Hargreaves Services plc

Source ❯ Process ❯ Distribute

Leading the way in solid fuel supply and bulk material logistics

Annual Report and Accounts 2011

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

The Group has four complementary Divisions:

Production Division
produces coal and coke and also recycles tyres for customers throughout the UK and Europe.

Revenue
£110.1m +27.7%
Underlying Operating Profit
£12.7m +50.8%

Energy & Commodities Division
provides coal, coke, minerals, smokeless fuel and biomass products to a range of industrial, wholesale and public sector energy consumers.

Revenue
£330.8m +25.3%
Underlying Operating Profit
£25.9m +16.0%

Transport Division
provides bulk logistics to UK customers.

Revenue
£78.7m +8.2%
Underlying Operating Profit
£3.8m -7.5%

Industrial Services Division
provides quality assured contract management services to the power generation, utilities, chemicals and minerals industries.

Revenue
£69.5m +15.1%
Underlying Operating Profit
£4.3m +12.9%

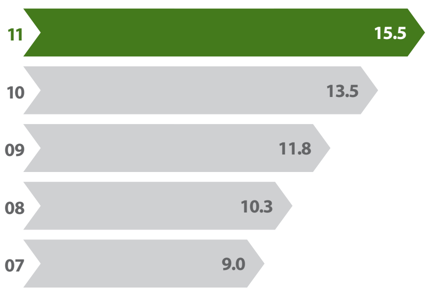
Highlights of the Year

- New working patterns and fifth shift implemented at Maltby
- Strong growth in Europe, operating profit increased 106% to £9.9m
- Coke and coal markets remain strong
- Tower project planning recommendation received
- Management contract and coal off-take contract signed with Hatfield Colliery Limited

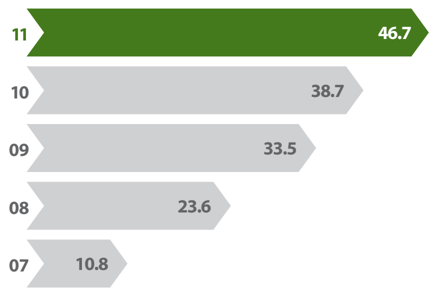
	Year ended 31 May 2011	Year ended 31 May 2010	Change %
Revenue	£552.3m	£459.8m	+20.1%
Operating Profit	£43.1m	£35.2m	+22.2%
Underlying Operating Profit[1]	£46.7m	£38.7m	+20.7%
Profit Before Tax	£36.9m	£30.7m	+20.2%
Underlying Profit Before Tax[2]	£40.5m	£34.3m	+18.1%
Diluted EPS	90.5p	75.6p	+19.7%
Underlying Diluted EPS[2]	103.7p	88.8p	+16.8%
Proposed Full Year Dividend	15.5p	13.5p	+14.8%
Net debt	£66.0m	£88.2m	–25.2%

(1) Underlying Operating Profit is stated excluding the amortisation of acquired intangibles and including share of profit in jointly controlled entities.
(2) Underlying Profit before tax and EPS are stated excluding the amortisation of acquired intangibles.

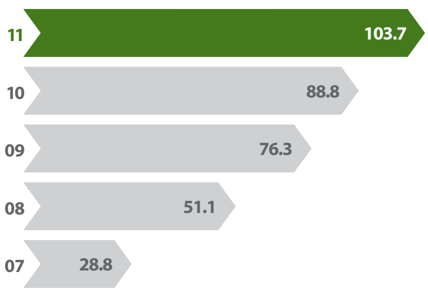
Dividend Per Share
(pence)



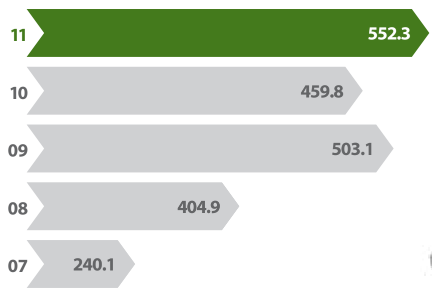
Underlying Operating Profit
(£m)



Underlying Diluted EPS
(pence)



Revenue
(£m)



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Quality, Service and Expertise

The Hargreaves Group is a fully integrated business; we source, produce, process, handle and transport a wide range of bulk materials to meet the increasingly demanding needs of today's industry. We pride ourselves on our quality, service and expertise.

Quality

It is a long time since the UK was an exporter of carbon products, but Hargreaves' reputation for quality sees us doing just that.

Service

Hargreaves is the UK leader in the delivery of bulk material handling and transport services.

Expertise

Hargreaves has built an international reputation for providing quality products to precise specifications; products perfectly aligned to the varying but exacting standards of our broad spectrum of customers – from power stations to electrical component manufacturers to steam railways.

Chairman's Statement

"Underlying diluted EPS increased by 16.8% from 88.8p to 103.7p."

Tim Ross, Chairman

Results
This has been another successful year for Hargreaves. Underlying profit before tax for the year increased 18.1% from £34.3m to £40.5m. Revenues increased by £92.5m, from £459.8m to £552.3m. Underlying diluted EPS increased by 16.8% from 88.8p to 103.7p. We are pleased to report that growth in our European operations is on track and was indeed a major contributor to this year's growth in Group profitability. Operating profit from our European operations increased 106% from £4.8m to £9.9m in the year ended 31 May 2011. We were also pleased to announce in July that we had obtained a recommendation from Rhondda Cynon Taf County Borough Council ('RCT') to approve the Tower Colliery project.

Dividend
The Board continues to balance the progressive dividend policy with the requirement to support the growth potential of the business. The Board has recommended a final dividend of 10.4 pence per share, bringing the dividend for the year to 15.5 pence per share, an increase of 14.8% on the previous year.

The final dividend is proposed to be paid on 16 November 2011 to all shareholders on the register at the close of business on 14 October 2011.

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

Board
There were no changes in the Board composition during the year ended 31 May 2011. However, in September 2011, we announced that Peter Gillatt was appointed to the Board as a Non-Executive Director. Peter brings many years of experience in a number of industry sectors that are very relevant to Hargreaves including waste, recycling, renewables and coal mining. At the same time we also announced that Nigel Barraclough would be stepping down from the Board as a Non-Executive Director and assuming a full-time operational role within the business. I would like to thank Nigel for his seven years of service to the Board and we look forward to working with Peter.

Outlook
The Board remain very excited by the Group's positioning and opportunities available to grow the business. All production from Monckton and Maltby is contracted until at least 2012, with the average contract price comfortably below the current market prices for coke and coal. We remain particularly excited by the prospects of the Group in Europe and at Tower. Whilst we will carefully monitor the short-term economic volatility, we will also continue efforts to invest to grow our operations in Europe and further afield.

Tim Ross
Chairman
14 September 2011

Group Business Review

"As a Group we continue to operate in four distinct divisions, each of which is the market leader or a major player in its sector."

Gordon Banham, Group Chief Executive

Overview

The Group extended its strong track record of growth since the flotation six years ago. Last year was another period of significant achievement. We are pleased with both the Group's financial results and the foundations for growth that have been laid down. This would not have been possible without the skill and hard work of our staff and management and I would like to take this opportunity to thank them all for their help and support over the last 12 months.

As a Group we continue to operate in four distinct divisions, each of which is the market leader or a major player in its sector. The successes of each division is testimony to the strength and depth of each of the management teams in the Group. Not only are the individual efforts of each division important, the way they interact as a team is unique in the energy sector and sets Hargreaves apart from its competitors.

Progress Against Targets

Last year we set ourselves four main goals. The first was to demonstrate the cash generative nature of our business model whilst the other three related to delivering growth in three areas; Europe, Renewables and the Tower project.

Our cash generation was in line with targets last year. Following a period of heavy investment at Maltby last year we saw our capital expenditure drop back in line with depreciation. Despite a rise in commodity prices, we managed our working capital tightly and we were able to achieve the targets we had set ourselves.

Looking at our performance in delivering growth in Europe, I am delighted to report that the European business grew strongly last year. Operating profit increased from £4.8m to £9.9m, growth of over 100%. This was driven by success in trading both coke and specialised coal as we expanded our already successful UK model into the significantly larger markets of Europe. We believe the European market offers significant potential for the Group and will continue to be a core element of our growth strategy.

In contrast to progress made in Europe, as we indicated last year, further investment by the Group in renewable energy projects such as Rocpower is on hold as we await the outcome of the Government's policy review and its results to be passed into primary legislation. We will be undertaking a strategic review of the opportunity and strategy in the renewable sector once the next round of legislative review is completed. Nigel Barraclough in his new executive role will be leading that review.

At Tower, although the planning decision took longer to deliver than we had targeted, we are delighted to have received the positive recommendation. We are excited by the prospects offered by the Tower project, not just because of the attractiveness and scale of the site but also due to the potential high quality of the coal that will be extracted. The Group is well placed to help the joint venture, offering significant synergies through the marketing of production into the power station and specialist niche markets. Once the planning permission is finalised, we are confident that the project will contribute significant profits for many years to come and it is discussed in more detail below.

The Future for Coal

Solid fuels of many types play an important role in our business. Whilst we wait for biomass and waste derived fuels to assume a greater market share, coal remains a key profit generator for the Group so it is worth summarising our view on the outlook for coal.

In the Energy & Commodities Division, although it is likely that the coal consumption by UK power stations will decline significantly over the coming years we expect the market that will exist for the foreseeable future will be of sufficient size to allow us to maintain

Senior Management Perspective

Energy & Commodities

Steve Anson
Managing Director

I first became acquainted with Hargreaves as a customer of the Group whilst working as a director at Anglo-American's Tarmac business. I was impressed with the drive and dynamism, applied for a role and joined the Group in 2005.

It took me a few years to learn the coal trade but in that time I have taken great satisfaction in seeing both the coal trading business and the broader Group develop in the way it has. As it has grown we have brought on and developed new management talent.

In 2008 I recruited Iain Hulmes who has now taken over responsibility for running our coal operations in the UK. This has freed me up to spend more time on business development. I spend more than half my time in Europe working with and supporting the broader European team. The European market is large and diverse and whilst it presents significant growth opportunities, it also presents a myriad of new challenges. It is important to grow in a careful, considered and structured fashion.

At Hargreaves it is not just about the senior managers. We need strength at all levels and we have put together a great team in E&C. We work in challenging environments and often with very slim margins so there is no place for lax working practices or inefficiency.

It is a hard work culture at Hargreaves – everyone will say that. It is also a satisfying working environment, not only because you can see the benefits and results of all the hard work but also because it is a pleasure to work as part of such a professional group-wide team. There are less internal politics in Hargreaves than I have seen in other organisations; everyone just gets on with the job. Although the controls are there to make sure key decisions are properly considered and challenged, there is an absence of bureaucracy. Decisions can be taken quickly and once taken the organisation can move fast to execute.

> "We believe the European market offers significant potential for the Group and will continue to be a core element of our growth strategy."
>
> **Gordon Banham, Group Chief Executive**

our current level of activity well into the next decade, if not beyond. Although the decline in traditional non-abated coal-fired generation is inevitable, we are encouraged by our work over the last 12 months with 2Co Energy who are looking to develop the UK's first carbon capture power station at Hatfield which, if successful, could be the precursor for many similar projects.

Although the power station market is important to our Energy & Commodities Division, more than 90% of the Division's profits arise from the sale of speciality coals. Across these markets there is a mixed outlook. Coal used for space heating and steam generation in hospitals, schools, prisons and heavy industrial units will continue to decline and the demand is likely to largely disappear by the end of the decade. The domestic heating market has also been in long-term decline although the increased adoption of multi-fuel stoves is arresting that decline by creating a new demand for coal and coal-based briquettes. By contrast there are many other markets we serve where coal is not set to decline. These are wide ranging, from the many industrial processes where coal is used as an essential raw material to heritage steam railways.

Alongside these existing markets, the increased adoption of Pulverised Coal Injection ('PCI') technology by steel producers is creating a new demand for high grade coal. Current coke and coking coal prices make PCI a key technology for steelmakers to reduce the production costs through substituting a proportion of expensive coke with less expensive PCI grade coal. This is an exciting new market for our portfolio. Based on our current projections we expect that this market will potentially grow to 1m tonnes in the UK alone in the next 12 to 18 months. We believe we are well placed to service this market in both the UK and Europe.

In the Industrial Services Division, we do not expect the closure of older coal-fired power stations to impact our Industrial Services operations until after 2015 by which time our strategy of targeting the steel sector will more than mitigate any impact of the initial closures.

Our skills around coal, coke and mineral handling are easily transferable from the coal power station sector to the steel sector. We also see opportunities to provide services in the rapidly growing and developing Asian markets thus underpinning our growth targets for the Division in the medium term.

In respect of the Transport Division, the reduction of coal volumes in the UK seems unlikely to impact activity levels as the majority of coal in the UK is transported by rail. By contrast road-borne volumes of biomass and waste derived energy products are likely to grow. As you would expect we are already involved in various potential opportunities in this area.

Finally, in our Production Division, a fortunate key strength for us is that half of Maltby's output is of the right quality to be earmarked for the coke and ferro-alloy markets whilst the other half is high quality power station fuel, the marketing of which is helped by our proximity to the Aire Valley power stations. We are confident that we will continue to enjoy strong demand for this ouptut. Additionally, we expect the output from Tower to be good quality and easily marketable to the power generation and PCI markets.

In mainland Europe, we believe there are many opportunities that exist to develop a competitive PCI offering into the steel sector and also to develop into the thermal coal market, especially in Germany, as a result of both the planned closure of their existing deep mines over the coming few years, together

Senior Management Perspective

Energy & Commodities
Iain Hulmes
Managing Director UK

I originally trained as a Mechanical Engineer with ICI. After completing an MBA to broaden my business knowledge, I joined EMR, a major UK privately owned metal recycling group, as a General Manager. In 2008 I was recruited by Steve Anson in response to the Group's strong growth.

I have had my grounding in coal from Steve and the rest of the team and, as anyone who works in coal will tell you, that learning process is never complete. As Steve says, despite the hard work, there is a real energy in Hargreaves and people are motivated by delivering real results and real benefits. Our division's activities cut across all the other divisions so we put time into making sure the links are well coordinated. We work particularly closely with the Production Division as we sell their products. These strong divisional relationships work well in the market: we help them achieve better proceeds and they help us improve our profile and credibility, providing opportunities that wouldn't arise for a pure trading business.

I have been focused for the last few months on improving efficiency in the coal blending operations at Immingham so I can meet a growing demand from UK generators. The recent acquisition of Eastgate Materials Handling has given me added flexibility to develop the operation.

I take pride in both leading and being part of a committed and capable team working in a dynamic company. Our aim is to be as flexible and responsive to customer needs as possible – and our ability to deliver a quality product or service ensures these relationships become long-term and productive.

In summary, what I like most about working here is the ability of Hargreaves to combine the benefits of being a large and disciplined group with the agility and commercial drive that would more normally be associated with smaller entrepreneurial businesses.

Group Business Review (continued)

Senior Management Perspective

Energy & Commodities
Hilmar Eller
Managing Director
Hargreaves Raw Material Services GmbH

Working in this industry for more than 26 years, 15 of which was with ThyssenKrupp, the major European steel producer, has allowed me to acquire expert knowledge of the coke markets and coke trading. In my role at ThyssenKrupp, I traded coke with Hargreaves in 2005 and saw an opportunity to set up a joint venture with the Group – this we did the following year and it evolved into the business we have today.

Hargreaves has an excellent understanding of how commodity trading and stockyard operations should be run; where the opportunities to make profit arise and where the pitfalls lie.

I enjoy being part of the Group and we work closely with our UK colleagues. My highly experienced team are not only driving strong growth into the continental European markets but are also identifying great opportunities beyond Europe that will help the Group to grow worldwide.

For me, particularly as a minority shareholder in the European business, it is essential that budgets and targets are set in line with the actual market conditions. We carefully monitor market conditions and do not trade or take positions just to boost trading volumes. We avoid unnecessary exposure and trade only where we believe we can manage the associated risks.

Our success in managing the business during the extreme market downturn in 2008 and 2009 shows that we practice what we preach.

with the closure of the country's older nuclear facilities and the abandonment of plans to build a fleet of new nuclear stations.

Beyond Europe, urbanisation and industrialisation in Asia is being powered in a large part by coal. We believe that our expertise and relationships built up over many years in the UK and Europe, combined with our access to capital, will position us well to play a significant role in these markets.

Strategy and Goals for the Current Year

Our strategic goals remain consistent with those we discussed last year. We will continue to use our strong UK business base to fund and drive growth into new markets and geographies, with a particular emphasis on three opportunities – Europe, Asia and the Steel Sector.

Europe

Given the size and opportunity of the European market we will continue our investment in this region. In the last year we have successfully traded our first cargoes into Poland and we will look to establish larger operations and stockyards in the country in the coming months.

Up until now our European focus has been on speciality coal markets and we are now keen to expand our operations to encompass thermal and PCI coal. To facilitate this development we are currently in discussions with a large supplier about setting up an operation similar to Immingham in Europe. We do not anticipate that either of these initiatives will involve significant fixed capital investment although the strong growth will require investment in additional working capital. As opportunities arise, such investment will be carefully measured against the need to maintain prudent gearing levels and we will continue to develop the business in a measured way.

Asia

In contrast to Western Europe, coal consumption and demand in markets such as China and India are set to continue to increase for the foreseeable future. Hargreaves is well placed to expand its activities into these markets, leveraging our customer and supplier relationships, skills and expertise around the sourcing, processing and distribution of coal and other bulk energy related products. We plan to increase our development activity in markets outside of Europe and we would anticipate increasing business development spend up to a rate of £1m per annum by the end of this current year. Although this investment will not produce significant revenues and profits for some time, we are certain that the long-term potential will far outweigh any short-term impact on profits in Industrial Services.

