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Annual Report and Accounts 2020
Hargreaves Services plc

About us

Hargreaves Services plc delivers key services to the industrial and property sectors.

Strategic Report

Directors' Report

Financial Statements

Highlights of the Year

Coal Mining ceased in July 2020. Impact of Covid-19 mainly restricted to Property. Distribution & Services business performing well.

Trading

- Revenue of £222.2m (2019: £302.6m)
- Profit before Tax of £2.2m (2019: loss of £9.9m)
- Basic underlying EPS* from continuing operations of 19.9p (2019: 15.3p)

Exceptional Items

- Profit of £2.4m recognised on disposal of assets relating to Hemerdon Tungsten Mine
- Operations at British Steel continuing, with a recovery of £1.4m against provisions made
- Decision to cease coal mining results in a £4.1m charge
- £1.4m of contract losses recognised on legacy civil contracts

Distribution & Services

- Revenue fell as expected to £216.0m (2019: £293.8m) as Specialist Earthworks awaits HS2 contract mobilisation
- Underlying operating margin* up to 3.9% (2019: 3.0%)
- Impact of Covid-19 on D&S trading has been modest

Property

- Sales of first plots at Blindwells delayed to FY21 by Covid-19
- £25m conditional contract exchanged at Unity Joint Venture for 32-hectare commercial development

German Joint Venture

- Carbon Pulverisation Plant now operational
- DK Recycling delivering break-even performance since acquisition in December 2019

Board

- Christopher Jones appointed as Non-Executive Director on 1 April 2020

Balance Sheet

- Net Debt £28.1m (2019: £24.5m after IFRS 16 adjustments)
- Net Asset Value per share at 31 May 2020 of £4.03 per share (2019: £3.97)

Dividend

- Final dividend of 4.5p (2019: 4.5p) to be declared following cancellation of interim due to Covid-19

Notes:

* Underlying results are stated prior to exceptional items, amortisation, impairment of intangible assets and fair value adjustments. See Alternative Performance Measure Glossary, page 90.

Chairman's Statement
Roger McDowell, Group Chairman

Set against the background of the Covid-19 coronavirus pandemic, I would characterise the year as one of solid progress by the Group.

Introduction
My second Annual Report as Chairman is set against the background of the Covid-19 coronavirus pandemic which has impacted all of our personal lives and many businesses in an unprecedented manner. The Board has prioritised the health and safety of our employees above all else during this time and I am very grateful to all of our employees who have continued to support the business and work hard through this difficult period. Whilst Covid-19 has caused some delay to transaction completions within the Hargreaves Land business, the rest of the Group has been able to continue to trade without any material adverse impact and I would characterise the year as one of solid progress by the Group.

Results
Revenue from continuing operations was £222.2m (2019: £302.6m). This reduction was in line with expectations as the Specialist Earthworks business completed a number of major contracts in the previous financial year and the full mobilisation of the HS2 project has been delayed.

Underlying Profit before Tax (see footnote on page 3) from continuing operations for the year was £1.5m lower than the prior year at £4.9m (2019: £6.4m) as a result of land sales being delayed into FY21 by Covid-19. Further information on the trading performance of the Group's businesses is given in the Chief Executive's Group Business Review.

After a tax credit of £2.1m (2019: £1.7m), the profit for the year from continuing operations was £4.3m (2019: loss of £8.2m). Basic underlying earnings per share from continuing operations were 19.9p (2019: 15.3p) and 13.4p (2019: loss of 25.7p) on a reported basis.

Exceptional Items
Following the large exceptional losses incurred last year as a result of the liquidation of both Wolf Minerals and British Steel, I am pleased to report that the Group has been successful in recovering £3.8m of value to date against these losses.

On 2 June 2020, we announced the cessation of our coal mining activities which terminated earlier this month. Coal has been the foundation and heart of the Group for many years, but the Group can no longer be defined as a coal mining business and our focus remains firmly orientated towards a range of services to industry and property developments. The global move away from fossil fuels has accelerated over the last year and it also became uneconomic to extract the remaining coal reserves. This decision has resulted in an exceptional charge of £4.1m in the period. Additionally, a further £1.4m of losses on legacy civil engineering contracts have been recognised as we close out those accounts.

