

Repositioning for a new era

Annual Report
and Accounts 2017

Hargreaves Services plc

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At a Glance – Page 2 ▶

Overview of our business segments and operations.

Our Year of Progress – Page 4 ▶

A review of the key events that shaped the year at Hargreaves.

Group Business Review – Page 13 ▶

A detailed analysis of the performance of the Hargreaves Group.

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

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

Strategic Report

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Highlights of the Year

Excellent progress toward stated strategic targets for operating profit, value creation from property and the conversion of legacy assets into cash

- The Group has delivered Continuing Underlying Operating Profit of £9.8m, an increase of 113% on the prior year
- The development value of the property portfolio shows £52.1m of potential unrealised gain on independent Red Book basis
- Strong progress in the orderly realisation of legacy assets into cash, including the agreement to sell the surplus underground mining equipment

Strong performance in trading operations in Germany compensated for legacy contract issues in Earthworks and a challenging final quarter for Logistics

Continental European steel and specialised carbon markets remain buoyant, offering long-term potential for investment and improved visibility and resilience of forward earnings

Planning permission secured for Blindwells, a major new town development close to Edinburgh

Brockwell Energy established to develop value from the Group's energy projects and assets without recourse to the Group's balance sheet

Realisation of £25.5m of legacy assets into cash with an additional £3.2m of underground mining assets contracted for sale post year end

The Net Asset Value per share excluding any unrealised property gains as at 31 May 2017 was £4.32 per share

Focus on simplification continues

Final dividend of 4.5 pence in line with the Group's 40% pay-out ratio target, bringing proposed full year dividend to 7.2p, a 213% increase on prior year

Underlying Operating Profit (£m)

£9.8m
113.0%

Net Debt (£m)

£15.7m
(51.4)%

	Year ended 31 May 2017	Year ended 31 May 2016	Change %
Continuing Revenue	£342.9m	£340.7m	0.6
Continuing Operating Profit before Exceptionals ⁽¹⁾	£1.2m	£5.2m	(76.9)
Continuing Operating Profit/(Loss) after Exceptionals	£0.7m	£(7.2)m	109.7
Continuing Underlying Operating Profit ⁽²⁾	£9.8m	£4.6m	113.0
Net Exceptional Costs	£(0.5)m	£(12.4)m	(96.0)
Continuing Profit/(Loss) Before Tax	£4.1m	£(10.6)m	138.7
Continuing Underlying Profit Before Tax ⁽³⁾	£7.7m	£3.0m	156.7
Continuing Diluted EPS	15.9p	(30.0)p	153.0
Continuing Underlying Diluted EPS ⁽³⁾	17.9p	5.6p	219.6
Dividend (including proposed final dividend)	7.2p	2.3p	213.0
Net Debt ⁽⁴⁾	£15.7m	£32.3m	(51.4)

(1) Continuing Operating Profit before Exceptionals is stated before net exceptional costs of £470,000 (2016: £12,378,000).

(2) Continuing Underlying Operating Profit is stated excluding the net exceptional costs, the amortisation of acquired intangibles and impairment of goodwill and including share of profit in associates and joint ventures before tax.

(3) Continuing Underlying Profit before Tax and Continuing Underlying Diluted EPS are stated excluding the net exceptional costs, the amortisation and impairment of acquired intangibles.

(4) Net Debt comprises cash and cash equivalents, bank overdrafts and other interest bearing loans and borrowings (page 23).

Continuing Revenue (£m)

£342.9m
0.6%

At a Glance

Focusing on developing and demonstrating value from three clear areas.

Property & Energy Portfolio

Target set in April 2016

We set a target of creating value of between £35m and £50m from our portfolio of property and energy projects within five years.

Attainment Update

Our recent and inaugural independent Red Book valuation has highlighted a development value of £83m for our portfolio of property that has a combined book value of £31m. This suggests potential for an unrealised gain of £52m, already at the top end of the £35m to £50m target range we set for ourselves after less than two years.

Efforts are continuing to deliver that gain and seek additional development and planning gain opportunities to lift the development value potential for our portfolio. The Group will be rigorously assessing the opportunity for value gain against the capital costs of holding properties on a property by property basis with a view to optimising the time at which realisation events are sought.

Distribution & Services Operations

Target set in April 2016

We set a target of achieving an underlying operating profit from the Distribution and Services Operations of between £10m and £15m per year by FY18, before central overheads.

Attainment Update

In the year to 31 May 2017, we have already achieved this objective a year early with an underlying operating profit of £13.5m before central overheads. Central overheads were reduced from £6.4m to £4.6m and efforts are continuing to seek further central overhead reductions. Group simplification efforts continue and the scale of legacy assets to manage has substantially decreased.

Map of Operations

With over 18,000 acres of land throughout the UK, Hargreaves has developed a pipeline of exciting opportunities including renewable energy, residential & commercial property and industrial use.

Releasing Cash from Legacy Assets

Target set in April 2016

We set a target of creating value by realising £60m of legacy assets into cash, without the need for further impairment within three years.

Attainment Update

This year we realised £25.5m of cash from our legacy assets with a further £3.2m contracted to be sold before 31 May 2017, with the cash to be received post 31 May 2017. This has resulted in a net gain of £0.1m.

We remain confident on the realisation of cash at book value from the remaining legacy assets. Opportunities to accelerate the repayment of Tower loans through plant sales are actively under review.

Our Year of Progress

June 2016

Brexit vote impact on Sterling boosts realisable value of legacy assets (coal and yellow plant)

July 2016

Expectation for full recovery of Tower loans improved

September 2016

Enabling works commenced on A14 project

October 2016

Customer commitments confirmed for sale of £11m of legacy coal stocks

December 2016

Outperformance of German operation signalled in favourable European markets

January 2017

Earl's Gate EfW
planning
permission

March 2017

Final coal delivery
from Tower to
Aberthaw Power
Station

March 2017

Blindwells
planning
permission

May 2017

Sale of Maltby
underground
mining equipment
announced

June 2017

Potential
spin-off of
energy projects
into new
subsidiary
announced

Chairman's Statement

David Morgan, Group Chairman

This has been a year of continuing positive progress in re-positioning the Group.

Results

Underlying Operating Profit increased from £4.6m to £9.8m reflecting a strong performance in our German trading business. Underlying profit before tax increased from £3.0m to £7.7m. Underlying Diluted EPS from Continuing Operations increased by 220% from 5.6p to 17.9p reflecting the benefit of a reduced tax charge stemming from the utilisation of tax losses. Although the Group experienced challenges in its Logistics and Earthworks businesses last year, this was offset by our other businesses that outperformed. The achievement of our Group profit target was a positive step forward which we believe marks a real turning point for the Group. Net Debt decreased from £32.3m to finish the year at £15.7m, helped by excellent progress in realising cash through the legacy assets disposal programme. Operating Profit after Exceptionals increased to a profit of £0.7m, compared with a loss of £7.2m in 2016. Reported Profit before Tax improved from a loss of £10.6m to a profit of £4.1m.

Strategy

In April 2016, we set ourselves three key strategic objectives as we came out of our extensive restructuring exercise. These were to:

1. Achieve an Underlying Operating Profit from our Distribution and Services Division of between £10m and £15m before Group overheads by FY18;
2. Create between £35m and £50m of value from the Property and Energy portfolio over a five-year period; and
3. Generate £60m of cash from the realisation of legacy assets.

I am pleased to report we are confident that the Group remains on track to achieve these targets and in the case of the Underlying Operating Profit, this has been achieved a year ahead of target.

The Group businesses generated an Underlying Operating Profit of £14.4m before Group overheads of £4.6m. This performance places

the Group comfortably at the top end of the £10m-£15m target range we set ourselves a year earlier than planned in April 2016. We have also taken the first steps to reduce Group overhead which fell from £6.4m in the prior year to £4.6m. Challenges in the civil engineering operations of Blackwell have hastened our decision to curtail these activities. The Board remains committed to developing opportunities in the earthworks sector but has instigated the wind-down of legacy civils contracts.

The period saw the completion of the first independent valuation of the Group's property portfolio. This valuation, which is discussed in more detail in the Group Business Review, highlights the opportunity to develop significant value from our extensive land portfolio. Pleasingly, as well as identifying a significant increase in the Group's Net Asset Value, the exercise also suggests that we are on a trajectory to achieve the £35-£50m value creation goal within our targeted timeframe.

The successful development of the Energy projects portfolio has led to the establishment of Brockwell Energy Limited ("Brockwell Energy"), recognising the need and value of seeking third party capital. This highlights both our discipline to manage capital deployment and our desire to continue to focus and simplify the Group.

We are also very pleased with the progress that has been made in the realisation of legacy assets into cash. The solid financial platform we have maintained has allowed us to conduct this process in an orderly manner, helping us to take the time to realise full value for the assets. At the end of last year the carrying value of our net legacy assets was £60m, at the end of May 2017 this had reduced to £34.5m with disposals realising over £25m in line with the Balance Sheet valuation.

In summary, excellent progress has been made in repositioning the Group but we also recognise that we must continue to refine our strategy and this is discussed in more detail in the Group Business Review.

Dividend

The Board proposes a final dividend of 4.5p, consistent with the targeted 40% pay-out ratio. If approved at the Annual General Meeting, this will result in a dividend for the full year of 7.2p compared with 2.3p in the previous year, an increase of 213%. The proposed final dividend will be paid on 20 October 2017 to all shareholders on the register at the close of business on 22 September 2017.

People

I would like to thank our staff for another year of service and support. The Group has been a challenging place to work over the past few years and the Board thanks the staff for their continuing loyalty through this difficult period. Last year we highlighted the efforts and achievements of the Hong Kong team. Despite some setbacks and key project deferrals which were out of their control, the Hong Kong business delivered a strong profit last year along with further progress. This year it is the German team that merits significant mention, having delivered an excellent result that has underpinned the Group's performance. Our thanks to them and all of the rest of the Hargreaves team who not only helped us exceed the profit targets that we set ourselves at the start of the year, but who also delivered the progress across our property and legacy asset portfolios that have set us on track to achieve our strategic targets in these important areas.

Board

On 14 June 2017, we announced the formation of Brockwell Energy and Iain Cockburn's desire to assume the role of CFO of Brockwell Energy. We are continuing a process to find a successor and Iain will remain in place until a replacement is found. Although Iain has not yet left the Board, I would like to note our appreciation for the help and support he has provided the Group through times of growth and times of challenge. He has been a driving force in the Group and we look forward to seeing the value that he will help create in Brockwell Energy.

“ This has been a good year in which we have made excellent progress towards our strategic goals. ”

Summary

This has been a good year in which we have made excellent progress towards our strategic goals. Strong performances from Germany and Industrial Services, combined with the significant development gains across the Property & Energy portfolio, have more than offset weak performances in the Earthworks and Logistics operations, highlighting the benefit of a diversified portfolio of activities. That said, following the dramatic changes we have seen in our markets, we remain committed to our strategy of simplification, focusing on those opportunities that we believe can deliver strong long-term growth and returns. We will continue to refine our strategy, carefully assessing risks and driving improved performance, returns and cash generation from our businesses.

David Morgan
Chairman

7 August 2017

Business Overview

Property

We are developing significant housing schemes and brownfield property remediation.

Securing planning permission in principle for the flagship Blindwells site was a key milestone in the Group's strategy to develop and unlock value from our extensive and varied portfolio of over 18,000 acres of multi-use potential land. This portfolio spans from low grade former mining sites through to prime consented residential land. As such, the portfolio lends itself to a variety of end uses and allows the Group to balance the risk return ratio on a site by site basis.

The recent valuation exercise has reinforced the belief of the Group in the inherent value of its property assets and given the senior management team some strong data points regarding where development efforts and capital should be focused for the best returns.

Working in conjunction with the Group's in-house earthworks and remediation businesses, the Group is ideally placed to compete in the brownfield property remediation and development sectors. Further opportunities to add strategic sites to the portfolio will be considered if the potential returns fit within the Group's risk appetite.

Iain Slater
Managing Director
Property

Key Statistics

£35m-£50m

Property and Energy five year
value creation target

18,550

Acres

1,600

Homes residential property
development (Blindwells)

Property Key Projects

Monckton

Case study

Location: Monckton, Barnsley

Scale: 35 Acres

Project: Regeneration of former coke works to include residential property and commercial office buildings

The former Monckton coke works site ceased production in December 2014 after 130 years of operations.

Since this date, the Group has successfully executed an orderly closure of the facility, completing the sale of remaining legacy inventories and the demolition of the coke works plant.

During the year to May 2017, the existing office block underwent a substantial refurbishment and as a result, the Group successfully relocated teams from other offices in the region to the new facility. A masterplan is now being progressed which would potentially see the creation of a residential development of in the region of 270 new homes, supported by a substantial element of commercial employment space.

The Group look forward to reporting progress in respect of the planning for this site during the coming financial year.

Blindwells

Case study

Location: East Lothian

Scale: 390 Acres

Project: 1,600 home residential property development

Blindwells is a former open cast coal mining site located to the east of Edinburgh. Planning permission in principle was received in March 2017 for 1,600 new homes across a mixed use development.

Since receiving the positive planning decision, the Group has commenced the process to appoint a project team of professional consultants who will advise on the development of the site. In addition, the Group has been engaging with the local authority to resolve the various planning obligations attached to the consent and expects to be able to report favourable progress in this regard in due course.

With regards to breaking ground on site, the initial phase of compaction groundworks commenced in August 2017. Work in respect of site infrastructure and utility connections is expected to commence later in the financial year.

The Group continue to explore commercial opportunities for the onward development of the site. It is expected that the mechanism for this will be through the sale of serviced development plots, and the Group anticipate reporting significant progress in respect of this by the summer of 2018.

Business Overview continued

Europe

Hargreaves Raw Materials Services GmbH (HRMS) is the Group's European raw material services division.

Hilmar Eller
Managing Director
Europe

Key Statistics

£115m

Revenues

£8.4m

Underlying
operating profit

Europe Key Projects

Germany

Case study

Location: Duisburg

HRMS is based in Duisburg, Germany and is a key supplier of specialist raw materials to major European customers in the steel, foundry, smelting, ferroalloy, sugar, limestone, insulation, refractory and ceramic industries.

The company was founded with three employees (now eighteen) in June 2006 and has established a strong and profitable trading record over more than 10 years. The management team adopt a flexible and low-risk trading model, with the agility to take advantage of market opportunities (as demonstrated by the strong result for the current financial year) combined with the discipline to wind down operations when conditions are less favourable.

HRMS has worldwide expertise in raw material sourcing, port operations and logistics management. This, combined with the Group's expertise in production operations, material handling, storage operations and logistics, marketing and technical support, creates an ideal platform for the company to compete in the wider European market.

Specialist raw materials are sourced from, amongst others, China, Eastern Europe, South Africa, and South and North America. Shipments of solid fuels can be combined with industrial or refractory minerals, thus optimising logistics and reducing costs. Materials mainly arrive in the ARA ports

(Amsterdam – Rotterdam – Antwerp) and are handled and distributed in accordance with customer requirements. Storage facilities are in the UK, Rotterdam and Amsterdam (Netherlands), Ghent (Belgium), and Duisburg and Hamburg (Germany) as well as consignment storage within clients' sites.

The core markets for the business to date have been coke and minerals trading, including back-to-back sales contracts, as well as securing options over raw materials to trade in spot markets. In 2016, a ferroalloy and pig iron trading team was established. Trading in these markets is less subject to variability in demand and provides a more consistent and predictable source of revenue to complement the opportunistic trading activities in more volatile commodity markets.

The business benefited historically from trading around the raw material inputs and production outputs of the Group's coke production facility at Monckton (closed in December 2014) and the Group's supply arrangements with the Redcar steelworks (closed in September 2015). Securing a trading position connected to an alternative strategic asset is a major opportunity for HRMS. The team is in the process of developing such an opportunity to take a key position in the supply chain in Germany which would represent an exciting and important investment for HRMS and for the Group. We look forward to providing updates as this opportunity progresses.

Business Overview continued

Legacy

The Group is ahead of schedule in the recovery of £60m from Legacy assets.

The Group owns a portfolio of assets obtained through its coal and coke trading as well as our mining operations. These assets were identified at the end of the previous financial year, and the Group has a target of realising these assets into cash over a three year period.

The assets, identified as legacy, represent an opportunity to generate a significant amount of cash into the Group. The legacy assets comprise largely coal and coke stocks, certain plant and equipment and the balances related to the Tower joint venture. The carrying value of the legacy assets at 31 May 2016 was £60.1m.

The year ended 31 May 2017 represents the first year of legacy asset realisations, and we are pleased to report that we have generated cash receipts in excess of £25m over the last twelve months, in excess of our original expectations. The majority of this unwind relates to the sale of the coal and coke stocks from which, £16.8m of cash was recovered. We also saw a return of £5.6m in relation to loans into the Tower joint venture as the funding position has improved.

We are pleased to note that the underground mining equipment was also contracted for sale with completion and cash receipt in the new financial year.

The most significant balance remaining is the loan to the Tower joint venture of £15.9m. Following the completion of mining activities at the site and the commencement of restoration, a large proportion of these loan repayments will be achieved through the sale of plant, equipment and land and are therefore expected to be recovered towards the end of the restoration profile.

Key Statistics

£60.1m

Legacy Asset Book Value

£25.5m

Cash from Legacy assets

Group Business Review

Gordon Banham, Group Chief Executive

We are pleased with the performance of the Group for 2017, in particular the excellent progress towards achieving all three of the key strategic goals we set for ourselves in April 2016.

Results

We have exceeded the profit targets that we set ourselves for the year delivering an Underlying Operating Profit of £9.8m an increase of 113% on the prior year outturn of £4.6m. The Group reported a Profit before Tax of £4.1m, compared with a loss of £10.6m in 2016. The strategic and operational performance of the Group is reviewed in more detail below.

Distribution & Services

The strong performance in Germany ensured that the Coal Distribution Division as a whole exceeded its profit target. Our German trading associate was the star performer in the portfolio last year. Germany contributed £8.4m before tax to Underlying Operating Profits, far exceeding the targets we had set for the business at the start of the year. Before we progress, I would like to acknowledge the skill shown by the German management team and their staff in delivering this excellent performance. Strong trading discipline and favourable market conditions combined to present the opportunity for investment, increasing the size of the team to support higher trading volumes. We have always noted that the business is agile, benefitting from a low fixed capital and overhead base, and can respond quickly to changing market conditions. The business will however continue to take a conservative approach to forecasting in light of lack of trading visibility as we look at opportunities to make the income streams more resilient and predictable.

The Underlying Operating Profit for the UK coal business was £0.7m, which was slightly below our expectations largely due to the impact of another mild and disappointing winter. In light of this we accelerated some further restructuring in the UK coal distribution businesses during the year, and paved the way for investment to replace the Maxibrite production line with a new cold-cure process that will significantly reduce the future briquette production costs.

The Earthworks Division, which now incorporates all of the Group's substantial plant operations,

reported an Underlying Operating Profit of £2.4m. Although this is an increase from the prior period (2016: £1.9m), it was below our expectations by approximately £1.0m. The prior year result only included the five months to 31 May 2016 following the acquisition of C. A. Blackwell in January 2016. The shortfall against our Underlying Operating Profit expectations was due to challenges on a number of legacy contracts tendered to deliver projects for a fixed price.

The three problematic contracts, which we first reported on in December 2016, have resulted in an exceptional charge in the year of £3.4m after utilising fair value provisions of £2.7m arising on the remeasurement of goodwill. This represents a material loss of value. Although positive progress has been made with these and other legacy contracts, a number of challenging contractual positions remain. The Blackwell business has already made senior management changes to improve the quality of the management team. The Group continues to consider all potential contractual and other remedies to mitigate the losses we have incurred since the acquisition.

With the financial structures, warranty protections and escrow arrangements that were put in place, the Group was careful to create conditions conducive to turning around the business whilst protecting the Group from the impact of legacy claims and other issues. Since acquiring the business we have provided measured support to deal with problematic contracts, improve the quality of the management team and help the business refocus around its core competencies. We have made it clear to management that the Group's appetite to provide support for new contracts will be based on assessment of future risk and return. The Group's equity share of net assets in the Blackwell group was £1.2m as at 31 May 2017.

In spite of these challenges we believe the Blackwell acquisition can provide core skills and contracts in the mining, quarrying and heavy earthworks sector that, when synergised with the Groups' skills, plant fleet and financial resources,

can offer value creation opportunities. Given the problems that have been encountered, we have made it clear that it is our desire to see the Earthworks business cease tendering for large and complex fixed price contracts and focus on lower risk mining, quarrying and bulk earthworks contracts of a cost-plus, target cost or re-measure basis where they have a compelling core competence to estimate and tender. This is noted below as one of our four key strategic goals for the current financial year.

On a more positive note, the Industrial Services business reported an Underlying Operating Profit of £1.8m. This was in line with our expectations, but lower than the £3.6m reported in the prior year following the closure of Redcar Steelworks and the general downturn in steel activity levels. As reported in February, we experienced delays in starting a major project in Hong Kong. Despite this Hong Kong delivered good growth with revenue and Underlying Operating Profits of £16.6m and £0.6m respectively, compared with £11.0m and £0.3m in the prior year. The UK business performed well during the year and exceeded our target, compensating for the contract delays and any softness in other international operations.

The Logistics business reported a break-even result at the Underlying Operating Profit level, a reduction of £1.1m from the prior year. This was a significantly behind expectations with the drop off in performance particularly pronounced in the final two months of the year. The market for the logistics business has been difficult reflecting increased competition and soft volumes which created significant challenges towards the end of the year. A programme is already underway to re-shape the operation and reduce overhead costs.

