognised | 6,924 | – | – | – | 6,924 |
| Non-distributable reserves | – | (3,132) | – | – | (3,132) |
| Investment at 31 May 2022 | – | 53,547 | 4,910 | (74) | 58,383 |

The figures below are prepared under IFRS, all numbers are presented in £000s.

| At cost | Tower Regeneration Limited | | Waystone Hargreaves Land LLP | | Hargreaves Services Europe Limited | |
|---------------------------------|----------------------------|----------|------------------------------|----------|------------------------------------|-----------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Voting rights | 50% | 50% | 50% | 50% | 49% | 49% |
| Cash and cash equivalents | 45 | 136 | 530 | 15,606 | 5,898 | 468 |
| Other current assets | 186 | 3,056 | 15,181 | 9,167 | 217,805 | 104,860 |
| Total current assets | 231 | 3,192 | 15,711 | 24,773 | 223,703 | 105,328 |
| Non-current assets | 3,965 | 1,101 | – | – | 51,699 | 48,732 |
| Current liabilities | (21,882) | (20,874) | (5,892) | (16,670) | (155,257) | (63,617) |
| Non-current liabilities | (2,098) | (131) | – | – | (54,229) | (55,911) |
| Net (liabilities)/assets (100%) | (19,784) | (16,712) | 9,819 | 8,103 | 65,916 | 34,532 |
| Revenue* | – | 62 | 13,805 | 26,932 | 591,604 | 294,487 |
| Other expenses* | (1,282) | (906) | (12,089) | (18,795) | (533,252) | (267,085) |
| Depreciation and amortisation | – | – | – | – | (3,908) | (3,868) |
| Interest income | 1 | – | – | – | 64 | 73 |
| Interest expense | (1,296) | (1,102) | – | – | (2,173) | (2,338) |
| (Loss)/profit before tax | (2,577) | (1,946) | 1,716 | 8,137 | 52,335 | 21,270 |
| Income tax expense | – | 63 | – | – | (19,880) | (4,878) |
| Post tax (loss)/profit (100%) | (2,577) | (1,883) | 1,716 | 8,137 | 32,455 | 16,392 |

* Revenue and Other expenses for HSEL have been restated for the comparative period to correct an error. Effect is to reduce Revenue and Other Expenses by £26,808,000 each.

The total financial liabilities included in current liabilities is:

Tower Regeneration Limited £nil (2021: £nil);

Waystone Hargreaves Land LLP £nil (2021: £nil),

Hargreaves Services Europe Limited £54,757,000 (2021: £55,676,000) representing its borrowing base facility and term loans.

Included within current liabilities above and disclosed in Note 33 Related Parties are loans totalling £26.0m (2021: £11.2m) due from HRMS to Hargreaves Services plc, of which £12m was repaid post year end on 1 July 2022. Interest on the loans is currently charged at a rate of 2.2% being 1.7% over UK base rate.

Waystone Hargreaves Land LLP includes an amount of £439,000 (2021: £5,582,000) payable to Hargreaves Land North Limited, a wholly owned subsidiary. This loan is repayable on demand. Tower Regeneration Limited includes an amount of £12,716,000 (2021: £10,984,000) within current liabilities, which is due to Forward Sound Limited, a wholly owned subsidiary undertaking.

The Group also has a non-material interest in the following companies: Tower Regeneration Leasing Limited, MIR Trade Services Limited, Carbon Action Limited and Hargreaves Darlington Limited.

| Company | Group undertakings £000 | Joint ventures £000 |
|---|----------------------------|------------------------|
| Shares at cost and net book value | | |
| At 1 June 2020 | 29,940 | 4,984 |
| Capital contribution arising on share options (Note 27) | 218 | – |
| Impairment | (9,149) | – |
| At 31 May 2021 | 21,009 | 4,984 |
| At 1 June 2021 | 21,009 | 4,984 |
| Capital contribution arising on share options (Note 27) | 349 | – |
| Investment in Blackwell Earthmoving Limited | 10,000 | – |
| At 31 May 2022 | 31,358 | 4,984 |

The capital contribution arising on share options is as a result of the share-based payment charge during the year. Following the sale of speciality coal inventory to HRMS in the year ended 31 May 2021 and the cessation of all material coal related revenue activities, the parent company impaired its investment in Coal 4 Energy Limited in the prior year by £9,149,000. On 26 October 2021, Blackwell Earthmoving Limited issued 10,000,000 ordinary shares of £1 each to Hargreaves Services plc, its parent company. The consideration was satisfied by converting £10m of loan due by Blackwell Earthmoving Limited to Hargreaves Services plc.

Notes (forming part of the financial statements) continued

17 Other Financial Assets

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Current | | | | |
| Currency contracts designated as fair value through profit or loss | – | 2 | – | 2 |

18 Other Financial Liabilities

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Current | | | | |
| Currency contracts designated as fair value through hedging reserve | – | 43 | – | – |

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 | |
|---|---------------|--------------|----------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Property, plant and equipment | 3,951 | 2,245 | – | – |
| Financial assets | – | 8 | – | – |
| Employee benefits | – | (11) | (1,920) | – |
| Share-based payments | 280 | 94 | – | – |
| Tax value of loss carry-forwards recognised | 6,777 | 7,488 | – | – |
| Other temporary timing differences | 55 | 260 | – | – |
| Tax assets | 11,063 | 10,084 | (1,920) | – |

Movement in Deferred Tax During the Year

| | 31 May 2021 £000 | Recognised in income £000 | Recognised in equity £000 | 31 May 2022 £000 |
|---|---------------------|---------------------------------|---------------------------------|---------------------|
| Property, plant and equipment | 2,245 | 1,706 | – | 3,951 |
| Financial assets | 8 | – | (8) | – |
| Employee benefits | (11) | (421) | (1,488) | (1,920) |
| Share-based payments | 94 | 186 | – | 280 |
| Tax value of loss carry-forwards recognised | 7,488 | (711) | – | 6,777 |
| Other temporary timing differences | 260 | (205) | – | 55 |
| Total | 10,084 | 555 | (1,496) | 9,143 |
| Deferred tax due in less than one year | | | | 2,902 |
| Deferred tax due in more than one year | | | | 6,241 |

Movement in Deferred Tax During the Prior Year

| | 31 May 2020 £000 | Recognised in income £000 | Recognised in equity £000 | 31 May 2021 £000 |
|---|---------------------|---------------------------------|---------------------------------|---------------------|
| Property, plant and equipment | 3,517 | (1,272) | – | 2,245 |
| Financial assets | 33 | – | (25) | 8 |
| Employee benefits | 715 | (407) | (319) | (11) |
| Share-based payments | 48 | 46 | – | 94 |
| Tax value of loss carry-forwards recognised | 3,723 | 3,765 | – | 7,488 |
| Other temporary timing differences | 295 | (35) | – | 260 |
| Total | 8,331 | 2,097 | (344) | 10,084 |
| Deferred tax due in less than one year | | | | 1,329 |
| Deferred tax due in more than one year | | | | 8,755 |

The Group has an unrecognised deferred tax asset of £1,798,000 relating to trading losses (2021: £1,550,000).

Company

Recognised Deferred Tax Assets and Liabilities

The Company has a deferred tax asset of £7,000 relating to the tax value of loss carry-forwards recognised (2021: £nil).

The deferred tax asset has been calculated based at the rate of 25% (2021: 25%) substantively enacted at the balance sheet date.

20 Inventories

| | Group | | Company | |
|--|---------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Raw materials and consumables | 866 | 1,245 | – | – |
| Finished goods | 328 | 1,008 | – | – |
| Properties held for development and resale | 29,282 | 24,915 | – | – |
| | 30,476 | 27,168 | – | – |

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

Changes in raw materials and consumables and finished goods recognised as cost of sales in the year amounted to £38,271,000 (2021: £52,720,000). This reduction is due to the Group's cessation of coal related activities in the year ended 31 May 2021.

The write-down of inventories to net realisable value was £nil (2021: £nil).

There were no reversals of previous write-downs in either the current or prior year.