Net Debt
Net debt was £28.1m (2019: £24.5m including IFRS 16 adjustments). The increase of £3.6m largely relates to the increase in inventory as mining was accelerated as a result of clement operating conditions and mining efficiency. Net debt is likely to remain at a similar level during the first half of this financial year, but bank borrowing is expected to reduce by 31 May 2021 as the coal inventory unwinds. In total however net debt at 31 May 2021 is expected to remain around the same level as the reduction in bank debt will be offset by capital expenditure for the HS2 project, which we anticipate will be leased equipment in the main. A further reduction in net debt is expected by 31 May 2022 as coal inventory continues to fall.

Refinancing
The Group has negotiated a 12-month committed facility of £45m with its existing bankers which is based on the previous facility's asset-based lending principles. The facility steps down to £35m by 30 June 2021. This type of facility structure has served the Group well previously but is becoming less appropriate as the Group's business model changes following the cessation of coal mining. The Board intends to negotiate a longer term facility with a more suitable underlying structure over the next few months.

Going concern and Covid-19
The Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. The Group's existing bankers have provided a new committed facility as outlined above. A rigorous process of reviewing cash flow forecasts and testing for a range of challenging downside sensitivities has been undertaken including assessing severe yet plausible impacts of Covid-19. Only remedies to these downsides which are entirely within the Group's control have been assumed to be achievable mitigations to those sensitivities. At all times, the Group's banking covenants have remained intact under this stress testing process. Therefore, and after making appropriate enquiries including reviewing budgets and strategic plans, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the Annual Report and Accounts.

Dividend
On 26 March 2020, the Board announced the deferral of the interim dividend as a precautionary measure against the potential impact of Covid-19 on the business which at that time was impossible to predict. The Board remains cautious but now believes that it has sufficient forward visibility on both earnings and cashflow to reinstate the payment of a dividend and is recommending an unchanged final dividend of 4.5p per share (2019: 4.5p). If approved at the Annual General Meeting, this will be the only dividend paid in respect of the year ended 31 May 2020. It will be paid on 30 October 2020 to all shareholders on the register at the close of business on 18 September 2020. The shares will become ex-dividend on 17 September 2020.

The Board remains cautious but now believes that it has sufficient forward visibility on both earnings and cashflow to reinstate the payment of a dividend.

For the year ending 31 May 2021 and depending on financial performance, the Board intends to return to a conventional dividend payment policy, distributing approximately one third of the anticipated full-year dividend at the interim stage.

Hargreaves Raw Material Services GmbH ("HRMS")

Over the last year there have been two exciting developments within HRMS that have helped to build on the value of the core trading business. Firstly, in December 2019, HRMS acquired 94.9% of DK Recycling und Roheisen GmbH ("DK") for €1. DK's unique recycling process produces high quality pig iron and other products from residual waste materials produced by the steel industry's manufacturing process.

Secondly, HRMS has invested in the construction of a Carbon Pulverisation Plant ("CPP") to provide a low cost and more environmentally friendly energy material to the German heavy industrial base. The CPP is now producing material for its first customer, DK, and will soon be able to provide trial material to other potential customers. Both investments complement the specialist raw materials trading business and create an integrated entity with annual revenue which should exceed €300m in due course.

The impact of Covid-19 on the German manufacturing industry has created a challenging environment for both of these business initiatives to flourish and as a result the timescale for their delivery of growth and profitability is currently uncertain.

Board Changes

I am very pleased that Christopher Jones agreed to join the Board on 1 April 2020. Chris' experience in advising on property development will bring substantial benefits to the Group as we seek to create substantial shareholder value from both our existing land portfolio and new opportunities.

Brexit

The uncertainty as to the final outcome to the Brexit discussions continues. Hargreaves has very little trading activity with any country within the EU. Consequently, the Board expects no material direct impact on the Group's trading activities whatever the final Brexit outcome may be. HRMS trades almost exclusively within the EU but imports much of its trading stock from outside the EU. The Board cannot meaningfully assess any wider macro-economic impact of Brexit which may affect business sentiment in trading and financial markets leading to a material change in the economic or financial environment within the UK and Europe for the Group or its customers.