Steel Sector

We made note in the interim statement that the Industrial Services Division was working to secure its first contracts in the steel sector. We are pleased to report that the first contract has been signed and that additional tendering activities are progressing.

In Europe we have always had a strong focus on the steel sector through the supply of coke either from our own production site at Monckton or sourced through our trading activities. In the last financial year we have

Senior Management Perspective

Energy & Commodities
Frank Oeyen
Managing Director
Hargreaves Carbon Products NV

I joined Hargreaves when I was offered an opportunity to set up a coal trading venture in which I could have a small equity stake. I work closely with both Hilmar Eller and Steve Anson.

I am a Certified Engineer and have built up an expert knowledge of the petro-graphic analysis of coals – in lay terms I have developed a specialist knowledge of which specific coals from specific mines are suited to different applications.

Our business brings together the experience of a team of coal specialists with the resources and products of the Hargreaves Group to provide a platform to develop the coal business into Europe.

It is a great opportunity to have access to unique and highly sought after coals from mines like Maltby – it is also a great benefit to be able to leverage the German team's relationships with their coke customers in the steel sector.

I am excited by the opportunities to develop the business particularly in the area of PCI and thermal coals but also cognisant of the risk and the need to grow slowly and carefully.

The equity we own incentivises us to maximise profits but ensures that our interest in minimising risks are aligned with those of the Group.

successfully traded our first cargoes of PCI coal for use in steel making. These cargoes were traded on an agency basis from Russia to South America. The further development of PCI trading flows is a major opportunity and objective for the Group, both in Europe and the UK. We are also hopeful that a large proportion of the output from Tower Colliery will be of an ideal specification for use as a PCI coal and it is our intention to contract both the PCI and thermal element of Tower's output within the next few months on long-term contract.

In summary, the coal markets in the UK still offer a positive outlook and even though some areas will decline, the wider market will continue to offer many opportunities to grow into new niches or consolidate our market position. Europe and the supply of PCI coal to the steel sector are opportunities that provide near-term growth prospects. By beginning to develop and invest in our presence now, Asia offers an exciting development opportunity that could drive strong growth in the longer term.

The Economic Environment

Whilst our business model seeks to minimise risk, we do operate in a sector that exposes us to a mix of economic, commodity price and counterparty risks. We will continue to minimise open positions in our trading activities through hedging and the use of back-to-back contracts, whilst the use of long-term contracts protects our fixed production assets from any short-term price weakness.

As we move into new markets we will manage our risk by continuing to carefully select our counterparties. Although our business model provides us with protection from any significant falls in commodity price levels, we are exposed to fluctuations in the volumes of products traded, particularly in the European coke markets where purchasing activities are generally conducted using spot instead of long-term contracts.

Health and Safety

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

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

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

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

We are pleased to note that the accident rate, defined as the number of lost time accidents per 100,000 man hours worked, reduced by 18% in the year ended 31 May 2011 to 1.8 (year ended 31 May 2010: 2.2).

Future Strategy and Outlook

Although there clearly remains potential for further volatility in demand and price levels for energy related commodities, we remain certain that the combination of the Group's capital, skills and business model offers an established and unique platform for long-term growth into new markets. We believe the Group is well placed to achieve its aspirations and look forward to the future with great excitement and optimism. Any sudden and harsh economic downturn, should it arise, may impact on our European operation's short-term trading volumes but we are confident that it will not impact the Group's medium and long-term development plans.

Gordon Banham
Group Chief Executive
14 September 2011

Review of Operating Performance by Business Unit

"Group underlying operating margin increased from 8.4% to 8.5% despite an increase in underlying commodity prices."

Iain Cockburn, Group Finance Director

Group Overview

Revenues for the full year increased by 20.1% from £459.8m to £552.3m driven mainly by activity in the Energy & Commodities Division. Group underlying operating profit increased by 20.7% from £38.7m to £46.7m.

Reported operating profit increased from £35.2m to £43.1m. Group underlying operating margin increased from 8.4% to 8.5% despite an increase in underlying commodity prices.

Reconciliation of operating profit to underlying operating profit, by segment is as follows:

	Production 2011 £000	Energy & Commodities 2011 £000	Transport 2011 £000	Industrial Services 2011 £000	Total 2011 £000
Segment operating profit	**12,606**	**24,260**	**3,450**	**2,748**	**43,064**
Intangible amortisation	–	1,629	393	1,569	3,591
Share of profit/(loss) in jointly controlled entities	46	(23)	–	–	23
Underlying operating profit	**12,652**	**25,866**	**3,843**	**4,317**	**46,678**

	Production 2010 £000	Energy & Commodities 2010 £000	Transport 2010 £000	Industrial Services 2010 £000	Total 2010 £000
Segment operating profit	**8,496**	**20,727**	**3,761**	**2,255**	**35,239**
Intangible amortisation	–	1,630	393	1,569	3,592
Share of loss in jointly controlled entities	(107)	(52)	–	–	(159)
Underlying operating profit	**8,389**	**22,305**	**4,154**	**3,824**	**38,672**

Senior Management Perspective

Production
Gerry Huitson
Managing Director

As Managing Director of Hargreaves' Production Division, I lead a team that oversees production of 2m tonnes of coal a year at two deep mine sites; that produces 200k tonnes of coke a year at Monckton; and processes and recycles 30k tonnes of waste tyres a year at MRT.

I've spent most of my 37-year career in the coal business. I was Colliery Manager at Maltby when Hargreaves acquired the mine in 2007. Since then it has been four years of hard but rewarding work at Maltby. We have made huge changes in all aspects of the operations; deep mining, surface operations and marketing. With hindsight the mine would not have survived without these changes. I think the whole team appreciates that; it helped us win their support to make the working practice changes that introduced the fifth shift. This has turned Maltby into an operation that works 24 hours a day, 362 days of the year – this is a first in UK mining history and demonstrates the commitment of the whole team.

I am lucky to have a great team of managers around me. These include Simon Zanker who took over from me as Colliery Manager at Maltby and Iain Archibald who has been very capably and professionally managing Monckton Coke works for the last three years. This has allowed me to take a more strategic role and to take an active role in monitoring and promoting health and safety practices across the Group. All our operations have very challenging environments so Health and Safety is always high on my personal agenda.

There's no magic formula to Hargreaves' success. The Group operates on simple and sensible business principles – dynamic and agile when it comes to trading and marketing but backed up by an unceasing work ethic and commitment from staff and management.

Senior Management Perspective

Production
Iain Archibald
Works Director, Monckton

Compared to some of my colleagues, I'm a relative newcomer to Hargreaves, having taken on my role as Works Director at Monckton in 2008.

I am a Chemical Engineer by profession and, prior to joining Hargreaves I spent 24 years in operational management in the coking industry, at the Avenue plant in Chesterfield, Derbyshire and then, for 10 years, as works manager at the Cwm coking facility in South Wales.

On the face of it, the coke-making process is a simple one. We take high-quality, low phosphorous coal, bake it at a temperature of 1280° for 20 hours in the absence of air and then quench it. We operate around the clock and produce 200k tonnes of high-quality metallurgical coke every year for both the UK and export markets.

The coal we use comes from Maltby Colliery. The mine and the coke works have a close working relationship. Our colleagues in the Energy & Commodities Division, both in the UK and Europe, seek out customers for our product. Their efforts have more than doubled that potential customer base in recent times and resulted in winning the first sales contract with Xstrata in South Africa in April 2010.

Having worked in the industry for as long as I have and having seen it decline in response to cheap imported cokes, I get a sense of pride from knowing that our coke is being exported as far afield as South Africa – it might not represent a turning of the tide in terms of broader commodity flows but it shows that the UK can produce and compete in the international markets.

2011	UK	Rest of Europe	Total	Power Station Coal	Other Products	Total
Tonnes sold (000s)	1,592	802	2,394	931	1,463	2,394
Operating margin per tonne (£)	10.07	12.31	10.82	2.12	16.36	10.82
Operating profit from trading (£m)	16.0	9.9	25.9	2.0	23.9	25.9
JCE & non-trading (£m)			–			–
Total segment underlying operating profit (£m)			25.9			25.9

2010	UK	Rest of Europe	Total	Power Station Coal	Other Products	Total
Tonnes sold (000s)	1,635	623	2,258	1,067	1,191	2,258
Operating margin per tonne (£)	10.16	7.75	9.50	2.69	15.59	9.50
Operating profit from trading (£m)	16.6	4.8	21.4	2.9	18.5	21.4
JCE & non-trading (£m)			0.9			0.9
Total segment underlying operating profit (£m)			22.3			22.3

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

Energy & Commodities Division

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

The Energy & Commodities Division had another very strong year. Gross revenues increased by £66.9m from £263.9m to £330.8m, reflecting increases in commodity prices and an increase of 6.0% in the overall tonnes supplied. Underlying operating profit increased from £22.3m to £25.9m driven largely by the £5.1m growth in European operating profit from £4.8m to £9.9m. The table above provides a breakdown on volumes and margins within the Energy & Commodities Division.

Overall, volumes traded increased from 2,258k tonnes to 2,394k tonnes. An increase in the proportion of specialty product relative to the lower priced thermal grade coal saw operating profit per tonne improve from £9.50 per tonne to £10.82 per tonne. Operating profit margin declined slightly from 8.5% to 7.8% due to the increase in underlying commodity prices. Operating profit from trading activities increased from £21.4m to £25.9m, accounting for the increase in the overall divisional profits.

UK volumes of speciality product increased from 568k tonnes to 660k tonnes, mainly due to a one-off opportunity to supply incremental volumes of lower grade coal to industrial users. This contributed positively to profits and volumes but resulted in a slight reduction in the average UK profit per tonne. As expected, the volumes of power station coal supplied dropped slightly from 1,067k tonnes in 2010 to 931k tonnes in the year ended 31 May 2011. Average operating profit per tonne also reduced from £2.69 per tonne to £2.12 per tonne reflecting strong pricing pressures from power station customers and slightly lower third-party handling fees.

European volumes increased by 29% from 623k tonnes to 802k tonnes. Average operating profit per tonne improved from £7.75 per tonne to £12.31 reflecting strong margin opportunity in the coke markets last year and a maturing and strengthening of our position in the European speciality coal markets. Our presence at the Port of Ghent was strengthened by the acquisition of Belgium registered Mekol NV, from RWE Rheinbraun for £0.7m. Mekol operates a coal wash plant on land adjoining the Ghent coal terminal and will bring additional processing and stockholding flexibility and capacity to the European coal operations. In June 2010 we acquired an additional 5% of Hargreaves Raw Materials GmbH for £0.4m. This represented net asset value and was settled in cash in July 2011, taking our share to 77.5%.

The position in Rocfuel has not changed from the previous year. The volume of biomass traded through Rocfuel to external customers was negligible as many operators have deferred and delayed renewable projects. We still believe that biomass will have an important role to play in UK electricity generation and Rocfuel remains active and will be a key part of our proposed review of strategic opportunities in the UK renewable sector.

Review of Operating Performance by Business Unit (continued)

In June 2008 we reported that we had combined our handling operation at Immingham into a joint venture with Oxbow Coal Limited ('Oxbow') called Eastgate Materials Handling Limited. Oxbow is a subsidiary of Oxbow Inc, the leading US mineral trading company. After the year-end, in July 2011, we completed the acquisition of Oxbow's share in the joint venture for a cash payment of £1.8m which provides us with additional flexibility and control to develop operations at Immingham. Eastgate Materials Handling will continue to provide Oxbow with handling services under a two-year contract.

Production Division

The Production Division results for the year ended 31 May 2011 encompassed the operations at Maltby Colliery, Monckton Coke Works, MRT, and Rocpower. Once operational the activities at Tower Colliery will also be included in the Production Division and an update on the Tower project is provided below. The Production Division was instrumental in winning the management contract for Hatfield Colliery Limited. Although the contract is essentially a services contract, as the resources are being drawn from Maltby Colliery or the wider Production Division management team, it will be reported under Maltby Colliery.

Gross revenues for the Division increased by £23.8m from £86.3m to £110.1m. Underlying operating profit increased by £4.3m from £8.4m to £12.7m.

Total saleable production at Maltby increased by 460k tonnes from 1,057k tonnes to 1,517k tonnes. This increase was largely accounted for by an increase of 414k tonnes in the amount of coal fines harvested and conditioned to support the new blending activities. The quantity of coal fines harvested increased to a very impressive 644k tonnes.

Although underground production improved from 827k tonnes to 873k tonnes production was inconsistent and resulted in the implementation of new working practices, including the hire of an additional 80 staff to provide a fifth shift.

All standard power station coal produced at Maltby continues to be sold to Drax under the current long-term contract. Coking coal is processed into coke at Monckton. External coal sales from Maltby generated £53.1m of revenue compared to £38.9m in the prior year. Increased coal sales and an improvement in the average selling price from £52.37 to £59.75 resulted in coal (non-fines) revenues increasing from £34.3m to £40.6m.

The improved sales price reflected higher market prices for the surplus coking coal and an improvement in the average sales price to Drax. Sales of coal fines generated £12.5m of revenue. Costs at Maltby increased due to a combination of factors including the new working practices, the production challenges and the increased rate of pond fine harvesting.

Production at Monckton remained consistent and revenues increased by £4.8m from £42.8m to £47.6m. Coke sales increased by £4.3m from £39.1m to £43.4m, whilst the sale of by-products improved by £0.4m from £3.7m to £4.1m reflecting improving prices.

The average coke price was £199 per tonne on the sale of 217k tonnes compared to £171 per tonne on 229k tonnes sold in the prior year with volumes from the previous year benefiting from the sale of the excess stock. As previously announced, the average sales price benefitted from higher market prices working through into current sales contracts.

Senior Management Perspective

Commercial and Development

Kevin Dougan
Group Commercial Director

I joined the Group in 1995 and was responsible for starting up the coal trading and handling operations to supplement the original transport business; subsequently I was part of the MBO team in 2004.

Before joining the Group I spent 23 years working in the opencast mining sector for British Coal and Golightly. Although I am a Qualified Mining Surveyor who specialised for many years in surface mine design and operational contracts, in my role as Group Commercial Director for the last 14 years I have been applying my experience in coal trading, material handling operations and transport across the Group.

In the last 18 months I have also been responsible for developing the Group's commercial interests in the Tower project. This is a very prestigious and exciting project. I am also enjoying the challenge of setting up and working with the new teams that will be tasked with managing the operations at Tower and prospecting other surface mining opportunities. I think that the development of a portfolio of surface mining projects presents a great opportunity for the Group and allows us to create a longer term profit stream that fits in well with the Group's coal marketing and logistics skills.

I enjoy working at Hargreaves – there is an energy and work ethic that is hard to match. Hargreaves has the knowledge and expertise to spot commercial opportunities – and it also has the decision-making and operational capability to move quickly and professionally to capitalise on such opportunities once identified.

Senior Management Perspective

Commercial and Development
Ian Parkin
Development Director

I am a Chartered Surveyor with a background in property development, management and planning, and I joined Hargreaves in late 2008. I have worked in and around the coal mining industry for the past 25 years, and for nearly ten years I was Vice Chairman of the National Association of Licensed Opencast Operators.

Before Hargreaves, I spent over a decade at Banks Group, which operates the North East's largest surface coal mining operation, where I worked in several property and project roles. My final position there was as Managing Director of a subsidiary specialising in brownfield property redevelopment. Banks is a well-run company and it was a difficult decision to leave. I joined Hargreaves as I was excited by the speed at which it was developing and the extent and scale of its growth ambitions.

I have not regretted my decision. In addition to dealing with the day-to-day property issues that a group as diverse as Hargreaves generates, for the last three years I have been busy with the planning process for the Tower Project, working closely with Hargreaves, Tower Colliery and external consultants. At the same time, I have been involved with the team at Maltby to secure an additional 14m tonnes of tipping space, extending the potential life of the mine by more than ten years.

As the Tower Project reaches the point at which mining can start, we are increasing efforts to secure further surface mining sites to augment our surface mining activities.

MRT, our tyre recycling operation, has continued to make good progress and contributed £0.3m of profit compared to an operating loss of £0.3m in the previous year. In the year to 31 May 2011, Rocpower generated an operating profit of £0.2m. At the time of writing this report we are still awaiting the outcome of the Government's policy review. We will be considering opportunities and strategies for Rocpower and MRT as part of our strategy review of the renewables and recycling sector and will provide updates on progress at the appropriate time.

Tower Project Update

We were pleased to announce the recommendation from RCT Council for approval of planning permission for the Tower project in June 2011. We continue to work with RCT to finalise the details of the planning permission and associated contracts. We expect these discussions to be completed in the near future.

The joint venture vehicle, Tower Regeneration Limited, is 50% owned by the Group and 50% owned by Tower Colliery Limited. Under the joint venture agreement Hargreaves will receive 35% of the profits from the marketing of the coal, with the remaining 65% going to Tower Colliery Limited.

Profits from the regeneration and development of the property will be shared equally between Hargreaves and Tower Colliery Limited. These profits are not expected to arise until the end of the project.

Hargreaves will operate the site under a contract with the joint venture for which it is proposed that the Group will be paid on a cost plus 10% basis. Hargreaves intends to provide finance for approximately 20% of the estimated £38m of plant and equipment required to operate the site, with the balance being financed by the joint venture company. It is proposed to include the revenue and profits from this activity in the Production Division along with the Group's share of the joint venture result.

Once the site is fully operational we will be targeting production at a rate of approximately 1 million tonnes per annum. The site is expected to operate for approximately 7 years and will produce both coal that is suitable for power generation and coal that may be suitable for use in PCI for steel making. Although we expect all tonnage to be placed in the UK market, any surplus will be exported to Europe.