21 Trade and Other Receivables

| | Group | | Company | |
|---|---------------|--------------|---------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Trade receivables | 30,843 | 26,832 | – | – |
| Amounts due from Group undertakings | – | – | 54,856 | 66,493 |
| Amounts due from undertakings in which the Group/Company has a participating interest | 39,992 | 34,096 | 26,509 | 11,170 |
| Other receivables | 7,426 | 573 | 47 | 17 |
| Prepayments and accrued income | 14,537 | 16,759 | – | – |
| | 92,798 | 78,260 | 81,412 | 77,680 |

Included within trade and other receivables is £4,224,000 expected to be recovered in more than 12 months.

The Group has a variety of credit terms depending on the customer. These terms range from 30 to 90 days.

Amounts due from Group undertakings to the Company are repayable on demand. No interest is charged on these balances.

Amounts due from undertakings in which the Group/Company has a participating interest are repayable on demand. Interest is charged at rates ranging between 2% and 10%.

Other receivables have increased due to the recognition of a VAT debtor of £2.8m and the invoice discounting arrangement, whereby trade debtors pay into a trust account prior to being converted into cash. The balance was £3.4m at 31 May 22 (2021: £nil).

Trade receivables are shown net of an expected credit loss allowance of £331,000 (2021: £267,000) arising from the ordinary course of business, as follows:

| | 2022 £000 | 2021 £000 |
|--------------------------|--------------|--------------|
| Group | | |
| At 1 June | 267 | 326 |
| Provided during the year | 98 | 61 |
| Released | (26) | (107) |
| Utilised during the year | (8) | (13) |
| At 31 May | 331 | 267 |

The expected credit loss allowance 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. There is no expected credit loss in respect of amounts due from Group undertakings or amounts due from undertakings in which the Group/Company has a participating interest.

Notes (forming part of the financial statements) continued

21 Trade and Other Receivables continued

The ageing of trade receivables was:

| | Gross trade receivables £000 | Expected credit losses £000 | Net trade receivables £000 |
|-------------------------------|---------------------------------|--------------------------------|-------------------------------|
| 31 May 2022 | | | |
| Group | | | |
| Not past due date | 26,076 | – | 26,076 |
| Past due date (0-90 days) | 4,752 | – | 4,752 |
| Past due date (over 90 days) | 324 | (309) | 15 |
| Individually impaired amounts | 22 | (22) | – |
| | 31,174 | (331) | 30,843 |
| 31 May 2021 | | | |
| Group | | | |
| Not past due date | 20,656 | – | 20,656 |
| Past due date (0-90 days) | 2,959 | (26) | 2,933 |
| Past due date (over 90 days) | 3,372 | (129) | 3,243 |
| Individually impaired amounts | 112 | (112) | – |
| | 27,099 | (267) | 26,832 |

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

| | 2022 £000 | 2021 £000 |
|-----------|---------------|--------------|
| UK | 27,674 | 22,041 |
| Europe | – | 163 |
| Hong Kong | 3,169 | 4,628 |
| | 30,843 | 26,832 |

Further details on the Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in Note 30.

22 Contract Assets

| | 2022 £000 |
|---|--------------|
| 31 May 2022 | |
| Group | |
| At 1 June 2021 | 1,720 |
| Transfers from contract assets recognised at the beginning of the year to receivables | (579) |
| Increase related to services provided in the year | 5,611 |
| At 31 May 2022 | 6,752 |
| 31 May 2021 | |
| Group | |
| At 1 June 2020 | 11,456 |
| Transfers from contract assets recognised at the beginning of the year to receivables | (6,334) |
| Increase related to services provided in the year | 950 |
| Impairments on contract assets recognised at the beginning of the year | (4,352) |
| At 31 May 2021 | 1,720 |

Aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £100,319,000 (2021: £66,908,000).

Progress billings and advances received from customers under open construction contracts amounted to £96,473,000 (2021: £66,329,000).

Contract liabilities being advances for which related work has not started, and billings in excess of costs incurred and recognised profits are included in deferred income and amounted to £nil (2021: £nil).

Contract assets include £1,142,000 (2021: £1,141,000) relating to retentions, of which £354,000 (2021: £354,000) are expected to be recovered in more than 12 months. The Company has no contract assets.

23 Cash and Cash Equivalents

| | Group | | Company | |
|---|---------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Cash and cash equivalents per Balance Sheet | 13,773 | 28,303 | 15 | 18,591 |
| Cash and cash equivalents per Cash Flow Statement | 13,773 | 28,303 | 15 | 18,591 |

Included in cash and cash equivalents above is £149,000 (2021: £143,000) which is held in an interest-bearing account for the Group's benefit, and which will be repaid to the Group following the completion of restoration works at the House of Water mine in Ayrshire which are due to be finished shortly.

The Group's exposure to credit and currency risk related to cash and cash equivalents is disclosed in Note 30.

24 Other Interest-Bearing Loans and Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. The Company has no interest-bearing loans and borrowings. For more information about the Group's and the Company's exposure to interest rate and foreign currency risk, see Note 30.

| | Group | | Company | |
|--------------------------------------|---------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Non-current liabilities | | | | |
| Lease liabilities | 11,045 | 8,586 | – | – |
| Current liabilities | | | | |
| Current portion of lease liabilities | 7,326 | 3,179 | – | – |

Terms and Debt Repayment Schedule

| | Currency | Nominal interest rate | Year of maturity | Face value 2022 £000 | Carrying amount 2022 £000 | Face value 2021 £000 | Carrying amount 2021 £000 |
|-------------------|----------|--------------------------|---------------------|-------------------------------|------------------------------------|-------------------------------|------------------------------------|
| Lease liabilities | Sterling | 3.7%-5.1% | 2022–2026 | 18,371 | 18,371 | 11,765 | 11,765 |

In accordance with the presentation requirements of IFRS 9, these liabilities have been classified according to the maturity date of the longest permitted refinancing. The borrowing base facility was fully repaid in the year ending 31 May 2021.

Lease Liabilities

Lease liabilities are payable as follows:

| Group | Minimum lease payments 2022 £000 | Interest 2022 £000 | Principal 2022 £000 | Minimum lease payments 2021 £000 | Interest 2021 £000 | Principal 2021 £000 |
|----------------------------|---|--------------------------|---------------------------|---|--------------------------|---------------------------|
| | Less than one year | 7,991 | (665) | 7,326 | 3,446 | (267) |
| Between one and five years | 11,459 | (414) | 11,045 | 9,014 | (428) | 8,586 |
| | 19,450 | (1,079) | 18,371 | 12,460 | (695) | 11,765 |

Notes (forming part of the financial statements) continued

24 Other Interest-Bearing Loans and Borrowings continued Changes in Liabilities From Financing Activities

| | Group | |
|--|------------------------------|---------------------------|
| | Loans and borrowings £000 | Lease liabilities £000 |
| At 1 June 2020 | 32,000 | 14,623 |
| Changes from financing cash flows | | |
| Proceeds from loans and borrowings | (32,000) | – |
| Principal elements of lease payments | – | (6,085) |
| Total changes from financing cash flows | (32,000) | (6,085) |
| Other changes | | |
| New leases | – | 3,219 |
| Interest expense | 1,263 | 577 |
| Interest paid | (1,263) | (569) |
| Total other changes | – | 3,227 |
| At 31 May 2021 | – | 11,765 |
| Changes from financing cash flows | | |
| Principal elements of lease payments | – | (5,531) |
| Total changes from financing cash flows | – | (5,531) |
| Other changes | | |
| New leases | – | 12,049 |
| Interest expense | – | 537 |
| Interest paid | – | (449) |
| Total other changes | – | 12,137 |
| At 31 May 2022 | – | 18,371 |

25 Trade and Other Payables

| | Group | | Company | |
|---|---------------|---------------------------|---------------|--------------|
| | 2022 £000 | Restated* 2021 £000 | 2022 £000 | 2021 £000 |
| Current | | | | |
| Trade payables | 9,607 | 11,247 | – | 12 |
| Amounts due to Group undertakings | – | – | 20,582 | 25,203 |
| Amounts due to undertakings in which the Group/Company has a participating interest | 429 | 8 | – | – |
| Other trade payables | 937 | 810 | – | – |
| Deferred income | 3,958 | 2,155 | – | – |
| Non-trade payables and accrued expenses | 35,796 | 35,391 | 30 | 50 |
| | 50,727 | 49,611 | 20,612 | 25,265 |

* Upon review of the prior year accruals balance it was identified that a number of items should have been classified as provisions. As such a restatement has been undertaken during the year. The impact is an increase in provisions of £3,723,000 and a corresponding reduction in non-trade payable and accrued expenses within trade and other payables. There is no impact on opening reserves.