Strategy

The Board remains focused on delivering reliable and growing profits in and unlocking capital from its Distribution & Services businesses enabling strong cash returns to shareholders alongside investment in the growth of Hargreaves Land. The Board is also supportive of the actions being taken by its German joint venture in creating an integrated specialist manufacturing and minerals trading business in Germany's industrial heartland. The Board believes that this investment has the potential to deliver substantial shareholder value in the next few years.

Shareholder Return

One year ago, I reported that HRMS was not permitted to pay dividends as a condition of its borrowing arrangements for funding the construction of the CPP. Dividends, including the payment of previously undistributed reserves, are expected to recommence in the financial year ending 31 May 2021, with cash being repatriated to the UK in the following financial year. The Board decided that these dividends from HRMS will be passed through to shareholders in the form of an incremental dividend in addition to any normal final dividend which would be declared in the ordinary course in accordance with the dividend policy outlined above. The Board anticipates that this incremental dividend will be in the region of 12p per share. The first such incremental dividend is expected to be declared along with the final dividend for the year ending 31 May 2021 and paid in the following financial year.

Outlook

The past financial year has been another stepping stone as Hargreaves transitions from its traditional coal-based business with the key decision taken to cease all coal mining operations. Despite the challenge of Covid-19, the Group has performed resiliently but there is still much to do to realise and deliver shareholder value. I look forward to reporting further progress during the year ending 31 May 2021, as Hargreaves Land re-establishes its momentum following the delays caused by Covid-19, although the Board expects results to be weighted towards the second half of the year.

Roger McDowell
Chairman
28 July 2020

Footnote:
Underlying Profit before Tax is defined by the Board as Profit before Tax prior to exceptional items, amortisation and impairment of intangible assets and, includes the Group's share of the post-tax profit of its German joint venture excluding any fair value gains. The Board uses this measure as a Key Indicator in assessing the financial performance of the Group throughout the year and believes that its disclosure benefits readers of the financial statements.

Group Business Review
Gordon Banham, Group Chief Executive

The decision to cease all coal mining operations is a defining point in Hargreaves' transition from its traditional business.

Distribution & Services
The Distribution & Services business recorded revenue of £216.0m (2019: £293.8m). The decrease in revenue was expected as the Specialist Earthworks business unit completed most of its contracts in the previous financial year prior to the forthcoming full mobilisation of the HS2 project.

Operating profit prior to exceptional items and amortisation was £8.5m (2019: £8.7m). Improvements in operating profit in the Production & Distribution and Industrial Services businesses offset a fall in Specialist Earthworks as a result of much lower levels of activity. On an IFRS basis, this business segment recorded an operating profit of £2.8m (2019: loss of £8.1m).

Exceptional Items
The Group recorded a net £1.7m of exceptional charges in the period (2019: £16.1m exceptional loss) which comprised the following items:

Sale of Drakelands Restoration Limited
On 2 December 2019, the Board announced, the sale of its subsidiary, Drakelands Restoration Limited ("DRL"), to Tungsten West Limited ("TWL") for £2.8m in cash which gave rise to an exceptional gain of £2.4m. Importantly, Hargreaves has also entered into a 10-year Mining Services Contract ("MSC") with TWL to carry out works similar to those previously fulfilled for Wolf. The MSC includes advance payment provisions to protect Hargreaves from credit risk. Should TWL not proceed with its mining plans, Hargreaves will benefit from a restoration programme at the site which is already independently funded.

Despite the adverse impact on the prior year's results, we have now negotiated a strong contractual position to capitalise on any developments at the site without further financial exposure.

Cessation of Coal Mining
In July of this year, Hargreaves ceased to mine coal at its last remaining surface mine at House of Water in Scotland. This decision was made in May 2020 and as a result an exceptional charge of £4.1m, comprising employment related liabilities of £1.4m and accelerated restoration accrual, plant and mining asset depreciation of £2.7m has been recorded.