Property & Energy

I am very pleased to report that the first independent Red Book valuation of our property assets has been completed. We have conducted the valuations on two different bases – a "market value" and the assets' "development value". This exercise has confirmed our confidence in the

Group Business Review continued

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

significant potential value gain available from developing the property portfolio and offers a clear view of what the value creation opportunity is. The total development value of the portfolio has been independently estimated at £83m, a £52m premium to the current book value of £31m. The valuation process also set out a "market value"; an independent estimate of the value that would be obtained from the immediate sale of the property, taking account of both market values and liquidity. The market value of the entire portfolio has been estimated at £49m, a premium of £18m against the book value of £31m. We will update the property valuation annually on a comparable basis.

The definitions of these methodologies are very important and we would urge investors to consider these carefully.

Development Value

Development value has been calculated by the independent valuers using the residual method of valuation. The residual method of valuation involves estimating the gross development value of the property using market derived yield and future income stream parameters, deducting gross development costs and applying an appropriate level of risk premium to reflect uncertainties such as market and planning outcomes.

Market Value

Market value has been calculated by the independent valuers in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards, and represents the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing.

Important Note on Definitions of "Development Value" and "Market Value"

There is small proportion of the property portfolio for which the market and development value has not been obtained from external valuers and has been derived via other means.

Such means include:

- the property is currently under offer, has been sold on an open market basis post period end, or is currently being actively marketed for sale at approximately book value (1.6% of total development value);
- the property has been recently purchased by the Group on an open market basis and is therefore deemed to be recorded at development value (0.6% of total development value); and
- the property is deemed materially insignificant to the overall Group portfolio and development value is deemed by the directors to be materially consistent with the current book value (2.2% of total development value).

We believe that the Group is on track to achieve our strategic goal of £35-£50m value creation target. The publication of both measures will assist investors in better understanding progress and future opportunity. We will also use these respective measures to carefully inform our property strategy on a site-by-site basis and help us to logically and rigorously manage capital allocation.

In this regard, the market value is a better indication than book value of the amount of the Group's capital that is tied up in each specific asset. The difference between the market value and the development value represents the risk-adjusted value creation opportunity on each property. It is our task to assess and monitor the

likely time required to achieve the development value, and hence calculate the rate of return that is available from holding and developing each property. If that return on investment falls below our threshold we will seek to dispose of a property as quickly as is practical.

The table below provides a segmentation of the property portfolio by acreage and value.

The table below highlights the importance that energy projects will play in delivering value from a significant segment of the property portfolio. The Group's property portfolio contains 4,282 acres of low grade land. Much of this land is ideally suited to the development of onshore wind and without the development of onshore wind, there is little potential to create significant value in these land holdings. The development and delivery of large-scale wind projects by Brockwell Energy offers the Group the potential for significant long-term rental streams to be generated from this portion of the land portfolio. The energy from waste and solar projects being developed by Brockwell Energy provide a catalyst for the development of the extensive and well-positioned commercial/industrial Westfield site in Fife. The master-planning exercise that is being conducted will deliver outline planning permission for the industrial and energy project development of the site. The energy projects will encourage further site development through the opportunity to offer highly competitive heat and power to other industrial tenants.

Category	*Acreage £m	**Book Value £m	Market Value £m	Development Value £m
Residential	446	6.3	19.3	37.4
Commercial/Industrial	3,351	11.4	13.5	25.4
Operational/Agricultural/Low Grade	10,471	10.7	10.8	12.8
Energy	4,282	2.4	5.8	7.3
Total	18,550	30.8	49.4	82.9

* Includes land held under short and long leasehold, and land under an option to buy.

** Book value is stated net of any site specific restoration provisions.

Group Business Review continued

Continuing to narrow the core focus of the Group will help us better target capital allocation and create more opportunity. This in turn will also help us to reduce the level of overhead required to support these activities, both in the businesses and at the Group level.

Four Key Strategic Goals for 2018

Looking at the current financial year ending 31 May 2018, we have set ourselves four key strategic goals. These are:

1. Energy – Deliver a successful spin-off of Brockwell Energy
2. Germany – Grow and improve resilience of European Coal Distribution profits
3. Property – Deliver the first plot sale at Blindwells
4. Earthworks – Re-focus around core competencies

Strategic Goal No 1 – Energy – Deliver a successful spin-off of Brockwell Energy

The decision to form Brockwell Energy and seek to raise capital and spin it off from the Group has been taken for several reasons:

- the development of such projects requires significant capital. It is easier to raise such capital from specialist energy investors if the investment proposition is focused and does not include the portfolio of other interests owned by the Group;
- the separation of Brockwell Energy recognises that energy project development is not the Group's core competence. The appointment of Alex Lambie, as Brockwell Energy's CEO, recognises the need for leadership that has expertise and experience operating and investing in the energy markets;
- the spin-off of the portfolio will avoid further complexity being added to the Group at a time when continuing simplification is a key goal;
- the Group retains the opportunity to invest and retain a degree of interest in the value of the energy portfolio through an equity participation in Brockwell Energy; and
- aside from any potential carried interest, the Group would be a significant beneficiary of the development and delivery of wind and other energy projects on its property portfolio through Brockwell Energy.

The successful spin-off of the Brockwell Energy business will be closely tied to the ongoing development of the Earl's Gate project. As we announced in June 2017, we have signed a memorandum of understanding under which the UK Green Investment Bank will take a 50% equity stake in the project alongside the Group through Brockwell Energy in the coming financial year. Our respective teams are working well together. A successful and timely financial close on the Earl's Gate project will greatly assist the Group and Brockwell Energy in furthering our ambitions and spin-off.

Strategic Goal No 2 – Germany – Grow and improve resilience of European Coal Distribution profits

Whilst the Group maintains a strong position in the UK coal markets, the opportunities to trade carbon-related products in the UK are limited by the accelerated decline in heavy industry in the UK. Whilst we are confident that the specialist UK coal markets will continue to provide opportunity for profit and cash generation, the industrial markets are mature and declining. The investment we are planning at Maxibrite will be the last significant foreseeable investment for the UK Coal Distribution business. This £2.5m investment will provide Maxibrite with a market leading cold-cure press manufacturing facility allowing it to compete aggressively on cost in the lucrative home heating markets where cost is increasingly the most important market driver.

In contrast, the industrial coal markets in Germany and Europe remain strong and resilient, with major players investing in capacity for the long term. Having weathered the challenging conditions of the last few years the German business has delivered an outstanding trading result last year. The challenge with a pure trading business is visibility of forward earnings. We have always taken a conservative approach when forecasting forward earnings, even when the German business had the benefit of trading around production assets such as Monckton Coke Works that were owned by the Group. Our second key strategic goal for FY18 will be to look for opportunities to continue to grow the underlying scale of the German business and to improve the resilience of its profit stream.

Strategic Goal No 3 – Property – Deliver first plot sale at Blindwells

The £83m Red Book valuation of the entire property portfolio is a clear vindication of our decision to hold and develop the property portfolio over the last few years. The Blindwells site remains a key development focus. The granting of planning permission in March represented a significant milestone and allows us to move into the phase of working towards the first realisation.

We are working with experienced industry leading advisors to ensure that the strategy to develop the site optimises long-term value. Our plan remains to develop the basic site infrastructure before selling the site in parcels to housebuilding specialists. The style and quality of the first Blindwells plot to be sold and developed is a key factor in optimising the longer-term value of the entire site. Our third key strategic goal for this financial year will be to achieve a first land sale of optimal style and design.

Strategic Goal No 4 – Earthworks – Re-focus around core competencies

The Group remains committed to winning and supporting the delivery of major bulk earthworks projects such as the A14, Hemerdon and HS2. The risk profile of such projects is attractive and justifies the Group to selectively deploy its

Balance Sheet strength and extensive heavy plant resources to win and support such contracts. The Group will not support the tendering of any further major "design and build" or lump sum contracts. We have set ourselves the objective of working with Blackwell management to re-focus on lower risk cost-plus, target cost and re-measure contracts. The objective to win new business will include the finalisation of the A14 contract and our first contracts on the HS2 project. HS2 is set to be the largest earthworks contracting opportunity since the establishment of the UK motorway network. We believe that the Group, drawing on the skills and credentials of C. A. Blackwell, is well-positioned to win significant business.

Shareholder Value

As we manage these strategic goals we will remain focused on shareholder value. As our track record demonstrates, we will continue to carefully evaluate the optimal deployment of any cash that we realise from the sale of legacy assets or from the liberation of capital from non-core businesses. We remain open to considering investment in core businesses where a strong return can be generated or to return capital to shareholders through dividends, special dividends or share-buy backs. As always, we will be careful to maintain a strong balance sheet position with an appropriate level of leverage.

Outlook

The outlook for the Group is more positive than it has been for some time. In the past few years we have explained to our stakeholders the need to re-position our activities to deal with the challenges we have faced. After several difficult years, we are now talking about repositioning to seize opportunity and maximise value creation.

The independent valuation of the property portfolio demonstrates clearly the intrinsic value of the Group. We are seeing an improvement in the market for heavy plant which adds to our optimism around realising cash and value from our extensive plant fleet. The commencement of HS2 offers our substantially re-profiled Earthworks operation an exciting opportunity to win flagship and game-changing contracts. The performance in Germany highlights the potential offered by the buoyant European heavy industrial markets, especially if we can find a strategy that delivers steadier and more predictable profits.

Our finances remain in robust shape, thanks in a large part to the prudent financial management by our finance director, Iain Cockburn. The net assets at the end of the year were £137.9m or £4.32 per share. Including the market value premium of the property portfolio that would increase to £4.91 per share. The £83m development valuation creates an obvious opportunity to lift the net asset value further.

Gordon Banham
Group Chief Executive
7 August 2017

The key operational focus for the year was to deliver a successful outcome on the planning permission for Blindwells, which was received and announced in March 2017. The development of the Blindwells site is well underway and represents the most significant opportunity for the Group. The first plot sale is a key strategic target for this financial year. Success at Blindwells will help us translate a significant portion of the development value increment into the market value.

Legacy Assets

In the year ended 31 May 2017 we slightly exceeded our own expectation as excellent progress has been made in the realisation of cash from legacy assets. We realised £25.5m of cash with a further £5.5m of cash receipts contracted but outstanding as at 31 May 2017. The target remains to realise the remaining assets into cash, as soon as possible, over the next 24 months without any need for further impairment charges.

Legacy stocks of coal and coke were fully contracted and largely cleared during the year. The improved funding position at the Tower joint venture facilitated the repayment of £5.6m of loans in the year and we have seen some improvement in market for heavy plant markets and we currently see more potential for the early realisation of surplus plant. This will not only help to accelerate the run out of our own surplus plant but may present an opportunity for earlier repayments of the Tower loans, of which the Group remains confident of full recovery.

We were very pleased to announce the agreement for the sale of the underground mining equipment for £5.5m of which £1.0m cash has already been received. The remaining balance is anticipated to be received early in the second half of the current financial year. The consideration achieved is in excess of book value of these assets.

We have also booked two non-cash adjustments to Legacy assets. The improved trading and forecast run-out position at Tower allowed us to reverse the impairment of the £2.0m receivable that we took an exceptional charge for in the year ended 31 May 2016. We have taken the reversal of the impairment as exceptional income in the year ended 31 May 2017. Secondly, in light of OFGEM's recent decision on embedded benefits

The table below summarises the legacy asset position.

Asset Category	31 May 2017 £m	31 May 2016 £m
Property, Plant and Equipment	7.9	9.0
Assets Held for Sale	5.0	5.0
Inventory	3.6	20.5
Trade and Other Receivables	23.1	31.3
Total Legacy Assets	39.6	68.8
Retirement Benefit Obligation	(5.1)	(5.7)
Net Legacy Assets	34.5	60.1

Core

Group Activities

Logistics
Industrial Services
UK Coal Distribution
Mining Earthworks

Growth/Valuation Potential

Challenging/
Limited Growth

Strategy

Optimise for
cash generation

Non-Core

Property
Europe Coal
Distribution

Energy Projects

Sustainable Growth

High Growth/High Capital

Focus for Long
Term Development

Spin Off

and diesel generation that affect our mothballed diesel engines and switchgear that was formerly operated by Rocpower, we have taken an exceptional charge of £2.3m to fully impair the legacy Rocpower assets. The net effect of these impairment adjustments was a charge of £0.3m.

We remain committed to managing the Maltby pension scheme over the long term. Given the relative immaturity of the scheme, the optimal strategy is to continue to service the scheme and, hence, going forward we will no longer report the retirement benefit obligation in the Legacy category, but will instead sit in the Corporate Balance Sheet.

Strategy – Continued Simplification and Focus

Whilst significant progress has been made in simplifying the Group and its strategy, the business remains complex and this creates challenges for stakeholders and investors and increases the amount of overhead required to manage the Group. As the markets in which we operate adjust to the changes that have taken place in and around the coal sector, we also find that the longer-term growth prospects and the balance between risk and return also evolve. The table above summarises the current Group activities.

The development of Energy projects has the potential to create significant value and growth. However, such projects also require significant amounts of capital and expertise to deliver and therefore we have decided that they are not core to the Group and are better developed in a separate entity. As announced in June, we have formed a new company, Brockwell Energy Limited ("Brockwell Energy"), and have identified spinning Brockwell Energy out of the Group as one of our four key strategic objectives for this current year. This is discussed in more detail below.

Following the restructuring of the last few years, we have categorised the remaining businesses as core. Looking at the core businesses, as we refine and update our strategy to take account of changing market conditions, we will further segment the core activities into two categories according to longer-term growth prospects.

In this regard, as shown, we regard Property and European Coal Distribution as offering good long-term growth and value creation prospects. We categorise UK Coal Distribution, Earthworks, Logistics and Industrial Services as currently offering more limited growth opportunities. In terms of strategy, we will prioritise management attention and capital allocation to Property and European Coal Distribution where the value creation opportunity is considered greatest.

Although the other core businesses offer lower growth potential, they do all offer good cash generation opportunity. Whilst we see the need and opportunity to deploy some capital expenditure into the UK Coal Distribution and Logistics businesses in the short-term to protect or improve their market position, we see the longer-term capital requirement from these businesses as limited and therefore we will seek to ration capital and run these operations to maximise long-term cash generation.

Earthworks Key Projects

A14

Case study

Location: Cambridgeshire

Scale: £1.5bn improvement to highways over 21 miles

Project: A14 Cambridge to Huntingdon Improvement Scheme

The Government (Highways England) £1.5bn upgrade of the A14 between Cambridge and Huntingdon, commencing construction in spring 2017 and expected to complete by the end of 2020.

C. A. Blackwell has been involved with the A14 project since mid-2015 when it was engaged under an ECI (early contractor involvement) contract to support the main tier 1 contractors in the design development and construction planning phase of the project.

Following this early involvement an enabling works contract was completed in FY17, prior to commencement of the main construction phase in the spring of 2017. Blackwell are currently engaged on the circa £50m subcontract for bulk earthworks in relation to two of the five sections, which calls for 5 million cubic metres of earth-movement over the next three years.

This project fits well with C. A. Blackwell's core capability for large scale linear earthworks, and is where the strong reputation and brand was historically developed pre-Hargreaves acquisition in January 2016.

The acquisition in 2016 created one of the largest mobile plant fleets in Europe, allowing a large portion of the plant requirement for the 2.5 year construction phase to be provided internally.

HS2

Case study

Location: London to Leeds/Manchester

Scale: £56bn High Speed Rail Network

Project: HS2

The Government is planning a new high-speed rail network from London to Birmingham and to Manchester and Leeds, known as HS2. Phase 1 covers the route from London Euston to Birmingham, with phase 2 the routes to Manchester and Leeds.

Four consortiums have recently been awarded a combined £6.6bn to deliver the seven civils packages in relation to phase 1 of the project – the main civil engineering work including construction of bridges, tunnels, embankments and viaducts.

Construction of phase 1 is expected to commence in summer 2019 after a 16-month period to develop a design, programme and target cost. Phase 1 is expected to complete by 2026, with phase 2 expected to commence construction in c.2025.

C. A. Blackwell have been providing earthmoving advisory services as a consultant since 2012 and are working alongside various counterparties in order to explore opportunities for C.A. Blackwell to become involved in the construction phase of the scheme as it develops. The potential for sub-contract earthworks on a project of this scale could be of the order of £100m-£200m dependent upon how the strategy for constructing the project unfolds over the next 12 months.

Review of Operating Performance by Business Unit

Review of Performance

Revenues from Continuing Operations increased during the year by £2.2m from £340.7m to £342.9m, reflecting the first full year of results from our Specialist Earthworks Division following the acquisition of C.A. Blackwell Group in January 2016, which offset the reduction in revenues from coal sales and Industrial Services activities following the closure of Redcar Steelworks and a number of coal fired power stations during the prior year.

Underlying Group Operating Profit from Continuing Operations for the year increased by £5.2m from £4.6m to £9.8m. Underlying Profit Before Tax increased by £4.7m to £7.7m compared with £3.0m in the prior year, reflecting our German associate performing significantly ahead of management expectations in favourable trading conditions, which more than offset some softness in UK coal and logistics markets and the effect of the run-down of legacy civil engineering contracts. Reported Profit Before Tax of the Group increased by £14.7m from a loss of £10.6m to a profit of £4.1m after exceptional costs. Exceptional costs reduced by £11.9m from a net exceptional charge of £12.4m reported in the prior year to a net exceptional charge of £0.5m. These are outlined in more detail in the Financial Review below.

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

Distribution and Services

Coal Distribution

The activities of the Division include our distribution and trading activities in the UK and Germany. The UK operation encapsulates our coal distribution business, our last mining project at the House of Water site in East Ayrshire and our Maxibrite coal briquetting operation. Our German business operates through our associate operation, Hargreaves Raw Material Services GmbH ("HRMS"). HRMS trade and distribute coal, coke, ferro alloys and pig iron, acting as a broker or bulk-breaker and, most importantly, avoids taking commodity price risks wherever practical.

The table below shows the breakdown of underlying operating profit within the Coal Distribution Division by key activity.

	2017	2016
UK Coal Distribution Operations (£'000)	0.7	2.8
Germany (Associate) (£'000)	8.4	1.8
Total	9.1	4.6

Following our recent restructuring, from the start of the year commencing 1 June 2016, results from our Property & Energy business and from activities at the Tower project in South Wales are no longer shown in the Coal Division. With Property and Energy having become material activities, from 1 June 2016 they have been

reported in a separate segment and are reported on below. The Tower project and its related income streams, having moved into its restoration phase, are managed by and reported in the Specialist Earthworks Division. The cash run out of loans to the Tower joint venture continue to be reported in our Legacy Assets Realisation segment.

UK Coal Distribution revenues fell from £148.6m to £109.9m reflecting a £38.7m reduction in metallurgical coal sales following the Group's exit from those markets in the UK in response to the closure of Redcar steelworks. The Underlying Operating Profit generated from UK Coal Distribution fell from £2.8m to £0.7m due to a combination of the withdrawal from metallurgical coal trading and softness in speciality markets.

The volume of UK third-party bulk trading increased from 602,000 tonnes to 709,000 tonnes. The increase in trading volume was due to the sale of 140,000 tonnes of legacy coal stocks to two coal-fired power stations to meet their demands during the winter period. The legacy coal volumes fulfilled part of the demand from generators and were supplemented by production from the House of Water surface mine and imports from Russia.

	Distribution & Services 2017 £000	Property & Energy 2017 £000	Legacy 2017 £000	Corporate 2017 £000	Total 2017 £000
Segment Operating Profit/(Loss) after Exceptionals	4,457	(1,252)	101	(2,613)	693
Net exceptional costs	192	2,278	—	(2,000)	470
Intangible amortisation/impairment	315	—	—	—	315
Share of profit in jointly controlled entities (net of tax)	5,487	—	—	—	5,487
Share of tax in associates and jointly controlled entities	2,873	—	—	—	2,873
Underlying Operating Profit/(Loss)	13,324	1,026	101	(4,613)	9,838
Net financing costs	(1,942)	(644)	—	494	(2,092)
Underlying Profit/(Loss) before Tax	11,382	382	101	(4,119)	7,746

	Distribution & Services 2016 £000	Property & Energy 2016 £000	Legacy 2016 £000	Corporate 2016 £000	Total 2016 £000
Segment Continuing Operating Profit/(Loss) after Exceptionals	1,545	(363)	—	(8,355)	(7,173)
Net exceptional costs	10,378	—	—	2,000	12,378
Intangible amortisation/impairment	584	—	—	—	584
Share of loss in jointly controlled entities (net of tax)	(1,792)	—	—	—	(1,792)
Share of tax in associates and jointly controlled entities	628	—	—	—	628
Underlying Continuing Operating Profit/(Loss)	11,343	(363)	—	(6,355)	4,625
Net financing costs – Continuing Operations	(1,577)	(345)	—	290	(1,632)
Underlying Continuing Profit/(Loss) before Tax	9,766	(708)	—	(6,065)	2,993

Sales of speciality coal into domestic and industrial markets have increased from 556,000 to 836,000 mainly due to growth in cement and export market volumes and strategic trading arrangements with indigenous third-party producers. Whilst competition and customer buying habits continue to apply pressure to margins, the trading team has been successful in protecting market share. The Group continues to benefit from a strong position in the supply chain for domestic and industrial markets. Volumes traded from the Group's Maxibrite briquetting facility in Wales were subject to increased competition from lower cost products manufactured using a "cold cure" process.

As disclosed previously, the Group retains coaling options and planning permissions over a number of sites, representing reserves of approximately 4.1 million tonnes. Following another year of significant decline in UK coal-fired generating capacity and a consequent further erosion of potential future demand, the Group has taken the decision to take an exceptional charge and fully impair the balance sheet value of these options. Management notes that the balance of UK generating capacity remains subject to a range of uncertain factors which may yet result in a transitory recovery in power station coal demand. Whilst there is no current expectation for such a recovery in demand, the coal reserves would provide a potentially valuable option for the Group should that situation change in the future.