Amounts due to Group undertakings for the Company are repayable on demand. No interest is incurred on these balances.

26 Pension Schemes and Other Retirement Benefits

Defined Contribution Scheme

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 £1,696,000 (2021: £2,113,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

Defined Benefit Schemes

The Group acquired a concessionary fuel retirement benefit scheme and became responsible for two defined benefit schemes on the acquisition of Maltby Colliery on 26 February 2007. The defined benefit schemes are part of two industry-wide schemes which relate to the coal industry. Details of these two schemes are consolidated in the tables below because the two schemes share the same characteristics and risks and as such, the disclosures have been aggregated. The Group is only liable for its own section of the scheme. Any deficit or surplus is not shared with other members of the multi-employer scheme.

In common with most company pension schemes the Industry Wide Coal Staff Superannuation Scheme ("IWCSSS") and Industry Wide Mineworkers Pension Scheme ("IWMPS") are both established as a trust under which the assets of the Scheme are held separately from those of the sponsoring employers. The management of the Scheme is the responsibility of its trustee board, the Committee of Management, who are required to manage the Scheme in accordance with its Deed and Rules. The Scheme is sectionalised so that each employer or group of associated employers has a separate sub-fund within the Scheme. Each employer is liable for the benefits accrued by its member employees but has no liability for benefits accrued in other employer sub-funds. This means that in practice each employer sub-fund effectively operates as a separate pension scheme.

The latest full actuarial valuation of these schemes was carried out at 31 December 2018 by AON Hewitt. The next triennial valuation is due to be carried out as at 31 December 2021. The 31 December 2018 valuation of the IWCSSS showed a deficit of £6.4m (previously £7.5m) and a contribution schedule was agreed at £1.4m per annum to meet the technical provisions of the scheme by 30 April 2023. The valuation of the IWMPS showed a deficit of £2.8m (previously £2.7m) and a contribution schedule was agreed at £0.4m per annum to meet the technical provisions of the scheme by 31 May 2023. For accounting purposes under IAS 19, actuaries use different assumptions than for the triennial valuation. The major difference relates to assumptions concerning the future return on the growth assets portfolio. The 2018 valuations have been used as the basis, adjusted for the requirements of IAS 19 to 31 May 2022 by a qualified independent actuary, to enable the Directors to account for the schemes as follows:

| | 2022 £000 | 2021 £000 |
|---|-----------------|--------------|
| Concessionary fuel scheme | | |
| Present value of unfunded defined benefit obligations | (2,703) | (2,867) |
| Defined benefit schemes | | |
| Present value of funded defined benefit obligations | (41,832) | (55,514) |
| Fair value of scheme assets | 52,214 | 58,425 |
| Retirement benefit obligation surplus | 10,382 | 2,911 |
| Total schemes' net position | 7,679 | 44 |

Movements in Present Value of Defined Benefit Obligation

| | 2022 £000 | 2021 £000 |
|--------------------------------------|-----------------|--------------|
| At the beginning of the year | 58,381 | 59,446 |
| Interest cost | 1,112 | 882 |
| Remeasurement (gains)/losses: | | |
| – Changes in demographic assumptions | (24) | (69) |
| – Changes in financial assumptions | (13,197) | 630 |
| – Experience | 1,074 | (1,203) |
| Benefits paid | (2,811) | (1,305) |
| At the end of the year | 44,535 | 58,381 |

Movements in the Fair Value of Scheme Assets

| | 2022 £000 | 2021 £000 |
|-------------------------------|----------------|--------------|
| At the beginning of the year | 58,425 | 55,678 |
| Net interest on scheme assets | 1,131 | 840 |
| Remeasurement (loss)/gain | (6,192) | 1,314 |
| Employer contributions | 2,002 | 2,039 |
| Benefits paid | (2,811) | (1,305) |
| Expenses paid | (341) | (141) |
| At the end of the year | 52,214 | 58,425 |

Notes (forming part of the financial statements) continued

26 Pension Schemes and Other Retirement Benefits continued

Expense Recognised in the Income Statement

| | 2022 £000 | 2021 £000 |
|--|--------------|--------------|
| Expenses paid from schemes | 341 | 141 |
| Interest (income)/expense on net defined benefit pension schemes | (19) | 42 |
| | 322 | 183 |

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

| | 2022 £000 | 2021 £000 |
|-------------------------|--------------|--------------|
| Administrative expenses | 341 | 141 |
| Financial expenses | (19) | 42 |
| | 322 | 183 |

Remeasurement gains recognised directly in equity in the Statement of Other Comprehensive Income:

| | 2022 £000 | 2021 £000 |
|------------------------|----------------|--------------|
| At 1 June | (7,382) | (9,338) |
| Recognised in the year | 5,955 | 1,956 |
| At 31 May | (1,427) | (7,382) |

Scheme Assets

The fair value of the schemes' 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 2022 £000 | Fair value at 2021 £000 |
|---|-------------------------------|-------------------------------|
| Growth assets | 29,192 | 28,766 |
| Matching assets | 22,125 | 29,131 |
| Cash | 897 | 528 |
| | 52,214 | 58,425 |
| The split between quoted and non-quoted assets: | | |
| Quoted assets | 4,353 | 3,604 |
| Non-quoted assets | 47,861 | 54,821 |
| | 52,214 | 58,425 |

The major assumptions used in this valuation were:

| | 2022 | 2021 |
|---|--------------|-------|
| Rate of increase in deferred pensions | 3.20% | 3.20% |
| Rate of increase in pensions in payment | 3.20% | 3.20% |
| Discount rate applied to scheme liabilities | 3.45% | 1.95% |
| Inflation assumption RPI | 3.45% | 3.35% |
| Inflation assumption CPI | 2.95% | 2.95% |

The assumptions used by the actuary and approved by the Board are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The inflation assumption has increased following the UK Government's consultations on Retail Price Index reforms and their likely impact. The discount rate assumption is derived from the AON GBP Select curve and is the same as that used in setting the assumption at 31 May 2022.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on the SAPS S3 actuarial tables with scaling factors of 110% (IWCSSS) and 105% (IWMPS) and include an allowance for future improvements in longevity based on the CMI 2019 projections with long-term improvement rate of 1% per annum. The same tables were used at 31 May 2021. No allowance has been made for any possible reduction in life expectancy due to Covid-19. The assumptions are equivalent to expecting a 60-year-old to live for a number of years as follows:

IWMPS

Current pensioner aged 60: 23.5 years (male), 27.2 years (female) (2021: 23.4 years (male), 27.2 years (female)).

Future retiree upon reaching 60: 24.7 years (male), 28.5 years (female) (2021: 24.7 years (male), 28.5 years (female)).

IWCSSS

Current pensioner aged 60: 24.9 years (male), 27.6 years (female) (2021: 24.9 years (male), 27.6 years (female)).

Future retiree upon reaching 60: 26.1 years (male), 28.8 years (female) (2021: 26.0 years (male), 28.8 years (female)).

Risk exposure

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. As part of the two industry-wide schemes, the schemes' assets represent an allocation of larger investment portfolios. The growth assets include equities, diversified funds and interest-bearing securities and are managed by Legal & General Investment Management, Invesco and PIMCO. These assets also include property investments. The matching assets are managed by Legal & General Investment Management and include corporate bonds, gilts and other fixed interest securities. The matching assets portfolio is designed to manage risk by matching income with certain liabilities of the schemes over a defined period. The growth assets portfolio seeks to deliver returns in excess of benchmark targets set by the independent Trustees.

Inflation risks

Some of the Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. As noted above, the matching assets portfolio is designed to manage risk by matching income with certain liabilities of the schemes over a defined period.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Sensitivity Analysis

The Directors consider the discount rate and inflation rate assumptions to be the most significant actuarial assumptions and therefore the only assumptions relevant for sensitivity analysis purposes. 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.

| | 2022 £000 | 2021 £000 |
|-----------------------------|----------------|--------------|
| Discount rate (1% increase) | 14,693 | (9,801) |
| Inflation (1% increase) | 1,179 | 9,168 |
| | 2022 £000 | 2021 £000 |
| Discount rate (1% decrease) | (2,285) | 12,734 |
| Inflation (1% decrease) | 13,738 | (8,598) |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

The Group expects to contribute approximately £1,800,000 to the defined benefit schemes in the next financial year.