British Steel Limited
In the results for the year ended 31 May 2019, a total exceptional charge of £8.0m was recorded following the announcement that British Steel Limited was being placed into liquidation. Subsequently, British Steel continued to be operated under the aegis of the Official Receiver and the Group continued to provide services under similar commercial terms as prior to the insolvency. In March 2020, it was announced that the Jingye Group, a Chinese steel business, had acquired the business and Hargreaves is continuing to provide services to British Steel. As a result, £1.4m of the original provision which related to potential employment liabilities has been released as it is no longer required. The balance of the provision has been utilised against plant, work in progress and debtor balances.

Legacy Contracts
The Group has settled one of the remaining legacy civils contracts pertaining to C.A. Blackwell. A loss of £1.4m was incurred. Only two material final accounts remain to be agreed.

Further information on the performance of each business within Distribution & Services is given below.

Production & Distribution
Revenue was £109.3m (2019: £119.4m), with the reduction primarily due to lower volumes of low margin thermal coal being traded. Operating profit prior to exceptional items and amortisation improved to £4.3m (2019: £3.2m) largely due to improved profitability in the Transport business, which is now focused on waste markets including clinical waste. Mining operations have been conducted efficiently throughout the last two financial years and as a result the business is carrying higher levels of inventory than is usual. As reported above, mining operations ceased in July 2020. It is expected to take approximately two years to reduce coal inventory levels to around £8m to £10m which represents an appropriate level to support an ongoing coal trading operation providing essential coal to a range of key industries including sugar, brick and cement manufacturers.

Industrial Services
Revenue was flat at £86.4m (2019: £87.4m) with Operating Profit prior to exceptional items up by 13% to £4.3m (2019: £3.8m), a margin of 5.0% (2019: 4.3%).

UK
In the UK, revenue grew by 3% to £59.6m (2019: £57.9m) with Operating Profit prior to exceptional items improving to £3.7m (2019: £2.7m), increasing margins to 6.2% from 4.7%.

The UK business is gradually transitioning away from mainly supporting coal fired power stations and broadening its customer and skills base. The main area of activity is in materials handling but increasingly the business is developing its skills in mechanical and electrical engineering within industrial complexes and is well positioned to secure further work of that nature. The forward order book and term contract positions held by the Industrial Services business provide good visibility of revenue for the next financial year.

International
In the International business, which is primarily based in Hong Kong, revenue reduced to £26.8m (2019: £29.5m) with an Operating Profit of £0.6m (2019: £1.1m), a margin of 2.2% (2019: 3.7%).

The Hong Kong business experienced some slowdown and a modest reduction in activity levels in the final quarter of the year due to Covid-19. Hargreaves' position as a leading vendor to CLP Power Limited remains. We are striving to develop this key and valued relationship by extending the range of services

The Group has traded resiliently through the Covid-19 pandemic and I am both pleased and relieved that our employees and business have remained safe.

we provide, and we expect this initiative to begin to bear fruit during the year ending 31 May 2021. The South African business, which reported revenue of £1.9m (2019: £2.0m), broke even as it did in 2019, despite a loss of £0.1m in April when operations had to cease entirely for one month due to Covid-19.

Specialist Earthworks
The Specialist Earthworks business recorded revenue of £20.3m (2019: £87.0m) and an Operating Loss prior to exceptional items of £0.1m (2019: profit of £1.8m). The reduction in revenue was expected following the completion of a number of large contracts including the A14 and the delay to the full mobilisation of HS2.

The legacy civils contracts inherited with the acquisition of C.A. Blackwell reported £1.4m (2019: £0.7m) of operating losses in the year, which are recorded as exceptional. These contracts are now completed on site with only minor defects corrections activities remaining. Final accounts remain to be agreed with a total of £11.5m of contract assets, including retentions.

The Specialist Earthworks business is focused on major earthworks projects and has been selected as a strategic partner to the Kier/Eiffage/Bam/Ferrovial joint venture for earthworks on the HS2 rail project. Currently the business is engaged in a Heave Trial on one section of the HS2 line. Contractual discussions are ongoing and full mobilisation for the project is expected to begin in the autumn of this year although the precise timing remains unclear.