Although the average selling price will be discounted from international coal prices in line with all other indigenous coal production in the UK, the absence of low priced legacy contracts and the projected lower stripping ratios should ensure profitability that is above the average level for UK surface mining projects. The site should be fully operational by the end of the current financial year. Although we are disappointed not to have been able to complete the preparation of the site over the spring and summer months, we are confident that production and revenues arising in the current financial year will at least cover start up costs.

As at 31 May 2011, under the terms of the joint venture agreement, the Group had advanced £3.6m of loans to Tower Regeneration Limited, in addition to the payment of £1.0m to secure participation in the joint venture. Following the grant of final planning permission the Group is due to fund a final £6m loan. These loans, totalling £9.6m, will be repayable to the Group and are projected to be repaid within three years.

Hatfield Colliery Contract

Under the terms of its management agreement the Group has contracted to provide management services to Hatfield Colliery Limited for an initial minimum period of 12 months. The contract is being managed by and reported in the Production Division. Although a significant amount of effort and cost will be expended in the first year it is expected that the contract will deliver a modest contribution to the fixed cost base.

We can also announce that we have agreed with Hatfield's owner, ING Bank NV that we will be awarded 10% of the equity of Hatfield Colliery Limited with the ability to earn a further 15% for the delivery of financial targets over a three-year period.

In addition to, and separate from the management contract, the Energy & Commodities Division will market the output from Hatfield under a 24 month contract. This contract should provide the Division with an additional 1.8 million tonnes to market to power station customers. Although the margin will be lower than the Group average, we are confident that by working with Hatfield Colliery we will be able to develop the opportunities to our mutual benefit.

Industrial Services Division

The Industrial Services Division delivered another steady year, once again benefiting from the good visibility provided by its long-term contract base. Gross revenues increased by £9.1m from £60.4m to £69.5m. Underlying operating profit increased from £3.8m to £4.3m.

Review of Operating Performance by Business Unit (continued)

Despite continuing budgetary pressures in the power stations sector, the Division has continued to make steady progress with key contract wins and renewals. Amongst these the Group is pleased to report its first contract for material handling and transport services with a major UK steel producer. This contract will be worth approximately £10m in revenues over five years. A significant number of other tenders are being pursued and the Group is hopeful that these will result in further contract announcements in the coming months.

Following the financial year-end, the Division achieved two contract wins in the power station sector, one from a current customer, International Power, and one from a new station, Scottish and Southern Energy's Fiddlers Ferry Power Station. These wins help to consolidate our strong position and reflect our excellent reputation for flexibility and high quality standards and will help to offset the continuing soft demand from power station customers for incremental project and contract spend.

The Group continues to provide consulting services in two Asian markets and is hopeful that the first contract for support services will be won in the current financial year. Although this contract is not expected to contribute significantly to profits, it would mark an important first step and as a result, the Division has received authority from the Board to continue to invest in developing its presence in Asia.

The Division continues to demonstrate its high service levels and operational excellence. In the year ended 31 May 2011, eight of the Division's site locations achieved 5-star ratings from the British Safety Council for their Health and Safety programmes.

In the coming year our focus will be to continue to provide our customers with the highest standard of service whilst expanding on business development activities as outlined above.

Transport Division

The Transport Division's gross revenues increased by £6.0m from £72.7m to £78.7m due principally to increased Tanker revenues. Underlying operating profit decreased by £0.3m from £4.2m to £3.8m.

Tanker operations have continued to perform strongly in the year accounting for £3.4m of the revenue increase and contributing an additional £0.2m of profit compared to the prior year. The Tanker business unit continues to build a strong reputation providing a high quality and reliable service to its customers.

Although revenues in Bulk and Waste Transport recovered slightly rising £2.6m from £43.7m to £46.3m, profits were impacted by £0.5m of additional costs resulting from restructuring of the operation and, as reported in the Interim Report, from the disruption during last year's exceptionally poor weather. The aim of the restructuring, which was ongoing at the year-end, is to streamline the management of the division, simplify the operation and to focus capital and resource where the Group can leverage its service levels to achieve higher margin opportunities and contracts.

Iain Cockburn
Group Finance Director

Gordon Banham
Group Chief Executive
14 September 2011

2011 in summary:

- New working patterns and fifth shift implemented at Maltby
- Strong growth in Europe, operating profit increased 106% to £9.9m
- Coke and coal markets remain strong
- Tower project planning recommendation received
- Management contract and coal off-take contract signed with Hatfield Colliery Limited

Financial Review

"Underlying profit before tax increased from £34.3m to £40.5m."

Iain Cockburn, Group Finance Director

Senior Management Perspective

Transport
Martin Smith
Managing Director, Imperial

A mechanical engineer by profession, I have spent over 30 years in commercial and operational management within the UK transport industry.

I joined the Group in October 2007. I was the Managing Director and a major founder shareholder of Imperial Tankers which we had started from scratch in 1989 after a buyout of ICI plc's Billingham road tanker fleet operation. As the business developed, we could see the opportunities to ramp up the scale of our operation and further accelerate the growth of our business by becoming part of a larger group but we still thought long and hard before selling to Hargreaves four years ago. We had concerns that we might lose the operational autonomy we had enjoyed as an independent company and which had allowed Imperial to build an enviable reputation for safety, quality and customer service in our sector.

With hindsight, we need not have been concerned. One of the Group's strengths is its ability to recognise good quality management. Far from losing our identity on joining the Group, we were given the responsibility to integrate Hargreaves' existing tanker operation into Imperial Tankers and stamp the Imperial brand and culture onto the enlarged fleet. When the opportunity to acquire the assets of local rival Stiller Tankers came up in 2009 we were well positioned to repeat the process.

With these acquisitions and organic growth we have now almost doubled the size of our operation since becoming part of Hargreaves in 2007.

I have enjoyed working with Hargreaves as have the rest of our management team. Whilst the responsibility to deliver results is clear, we are never forced to chase business or sign up to unachievable goals, making it much easier for us to maintain the quality of service and safety standards that have kept our customer base loyal and growing since 1989. Holding an equity stake in the Hargreaves Group, arising as part of the acquisition consideration, I still have an excellent incentive to continually improve our performance and manage our business risk in line with the Group's corporate ambition.

Results Overview
Group revenue for the year was £552.3m compared to £459.8m for the previous year, an increase of 20.1%. The key drivers of organic growth came from the Energy & Commodities Division Europe.

Underlying profit before tax increased from £34.3m to £40.5m. Reported profit before tax increased from £30.7m to £36.9m.

Interest
The net interest charge for the Group was £6.2m compared to £4.4m for the previous year. The increase in interest costs reflects the higher average debt levels and an additional £0.3m amortisation of the facility fees relating to the September 2009 refinancing.

Taxation
The tax charge in the year was £10.1m compared to £9.4m in the previous year. The UK mainstream corporation tax rate reduced from 28% to 26% in April 2011, giving an average UK mainstream rate for the year of 27.67%. The Group's effective tax rate for the year decreased from 30.5% to 27.4% reflecting the benefit of the falling UK mainstream corporation tax rate and the resulting impact on deferred tax liabilities.

Earnings Per Share
Basic earnings per share for the year were 91.9 pence (2010: 77.5 pence) and diluted earnings per share were 90.5 pence (2010: 75.6 pence). Underlying diluted earnings per share, after adding back amortisation of acquired intangibles, increased by 16.8% from 88.8 pence to 103.7 pence.

Dividend
The Board has recommended a final dividend of 10.4 pence (2010: 9.1 pence) bringing the proposed dividend for the full year to 15.5 pence, an increase of 14.8% in the total dividend for the year. The proposed dividend is covered 5.9 times by underlying earnings (2010: 5.7 times).

Net Assets
Net assets increased by £24.8m from £89.8m at 31 May 2010 to £114.7m at 31 May 2011. Property, plant and equipment increased by £1.5m from £85.6m to £87.1m as a result of net fixed asset additions of £18.6m offset by a depreciation charge for the year of £17.1m (2010: £14.6m). Capital expenditure was concentrated in the second half of the year driven by the timing of the expenditure at Maltby for the T15 face.

Working capital increased by £8.4m in the year to £92.8m. Working capital in the UK and Europe amounted to £54.5m and £38.3m respectively. Inventories increased by £23.9m in total across the Group. Europe accounted for £10.7m of this increase.

The decrease of £3.0m in goodwill and intangibles arose from amortisation of acquired intangibles totalling £3.6m, offset by goodwill and intangibles arising from the acquisition of Mekol NV of £0.6m.

Net Debt
Group net debt, comprising cash and cash equivalents, bank overdraft and other interest-bearing loans and borrowings, was £66.0m at 31 May 2011, a decrease of £22.2m from the £88.2m reported at 31 May 2010. The gearing ratio of the Group at 31 May 2011 was 58% compared to 98% at 31 May 2010.

Cash Flow
Earnings before interest, tax, depreciation and amortisation and other non-cash items was £64.5m for the year ended 31 May 2011 compared to £52.6m in the previous year.

The Group continues to manage working capital levels and efficiency closely. Stocks increased by £23.9m to £105.9m largely reflecting the impact of higher commodity prices on stock levels. As an indicator of commodity price trends the API2 coal price increased by over 20% in sterling terms over the year.

£66.0m

Group Net Debt down £22.2m from £88.2m to £66.0m

Group stock days, measured against forward sales, reduced by 5.2 days from 68.9 as at 31 May 2010 to 63.7 as at 31 May 2011. Group trade creditor days increased by 7.1 days, from 34.6 days at 31 May 2010 to 41.7 days at 31 May 2011 reflecting an additional £3.0m of trade creditors relating to capital projects at Maltby and benefitting from coal purchases of £6.0m that were received into stock at the end of May but paid for at the beginning of June. Group debtor days reduced by 1.7 days, from 29.5 days to 27.8 days.

There will continue to be both seasonality and natural variability in our working capital levels, with a tendency to build coal stocks over the first half of the year, and reduce stocks over the second half. Significant movements in commodity prices will affect the net value of working capital positions. The timing of larger vessels and customer orders will always create volatility in working capital positions, particularly in the European business.

In Europe however we will continue to invest in physical stock to grow the business, as and when required, particularly in support of Poland and the development of thermal and PCI product flows.

Total capital expenditure for the year (net of disposal proceeds of £1.4m) was £18.0m compared to £26.6m in the prior year. Of the capital expenditure, £6.7m was financed through finance leases and £11.3m was paid in cash. The depreciation charge for the year was £17.1m (2010: £14.6m).

Looking at acquisitions and other investments, the Group advanced a further £0.7m to the Tower joint venture during the year to 31 May 2011. The only acquisition activity that impacted cash was the acquisition of Mekol NV for a cash consideration of £0.8m. £1.8m of cash was expended after the end of the year following the acquisition of Eastgate Materials Handling Limited.

The Group benefitted by £7.0m from the timing difference in cash tax payments arising from a sale and leaseback scheme.

Borrowings and Facilities

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

In September 2009, the Group completed a new 3-year multi-bank committed facility consisting of a £35.0m invoice finance facility and an £80.0m revolving credit facility ('RCF'). At the end of the year these had a credit balance of £3.2m and were drawn £43.0m respectively.

The Group continues to be able to borrow at competitive rates and is operating comfortably within its banking covenants. The key covenants on the RCF are interest cover and leverage, measured as a ratio of net debt to EBITDA. As at 31 May 2011 interest cover was 11.7 times, comfortably over the covenant minimum of 4 times and leverage was 1.5 times, comfortably under the maximum 2.5 times permitted.

The European business continues to operate on a facility of £48m (€55m) from Commerzbank. At the end of the year the net debt on this facility was £8.9m.

Senior Management Perspective

Transport

Andrew Spence-Wolrich
General Manager, Transport

I am a recent recruit, having joined Hargreaves to run the Dry Bulk and Waste transport fleets. This is a business that has provided a number of challenges in recent years as a result of very demanding trading conditions.

I have worked in many logistics environments, including trainload chemicals, the international movement of tank containers and running pure UK road fleets. Whereas the Waste transport contracts provide a backbone of predictable work, the Dry Bulk/Biomass fleet volumes and markets are dynamic and volatile with significant changes in jobs and product flows from week to week.

The dynamic aspect of the business places a lot of demands on our traffic managers. The ability to draw on the Group's own material flows gives us a great benefit in smoothing peaks and troughs.

We work very closely with both the Production Division and the Energy & Commodities Division and although we treat them in the same way as our external customers, the spirit of co-operation is helped by the professionalism of the management teams in each of our divisions. A sense of humour also helps!

It is hard work, and the team needs to be on top of its game seven days a week. In addition to the challenges of day-to-day management, we have been busy working in the last few months to streamline the operation. Whilst it is pleasing to see these changes bedding down, we will never have the luxury of being complacent.

Financial Review (continued)

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

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

Going Concern
After making enquiries, the Directors have formed the opinion at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

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

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

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

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

Economic
Not only are commodity prices subject to fluctuations, trading levels are also heavily influenced by economic factors.

Senior Management Perspective

Industrial Services
Greg Kelley
Managing Director

My background is that of a Chemist and Senior Scientific Officer with the British Coke Research Association. I spent 12 years working in the field at steel and coke plants across the UK before moving to British Coal. In 1993 I joined Norec Limited having spotted a gap in the market for the outsourcing of specialist services around material handling.

I joined the Hargreaves Group in 2006, through the acquisition of Norec Limited where I was Managing Director. Following the acquisition I was asked to integrate the existing Hargreaves Industrial Services business and run the new division.

The Hargreaves culture can simply be described as a "can do" culture. There is a strong work ethic and everyone truly understands the value and importance of team work. It's very rewarding to work in this environment and it brings out the best in our people.

Our division, with significant support from the Group, is currently looking at long-term market opportunities in both the steel and Asian markets. This is an exciting prospect which we believe will lead to significant future growth. Indeed, we have already developed an excellent relationship and secured contracts in these sectors.

I believe that in maintaining our strong team and service delivery we will make a strong contribution to future Group performance.

Review of the Year
Corporate Governance
Financial Statements

Our Production units benefit from long-term contracts, typically ranging from one to three years. Although elements of the Energy & Commodities trading activities are based on long-term contracts of up to one year in duration, a significant portion of the trading is based on spot cargoes and deals, particularly in Europe. In times of economic downturn, traded volumes can fall. Although our fixed cost base in the trading business is low, a drop in volumes can have an impact in terms of lost profit. The impact of such downturns will increase as the scale of the European business increases. The Group will continue to mitigate this risk by minimising the fixed cost base, seeking to enter term contracts wherever possible and diversifying the customer base as far as possible.

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

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

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

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

Financial

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

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

Interest Rate
The Group borrows in US Dollars, Euros and Sterling. These borrowings are predominantly at floating rates and where appropriate the Group will use derivatives to generate the desired effective currency and interest rate exposure. As at 31 May 2011, 61.0% of net financial liabilities were at fixed rates (2010: 47.9%).

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

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

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

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

Although the Group has a diverse customer base of many thousands of trade debtors, concentrations of credit risk with respect to trade receivables can arise. These concentrations, when they do arise tend to relate to the larger power generation companies. These concentrations and exposures are closely monitored by the Credit Control function. As at 31 May 2011, the largest customer represented 6.6% of the Group trade receivables balance of £53.4m and the top 10 accounts represented approximately 33.6%.

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

Iain Cockburn
Group Finance Director
14 September 2011

Senior Management Perspective

Industrial Services
Julie Garton
Facilities Services Director

For the last 17 years I have enjoyed the challenges of working in the UK power generation business. For the majority of this time I have specialised in providing a range of support services to coal and gas-fired power stations, including operation and maintenance of flue gas desulphurisation units, coal plant operations and the provision of various hard and soft facility management services.

I joined Hargreaves in 2007 and have worked closely with Greg Kelley, the Managing Director of the Industrial Services Division to build the UK business into what it is today.

Over the past 18 months I have spent an increasing amount of time investigating and developing new business opportunities in Hong Kong, China and India. This is an exciting opportunity for us and it is rewarding to see that the skills and reputation we have developed in the UK have such value and potential in these key markets. Our UK team have been quick to jump at the opportunity to be engaged in such exciting projects.

I enjoy the challenges of developing our UK business and in retaining our existing business and further expanding – it's great to speak to potential clients and tell them with pride what we deliver both as a company and as a division. I am very proud of the people who work for us. It goes without saying that our commitment to delivering our services to our clients is without exception. Our foremost strength is that we "walk it like we talk it" both for our clients and our employees.

Board of Directors

The following Directors served on the Board:

1. Tim Ross (aged 62)
***Non-Executive Chairman**
Tim read law at Oxford University and qualified as a solicitor, working in the City of London and as a company legal adviser, before attending London Business School and moving into general management. He has considerable experience of the construction, aggregates, waste disposal and opencast coal industries. Previously a Main Board Director of George Wimpey PLC, he is currently Non-Executive Chairman of Superglass Holdings plc and a Non-Executive Director of May Gurney Integrated Services plc and Lavendon Group plc, in addition to board positions with a number of private venture capital-backed companies. Tim is the Senior Independent Non-Executive Director.

2. Gordon Banham (aged 47)
Group Chief Executive
Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels, Gordon being appointed as General Manager of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, Gordon was made Distribution Director responsible for the enlarged group's coal distribution activities. Gordon joined Hargreaves in 2001, subsequently being appointed as Group Chief Executive. Gordon led a management buyout in 2004 and subsequent flotation on the London Stock Exchange the following year. He has since guided a series of major acquisitions.

3. Iain Cockburn (aged 46)
Group Finance Director
Iain is a Chartered Accountant. After five years with Pricewaterhouse Coopers in the UK and Luxembourg he held a number of finance roles, in both the UK and USA, within Courtaulds plc and GenRad Inc groups. Prior to joining Hargreaves he was Finance Director and subsequently CEO and Finance Director of Knowledge Support Systems plc ('KSS').