The Group's 86% share of Operating Profit from our German associate increased from £1.8m in the prior year to £8.4m in the year ended 31 May 2017. After tax this results in a profit of £5.5m being recognised in respect of the German associate. The European operation generated revenue of £134m from the trading of 578,000 tonnes of product compared with £89m from 652,000 tonnes in the prior year. This performance reflected favourable market conditions in key continental markets that were skilfully exploited by the German trading team. Increased sales volumes of high margin pig iron and ferro alloys were also achieved following the expansion of the local team to target those markets. Whilst the European business is an associate and therefore its assets and liabilities are not consolidated into the Group's results, it should also be noted that the increased trading levels have been supported by greater borrowing capacity following the renegotiation of credit lines with two major German banks.

As the HRMS business grows in scale and the Group considers opportunities to help improve the resilience of revenues and profits, consideration will be given to the appropriateness of consolidating the results and Balance Sheet.

Specialist Earthworks

The Specialist Earthworks business contributed its first full year of profits following the acquisition of C. A. Blackwell part way through the prior financial year. The Division reported Underlying Operating Profit of £2.4m on revenues of £122.1m for the year ended 31 May 2017 compared with Underlying Operating Profit of £1.9m on revenues of £64.1m. The performance was below expectations as the Division focused on the effective management and resolution of a number of problematic pre-acquisition contracts. Included in exceptional expenses is a net charge of £3.4m in respect of three problematic pre-acquisition contracts. No benefit has been taken for any losses that could potentially be recovered under warranty claims against the sellers. Further provisions have been made in respect of loss-making contracts and the Directors believe that such provisions adequately cover the Group's commercial exposures against other known loss-making contracts. Additionally, the business recognised a £3.3m amount receivable in respect of an historic plant maintenance claim, this has been included within exceptionals. After the net exceptional expense, the Specialist Earthworks business reported an Operating Profit of £2.3m.

Progress on the key A14 contract in the year ended 31 May 2017 was encouraging, with enabling works on two sections of the £1.5bn road improvement scheme having commenced and full deployment on the project expected during the next financial year.

Activities have continued at the Hemerdon tungsten mine operated by Wolf Minerals with both parties benefiting from a variation made to the existing contract arrangements during the year. Whilst the customer continues to tackle operational challenges relating to the processing facility at the mine, the Group was encouraged by the recent increase in funding provided by the financiers of the project, which provides visibility over at least the next six months of operation at the mine.

Our activities in South Wales at the Tower surface mining project have been brought under the direct management of the Specialist Earthworks Division. The profits generated from the contract to supply and operate the heavy earth moving equipment at Tower are included in the results of the Division. The onsite activities transitioned during the year from mining to restoration as the final shipment of coal was sent by train to Aberthaw Power Station in March 2017. Whilst the performance of the joint venture is not reported in the Group's results since the investment in the project was impaired during the year ended 31 May 2016, a significant increase in the international benchmark coal price and favourable exchange rate movements benefited the revenues and cash flows generated by the joint venture. The Group was also pleased to reach agreement with its joint venture partners on a variation to the terms of the supply of

labour and plant to the site. The variation includes a reduction in the margin charged by the Group alongside an optimised operating plan intended to protect the market value of the joint venture's plant fleet and, therefore, improve the cash outturn of the project and the Group's visibility and confidence over the full recovery of its legacy loan balances with Tower.

Industrial Services

The performance of the Industrial Services Division was in line with expectations and represented a significant reduction on the prior financial year due to the closure of Redcar steelworks and a number of coal-fired power stations. Total revenue generated by the Division reduced from £81.6m to £65.4m, producing underlying operating profit of £1.8m compared with £3.6m in the prior year. Activity levels in the UK showed a slower rate of decline than expected, supported by maintenance outages as some generators continued to invest in their assets. Group activities in the UK steel sector continued to decline with the notice of pending cessation of the Industrial Services contract at Port Talbot following on from the demise of Redcar Steelworks 12 months earlier.

The rate of growth in Hong Kong was behind target following the delay of a major project which has still not commenced. Year-on-year growth in the Group's operations in Hong Kong continued with an increase in revenues of 51% on the prior year. Whilst the timing delay on the new major project was disappointing, there was pleasing progress elsewhere as the Group was invited to supplement the core contract at Castle Peak Power Station with additional services.

Total revenue by destination market

£m	FY15	FY16	FY17
UK	120.9	67.1	46.5
Hong Kong	5.4	11.0	16.6
Other	1.5	3.5	2.3
Total	127.8	81.6	65.4

Logistics

The Logistics Division had another challenging year, particularly in the final quarter as a highly competitive market and pressure on subcontractor margins resulted in a downturn in performance. Revenues for the operation fell from £54.5m to £48.0m with Underlying Operating Profit reducing from £1.2m to £0.1m. The significant decline reflects the challenges faced by the business as it transitions from its previous focus on large and predictable volumes of coal movement to an operation targeted at transporting a greater diversity of materials and routes in the waste, construction and biomass sectors. The management team has recently been bolstered in order to adapt to these new demands and a series of steps to reduce costs, improve efficiency and update commercial terms are being implemented.

Review of Operating Performance by Business Unit continued

Property & Energy

The Property & Energy teams generated an Underlying Operating Profit of £1.0m for the year ended 31 May 2017 which was in line with management expectations. Operating loss of £0.4m generated in the prior year from the Group's Property & Energy activities was reported within the Coal Distribution Division as shown in the table above. The result reflects profit generated on disposals of sundry properties with no significant long-term strategic potential and fair value gains recognised following the exercise of options on newly restored areas of former mining sites at House of Water and Broken Cross. The business also incurred an exceptional cost in respect of the impairment of the property and plant at Commons Lane of £2.3m. After exceptional items, the Property and Energy businesses reported an operating loss of £1.3m.

The Property team has been expanded to 11 and we now have in place the resource and access to skills to deliver progress towards our strategic targets. A particular area of focus for the Property team was the Blindwells project in East Lothian where the granting of planning permission, as announced in March 2017, represented an important milestone. The timing of the Blindwells planning decision was delayed compared to our original expectations and consequently no plot sales were made during the year ended 31 May 2017, with the first realisations now expected in the current financial year. This is one of our four key strategic goals for the current financial year.

The progress made in the development of the Group's energy projects portfolio was reflected in the decision announced on 14 June 2017 to create a new wholly-owned subsidiary, Brockwell Energy, to oversee the development and potential spin-off of the Group's energy project interests. Significant development activity was undertaken in the year in relation to the Earl's Gate Combined Heat and Power ("CHP") plant project at Grangemouth and the Energy from Waste project at Westfield in Fife. An acceleration in development activity primarily in relation to the Earl's Gate project as it moves towards financial close, is expected to result in the balance sheet value of the Energy portfolio increasing by November 2017 from its current value of £4.1m. Plans for the Group's 400MW portfolio of potential onshore wind schemes have also progressed, including an agreement of property options to enable a single 300MW scheme, the construction of which would deliver significant environmental restoration benefits. It is believed that this will be the largest single scheme in the UK.

Safety, Health and the Environment

Our vision is to create an environment where all employees can work with zero harm to them. To achieve this, the Group takes a proactive approach to Safety, Health and the Environment and remains committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts.

The Board ensures that Health and Safety issues for employees, customers and the public are of foremost concern in all Group activities. The Group Chief Executive, supported by external advice, is charged with overall responsibility. All divisions have formulated safety management systems. We continue with the programme to achieve OHSAS 18001 Occupation Health and Safety Assessment Series for health and safety management systems and ISO 14001 environmental management.

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

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

It is pleasing to note that our safety performance improved slightly during the year, as measured by Lost Time Incident Frequency Rate ("LTIFR"). This follows the previous year where a slight deterioration occurred reflecting the pressures created by the transition for the Group, with a number of operating units closing and others downsizing their workforce. Notwithstanding the improvement in the year, we have set a 5% improvement in performance for the current year.


Iain Cockburn
Group Finance Director


Gordon Banham
Group Chief Executive
7 August 2017

Financial Review

Iain Cockburn, Group Finance Director

Underlying operating profit has increased by 113% to £9.8m.

Revenue

The Group has enjoyed a more stable period of trading following the turbulent conditions in prior periods. Revenues increased year-on-year from £340.7m to £342.9m reflecting a first full year of trading from the Blackwell acquisition in the Earthworks Division which offset lower revenues in the Coal Distribution and Industrial Services Divisions.

Operating Profit and Margins

Underlying Operating Profit increased by 113% to £9.8m from £4.6m. This increase is largely attributable to the exceptional performance of the German trading associate, due to some favourable market conditions and the ability of the management team to move quickly and capitalise on trading opportunities. The strong performance in Germany more than offset soft trading in the UK coal trading business following another mild winter.

The year to 31 May 2017 is the first full year of operations within the Earthworks Division following the acquisition of C. A. Blackwell in the prior year. The division delivered an Underlying Operating Profit of £2.4m. Whilst this represented an increase of £0.5m, it was lower than management's expectations as the prior year only included five months of operations. The reduction in profit levels is a result of the challenges across a number of contracts.

The Logistics business had a £0.1m Underlying Operating Profit compared to a prior year Underlying Operating Profit of £1.2m. This reduction reflected challenges in the market place through increased competition and pricing pressures.

The first full year of Property and Energy trading as a separate division has seen a significant improvement in the divisional Underlying Operating Profit, growing from a loss of £0.4m to a profit of £1.0m. The Group has also reported the result obtained from the realisation of legacy assets into cash, which has delivered a cash inflow of £25.5m and a profit before tax of £0.1m.

Reported Group Continuing Operating Profit before exceptional costs decreased from £5.2m to £1.2m whilst Continuing Profit before Tax improved from a loss of £10.6m to a profit of £4.1m reflecting the strong performance of the German associate and the substantial reduction in the level of exceptional costs from £12.4m to £0.5m. Continuing Operating Profit after exceptionals improved from a loss of £7.2m to a profit of £0.7m.

Goodwill

The Group completed the acquisition of CA Blackwell in January 2016. Following experience within the business, the Group re-measured the goodwill on acquisition in respect of two legacy contracts, where it became clear in the first half of the year that further work and defect rectification would be required due to circumstances that existed prior to acquisition. Consequently, an increase of £2.7m was recognised in goodwill in the first half of the year. This brings goodwill associated with the acquisition to £3.6m. The Board remains comfortable with the carrying value of the revised goodwill amount.

Exceptional Costs

As the Group continues to restructure and simplify its operations, a number of items of non-recurring income and cost have arisen during the year, particularly as the Group settles many of its legacy positions. As such, there is a net exceptional charge of £0.5m in the year, which is a reduction of £11.9m from £12.4m in the prior year.

Exceptional credits/(charges)	2017 £000
Reversal of impairment of investment and other assets relating to the Tower project	2,000
Cost associated with early closure of certain mining operations	(1,874)
Net losses on Legacy contracts in Blackwell	(3,380)
Impairment of Property, Plant and Equipment	(2,277)
Cash recovery from discontinued operation	1,096
Historic plant rebate	3,280
Liquidator dividend	796
Other simplification costs	(111)
Total	(470)

This is offset by the write-off of several mine development assets on potential locations that the Group is no longer pursuing following the strategic decision to reduce exposure to coal. The only remaining mine development costs on the balance sheet at 31 May 2017 was £0.3m (excluding the IFRIC 20 stripping asset and mine development assets) relating to the ongoing House of Water mining operation that is being amortised over the remaining five years of forecast mine life.

The net £3.4m exceptional loss within the Earthworks business relates to losses on three specific legacy contracts. These contracts are largely complete by the year end and no further material downside is anticipated. Although challenges remain with other continuing civil engineering contracts as noted in the Group

Financial Review continued

Business Review, the Group is actively exiting civil engineering activity to focus on synergising skills in bulk earthworks with the Group's plant fleet. The net position of £3.4m includes the release of £2.7m of fair value accruals made at the interim following the revision of the goodwill on acquisition.

The impairment of property, plant and equipment relates to the property and plant at Commonsides Lane, the former Rocpower site. This was impaired by £2.3m down to a notional amount, following OFGEMs decision to review and subsequently significantly reduce the TRIAD support regime, which significantly impacted the future earnings potential of the site.

The Group was also pleased to receive the first £1.1m recovery of cash relating to the historic losses in Belgium which ceased operations in the year ended 31 May 2013 and a dividend received out of a liquidation, which exceeded the Balance Sheet position by £0.8m.

Interest

In the year to 31 May 2017, continuing net finance expenses for the Group increased by £0.5m from £1.6m to £2.1m, predominantly due to the reduction in interest receivable from our Associates and Jointly Controlled Entities as indebtedness and interest rates were reduced.

Taxation

The income tax credit for the year is £0.7m compared with a tax credit of £1.1m for the year ended 31 May 2016; including the share of tax of equity accounted investees of £2.9m (2016: £0.6m) this results in a total tax charge of £2.2m (2016: credit of £0.5m). Whilst this charge represents a reported effective tax rate for the Group of 31.3% (2016: 4.6%), this rate is significantly affected by the impact of the German underlying tax rate. After taking into account the impact of the overseas tax rates, the underlying effective rate is 13.0% (2016: 7.4%) reflecting the benefit of prior year tax recoveries arising from utilisation of tax losses.

Dividend

The Board is proposing a final dividend of 4.5p per share (2016: 0.6p), bringing the dividend for the full year to 7.2p per share (2016: 2.3p). This represents an increase of 213% on the prior year that is in line with the improved profit performance of the Group. This dividend level reflects a pay-out ratio of 40% (2016: 40%) of Underlying Diluted Earnings per Share. The proposed final dividend will be paid on 20 October 2017 to all shareholders on the register at the close of business on 22 September 2017.

Pensions

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

In addition to the two industry-wide defined benefit pension schemes, Maltby Colliery also operates an unfunded concessionary fuel scheme. The combined liability of both elements as at 31 May 2017 is £5.1m, decreased from £5.7m at 31 May 2016. Contributions in the year of £1.5m (2016: £1.2m) have been offset by interest and expenses of £0.4m (2016: £0.3m) and a net re-measurement loss of £0.5m (2016: £1.0m).

Earnings per Share

Reported basic Earnings per Share increased from a loss of 33.0p to a profit of 16.1p reflecting the significant improvement in the trading result of the Group. Underlying Diluted Earnings per Share increased by 220% from 5.6p to 17.9p. The weighted average diluted number of shares remained steady at 32.3m. The Group did not undertake any further share buy backs during the year.

Net Debt

Net Debt reduced by £16.6m from £32.3m at 31 May 2016 to £15.7m at 31 May 2017 reflecting positive progress in the realisation of legacy assets.

Group Net Assets increased from £131m at 31 May 2016 to £138m at 31 May 2017. Gearing (measured as Net Debt compared with Net Assets) at the end of May 2017 was 12%, compared with 25% at 31 May 2016.

Net Cash Flow from Continuing Operating Activities before Interest and Tax generated a cash inflow of £41.8m during the year. Net Cash Flow from Operating Activities before Interest, Tax and Working Capital was £14.2m.

The Group has successfully realised a significant proportion of its Legacy assets into cash and this is the key driver behind the £27.6m positive working capital movement. Included within the movement are Legacy inventory realisations of £16.8m and the first significant repayment of the loans to the Tower joint venture of £5.6m. Aside from the Legacy unwind, the underlying working capital position has remained relatively consistent.

Tax payments in the year included £5.2m in respect of a disclosable tax planning scheme implemented in 2011. Following this payment the Group has no further cash payment obligations in relation to the scheme. The prior year accounts had made provision for this payment, therefore there was no impact on the income statement for the year ended 31 May 2017. The Group and its advisors, KPMG remain confident that the scheme was sound and lawful.

Gross cash on capital expenditure was £20.0m (2016: £15.1m) was offset by disposal proceeds of £5.3m (2016: £1.6m). Net capital expenditure in the financial year was £14.7m (2016: £13.5m). This included an investment of £1.4m in the Group's Energy portfolio, as well as £3.9m spent on the development of several of the Group's key Property projects. In addition to this, further

Movement in Net Debt

Item	2017 £m	2016 £m
Net Cash from Operating Activities before Interest, Tax and Working Capital movements	14.2	14.9
Movement in working capital	27.6	5.3
Cash from Operating Activities before Interest and Tax	41.8	20.2
Interest payable	(1.3)	(4.0)
Taxation payable	(7.0)	(6.7)
Net capital expenditure	(14.7)	(13.5)
New finance leases	(0.5)	(3.5)
Business combinations	(0.6)	(13.7)
Dividends received	–	0.8
Dividends paid	(1.1)	(6.9)
Purchase of own shares	–	(0.6)
Discontinued cash flows	–	(3.4)
Total movement in Net Debt	16.6	(31.3)

additions have been made within the Plant fleet totalling £6.0m and a further investment of £3.3m in the House of Water mine development assets.

The proceeds from disposal relate mainly to the disposal of surplus yellow plant, from which the Group was able to generate net profits of £1.8m.

The Group acquired the share capital of Tru Green Limited in March 2017 resulting in cash outflow of £0.2m. The business included Net Debt of £0.4m at the date of purchase. This acquisition will sit within the existing Industrial Services Division.

The Group paid dividends totalling £1.1m, comprising of the prior year final dividend of 0.6p and the current year interim dividend of 2.7p.

Capital Management and Bank Facilities

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 in light of the Group's policy of maintaining gearing at levels appropriate to the business. The Board principally reviews gearing determined as a proportion of debt to Earnings before Interest, Tax and Depreciation. The Board also takes consideration of gearing determined as the proportion of Net Debt to total capital. It should be noted that the Board reviews gearing taking careful account of the working capital needs and flows of the business.

The Group's current UK banking arrangements consists of a £70m borrowing base facility ("BBF") and a £40m revolving credit facility ("RCF"). The arrangement was concluded with a three-bank group comprising of HSBC, Lloyds and Barclays and is committed through to August 2018.

The structure was designed to provide a greater degree of flexibility for the Group in financing working capital. Although the Group's RCF is subject to a Debt:EBITDA leverage covenant maximum of only 2:1, the Group's BBF facility sits outside the leverage test and leverage test parameters as it is secured against the underlying working capital assets.

Summary of Net Debt

	2017 £000	2016 £000
Cash and cash equivalents	(27,817)	(21,161)
Interest-bearing borrowings	35,275	37,593
Finance lease liabilities	8,277	15,906
Net Debt	15,735	32,338

Going Concern

The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.



Iain Cockburn
Group Finance Director
7 August 2017

Managing Risks

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

Together with the coordinated, effective and economic application of resources to minimise, monitor and control the impact or likelihood of such risks occurring.

The Group is exposed to a number of risks, which, if not properly managed and controlled have the potential to:

- prevent the Group from achieving its financial or operational objectives;
- cause harm to individuals or the environment; or
- cause damage to the Group's assets or reputation.

It is accepted that some risks may never be entirely eliminated. However, the Board recognise that it is essential that management have good risk management systems and practices in place to identify, assess and prioritise the mitigation of risks affecting the Group.

The Group has undertaken a full review of its risk profile and strategic approach to risk in light of the continued change over recent years. This has led, via the restructuring of the Risk Committee, to the creation of a formalised Group Risk Register. For each risk identified, existing mitigating factors and controls have been noted, as well as areas for further mitigation work. All risks have been graded based on the expected impact on the Group should they materialise, and the likelihood of the risk coming to pass, as illustrated in the risk map opposite. In determining the key risks, the Board has considered the result of the referendum on the future of the UK's membership in the European Union.

The Corporate Risk Committee is the forum in which the Group Risk Register is maintained and challenged. The Corporate Risk Committee is comprised of divisional managing directors and certain senior staff members across a variety of areas. This Committee is supported by a number of sub-committees, including a financial risk and performance forum, which allow the Risk Committee to operate efficiently.

The Corporate Risk Committee reports into the Audit Committee, with the risk registers being reviewed at least twice a year.

This statement is an integral part of the Strategic Report.

IDENTIFICATION

ASSESSMENT

MITIGATION

MONITORING

Statement on Risks Relating to the Group's Business

Key to change in risk level since the previous year: Risk Higher (Worsened) Risk Lower (Improved) Risk Stayed Level

Key Risks	Description	Mitigation	Change In Risk Level
OPERATIONAL			
Operational and Project Performance Risk	<p>Ineffective and inefficient project management could lead to additional costs being incurred, which will affect the overall project performance and therefore the financial performance of the Group. Managing contract risk is essential, as there is a risk that the Group may commit to contractual terms and conditions that expose the Group to excessive financial risks and potential cost overruns.</p> <p>Whilst the Group has always been exposed to this type of risk, the Specialist Earthworks business increases our exposure to construction sector contracts and heightens this risk.</p>	<ul style="list-style-type: none"> • Policies and procedures in place for contract approval include bid approval models, peer review and Board approval of key contracts. • Experienced management teams in place for all service offerings with the relevant technical and industry knowledge. • Review of all contracts by internal legal support, involving external resource on material contractual commitments. • Monthly project performance reviews are undertaken involving finance, commercial and operational personnel. 	
UK Housing Market Risk	<p>As the Property and Energy division gains more prominence within the Group, we will become more exposed to risks associated with the UK housing market. Demand for UK housing can have a marked impact on property and land valuations, which may affect the viability of sites.</p>	<ul style="list-style-type: none"> • The Group's policy is to only progress and develop land where it considers that significant value uplift will be deliverable, resulting in a focus on the land that is deemed to be of high quality and in prime locations. • Although "Brexit" has raised some additional concerns over the UK property sector, the Group's investment in Property and Energy is long-term and should not be seriously affected by short-term events, or economic cycles. 	
Planning	<p>Increased complexity, cost and delay in the planning process may slow down the project pipeline. Changes in Government or Government strategy towards planning policies could impact on the speed of the planning consent process or the value of sites.</p>	<ul style="list-style-type: none"> • The Group's highly skilled in-house technical and planning teams monitor changes in the market and in the planning process and react accordingly to ensure that planning consents are achieved in the most cost-effective and timely manner, whilst ensuring a broad spread of developments remain in the planning system at any one time. • Whilst the Group has sought to constrain and prioritise the number of projects being taken through planning, the portfolio does provide a good spread of different types of projects in different planning jurisdictions. 	
Surface Mining Risk	<p>Our surface mining operation is subject to all of the hazards and risks normally encountered in the exploration, development and production of surface coal including unusual and unexpected geological formations, geotechnical instability, flooding and adverse weather conditions.</p> <p>The Groups exposure to surface mining risks have decreased significantly following the closure of several mine sites in the previous financial year.</p>	<ul style="list-style-type: none"> • The Group employs experienced management teams with the relevant technical and surface mining industry knowledge. • The Group's surface mining team undertakes appropriate levels of site investigation, including extensive geological assessment, drilling/borehole analysis and ongoing review, and has the appropriate planning, development, technical infrastructure and expertise to minimise these risks. 	
Markets and Commodity Prices	<p>The Group produces and trades in coal, coke and other mineral commodities, the prices of which are subject to variations that are both uncontrollable and unpredictable. Further trading risks are created through foreign currency exposures. The Group has significantly reduced its activity levels around commodity trading however, a residual level of risk remains as a result of exposure to the continuing production activities at House of Water and Tower and through the need to liquidate the remaining legacy stocks.</p>	<ul style="list-style-type: none"> • The Group continues to seek, where possible to minimise price and foreign exchange risks through the use of fixed-price contracts, hedging instruments and "back-to-back" purchase and sale agreements. • Regular review meetings are held to consider any open positions and determine the appropriate hedging strategy under the Group hedging policy. • The Group also carefully monitors the fuel requirements of any fixed price logistics or earthworks contracts seeking to ensure that the cost of fuel to support these contracts is also fixed through hedges. 	