The business continues to provide earthmoving consultancy advice on other major planned infrastructure projects in England. The timing of many of these projects is uncertain and subject to political influence, but the business is well placed to provide what is a specialist capability in a market with a small number of potential suppliers.

As a result of the delays to the full mobilisation of the HS2 project, results for the financial year ending 31 May 2021 are not expected to be materially different from those recorded in this financial year and will be weighted to the second half of the year.

Hargreaves Land
Hargreaves Land, the Group's Property business, contributed £6.2m (2019: £2.8m) of revenue and an Operating Loss of £0.2m (2019: profit of £2.2m). Property revenue related to the sale of non-strategic land which releases cash but does not have a constant or recurring profit characteristic.

At the major Blindwells site near Edinburgh, completion of the first sales of fully serviced plots were on schedule to be recorded in May but have been delayed into the year ending 31 May 2021 by Covid-19 as all site works had to be suspended in late March. Site works recommenced in late June but at a slower pace as a result of Covid-19 safety precautions. £8.0m (2019: £7.0m) of infrastructure cost has been invested in the site during the year, which is included in Inventory in the Group Balance Sheet.

In May 2020, we announced that Hargreaves Land had exchanged the first major commercial contract on Unity, a mixed use development site located at Hatfield, South Yorkshire. Unity is a joint venture with regional developer Waystone Limited and consists of 250 hectares of land of which 60 hectares is allocated for employment and commercial uses with the remainder having planning consent for 3,100 residential properties.

The joint venture has exchanged conditional contracts for the sale of a 32-hectare (79-acre) plot to a national retailer for the development of a 75,000 sq. metre (800,000 sq. ft) national distribution centre and training facility.

The sale, which will realise approximately £25m of revenue for the joint venture on legal completion, is conditional upon the grant of planning permission and construction of a new access road which will provide direct access to junction 5 of the M18. Work on the road is expected to commence shortly with legal completion of the sale targeted for the summer of 2021.

Hargreaves Land's strategic goal is that of a property developer rather than acting as a long-term owner of investment properties. It looks to exploit appropriate opportunities whilst restricting the amount of capital to be invested as much as possible. The Board continues to hold the view that the market value of its property portfolio is materially greater than its book value. Where appropriate levels of return can be generated, Hargreaves Land aims to deliver greater development value if that can be extracted through additional investment or by securing enhanced planning conditions.

Central Costs
The Group has achieved a further 16% reduction in Central Costs to £3.7m (2019: £4.4m). Increased insurance costs in a hardening market may result in these costs reverting to previous levels in next financial year.

Hargreaves Raw Material Services GmbH ("HRMS")
The Group's German joint venture, HRMS, contributed £2.1m (2019: £1.5m) to Profit before Tax, including a fair value gain on the acquisition of DK of £0.6m. Otherwise, these results are derived entirely from the HRMS speciality commodity trading business. As noted in the Chairman's Statement above, the Carbon Pulverisation Plant ("CPP") has just started to supply initial quantities of material and made no profit contribution in the financial year.

DK Recycling, which was acquired by HRMS in December for €1, was previously a loss-making business but changes to the cost base and operating procedures have resulted in a break-even performance for the period since acquisition. Following an assessment of the fair value of DK at the date of acquisition, a credit of £0.6m has been recorded. DK is separately financed from the rest of HRMS' activities with no recourse to either HRMS or the Group.

New contracts with customers for both the CPP and DK are negotiated on a calendar year basis and as such no material change in financial performance is expected until the 2021 calendar year. Additionally, due to Covid-19, German industrial markets are operating at much lower levels of activity than previously. As a result of these factors, the investments made by HRMS are not expected to have any material impact on the Group's results until the year ending 31 May 2022.

Summary

The Group has traded resiliently through the Covid-19 pandemic and I am both pleased and relieved that our employees and our business have remained safe. Nevertheless, the pandemic has impacted the progress of our Hargreaves Land business and caused a number of smaller delays to other business operations. The delay to the mobilisation for HS2, following the UK Government's approval for the project to proceed, is also frustrating but outside of our control.