The weighted average duration of the defined benefit obligation is 18 years (2021: 18 years).

The Company has no retirement benefit obligation (2021: £nil).

Notes (forming part of the financial statements) continued

27 Employee Share Schemes

The Group has established two Executive Long-Term Incentive Plans and a deferred bonus scheme. The terms and conditions of the outstanding schemes are as follows, whereby all options are settled by physical delivery of shares:

| | Date of grant | Employees entitled | Number of shares granted | Principal vesting conditions | Contractual life |
|-----------------------------------|---------------|--------------------------------|--------------------------|--|------------------|
| Deferred bonus scheme F | July 2018 | Senior employees | 60,240 | 3 years' service | 3 years |
| Share option scheme January 2019 | January 2019 | Directors | 499,801 | 3 years' service and Total Shareholder Return of between 35% and 85% | 3 years |
| Share option scheme December 2019 | December 2019 | Directors | 97,788 | 3 years' service and 50% Absolute Total Shareholder Return of between 35% and 85% and 50% Relative Total Shareholder Return of between 35% and 85% | 3 years |
| Deferred bonus scheme G | December 2019 | Senior employees | 74,470 | 3 years' service | 3 years |
| Share option scheme 2020 | August 2020 | Directors | 179,224 | 3 years' service and 50% Absolute Total Shareholder Return of between 35% and 85% and 50% Relative Total Shareholder Return of between 35% and 85% | 3 years |
| Deferred bonus scheme H | August 2020 | Senior employees | 62,448 | 3 years' service | 3 years |
| Deferred bonus scheme I | October 2020 | Senior employees | 38,835 | 3 years' service | 3 years |
| Deferred bonus scheme J | August 2021 | Senior employees | 14,820 | 3 years' service | 3 years |
| Share option scheme 2021 | August 2021 | Directors and senior employees | 146,532 | 3 years' service and 50% Absolute Total Shareholder Return of between 35% and 85% and 50% Relative Total Shareholder Return of between 35% and 85% | 3 years |

Share Option Schemes

| | 2022 Weighted average exercise price | 2022 Number of options | 2021 Weighted average exercise price | 2021 Number of options |
|--|---|------------------------------|---|------------------------------|
| Outstanding at the beginning of the year | 10p | 776,813 | 10p | 597,589 |
| Granted during the year | 10p | 146,532 | 10p | 179,224 |
| Lapsed during the year | 10p | (302,511) | 10p | – |
| Exercised during the year | 10p | (167,586) | 10p | – |
| Outstanding at the end of the year | 10p | 453,248 | 10p | 776,813 |
| Exercisable at the end of the year | 10p | 29,704 | 10p | – |

There were 146,532 options granted in the year with a weighted average exercise price of 10p per share. These options are not exercisable before 3 August 2024. There were 167,586 options exercised in the year with a weighted average market value of 572p.

Deferred Bonus Schemes

| | 2022 Weighted average exercise price | 2022 Number of options | 2021 Weighted average exercise price | 2021 Number of options |
|--|---|------------------------------|---|------------------------------|
| Outstanding at the beginning of the year | – | 174,089 | – | 163,970 |
| Granted during the year | – | 14,820 | – | 101,283 |
| Lapsed during the year | – | – | – | (61,904) |
| Exercised during the year | – | (48,446) | – | (29,260) |
| Outstanding at the end of the year | – | 140,463 | – | 174,089 |
| Exercisable at the end of the year | – | – | – | – |

The options outstanding at 31 May 2022 have an exercise price of £nil and a weighted average contractual life of 1 year 3 months. There were 14,820 options granted in the year with a weighted average exercise price of £nil. These options are not exercisable before 3 August 2024. There were 48,446 options exercised in the year with a weighted average market value of 462p.

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 in respect of the Deferred Bonus Schemes is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model. A Monte Carlo model is used for the January 2019, December 2019, August 2020 and August 2021 Share Option Schemes due to their more complex measurement characteristics involving the market conditions noted above in relation to relative Total Shareholder Return (TSR) and absolute TSR. For market based vesting conditions, such as the absolute TSR and relative TSR performance metrics, the probability of meeting these metrics and the number of awards expected to vest is taken into account when calculating the estimated fair value.

The fair value of options and the assumptions used in these calculations for the options outstanding are as follows:

| | 2019 Deferred Bonus Scheme F | 2019 January Share option scheme | 2019 December Share option scheme | 2019 Deferred Bonus Scheme G | 2020 December Share option scheme | 2020 Deferred Bonus Scheme H | 2020 Deferred Bonus Scheme I | 2021 Deferred Bonus Scheme J | 2021 August Share option scheme |
|--------------------------|---------------------------------------|---|--|---------------------------------------|--|---------------------------------------|---------------------------------------|---------------------------------------|--|
| Fair value at grant date | 3.32 | 0.34 | 1.84 | 2.69 | 1.57 | 2.02 | 1.90 | 4.51 | 4.91 |
| Exercise price | – | 0.10 | 0.10 | – | 0.10 | – | – | – | – |
| Share price | 3.54 | 2.96 | 2.85 | 2.86 | 2.22 | 2.19 | 2.06 | 5.05 | 5.21 |
| Expected volatility | 40% | 29% | 31% | 31% | 33% | 31% | 31% | 40% | 40% |
| Option life | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years |
| Expected dividend | 2% | 2.44% | 2.53% | 2.53% | 2.03% | 2.53% | 2.53% | 3.69% | 3.69% |
| Risk-free rate | 1.7% | 0.87% | 0.55% | 1.7% | 0.00% | 0.0% | 0.0% | 0.0% | 0.11% |

Volatility was calculated with reference to the Group's daily share price volatility. The weighted average share price in the year was 485p (2021: 260p).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| | Expiry date | Exercise price | Options outstanding | |
|-----------------------------------|------------------|----------------|---------------------|---------|
| | | | 2022 | 2021 |
| Deferred Bonus Scheme F | 31 May 2022 | – | – | 48,446 |
| Share option scheme January 2019 | 30 January 2024 | 10p | 29,704 | 499,801 |
| Share option scheme December 2019 | 13 December 2024 | 10p | 97,788 | 97,788 |
| Deferred Bonus Scheme G | 13 December 2024 | – | 24,360 | 24,360 |
| Share option scheme December 2020 | 5 August 2025 | 10p | 179,224 | 179,224 |
| Deferred Bonus Scheme H | 5 August 2025 | – | 62,448 | 62,448 |
| Deferred Bonus Scheme I | 1 October 2025 | – | 38,835 | 38,835 |
| Deferred Bonus Scheme J | 3 August 2024 | – | 14,820 | – |
| Share option scheme August 2021 | 3 August 2024 | 10p | 146,532 | – |
| | | | 593,711 | 950,902 |

Long-Term Incentive Plans and Deferred Bonus Schemes

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

| | 2022 £000 | 2021 £000 |
|-------------------------------|--------------|--------------|
| Share options granted in 2018 | – | 3 |
| Share options granted in 2019 | 54 | 88 |
| Share options granted in 2020 | 53 | 37 |
| Share options granted in 2021 | 114 | 90 |
| Share options granted in 2022 | 128 | – |
| | 349 | 218 |

Notes (forming part of the financial statements) continued

28 Provisions

| Group | Contract provisions £000 | Surface mining restoration £000 | Dilapidations provisions £000 | Insurance provisions £000 | Other provisions £000 | Total provisions £000 |
|-------------------------------------|-----------------------------|------------------------------------|----------------------------------|------------------------------|--------------------------|--------------------------|
| At 1 June 2021* | 5,100 | 3,087 | 128 | 579 | 2,231 | 11,125 |
| Provisions made during the year | 1,401 | 740 | 2,216 | – | 145 | 4,502 |
| Provisions utilised during the year | (376) | (1,900) | – | (15) | (1,381) | (3,672) |
| Provisions reversed | – | (171) | – | – | – | (171) |
| At 31 May 2022 | 6,125 | 1,756 | 2,344 | 564 | 995 | 11,784 |

* Upon review of the prior year accruals balance it was identified that a number of items should have been classified as provisions. As such a restatement has been undertaken during the year. The impact is an increase in provisions of £3,723,000 and a corresponding reduction in non-trade payable and accrued expenses within trade and other payables. There is no impact on opening reserves.