Statement on Risks Relating to the Group's Business continued

Key Risks	Description	Mitigation	Change In Risk Level
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. These relationships include, but are not limited to, customers, subcontractors and professional advisors.	<ul style="list-style-type: none"> The Group continues to expand its commercial relationships to restrict the reliance on one specific relationship, although in practice opportunities for this can be restricted in the coal reliant sectors of the Group. The procurement team have key involvement in the sourcing of significant subcontractor arrangements. Commercial managers maintain onsite day-to-day relationships with customers and subcontractors to feedback on performance at an early stage. 	
Political & Economic Risks	There is a potential impact on the Group from political, security and economic conditions both in the UK and globally, including the impact of the Brexit vote. In the UK alone we operate across the energy, property and construction sectors, each of which is subject to risk of sporadic or cyclical economic or political turbulence. The UK energy sector in particular is subject to the risk of changes in political policies. We now have international operations in countries including South East Asia and South Africa, where political and economical risk can be magnified due to geographical constraints.	<ul style="list-style-type: none"> Business development teams identify future opportunities and maintain five year pipelines, along with review of market data. The Group carefully appraises the risks and capital requirements associated with any new contracts. In light of the political, economic and foreign exchange risks surrounding South Africa at this time, the decision has been taken to pause any further deployment of capital. Investment in other foreign jurisdictions will only be made following careful appraisal by the Board. 	
HEALTH, SAFETY & ENVIRONMENTAL RISKS			
Health & Safety	<p>It is our duty as an employer to undertake whatever is reasonably practical to protect the health, safety and welfare of our employees and other people who might be affected by our operations.</p> <p>This includes protecting workers from anything that may cause harm, and effectively controlling any risks to injury or health that could arise in the workplace.</p> <p>Serious breaches in our employer obligations or compliance to relevant regulations could result in an unlimited fine, and a court enforced publicity order (in the case of corporate manslaughter only).</p>	<ul style="list-style-type: none"> Health & Safety remains a priority consideration of all Group and subsidiary board meetings. Health & Safety Management Systems are in place at all Hargreaves sites. Robust training, policies, procedures and monitoring are in operation, with best practice being shared through the Health & Safety managers network. Internal Health & Safety Managers who conduct regular random inspections. Regular externally reviewed mock incidents. Clear site signage stressing Health & Safety risk is provisioned across all our locations. The provision of onsite security and/or fencing is made where it is deemed practical and measured. Health & Safety performance information is proactively shared across the Group. 	
Environmental	Operations, if not properly managed, could result in environmental contamination with disruption of business, financial costs and loss of reputation. In particular, the processes used in the mining of coal present environmental risks which may affect not only our property but also property belonging to third parties.	<ul style="list-style-type: none"> Provision of clear guidance on the environmental standards we expect all our operations to achieve. Compliance with laws, regulations and industry best practice is a priority across the business. 	
Recruitment and Retention of Key Executives and Skilled Employees	Key executives, senior management and skilled employees possess the industry knowledge and experience, without which, our strategic objectives may not be achieved. If the Group is unable to recruit or retain both key executives and skilled employees, this could adversely affect the Group both operationally and financially.	<ul style="list-style-type: none"> The provision of remuneration and terms of employment that are competitive in the market. 	

Key Risks	Description	Mitigation	Change In Risk Level
FINANCIAL			
Credit Risk	<p>By necessity the nature of the Group's trading relationships necessitate contract and credit exposures to individual customers that are material to the results of the Group, sometimes over a long tenor.</p> <p>Credit risk arises from the possibility that customers may not be able to pay their debts. As the Group has reduced the scale of its coal production and trading relationships, the relative materiality of some of these exposures has increased.</p>	<ul style="list-style-type: none"> The Group periodically assesses the financial reliability of customers. The Credit Control function closely monitors and chases any overdue debts and the majority of the Group's trade receivables are due for payment within 45 days. The Group remains vigilant to monitoring and controlling counterparty exposures that are material to the results of the Group. All such exposures are carefully considered before contractual commitments are made to take account of the risks presented by the contract or relationship, the returns available and the opportunities that are, or are not, available to mitigate that exposure. Authorisation of credit limits is restricted to a limited number of individuals, with the input of third-party credit scoring. 	
Interest Rate	<p>The Group predominantly borrows in Sterling at floating rates. If interest rates rise the cost of borrowing for the Group will rise accordingly. As at 31 May 2017 £8.3m of the Group's financial liabilities were at fixed rates (2016: £15.9m).</p>	<ul style="list-style-type: none"> Where appropriate the Group will use derivatives to generate the desired effective currency and interest rate under the Group's hedging policy. At current levels of debt and interest rates the Group's exposure to changes in interest rates is not considered significant, in light of the considerable amount of cash realisations to date and over the coming period. 	
Foreign Currency	<p>The Group has operations and carries out trade in overseas countries and is therefore exposed to foreign exchange translation risk when the profits of these entities are reflected in the Group accounts. The Group does not hedge exposure on the translation of profits of overseas operations. Transactional foreign exchange exposures arise when entities within the Group enter into contracts to pay or receive funds in a currency different from the functional currency of the entity concerned.</p>	<ul style="list-style-type: none"> The translation risk is reduced by ensuring that net assets are financed where possible by borrowing in local currency. It is Group policy to hedge material net exposure to cash transactions in foreign currencies when a commitment arises, usually through the use of a foreign exchange forward contract. 	
Pension	<p>The Group operates a defined benefit pension scheme. Times of economic instability can have an impact on scheme asset values with the result that the reported pension deficit increases. Furthermore, the relationship between implied inflation and long-term gilt yields has a major impact on the pension deficit and the business has little control over those variables.</p>	<ul style="list-style-type: none"> The Group takes a proactive approach with the Trustees to ensure that an optimal balance is struck between managing risk and volatility in asset values and seeking a reasonable long-term return on the assets. The Group operates a Trustee approved deficit recovery plan. The scheme has been closed to new members since the acquisition of Maltby Colliery in 2007 and, following the closure of that operation in 2012 there are no active members or continuing service accrual. The Group make use of high quality external experts for actuarial and investment advice. 	
IT	<p>There is an increasing reliance on our IT network for delivering day-to-day operations, and an increase in the volume and types of data held within our network.</p> <p>Partial or total loss of the IT network or data held within it could result in significant reputational and financial damage.</p> <p>Cyber attacks are increasing in their sophistication and frequency and have the potential to seriously disrupt or halt business operations for an immeasurable amount of time.</p>	<ul style="list-style-type: none"> The Group has a dedicated IT function, with a high degree of skill and experience in maintaining and monitoring the IT infrastructure. Business data is regularly backed up and stored in a secure location. Email and internet filtering technology and firewall software is in place to restrict the impact of cyber attacks. Regular notifications are sent to all staff regarding the importance of remaining vigilant of phishing emails. 	

Board of Directors

David Morgan (aged 59)

Non-Executive Chairman

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

David is the Chairman of the Nominations Committee and a member of the Remuneration Committee.

Gordon Banham (aged 53)

Group Chief Executive

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

Iain Cockburn (aged 52)

Group Finance Director

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

Kevin Dougan (aged 63)

Group Commercial Director

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

Peter Jones (aged 62)

Non-Executive Director

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

Peter is the Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees.

Nigel Halkes (aged 61)

Non-Executive Director

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

Nigel is the Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees.

Group Executive Management Team

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

Steve Anson
Managing Director

Specialist Earthworks Division

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

Julie Haynes
Managing Director

Industrial Services Division

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

Andrew Spence-Wolrich
Managing Director

Logistics Division

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

John Burks
Managing Director

Coal Production and Distribution Division

Iain Slater
Managing Director

Property Division

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2017.

Principal Activities

The principal activities of the Group are the provision of key projects and services within the infrastructure, energy and property sectors. Additionally, the Group delivers haulage services, waste transportation, mineral import, mining and processing, together with specialist earthworks and related activities.

Financial Instruments

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

Proposed Dividend

Following the payment of an interim dividend of 2.7p per share on 7 April 2017, the Directors recommend a final dividend for the year ended 31 May 2017 of 4.5p per share to be paid on 20 October 2017 to shareholders on the register on 22 September 2017. The shares will be ex-dividend on 21 September 2017. 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 2017 for the Group were 30 days (2016: 26 days). It is not meaningful to disclose a similar statistic for the Company since it does not trade in its own right.

Directors

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

David Morgan
Gordon Banham
Iain Cockburn
Kevin Dougan
Peter Jones
Nigel Halkes

The names and biographical details of the Directors at the date of this Directors' Report appear on pages 28 and 29.

All Directors are required to retire by rotation every three years, in line with the Articles of Association. A formal evaluation of the performance of each Director and of the Board is carried out and the performance of each continues to be effective and demonstrates commitment to the role. The Directors required to retire by rotation at this year's AGM are noted on page 31.

The Company provided indemnities to each of its Directors in accordance with the provisions of the Company's Articles of Association. Additional information relating to Directors' remuneration, service contracts and interests in the Company's shares is given on pages 37 to 39.

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

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

Details of Directors' emoluments are set out in the Remuneration Report on page 37.

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

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

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

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

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

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

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

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

No options were granted under a Long-Term Incentive Plan in 2012, 2014, 2015 nor 2016. The options awarded under a Long-Term Incentive Plan in 2010 and 2013 lapsed.

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

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

Retirement of Directors

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

Significant Shareholdings

At 7 August 2017 the Company had been notified or was aware of the following shareholders with 3% or more of the issued share capital of the Company:

Shareholder	Number of ordinary shares	% of issued share capital
Schroder Investment Management Ltd	6,397,608	20.05%
Artemis Investment Management LLP	4,238,062	13.28%
Fidelity Worldwide Investment (UK) Ltd	3,208,568	10.05%
Shareholder Value Management AG	2,970,123	9.31%
Gordon Banham	2,478,466	7.77%
The NFU Mutual Insurance Society Limited	1,360,000	4.26%

Employees

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

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

Directors' Report continued

Purchase of Own Shares

The Directors are authorised to make market purchases of the Company's own shares under an authority granted at the Annual General Meeting held on 5 October 2016. The Directors will seek authority to make market purchases of up to fifteen per cent of the Company's own shares at the 2017 Annual General Meeting (full details are available in the 2017 Notice of Annual General Meeting).

Approval to Issue Shares

The Directors will seek authority to allot up to a maximum aggregate nominal amount of £1,063,689 at the 2017 Annual General Meeting (full details are available in the 2017 Notice of Annual General Meeting).

Employee Share Schemes

The Company operates share option schemes for the benefit of employees. Information regarding the schemes and the number of options outstanding is given in Note 26 on page 81.

Political Contributions

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

Disclosure of Information to Auditor

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

Independent Auditor

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

By order of the Board

Andrew Robertson Company Secretary

West Terrace
Esh Winning
County Durham
DH7 9PT
7 August 2017

Corporate Governance

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

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

The Board

The Group is headed by an effective Board, which controls and leads the Group. A biography of each Director and details of the membership of the Board and its associated committees are provided on pages 28 and 29.

During the year the Board comprised a Non-Executive Chairman, three Executive Directors, and two independent Non-Executive Directors.

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

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

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

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

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

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

Non-Executive Directors

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

Board Meetings

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

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

Attendance at meetings	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	10	3	3	1
David Morgan	10 attended	3 attended	3 attended	1 attended
Gordon Banham	10 attended	n/a	n/a	n/a
Iain Cockburn	10 attended	n/a	n/a	n/a
Kevin Dougan	10 attended	n/a	n/a	n/a
Peter Jones	10 attended	3 attended	3 attended	1 attended
Nigel Halkes	10 attended	3 attended	3 attended	1 attended

Corporate Governance continued

Board Committee

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

- Remuneration;
- Audit; and
- Nominations.

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

Remuneration Committee

The composition and work of the Remuneration Committee is described in the Remuneration Report found on page 37.

The Audit Committee and Independent Auditor

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

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

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

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

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

The effectiveness of the annual audit process is reviewed each year when the robustness of the audit process, quality of delivery and service levels provided are assessed. During the year, the Audit Committee took the opportunity of the five-year audit partner rotation to re-tender our audit, in order to re-benchmark the cost and quality of audit provision. Three of the Big 4 audit firms were invited to tender for the appointment. The Audit Committee decided unanimously to re-appoint KPMG as independent auditors, because they demonstrated a deeper understanding of the group's businesses than their competitors, took steps to enhance the specialist skills on their team and refined their audit fees to take account of recent changes to the composition of the Group.

Nominations Committee

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

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

The Committee's members are the independent Non-Executives. The Committee evaluates the balance of skills, knowledge and experience on the Board and in light of this evaluation, prepares a description of the roles and capabilities required for a particular appointment.

All Directors have service agreements or letters of appointment and the details of their terms are set out in the Remuneration Report on page 37.

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

Executive Management Committee

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

- **Executive Management Team** – responsible under the leadership of the Group Chief Executive for the day-to-day management of the business, setting performance targets and implementing the Group's strategy and direction as determined by the Board. Regular meetings attended by the Group Executive Management Team are held to review operational performance and assess the strategic development of each division.
- **Risk Committee** – responsible for driving effective risk management throughout the business; reporting and making recommendations to the Audit Committee as appropriate; and monitoring and reporting on all material business risks which might impact the delivery of the Group's strategic goals and objectives. Members of the Committee include the Group Finance Director, the Head of Internal Audit and senior financial and operational management. Day-to-day risk management is the responsibility of senior management as part of their everyday business processes. This is underpinned by the Group's policies and procedures to ensure that risk management is fully embedded throughout the organisation. The Board has ultimate responsibility for ensuring that business risks are effectively managed. The Board has considered and approved the Risk Committee policy and has delegated the regular review of the risk management process to the Audit Committee. The Audit Committee receives regular reports and monitors progress against agreed action plans arising out of reviews.

Induction, Development and Support

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

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

Board Performance Evaluation

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

Conflicts of Interest

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

Internal Control

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

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

Relations with Shareholders

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

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

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

Corporate Governance continued

Safety, Health and the Environment

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

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

Compliance with Laws

The Group has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice.

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

The Group has taken the appropriate steps to comply with the provisions of the Market Abuse Regulation and the Modern Slavery Act, which can be found on the website.

Going Concern

The Group's business activities and financial position; the factors likely to affect its future development and performance and its objectives and policies in managing financial risks are discussed in the Financial Review on page 21.

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

Remuneration Report

Peter Jones, Chairman of the Remuneration Committee

Responsibilities and Role of the Remuneration Committee

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

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

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

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

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

Membership of the Committee

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

Peter Jones	Chairman
David Morgan	
Nigel Halkes	

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

During the year the Committee reviewed and considered annual pay rises and conditions of service for employees earning over £100,000; bonus scheme arrangements; the vesting and granting of Long-Term Incentive Plans; the Group's annual pay review; and the effectiveness of the Committee.

Components of Remuneration

Basic Salary

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

Annual Bonus

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

Long-Term Incentives

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

Remuneration Report continued

Benefits in Kind and Pensions

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

Directors' Remuneration for the Year to 31 May 2017

	Salary/Fees		Bonus in cash		Benefits		Total		Pension	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Gordon Banham	457	407	457	–	51	45	965	452	114	113
Iain Cockburn	303	270	303	–	35	27	641	297	76	75
Kevin Dougan	249	224	227	–	18	25	494	249	–	–
Tim Ross (resigned 8 October 2015)	–	27	–	–	–	–	–	27	–	–
David Morgan	100	85	–	–	–	–	100	85	–	–
Peter Jones	40	40	–	–	–	–	40	40	–	–
Nigel Halkes	40	28	–	–	–	–	40	28	–	–
Total	1,189	1,081	987	–	104	97	2,280	1,178	190	188

Directors' Service Contracts and Letters of Appointment

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

Date of latest agreement	Name	Position	Commencement of period of office	2017/18 Salary (£)	Notice period
3 September 2013	David Morgan	Non-Executive Chairman	24 February 2012	100,000	6 months' notice
3 September 2013	Gordon Banham	Group Chief Executive	1 October 2001	463,489	12 months' notice
3 September 2013	Kevin Dougan	Group Commercial Director	23 June 1997	230,118	12 months' notice
3 September 2013	Iain Cockburn	Group Finance Director	8 October 2007	307,545	12 months' notice
6 June 2014	Peter Jones	Non-Executive Director	6 June 2014	40,000	n/a
21 August 2015	Nigel Halkes	Non-Executive Director	21 August 2015	40,000	n/a

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

Directors' Share Options

Details of Directors' share options, held under the Savings-Related Share Option Scheme and Executive Long-Term Incentive Plan, are noted in the Directors' Report on pages 30 and 31.

Savings-Related Share Option Scheme

The Sharesave Scheme is a ten-year savings-related share option scheme and was implemented in December 2005. This was not renewed in 2016 and the final remaining scheme matured during the year to 31 May 2017.

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

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

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

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

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

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

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

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

Executive Long-Term Incentive Plan ("LTIP")

The LTIP scheme was implemented in November 2006. No LTIP awards were granted in the year ended 31 May 2017.

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

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

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

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

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

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

Deferred Bonus Scheme

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

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

By order of the Board

Peter Jones

Non-Executive Director

7 August 2017

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of 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 2017 set out on pages 42 to 90. 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 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2017 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 matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.

Jonathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

7 August 2017

Consolidated Statement of Profit and Loss and Other Comprehensive Income for year ended 31 May 2017

Continuing operations	Note	2017 £000	2016 £000
Revenue	1,2	342,868	340,665
Cost of sales		(309,832)	(299,764)
Gross profit		33,036	40,901
Other operating income	4	4,870	265
Administrative expenses	5	(37,213)	(48,339)
Operating profit/(loss)		693	(7,173)
Analysed as:			
Operating profit (before exceptional costs)		1,163	5,205
Exceptional costs – Cost of sales		(3,566)	(3,473)
Exceptional costs – Administrative expenses		3,096	(8,905)
Exceptional costs	6	(470)	(12,378)
Operating profit/(loss) (after exceptional costs)		693	(7,173)
Financial income	9	1,766	1,153
Financial expenses	9	(3,858)	(2,785)
Share of profit/(loss) in associates and joint ventures (net of tax)	16	5,487	(1,792)
Profit/(loss) before tax		4,088	(10,597)
Taxation	11	694	1,082
Profit/(loss) for the year from continuing operations		4,782	(9,515)
Discontinued operations			
Result/(loss) for the year from discontinued operations	10	–	(940)
Profit/(loss) for the year		4,782	(10,455)
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of defined benefit pension plans	25	(544)	(1,098)
Tax recognised on items that will not be reclassified to profit or loss	11	36	181
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation differences		2,594	149
Effective portion of changes in fair value of cash flow hedges		349	1,119
Tax recognised on items that are or may be reclassified subsequently to profit or loss	11	(63)	(40)
Other comprehensive income for the year, net of tax		2,372	311
Total comprehensive income/(expense) for the year		7,154	(10,144)

	Note	2017 £000	2016 £000
Profit/(loss) attributable to:			
Equity holders of the Company		5,138	(10,498)
Non-controlling interest		(356)	43
Profit/(loss) for the year		4,782	(10,455)
Total comprehensive income/(expense) attributable to:			
Equity holders of the Company		7,510	(10,187)
Non-controlling interest		(356)	43
Total comprehensive income/(expense) for the year		7,154	(10,144)
Basic earnings per share (pence)	12	16.14	(32.96)
Diluted earnings per share (pence)	12	15.93	(32.96)
Basic earnings per share from continuing operations (pence)	12	16.14	(30.01)
Diluted earnings per share from continuing operations (pence)	12	15.93	(30.01)
Non GAAP Measures			
Basic underlying earnings per share from continuing operations (pence)		18.12	5.70
Diluted underlying earnings per share continuing operations (pence)		17.88	5.63

Balance Sheets

at 31 May 2017

	Note	Group		Company	
		2017 £000	2016 Restated (See Note 3) £000	2017 £000	2016 £000
Non-current assets					
Property, plant and equipment	13	63,664	68,095	–	–
Investment property	14	12,124	5,126	–	–
Intangible assets	15	12,389	12,223	–	–
Investments in associates and joint ventures	16	6,917	1,043	4,984	4,984
Investments in subsidiary undertakings	16	–	–	34,078	40,123
Other financial assets	17	7	–	–	–
Deferred tax assets	19	2,844	3,207	401	185
		97,945	89,694	39,463	45,292
Current assets					
Assets held for sale	10	5,040	5,040	–	–
Inventories	20	29,147	46,983	–	–
Other financial assets	17	139	32	–	–
Trade and other receivables	21	121,657	117,310	207,675	218,873
Cash and cash equivalents	22	27,817	21,161	115	–
		183,800	190,526	207,790	218,873
Total assets		281,745	280,220	247,253	264,165
Non-current liabilities					
Other interest-bearing loans and borrowings	23	(38,587)	(46,098)	(35,275)	(37,593)
Retirement benefit obligations	25	(5,103)	(5,699)	–	–
Provisions	27	(5,344)	(4,189)	–	–
Other financial liabilities	18	(12)	(66)	–	–
		(49,046)	(56,052)	(35,275)	(37,593)
Current liabilities					
Other interest-bearing loans and borrowings	23	(4,965)	(7,401)	–	(3,895)
Trade and other payables	24	(88,958)	(77,844)	(109,321)	(116,877)
Income tax liabilities		–	(6,271)	–	–
Provisions	27	(600)	(867)	–	–
Other financial liabilities	18	(249)	(430)	–	(268)
		(94,772)	(92,813)	(109,321)	(121,040)
Total liabilities		(143,818)	(148,865)	(144,596)	(158,633)
Net assets		137,927	131,355	102,657	105,532

	Note	Group		Company	
		2017 £000	2016 Restated (See Note 3) £000	2017 £000	2016 £000
Equity attributable to equity holders of the parent					
Share capital	28	3,314	3,314	3,314	3,314
Share premium		73,955	73,955	73,955	73,955
Other reserves	28	211	211	–	–
Translation reserve	28	(988)	(3,582)	–	–
Merger reserve	28	1,022	1,022	1,022	1,022
Hedging reserve	28	224	(62)	–	(268)
Capital redemption reserve	28	1,530	1,530	1,530	1,530
Retained earnings		58,630	54,582	22,836	25,979
		137,898	130,970	102,657	105,532
Non-controlling interest		29	385	–	–
Total equity		137,927	131,355	102,657	105,532

These financial statements were approved by the Board of Directors on 7 August 2017 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 2017

Group	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000	Non-controlling interest £000	Total equity £000
Balance at 1 June 2015	3,314	73,955	(3,731)	(1,141)	211	1,530	1,022	72,999	148,159	342	148,501
Total comprehensive income for the year											
Loss for the year	-	-	-	-	-	-	-	(10,498)	(10,498)	43	(10,455)
Other comprehensive income/(expense)											
Foreign exchange translation differences	-	-	149	-	-	-	-	-	149	-	149
Effective portion of changes in fair value of cash flow hedges	-	-	-	1,119	-	-	-	-	1,119	-	1,119
Remeasurements of defined benefit pension plans	-	-	-	-	-	-	-	(1,098)	(1,098)	-	(1,098)
Tax recognised on other comprehensive income	-	-	-	(40)	-	-	-	181	141	-	141
Total other comprehensive expense	-	-	149	1,079	-	-	-	(917)	311	-	311
Total comprehensive income/(expense) for the year	-	-	149	1,079	-	-	-	(11,415)	(10,187)	43	(10,144)
Transactions with owners recorded directly in equity											
Equity settled share-based payment transactions	-	-	-	-	-	-	-	520	520	-	520
Dividends paid	-	-	-	-	-	-	-	(6,924)	(6,924)	-	(6,924)
Purchase of own shares	-	-	-	-	-	-	-	(598)	(598)	-	(598)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	(7,002)	(7,002)	-	(7,002)
Balance at 31 May 2016	3,314	73,955	(3,582)	(62)	211	1,530	1,022	54,582	130,970	385	131,355

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 2016	3,314	73,955	(3,582)	(62)	211	1,530	1,022	54,582	130,970	385	131,355
Total comprehensive income for the year											
Profit/(loss) for the year	–	–	–	–	–	–	–	5,138	5,138	(356)	4,782
Other comprehensive income/(expense)											
Foreign exchange translation differences	–	–	2,594	–	–	–	–	–	2,594	–	2,594
Effective portion of changes in fair value of cash flow hedges	–	–	–	349	–	–	–	–	349	–	349
Remeasurements of defined benefit pension plans	–	–	–	–	–	–	–	(544)	(544)	–	(544)
Tax recognised on other comprehensive income	–	–	–	(63)	–	–	–	36	(27)	–	(27)
Total other comprehensive income/(expense)	–	–	2,594	286	–	–	–	(508)	2,372	–	2,372
Total comprehensive income/(expense) for the year	–	–	2,594	286	–	–	–	4,630	7,510	(356)	7,154
Transactions with owners recorded directly in equity											
Equity settled share-based payment transactions	–	–	–	–	–	–	–	471	471	–	471
Dividends paid	–	–	–	–	–	–	–	(1,053)	(1,053)	–	(1,053)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	(582)	(582)	–	(582)
Balance at 31 May 2017	3,314	73,955	(988)	224	211	1,530	1,022	58,630	137,898	29	137,927

Statements of Changes in Equity

for year ended 31 May 2017 continued

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Hedging reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1 June 2015	3,314	73,955	1,530	1,022	(466)	32,918	112,273
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	63	63
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	198	–	198
Total comprehensive income for the year	–	–	–	–	198	63	261
Transactions with owners recorded directly in equity							
Equity settled share-based payment transactions	–	–	–	–	–	520	520
Dividends paid	–	–	–	–	–	(6,924)	(6,924)
Purchase of own shares	–	–	–	–	–	(598)	(598)
Total transactions with owners	–	–	–	–	–	(7,002)	(7,002)
Balance at 31 May 2016	3,314	73,955	1,530	1,022	(268)	25,979	105,532
Balance at 1 June 2016	3,314	73,955	1,530	1,022	(268)	25,979	105,532
Total comprehensive income for the year							
Loss for the year	–	–	–	–	–	(2,561)	(2,561)
Other comprehensive income	–	–	–	–	–	–	–
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	268	–	268
Tax recognised on other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	268	(2,561)	(2,293)
Transactions with owners recorded directly in equity							
Equity settled share-based payment transactions	–	–	–	–	–	471	471
Dividends paid	–	–	–	–	–	(1,053)	(1,053)
Total contributions by and distributions to owners	–	–	–	–	–	(582)	(582)
Balance at 31 May 2017	3,314	73,955	1,530	1,022	–	22,836	102,657

Cash Flow Statements

for year ended 31 May 2017

	Note	Group		Company	
		2017 £000	2016 £000	2017 £000	2016 £000
Cash flows from operating activities					
Profit/(loss) for the year from continuing operations		4,782	(9,515)	(2,561)	63
Adjustments for:					
Depreciation	13	11,333	9,261	–	–
Impairment of property, plant and equipment	13	2,655	–	–	–
Depreciation of mining assets	13	862	7,263	–	–
Amortisation and impairment of goodwill and intangible assets	15	315	1,026	–	–
Dividend income		–	–	–	(839)
Net finance expense	9	2,092	1,632	(451)	(128)
Share of (profit)/loss in associates and joint ventures (net of tax)	15	(5,487)	1,792	–	–
Impairment of investment in subsidiaries and joint venture		–	4,302	6,600	–
Profit on sale of property, plant and equipment		(1,783)	(265)	–	–
Equity settled share-based payment expenses	26	471	520	–	–
Income tax credit	11	(694)	(1,082)	(327)	(1,098)
Gain on derivative financial instruments		–	–	–	(1,066)
Translation of non-controlling interest and investments		(373)	(5)	–	–
		14,173	14,929	3,261	(3,068)
Change in inventories		17,828	15,541	–	–
Change in trade and other receivables		2,178	10,696	11,095	327,257
Change in trade and other payables		7,641	(21,775)	(7,557)	(339,554)
Change in provisions and employee benefits		(38)	754	–	–
		41,782	20,145	6,799	(15,365)
Interest paid		(1,306)	(4,011)	633	(52)
Income tax paid		(6,994)	(6,702)	214	–
		33,482	9,432	7,646	(15,417)
Net cash from continuing operating activities		33,482	9,432	7,646	(15,417)
Net cash from operating activities in discontinued operations		–	(3,156)	–	–
Net cash from operating activities		33,482	6,276	7,646	(15,417)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		5,284	1,613	–	–
Dividends received		–	839	–	839
Acquisition of subsidiaries (net of cash acquired)		(248)	(4,110)	(83)	(6,701)
Acquisition of property, plant and equipment	13	(19,971)	(15,075)	–	–
Net cash from investing activities		(14,935)	(16,733)	(83)	(5,862)
Cash flows from financing activities					
Payment of finance lease liabilities		(8,612)	(6,591)	–	–
Payment of other loan balances		–	(2,890)	–	–
Dividends paid	28	(1,053)	(6,924)	(1,053)	(6,924)
Purchase of own shares		–	(598)	–	(598)
(Repayment of)/proceeds from Group banking facilities	23	(2,500)	5,000	(2,500)	5,000
Net cash from financing activities in continuing operations		(12,165)	(12,003)	(3,553)	(2,522)
Net cash from financing activities in discontinued operations		–	(282)	–	–
Net cash from financing activities		(12,165)	(12,285)	(3,553)	(2,522)
Net increase/(decrease) in cash and cash equivalents		6,382	(22,742)	4,010	(23,801)
Cash and cash equivalents at 1 June		21,161	43,853	(3,895)	19,906
Effect of exchange rate fluctuations on cash held		274	50	–	–
Cash and cash equivalents at 31 May	22	27,817	21,161	115	(3,895)

Notes

(forming part of the financial statements)

1 Accounting Policies

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

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

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

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

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

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

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

Accounting Estimates and Judgements

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

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

This requires the identification of appropriate cash-generating units and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these cash-generating units, the discount rate applied in the calculations and the comparison of the cash flows to the carrying value of the goodwill. Management have assessed the sensitivity of carrying amounts of cash-generating units containing goodwill to reasonably possible changes in key assumptions. Assets held for sale relate to residual equipment from discontinued operations. Estimates have been made of the net proceeds from these disposals. Other property assets are assessed on the basis of the strategy for each asset and the estimated net proceeds arising. Definitions for and analysis of the properties valuations can be found on page 17.

b) Mining production and profitability

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

c) Restoration costs

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

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

d) Post retirement employee benefits

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

1 Accounting Policies continued**Accounting Estimates and Judgements** continued**e) Share-based payments**

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

f) Deferred tax asset

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

g) Revenue and margin recognition on construction contracts

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

Measurement Convention

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

The 2016 consolidated balance sheet includes the measurement period adjustments relating to acquisitions made in 2016 in accordance with IFRS 3 "Business Combinations". The measurement period adjustments are disclosed in Note 3.

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 16 to 22. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 23 to 25. In addition, Note 29 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

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

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

The financial statements were approved by the Board of Directors on 7 August 2017.

Basis of Consolidation**Subsidiaries**

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

Change in Subsidiary Ownership and Loss of Control

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

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

Joint Arrangements

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

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

Associates

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

Notes

(forming part of the financial statements) continued

1 Accounting Policies continued

Basis of Consolidation continued

Application of the Equity Method to Associates and Joint Ventures

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

Transactions Eliminated on Consolidation

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

Separate Parent Company Financial Statements

In the parent company financial statements, all investments in subsidiaries, joint ventures and associates are carried at cost less impairment.

Foreign Currency

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

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

Classification of Financial Instruments Issued by the Group

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

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

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

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

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

Financial Instruments

Non-Derivative Financial Instruments

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

Derivative Financial Instruments

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

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

1 Accounting Policies continued

Cash Flow Hedges

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

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

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

Intra-Group Financial Instruments

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

Property, Plant and Equipment

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

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

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

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

Mining Assets

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

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

Mining Assets

Surface Mine Development Asset

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

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

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

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

Stripping Asset

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

Notes

(forming part of the financial statements) continued

1 Accounting Policies continued

Business Combinations

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

Acquisitions on or After 1 June 2010

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

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

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

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

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

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

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

Acquisitions Between 1 June 2006 and 1 June 2010

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

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

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

Acquisitions and Disposals of Non-Controlling Interests

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

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

Intangible Assets and Goodwill

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

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

Investment Property

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

Assets Held for Sale

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

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

1 Accounting Policies continued

Inventories

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

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

Properties Held for Development and Resale

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

Trade and Other Receivables

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

Cash and Cash Equivalents

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

Trade and Other Payables

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

Investments

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

Interest-Bearing Borrowings

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

Impairment

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

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

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

Reversals of Impairment

An impairment loss in respect of goodwill is not reversed.

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

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

Employee Benefits

Defined Benefit Pension Plans

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

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

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

Notes

(forming part of the financial statements) continued

1 Accounting Policies continued

Employee Benefits continued

Defined Benefit Pension Plans continued

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

Defined Contribution Pension Plans

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

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

Share-Based Payment Transactions

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

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

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

Simplification Costs

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

Exceptional Items

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

Revenue

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

Coal, Coke and Other Mineral Sales

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

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

Services

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

1 Accounting Policies continued

Construction Contract Revenue

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

Construction Contract Debtors

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

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

Leases

As Lessee

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

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

As Lessor

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

Net Financing Costs

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

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

Taxation

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

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

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

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

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

Provisions

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

Notes

(forming part of the financial statements) continued

1 Accounting Policies continued

Restoration and Rehabilitation Costs

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

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

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

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

Restoration and Rehabilitation Costs

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

Adopted IFRSs Not Yet Applied

At the date of issue of these financial statements the following Adopted IFRSs have been endorsed but have not been applied in these financial statements. The impact of these standards on the financial statements is being assessed:

- IFRS 9: Financial Instruments;
- IFRS 15: Revenue from Contract with Customers; and
- IFRS 16: Leases.

2 Segmental Information

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

The sectors distinguished as operating segments are Distribution & Services, Property & Energy, Legacy and Corporate. As described in more detail in the prior year accounts the segments have been changed during this year, reflecting the changes experienced within the business, as the Group continues to transition away from coal. The comparative period has been restated accordingly.

- **Distribution & Services:** Provides coal distribution, including mining operations, handling and contracting services and logistics to a range of industrial, wholesale and public sector customers. The division also provides earth moving and infrastructure services across the UK.
- **Property & Energy:** The development and realisation of value from our extensive land portfolio through a variety of property and energy projects.
- **Legacy:** The realisation of legacy coal and coke assets into cash, the division is focused on turning the historic assets into cash in a timely manner, whilst obtaining full value.
- **Corporate:** The corporate overhead contains the central functions that are not devolved to the individual business units.

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

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

2 Segmental Information continued

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

	Distribution & Services 2017 £000	Property & Energy 2017 £000	Legacy 2017 £000	Corporate 2017 £000	Total 2017 £000
Revenue					
Total revenue	322,088	3,581	17,283	554	343,506
Inter-segment revenue	(638)	–	–	–	(638)
Revenue from external customers	321,450	3,581	17,283	554	342,868
Underlying operating profit/(loss)	13,324	1,026	101	(4,613)	9,838
Amortisation of intangibles					(315)
Taxation on associates and joint ventures					(2,873)
Net financing costs					(2,092)
Net profit before taxation (pre-exceptional)					4,558
Exceptional costs					(470)
Profit before taxation					4,088
Depreciation charge	(11,128)	(644)	–	(423)	(12,195)
Capital expenditure	(14,756)	(5,319)	–	(378)	(20,453)
Net assets/(liabilities)					
Segment assets	202,924	28,791	40,090	3,023	274,828
Segment liabilities	(98,464)	(7,099)	(5,560)	(32,695)	(143,818)
Segment net assets/(liabilities)	104,460	21,692	34,530	(29,672)	131,010
Associates and joint ventures					6,917
Total net assets					137,927

Corporate net assets include Group banking facilities liability (£32.3m), cash and cash equivalents (£0.7m liability), derivative financial instruments (£0.1m liability), corporation and deferred tax assets (£4.3m) and other corporate items (£0.9m).

	Distribution & Services 2016 £000	Property & Energy 2016 £000	Legacy 2016 £000	Corporate 2016 £000	Total 2016 £000
Revenue					
Total revenue	336,973	5,302	–	–	342,275
Inter-segment revenue	(1,610)	–	–	–	(1,610)
Revenue from external customers	335,363	5,302	–	–	340,665
Underlying operating profit/(loss)	11,344	(364)	–	(6,355)	4,625
Amortisation of intangibles					(584)
Taxation on associates and joint ventures					(628)
Net financing costs					(1,632)
Profit before taxation (pre-exceptional)					1,781
Exceptional costs					(12,378)
Loss before taxation					(10,597)
Depreciation charge	(18,239)	(316)	–	(403)	(18,958)
Capital expenditure	(12,803)	(5,244)	–	(667)	(18,714)
Net assets/(liabilities)					
Segment assets	184,597	27,553	65,713	1,314	279,177
Segment liabilities	(92,957)	(5,174)	(5,700)	(45,034)	(148,865)
Segment net assets/(liabilities)	91,640	22,379	60,013	(43,720)	130,312
Associates and joint ventures					1,043
Total net assets					131,355

Notes

(forming part of the financial statements) continued

2 Segmental Information continued

Corporate net assets include Group banking facilities liability (£37.6m), cash and cash equivalents (£4.5m liability), derivative financial instruments (£0.4m liability), deferred and corporation tax balances (£3.4m liability) and other corporate items (£2.2m).

Information About Key Customers

Included in revenue is an amount of £23,313,000 arising from sales to the Group's largest customer; (2016: £12,751,000) relating to the Distribution & Services division.

The following table analyses revenue by significant category:

	2017 £000	2016 £000
Sale of goods	167,697	178,321
Rendering of services	113,499	131,011
Construction contracts	61,672	31,333
	342,868	340,665

Geographical Information

	2017		Restated 2016	
	UK £000	Overseas £000	UK £000	Overseas £000
Revenue	323,952	18,916	326,128	14,537
Non-current assets	96,218	1,727	88,506	1,188

3 Acquisition of Subsidiaries

Current Year

Acquisition of Tru Green Limited

In March 2017, the Group acquired 100% of the share capital of Tru Green Limited. The principal activity of the company is Landscape services. The fair value of the assets and liabilities at the date of acquisition was a net liability position of £99,000. The acquisition price of £140,000 was settled partly in cash £95,000 and £45,000 payable as contingent consideration. The company had an overdraft at acquisition of £75,000.

Goodwill measurement period adjustment

During 2016, the Group completed the acquisition of C. A. Blackwell Group Limited. The initial assessment of fair values to identifiable net assets acquired was performed on a provisional basis. As part of the finalisation of the fair value exercise in respect of this acquisition, the Group considered the overall level of goodwill arising on the acquisitions and the valuations applied to intangible and tangible assets acquired, increasing the overall level of goodwill arising on acquisitions by £2.7m and as a result increased the accruals balances by the same amount. The amendments to these fair values were made to the comparative figures during the subsequent reporting window within the measurement period imposed by IFRS 3.

3 Acquisition of Subsidiaries continued**Prior Year****Acquisition of C. A. Blackwell Group Limited**

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

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

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

The above does not include the impact of the goodwill measurement adjustment which is explained previously.

£4,250,000 is held in escrow (2016: £5,250,000) pending certain performance measurements. The fair value of this contingent payment is estimated at £4,250,000.

Acquisition of Earl's Gate Energy Centre Limited

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

4 Other Operating Income

	2017 £000	2016 £000
Net gain on disposal of property, plant and equipment	1,783	265
Other operating income	3,087	—
Total Other Operating Income	4,870	265

Other operating income includes the fair value gains on the options to acquire 100% of the shares of two companies holding certain areas of land.

Notes

(forming part of the financial statements) continued

5 Expenses and Auditor's Remuneration

Included in profit/loss are the following:

	2017 £000	2016 £000
Amortisation of intangibles	315	399
Impairment of goodwill	–	187
Impairment of other intangibles	–	440
Impairment loss on inventories	–	4,242
(Reversal)/Impairment loss on trade and other receivables*	(2,000)	2,062
Impairment of property, plant and equipment	2,655	–
Depreciation of property, plant and equipment owned	5,514	5,579
Depreciation of property, plant and equipment held under finance lease	5,819	3,682
Depreciation of mining assets	862	7,263

* Includes write back of £2,000k (2016: £2,000k impairment) in respect of other receivables due from Tower Colliery Limited.

Auditor's Remuneration:

	2017 £000	2016 £000
Audit of these financial statements	25	30
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	160	224
Taxation compliance services	–	6
Other tax advisory services	16	36
Other assurance services	6	145
All other services	36	90

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

6 Exceptional costs

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

	2017 £000	2016 £000
Reversal/(impairment) of investment and other assets relating to the Tower project	2,000	(4,743)
Redundancy and related site closure cost at Redcar Steelworks	–	(1,559)
Redundancy and related site closure costs in Industrial Services	–	(1,091)
Cost associated with early closure of certain mining operations	(1,874)	(4,033)
Cost attributable to the acquisition of Blackwell	–	(679)
Net losses on legacy contracts in Blackwell	(3,380)	–
Redundancy costs from central overhead cost reduction programme	–	(273)
Impairment of Property, Plant and Equipment	(2,277)	–
Cash recovery from discontinued operation	1,096	–
Historic plant rebate	3,280	–
Liquidator dividend	796	–
Other simplification costs	(111)	–
Total	(470)	(12,378)

7 Staff Numbers and Costs

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

	Number of employees Group	
	2017	2016
Directors and senior management	31	31
Traffic and administration	547	470
Production, maintenance and drivers	1,382	1,604
	1,960	2,105

7 Staff Numbers and Costs continued

The aggregate payroll costs of these persons were as follows:

	Group	
	2017 £000	2016 £000
Wages and salaries	80,569	81,504
Share-based payments (see Note 26)	471	520
Social security costs	3,961	7,013
Contributions to defined contribution plans (see Note 25)	1,480	1,654
Current service costs of defined benefit plans (see Note 25)	205	174
	86,686	90,865

8 Directors' Remuneration

	2017 £000	2016 £000
Directors' emoluments	2,280	1,178
Company contributions to money purchase pension plans	190	188

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £965,000 (2016: £452,000), and company pension contributions of £114,000 (2016: £113,000) were made to a money purchase scheme on his behalf.