The decision to cease coal mining is a landmark event in the history of Hargreaves and demonstrates that the Group is accelerating its transition away from its traditional business roots. Transition and change always create risk and uncertainty alongside opportunity. I would like to thank our employees for their commitment and efforts to help the Group to make that transition and I look forward to them sharing in our future success as we take advantage of the opportunities which lie ahead.

Gordon Banham
Group Chief Executive
28 July 2020

Focus on core competencies and clear line of sight to value creation

The Group operates across a range of activities supporting key industries within the UK and South East Asia.

Distribution & Services

The Distribution & Services segment comprises three business units: Production & Distribution, Industrial Services and Specialist Earthworks.

Production & Distribution

The Production & Distribution business unit represents the traditional core activities within Hargreaves comprising coal operations and transport services.

Coal operations

The Group made the decision to cease all coal mining activities once the existing operation in Scotland could be safely concluded in July 2020. This brought to an end a long history of coal mining within the Group and leaves the business in a more flexible position to adapt to changing customer demands as an increasing focus is on the environmental impact of energy sources.

Following the cessation of mining activities, the business retains a well-established specialist coal trading operation in which we source, blend and supply various carbon products to satisfy the ongoing demand for the production of cement, brick and sugar within the UK for which coal remains an essential energy source. Other markets which also continue to use coal include the domestic heating market and certain prisons, schools and hospitals together with steam powered heritage railways. The trading business is supplemented by the Maxibrite production facility producing DEFRA authorised low sulphur content briquettes, which are fully compliant with the new UK clean air requirements.

Coal remains an essential component of many industries within the UK and demand for properly sourced and blended coal is likely to continue for several years to come. We are well placed to service this continuing market due to our long-standing relationships with customers here in the UK and suppliers based overseas.

Revenue is likely to remain stable for the next few years as our existing own produced coal stocks are sold down, generating substantial cash inflows.

Transport

The Group operates a transport fleet of over 100 trucks providing haulage into the waste, recycling and construction markets. In recent years, the operation has undergone a significant refocusing strategy to move away from coal. The business has focused on servicing the waste sector, in particular Energy from Waste plants and clinical waste as well as the haulage of fertilisers. This strategy has been successful and has seen the results from the Transport business improve over the last 24 months.

The medium-term focus of the Transport business is to consolidate its position within the waste and fertiliser markets which are anticipated to remain stable over the next 5-10 years. These sectors have been largely unaffected by Covid-19 as they are key industries within the UK. Furthermore, in particular within Energy from Waste, contracts for service are typically longer term providing greater visibility of revenue and stability in profitability.

Industrial Services

The Industrial Services business is a leading provider of outsourced bulk materials handling, logistics and mechanical and electrical engineering into key industries such as energy, steel, port operations and various industrial complexes in both the UK and South East Asia.

UK

The UK operations are focused on materials handling around industrial complexes, supplemented by a mechanical and electrical engineering capability. Opportunities exist for the business to grow the mechanical and electrical engineering services, particularly focusing on delivering additional services to our existing customer base.

Following British Steel going into liquidation in May 2019, the Group has continued to work at much the same level of activity throughout the year ended 31 May 2020 whilst the business was managed by the Official Receiver prior to its sale to Jingye Group in March 2020. The acquisition by Jingye provides Hargreaves with some short-term stability, however, longer term opportunities at British Steel will be determined largely by the plans of the new owners. Jingye's acquisition has removed the risk of redundancy from our workforce there and I would like to thank them for their commitment during an extended period of uncertainty.

The strategy is to focus on higher margin mechanical and electrical engineering contracts as the business transitions from its traditional customer base as coal fired power stations are planned for closure over the next few years.

UK operations have been largely unaffected by Covid-19 as many of the industries we support are considered to be key within the UK, specifically energy, fertiliser manufacture and port handling.

International

Overseas operations are focused on Hong Kong and principally concerned with supporting both coal and gas fired power generation. The business was successful in securing a 5 year NEC contract with CLP Power in Hong Kong last year, which provides the business a stable base from which it can look to grow its service offering and customer base.

Operations provided by the Hong Kong business are principally mechanical and electrical engineering complemented by access services. Business growth is based upon broadening the range of services provided to existing customers as well as penetrating new customers outside of the power industry and in territories other than Hong Kong.