Included within the Surface mining restoration provision is an amount of £1,756,000 (2021: £3,087,000) that is expected to be utilised in the next 12 months. The contract provisions of £6,125,000 (2021: £5,100,000) are expected to be utilised in the next 12 months.

Provisions comprise:

1. The contract provisions represent losses expected to arise, but not yet incurred on construction contracts and other contracts where the Group has identified potential warranty, defects or performance obligations. Although these obligations are expected to be completed in the next 12 months, the nature of such obligations may mean that they take longer to be completed.
2. A £1,756,000 restoration provision relates to the surface mining obligation to restore the sites now that mining operations have ceased. This obligation is expected to be completed before 31 May 2023 although weather and operational conditions may mean that it takes longer to complete the restoration works.
3. A £2,344,000 dilapidations provision relates to property leases where there are contractual obligations to restore the property to the condition prior to the commencement of the lease. The dilapidations provision is based on a third party assessment of the cost of the work which has been carried out on behalf of the landlord.
4. The insurance provisions represent unpaid amounts for an estimated number of claims that have occurred but not yet been reported.
5. Other provisions relate to various trading related uncertainties that give rise to a potential outflow of resources.

The Company has no provisions at 31 May 2022 (2021: £nil).

29 Capital and Reserves

Share Capital

| | Group and Company ordinary shares | |
|---|--------------------------------------|----------------|
| | 2022 Number | 2021 Number |
| In issue at 1 June and 31 May | 33,138,756 | 33,138,756 |
| | 2022 £000 | 2021 £000 |
| Allotted, called up and fully paid | | |
| 32,527,638 (2021: 32,311,606) ordinary shares of 10p each (excluding own shares held) | 3,253 | 3,231 |
| Own shares held of 10p each 611,118 (2021: 827,150) | 61 | 83 |
| | 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.

At the year end the Group held 611,118 (2021: 827,150) within Treasury shares, representing own shares purchased as part of the Group's share buyback programme. These shares had a market value of £3.4m at 31 May 2022 (2021: £3.1m) and were purchased for an aggregate consideration of £3.5m (2021: £4.7m).

Share Premium

The share premium represents the excess amount paid for share capital issued at prices higher than the nominal value.

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.

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.

Share-based Payments Reserve

The Share-based Payments reserve comprises the cumulative charge in relation to the Group's long term incentive plans (Note 27). This reserve is expected to move in line with the charge recognised in the Share-based Payment charge recognised in the Income Statement.

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 paid in the year comprises:

| | 2022 £000 | 2021 £000 |
|---|--------------|--------------|
| Final dividend paid in respect of prior year but not recognised as liabilities in that year (4.5p per share (2021: 4.5p)) | 1,454 | 1,452 |
| Additional dividend paid in respect of the prior year (12.0p per share) (2021: nil) | 3,877 | – |
| Interim dividends paid in respect of the prior year (2.8p per share) (2021: 2.7p) | 906 | 873 |
| | 6,237 | 2,325 |
| Proposed final dividend (5.6p per share (2021: 4.5p)) | 1,812 | 1,454 |
| Proposed additional dividend (12.0p per share) (2021: 12.0p) | 3,883 | 3,877 |

The proposed dividends are not included in liabilities as they were not approved before the year end.

30 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 to manage its working capital requirements.

(a) Fair Values of Financial Assets and Financial Liabilities

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 2022 and 2021 all of the forward exchange contracts are considered to be Level 2 contracts. There have been no transfers between categories in the current or preceding year.

All other financial assets and financial liabilities are considered to be level 3.

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 value 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 maximum Group exposure to credit risk at the balance sheet date was £80,476,000 (2021: £63,221,000) being the total of the carrying amount of trade receivables, other receivables, contract assets and amounts due from undertakings in which the Group has a participating interest.

The maximum Company exposure to credit risk at the balance sheet date was £91,412,000 (2021: £77,680,000) being the total of the carrying amount of trade receivables, other receivables and amounts due from Group undertakings.

The allowance account for trade receivables is used to record impairment losses unless the Group or the 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

30 Financial Instruments continued

(c) Liquidity Risk

Financial Risk Management

Liquidity risk is the risk that the Group and the 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 | 2022 | | | | | | Restated* Carrying Amount £000 | 2021 | | | | |
|---|----------------------------|----------------------------------|---------------------------|--------------------------|--------------------------|-----------------------------|---|---|--|--------------------------|--------------------------|-----------------------------|
| | 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 | | Restated* Contractual cash flow £000 | Restated* 1 year or less £000 | 1 to <2 years £000 | 2 to <5 years £000 | 5 years and over £000 |
| Non-derivative financial liabilities | | | | | | | | | | | | |
| Lease liabilities | 18,371 | 19,450 | 7,991 | 8,644 | 2,815 | - | 11,765 | 12,461 | 3,446 | 2,961 | 6,054 | - |
| Trade and other payables* | 50,727 | 50,727 | 50,727 | - | - | - | 49,611 | 49,611 | 49,611 | - | - | - |
| Derivative financial liabilities | | | | | | | | | | | | |
| Forward exchange contracts used for hedging: | | | | | | | | | | | | |
| Outflow | - | - | - | - | - | - | 43 | 43 | 43 | - | - | - |
| | 69,098 | 70,177 | 58,718 | 8,644 | 2,815 | - | 61,419 | 62,115 | 53,100 | 2,961 | 6,054 | - |

* Upon review of the prior year accruals balance it was identified that a number of items should have been classified as provisions. As such a restatement has been undertaken during the year. The impact is an increase in provisions of £3,723,000 and a corresponding reduction in non-trade payable and accrued expenses within trade and other payables. There is no impact on opening reserves.

Company

| Company | 2022 | | | | | | Carrying Amount £000 | 2021 | | | | |
|---|----------------------------|----------------------------------|---------------------------|--------------------------|--------------------------|-----------------------------|----------------------------|----------------------------------|---------------------------|--------------------------|--------------------------|-----------------------------|
| | 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 | | 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 | 20,612 | 20,612 | 20,612 | - | - | - | 25,265 | 25,265 | 25,265 | - | - | - |

(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 the 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. Levels of interest-bearing borrowings are monitored to minimise the exposure to interest rate risk, when appropriate the Group will utilise interest rate swaps to mitigate the remaining risk. Currently, the Group does not have any interest rate swaps in place.

Commodity Price Risk

Commodity price risk is the risk of financial loss to the Group through open positions on the trading of 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.

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 2022

| | Euro £000 | US Dollar £000 | Hong Kong Dollar £000 | South African Rand £000 | Indian Rupee £000 | Malaysian Ringgit £000 | Total £000 |
|---|---------------|-------------------|-----------------------------|-------------------------------|-------------------------|------------------------------|---------------|
| Cash and cash equivalents | 435 | 1 | 2,718 | 738 | – | 12 | 3,904 |
| Trade receivables | – | – | 3,119 | – | – | – | 3,119 |
| Loans due from undertakings in which the Group has a participating interest | 26,042 | – | – | – | – | – | 26,042 |
| Other receivables | 12 | – | 228 | 27 | – | – | 267 |
| Prepayments and accrued income | – | – | 4,557 | 336 | – | 7 | 4,900 |
| Trade payables | – | – | (875) | (96) | – | – | (971) |
| Other trade payables | – | – | (231) | – | – | – | (231) |
| Non-trade payables and accrued expenses | (10) | – | (3,411) | (706) | – | (13) | (4,140) |
| Net exposure | 26,479 | 1 | 6,105 | 299 | – | 6 | 32,890 |

The Group has no future contracted sales or purchases denominated in a foreign currency at 31 May 2022.