	Number of Directors	
	2017	2016
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	2	2
Defined benefit schemes	–	–
The number of Directors who exercised share options was	–	–
The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes was	3	3

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

	Number of options		Exercise price pence
	At start of year	At end of year	
GFC Banham	31,109	31,109	–
KJ Dougan	16,990	16,990	–
ID Cockburn	86,418	86,418	–

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

**9 Finance Income and Expense
Recognised in Profit or Loss**

	2017 £000	2016 £000
Finance income		
Interest income on unimpaired financial assets	–	31
Interest received from jointly controlled entities	1,766	1,122
Total finance income	1,766	1,153
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	2,791	2,785
Bank interest payable	844	–
Foreign exchange loss	52	–
Interest on defined benefit pension plan obligation	171	–
Total finance expense	3,858	2,785

Notes

(forming part of the financial statements) continued

10 Discontinued Operations and Assets Held for Sale

All discontinued results are attributable to equity holders.

The Group's discontinued operations made a loss of £nil (2016: loss of £0.9m) after tax during the year. These losses related to residual events arising from the closure of Maltby Colliery and Belgium and the associated results were classified as discontinued in the prior year. In addition, certain related assets were reclassified in the balance sheet as "assets held for sale" in a prior period.

An amount of £1,096,000 has been recovered in respect of the Belgian operation during the year. This has been treated as an exceptional item, see Note 6.

	2017 £000	2016 £000
Administrative expenses	–	(552)
Operating loss	–	(552)
Net finance expense	–	(189)
Loss before tax of discontinued operations	–	(741)
Taxation		
Current tax (charge)/credit	–	(105)
Deferred tax (charge)/credit	–	(94)
	–	(199)
Loss for the year from discontinued operations	–	(940)

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

Assets Held for Sale	2017 £000	2016 £000
Property, plant and equipment	5,040	5,040

11 Taxation

Recognised in the Income Statement

	2017 £000	2016 £000
Current tax (credit)/expense		
Current year	200	213
Adjustments for prior years	(1,230)	(738)
Current tax credit	(1,030)	(525)
Deferred tax credit		
Origination and reversal of temporary differences	191	(831)
Adjustments for prior years	67	(128)
Reduction in tax rate	78	402
Deferred tax charge/(credit)	336	(557)
Tax credit in income statement (excluding share of tax of equity accounted investees)	(694)	(1,082)
Share of tax of equity accounted investees	2,873	628
Total tax expense/(credit) from continuing operations	2,179	(454)
Tax expense from discontinued operations	–	199
Total tax expense/(credit)	2,179	(255)

Recognised in Other Comprehensive Income

	2017 £000	2016 £000
Deferred tax (expense)/income		
Effective portion of changes in fair value of cash flow hedges	(63)	(40)
Remeasurements of defined benefit pension plans	36	181
	(27)	141

11 Taxation continued

Reconciliation of Effective Tax Rate

	2017 Rate	2017 £000	2016 Rate	2016 £000
Profit/(loss) for the year from continuing operations		4,782		(9,515)
Total tax expense/(credit) (including tax on equity accounted investees)		2,179		(454)
Profit/(loss) excluding taxation from continuing operations		6,961		(9,969)
Tax using the UK corporation tax rate of 19.83% (2016: 20.0%)	19.83%	1,380	20.0%	(1,994)
Effect of tax rates in foreign jurisdictions	18.33%	1,276	(2.8%)	276
Unrecognised tax losses	–	–	(3.9%)	389
Non-deductible expense	8.68%	604	(6.4%)	644
Reduction in tax rate on deferred tax balances	1.12%	78	(4.2%)	417
Over provided in prior years	(16.65)%	(1,159)	1.9%	(186)
Effective tax rate and total tax expense/(credit)	31.30%	2,179	4.6%	(454)

The current tax adjustment in respect of prior years relates to the refund of taxes received from HMRC following the carry back of losses.

The UK corporation tax rate reduced to 19% on 1 April 2017, giving an effective base rate of 19.83% (2016: 20%).

Factors That May Affect Future Current and Total Tax Charges

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) with a further reduction to 18% on 1 April 2020 were substantively enacted on 26 October 2015. On 16 March 2016 it was announced that the main rate of UK Corporation Tax would reduce to 17% on 1 April 2020. This change was substantively enacted on 6 September 2016. This will reduce the Group's current tax charge accordingly. The deferred tax balances at 31 May 2017 have been calculated based on the rate of 17% substantively enacted at the Balance Sheet date.

12 Earnings per Share

	2017			2016		
	Continuing and discontinued	Continuing	Discontinued	Continuing and discontinued	Continuing	Discontinued
Ordinary Shares						
Basic earnings per share	16.14p	16.14p	n/a	(32.96)p	(30.01)p	(2.95)p
Diluted earnings per share	15.93p	15.93p	n/a	(32.96)p	(30.01)p	(2.95)p

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

	2017			2016		
	Continuing and discontinued	Continuing	Discontinued	Continuing and discontinued	Continuing	Discontinued
Profit/(loss) for the year attributable to equity holders (£000)	5,138	5,138	n/a	(10,498)	(9,558)	(940)
Weighted average number of shares	31,842,023	31,842,023	n/a	31,851,053	31,851,053	31,851,053
Basic earnings per share	16.14p	16.14p	n/a	(32.96)p	(30.01)p	(2.95)p

The calculation of weighted average number of shares includes the effect of own shares held of 1,228,072 (2016: 1,228,072). The calculation of diluted earnings per share is based on the profit/(loss) for the year and the weighted average number of ordinary shares in issue in the year adjusted for the dilutive effect of the share options outstanding (effect on weighted average number of shares is 424,804 (2016: 400,444); effect on earnings per ordinary share is 0.21p (2016: nil p). Effect on continuing earnings per ordinary share is 0.21p (2016: nil p).

	2017			2016		
	Continuing and discontinued	Continuing	Discontinued	Continuing and discontinued	Continuing	Discontinued
Profit/(loss) for the year attributable to equity holders (£000)	5,138	5,138	n/a	(10,498)	(9,558)	(940)
Weighted average number of shares	32,266,827	32,266,827	n/a	32,251,497	32,251,497	32,251,497
Diluted earnings per share	15.93p	15.93p	n/a	(32.96)p	(30.01)p	(2.95)p

Notes

(forming part of the financial statements) continued

12 Earnings per Share continued

Continuing underlying basic and diluted earnings per share are calculated on the diluted weighted average number of shares of 32,266,827 (2016: 32,251,497) and on underlying profit/(loss) after tax, as reconciled below:

	2017 £000	2016 £000
Profit/(loss) for the year attributable to equity holders from continuing operations	5,138	(9,558)
Amortisation/impairment of intangibles/goodwill	315	584
Exceptional items	470	12,378
Tax effect of above items	(156)	(1,587)
Underlying Profit after Tax from Continuing Operations	5,767	1,817
Weighted average number of shares	32,266,827	32,251,497
Underlying diluted earnings per share	17.88	5.63

13 Property, Plant and Equipment Group

	Freehold land and buildings and leasehold improvements £000	Assets under Course of Construction £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Mining assets £000	Total £000
Cost							
Balance at 1 June 2015	23,587	–	6,463	67,404	455	19,993	117,902
Other acquisitions	5,783	–	363	9,518	3	3,047	18,714
Disposals	(3,872)	–	(98)	(18,120)	–	(18,552)	(40,642)
Acquisitions through business combinations	4,298	–	50	9,417	6	–	13,771
Effect of movements in foreign exchange	(7)	–	10	(416)	(4)	–	(417)
Balance at 31 May 2016	29,789	–	6,788	67,803	460	4,488	109,328
Balance at 1 June 2016	29,789	–	6,788	67,803	460	4,488	109,328
Other acquisitions	5,981	2,937	138	8,072	52	3,273	20,453
Disposals	(181)	–	(288)	(27,384)	–	–	(27,853)
Transfers to investment property	(6,998)	–	–	–	–	–	(6,998)
Category transfers	171	(257)	(255)	320	21	–	–
Effect of movements in foreign exchange	14	26	39	499	6	–	584
Balance at 31 May 2017	28,776	2,706	6,422	49,310	539	7,761	95,514
Depreciation and impairment							
Balance at 1 June 2015	7,854	–	5,001	35,767	352	11,784	60,758
Depreciation charge for the year	228	–	484	8,483	66	7,263	16,524
Disposals	(522)	–	(98)	(16,707)	–	(18,552)	(35,879)
Effect of movements in foreign exchange	4	–	21	(194)	(1)	–	(170)
Balance at 31 May 2016	7,564	–	5,408	27,349	417	495	41,233
Balance at 1 June 2016	7,564	–	5,408	27,349	417	495	41,233
Depreciation charge for the year	811	–	453	10,012	57	862	12,195
Impairment	–	–	–	2,655	–	–	2,655
Disposals	(64)	–	(286)	(23,993)	–	–	(24,343)
Transfers	15	–	(104)	89	–	–	–
Effect of movements in foreign exchange	7	–	22	79	2	–	110
Balance at 31 May 2017	8,333	–	5,493	16,191	476	1,357	31,850
Net book value							
At 1 June 2015	15,733	–	1,462	31,637	103	8,209	57,144
At 31 May 2016 and 1 June 2016	22,225	–	1,380	40,454	43	3,993	68,095
At 31 May 2017	20,443	2,706	929	33,119	63	6,404	63,664

13 Property, Plant and Equipment continued

Group continued

The impairment of property, plant and equipment includes the impairment of the property and plant at Commonside Lane, the former Rocpower site. This was impaired by £2.3m down to a notional amount, following OFGEMs decision to review and subsequently significantly reduce the TRIAD support regime, which significantly impacted the future earnings potential of the site.

The Company has no property, plant and equipment.

Leased Plant and Machinery

At 31 May 2017 the net carrying amount of leased plant and machinery was £17,106,000 (2016: £21,865,000). The leased equipment secures lease obligations (see Note 23).

Security

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

14 Investment Property

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
At cost				
Balance at 31 May	5,126	5,126	–	–
Transfer from property, plant and equipment	6,998	–	–	–
Balance at 31 May	12,124	5,126	–	–

An independent valuation has been undertaken in respect of the Groups Investment Properties to determine the development value as at 31 May 2017. The fair value of the Investment Properties is £27,544,000 (2016: £nil). During the year land and buildings with a net book value of £6,998,000 (2016: nil) have been transferred into investment properties following a review of future strategy of the portfolio.

Notes

(forming part of the financial statements) continued

15 Intangible Assets Group

	Restated* Goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total £000
Cost					
Balance at 1 June 2015	18,436	13,431	8,148	1,015	41,030
Additions	3,955	–	–	–	3,955
Exchange movements	27	(223)	–	–	(196)
Restated Balance at 31 May 2016	22,418	13,208	8,148	1,015	44,789
Balance at 1 June 2016	22,418	13,208	8,148	1,015	44,789
Additions	–	239	–	–	239
Exchange movements	–	329	–	–	329
Balance at 31 May 2017	22,418	13,776	8,148	1,015	45,357
Amortisation and impairment					
Balance at 1 June 2015	10,739	12,252	8,148	419	31,558
Amortisation for the year	–	256	–	143	399
Impairment	187	–	–	440	627
Exchange movements	–	(18)	–	–	(18)
Restated Balance at 31 May 2016	10,926	12,490	8,148	1,002	32,566
Balance at 1 June 2016	10,926	12,490	8,148	1,002	32,566
Amortisation for the year	–	315	–	–	315
Exchange movements	–	87	–	–	87
Balance at 31 May 2017	10,926	12,892	8,148	1,002	32,968
Net book value					
At 31 May 2015	7,697	1,179	–	596	9,472
Restated balance at 31 May 2016 and 1 June 2016	11,492	718	–	13	12,223
At 31 May 2017	11,492	884	–	13	12,389

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

£2,596,000 of the customer contracts were being amortised over 71 months, £7,061,000 of the customer contracts were being amortised over 75 months, £2,540,000 of the customer contracts were being amortised over 36 months, £1,340,000 of the customer contracts are being amortised over 48 months and £239,000 of the customer contracts are being amortised over 60 months each being the weighted average expected life of the contracts.

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

Amortisation and Impairment Charge

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

	2017 £000	2016 £000
Other administrative expenses	315	1,026

15 Intangible Assets continued

Impairment Testing

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

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

	Goodwill	
	2017 £000	Restated* 2016 £000
Hargreaves Industrial Services Limited	1,252	1,252
Coal 4 Energy Limited/Maxibrite Limited	6,140	6,140
CA Blackwell Group Limited	3,572	3,572
Earl's Gate Energy Centre Limited	383	383
Other	145	145
	11,492	11,492

* Goodwill has been restated to reflect the impact of the remeasurement of the Blackwell goodwill of £2,748,000, as explained in note 3.

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:

	2017	2016
Period on which management approved forecasts are based	5 years	5 years
Growth rate applied beyond approved forecast period	2%	2%
Discount rate	9%	9%

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

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

- cash flows were projected based on budgeted operating results for the preceding year with the short-term growth rate applied to the next four years. A conservative growth rate of 2% (2016: 2%) has been applied in perpetuity. This rate does not exceed the long-term average growth rate for any of the cash-generating units' industries;
- sustaining capital expenditure in each cash-generating unit has been used in the calculations equivalent to the current levels of annual depreciation; and
- a pre-tax discount rate of 9% (2016: 9%) has been used in the first instance. Management consider this to be higher than a market participant's discount rate for each individual cash-generating unit. The latter would be reassessed if the initial 9% indicated potential impairment of any individual cash-generating unit.

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

The Company has no intangible assets.

16 Investments in Subsidiaries, Associates and Joint Ventures

List of Registered Offices:

- 16.1 West Terrace, Esh Winning, Durham, DH7 9PT
- 16.2 Tower Colliery, Tirherbert Road, Rhigos, Aberdare, CF44 9UF
- 16.3 Coggeshall Road, Earls Colne, CO6 2JX
- 16.4 Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN
- 16.5 1 West Regent Street, Glasgow, G2 1AP
- 16.6 C/O Cms Cameron Mckenna LLP, Saltire Court, 20 Castle Terrace, Edinburgh, Scotland, United Kingdom, EH1 2EN
- 16.7 Böningerstraße 29, 47051 Duisburg, Germany
- 16.8 H. Farmanstraat 47, 9000 Gent, Belgium
- 16.9 Van Heetveldelei 178, 2100 Deurne, Antwerp, Belgium
- 16.10 36F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, HK
- 16.11 Plac Rodła, 8/914, 70-419 Szczecin, Polska
- 16.12 Flat No.333, 3rd Floor, Devika Tower, 6 Nehru Place, Delhi -110019, India
- 16.13 3 Nobel Boulevard, Cape Gate NE3, Vanderbijlpark, Gauteng, 1900
- 16.14 Lot 6.05, Level 6, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia

Notes

(forming part of the financial statements) continued

16 Investments in Subsidiaries, Associates and Joint Ventures continued

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

	Nature of business	Address of registered office	Class of shares held	Ownership	
				2017	2016
Company					
<i>Subsidiary undertakings</i>					
Hargreaves (UK) Limited	Holding company	16.1	Ordinary	100%	100%
Hargreaves Industrial Services Limited	Contract management service	16.1	Ordinary	100%	100%
Forward Sound Limited	Holding company	16.1	Ordinary	100%	100%
Hargreaves Services (HK) Limited	Holding company	16.10	Ordinary	100%	100%
Hargreaves Surface Mining Limited	Coal mining	16.1	Ordinary	100%	100%
Hargreaves Technical Resources Limited	Contract management service	16.1	Ordinary	100%	100%
Hargreaves Carbon Products Europe Limited	Sale of carbon-based materials	16.1	Ordinary	100%	100%
Hargreaves Maltby Limited	Holding company	16.1	Ordinary	100%	100%
Hargreaves Services (Westfield) Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves Services (Castlebridge) Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves Services (Blindwells) Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves Services Forestry Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves Services Wind Farm (Damside) Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves Services Wind Farm (Broken Cross) Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves Services Wind Farm (Glentagart) Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves Services Wind Farm (House of Water) Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves Services Wind Farm (Chalmerston) Limited	Property holding	16.1	Ordinary	100%	100%
Hargreaves South Africa (Pty) Limited	Steel	16.13	Ordinary	100%	100%
Hargreaves Mining India Private Limited	Mining services	16.12	Ordinary	100%	100%
Hargreaves Energy Projects Limited	Holding company	16.5	Ordinary	100%	100%
Hargreaves Services (Muir Dean) Limited	Property holding	16.1	Ordinary	100%	100%
CA Blackwell Group Limited	Holding company	16.1	Ordinary	100%	100%
Hargreaves Aggregates Limited	Freight transport	16.1	Ordinary	100%	–
Hargreaves Industrial Services Sdn Bhd	Contract management service	16.14	Ordinary	100%	–
Monckton Energy Limited	Electricity production	16.1	Ordinary	100%	–
Maltby Energy Limited	Electricity production	16.1	Ordinary	100%	–
Featherstone Energy Limited	Electricity production	16.1	Ordinary	100%	–
Selby Energy Limited	Electricity production	16.1	Ordinary	100%	–
Brockwell Energy Limited	Electricity production	16.6	Ordinary	100%	–
Hargreaves Pension Company Limited	Pension holding company	16.1	Ordinary	100%	–
<i>Dormant companies</i>					
Coal 4 Energy Limited	Dormant	16.1	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Dormant	16.1	Ordinary	100%	100%
R Hanson & Son Limited	Dormant	16.1	Ordinary	100%	100%
Hargreaves ESOT Trustee Limited	Dormant	16.1	Ordinary	100%	100%
Hargreaves Services Australia Limited	Dormant	16.1	Ordinary	100%	100%
Hargreaves Europe Limited	Dormant	16.1	Ordinary	100%	100%
<i>Joint ventures and associate undertakings</i>					
Mir Trade Services Limited	Import and sale of carbon-based materials	16.1	Ordinary	50%	50%
Hargreaves Services Europe Limited	Import and sale of carbon-based materials	16.1	Ordinary	86%	86%

16 Investments in Subsidiaries, Associates and Joint Ventures continued

	Nature of business	Address of registered office	Class of shares held	Ownership	
				2017	2016
Group					
Subsidiary undertakings					
Hargreaves (UK) Services Limited	Haulage, mineral import and processing	16.1	Ordinary	100%	100%
The Monckton Coke & Chemical Company Limited	Manufacture of coke	16.1	Ordinary	100%	100%
Maltby Colliery Limited	Coal mining	16.1	Ordinary	100%	100%
Hargreaves Engineering & Contracts Limited	Engineering maintenance services	16.1	Ordinary	100%	100%
Maxibrite Limited	Smokeless fuel briquette manufacturing	16.1	Ordinary	85.2%	85.2%
RocFuel Limited	Renewable energy solutions	16.1	Ordinary	50.1%	50.1%
RocPower Limited	Renewable energy solutions	16.1	Ordinary	85%	85%
Hargreaves Carbon Products NV	Import and sale of carbon-based materials	16.9	Ordinary	100%	100%
Hargreaves Industrial Services (HK) Limited	Contract management service	16.10	Ordinary	100%	100%
Mekol NV	Port facilities	16.8	Ordinary	100%	100%
OCCW (St Ninians) Limited	Coal working	16.1	Ordinary	100%	100%
Earl's Gate Energy Centre Limited	Renewable energy solutions	16.5	Ordinary	100%	100%
OCCW (Duncanziemere) Limited	Coal working	16.1	Ordinary	100%	100%
OCCW (Chalmerston) Limited	Coal working	16.1	Ordinary	100%	100%
OCCW (Netherton) Limited	Coal working	16.1	Ordinary	100%	100%
OCCW (Damside) Limited	Coal working	16.1	Ordinary	100%	100%
OCCW (Broken Cross) Limited	Coal working	16.1	Ordinary	100%	–
CA Blackwell (Contracts) Limited	Civil engineering	16.1	Ordinary	100%	100%
HBR Limited	Land remediation	16.1	Ordinary	100%	100%
Geofirma Soils Engineering Limited	Soil stabilisation	16.1	Ordinary	100%	100%
Renaissance Land Regeneration Limited	Holding company	16.1	Ordinary	100%	100%
Renaissance Land (D20) Limited	Property holding	16.1	Ordinary	100%	100%
Renaissance Land Management Limited	Property holding	16.1	Ordinary	100%	100%
Renaissance (Padiham) Limited	Property holding	16.1	Ordinary	100%	100%
Tru-Green Limited	Landscape services	16.1	Ordinary	100%	–
Joint ventures and associate undertakings					
Tower Regeneration Limited	Coal mining	16.2	Ordinary	50%	50%
Tower Regeneration Leasing Limited	Lease of heavy plant	16.2	Ordinary	50%	50%
517EPA Limited	Dormant	16.1	Ordinary	50%	50%
Hargreaves Raw Material Services GmbH	Import and sale of carbon-based materials	16.7	Ordinary	86%	86%
Hargreaves Carbon Products Polska Sp. z o.o.	Sale of carbon-based materials	16.11	Ordinary	86%	86%
Dormant companies					
Hargreaves Metallurgical Supplies Limited	Dormant	16.1	Ordinary	100%	100%
R&A Fuels Limited	Dormant	16.1	Ordinary	100%	100%
Squire Distribution Services Limited	Dormant	16.1	Ordinary	100%	100%
Hargreaves Transport Limited	Dormant	16.1	Ordinary	100%	100%
Hargreaves Industrial Dormant Limited	Dormant	16.1	Ordinary	100%	100%
Hargreaves Transport Services Limited	Dormant	16.1	Ordinary	100%	100%
DWL Engineering Services Limited	Dormant	16.1	Ordinary	100%	100%
SCCL (Option Co) Limited	Dormant	16.1	Ordinary	100%	100%
Eastgate Materials Handling Limited	Dormant	16.1	Ordinary	100%	100%
Norton Wind Energy Limited	Dormant	16.1	Ordinary	100%	100%
Premier Lime and Stone Company	Dormant	16.1	Ordinary	100%	100%
CA Blackwell (Plant) Limited	Dormant	16.1	Ordinary	100%	100%

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

Notes

(forming part of the financial statements) continued

16 Investments in Subsidiaries, Associates and Joint Ventures continued

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 2017 was a profit of £5,487,000 (2016: loss of £1,792,000).