4. Kevin Dougan MIQ (aged 56)
Group Commercial Director
Kevin spent the early part of his career with British Coal, specialising in opencast coal mining eventually becoming Assistant Regional Engineer. In 1986, Kevin joined Andrew Golightly Limited as Contracts Director, subsequently joining the Group in 1995 as a Divisional Director, and was appointed to the Group Board in April 2004.

5. Nigel Barraclough ACA (aged 46)
Non-Executive Director
Nigel is a Chartered Accountant and joined the Board at the time of the management buyout in April 2004. Nigel is an Investment Director with YFM Group Limited, a venture capital fund management group. He has extensive experience of mergers and acquisitions and also as a Non-Executive Director. Following the end of the year, Nigel announced his intention to resign as a Non-Executive Director effective 30 September 2011 and take on an Executive Management role within the business.

Appointed 1 September 2011

6. Peter Gillatt (aged 51)
***Non-Executive Director**
Peter is a Chartered Mining Engineer with over 30 years experience in the waste, recycling, mining and aggregate industries, including roles with SITA, Tarmac Ltd, Lafarge and British Coal. He is currently the Group Managing Director of Longcliffe Group Limited and is a Director of a number of private companies in the waste treatment and recycling sector.

* Current member of Audit and Remuneration Committees.

Group Executive Management Team

The executive directors and the following key managers comprise the Executive Management Team:


1


2


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

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

3. Greg Kelley
Managing Director
Industrial Services Division
Previously: MD, Norec Ltd; Coal Prep Plant Manager, British Coal.

4. Steve MacQuarrie
Group Company Secretary
Previously: Senior Planning Manager, RJB Mining/UK Coal; Company Secretary, Young Group plc; Planning Officer (Local Government).

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

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2011.

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

Business Review
The results for the year are set out on page 28.

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

- A balanced and comprehensive analysis of the development and performance of the Group's business during the financial year, and of its position at the end of the year, is included in the Group Business Review, the Review of Operating Performance by Business Unit and the Financial Review. Key performance indicators have been included in the Financial Review where appropriate; and
- The principal risks and uncertainties facing the business have been included in the Financial Review 'Statement on Risks Relating to the Group's Business' on page 16. This includes information on environmental matters and employee issues.

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

Proposed Dividend
The Directors recommend a final dividend in respect of the current financial year of 10.4 pence per share to be paid to shareholders on the register on 14 October 2011. The shares will be ex-dividend on 12 October 2011. This dividend has not been recognised within creditors as it was not declared and approved before the year-end.

Policy and Practice on Payment of Creditors
The Group does not operate a defined code of practice regarding payment to suppliers. The Group determines conditions of payment for its own supply of goods and services. It is the Group's policy that transactions are then settled in compliance with these legal or other contractual obligations having regard to good commercial practice. Average creditor days at 31 May 2011 for the Group were 42 days (2010: 35 days). It is not meaningful to disclose a similar statistic for the Company since it does not trade in its own right.

Directors
The directors who held office during the year and subsequent to the year-end were as follows:

TS Ross
GFC Banham
ID Cockburn
KJ Dougan
N Barraclough
P Gillatt (appointed 1 September 2011)

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

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

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

Details of directors' emoluments are set out in the Corporate Governance and Remuneration Report.

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

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

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	1 June 2011 to 30 November 2011	49,180
KJ Dougan	–	1 June 2011 to 30 November 2011	17,213
ID Cockburn	–	1 June 2011 to 30 November 2011	20,287

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

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	1 June 2012 to 30 November 2012	60,000
KJ Dougan	–	1 June 2012 to 30 November 2012	21,000
ID Cockburn	–	1 June 2012 to 30 November 2012	28,500

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

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	–	1 June 2013 to 30 November 2013	39,031
KJ Dougan	–	1 June 2013 to 30 November 2013	13,661
ID Cockburn	–	1 June 2013 to 30 November 2013	19,133

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

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

Significant Shareholdings

At 10 August 2011, the Company had been notified or was aware of the following shareholders with 3% or more of the issued share capital of the company:

Shareholder	Number of ordinary shares in which interested	% of issued share capital
GFC Banham	3,029,831	11.24%
Odey CfD Holding	1,617,000	5.94%
M&G Investment Management	1,348,374	5.00%
Brewin Dolphin	1,294,677	4.80%
Schroder Investment Management	1,147,901	4.26%
Legal & General Investment Management	1,146,270	4.25%
Black Rock	1,006,386	3.73%
Hansa Capital Partners	1,000,000	3.71%
Majedie Asset Management	816,171	3.03%

Directors' Report (continued)

Employees

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

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

Political and Charitable Contributions

The Group made no political contributions during the year. Donations to UK charities amounted to £60,175 (2010: £56,242).

Disclosure of Information to Auditors

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 auditors are 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 auditors are aware of that information.

Auditors

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

By order of the Board

Iain Cockburn
Group Finance Director
14 September 2011

Corporate Governance and Remuneration Report

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

The Group Board
The Group is headed by an effective Board, which both controls and leads the Group. A biography of each director and details of the membership of the Committees of the Group Board is provided on page 18.

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

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

Corporate Ethos
The Board has developed several principles which will apply in its dealings with stakeholders and the wider community.

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

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

Human Resources
Hargreaves Services plc employment policies are non-discriminatory, complying with all current legislation to engender equal opportunity, irrespective of race, gender, religion, disability, sexual orientation or nationality. Harassment is not tolerated.

Ethical Standards
All Hargreaves Group personnel are expected to apply a high ethical standard, consistent with an international UK-listed company.

Compliance with Laws
Hargreaves Services plc has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice.

Remuneration Committee
The Remuneration Committee consists of the two non-executive directors, Tim Ross and Nigel Barraclough who served until 6 September 2011. After this date, the committee consists of Tim Ross and Peter Gillatt. Other directors attend as requested, but do not vote on their own remuneration. The Remuneration Committee has access to independent advice where considered necessary.

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

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

Bonus
Executive directors participate in an annual incentive bonus scheme linked to the actual achievement of operating profit targets set by the Remuneration Committee. Such bonus is capped at 100% of salary. No bonus counts in the calculation of pension entitlement.

Benefits in Kind and Pensions
In addition to basic salary, Gordon Banham, Iain Cockburn and Kevin Dougan are entitled to the following benefits: paid holiday, company car, contributions to a personal pension plan and life assurance.

Corporate Governance and Remuneration Report (continued)

Directors' Remuneration

Remuneration was as follows:

	2011 Salary £000	2011 Bonus £000	2011 Benefits £000	2011 Total £000	2010 Total £000	2011 Pension £000	2010 Pension £000
Gordon Banham	**306**	**208**	**23**	**537**	539	**43**	42
Iain Cockburn	**200**	**136**	**17**	**353**	348	**21**	19
Kevin Dougan	**157**	**61**	**5**	**223**	269	**–**	–
Tim Ross	**60**	**–**	**–**	**60**	60	**–**	–
Nigel Barraclough	**36**	**–**	**–**	**36**	35	**–**	–
	759	**405**	**45**	**1,209**	1,251	**64**	61

Directors' Service Contracts

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

Date	Name	Position	Commencement of period of office	Remuneration £	Termination
24 November 2005	Tim Ross	Non-Executive Chairman	30 November 2005	60,000	12 months' notice
24 November 2005	Nigel Barraclough	Non-Executive Director	30 April 2004	35,700	12 months' notice
24 November 2005	Gordon Banham	Group Chief Executive	1 October 2001	306,000	12 months' notice
24 November 2005	Kevin Dougan	Group Commercial Director	23 June 1997	157,000	12 months' notice
1 August 2007	Iain Cockburn	Group Finance Director	8 October 2007	200,000	12 months' notice

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

Directors' Share Options

Details of directors' share options, held under the Savings-Related Share Option Scheme and Executive Long-Term Incentive Plan, are noted in the Directors' Report on page 21.

Going Concern

After making appropriate enquiries, the Directors can confirm that, in their opinion, the Group and the Company have adequate resources for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing the financial statements.

Internal Control

Management has considerable autonomy to run and develop the business of the Group. A well designed system of internal reporting and control is necessary. The Group Board has overall responsibility for the system of internal control within the Group. The Audit Committee, on behalf of the Group Board, has undertaken a review of its effectiveness. 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 Group Board receives regular reports on internal control matters and does not believe that there is currently a need for an internal audit function. However, this matter is subject to periodic review.

Further control is exercised by monthly monitoring of performance by comparison to budgets, forecasts and cash targets, both by subsidiary management and by the Group Board. Regular visits by divisional and Main Board Directors to the Group's subsidiaries are an integral part of the control system. During these visits, business issues, risks, internal controls, financial results and future prospects are discussed with operational management.

Monitoring of compliance with the Group's system of internal control is undertaken by all levels of management and reinforced by the role fulfilled by the Audit Committee.

Audit Committee

The Group Board has established an Audit Committee comprising the two non-executive directors, Tim Ross and Nigel Barraclough, who both served until 6 September, after this date, Tim Ross and Peter Gillatt served on the committee. They meet at least three times a year, with the external auditors attending by invitation at least twice a year. The Committee provides a forum by which the external auditors report to the Group Board.

The Audit Committee is responsible for reviewing the scope and results of the audit together with its cost effectiveness. The objectivity of the auditors is enhanced by ensuring that they have direct access to the Group Board. Non-audit work undertaken by the auditors is limited to work that requires detailed knowledge derived from the statutory audit or work where the fees involved are not considered to be material.

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

All employees (including full-time directors) of the Company or any participating member of the Group whose earnings are subject to income tax and who have the requisite minimum period of continuous employment are eligible to participate.

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

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

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

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

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

In normal circumstances, options may be exercised during the period of six months commencing on the maturity (that is the relevant bonus date) of the savings contract. Options will become exercisable immediately on the death of a participant for a period of 12 months after the date of death or the bonus date, whichever is earlier. If a participant ceases to be an employee on reaching the age of 65 or at such other age at which that employee is bound to retire in accordance with the terms of his contract of employment or ceases to be in employment due to injury, disability, redundancy, or as a result of the sale of the business or subsidiary by which the participant is employed, options will become exercisable for a period of six months. If a participant has held an option for at least three years, it will become exercisable for a period of six months. Options will also become exercisable on an employee attaining the age of 60 if he should continue in employment and on a change in control, reconstruction, amalgamation or voluntary winding-up of the Company.

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

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

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

The vesting of an award granted to an executive director of the Company shall, or in the case of an award granted to any other Group employee may, be subject to the satisfaction of one or more Performance Conditions. The Remuneration Committee may determine or recommend to the Trustee that the vesting of an award will be subject to any other objective condition in addition to the Performance Conditions.

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

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

An option will lapse 10 years after the date of grant, except if the participant dies, in which case the option will lapse 12 months following death, whichever date is earlier.

By order of the Board

Gordon Banham
Group Chief Executive
14 September 2011

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

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

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

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

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

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

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

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

We have audited the financial statements of Hargreaves Services plc for the year ended 31 May 2011, set out on pages 28 to 75. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006

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

Matters on Which we are Required to Report by Exception

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

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

MR Thompson
(Senior Statutory Auditor)

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

14 September 2011

Consolidated Statement of Comprehensive Income
for year ended 31 May 2011

	Note	2011 £000	2010 £000
Revenue	1	**552,259**	459,779
Cost of sales		**(468,045)**	(385,393)
Gross profit		**84,214**	74,386
Other operating income	4	**469**	1,593
Administrative expenses		**(41,619)**	(40,740)
Operating profit	1,5,6	**43,064**	35,239
Financial income	8	**1,443**	2,031
Financial expenses	8	**(7,602)**	(6,394)
Share of profit/(loss) in jointly controlled entities (net of tax)		**23**	(159)
Profit before tax		**36,928**	30,717
Income tax expense	9	**(10,108)**	(9,370)
Profit for the year		**26,820**	21,347
Other comprehensive income			
Foreign exchange translation differences		**705**	(781)
Effective portion of changes in fair value of cash flow hedges		**(1,418)**	1,486
Actuarial gains and losses on defined benefit pension plans		**891**	(3,028)
Tax recognised on other comprehensive income		**17**	434
Dividend waived		**–**	(15)
Other comprehensive income for the year, net of tax		**195**	(1,904)
Total comprehensive income for the year		**27,015**	19,443
Profit attributable to:			
Equity holders of the company		**24,600**	20,560
Non-controlling interest		**2,220**	787
Profit for the year		**26,820**	21,347
Total comprehensive income attributable to:			
Equity holders of the company		**24,671**	18,760
Non-controlling interest		**2,344**	683
Total comprehensive income for the year		**27,015**	19,443
Basic earnings per share (pence)	10	**91.85**	77.53
Diluted earnings per share (pence)	10	**90.50**	75.61

Balance Sheets

at 31 May 2011

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Non-current assets					
Property, plant and equipment	11	**87,120**	85,605	**–**	–
Intangible assets	12	**31,616**	34,607	**–**	–
Investments in jointly controlled entities	13	**–**	–	**42**	–
Investments in subsidiary undertakings	13	**–**	–	**29,504**	28,436
Derivative financial instruments	14	**–**	3	**–**	–
Deferred tax assets	16	**–**	–	**123**	123
		118,736	120,215	**29,669**	28,559
Current assets					
Inventories	17	**105,944**	81,956	**–**	–
Derivative financial instruments	14	**266**	517	**–**	–
Trade and other receivables	18	**66,072**	62,371	**299,120**	218,455
Cash and cash equivalents	19	**17,243**	16,983	**1**	1,923
		189,525	161,827	**299,121**	220,378
Total assets		**308,261**	282,042	**328,790**	248,937
Non-current liabilities					
Other interest-bearing loans and borrowings	20	**(51,190)**	(73,265)	**(43,016)**	(53,138)
Retirement benefit obligations	22	**(3,886)**	(6,177)	**–**	–
Provisions	24	**(8,815)**	(8,986)	**–**	–
Derivative financial instruments	15	**(168)**	(770)	**–**	–
Deferred tax liabilities	16	**(3,883)**	(5,823)	**–**	–
		(67,942)	(95,021)	**(43,016)**	(53,138)
Current liabilities					
Bank overdraft	19	**(23,994)**	(24,189)	**(5,017)**	–
Other interest-bearing loans and borrowings	20	**(8,059)**	(7,729)	**–**	–
Trade and other payables	21	**(79,205)**	(59,889)	**(238,301)**	(155,572)
Income tax liabilities	16	**(11,788)**	(4,489)	**–**	–
Derivative financial instruments	15	**(2,623)**	(941)	**–**	–
		(125,669)	(97,237)	**(243,318)**	(155,572)
Total liabilities		**(193,611)**	(192,258)	**(286,334)**	(208,710)
Net assets		**114,650**	89,784	**42,456**	40,227

Balance Sheets (continued)
at 31 May 2011

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Equity attributable to equity holders of the parent					
Share capital	25	**2,683**	2,660	**2,683**	2,660
Share premium		**31,490**	30,429	**31,490**	30,429
Other reserves		**211**	211	**–**	–
Translation reserve	25	**550**	(31)	**–**	–
Merger reserve		**1,022**	1,022	**1,022**	1,022
Hedging reserve	25	**(1,759)**	(690)	**–**	–
Capital redemption reserve		**1,530**	1,530	**1,530**	1,530
Retained earnings		**74,158**	51,813	**5,731**	4,586
		109,885	86,944	**42,456**	40,227
Non-controlling interest		**4,765**	2,840	**–**	–
Total equity		**114,650**	89,784	**42,456**	40,227

These financial statements were approved by the Board of Directors on 14 September 2011 and were signed on its behalf by:

Gordon Banham
Director

Iain Cockburn
Director

Registered Number: 4952865

Statements of Changes in Equity

for year ended 31 May 2011

Group	Share capital £000	Share premium £000	Trans- lation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000	Non- controlling interest £000	Total equity £000
Balance at 1 June 2009	2,639	29,434	646	(1,762)	211	1,530	1,022	35,792	69,512	2,157	71,669
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	20,560	20,560	787	21,347
Other comprehensive income											
Foreign exchange translation differences	–	–	(677)	–	–	–	–	–	(677)	(104)	(781)
Effective portion of changes in fair value of cash flow hedges	–	–	–	1,486	–	–	–	–	1,486	–	1,486
Actuarial gains and losses on defined benefit pension plans	–	–	–	–	–	–	–	(3,028)	(3,028)	–	(3,028)
Tax recognised on other comprehensive income	–	–	–	(414)	–	–	–	848	434	–	434
Dividend waived	–	–	–	–	–	–	–	(15)	(15)	–	(15)
Total other comprehensive income	–	–	(677)	1,072	–	–	–	(2,195)	(1,800)	(104)	(1,904)
Total comprehensive income for the year	–	–	(677)	1,072	–	–	–	18,365	18,760	683	19,443
Transactions with owners recorded directly in equity											
Issue of shares	21	995	–	–	–	–	–	–	1,016	–	1,016
Equity settled share-based payment transactions	–	–	–	–	–	–	–	948	948	–	948
Dividends	–	–	–	–	–	–	–	(3,292)	(3,292)	–	(3,292)
Total transactions with owners	21	995	–	–	–	–	–	(2,344)	(1,328)	–	(1,328)
Balance at 31 May 2010	2,660	30,429	(31)	(690)	211	1,530	1,022	51,813	86,944	2,840	89,784