31 May 2021

| | Euro £000 | US Dollar £000 | Hong Kong Dollar £000 | South African Rand £000 | Indian Rupee £000 | Malaysian Ringgit £000 | Total £000 |
|---|--------------|-------------------|-----------------------------|-------------------------------|-------------------------|------------------------------|---------------|
| Cash and cash equivalents | 1 | 1 | 2,248 | 1,442 | – | 38 | 3,730 |
| Trade receivables | 25 | – | 4,628 | 3 | – | – | 4,656 |
| Loans due from undertakings in which the Group has a participating interest | 11,170 | – | – | – | – | – | 11,170 |
| Trade receivables due from undertakings in which the Group has a participating interest | 5,873 | – | – | – | – | – | 5,873 |
| Other receivables | 12 | – | 96 | 12 | – | 35 | 155 |
| Trade payables | (14) | – | (1,069) | – | – | – | (1,083) |
| Other trade payables | – | – | (10) | – | (11) | – | (21) |
| Non-trade payables and accrued expenses | (10) | – | (4,050) | (692) | – | (6) | (4,758) |
| Balance Sheet exposure | 17,057 | 1 | 1,843 | 765 | (11) | 67 | 19,722 |
| Contracted future sales | 1,036 | – | – | – | – | – | 1,036 |
| Contracted future purchases | (799) | (889) | – | – | – | – | (1,688) |
| Gross exposure | 17,294 | (888) | 1,843 | 765 | (11) | 67 | 19,070 |
| Forward exchange contracts | 758 | 873 | (3,363) | – | – | – | (1,732) |
| Net exposure | 18,052 | (15) | (1,520) | 765 | (11) | 67 | 17,338 |

Notes (forming part of the financial statements) continued

30 Financial Instruments continued Foreign Currency Risk continued

Company

The Company's exposure to foreign currency risk is as follows.

31 May 2022

| | Euro £000 | Hong Kong Dollar £000 | South African Rand £000 | Total £000 |
|---|--------------|-----------------------------|-------------------------------|---------------|
| Trade receivables due from Group undertakings | – | – | 370 | 370 |
| Loans due from Group undertakings | – | 14 | 1,376 | 1,390 |
| Loans due from undertakings in which the Group has a participating interest | 26,042 | – | – | 26,042 |
| Trade receivables due from undertakings in which the Group has a participating interest | 458 | – | – | 458 |
| Trade payables due to Group undertakings | (983) | – | – | (983) |
| Balance sheet exposure | 25,517 | 14 | 1,746 | 27,277 |

31 May 2021

| | Euro £000 | Hong Kong Dollar £000 | South African Rand £000 | Total £000 |
|---|--------------|-----------------------------|-------------------------------|---------------|
| Trade receivables due from Group undertakings | – | – | 183 | 183 |
| Loans due from Group undertakings | – | 3,490 | 953 | 4,443 |
| Loans due from undertakings in which the Group has a participating interest | 11,170 | – | – | 11,170 |
| Trade receivables due from undertakings in which the Group has a participating interest | 201 | – | – | 201 |
| Trade payables due to Group undertakings | (983) | – | – | (983) |
| Balance sheet exposure | 10,388 | 3,490 | 1,136 | 15,014 |
| Forward exchange contracts | – | (3,363) | – | (3,363) |
| Net exposure | 10,388 | 127 | 1,136 | 11,651 |

Sensitivity Analysis

Group

A 10% weakening of the following currencies against the Pound Sterling at 31 May 2022 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 2021.

| | Equity | | Profit or loss | |
|-----|--------------|--------------|----------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| € | (2,407) | 1,641 | (2,407) | 1,641 |
| \$ | – | (1) | – | (1) |
| HKD | (555) | 408 | (555) | 408 |
| ZAR | (27) | 56 | (27) | 56 |
| INR | – | (1) | – | (1) |
| MYR | (1) | 7 | (1) | 7 |

A 10% strengthening of the above currencies against the Pound Sterling at 31 May 2022 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 | |
|---------------------------|-----------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Fixed rate instruments | | | | |
| Financial liabilities | (18,371) | (11,765) | – | – |
| | (18,371) | (11,765) | – | – |
| Variable rate instruments | | | | |
| Financial assets | 13,773 | 28,303 | 15 | 18,591 |
| | 13,773 | 28,303 | 15 | 18,591 |

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 with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2021.

| | Group | | Company | |
|---------------------|--------------|--------------|--------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Profit or loss | | | | |
| Increase/(decrease) | 210 | (74) | 93 | 79 |

(e) Cash Flow Hedges

Cash Flow Hedges – Group

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

| | Carrying amount £000 | 2022 Expected cash flows | | | | Carrying Amount £000 | 2021 Expected cash flows | | | |
|------------------------------------|----------------------------|--------------------------|-----------------------|-----------------------|-----------------------------|----------------------------|--------------------------|-----------------------|-----------------------|-----------------------------|
| | | 1 year or less £000 | 1 to <2 years £000 | 2 to <5 years £000 | 5 years and over £000 | | 1 year or less £000 | 1 to <2 years £000 | 2 to <5 years £000 | 5 years and over £000 |
| Forward exchange contracts: | | | | | | | | | | |
| Assets | – | – | – | – | 2 | 2 | – | – | – | – |
| Liabilities | – | – | – | – | (43) | (43) | – | – | – | – |
| Commodity contracts: | | | | | | | | | | |
| Liabilities | – | – | – | – | – | – | – | – | – | – |
| | – | – | – | – | (41) | (41) | – | – | – | – |

(f) Capital Management

The Group manages its capital to ensure that it 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 leasing related borrowings of £18,371,000 (2021: £11,765,000), cash and cash equivalents of £13,773,000 (2021: £28,303,000), and equity attributable to equity holders of the Parent, comprising capital, reserves and retained earnings of £183,136,000 (2021: £144,296,000).

The capital structure is reviewed regularly by the Directors. The Group's policy is to maintain gearing at levels appropriate to the business. The Directors take consideration of gearing determined as the proportion of net debt to total capital. It should be noted that the Directors review gearing taking careful account of the working capital needs and flows of the business. The Group has access to an undrawn £12m invoice discounting facility with Santander. This facility provides the Group with additional flexibility to deal with any short term working capital fluctuations. The Group's assets are not covered by any debenture and the invoice discounting facility has no associated covenants.

The Directors consider the allocation of capital delivered from asset realisation and cash flows from operations, taking into account the growth opportunities and return on capital employed in each business unit.

Notes (forming part of the financial statements) continued

31 Capital Commitments

Group

At 31 May 2022, the Group had capital commitments of £277,000 which relate to the acquisition of plant and machinery (2021: £3,583,000).

Company

At 31 May 2022, the Company had capital commitments totalling £nil (2021: £nil).

32 Contingencies

Group and Company

The Company and certain of its subsidiary undertakings have composite arrangements in connection with banking facilities. The Company acts as a guarantor, or surety, for various subsidiary undertakings and joint ventures in banking and other agreements entered into by them in the normal course of business.

The Group has performance bonds and guarantees in place in relation to various performance obligations under certain contracts. The total value of these bonds at 31 May 2022 is £2.1m (2021: £3.8m).

In relation to HRMS, the Group has provided a €5m or £4.3m (2021: €5m or £4.5m) guarantee in connection with the banking facilities of HRMS.

33 Related Parties

Identity of Related Parties With Which the Group has Transacted

The Group and the Company have a related party relationship with their subsidiaries and joint ventures (Note 16) and its Directors. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions only.

Group

Other Related Party Transactions

| | Sales to | | Purchases from | | | |
|------------------------------------|------------------------------|--------------|-------------------------------|--------------|----------------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 | | |
| Joint ventures | | | | | | |
| Tower Regeneration Limited | 381 | 720 | – | – | | |
| Waystone Hargreaves Land LLP | 136 | 109 | – | – | | |
| Hargreaves Services Europe Limited | 1,906 | 24,747 | – | – | | |
| | 2,423 | 25,576 | – | – | | |
| | Interest received from | | Interest paid to | | | |
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 | | |
| Joint ventures | | | | | | |
| Hargreaves Services Europe Limited | 531 | 208 | – | – | | |
| | Loan receivables outstanding | | Trade receivables outstanding | | Payables outstanding | |
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Joint ventures | | | | | | |
| Tower Regeneration Limited | 12,716 | 10,984 | 44 | 235 | 12 | 7 |
| Carbon Action Limited | 142 | 131 | – | – | – | – |
| Waystone Hargreaves Land LLP | – | 5,582 | 84 | 130 | 417 | – |
| Hargreaves Services Europe Limited | 26,042 | 11,160 | 964 | 5,873 | – | – |
| | 38,900 | 27,857 | 1,092 | 6,238 | 429 | 7 |

Transactions with Key Management Personnel

The Directors are the key management personnel of the Group. Details of Directors' remuneration, share options, pension benefits and other non-cash benefits can be found in Note 7. In addition to this, the element of the share-based payment charge for the year that relates to key management personnel is £192,000 (2021: £125,000) and the social security costs amounted to £65,000 (2021: £191,000). There are no other post-employment or other long-term benefits.