Operating Review continued

Specialist Earthworks
Blackwell is one of the leading major earthworks contractors in the UK, working in partnership with major civil engineering contractors to deliver large infrastructure projects across the UK. The business has had some difficult civils contracts that were in place at the date of acquisition by the Group, however, these contracts have now completed on site and the business is focused on its core strength of major earthmoving.

The successful history of Blackwell was built on the back of major infrastructure projects within the UK including Heathrow Terminal 5 and the Olympic Park. This core competency has been further demonstrated by the successful delivery of the A14 upgrade project. This focus on major infrastructure earthworks will form the future of the business.

Future growth opportunities for the business include earthworks on two substantial sections of HS2, in which the business has been appointed as a strategic partner to the Kier/Eiffage/Bam/Ferrovial joint venture. Other large scale road and infrastructure projects, particularly within the South of England, are the target contracts for Blackwell over the next few years.

Hargreaves Land
The Group has a substantial land portfolio as a result of its historic activities within mining. The Board believes the Group can unlock and enhance the value in these assets and use that as a platform to grow a successful land development business.

In recent years the Group has made a number of key recruitments into Hargreaves Land, including the appointment of David Anderson as Group Property Director in 2018 and more recently of Chris Jones as Non-Executive Director, with a focus on property development to bolster the growth and delivery of this business unit.

Hargreaves Land identifies, develops and then realises value from opportunities, either in its own right or through a partnership structure where appropriate, to manage levels of capital allocation. Hargreaves Land is not looking to become a property investment company where capital is tied up for many years, however there are certain projects already owned by the Group that may be held as investment properties for the medium term to supplement income whilst the business is in its early phases.

Unfortunately, the Land business has been impacted by Covid-19 as a number of property transactions which were expected to complete before the year end were delayed. It is unclear at present how quickly the property market will recover allowing the business to resume its growth, however, the Board remains confident that despite this delay Hargreaves Land can regain its momentum and deliver on its current plans.

Hargreaves Raw Materials Services GmbH ("HRMS")
HRMS is a joint venture of the Group based in Duisburg, Germany. The business has changed quite substantially over the last 12 months. It has a long history as a supplier of specialist raw materials into many heavy industries within Germany and the rest of Europe, including the steel, foundry, sugar, insulation and ceramic industries. Whilst this trading business continues, during the year HRMS has invested in a Carbon Pulverisation Plant ("CPP") and acquired a steel waste recycling business, DK Recycling und Roheisen GmbH ("DK").

The CPP is now producing material for its first customer, DK, which has an annual requirement of c70,000t. This pulverised material provides the opportunity to displace brown lignite coal, a highly polluting form of coal used in many German industries, with a cleaner alternative. The plant is based in Duisburg on the Rhine with good logistical access for suppliers and distribution for finished product. The nearest equivalent plant is over 200 miles away providing a strong logistical advantage to supply into the heartland of industrial Germany. The plant has the capacity to produce 400,000t of pulverised carbon per annum. Trial product will soon be available to supply potential new customers.

The acquisition of DK represents a form of vertical integration as DK was a customer of HRMS for many years and now takes supplies from the CPP. DK is the world's largest recycler of ferrous waste materials from the steel industry. It takes waste product and recycles it into pig iron which is then used in the manufacture of steel products.

These recent additions of complementary operations at HRMS have created an integrated operation with the capacity for annual revenue of over €300m. The growth provided by both the CPP and DK will help to reduce the volatility previously experienced within the profits of the HRMS trading business.

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

The KPIs for the Distribution & Services business include:
- Underlying Operating Profit
- Return on Capital Employed
- Average Working Capital
- Lost Time Accident Ratios
- "Near Miss" Reporting

The KPIs for the Hargreaves Land business include:
- Underlying Operating Profit
- Cash Generated from non-core asset sales
- Return on Capital Employed

Group level KPIs include:
- Underlying Profit before Tax
- Net Debt (inclusive of leasing debt)
- Lost Time Accident Ratios

The Distribution & Services business achieved all of its KPIs in the year ended 31 May 2020 but due to the impact of Covid-19 delaying sales, both Hargreaves Land and the Group failed to achieve the KPIs related to Underlying Profit and cash generated from non-core asset sales. The Group achieved its Net Debt KPI and the Lost Time Accident Ratio target.