Statements of Changes in Equity (continued)

for year ended 31 May 2011

Group	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000	Non-controlling interest £000	Total equity £000
Balance at 1 June 2010	2,660	30,429	(31)	(690)	211	1,530	1,022	51,813	86,944	2,840	89,784
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	24,600	24,600	2,220	26,820
Other comprehensive income											
Foreign exchange translation differences	–	–	581	–	–	–	–	–	581	124	705
Effective portion of changes in fair value of cash flow hedges	–	–	–	(1,418)	–	–	–	–	(1,418)	–	(1,418)
Actuarial gains and losses on defined benefit pension plans	–	–	–	–	–	–	–	891	891	–	891
Tax recognised on other comprehensive income	–	–	–	349	–	–	–	(332)	17	–	17
Total other comprehensive income	–	–	581	(1,069)	–	–	–	559	71	124	195
Total comprehensive income for the year	–	–	581	(1,069)	–	–	–	25,159	24,671	2,344	27,015
Transactions with owners recorded directly in equity											
Issue of shares	23	1,061	–	–	–	–	–	–	1,084	–	1,084
Equity settled share-based payment transactions	–	–	–	–	–	–	–	1,067	1,067	–	1,067
Dividends	–	–	–	–	–	–	–	(3,892)	(3,892)	–	(3,892)
Total contributions by and distributions to owners	23	1,061	–	–	–	–	–	(2,825)	(1,741)	–	(1,741)
Changes in ownership interests											
Acquisition of non-controlling interest without a change in control	–	–	–	–	–	–	–	11	11	(419)	(408)
Total transactions with owners	23	1,061	–	–	–	–	–	(2,814)	(1,730)	(419)	(2,149)
Balance at 31 May 2011	2,683	31,490	550	(1,759)	211	1,530	1,022	74,158	109,885	4,765	114,650

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1 June 2009	2,639	29,434	1,530	1,022	4,550	39,175
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,380	2,380
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	2,380	2,380
Transactions with owners recorded directly in equity						
Issue of shares	21	995	–	–	–	1,016
Equity settled share-based payment transactions	–	–	–	–	948	948
Dividends	–	–	–	–	(3,292)	(3,292)
Total transactions with owners	21	995	–	–	(2,344)	(1,328)
Balance at 31 May 2010	2,660	30,429	1,530	1,022	4,586	40,227
Balance at 1 June 2010	2,660	30,429	1,530	1,022	4,586	40,227
Total comprehensive income for the year						
Profit for the year	–	–	–	–	3,883	3,883
Other comprehensive income	–	–	–	–	–	
Total comprehensive income for the year	–	–	–	–	3,883	3,883
Transactions with owners recorded directly in equity						
Issue of shares	23	1,061	–	–	–	1,084
Equity settled share-based payment transactions	–	–	–	–	1,067	1,067
Dividends	–	–	–	–	(3,805)	(3,805)
Total transactions with owners	23	1,061	–	–	(2,738)	(1,654)
Balance at 31 May 2011	2,683	31,490	1,530	1,022	5,731	42,456

Cash Flow Statements

for year ended 31 May 2011

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Cash flows from operating activities					
Profit for the year		**26,820**	21,347	**3,883**	2,380
Adjustments for:					
Depreciation		**17,120**	14,565	**–**	–
Amortisation of intangible assets		**3,592**	3,592	**–**	–
Dividend income		**–**	–	**(4,500)**	(2,627)
Net finance expense		**6,159**	4,363	**1,143**	1,020
Share of (profit)/loss in jointly controlled entities		**(23)**	159	**–**	–
Profit on sale of property, plant and equipment		**(469)**	(624)	**–**	–
Profit on sale of investments		**–**	(969)	**–**	(1,144)
Equity settled share-based payment expenses		**1,067**	948	**–**	–
Income tax expense		**10,108**	9,370	**(305)**	(266)
Translation of non-controlling interest		**124**	(104)	**–**	–
		64,498	52,647	**221**	(637)
Change in inventories		**(22,936)**	(22,099)	**–**	–
Change in trade and other receivables		**(5,540)**	(8,135)	**(80,361)**	(167,614)
Change in trade and other payables		**21,248**	7,613	**83,465**	134,030
Change in provisions and employee benefits		**(1,732)**	(1,966)	**–**	–
		55,538	28,060	**3,325**	(34,221)
Interest paid		**(6,083)**	(4,030)	**(1,143)**	(1,104)
Income tax paid		**(4,732)**	(11,484)	**–**	–
Net cash from operating activities		**44,723**	12,546	**2,182**	(35,325)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**1,452**	1,947	**–**	–
Proceeds from sale of investments		**–**	1,750	**–**	1,750
Dividends received		**–**	127	**4,500**	2,627
Acquisition of subsidiaries, net of cash acquired	3	**(730)**	(1,304)	**–**	(85)
Acquisition of property, plant and equipment	11	**(12,777)**	(19,712)	**–**	–
Acquisition of other investments	13	**(44)**	–	**(42)**	–
Acquisition of trade and assets	3	**–**	(1,743)	**–**	–
Net cash from investing activities		**(12,099)**	(18,935)	**4,458**	4,292
Cash flows from financing activities					
Proceeds from the issue of share capital	25	**1,084**	35	**1,083**	1,016
Proceeds from new loan	20	**1,593**	–	**–**	–
Repayment of borrowings		**–**	(21,811)	**–**	(16,500)
Payment of finance lease liabilities		**(10,068)**	(7,511)	**–**	–
(Repayment of)/proceeds from invoice discounting facility		**(9,827)**	9,027	**–**	–
Dividends paid	25	**(3,892)**	(3,292)	**(3,805)**	(3,292)
Repayment of promissory notes		**–**	(21,874)	**–**	–
(Repayment of)/proceeds from revolving credit facility	20	**(10,857)**	52,628	**(10,857)**	52,628
Net cash from financing activities		**(31,967)**	7,202	**(13,579)**	33,852
Net increase/(decrease) in cash and cash equivalents		**657**	813	**(6,939)**	2,819
Cash and cash equivalents at 1 June		**(7,206)**	(8,424)	**1,923**	(896)
Effect of exchange rate fluctuations on cash held		**(202)**	405	**–**	–
Cash and cash equivalents at 31 May	19	**(6,751)**	(7,206)	**(5,016)**	1,923

Notes
(forming part of the financial statements)

1 Accounting Policies

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

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

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

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

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

- Revised IFRS 3 Business Combinations;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items;
- Amendments to IAS 27 Consolidated and Separate Financial Statements; and
- Improvements to IFRS's (issued 16 April 2009).

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

Accounting Estimates and Judgements

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

a) **Measurement of the recoverable amounts of cash generating units containing goodwill**
This requires the identification of appropriate cash generating units and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash generating units, the discount rate applied in the calculations and the comparison of the cash flows to the carrying value of the goodwill. Management have assessed the sensitivity of carrying amounts of cash generating units containing goodwill to reasonably possible changes in key assumptions.

b) **Recognition of deferred tax assets**
The Group has substantial deferred tax assets. In determining how much of these assets can be recognised this requires an assessment of the extent to which it is probable that future taxable profits will be available. This assessment is based on management's future assessment of the Group's financial performance and forecast financial information.

c) **Share-based payments**
The estimation of share-based payments costs which requires the selection of an appropriate valuation model together with assumptions as to the key inputs into the model.

Measurement Convention

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development performance and position are set out in the Group Business Review on pages 4 to 7. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 14 to 17. In addition note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

Notes
(continued)

1 Accounting Policies (continued)

Going Concern (continued)

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

The financial statements were approved by the Board of Directors on 14 September 2011.

Basis of Consolidation

Subsidiaries

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

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

Associates and jointly controlled entities

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

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

Foreign Currency

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

The assets and liabilities of foreign operations are translated into sterling, the Group's presentational currency, at the exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. They are recycled to profit or loss upon disposal.

Classification of Financial Instruments Issued by the Group

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

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

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

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.

1 Accounting Policies (continued)

Financial Instruments

Non-derivative financial instruments and hedging

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Derivative financial instruments

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

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

Cash Flow Hedges

Where a derivative financial Instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, 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. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

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

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

Intra-Group Financial Instruments

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

Property, Plant and Equipment

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

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

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

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

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

Business Combinations

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

Notes
(continued)

1 Accounting Policies (continued)

Acquisitions on or After 1 June 2010

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

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

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

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

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

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

Acquisitions Between 1 June 2006 and 1 June 2010

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

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

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

Acquisitions and Disposals of Non-controlling Interests

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

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

Intangible Assets and Goodwill

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

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

Inventories

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

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

Trade and Other Receivables

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

Cash and Cash Equivalents

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

1 Accounting Policies (continued)

Trade and Other Payables

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

Investments

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

Interest-bearing Borrowings

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

Impairment

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

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

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

Reversals of Impairment

An impairment loss in respect of goodwill is not reversed.

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

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

Employee Benefits

Defined benefit pension plans

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

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

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

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

Defined contribution pension plans

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

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

Share-based payment transactions

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

1 Accounting Policies (continued)

Employee Benefits (continued)

Share-based payment transactions (continued)

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

Revenue

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

Leases

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

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

Net Financing Costs

Net financing costs comprise interest payable, finance charges on finance leases and interest receivable on funds invested together with changes in the fair values of interest rate swaps and foreign currency forward contracts recognised through the profit and loss and the expected returns on plan assets and interest on the pension scheme liability.

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

Income Tax

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

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

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

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

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

Provisions

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

Standards and Interpretations in Issue But Not Yet Effective

At the date of issue of these financial statements the following standards and interpretations, which have not been applied by the Group in these financial statements, were in issue but not yet effective. Their adoption is not expected to have a significant effect on the financial statements unless otherwise indicated:

- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments';
- Revised IAS 24 'Related Party Disclosure'; and
- Improvements to IFRSs (issued May 2010).

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

2 Segmental Information

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

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

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

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

The segment results, as reported to the Board of Directors, are calculated under the principles of IFRS. The table below sets out information for each of the Group's reportable segments.

	Production 2011 £000	Energy & Commodities 2011 £000	Transport 2011 £000	Industrial Services 2011 £000	Total 2011 £000
Revenue					
Total revenue	110,119	330,814	78,690	69,452	589,075
Inter–segment revenue	(15,870)	(7,232)	(11,082)	(2,632)	(36,816)
Revenue from external customers	**94,249**	**323,582**	**67,608**	**66,820**	**552,259**
Segment operating profit	12,606	24,260	3,450	2,748	43,064
Share of profit/(loss) in jointly controlled entities	46	(23)	–	–	23
Net financing costs	(2,698)	(2,042)	(829)	(590)	(6,159)
Profit before taxation	**9,954**	**22,195**	**2,621**	**2,158**	**36,928**
Depreciation charge	**(11,168)**	**(1,101)**	**(3,261)**	**(1,590)**	**(17,120)**
Amortisation of intangibles	**–**	**(1,630)**	**(393)**	**(1,569)**	**(3,592)**
Capital expenditure	**10,889**	**842**	**5,061**	**2,681**	**19,473**
Net assets					
Segment assets	94,373	133,687	30,396	16,165	274,621
Segment liabilities	(36,391)	(63,750)	(17,773)	(17,160)	(135,074)
Segment net assets	**57,982**	**69,937**	**12,623**	**(995)**	**139,547**
Jointly controlled entities	–	–	–	–	–
Segment net assets including share of jointly controlled entities	**57,982**	**69,937**	**12,623**	**(995)**	**139,547**
Unallocated net assets					(24,897)
Total net assets					**114,650**

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

Included within revenue is £175.0m (2010: £109.0m) of revenue which originates in Europe. All other revenue originates in the UK.

Notes
(continued)

2 Segmental Information (continued)

	Production 2010 £000	Energy & Commodities 2010 £000	Transport 2010 £000	Industrial Services 2010 £000	Total 2010 £000
Revenue					
Total revenue	86,256	263,949	72,746	60,358	483,309
Inter–segment revenue	(5,800)	(7,269)	(10,100)	(361)	(23,530)
Revenue from external customers	**80,456**	**256,680**	**62,646**	**59,997**	**459,779**
Segment operating profit	8,496	20,727	3,761	2,255	35,239
Share of loss in jointly controlled entities	(107)	(52)	–	–	(159)
Net financing costs	(1,653)	(1,784)	(663)	(263)	(4,363)
Profit before taxation	**6,736**	**18,891**	**3,098**	**1,992**	**30,717**
Depreciation charge	**(9,179)**	**(531)**	**(3,260)**	**(1,595)**	**(14,565)**
Amortisation of intangibles	**–**	**(1,630)**	**(393)**	**(1,569)**	**(3,592)**
Capital expenditure	**23,199**	**721**	**4,349**	**1,998**	**30,267**
Net assets					
Segment assets	93,091	107,053	29,488	14,029	243,661
Segment liabilities	(38,220)	(62,856)	(17,167)	(12,699)	(130,942)
Segment net assets	**54,871**	**44,197**	**12,321**	**1,330**	**112,719**
Jointly controlled entities	–	–	–	–	–
Segment net assets including share of jointly controlled entities	**54,871**	**44,197**	**12,321**	**1,330**	**112,719**
Unallocated net assets					(22,935)
Total net assets					**89,784**

Unallocated net assets includes goodwill and intangibles (£34.6m) revolving credit facility (£53.1m), derivative financial instruments (£1.2m) and other corporate items (£3.2m).

3 Acquisition of Subsidiaries

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

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

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

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

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

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

On 2 November 2009, the Group obtained total control of Forward Sound Limited, a jointly controlled entity with Evans & Reid Coal Company Limited, satisfied by £85,000. The company is a holding company.

In the seven months to 31 May 2010, Forward Sound contributed profit after tax of £45,000 to the consolidated profit after tax for the year. If the acquisition had occurred on 1 June 2009, Group revenue would have been an estimated £459.8m and profit after tax would have been an estimated £21.3m. In determining these amounts, management has assumed that any fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 June 2009.

3 Acquisition of Subsidiaries (continued)

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Intangible assets	1,000	–	1,000
Deferred tax assets	23	–	23
LIABILITIES			
Current liabilities			
Trade and other payables	(584)	–	(584)
Net identifiable assets and liabilities	439	–	439
Share of Forward Sound owned			(492)
Goodwill on acquisition			138
Net purchase consideration and costs of acquisition			**85**
Satisfied by:			
Consideration paid			**85**

In October 2009, the Group acquired certain assets from Stiller Tankers Limited and in March 2010 acquired the trade and assets of DWL Engineering Services Limited. These acquisitions have been aggregated in the table below as they are deemed to be individually immaterial.

It is impracticable to determine the result these acquisitions have contributed to the consolidated profit after tax for the year as they have been integrated into existing businesses.

	Pre-acquisition carrying amounts £000	Fair value adjustments £000	Recognised values on acquisition £000
ASSETS			
Non-current assets			
Property, plant and equipment	1,716	–	1,716
Current assets			
Inventories	5	–	5
Trade and other receivables	123	–	123
LIABILITIES			
Current liabilities			
Trade and other payables	(93)	(362)	(455)
Interest-bearing loans and borrowings	(51)	–	(51)
Net identifiable assets and liabilities	**1,700**	**(362)**	**1,338**
Goodwill on acquisition			374
Net purchase consideration and costs of acquisition			**1,712**
Satisfied by:			
Consideration paid			1,442
Deferred consideration			270
			1,712

4 Other Operating Income

	2011 £000	2010 £000
Net gain on disposal of property, plant and equipment	**469**	624
Net gain on disposal of investments	**–**	969
	469	1,593

5 Expenses and Auditors' Remuneration

Included in profit are the following:

	2011 £000	2010 £000
Amortisation of intangibles	**3,592**	3,592
Impairment loss on inventories	**446**	1,040
Impairment loss on trade and other receivables	**159**	262
Depreciation of property, plant and equipment owned	**11,262**	10,054
Depreciation of property, plant and equipment held under finance lease	**5,858**	4,511

Auditors' remuneration:

	2011 £000	2010 £000
Audit of these financial statements	**25**	26
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**163**	153
Other services relating to taxation	**92**	117
All other services	**82**	222

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

6 Staff Numbers and Costs

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

	Number of employees Group	
	2011	2010
Directors	**27**	27
Maintenance and washery	**197**	200
Traffic and administration	**434**	409
Drivers	**543**	508
Production	**1,225**	1,255
	2,426	2,399

Notes
(continued)

6 Staff Numbers and Costs (continued)

The aggregate payroll costs of these persons were as follows:

	Group	
	2011 £000	2010 £000
Wages and salaries	**84,379**	78,881
Share-based payments (see note 23)	**1,067**	948
Social security costs	**8,571**	8,007
Contributions to defined contribution plans	**1,156**	568
Expenses related to defined benefit plans	**1,382**	998
	96,555	89,402

7 Directors' Remuneration

	2011 £000	2010 £000
Directors' emoluments	**1,113**	1,156
Company contributions to money purchase pension plans	**64**	61
Amounts paid to third-parties in respect of directors' services	**96**	95

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £538,000 (2010: £539,000), and company pension contributions of £43,000 (2010: £42,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	2011	2010
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**2**	2
Defined benefit schemes	**–**	–
The number of directors who exercised share options was	**–**	2
The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was	**–**	–

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

	Number of options		
	At start of year	At end of year	Exercise price p
GFC Banham	109,180	148,211	–
KJ Dougan	38,213	51,874	–
ID Cockburn	48,787	67,920	–

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

8 Finance Income and Expense
Recognised in Profit or Loss

	2011 £000	2010 £000
Finance income		
Interest income on unimpaired financial assets	**135**	1,030
Expected return on defined benefit pension plan assets	**1,224**	1,001
Net gain on financial instruments designated as fair value through the income statement	**84**	–
Total finance income	**1,443**	2,031
Finance expense		
Net loss on financial instruments designated as fair value through the income statement	**–**	126
Total interest expense on financial liabilities measured at amortised cost	**6,218**	5,060
Unwind of discount on deferred consideration	**–**	92
Interest on defined benefit pension plan obligation	**1,384**	1,116
Total finance expense	**7,602**	6,394

9 Taxation
Recognised in the Statement of Comprehensive Income

	2011 £000	2010 £000
Current tax expense		
Current year	**8,727**	7,849
Adjustments for prior years	**(1,131)**	(451)
Foreign tax – current year	**4,435**	1,416
Current tax expense	**12,031**	8,814
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**(1,617)**	94
Adjustments for prior years	**275**	462
Reduction in tax rate	**(581)**	–
Deferred tax (credit)/expense	**(1,923)**	556
Tax expense in income statement (excluding share of tax of equity accounted investees)	**10,108**	9,370
Share of tax of equity accounted investees	**81**	(122)
Total tax expense	**10,189**	9,248

Notes
(continued)

9 Taxation (continued)

Tax Recognised in Other Comprehensive Income

	2011 £000	2010 £000
Deferred tax		
Effective portion of changes in fair value of cash flow hedges	**349**	(414)
Actuarial gains and losses on defined benefit pension plans	**(332)**	848
	17	434

Reconciliation of Effective Tax Rate

	2011 £000	2010 £000
Profit for the year	**26,820**	21,347
Total tax expense (including tax on equity accounted investees)	**10,189**	9,248
Profit excluding taxation	**37,009**	30,595
Tax using the UK corporation tax rate of 27.67% (2010: 28%)	**10,240**	8,567
Effect of tax rates in foreign jurisdictions	**734**	218
Unrecognised tax losses	**44**	–
Non-deductible expenses	**602**	452
Reduction in tax rate on deferred tax balances	**(581)**	–
(Over)/under provided in prior years	**(850)**	11
Total tax expense (including tax on equity accounted investees)	**10,189**	9,248

The UK corporation tax rate reduced to 26% on 1 April 2011, giving an effective base rate of 27.67% (2010; 28%).