The Company had no transactions with key management personnel.

Company

Other Related Party Transactions

| | Receivables outstanding | | Payables outstanding | |
|----------------|-------------------------|--------------|----------------------|--------------|
| | 2022 £000 | 2021 £000 | 2022 £000 | 2021 £000 |
| Subsidiaries | 54,856 | 66,493 | 20,582 | 25,202 |
| Joint ventures | 26,509 | 11,170 | – | – |
| | 81,365 | 77,663 | 20,582 | 25,202 |

34 Ultimate Controlling Party

The Company is listed on the Alternative Investment Market of the London Stock Exchange. Material shareholders are detailed within the Directors' Report. There is no ultimate controlling party of the Group.

35 Post Balance Sheet Events

On 7 July 2022, the Group acquired 100% of the share capital of SBU Limited, which in turn is the parent of S&B Utilities Limited for total consideration of £750,000 in cash.

Alternative Performance Measure Glossary

This report provides alternative performance measures (“APMs”), which are not defined or specified under the requirements of International Financial Reporting Standards. The Board believes that these APMs provide readers with important additional information on the business.

| Alternative Performance Measure | Definition and Purpose | | |
|---------------------------------------|---|---------------------|--------------|
| Underlying profit before tax (“UPBT”) | Represents the profit before tax prior to exceptional items, fair value adjustments and impairment of intangible assets, and, in accordance with International Accounting Standards, includes the Group’s share of the post-tax profit of its German joint venture. This measure is consistent with how the business measures performance and is reported to the Board. | | |
| | | 2022 £000 | 2021 £000 |
| | | 34,481 | 14,374 |
| | Exceptional items (see Note 5) | (1,754) | 2,186 |
| | Impairment of intangible assets and goodwill | – | 4,635 |
| | Underlying profit before tax | 32,727 | 21,195 |
| Basic underlying earnings per share | Profit attributable to the equity holders of the Company prior to exceptional items and impairment of intangible assets and fair value gains on acquisition after tax divided by the weighted average number of ordinary shares during the financial year adjusted for the effects of any potentially dilutive options. See Note 11. | | |
| EBITDA | EBITDA is defined as profit before tax from continuing operations prior to charges for depreciation and impairment and interest and excludes the share of profit from jointly controlled entities and gains and losses on the sale of fixed assets. | | |
| | | 2022 £000 | 2021 £000 |
| | | 34,481 | 14,374 |
| | Depreciation and impairment | 8,666 | 6,562 |
| | Impairment of goodwill | – | 4,635 |
| | Net finance (income)/expense | (53) | 1,236 |
| | Share of profit in joint ventures (net of tax) | (28,200) | (17,680) |
| | Profit on sale of fixed assets | (1,298) | (3,667) |
| | EBITDA | 13,596 | 5,460 |
| Net debt/(cash) | Represents the net position of the Group’s cash and loan balances including leases. Calculated as follows: | | |
| | | 2022 £000 | 2021 £000 |
| | Cash and cash equivalents | 13,773 | 28,303 |
| | Non-current interest-bearing loans and borrowings | (11,045) | (8,586) |
| | Current interest bearing loans and borrowings | (7,326) | (3,179) |
| | Net (debt)/cash | (4,598) | 16,538 |
| Net Asset Value per share | Represents the Net Asset value of the Group divided by the number of shares in issue less those shares held in treasury. Calculated as follows: | | |
| | | 2022 | 2021 |
| | Total shares in issue | 33,138,756 | 33,138,756 |
| | Less shares in treasury | (611,118) | (827,150) |
| | Shares for calculation | 32,527,638 | 32,311,606 |
| | Net Asset Value per Balance Sheet | £183,136,000 | £144,296,000 |
| | Net Asset Value per share | £5.63 | £4.47 |

Notice of Annual General Meeting – Hargreaves Services plc (incorporated and registered in England and Wales under company number 4952865)

NOTICE IS GIVEN that this year's **Annual General Meeting** of Hargreaves Services plc (the **Company**) will be held at Prior's Hall, Durham Cathedral, Durham, DH1 3EH on 27 October 2022 at 11.00am to consider and, if thought fit, approve the following resolutions:

Ordinary Business

1. To adopt and receive the Directors' Report, the Strategic Report, the Directors' Corporate Governance and Remuneration Reports, the Audit & Risk Committee Report, the Auditor's Report and the Financial Statements for the year ended 31 May 2022.
2. To approve the Directors' Corporate Governance and Remuneration Reports for the year ended 31 May 2022.
3. To declare a final dividend for the year ended 31 May 2022 of 5.6 pence per ordinary share to bring the dividend for the year ended 31 May 2022 to a total of 8.4 pence per ordinary share.
4. To declare an additional dividend of 12 pence per ordinary share in respect of dividends paid to the Company by Hargreaves Services Europe Limited.
5. To re-appoint David Anderson as a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
6. To re-appoint Gordon Banham a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
7. To re-appoint Nigel Halkes as a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
8. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the next general meeting at which accounts are laid before the Company.
9. To authorise the Audit & Risk Committee of the board of directors to determine the remuneration of the auditors.
10. To authorise the directors of the Company pursuant to section 551 of the Companies Act 2006 (the Act) generally and unconditionally 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**):
 - 10.1 up to an aggregate nominal value of £1,084,255 (representing approximately one-third of the total ordinary share capital in issue (excluding shares held in Treasury) as at 22 July 2022); and
 - 10.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,168,509 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 10.1) in connection with or pursuant to an offer or invitation by way of a rights issue (as defined below), provided that such authorities conferred by this resolution 10 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 offers or agreements 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 10 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 10 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 10.

For the purposes of this resolution 10, **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 whatsoever.

11. Subject to and conditional upon the passing of resolution 10 (and in substitution for all existing like powers granted to the directors of the Company (to the extent they remain in force and unexercised)), 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 pursuant to the authority conferred upon them by resolution 10 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561(1) of the Act and sub-sections (1) – (6) of section 562 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - 11.1 pursuant to the authority conferred upon them by resolution 10.1 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561(1) of the Act and sub-sections (1) – (6) of section 562 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - 11.1.1 in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and
 - 11.1.2 (otherwise than pursuant to resolution 11.1.1) up to an aggregate nominal value of £325,276 (representing approximately 10% of the total ordinary share capital in issue (excluding shares held in Treasury) as at 22 July 2022); and
 - 11.2 pursuant to the authority conferred upon them by resolution 10.2, in connection with or pursuant to a rights issue,

as if section 561(1) of the Act and sub-sections (1) – (6) of section 562 of the Act did not apply to any such allotment, and the powers 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 offers or agreements 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 as if the power had not expired.

Notice of Annual General Meeting – Hargreaves Services plc (incorporated and registered in England and Wales under company number 4952865) continued

For the purpose of this resolution 11:

- (a) **rights issue** has the meaning given in resolution 10; 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 whatsoever.

Special Business

12. 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:

- 12.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 12 is 4,879,146 (representing approximately 15% of the total ordinary share capital in issue (excluding shares held in Treasury) as at 22 July 2022); and
- 12.2 the minimum price which may be paid for each of those Ordinary Shares (exclusive of expenses) is 10 pence; and
- 12.3 the maximum price (exclusive of expenses) which may be paid for each of those Ordinary Shares is not more than the higher of (i) 5% 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 European 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 12 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 12 had not expired.

As at the date of this Notice, as there are currently no legal restrictions due to COVID-19 on gatherings (including general meetings) in England, the Company intends to welcome shareholders at a physical in-person meeting. However, in the event that UK Government and Public Health England guidance changes in respect of COVID-19, the Company reserves its right to change the arrangements in order to comply with any such restrictions and in the interests of health and safety.

Shareholders are strongly encouraged to appoint the chair of the Meeting as their proxy with their voting instructions set out below. Appointment of a proxy will not preclude shareholders from attending and voting at the Annual General Meeting should they choose to do so.