Associates and Joint Ventures

Carrying amount of equity accounted investees:

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

Group	Tower Regeneration Limited £000	Hargreaves Raw Material Services GmbH £000	Interests in immaterial associate undertakings £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2016	–	1,128	(133)	48	1,043
Group's share of total comprehensive income	–	5,487	–	–	5,487
Exchange differences	–	421	(38)	4	387
At 31 May 2017	–	7,036	(171)	52	6,917

	Tower Regeneration Limited		Hargreaves Raw Material Services GmbH	
	2017	2016	2017	2016
Voting rights	50%	50%	49%	49%
Cash & cash equivalents	3,564	–	–	–
Other current assets	22,480	24,065	65,242	30,816
Total current assets	26,044	24,065	65,242	30,816
Non-current assets	4,042	15,742	697	102
Current liabilities	(6,743)	(12,815)	(56,486)	(29,606)
Non-current liabilities	(19,545)	(20,586)	–	–
Net assets (100%)	3,798	6,406	9,453	1,312
Revenue	37,825	35,996	133,750	88,993
Depreciation	–	(9,834)	–	(35)
Other expenses	(41,660)	(31,836)	(123,416)	(86,424)
Interest income	14	75	18	31
Interest expense	(1,726)	(2,801)	(637)	(516)
(Loss)/profit before tax from continuing operations	(5,547)	(8,400)	9,715	2,049
Income tax expense	–	–	(3,341)	(730)
Post tax (loss)/profit from continuing operations (100%)	(5,547)	(8,400)	6,374	1,319

The total financial liabilities included in current liabilities is: Tower Regeneration Limited £nil k (2016: £1,039k); Hargreaves Raw Material Services GmbH £36,443k (2016: £15,566k).

Group Composition

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

16 Investments in Subsidiaries, Associates and Joint Ventures continued

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

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

The Group also has options to acquire 100% of the shares in one subsidiary of Aardvark ("TMC") Limited. This option is measured at fair value which, at 31 May 2017, was £715,000 (31 May 2016: £2). This fair value increase has been recorded in other operating income.

Company	Group undertakings £000	Joint ventures £000	Total £000
Shares at cost and net book value			
At 1 June 2015	32,902	4,984	37,886
Acquisitions	6,701	–	6,701
Capital contribution arising on share options	520	–	520
At 31 May 2016	40,123	4,984	45,107
At 1 June 2016	40,123	4,984	45,107
Acquisitions	84	–	84
Capital contribution arising on share options	471	–	471
Impairment	(6,600)	–	(6,600)
At 31 May 2017	34,078	4,984	39,062

17 Other Financial Assets

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Non-current				
Other derivatives designated as fair value through hedging reserve	7	–	–	–
	7	–	–	–
	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Current				
Currency contracts designated as fair value through profit or loss	51	32	–	–
Other derivatives designated as fair value through hedging reserve	88	–	–	–
	139	32	–	–

Notes

(forming part of the financial statements) continued

18 Other Financial Liabilities

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Non-current				
Other derivatives designated as fair value through hedging reserve	12	66	–	–
	12	66	–	–

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Current				
Interest rate swaps designated as fair value through hedging reserve	–	268	–	268
Currency contracts designated as fair value through hedging reserve	9	25	–	–
Other derivatives designated as fair value through hedging reserve	240	137	–	–
	249	430	–	268

19 Deferred Tax Assets and Liabilities

Group

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2017 £000	2016 £000	2017 £000	2016 £000
Property, plant and equipment	–	–	281	57
Financial assets	(21)	(84)	–	–
Employee benefits	(867)	(1,008)	–	–
Share-based payments	(191)	(106)	–	–
Tax value of loss carry-forwards	(1,008)	(1,102)	–	–
Other temporary trading differences	(1,038)	(964)	–	–
Tax (assets)/liabilities	(3,125)	(3,264)	281	57

Deferred tax assets and liabilities have been netted as the Group has a legally enforceable right of offset and settlement will be on a net basis.

Movement in Deferred Tax During the Year

	31 May 2016 £000	Recognised in income £000	Recognised in equity £000	31 May 2017 £000
Property, plant and equipment	57	224	–	281
Financial assets	(84)	–	63	(21)
Employee benefits	(1,008)	177	(36)	(867)
Share-based payments	(106)	(85)	–	(191)
Tax value of loss carry-forwards utilised	(1,102)	94	–	(1,008)
Other	(964)	(74)	–	(1,038)
	(3,207)	336	27	(2,844)

Movement in Deferred Tax During the Prior Year

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

19 Deferred Tax Assets and Liabilities continued**Group** continued**Movement in Deferred Tax During the Prior Year** continued

The amount recognised in income includes £nil deferred tax charge (2016: £94,000 deferred tax charge) in relation to discontinued operations, see Note 10.

Company**Recognised Deferred Tax Assets and Liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2017 £000	2016 £000	2017 £000	2016 £000
Share-based payments	(123)	(123)	–	–
Temporary timing difference	(278)	(62)	–	–
Tax assets	(401)	(185)	–	–
Net of tax liabilities	–	–	–	–
Net tax assets	(401)	(185)	–	–

Movement in Deferred Tax During the Year

	At 31 May 2016 £000	Recognised in income £000	Recognised in equity £000	31 May 2017 £000
Share-based payments	(123)	–	–	(123)
Temporary timing difference	(62)	(216)	–	(278)
	(185)	(216)	–	(401)

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

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

The deferred tax asset at 31 May 2017 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

20 Inventories

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Raw materials and consumables	3,716	2,569	–	–
Work in progress	4,845	7,632	–	–
Finished goods	15,868	32,552	–	–
Properties held for development and resale	4,718	4,230	–	–
	29,147	46,983	–	–

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

The write-down of inventories to net realisable value amounted to £nil (2016: £4,242,000). The write-down is in cost of sales.

21 Trade and Other Receivables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade receivables	34,566	43,583	–	–
Trade receivables due from Group undertakings	–	–	188,099	201,113
Trade receivables due from undertakings in which the Company has a participating interest	25,161	31,805	11,604	10,579
Other receivables	17,766	14,661	6,422	5,528
Construction contract receivables	16,547	7,248	–	–
Prepayments and accrued income	26,130	20,013	–	–
Corporation tax	1,487	–	1,550	1,653
	121,657	117,310	207,675	218,873

Notes

(forming part of the financial statements) continued

21 Trade and Other Receivables continued

Included within trade and other receivables is £nil (2016: £nil) for the Group and £nil (2016: £nil) for the Company expected to be recovered in more than 12 months. Included within prepayments is £10,492,000 (2016: £7,966,000) expected to be recovered in more than 12 months. Included within Other receivables is an amount of £4.25m (2016: £5.25m) in relation to monies held in escrow following the completion of the acquisition of C. A. Blackwell Group Limited.

At 31 May 2017 aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £280,009,000 (2016: £207,308,000).

Progress billings and advances received from customers under open construction contracts amounted to £267,766,000 (2016: £196,336,000).

Advances for which related work has not started, and billings in excess of costs incurred and recognised profits are presented as deferred income and amounted to £374,000 (2016: £243,000) at 31 May 2017.

At 31 May 2017 construction contract receivables includes £4,361,000 (2016: £4,375,000) relating to retentions.

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 2017 trade receivables are shown net of an allowance for bad debts of £242,000 (2016: £356,000) arising from the ordinary course of business, as follows:

	2017 £000	2016 £000
Group		
Balance at 1 June	356	981
Assumed upon acquisition of subsidiaries	–	23
Provided during the year	210	62
Reversed	(41)	(675)
Utilised during the year	(283)	(35)
Balance at 31 May	242	356

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

The ageing of trade receivables at the Balance Sheet date was:

	Gross trade receivables £000	Doubtful debt £000	Net trade receivables £000
31 May 2017:			
Group			
Not past due date	24,908	–	24,908
Past due date (0-90 days)	9,293	–	9,293
Past due date (over 90 days)	555	(190)	365
Individually impaired amounts	52	(52)	–
	34,808	(242)	34,566
31 May 2016:			
Group			
Not past due date	34,553	–	34,553
Past due date (0-90 days)	7,572	–	7,572
Past due date (over 90 days)	1,542	(84)	1,458
Individually impaired amounts	272	(272)	–
	43,939	(356)	43,583

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

The Group's most significant trade receivable at 31 May 2017 is Wolf Minerals (UK) Limited which accounts for £2,967,558 of the trade receivables carrying amount at 31 May 2017 within Distribution and Services segment (2016: Tata Chemicals Europe Limited £3,025,499).

21 Trade and Other Receivables continued

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

	2017 £000	2016 £000
UK	29,551	40,912
European customers	1,942	339
Other regions	3,073	2,332
	34,566	43,583

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

22 Cash and Cash Equivalents

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash and cash equivalents per Balance Sheet	27,817	21,161	115	–
Bank overdrafts per Balance Sheet	–	–	–	(3,895)
Cash and cash equivalents per Cash Flow Statement	27,817	21,161	115	(3,895)

Included in cash and cash equivalents above is £538,825 (2016: £569,675) in respect of cash which is ring-fenced for settlement of restoration works in the Scottish mining business and £477,627 (2016: £647,654) in respect of cash which is ring-fenced for settlement of subsidence liabilities in relation to Maltby Colliery.

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

23 Other Interest-bearing Loans and Borrowings

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

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Non-current liabilities				
Finance lease liabilities	3,312	8,505	–	–
Borrowing base facility	32,500	33,000	32,500	33,000
Revolving credit facility	2,775	4,593	2,775	4,593
	38,587	46,098	35,275	37,593
Current liabilities				
Current portion of finance lease liabilities	4,965	7,401	–	–
Revolving credit facility	–	–	–	–
	4,965	7,401	–	–
Bank overdraft	–	–	–	3,895
	4,965	7,401	–	3,895

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2017 £000	Carrying amount 2017 £000	Face value 2016 £000	Carrying amount 2016 £000
Finance lease liabilities	Sterling	2.0% – 4.8%	2016–2019	8,277	8,277	15,906	15,906
Borrowing base facility	Sterling	LIBOR + 1.5%	2018	32,500	32,500	33,000	33,000
Revolving credit facility	Sterling	LIBOR + 1.6%	2018	3,000	2,775	5,000	4,593
				43,777	43,552	53,906	53,499

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

Notes

(forming part of the financial statements) continued

23 Other Interest-bearing Loans and Borrowings continued

Terms and Debt Repayment Schedule continued

In accordance with the presentation requirements of IAS32 and IAS39, these liabilities have been classified according to the maturity date of the longest permitted refinancing. Without these committed facilities, these amounts would have been classified as falling due within one year.

Finance Lease Liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2017 £000	Interest 2017 £000	Principal 2017 £000	Minimum lease payments 2016 £000	Interest 2016 £000	Principal 2016 £000
Less than one year	5,199	234	4,965	7,837	436	7,401
Between one and five years	3,468	156	3,312	8,854	349	8,505
	8,667	390	8,277	16,691	785	15,906

24 Trade and Other Payables

	Group		Company	
	2017 £000	Restated* 2016 £000	2017 £000	2016 £000
Current				
Trade payables	33,257	31,438	–	–
Trade payables due to Group undertakings	–	–	109,212	116,779
Trade payables due to undertakings in which the Group/Company has a participating interest	3,802	455	–	11
Other trade payables	973	2,219	–	39
Non-trade payables and accrued expenses	50,926	43,732	109	48
	88,958	77,844	109,321	116,877

* Non-trade payables and accrued expenses has been restated to reflect the impact of the remeasurement of the Blackwell goodwill of £2,748,000, as explained in Note 3.

No amounts included within trade and other payables for the Group or Company are expected to be settled in more than 12 months (2016: £nil).

25 Pension Schemes and Other Retirement Benefits

Defined Contribution Plans

The Group operates a Group personal pension scheme. The pension cost charge for the year represents contributions payable by the Group to the employees' funds and amounted to £1,480,000 (2016: £1,654,000). 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.

During the existence of the scheme, the Group provided for concessionary fuel retirement benefits, for the current members of the scheme, payable at retirement on attaining the age of 65. The amounts payable were determined in the employee terms and conditions and were subject to a qualifying period of service. The costs of the concessionary fuel benefits were determined by a qualified actuary on the basis of triennial valuations. The latest full actuarial valuation was carried out on 31 December 2012 and updated for IAS 19 purposes to 31 May 2017.

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

	2017 £000	2016 £000
Present value of unfunded defined benefit obligations	–	–

25 Pension Schemes and Other Retirement Benefits continued
Defined Benefit Plans continued
Movements in Present Value of Defined Benefit Obligation

	2017 £000	2016 £000
At beginning of year	–	15
Benefits paid	–	(101)
Remeasurement loss	–	86
At the end of the year	–	–

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

	2017 £000	2016 £000
Cumulative amount at 1 June	367	453
Recognised in the year	–	(86)
Cumulative amount at 31 May	367	367

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

The latest full actuarial valuation of all these schemes was carried out at 31 December 2015 and was updated for IAS 19 purposes to 31 May 2017 by a qualified independent actuary.

	2017 £000	2016 £000
Present value of unfunded defined benefit obligations	(2,165)	(1,764)
Present value of funded defined benefit obligations	(51,554)	(45,281)
Fair value of plan assets	48,616	41,346
Deficit in the schemes – Pension liability	(5,103)	(5,699)

Movements in Present Value of Defined Benefit Obligation

	2017 £000	2016 £000
At the beginning of the year	47,045	47,348
Interest cost	1,559	1,639
Remeasurement losses/(gains):		
– Changes in demographic assumptions	2,214	(311)
– Changes in financial assumptions	9,736	217
– Experience	(5,704)	(878)
Benefits paid	(1,131)	(970)
At the end of the year	53,719	47,045

Movements in the Fair Value of Plan Assets

	2017 £000	2016 £000
Fair value of plan assets at beginning of year	41,346	41,847
Net interest on plan assets	1,388	1,465
Remeasurement gain/(loss)	5,702	(1,984)
Employer contributions	1,516	1,162
Benefits paid	(1,131)	(970)
Expenses paid	(205)	(174)
Fair value of plan assets at end of year	48,616	41,346

Notes

(forming part of the financial statements) continued

25 Pension Schemes and Other Retirement Benefits continued

Defined Benefit Plans continued

Expense Recognised in the Income Statement

	2017 £000	2016 £000
Expenses paid from plan	205	174
Interest expense on net defined benefit pension plans	171	174
	376	348

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

	In Continuing Operations 2017 £000	In Discontinued Operations 2016 £000
Administrative expenses	205	174
Finance expense	171	174
	376	348

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

	2017 £000	2016 £000
Cumulative amount at 1 June	(5,611)	(4,599)
Recognised in the year	(544)	(1,012)
Cumulative amount at 31 May	(6,155)	(5,611)

Scheme Assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, were:

	Fair value at 2017 £000	Fair value at 2016 £000
Equities and hedge funds	26,822	21,080
Corporate bonds	15,931	14,445
Property	2,637	2,528
Alternative investment mandate	–	3,289
Other – cash	3,226	4
	48,616	41,346

The major assumptions used in this valuation were:

	2017	2016
Rate of increase in deferred pensions	3.50%	3.25%
Rate of increase in pensions in payment	3.50%	3.20%
Discount rate applied to scheme liabilities	2.55%	3.35%
Inflation assumption	3.60%	3.25%

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: 23.6 years (male), 27.2 years (female) (2016: 21.8 years (male), 25.7 years (female))
Future retiree upon reaching 60: 24.9 years (male), 28.5 years (female) (2016: 22.4 years (male), 26.5 years (female))

IWCSSS

Current pensioner aged 60: 25.3 years (male), 27.2 years (female) (2016: 24.4 years (male), 26.9 years (female))
Future retiree upon reaching 60: 26.5 years (male), 28.5 years (female) (2016: 25.0 years (male), 27.6 years (female))

25 Pension Schemes and Other Retirement Benefits continued

Sensitivity Analysis

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

	2017 £000	2016 £000
Discount rate (1% increase)	(9,079)	(7,662)
Inflation (1% increase)	9,091	8,015
	2017 £000	2016 £000
Discount rate (1% decrease)	11,872	9,918
Inflation (1% decrease)	(7,973)	(7,405)

The Group expects to contribute approximately £1,652,000 to its defined benefit plans in the next financial year.

26 Employee Share Schemes

The Group has established a Savings-Related Share Option Scheme and an Executive Long-Term Incentive Plan. An additional Long-Term Incentive Plan was established for certain senior employees as part of the acquisition of Hargreaves Industrial Services Limited in September 2006. In addition, a deferred bonus scheme was implemented as a temporary replacement for the Executive Long-Term Incentive Plan ("LTIP") for the year ended 31 May 2015. No new employee share schemes have been implemented in the year ended 31 May 2017.

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

	Date of grant	Employees entitled	Number of shares granted	Vesting conditions	Contractual life
Long-Term Incentive Plan – Norec	September 2006	Senior employees	96,572	3 years' service	11 years
Long-Term Incentive Plan 2	June 2008	Senior employees	128,621	3 years' service and EPS growth of 35.4% (30% award) – 63.5% (100% award) over RPI over those 3 years	3.5 years
Long-Term Incentive Plan 3	June 2009	Senior employees	193,658	3 years' service and EPS growth of 18.9% (30% award) – 30.0% (100% award) over RPI over those 3 years	3.5 years
Long-Term Incentive Plan 5	September 2011	Senior employees	134,626	3 years' service and EPS growth of 9.3% (30% award) – 22.5% (100% award over RPI over those 3 years)	3.5 years
Long-Term Incentive Plan 6	October 2013	Senior employees	192,098	3 years' service and EPS growth of 3% pa (30% award) – 9% pa (100% award) over those 3 years	3.5 years
Savings-Related Share Option Scheme 9	April 2014	All employees	140,346	3 years' service	3.5 years
Deferred bonus scheme A	March 2015	Senior employees	112,122	3 years' service	3 years
Deferred bonus scheme B (50%)	March 2015	Senior employees	91,722	3 years' service	3 years
Deferred bonus scheme B (50%)	March 2015	Senior employees	91,722	4 years' service	4 years
Deferred bonus scheme C	September 2016	Senior employees	135,034	3 years' service	3 years
Deferred bonus scheme D	November 2016	Senior employees	20,000	3 years' service	3 years

Notes

(forming part of the financial statements) continued

26 Employee Share Schemes continued

Savings-Related Share Option Schemes

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

	2017 Weighted average exercise price	2017 Number of options	2016 Weighted average exercise price	2016 Number of options
Outstanding at beginning of year	760p	53,079	820p	133,858
Lapsed during the year	776p	(32,965)	860p	(80,779)
Outstanding at the end of the year	733p	20,114	760p	53,079
Exercisable at the end of the year	–	–	793p	23,520

The options outstanding at 31 May 2017 have an exercise price of 733p and have a weighted average contractual life of one month.

There were no options exercised during the year (2016: none).

Long-Term Incentive Plans

	2017 Weighted average exercise price	2017 Number of options	2016 Weighted average exercise price	2016 Number of options
Outstanding at beginning of year	55p	100,601	15p	292,699
Lapsed during the year	–	–	–	(192,098)
Exercised during the year	–	(25,593)	–	–
Outstanding at the end of the year	73p	75,008	55p	100,601
Exercisable at the end of the year	–	75,008	55p	100,601

The options outstanding at 31 May 2017 have an exercise price in the range of £nil to 393.5p and have a weighted average contractual life of no years as all options are now exercisable.

There were 25,593 options exercised in the year with a weighted average market value of 263p (2016: no options).

Deferred Bonus Scheme

	2017 Weighted average exercise price	2017 Number of options	2016 Weighted average exercise price	2016 Number of options
Outstanding at beginning of year	–	268,567	–	346,956
Granted during the year	–	155,034	–	–
Lapsed during the year	–	(26,489)	–	(78,389)
Exercised during the year	–	–	–	–
Outstanding at the end of the year	–	397,112	–	268,567
Exercisable at the end of the year	–	–	–	–

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

The fair value of options and the assumptions used in these calculations for the options granted in the year are as follows: (2016: no options).

	Deferred Bonus Scheme C	Deferred Bonus Scheme D
Fair value at grant date	1.48	2.11
Exercise price	–	–
Share price	1.73	2.25
Expected volatility	20%	40%
Option life	3 years	3 years
Expected dividend	5%	2%
Risk-free rate	5.8%	5.8%

Volatility was calculated with reference to the Group's daily share price volatility. The average share price in the year was 239p (2016: 274p).