Factors That May Affect Future, Current and Total Tax Charges

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. As these changes in tax rate were substantively enacted prior to the year-end, their effect on the deferred tax balances at 31 May 2011 have been included in the figures.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes were not substantively enacted during the year and therefore are not included in the figures above.

10 Earnings Per Share

All earnings per share disclosures relate to continuing operations as the Group had no discontinued operations in either 2010 or 2011.

Earnings per share for the ordinary shares are as follows:

	2011	2010
Ordinary shares		
Basic earnings per share	**91.85p**	77.53p
Diluted earnings per share	**90.50p**	75.61p

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

Ordinary Shares

	2011 £000	2010 £000
Profit for the year attributable to equity holders	**24,600**	20,560
Weighted average number of shares	**26,782,240**	26,519,310
Earnings per ordinary share	**91.85p**	77.53p

The calculation of diluted earnings per share is based on the profit for the year and on the weighted average number of ordinary shares in issue in the year adjusted for the dilutive effect of the share options outstanding (effect on weighted average number of shares: 399,664; effect on earnings per ordinary share: 1.35 pence).

	2011 £000	2010 £000
Profit for the year attributable to equity holders	**24,600**	20,560
Weighted average number of shares	**27,181,904**	27,192,323
Diluted earnings per ordinary share	**90.50p**	75.61p

Notes
(continued)

11 Property, Plant and Equipment
Group

	Freehold land and buildings and leasehold improvements £000	Assets under the course of construction £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Mineral reserves £000	Total £000
Cost							
Balance at 1 June 2009	21,170	–	7,712	67,768	345	6,638	103,633
Other acquisitions	398	–	321	29,490	58	–	30,267
Disposals	(950)	–	–	(2,327)	–	–	(3,277)
Transfers	(4)	–	(3,057)	3,070	(9)	–	–
Effect of movements in foreign exchange	–	–	(2)	(1)	–	–	(3)
Balance at 31 May 2010	**20,614**	**–**	**4,974**	**98,000**	**394**	**6,638**	**130,620**
Balance at 1 June 2010	20,614	–	4,974	98,000	394	6,638	130,620
Acquisitions through business combinations	–	–	–	158	–	–	158
Other acquisitions	192	773	260	18,219	29	–	19,473
Disposals	–	–	–	(2,739)	–	–	(2,739)
Effect of movements in foreign exchange	–	–	3	12	–	–	15
Balance at 31 May 2011	**20,806**	**773**	**5,237**	**113,650**	**423**	**6,638**	**147,527**
Depreciation and impairment							
Balance at 1 June 2009	1,963	–	3,605	25,050	183	1,592	32,393
Depreciation charge for the year	566	–	481	12,635	53	830	14,565
Disposals	(108)	–	–	(1,834)	–	–	(1,942)
Transfers	–	–	(9)	(18)	27	–	–
Effect of movements in foreign exchange	–	–	(1)	–	–	–	(1)
Balance at 31 May 2010	**2,421**	**–**	**4,076**	**35,833**	**263**	**2,422**	**45,015**
Balance at 1 June 2010	2,421	–	4,076	35,833	263	2,422	45,015
Depreciation charge for the year	515	–	471	15,247	57	830	17,120
Disposals	–	–	–	(1,751)	–	–	(1,751)
Effect of movements in foreign exchange	–	–	13	10	–	–	23
Balance at 31 May 2011	**2,936**	**–**	**4,560**	**49,339**	**320**	**3,252**	**60,407**
Net book value							
At 1 June 2009	**19,207**	**–**	**4,107**	**42,718**	**162**	**5,046**	**71,240**
At 31 May 2010 and 1 June 2010	**18,193**	**–**	**898**	**62,167**	**131**	**4,216**	**85,605**
At 31 May 2011	**17,870**	**773**	**677**	**64,311**	**103**	**3,386**	**87,120**

The Group has £773,000 (2010: £nil) property, plant and equipment under construction.

The Company has no property, plant and equipment.

Leased Plant and Machinery
At 31 May 2011 the net carrying amount of leased plant and machinery was £23,010,175 (2010: £23,312,116). The leased equipment secures lease obligations (see note 20).

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

12 Intangible Assets
Group

	Goodwill £000	Negative goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
Cost						
Balance at 1 June 2009	21,108	(93)	11,689	8,148	15	40,867
Acquisitions through business combinations	512	–	–	–	1,000	1,512
Effect of movements in foreign exchange	2	–	–	–	–	2
Balance at 31 May 2010	**21,622**	**(93)**	**11,689**	**8,148**	**1,015**	**42,381**
Balance at 1 June 2010	21,622	(93)	11,689	8,148	1,015	42,381
Acquisitions through business combinations	603	–	–	–	–	603
Effect of movements in foreign exchange	(2)	–	–	–	–	(2)
Balance at 31 May 2011	**22,223**	**(93)**	**11,689**	**8,148**	**1,015**	**42,982**
Amortisation and impairment						
Balance at 1 June 2009	–	(93)	4,275	–	–	4,182
Amortisation for the year	–	–	1,962	1,630	–	3,592
Balance at 31 May 2010	**–**	**(93)**	**6,237**	**1,630**	**–**	**7,774**
Balance at 1 June 2010	–	(93)	6,237	1,630	–	7,774
Amortisation for the year	–	–	1,962	1,630	–	3,592
Balance at 31 May 2011	**–**	**(93)**	**8,199**	**3,260**	**–**	**11,366**
Net book value						
At 1 June 2009	**21,108**	**–**	**7,414**	**8,148**	**15**	**36,685**
At 31 May 2010 and 1 June 2010	**21,622**	**–**	**5,452**	**6,518**	**1,015**	**34,607**
At 31 May 2011	**22,223**	**–**	**3,490**	**4,888**	**1,015**	**31,616**

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

£2,032,000 of the customer contracts is being amortised over 62 months, £2,596,000 of the customer contracts is being amortised over 71 months and £7,061,000 of the customer contracts is being amortised over 75 months, each being the weighted average expected life of the contracts.

£1,000,000 of other intangibles relates to an exclusivity agreement and is not yet being amortised. The life of the intangible is expected to be 7 years.

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

	2011 £000	2010 £000
Administrative expenses	**3,592**	3,592

Notes
(continued)

12 Intangible Assets (continued)

Impairment Testing

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

	Goodwill 2011 £000	Goodwill 2010 £000
Norec Limited	**1,252**	1,252
AJS Contracts Limited	**2,502**	2,502
Imperial Tankers Limited/Hargreaves (Bulk Liquid Transport) Limited	**3,523**	3,523
The Monckton Coke & Chemical Company Limited	**5,419**	5,419
Maltby Colliery Limited	**2,139**	2,139
Coal4Energy Limited/Maxibrite Limited	**6,140**	6,140
Mekol NV	**593**	–
Other	**655**	647

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

	2011	2010
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond approved forecast period	**2%**	2%
Discount rate	**12%**	12%

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

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

- Cash flows were projected based on budgeted operating results for the proceeding year with the short-term growth rate applied to the next four years. A conservative growth rate of 2% has been applied in perpetuity. This rate does not exceed the long-term average growth rate for any of the cash generating units' industries.
- Sustaining capital expenditure in each cash generating unit has been included in the calculations equivalent to the current levels of annual depreciation. This is considered to be a prudent view by management as cash generating units such as Norec and AJS Contracts are largely labour-intensive rather than capital-intensive.
- A pre-tax discount rate of 12% (2010: 12%) has been used. Management consider this to be an estimate of the cost of capital of the Group, taking into account the current macro-economic situation.

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

The Company has no intangible assets.

13 Investments in Subsidiaries, Associates and Jointly Controlled Entities

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

	Nature of business	Country of incorporation	Class of shares held	Ownership 2011	Ownership 2010
Company					
Subsidiary undertakings					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Norec Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Dormant	UK	Ordinary	50%	50%
			Preference	50%	50%
Coal4Energy Limited	Light industrial and domestic coal sales	UK	Ordinary	100%	100%
Forward Sound Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves Europe Limited	Holding company	UK	Ordinary	100%	–
Hargreaves Services (HK) Limited	Holding company	Hong Kong	Ordinary	100%	–
Jointly controlled entities					
Mir Trade Services BV	Import and sale of carbon-based materials	Netherlands	Ordinary	50%	–
Group					
Subsidiary undertakings					
Hargreaves (UK) Limited	Holding company	UK	Ordinary	100%	100%
Hargreaves (UK) Services Limited	Haulage, mineral import and processing	UK	Ordinary	100%	100%
The Monckton Coke & Chemical Company Limited	Manufacture of coke	UK	Ordinary	100%	100%
Norec Limited	Contract management service	UK	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Dormant	UK	Ordinary	100%	100%
			Preference	100%	100%
Maltby Colliery Limited	Coal mining	UK	Ordinary	100%	100%
Hargreaves Raw Material Services GmbH	Import and sale of carbon-based materials	Germany	Ordinary	77.5%	72.5%
Hargreaves Metallurgical Supplies Limited	Mineral distribution	UK	Ordinary	100%	100%
Imperial Tankers Limited	Haulage	UK	Ordinary	100%	100%
AJS Contracts Limited	Engineering maintenance services	UK	Ordinary	100%	100%
Maxibrite Limited	Smokeless fuel briquette manufacturing	UK	Ordinary	85.2%	85.2%
Rocfuel Limited	Renewable energy solutions	UK	Ordinary	50.1%	50.1%
Rocpower Limited	Renewable energy solutions	UK	Ordinary	85%	85%
Hargreaves Carbon Products NV	Import and sale of carbon-based materials	Belgium	Ordinary	62%	58%
Mekol NV	Port facilities	Belgium	Ordinary	62%	–
Hargreaves Carbon Products Polska Sp Zo.o	Import and sale of carbon-based materials	Poland	Ordinary	80%	–
Hargreaves Europe Limited	Holding company	UK	Ordinary	100%	–
Hargreaves Services (HK) Limited	Holding company	Hong Kong	Ordinary	100%	–
Jointly controlled entities					
Eastgate Materials Handling Limited	Port facilities	UK	Ordinary	50%	50%
Tower Regeneration Limited	Coal mining	UK	Ordinary	50%	50%
Mir Trade Services BV	Import and sale of carbon-based materials	Netherlands	Ordinary	50%	–

Hargreaves Carbon Products NV is an 80% owned subsidiary of Hargreaves Raw Material Services GmbH.

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

In addition to the above, the Group has approximately 11 dormant subsidiary undertakings.

The Group's share of post-acquisition total recognised profit or loss in the above associates and jointly controlled entities for the year ended 31 May 2011 was a profit of £23,000 (2010: loss of £159,000).

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

Group	Interests in jointly controlled entities £000
Cost	
At beginning of year	39
Additions	42
At end of year	81
Share of post acquisition reserves	
At beginning of year	(39)
Transferred from current liabilities within other payables	(216)
Profit for the financial year	23
Effect of movements in foreign exchange	2
Transferred to current liabilities within other payables	149
At end of year	(81)
Net book value	
At 31 May 2011	**–**
At 31 May 2010	**–**

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

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

	Ownership %	Current assets £000	Non-current assets £000	Current liabilities £000	Non-current liabilities £000	Revenue £000	Expenses (including tax) £000
2010							
Eastgate Materials Handling Limited	50%	443	373	(1,186)	–	7,691	(8,053)
Tower Regeneration Limited	50%	–	3,924	(4,056)	–	–	(132)
		443	**4,297**	**(5,242)**	**–**	**7,691**	**(8,185)**

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

Company	Group undertakings £000	Jointly controlled entities £000	Total £000
Shares at cost and net book value			
At 1 June 2009	24,266	754	25,020
Additions	2,669	405	3,074
Capital contribution arising on share options	948	–	948
Transfer	553	(553)	–
Disposal	–	(606)	(606)
At 31 May 2010	**28,436**	**–**	**28,436**
At 1 June 2010	28,436	–	28,436
Additions	1	42	43
Capital contribution arising on share options	1,067	–	1,067
At 31 May 2011	**29,504**	**42**	**29,546**

14 Other Financial Assets

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Non-current				
Interest rate swaps designated as fair value through profit or loss	**–**	3	**–**	–
Current				
Currency contracts designated as fair value through profit or loss	**57**	40	**–**	–
Other derivatives designated as fair value through hedging reserve	**209**	477	**–**	–
	266	517	**–**	–

15 Other Financial Liabilities

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Non-current				
Interest rate swaps designated as fair value through profit or loss	**168**	110	**–**	–
Currency contracts designated as fair value through profit or loss	**–**	28	**–**	–
Other derivatives designated as fair value through hedging reserve	**–**	632	**–**	–
	168	770	**–**	–
Current				
Interest rate swaps designated as fair value through profit or loss	**30**	36	**–**	–
Currency contracts designated as fair value through profit or loss	**6**	100	**–**	–
Other derivatives designated as fair value through hedging reserve	**2,587**	805	**–**	–
	2,623	941	**–**	–

Notes
(continued)

16 Deferred Tax Assets and Liabilities
Group
Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2011 £000	2010 £000	2011 £000	2010 £000
Property, plant and equipment	**–**	–	**6,564**	7,804
Intangible assets	**–**	–	**2,282**	3,528
Financial assets	**(655)**	(333)	**–**	–
Employee benefits	**(1,010)**	(1,729)	**–**	–
Share-based payments	**(817)**	(534)	**–**	–
Provisions	**(2,493)**	(2,614)	**–**	–
Tax value of loss carry-forwards	**(25)**	(36)	**–**	–
Other	**–**	(263)	**37**	–
Tax (assets)/liabilities	**(5,000)**	(5,509)	**8,883**	11,332
Net of tax liabilities	**–**	–	**11,788**	4,489
Net tax (assets)/liabilities	**(5,000)**	(5,509)	**20,671**	15,821

Movement in deferred tax during the year

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

Movement in deferred tax during the prior year

	31 May 2009 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 May 2010 £000
Property, plant and equipment	6,208	1,596	–	–	7,804
Intangible assets	4,534	(1,006)	–	–	3,528
Financial assets	(715)	(32)	414	–	(333)
Employee benefits	(1,240)	359	(848)	–	(1,729)
Share-based payments	(176)	(358)	–	–	(534)
Provisions	(2,566)	(48)	–	–	(2,614)
Tax value of loss carry-forwards utilised	(19)	6	–	(23)	(36)
Other	(302)	39	–	–	(263)
	5,724	556	(434)	(23)	5,823

16 Deferred Tax Assets and Liabilities (continued)

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2011 £000	2010 £000	2011 £000	2010 £000
Share-based payments	**(123)**	(123)	**–**	–
Tax (assets)/liabilities	**(123)**	(123)	**–**	–
Net of tax liabilities/(assets)	**–**	–	**–**	–
Net tax (assets)/liabilities	**(123)**	(123)	**–**	–

Movement in deferred tax during the year

	At 31 May 2009 and at 31 May 2010 £000	Recognised in income £000	Recognised in equity £000	31 May 2011 £000
Share-based payments	(123)	–	–	**(123)**

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

Deferred tax assets and liabilities have been recognised at 26%, the tax rate which was enacted on 1 April 2011. The Chancellor also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes were not substantively enacted during the year and therefore are not included in the figures above. The overall effect of the further reduction from 26% to 23%, if these applied to the deferred tax balance at 31 May 2011, would be to further reduce the deferred tax liability by approximately £448,000.

17 Inventories

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Raw materials and consumables	**26,282**	19,139	**–**	–
Work in progress	**19,418**	18,934	**–**	–
Finished goods	**60,244**	43,883	**–**	–
	105,944	81,956	**–**	–

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

The write-down of inventories to net realisable value amounted to £446,000 (2010: £1,040,000). The reversal of write-downs amounted to £nil (2010: £nil). The write-down is in cost of sales.

Included within inventories is £6.2m (2010: £nil) of advanced payments on account from customers.

18 Trade and Other Receivables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade receivables	**53,415**	49,491	**–**	–
Trade receivables due from Group undertakings	**–**	–	**298,423**	217,971
Trade receivables due from undertakings in which the Company has a participating interest	**4,231**	3,792	**–**	–
Other receivables	**2,118**	5,352	**126**	218
Prepayments and accrued income	**6,308**	3,736	**–**	–
Corporation tax	**–**	–	**571**	266
	66,072	62,371	**299,120**	218,455

Included within trade and other receivables is £nil (2010: £nil) for the Group and £nil (2010: £nil) for the Company expected to be recovered in more than 12 months.