The Board encourages shareholders to exercise their right to vote in the following ways:

- **You can cast your votes by proxy by completing the enclosed proxy form and returning it to Registrars of the Company, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD no later than 11.00am on 25 October 2022. Full details of how to vote using the proxy form can be found in the Notes to this notice on pages 97 to 99. Completion and return of the proxy form will not itself prevent shareholders from attending in person and voting at the meeting should they subsequently decide to do so.**
- **CREST members may use the CREST electronic proxy appointment service to submit their proxy appointment in respect of the Annual General Meeting as detailed in the Notes to this notice on pages 97 to 99.**

Any changes to the Annual General Meeting will be communicated to shareholders before the meeting through our website (www.hsgplc.co.uk) and, where appropriate, by RNS announcement. In the event that UK Government and Public Health England guidance changes which results in external shareholders being prohibited from attending the Annual General Meeting, we will arrange a facility for shareholders to ask questions of the Board of Directors.

26 July 2022

By order of the Board

John Samuel
Company Secretary

Registered Office:

West Terrace
Esh Winning
Durham
DH7 9PT

Registered in England and Wales No. 4952865

Notes

1. This notice is the formal notification to members of the Company's Annual General Meeting (the Meeting), its date, time and place and the matters to be considered. If you are in doubt as to what action you should take you should consult an independent adviser. As at the date of this Notice, as there are no legal restrictions in place due to COVID-19 on gatherings (including general meetings) in England, the Board is hoping to welcome shareholders in person to the Annual General Meeting. The Company will continue to monitor the impact of COVID-19 and reserves the ability to revise arrangements in relation to the Meeting should circumstances change. Any relevant updates regarding the Meeting will be available on the Company's website.
2. Resolutions 1 to 10 will be proposed as ordinary resolutions. A simple majority (being more than 50%) of votes cast must be in favour of each such resolution in order for it to be passed.
Resolutions 11 and 12 will be proposed as special resolutions. A special resolution requires 75% or more of votes cast to be in favour of such resolution in order for it to be passed.
All business proposed at the Meeting is ordinary business, pursuant to Article 24.1, save for Resolution 12. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those shareholders registered in the register of members of the Company at close of business on 25 October 2022 as holders of ordinary shares of 10 pence each in the capital of the Company shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at the time. Changes to entries in the register of members after close of business on 25 October 2022 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
3. If you are a member of the Company at the time set out in Note 2 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend and to speak and vote on your behalf at the Meeting (although shareholders are expected to be prohibited from attending the Meeting in person). You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. 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.
4. 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, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD no later than 11.00am on 25 October 2022.
5. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in Notes 10-13 below) will not in itself prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
6. 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 Registrars of the Company, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD.
7. 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 4 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
8. 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 Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD. 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.
9. 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 Neville Registrars. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD no later than 11.00am on 25 October 2022. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to Note 7 above, your appointment will remain valid.
10. 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.
11. 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 7RA11) by 11.00am on 25 October 2022. 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.
12. 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(s), 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.

Notice of Annual General Meeting – Hargreaves Services plc (incorporated and registered in England and Wales under company number 4952865) continued

13. 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).
14. 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.
15. As at 22 July 2022 (being the last business day prior to the publication of this Notice) the Company's issued share capital consisted of 32,527,638 ordinary shares (611,118 of which are held in Treasury with no voting rights). Therefore, the total voting rights in the Company as at 22 July 2022 was 32,527,638.
16. The following documents will be available for inspection at 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 explain the proposed resolutions.

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 2022 to the meeting as required by law. These financial statements on pages 46 to 93 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 2022 which is set out in full on pages 35 to 38 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 dividend for the financial year ended 31 May 2022 of 5.6 pence per ordinary share. If the meeting approves resolution 3, the dividend will be paid on 31 October 2022 to shareholders on the register of members on 23 September 2022.

Resolution 4: Additional Dividend

The Board proposes an additional dividend of 12 pence per ordinary share in respect of dividend payments received by the Company from Hargreaves Services Europe Limited. If the meeting approves resolution 4, the dividend will be paid on 31 October 2022 to shareholders on the register of members on 23 September 2022.

Resolutions 5, 6 and 7: 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. David Anderson, Gordon Banham and Nigel Halkes are offering themselves for re-appointment.

Brief biographical details of David Anderson, Gordon Banham and Nigel Halkes are set out on page 26 of this document.

Resolutions 8 and 9: Re-appointment and Remuneration of Auditors

The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the next general meeting. PricewaterhouseCoopers LLP are willing to be re-appointed for a year and resolution 8 proposes their appointment and, in accordance with standard practice, resolution 9 authorises the Audit & Risk Committee of the board of directors of the Company to determine the level of the auditors' remuneration.

Resolution 10: Renewal of Board's Authority to Allot Shares

Resolution 10.1 grants the directors authority to allot relevant ordinary shares up to an aggregate nominal amount of £1,084,255 being approximately one-third of the Company's issued ordinary share capital (excluding shares held in Treasury) as at 22 July 2022.

In line with guidance issued by the Investment Association, resolution 10.2 grants the directors authority to allot ordinary shares in connection with a rights issue up to an aggregate nominal amount of £2,168,509 (representing 21,685,091 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 10.1. This amount, before any such reduction, represents approximately two-thirds of the Company's issued ordinary share capital (excluding shares held in Treasury) as at 22 July 2022. 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 Investment Association 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 10.1, will be regarded as routine. The Investment Association 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 10.2, 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 of these authorities. The authorities granted by resolution 10 replace the existing authorities to allot shares.

Resolution 11: Disapplication of Statutory Pre-emption Rights

Resolution 11.1.1 grants the directors power to allot shares without first offering them to existing shareholders in proportion to their existing shareholdings, where such offers are made in connection with or pursuant to a pre-emptive offer of shares.

Resolution 11.1.2 permits the directors to allot shares without first offering them to existing shareholders and otherwise than in connection with a pre-emptive offer, but only up to a limit of 10% of the total ordinary share capital. Historically, the Pensions and Lifetime Savings Association (PLSA) (previously known as the National Association of Pension Funds) guidelines suggested that AIM companies should be permitted to take authority to allot up to 10% of issued share capital for cash on a non pre-emptive basis (which the Company has done each year since joining AIM). The PLSA has changed its guidance which now states that the limit should be 5% but that an additional 5% is acceptable provided that the Company confirms that it intends to use the additional 5% only in connection with an acquisition or specified capital investment which would be announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. Taking note of the PLSA's guidance, the directors are proposing that the resolution remains unchanged from that passed at last year's Annual General Meeting and in previous years.

Resolution 11.2 grants the directors power to allot those shares issued further to the powers granted to them under resolution 10.2 without first offering them to existing shareholders.

Resolution 12: Purchase of Own Shares

Resolution 12 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 Company's current financial year end, whichever is the sooner, up to a total of 4,879,146 ordinary shares. This represents approximately 15% of the issued ordinary share capital of the Company (excluding shares held in Treasury) as at 22 July 2022. 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 European 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 shares 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 shares. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively and would provide the Company with additional flexibility in the management of its capital base.

The directors will consider making use of the renewed authority pursuant to resolution 12 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.

Shareholder Information

Company Secretary

John Samuel FCA

Independent Auditors

PricewaterhouseCoopers LLP
Levels 5 and 6
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

Bankers

Santander
58/60 Briggate
Leeds
LS1 6AS

Nominated Adviser and Joint Stockbroker

Singer Capital Markets
One Bartholomew Lane
London
EC2N 2AX

Joint Stockbroker

Investec Bank plc
30 Gresham Street
London
EC2V 7QP

Registered Office

West Terrace
Esh Winning
Durham
DH7 9PT

Registrar

Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
B62 8HD

Hargreaves Services plc

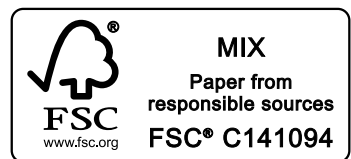
West Terrace
Esh Winning
Durham DH7 9PT
Tel: 0191 373 4485
Fax: 0191 373 3777

www.hsgplc.co.uk

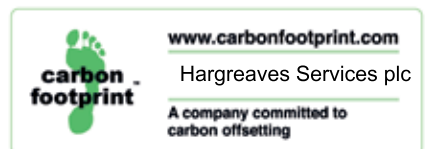
Company number: 4952865

For more information

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



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

Company number: 4952865

www.hsgplc.co.uk