26 Employee Share Schemes continued

Long-Term Incentive Plans and Deferred Bonus Schemes

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

	2017 £000	2016 £000
Share options granted in 2013	–	113
Share options granted in 2014	111	133
Share options granted in 2015	293	274
Share options granted in 2016	67	–
	471	520

27 Provisions

Group	Surface restoration £000	Monckton ground water contamination £000	Maltby restoration £000	Maltby subsidence £000	Total provision £000
Balance at 31 May 2016	3,456	179	775	646	5,056
Provisions made during the year	2,577	–	–	–	2,577
Provisions utilised during the year	(1,190)	(179)	–	(168)	(1,537)
Provisions reversed	(137)	–	(15)	–	(152)
Balance at 31 May 2017	4,706	–	760	478	5,944

Included within the Maltby and Surface mining restoration provision is an amount of £600,000 (2016: £867,000) that is expected to be utilised in the next 12 months.

Provisions comprise:

- 1 A £4,706,000 restoration provision, which relates to the surface mining obligation to restore the sites once mining operation is completed.
- 2 A £760,000 restoration provision which relates to Maltby Colliery's obligation to restore the site now that coal mining has been completed.
- 3 A statutory provision payable to the UK Coal Authority at a set rate, in order to rectify any potential subsidence of the local area around Maltby Colliery. Any unused provision will be released after the statutory period.

The Company has no provisions.

28 Capital and Reserves

Share Capital

	Ordinary Shares	
	2017 Number	2016 Number
In issue at 1 June	33,138,756	33,138,756
Issued for cash	–	–
In issue and fully paid at 31 May	33,138,756	33,138,756
	2017 £000	2016 £000
Allotted, called up and fully paid		
31,910,684 (2016: 31,910,684) Ordinary Shares of 10p each (excluding own shares held)	3,191	3,191
Own shares held of 10p each 1,228,072 (2016: 1,228,072)	123	123
	3,314	3,314

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

As at the year end the Group held 1,228,072 within Treasury shares, representing own shares purchased as part of the Group's share buyback programme. These shares have a market value of £4.1m at 31 May 2017 and were purchased for an aggregate consideration of £6.9m.

Translation Reserve

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

Notes

(forming part of the financial statements) continued

28 Capital and Reserves continued

Cash Flow Hedging Reserve

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

Other Reserves

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

Dividends

The aggregate amount of dividends comprises:

	2017 £000	2016 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year (0.6p per share (2016: 20.0p))	194	6,382
Interim dividends paid in respect of the current year (2.7p per share (2016: 1.7p))	859	542
	1,053	6,924
Proposed dividend (4.5p per share (2016: 0.6p))	1,433	191

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

29 Financial Instruments

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

(a) Fair Values of Financial Assets and Financial Liabilities

Derivative Financial Instruments

Fair Value Hierarchy

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

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

In both 2017 and 2016 all of the interest rate swaps, the forward exchange contracts and the commodity contracts are considered to be Level 2 and the options to acquire subsidiaries Level 3 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year.

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

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

(b) Credit Risk

Financial Risk Management

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

Exposure to Credit Risk

The carrying amount of trade receivables represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the Balance Sheet date was £59,727,000 (2016: £75,388,000) being the total of the carrying amount of trade receivables and amounts due from undertakings in which the Group has a participating interest.

The allowance account for trade receivables is used to record impairment losses unless the Group or Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly. Further information on credit risk is provided in Note 21.

29 Financial Instruments continued**(c) Liquidity Risk****Financial Risk Management**

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

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

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

Group

	Carrying amount £000	2017					Carrying amount £000	2016				
		Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000		Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Finance lease liabilities	8,277	8,667	4,956	2,553	1,158	–	15,906	16,691	7,837	5,457	3,397	–
Trade and other payables*	88,958	88,958	88,958	–	–	–	75,096	75,096	75,096	–	–	–
Invoice discounting facility	–	–	–	–	–	–	–	–	–	–	–	–
Group banking facilities	35,275	35,275	–	35,275	–	–	37,593	37,593	–	–	37,593	–
Derivative financial liabilities												
Interest rate swaps used for hedging	–	–	–	–	–	–	268	268	268	–	–	–
Forward exchange contracts used for hedging:												
Outflow	9	9	9	–	–	–	25	25	25	–	–	–
Commodity contracts: Outflow	252	252	240	12	–	–	203	203	137	66	–	–
	132,771	133,161	94,163	37,840	1,158	–	129,091	129,876	83,363	5,523	40,990	–

* Excludes derivatives (shown separately).

Company

	Carrying amount £000	2017					Carrying amount £000	2016				
		Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000		Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Trade and other payables	109,321	109,321	109,321	–	–	–	116,877	116,877	116,877	–	–	–
Group banking facilities	35,275	35,275	–	35,275	–	–	37,593	37,593	–	–	37,593	–
Derivative financial liabilities												
Interest rate swaps used for hedging	–	–	–	–	–	–	268	268	268	–	–	–
Forward exchange contracts used for hedging:												
Outflow	–	–	–	–	–	–	–	–	–	–	–	–
	144,596	144,596	109,321	35,275	–	–	154,738	154,738	117,145	–	37,593	–

Notes

(forming part of the financial statements) continued

29 Financial Instruments continued

(d) Market Risk

Financial Risk Management

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

Group

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The Group's policy is to reduce currency exposures on sales and purchasing through forward foreign currency contracts.

The Group is exposed to interest rate risk principally where its borrowings are at a variable interest rate. The Group's policy is to reduce this exposure through interest rate swaps.

Commodity Price Risk

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

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

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

Foreign Currency Risk

Group

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

31 May 2017

	Sterling £000	Euro £000	US Dollar £000	Hong Kong Dollar £000	South African Rand £000	Indian Rupee £000	Total £000
Cash and cash equivalents	26,053	51	16	918	513	266	27,817
Trade receivables	31,763	266	–	2,454	–	83	34,566
Trade receivables due from undertakings in which the Group has a participating interest	25,161	–	–	–	–	–	25,161
Trade payables	(30,638)	(31)	(1,959)	(583)	(46)	–	(33,257)
Trade payables due to undertakings in which the Group has a participating interest	(3,802)	–	–	–	–	–	(3,802)
Other trade payables	(907)	–	–	(1)	(34)	(31)	(973)
Group banking facilities	(35,275)	–	–	–	–	–	(35,275)
Balance Sheet exposure	12,355	286	(1,943)	2,788	433	318	14,237
Contracted future sales	–	417	–	–	–	–	417
Contracted future purchases	–	(518)	–	–	–	–	(518)
Gross exposure	–	185	(1,943)	2,788	433	318	1,781
Forward exchange contracts	–	(120)	1,959	(1,252)	–	–	587
Net exposure	–	65	16	1,536	433	318	2,368

29 Financial Instruments continued**(d) Market Risk** continued**Foreign Currency Risk** continued**31 May 2016**

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

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 2017 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 2016.

	Equity		Profit or loss	
	2017 £000	2016 £000	2017 £000	2016 £000
€	(6)	(14)	(6)	(14)
\$	(2)	28	(2)	28
HKD	(154)	(55)	(154)	(55)
ZAR	(43)	(15)	(43)	(15)
INR	(32)	(80)	(32)	(80)

A 10% strengthening of the above currencies against the Pound Sterling at 31 May 2017 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.

Notes

(forming part of the financial statements) continued

29 Financial Instruments continued

(d) Market Risk continued

Interest Rate Risk

Profile

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

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Fixed rate instruments				
Financial assets	–	–	–	–
Financial liabilities	(8,277)	(15,906)	–	–
	(8,277)	(15,906)	–	–
Variable rate instruments				
Financial assets	27,817	21,161	115	–
Financial liabilities	(35,275)	(37,593)	(35,275)	(41,488)
	(7,458)	(16,432)	(35,160)	(41,488)

Sensitivity Analysis

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

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit and loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2016.

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Profit or loss				
(Decrease)/increase	(119)	103	(364)	(2)

(e) Cash Flow Hedges

Cash Flow Hedges – Group

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

	2017 Expected cash flows					2016 Expected cash flows				
	Carrying amount £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:										
Assets	–	–	–	–	–	–	–	–	–	–
Liabilities	–	–	–	–	–	(268)	(268)	–	–	–
Forward exchange contracts:										
Assets	51	51	–	–	–	32	32	–	–	–
Liabilities	(9)	(9)	–	–	–	(25)	(25)	–	–	–
Commodity contracts:										
Assets	95	88	7	–	–	–	–	–	–	–
Liabilities	(252)	(240)	(12)	–	–	(203)	(137)	(66)	–	–
	(115)	(110)	(5)	–	–	(464)	(398)	(66)	–	–

(f) Capital Management

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

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

29 Financial Instruments continued**(f) Capital Management** continued

The Board believes that the Group's dividend cover remains conservative. The average dividend cover over the past three years has been just under three times, representing an average pay out ratio of 37.3%.

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

30 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Less than one year	5,283	11,494	–	–
Between one and five years	5,976	5,477	–	–
More than five years	–	18	–	–
	11,259	16,989	–	–

Group

During the year £14,231,000 was recognised as an expense in the income statement in respect of operating leases (2016: £13,594,000).

Company

During the year £nil was recognised as an expense in the income statement in respect of operating leases (2016: £nil).

31 Capital Commitments**Group**

As at 31 May 2017, the Group was committed to contracts to purchase property, plant and equipment for £716,000 (2016: £nil).

32 Contingencies**Group and Company**

The Company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The Company acts as a guarantor, or surety, for various subsidiary undertakings in banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided exposure is £nil (2016: £nil).

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

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

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

Group**Other Related Party Transactions**

	Sales to		Purchases from	
	2017 £000	2016 £000	2017 £000	2016 £000
Joint ventures				
Tower Regeneration Limited	26,730	28,612	252	466
Tower Regeneration Leasing Limited	–	–	3,940	4,575
Associate undertakings				
Hargreaves Services Europe Limited	–	–	–	2
Hargreaves Raw Materials Services GmbH	6,329	7,215	–	–
	33,059	35,827	4,192	5,043
	Interest received from		Interest paid to	
	2017 £000	2016 £000	2017 £000	2016 £000
Joint ventures				
Tower Regeneration Limited	863	1,060	–	–
Associate undertakings				
Hargreaves Raw Materials Services GmbH	40	186	–	–
	903	1,246	–	–

Notes

(forming part of the financial statements) continued

33 Related Parties continued**Group** continued**Other Related Party Transactions** continued

	Receivables outstanding		Payables outstanding	
	2017 £000	2016 £000	2017 £000	2016 £000
Joint ventures				
Tower Regeneration Limited	15,962	22,367	2,199	–
Tower Regeneration Leasing Limited	–	60	1,602	441
Associate undertakings				
Hargreaves Raw Materials Services GmbH	8,917	9,096	1	10
Hargreaves Services Europe Limited	–	–	–	4
Hargreaves Carbon Products Polska Sp. z o.o.	282	282	–	–
	25,161	31,805	3,802	455

Transactions with Key Management Personnel

The Board of Directors are the key management personnel of the Group. Details of Directors' remuneration, share options, pension benefits and other non-cash benefits can be found in Note 8. In addition to this, the element of the share-based payment (credit)/charge for the year that relates to key management personnel is £67,000 (2016: £24,000) and the social security costs is £160,000 (2016: £163,000). There are no other post-employment or other long-term benefits.

Company**Other Related Party Transactions**

	Sales to		Purchases from	
	2017 £000	2016 £000	2017 £000	2016 £000
Joint ventures				
Tower Regeneration Limited	–	–	–	–
Mir Trade Services Limited	–	–	–	–
	–	–	–	–
	Receivables outstanding		Payables outstanding	
	2017 £000	2016 £000	2017 £000	2016 £000
Subsidiaries	188,099	201,113	109,212	116,790
Joint ventures	11,604	10,579	–	48
	199,703	211,692	109,212	116,838

Alternative Performance Measure Glossary

This report provides alternative performance measures ("APMs"), which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business.

Alternative Performance Measure	Definition and Purpose
Continuing Underlying Operating Profit (also described as "Underlying Operating Profit")	Represents the operating profit of the Group before net exceptional costs, the amortisation of intangible assets and impairment of goodwill and including the share of profit in associates and joint ventures before tax. See page 18 for reconciliation to statutory operating profit. This measure is consistent with how the business measures performance and is reported to the Board.
Continuing Underlying Profit before Tax (also described as "Underlying Profit before Tax")	Represents the profit before tax of the Group before net exceptional costs, the amortisation of intangible assets and impairment of goodwill and including the tax on share of profits from associates and joint ventures. See page 18 for reconciliation to statutory operating profit. This measure is consistent with how the business measures performance and is reported to the Board.
Continuing Underlying Diluted EPS (also described as "Underlying Diluted EPS")	Profit attributable to the equity holders of the parent before the net exceptional costs, amortisation of intangible assets and impairment of goodwill divided by the weighted average number of ordinary shares during the financial year adjusted for the effects of any potentially dilutive options. Calculation is shown on page 66.
Net Debt	Represents a combination of the net position of the Groups cash and loan balances. See page 21 for calculation.
Net Asset per Share	Represents the net asset value of the balance sheet divided by the total number of allocated, called up and fully paid ordinary shares.
	£'000
	Net Assets 137,927
	Ordinary shares 31,911
	Net Asset per Share 4.32

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, Durham, DH1 3EH on 3 October 2017 at 11am for the following purposes:

Ordinary Business

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

1. To adopt and receive the Directors' Report, the Strategic Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the Financial Statements for the year ended 31 May 2017.
2. To approve the Directors' Corporate Governance and Remuneration Reports for the year ended 31 May 2017.
3. To declare a final dividend for the year ended 31 May 2017 of 4.5 pence per ordinary share to bring the dividend for the year ended 31 May 2017 to a total of 6.6 pence per ordinary share.
4. To re-appoint David Morgan as a Director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
5. To re-appoint Nigel Halkes as a Director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
6. To appoint KPMG LLP as auditor of the Company to hold office from the conclusion of this meeting to the conclusion of the next meeting at which accounts are laid before the Company.
7. To authorise the Directors to agree the remuneration of the auditor.
8. That the Directors of the Company be and are generally granted and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the **Act**) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares in the Company (**Rights**):
 - 8.1 up to an aggregate nominal value of £1,063,689 (representing approximately one-third of the total ordinary share capital in issue as at the date of this notice); and
 - 8.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,127,379 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 9.1) in connection with or pursuant to an offer or invitation by way of a rights issue (as defined below), provided that such authorities conferred by this resolution 8 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless varied, revoked or renewed by the Company in general meeting, save that the Company may at any time before such expiry make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares and grant Rights pursuant to such offers or agreements as if the relevant authorities conferred by this resolution 8 had not expired. These authorities shall be in substitution for all previous authorities previously granted to the Directors to allot shares and grant Rights which are pursuant to this resolution 8 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 8. For the purposes of this resolution 8, **rights issue** means an offer or invitation to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable instrument) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.
9. That, subject to and conditional upon the passing of resolution 8 above, the Directors be and are empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash:
 - 9.1 pursuant to the authority conferred upon them by resolution 8.1 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act, provided that this power shall be limited to the allotment of equity securities:
 - 9.1.1 in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and
 - 9.1.2 (otherwise than pursuant to sub-paragraph 9.1.1 above) up to an aggregate nominal value of £319,107 (representing approximately 10% of the total ordinary share capital in issue); and
 - 9.2 pursuant to the authority conferred upon them by resolution 8.2, in connection with or pursuant to a rights issue, as if section 561(1) of the Act did not apply to any such allotment and the authorities given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless renewed or extended prior to such expiry, save that the Directors of the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution 9 has expired.

For the purpose of this resolution 9:

 - (a) **rights issue** has the meaning given in resolution 8; and
 - (b) **pre-emptive offer** means a rights issue, open offer or other pre-emptive issue or offer to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date(s) for such allotment; and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the Directors of the Company consider necessary, as permitted by the rights of those securities, but subject in both cases to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatever.

Special Business

To consider and, if thought fit, pass the following resolution 10 as a special resolution.

10. The Company be and is generally and unconditionally authorised for the purpose of section 701 of the Act to make market purchases (which in this resolution shall have the meaning given to this term in section 693 (4) of the Act) of its ordinary shares of 10 pence each in the capital of the Company (**Ordinary Shares**) on the terms set out below:
- 10.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 10 is 4,786,603 (representing approximately fifteen per cent of the number of Ordinary Shares in issue); and
 - 10.2 the minimum price which may be paid for each of those Ordinary Shares (exclusive of expenses) is 10 pence; and
 - 10.3 the maximum price (exclusive of expenses) which may be paid for each of those Ordinary Shares is not more than the higher of (i) five per cent above the average of the middle market quotations for Ordinary Shares (as derived from the Daily Official Lists of the London Stock Exchange) for the five dealing days immediately preceding the date of purchase and (ii) the price stipulated by Commission-adopted Regulatory Technical Standards pursuant to Article 5(6) of the Market Abuse Regulation.
- but so that this authority shall (unless previously varied, revoked or renewed) expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year, save that the Company may before the expiry of this authority conclude any contract for the purchase of its own shares pursuant to the authority conferred by this resolution 10 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 10 had not expired.

7 August 2017

By order of the Board

Andrew Robertson
Company Secretary

Registered Office:

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

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 by close of business on 1 October 2017 (or, in the event of any adjournment, by close of business two days prior to the day of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
3. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Registrars of the Company, Capita Asset Services, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11am on 1 October 2017.
4. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
5. If a member appoints a proxy or proxies and then decides to attend the Annual General Meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding. If you do not have a proxy form and/or believe that you should have one or if you require additional forms, please contact the Company at its registered office.
6. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see Note 3 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Asset Services Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Notice of Annual General Meeting – Hargreaves Services plc (incorporated and registered in England and Wales under number 4952865) continued

7. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Asset Services at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11am on 1 October 2017. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 5 above your appointment will remain valid.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (Euroclear) specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 11am on 1 October 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
12. If a corporation is a member of the Company, it may by resolution of its Directors or other governing body authorise one or more persons to act as its representative or representatives at the Meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company. Corporate representatives should bring with them either an original or certified copy of the appropriate board resolution or an original letter confirming the appointment, provided it is on the corporation's letterhead and is signed by an authorised signatory and accompanied by evidence of the signatory's authority.
13. As at 4 August 2017 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 31,910,684 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 4 August 2017 are 31,910,684.
14. The following documents will be available for inspection of the Company's registered office at West Terrace, Esh Winning, Durham, DH7 9PT during normal business hours on any week day (Saturdays and English public holidays excepted) from the date of this notice until the close of the Meeting and at the place of that Meeting for at least 15 minutes prior to and during the Meeting:
 - copies of the service contracts for the Executive Directors of the Company; and
 - copies of the letters of appointment of Non-Executive Directors of the Company.

Explanatory Notes to the Notice of Annual General Meeting

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

Resolutions 1 to 8 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 9 and 10 are proposed as special resolutions. This means that for these resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 1: Accounts

The Directors will present their Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the audited Financial Statements for the financial year ended 31 May 2017 to the meeting as required by law. These reports and statements are set out on pages 30 to 90 of the Company's annual report.

Resolution 2: Approval of the Directors' Remuneration Report

Shareholders are asked to approve the Directors' Remuneration Report for the financial year ended 31 May 2017 which is set out in full on pages 37 to 39 of the Company's annual report. The vote is advisory and the Directors' entitlement to remuneration is not conditional upon this resolution being passed.

Resolution 3: Final Dividend

The Board proposes a final dividend of 4.5 pence per share. If the meeting approves resolution 3, the final dividend will be paid on 20 October 2017 to shareholders on the register of members on 18 August 2017.

Resolutions 4 and 5: Re-appointment of Directors

At each Annual General Meeting one-third of the Directors for the time being (other than those appointed since the last Annual General Meeting) are required to retire. If the number of relevant Directors is not a multiple of three, the number nearest to one-third of Directors, but not less than one-third, must retire. Directors due to retire by rotation are those longest in office since their last re-election or re-appointment. A retiring Director is eligible for re-appointment. David Morgan and Nigel Halkes are both offering themselves for re-appointment.

Brief biographical details of David Morgan and Nigel Halkes are set out on page 30 of this document.

Resolutions 6 and 7: Appointment and Remuneration of Auditor

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

Resolution 8: Renewal of Board's Authority to Allot Shares

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

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

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

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

Resolution 9: Disapplication of Pre-emption Rights

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

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

Resolution 10: Purchase of Own Shares

Resolution 10 authorises the Company to purchase its own shares (in accordance with section 701 of the Act) during the period from the date of this Annual General Meeting until the end of the next Annual General Meeting of the Company or the expiration of six months after the 2017 Company financial year end, whichever is the sooner, up to a total of 4,786,603 ordinary shares. This represents approximately 15% of the issued ordinary share capital. The maximum price payable for a share shall not be more than the higher of 5% above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated in the Commission-adopted Regulatory Technical Standards pursuant to Article 5(6) of the Market Abuse Regulation (being the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out). The minimum price payable for a share will be 10 pence. Companies are permitted to retain any of their own shares which they have purchased as treasury stock with a view to possible re-issue at a future date, rather than cancelling them. The Company will consider holding any of its own shares that it purchases pursuant to the authority conferred by this resolution as treasury stock. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively, and would provide the Company with additional flexibility in the management of its capital base.

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

Notes

Investor Information

Company Secretary

Andrew Robertson

Independent Auditor

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

Bankers

HSBC
4th Floor
City Point
29 King Street
Leeds
LS1 2HL

Barclays

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

Lloyds Banking Group

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91 Sandyford Road
Newcastle upon Tyne
NE99 1JW

Legal Advisers

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Leeds
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Nominated Adviser and Joint Stock Broker

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London
EC2N 2AX

Joint Stock Broker

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Vintners Place
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Registrar

Capita Asset Services
The Registry
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For more information

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

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