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

At 31 May 2011 trade receivables are shown net of an allowance for bad debts of £110,000 (2010: £593,000) arising from the ordinary course of business, as follows:

	2011 £000	2010 £000
Group		
Balance at 1 June	**593**	727
Provided during the year	**159**	262
Released	**(586)**	(356)
Utilised during the year	**(56)**	(40)
Balance at 31 May	**110**	593

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

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

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

18 Trade and Other Receivables (continued)

	Gross trade receivables £000	2010 Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	37,392	–	37,392
Past due date (0–90 days)	10,726	(463)	10,263
Past due date (over 90 days)	1,966	(130)	1,836
Individually impaired amounts	–	–	–
	50,084	(593)	49,491

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

The Group's most significant trade receivable at 31 May 2011 is with Tata Steel UK Limited which accounts for £3,528,000 of trade receivables carrying amount at 31 May 2011 (2010: UK Coal Plc £2,168,000).

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

	2011 £000	2010 £000
UK	**43,430**	36,677
European customers	**9,055**	12,371
Other regions	**930**	443
	53,415	49,491

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

19 Cash and Cash Equivalents/Bank Overdrafts

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Cash and cash equivalents per balance sheet	**17,243**	16,983	**1**	1,923
Bank overdrafts	**(23,994)**	(24,189)	**(5,017)**	–
Cash and cash equivalents per cash flow statements	**(6,751)**	(7,206)	**(5,016)**	1,923

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

Notes
(continued)

20 Other Interest-bearing Loans and Borrowings

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

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Non-current liabilities				
Finance lease liabilities	**8,174**	10,299	**–**	–
Invoice discounting facility	**–**	9,828	**–**	–
Revolving credit facility	**43,016**	53,138	**43,016**	53,138
	51,190	73,265	**43,016**	53,138
Current liabilities				
Pre-lease creditor	**1,593**	–	**–**	–
Current portion of finance lease liabilities	**6,466**	7,729	**–**	–
	8,059	7,729	**–**	–
Bank overdraft	**23,994**	24,189	**5,017**	–
	32,053	31,918	**5,017**	–

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2011 £000	Carrying amount 2011 £000	Face value 2010 £000	Carrying amount 2010 £000
Finance lease liabilities	Sterling	4.0% – 7.0%	2010–2014	**14,640**	**14,640**	18,028	18,028
Bank overdraft facility	EUR/USD/Sterling	3.80% – 4.87%	2011	**23,994**	**23,994**	24,189	24,189
Invoice discounting facility	Sterling	Base Rate + 2%	2012	**–**	**–**	9,828	9,828
Revolving credit facility	Sterling	LIBOR + 2.5%	2012	**44,000**	**43,016**	54,856	53,138
Pre-lease creditor	Sterling	Non interest bearing	2011	**1,593**	**1,593**	–	–
				84,227	**83,243**	106,901	105,183

In September 2009, the Group completed a new 3-year multi-bank committed facility consisting of a £35m invoice finance facility and an £80m revolving credit facility. This facility is secured by a debenture over the Group's assets.

The invoice discounting facilities are committed 36-month facilities from 14 September 2009 which permit the refinancing of current debt. In accordance with the presentation requirements of IAS 32 and IAS 39 these liabilities have been classified according to the maturity date of the longest permitted refinancing. Without these committed facilities these amounts would have been classified as falling due within one year. The invoice discounting advances are secured by fixed and floating charges over the Group's assets. The gross amount of debts which were subject to invoice discounting advances at 31 May 2011 was £nil (2010: £10,345,000). At the year-end the invoice discounting facility was in credit with a balance of £3,214,000 which was included in cash and cash equivalents.

The overdraft facility is a 12-month facility from 31 December 2010, and can be drawn down in Euros, US Dollars and Sterling. The rate of interest is fixed and dependent on the currency drawn down.

The pre-lease creditor relates to the financing of equipment at Maltby Colliery. This will revert to a standard finance lease liability once all equipment has been delivered.

20 Other Interest-bearing Loans and Borrowings (continued)

Finance Lease Liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2011 £000	Interest 2011 £000	Principal 2011 £000	Minimum lease payments 2010 £000	Interest 2010 £000	Principal 2010 £000
Less than one year	**7,243**	**777**	**6,466**	8,690	961	7,729
Between one and five years	**8,670**	**496**	**8,174**	11,103	804	10,299
More than five years	**–**	**–**	**–**	–	–	–
	15,913	**1,273**	**14,640**	19,793	1,765	18,028

21 Trade and Other Payables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Current				
Trade payables	**53,733**	36,526	**–**	–
Trade payables due to Group undertakings	**–**	–	**237,884**	154,935
Trade payables due to undertakings in which the Company has a participating interest	**–**	324	**–**	–
Other trade payables	**11,803**	9,365	**–**	–
Non-trade payables and accrued expenses	**13,011**	13,404	**417**	637
Deferred consideration	**658**	270	**–**	–
	79,205	59,889	**238,301**	155,572

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months (2010: £nil).

22 Pension Schemes and Other Retirement Benefits

Defined Contribution Plans

The Group operates a Group personal pension scheme. The pension cost charge for the year represents contributions payable by the Group to the employees' funds and amounted to £1,156,000 (2010: £568,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

Defined Benefit Plans

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

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

The latest full actuarial valuation was carried out on 31 December 2007 and updated for IAS 19 purposes to 31 May 2011.

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

	2011 £000	2010 £000
Present value of unfunded defined benefit obligations	**408**	390

22 Pension Schemes and Other Retirement Benefits (continued)

Movements in present value of defined benefit obligation

	2011 £000	2010 £000
At beginning of year	**390**	364
Current service cost	**4**	4
Contributions paid	**(20)**	(20)
Other finance cost	**21**	19
Actuarial loss	**13**	23
At the end of the year	**408**	390

Expense recognised in the Income Statement

	2011 £000	2010 £000
Current service cost	**4**	4
Interest on defined benefit obligation	**21**	19
	25	23

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

	2011 £000	2010 £000
Administrative expenses	**4**	4
Finance expense	**21**	19
	25	23

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

	2011 £000	2010 £000
Cumulative amount at 1 June	**57**	80
Recognised in the year	**(13)**	(23)
Cumulative amount at 31 May	**44**	57

The major assumptions used in these valuations were:

	2011	2010
Average retirement age	**65 years**	65 years
Rate of leaving services	**2.5%**	2.5%
Coal price inflation	**2.6%**	2.1%
Discount rate applied to scheme liabilities	**5.4%**	5.4%
Inflation assumption	**3.6%**	3.1%

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

22 Pension Schemes and Other Retirement Benefits (continued)

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

Current pensioner aged 65: 19.9 years (male), 22.0 years (female).
Future retiree upon reaching 65: 20.5 years (male), 22.0 years (female).

History of Plans

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

Balance sheet

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

Experience adjustments

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

The Group acquired another concessionary fuel retirement benefit scheme and became a member of two defined benefit schemes on the acquisition of Maltby Colliery on 26 February 2007.

The Group operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation of all these schemes was carried out at 31 December 2007 and was updated for IAS 19 purposes to 31 May 2011 by a qualified independent actuary.

	2011 £000	2010 £000
Present value of unfunded defined benefit obligations	**(1,506)**	(610)
Present value of funded defined benefit obligations	**(26,270)**	(22,868)
Fair value of assets	**24,298**	17,691
Deficit in the scheme – Pension liability	**(3,478)**	(5,787)

Movements in present value of defined benefit obligation

	2011 £000	2010 £000
At the beginning of the year	**23,478**	16,258
Current service cost	**1,378**	994
Interest cost	**1,363**	1,097
Actuarial loss	**300**	4,862
Contributions paid	**337**	338
Benefits paid	**(191)**	(71)
Obligation acquired	**1,111**	–
At the end of the year	**27,776**	23,478

Notes
(continued)

22 Pension Schemes and Other Retirement Benefits (continued)

History of Plans (continued)

Movements in the fair value of plan assets

	2011 £000	2010 £000
Fair value of plan assets at beginning of year	**17,691**	12,193
Expected return on plan assets	**1,224**	1,001
Actuarial gain	**1,204**	1,857
Employer contributions	**2,922**	2,373
Plan members' contributions	**337**	338
Benefits paid	**(191)**	(71)
Plan assets acquired	**1,111**	–
Fair value of plan assets at end of year	**24,298**	17,691

The plan assets and obligations acquired during the year relate to transfers into the schemes of members under TUPE arrangements with UK Coal. There are still 11 members of the original 140, eligible to transfer their entitlement at the year-end.

Expense recognised in the income statement

	2011 £000	2010 £000
Current service cost	**1,378**	994
Expected return on defined benefit pension plan	**(1,224)**	(1,001)
Interest on defined benefit pension plan obligation	**1,363**	1,097
	1,517	1,090

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

	2011 £000	2010 £000
Administrative expenses	**1,378**	994
Finance income	**(1,224)**	(1,001)
Finance expense	**1,363**	1,097
	1,517	1,090

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

	2011 £000	2010 £000
Cumulative amount at 1 June	**1,428**	4,433
Recognised in the year	**904**	(3,005)
Cumulative amount at 31 May	**2,332**	1,428

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22 Pension Schemes and Other Retirement Benefits (continued)

Scheme Assets

The fair value of the scheme's assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Fair value at 2011 £000	Fair value at 2010 £000
Equities	**8,795**	7,110
Bonds	**7,194**	5,391
Hedge funds	**3,047**	1,956
Property	**1,533**	644
Alternative investment mandate	**1,705**	1,117
Other – net current assets	**–**	272
Other – cash	**2,024**	1,201
	24,298	17,691
Actual return on plan assets	**2,428**	2,858

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

	Long-term rate of return 2011	Long-term rate of return 2010
Equities	**7.8%**	8.3%
Other – cash	**4.1%**	4.3%

The major assumptions used in this valuation were:

	2011	2010
Rate of increase in salaries	**3.6%**	4.6%
Rate of increase in pensions in payment and deferred pensions	**3.4%**	3.4%
Discount rate applied to scheme liabilities	**5.4%**	5.5%
Inflation assumption	**3.6%**	3.6%

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

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

IWMPS
Current pensioner aged 60: 21.6 years (male), 25.4 years (female).
Future retiree upon reaching 60: 22.3 years (male), 26.2 years (female).

IWCSSS
Current pensioner aged 60: 24.3 years (male), 26.6 years (female).
Future retiree upon reaching 60: 25.0 years (male), 27.4 years (female).

22 Pension Schemes and Other Retirement Benefits (continued)

History of Plans

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

Balance sheet

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

Experience adjustments

	2011	2010	2009	2008
Difference between the expected and actual return on scheme assets:				
Amount (£000)	**1,204**	1,857	(3,034)	(1,887)
Percentage of year-end scheme assets	**5.0%**	10.5%	24.9%	16.3%
Experience gains and losses on scheme liabilities:				
Amount (£000)	**(300)**	(4,862)	2,802	6,457
Percentage of year-end present value of scheme liabilities	**1.1%**	20.7%	17.2%	31.0%

The Group expects to contribute approximately £2,553,000 to its defined benefit plans in the next financial year.

23 Employee Share Schemes

The Group has established a Savings-Related Share Option scheme, which granted options in March 2006, May 2007, April 2008, April 2009, April 2010 and April 2011 and an Executive Long-Term Incentive Plan which granted options in November 2006, June 2008, June 2009 and December 2010. An additional Long-Term Incentive Plan was established for certain senior employees as part of the acquisition of Norec Limited in September 2006.

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

	Date of grant	Employees entitled	Number of shares granted	Vesting conditions	Contractual life
Savings-Related Share Option Scheme 1	March 2006	All employees	165,758	3 years' service	3.5 years
Equity Settled Share Option Scheme – Norec	September 2006	Senior employees	96,572	3 years' service	11 years
Long-Term Incentive Plan 1	November 2006	Senior employees	92,593	3 years' service and EPS growth of 22.32% (30% award) – 74.41% (100% award) over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 2	May 2007	All employees	295,499	3 years' service	3.5 years
Savings-Related Share Option Scheme 3	April 2008	All employees	175,968	3 years' service	3.5 years
Long-Term Incentive Plan 2	June 2008	Senior employees	128,621	3 years' service and EPS growth of 35.4% (30% award) – 63.5% (100% award) over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 4	April 2009	All employees	231,870	3 years' service	3.5 years
Long-Term Incentive Plan 3	June 2009	Senior employees	193,658	3 years' service and EPS growth of 18.9% (30% award) – 30.0% (100% award) over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 5	April 2010	All employees	175,511	3 years' service	3.5 years
Long-Term Incentive Plan 4	December 2010	Senior employees	128,702	3 years' service and EPS growth of 12% (30% award) – 26.0% (100% award) over RPI over those 3 years	3.5 years
Savings-Related Share Option Scheme 6	April 2011	All employees	141,122	3 years' service	3.5 years

23 Employee Share Schemes (continued)

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

Savings-Related Share Option Schemes

	2011 Weighted average exercise price	2011 Number of options	2010 Weighted average exercise price	2010 Number of options
Outstanding at beginning of year	**521p**	**746,076**	478p	617,171
Granted during the year	**825p**	**141,122**	656p	175,511
Lapsed during the year	**526p**	**(75,786)**	459p	(45,510)
Exercised during the year	**502p**	**(306,450)**	467p	(1,096)
Outstanding at the end of the year	**616p**	**504,962**	521p	746,076
Exercisable at the end of the year	**467p**	**19,024**	–	–

The options outstanding at 31 May 2011 have an exercise price in the range of 443p to 825p and have a weighted average contractual life of 2.4 years.

The options exercised during the year had a weighted average market value of 753p (2010: 732p).

Long-Term Incentive Plans

	2011 Weighted average exercise price	2011 Number of options	2010 Weighted average exercise price	2010 Number of options
Outstanding at beginning of year	**87p**	**414,022**	125p	305,013
Granted during the year	**–**	**128,702**	–	193,658
Lapsed during the year	**–**	**–**	–	(12,773)
Exercised during the year	**394p**	**(19,457)**	26p	(71,876)
Outstanding at the end of the year	**54p**	**523,267**	87p	414,022
Exercisable at the end of the year	**394p**	**72,286**	393.5p	91,743

The options outstanding at 31 May 2011 have an exercise price in the range of £nil to 393.5p and have a weighted average contractual life of 2.3 years.

The options exercised during the year had a weighted average market value of 861p.

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

	2011		2010	
	Long-Term Incentive Plan 4	Savings Related Share Option Scheme 6	Long-Term Incentive Plan 3	Savings Related Share Option Scheme 5
Fair value at grant date	**741p**	**321p**	461p	255p
Share price	**788p**	**917p**	490p	729p
Exercise price	**–**	**825p**	–	656p
Expected volatility	**20.0%**	**40.0%**	20.0%	40.0%
Option life	**3 years**	**3 years**	3 years	3 years
Expected dividends	**2.0%**	**1.0%**	2.0%	1.0%
Risk-free rate	**5.8%**	**5.4%**	5.8%	5.4%

Volatility was calculated with reference to the Group's daily share price volatility. The average share price in the year was 772 pence (2010: 646 pence).

Notes
(continued)

23 Employee Share Schemes (continued)
Long-Term Incentive Plans (continued)

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

	2011 £000	2010 £000
Share options granted in 2007	–	169
Share options granted in 2008	**89**	107
Share options granted in 2009	**371**	371
Share options granted in 2010	**443**	301
Share options granted in 2011	**164**	–
	1,067	948

24 Provisions

Group	Monckton ground water contamination £000	Maltby restoration £000	Maltby subsidence provision £000	Other £000	Total £000
Balance at 1 June 2010	1,582	6,117	1,072	215	8,986
Provisions made during the year	–	–	386	107	493
Provisions utilised during the year	–	(302)	(215)	(147)	(664)
Balance at 31 May 2011	**1,582**	**5,815**	**1,243**	**175**	**8,815**

Provisions comprise:

1 A £1,582,000 ground and groundwater contamination provision which relates to Monckton's obligation to address ground and groundwater contamination at its sites. The provision is based on estimates of volumes of contaminated soil and historical contract costs of ground contamination treatment. The costs will usually be payable on the decommissioning of the site.

2 A £5,815,000 restoration provision which relates to Maltby's obligation to restore the site after coal mining has been completed. £302,000 of the provision has been utilised as work has been undertaken to rectify large parts of the site.

3 A statutory provision payable to the UK Coal Mining Board at a set rate, in order to rectify any potential subsidence of the local area around Maltby Colliery. Any unused provision will be released after the statutory period.

The Company has no provisions.

25 Capital and Reserves
Share Capital

	Ordinary shares 2011 Number	Ordinary shares 2010 Number
In issue at 1 June	**26,603,345**	26,393,902
Issued for cash	**224,303**	75,100
Issued in acquisitions	–	134,343
In issue and fully paid at 31 May	**26,827,648**	26,603,345

	2011 £000	2010 £000
Allotted, called up and fully paid		
26,827,648 (2010: 26,603,345) Ordinary shares of 10p each	**2,683**	2,660

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.

25 Capital and Reserves (continued)

Translation Reserve

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

Cash Flow Hedging Reserve

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

Dividends

The aggregate amount of dividends comprises:

	2011 £000	2010 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**2,525**	2,122
Interim dividends paid in respect of the current year	**1,367**	1,170
	3,892	3,292
Proposed dividend of 10.4p per share (2010: 9.1p)	**2,790**	2,421

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

26 Financial Instruments

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

(a) Fair Values of Financial Instruments

Derivative financial instruments

Fair value hierarchy

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

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.
Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows utilising applicable year-end yield curves. The fair value of forward foreign exchange and commodity contracts is determined using quoted forward exchange rates and commodity prices at the reported date and yield curves derived from quoted interest rates matching the maturities of the forward contracts.
Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In both 2011 and 2010 all of the interest rate swaps, the forward exchange contracts and the commodity contracts are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year.

(b) Credit Risk

Financial risk management

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

Exposure to credit risk

The carrying amount of trade receivables represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £53,415,000 (2010: £49,491,000) being the total of the carrying amount of trade receivables.

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

26 Financial Instruments (continued)

(c) Liquidity Risk

Financial risk management

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

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

Group

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

	2011						2010					
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Secured bank loans	**1,593**	**1,593**	**1,593**	**–**	**–**	**–**	–	–	–	–	–	–
			–	**–**	**–**	**–**	–	–				
Finance lease liabilities	**14,640**	**15,913**	**7,243**	**4,879**	**3,791**	**–**	18,028	19,793	8,690	6,285	4,818	–
Bank overdrafts	**23,994**	**23,994**	**23,994**	**–**	**–**	**–**	24,189	24,189	24,189	–	–	–
Trade and other payables*	**79,205**	**79,205**	**79,205**	**–**	**–**	**–**	59,889	59,889	59,889	–	–	–
Invoice discounting facility	**(3,214)**	**(3,214)**	**(3,214)**	**–**	**–**	**–**	9,828	9,828	–	–	9,828	–
Revolving credit facility	**43,016**	**43,016**	**–**	**43,016**	**–**	**–**	53,138	53,138	–	–	53,138	–
Derivative financial liabilities												
Interest rate swaps used for hedging	**198**	**198**	**30**	**168**	**–**	**–**	146	146	36	110	–	–
Forward exchange contracts used for hedging:												
Outflow	**6**	**6**	**6**	**–**	**–**	**–**	128	128	100	28	–	–
Inflow	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
Commodity contracts:												
Outflow	**2,587**	**2,587**	**2,587**	**–**	**–**	**–**	1,437	1,437	805	632	–	–
Inflow	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–
	162,025	**163,298**	**111,444**	**48,063**	**3,791**	**–**	166,783	168,548	93,709	7,055	67,784	–

* Excludes derivatives (shown separately).

Company

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

	2011						2010					
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Trade and other payables	**238,301**	**238,301**	**238,301**	**–**	**–**	**–**	155,572	155,572	155,572	–	–	–
Bank overdraft	**5,017**	**5,017**	**5,017**	**–**	**–**	**–**	–	–	–	–	–	–
Revolving credit facility	**43,016**	**43,016**	**–**	**43,016**	**–**	**–**	53,138	53,138	–	–	53,138	–
	286,334	**286,334**	**243,318**	**43,016**	**–**	**–**	208,710	208,710	155,572	–	53,138	–

26 Financial Instruments (continued)

(d) 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:

	2011 Carrying amount £000	2011 Expected cash flows 1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	2010 Carrying amount £000	2010 Expected cash flows 1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:										
Assets	**–**	**–**	**–**	**–**	**–**	3	–	3	–	–
Liabilities	**(198)**	**(30)**	**(168)**	**–**	**–**	(146)	(36)	(110)	–	–
Forward exchange contracts:										
Assets	**57**	**57**	**–**	**–**	**–**	40	40	–	–	–
Liabilities	**(6)**	**(6)**	**–**	**–**	**–**	(128)	(100)	(28)	–	–
Commodity contracts:										
Assets	**209**	**209**	**–**	**–**	**–**	477	477	–	–	–
Liabilities	**(2,587)**	**(2,587)**	**–**	**–**	**–**	(1,437)	(805)	(632)	–	–
	(2,525)	**(2,357)**	**(168)**	**–**	**–**	(1,191)	(424)	(767)	–	–

(e) Market Risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's or Company's income or the value of its holdings of financial instruments.

Group

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities.

The Group's policy is to reduce currency exposures on sales and purchasing through forward foreign currency contracts.

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 2011

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

26 Financial Instruments (continued)
(e) Market Risk (continued)

31 May 2010

	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	6,373	10,610	–	16,983
Trade receivables	35,435	12,372	1,684	49,491
Trade payables	(24,411)	(2,820)	(9,295)	(36,526)
Other trade payables	(9,365)	–	–	(9,365)
Overdraft	–	(8,890)	(15,299)	(24,189)
Invoice discounting facility	(9,828)	–	–	(9,828)
Revolving credit facility	(53,138)	–	–	(53,138)
Balance sheet exposure	(54,934)	11,272	(22,910)	(66,572)
Estimated forecast sales		–	–	–
Estimated forecast purchases		–	–	–
Gross exposure		11,272	(22,910)	(11,638)
Forward exchange contracts		(200)	1,168	968
Net exposure		**11,072**	**(21,742)**	**(10,670)**

Company
The Company has no exposure to foreign currency risk.

Sensitivity analysis
Group
A 10% weakening of the following currencies against the pound sterling at 31 May 2011 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 2010.

	Equity		Profit or loss	
	2011 £000	2010 £000	2011 £000	2010 £000
€	**(431)**	(1,007)	**(431)**	(1,007)
$	**1,170**	1,977	**1,170**	1,977

A 10% strengthening of the above currencies against the pound sterling at 31 May 2011 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.

26 Financial Instruments (continued)

Interest rate risk

Profile

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

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Fixed rate instruments				
Financial assets	**–**	–	**–**	–
Financial liabilities	**(40,227)**	(42,217)	**(5,017)**	–
	(40,227)	(42,217)	**(5,017)**	–
Variable rate instruments				
Financial assets	**17,243**	16,983	**1**	1,923
Financial liabilities	**(43,016)**	(62,966)	**(43,016)**	(53,138)
	(25,773)	(45,983)	**(43,015)**	(51,215)

Sensitivity analysis

An increase of 1 basis point in interest rates throughout the period would have decreased profit or loss by the amounts shown below. This calculation assumes that the change occurred at all points in the period and had been applied to the average risk exposures throughout the period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2010.

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Profit or loss				
Decrease	**(63)**	(317)	**(185)**	(202)

(f) Capital Management

The Group's policy is to maintain a strong capital base with a view to ensuring that entities within the Group will be able to continue as going concerns. To achieve this objective, the Group aims to maintain a prudent mix of debt and equity financing and considers the current capital structure to be appropriate.

The Group and Company finance their operations through retained earnings, bank borrowings and the management of working capital.

27 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Less than one year	7,253	5,361	–	–
Between one and five years	8,628	9,472	–	–
More than five years	1,232	190	–	–
	17,113	15,023	–	–

Notes
(continued)

27 Operating Leases (continued)

Group

During the year £6,337,000 was recognised as an expense in the income statement in respect of operating leases (2010: £5,782,000).

Company

During the year £nil was recognised as an expense in the income statement in respect of operating leases (2010: £nil).

28 Capital Commitments

Group

During the year ended 31 May 2011, the Group entered into contracts to purchase property, plant and equipment for £1,943,000 (2010: £2,362,000). In respect of its interest in jointly controlled entities, the Group is committed to incur capital expenditure of £nil (2010: £nil). The jointly controlled entities are themselves committed to incur capital expenditure of £nil (2010: £nil).

29 Contingencies

Group and Company

The Company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The Company acts as a guarantor, or surety, for various subsidiary undertakings in leasing, banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided liability is £16,374,000 (2010: £15,990,000).

30 Related Parties

Identity of related parties with which the Group has transacted

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

Group

Other related party transactions

	Sales to		Purchases from	
	2011 £000	2010 £000	2011 £000	2010 £000
Jointly controlled entities				
Eastgate Materials Handling Limited	**3,728**	2,797	**5,520**	3,831
Hargreaves Coal Combustion Products Limited	**–**	316	**–**	–
	3,728	3,113	**5,520**	3,831

	Receivables outstanding		Payables outstanding	
	2011 £000	2010 £000	2011 £000	2010 £000
Jointly controlled entities				
Eastgate Materials Handling Limited	**635**	919	**–**	324
Tower Regeneration Limited	**3,596**	2,873	**–**	–
	4,231	3,792	**–**	324

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 £668,000 (2010: £511,000).

30 Related Parties (continued)

Company

Other related party transactions

The Company had no sales to, or purchases from, any related parties during this or the prior year.

	Receivables outstanding		Payables outstanding	
	2011 £000	2010 £000	2011 £000	2010 £000
Subsidiaries	**298,423**	217,971	**237,884**	154,935
Jointly controlled entities	**–**	–	**–**	–
	298,423	217,971	**237,884**	154,935

31 Subsequent Events

On 1 June 2011 the Group acquired the remaining 50% of Eastgate Materials Handling Limited for a consideration of £1.8m.

Notice of Annual General Meeting
Hargreaves Services plc

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

NOTICE IS HEREBY GIVEN that this year's Annual General Meeting will be held at Prior's Hall, Durham Cathedral, The College, Durham, DH1 3EH on Monday 7 November 2011 at 11.00 a.m. for the following purposes:

Ordinary Business

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

1 To adopt and receive the Directors' Report, the Directors' Corporate Governance and Remuneration Report, the Auditor's Report and the Financial Statements for the year ended 31 May 2011.

2 To approve the Directors' Corporate Governance and Remuneration Report for the year ended 31 May 2011.

3 To declare a final dividend for the year ended 31 May 2011 of 10.4 pence per ordinary share to bring the dividend for the year ended 31 May 2011 to a total of 15.5 pence.

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

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

6 To re-appoint Peter Gillatt as a director of the Company in accordance with article 29.2 of the Company's articles of association, who offers himself for re-appointment.

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

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

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

9.1 up to an aggregate nominal value of £898,619 (representing approximately one third of the total ordinary share capital in issue as at the date of this notice); and

9.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £1,797,238 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 9.1) in connection with or pursuant to an offer or invitation by way of a rights issue (as defined below),

provided that such authorities conferred by this resolution 9 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 6 months after the end of the Company's current financial year unless varied, revoked or renewed by the Company in general meeting, save that the Company may at any time before such expiry make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares and grant Rights pursuant to such offers or agreements as if the relevant authorities conferred by this resolution 9 had not expired. These authorities shall be in substitution for all previous authorities previously granted to the directors to allot shares and grant Rights which are pursuant to this Resolution 9 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 9.

For the purposes of this resolution 9, **rights issue** means an offer or invitation to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the directors of the Company consider necessary, as permitted by the rights of those securities, to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable instrument) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.

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

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

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

10.1.2 (otherwise than pursuant to sub-paragraph 10.1.1 above) up to an aggregate nominal value of £269,586 (representing 10% of the total ordinary share capital in issue) and

10.2 pursuant to the authority conferred upon them by resolution 9.2, in connection with or pursuant to a rights issue,

as if Section 561(1) of the Act did not apply to any such allotment and the authorities given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 6 months after the end of the Company's current financial year unless renewed or extended prior to such expiry, save that the directors of the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution 10 has expired.

For the purpose of this resolution 10:

(a) **rights issue** has the meaning given in resolution 9; and

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

Special Business

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

11 The Company be and is generally and unconditionally authorised for the purpose of section 701 of the Companies Act 2006 (the Act) to make market purchases (which in this resolution shall have the meaning given to this term in section 693 (4) of the Act) of its ordinary shares of 10p each in the capital of the Company (**'Ordinary Shares'**) on the terms set out below:

11.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 11 is 2,695,856 (representing ten per cent of the number of Ordinary Shares in issue); and

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

11.3 the maximum price (exclusive of expenses) which may be paid for each of those Ordinary Shares is not more than the higher of (i) five per cent above the average of the middle market quotations for Ordinary Shares (as derived from the Daily Official Lists of the London Stock Exchange) for the five dealing days immediately preceding the date of purchase and (ii) that stipulated by Article 5(1) of the Buy-Back and Stabilisation Regulations 2003,

but so that this authority shall (unless previously varied, revoked or renewed) expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 6 months after the end of the Company's current financial year, save that the Company may before the expiry of this authority conclude any contract for the purchase of its own shares pursuant to the authority conferred by this resolution 11 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 11 had not expired.

11 October 2011

By order of the Board

Stephen MacQuarrie
Company Secretary

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

Notice of Annual General Meeting Hargreaves Services plc (continued)

Notes

1. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at 6 pm on 5 November 2011 (or, in the event of any adjournment, at 6.00 p.m. two days prior to the day of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
3. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Registrars of the Company, Capita Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00 a.m. on 5 November 2011.
4. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
5. If a member appoints a proxy or proxies and then decides to attend the Annual General Meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding. If you do not have a proxy form and/or believe that you should have one or if you require additional forms, please contact the Company at its registered office.
6. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see note 3 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

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

   The revocation notice must be received by Capita Registrars at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00 a.m. on 5 November 2011. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 5 above your appointment will remain valid.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **'CREST Proxy Instruction'**) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (**Euroclear**) specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00 a.m. on 5 November 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
12. If a corporation is a member of the Company, it may by resolution of its directors or other governing body authorise one or more persons to act as its representative or representatives at the Meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company.

    Corporate representatives should bring with them either an original or certified copy of the appropriate board resolution or an original letter confirming the appointment, provided it is on the corporation's letterhead and is signed by an authorised signatory and accompanied by evidence of the signatory's authority.
13. As at 10 October 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 26,958,564 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 10 October 2011 are 26,958,564.
14. The following documents will be available for inspection of the Company's registered office at West Terrace, Esh Winning, Durham, DH7 9PT during normal business hours on any week day (Saturdays and English public holidays excepted) from the date of this notice until the close of the Meeting and at the place of that Meeting for at least 15 minutes prior to and during the Meeting:

    - copies of the service contracts for the executive directors of the Company; and
    - copies of the letters of appointment of non-executive directors of the Company.

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

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

Resolution 1: Accounts
The Directors will present their report, the Directors' Corporate Governance and Remuneration Report, the Auditors' Report and the audited Financial Statements for the financial year ended 31 May 2011 to the meeting as required by law. These reports and statements are set out in pages 23 to 75 of this document.

Resolution 2: Approval of the Directors' Corporate Governance and Remuneration Report
In accordance with the Directors' Remuneration Report Regulations 2002, shareholders are asked to approve the Directors' Corporate Governance and Remuneration Report for the financial year ended 31 May 2011 which is set out in full on pages 23 to 25 of the Company's annual report. The vote is advisory and the directors' entitlement to remuneration is not conditional upon this resolution being passed.

Resolution 3: Declaration of Final Dividend
Final dividends must be approved by shareholders but must not exceed the amount recommended by the directors. If the meeting approves resolution 3, the final dividend in respect of 2011 of 10.4 pence per share will be paid on 16 November 2011 to shareholders on the register of members on 14 October 2011.

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

Brief biographical details of Timothy Ross and Kevin Dougan are set out on page 18 of this document.

Resolution 6 – Appointment of a Director
As Peter Gillatt was appointed by the Board subsequent to the date of the last annual general meeting, he is required by the Company's articles of association to retire at this year's annual general meeting. The directors recommend that Peter Gillatt be appointed as a director and resolution 6 proposes his appointment.

Brief biographical details of Peter Gillatt are set out on page 18 of this document.

Notice of Annual General Meeting Hargreaves Services plc (continued)

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

Resolution 9: Authority to Allot Shares
Resolution 9.1 grants the directors authority to allot relevant securities up to an aggregate nominal amount of £898,619 being approximately one third of the Company's ordinary share capital in issue at 10 October 2011.

In line with guidance issued by the Association of British Insurers in December 2008, resolution 9.2 grants the directors of the Company authority to allot unissued share capital in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £1,797,238 (representing 17,972,376 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 9.1. This amount, before any such reduction, represents approximately two thirds of the Company's ordinary share capital in issue at 10 October 2011.

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

Resolution 10: Disapplication of Statutory Pre-emption Rights
This resolution disapplies the statutory pre-emption rights which would otherwise apply on an issue of shares for cash and is limited to allotments in connection with rights issues or other pre-emptive offers where the securities attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of shares held and generally up to a further £269,586 being 10 per cent of the Company's ordinary share capital in issue at 10 October 2011. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next Annual General Meeting of the Company.

Resolution 11: Purchase of Own Shares
Resolution 11 authorises the Company to purchase its own shares (in accordance with section 701 of the Companies Act 2006) during the period from the date of this Annual General Meeting until the end of the next Annual General Meeting of the Company or the expiration of six months after the 2012 Company financial year end, whichever is the sooner, up to a total of 2,695,856 ordinary shares. This represents 10% of the issued ordinary share capital as at 10 October 2011, the latest practicable date prior to the issue of this circular. The maximum price payable for a share shall not be more than the higher of 5% above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulations 2003 (being the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out). The minimum price payable for a share will be 10 pence.

Companies are permitted to retain any of their own shares which they have purchased as treasury stock with a view to possible re-issue at a future date, rather than cancelling them. The Company will consider holding any of its own shares that it purchases pursuant to the authority conferred by this resolution as treasury stock. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively, and would provide the Company with additional flexibility in the management of its capital base.

The directors will consider making use of the renewed authorities pursuant to resolution 11 in circumstances which they consider to be in the best interests of shareholders generally after taking account of market conditions prevailing at the time, other investment opportunities, appropriate gearing levels, the effect on earnings per share and the Company's overall financial position. No purchases will be made which would effectively alter the control of the Company without the prior approval of the shareholders in general meeting.

Investor Information

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Steve MacQuarrie

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

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

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

Nominated Adviser and Joint Stock Broker
Brewin Dolphin Limited
34 Lisbon Street
Leeds
LS1 4LX

Joint Stock Broker
RBS Hoare Govett Limited
250 Bishopsgate
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EC2M 4AA

Registered Office
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Capita Registrars
The Registry
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> For more information

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

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