Summary
The operations of the Group have changed dramatically over recent years and more evolution is to come following the cessation of mining, the focus on mechanical and electrical engineering within Industrial Services and the exciting opportunities within Hargreaves Land. However, the operations are now moving onto a more stable footing with a tight focus on core competency within each revenue stream and clear line of sight to growth opportunities and value creation.

Gordon Banham
Group Chief Executive
28 July 2020

Financial Review
John Samuel, Group Finance Director

Revised banking facilities secured

Results
Group Revenue from continuing activities was £222.2m (2019: £302.6m) with Underlying Profit before tax of £4.9m (2019: £6.4m). The reduction is due to the delays in expected sales and profit in Hargreaves Land as a result of Covid-19. Underlying Profit before tax is defined by the Board as Profit before tax prior to exceptional items, amortisation and impairment of intangible assets and fair value gains on acquisition. This is a key performance indicator for the Board in measuring the Group's financial performance throughout the year.

The Group incurred net exceptional charges of £1.7m (2019: £16.1m) and impairment on intangible assets of £1.6m (2019: £0.1m), leading to an Operating Profit of £1.3m (2019: loss of £9.7m).

Net finance expenses decreased by £0.4m to £1.3m (2019: £1.7m), largely due to a £0.3m gain on foreign exchange (2019: loss of foreign exchange of £0.1m). The adoption of IFRS 16 has led to an increase in interest payable on leases from £0.5m to £0.7m.

The Group recorded £2.1m (2019: £1.5m) of profits from Joint Ventures, including a fair value gain of £0.6m following the acquisition of DK Recycling und Roheisen GmbH by HRMS.

This results in profit before tax from continuing operations of £2.2m (2019: loss of £9.9m). The Group had no income or expenditure relating to discontinued operations in the year ended 31 May 2020 (2019: profit of £3.5m).

Taxation
The income tax credit for the year from continuing operations is £2.1m (2019: £1.7m). The credit has been heavily impacted by the change in the rate at which deferred tax is measured increasing from 17% to 19%.

After taking professional advice, the Group engaged in a disclosable tax planning scheme relating to leasing which was implemented in 2011, the legality of which has been challenged by HMRC. In previous years, the Group has paid all cash payment obligations in relation to the scheme to HMRC. The Board has been advised that the scheme was lawful. The matter was heard by the First Tier Tribunal in June 2019 and in a decision released on 23 March 2020, the determination was in favour of HMRC. Following further advice, the determination has been submitted for appeal. A final outcome is not anticipated for at least 12 months. The Group is one of five appellants in the matter, who would benefit from a successful outcome of this case.

Cash Flow
The profit for the year from continuing operations of £4.3m (2019: loss of £8.2m) generated net cash outflow from continuing operating activities of £7.1m (2019: £7.5m inflow) after adjusting for depreciation of £19.3m (2019: £16.1m) and other items. The movement in working capital for this year was a cash outflow of £26.2m (2019: inflow of £1.2m), largely representing the increase in inventories following the efficient mining conditions. There were no cashflows associated with discontinued operations following the disposal of Brockwell Energy Limited in the previous year (2019: inflow of £15.6m)

Investing activities contributed £9.1m of cash following the receipt of £12.2m in proceeds of disposal of property, plant & equipment, right of use assets and investment property (2019: £3.8m). After a net outflow of £3.8m (2019: £19.1m) in finance facilities and the payment of £1.4m (2019: £2.3m) in dividends, there was a net decrease of £3.1m (2019: £5.5m increase) in cash balances to £18.5m (2019: £21.6m). After deducting debt of £46.6m (2019: £46.1m adjusted for IFRS 16), including leasing debt of £14.6m (2019: £19.2m adjusted for IFRS 16), the Group's Net Debt was £28.1m (2019: £24.5m adjusted for IFRS 16).

Capital Expenditure
Gross capital expenditure of £2.8m includes £1.3m on Mining Assets and £1.2m on Motor Vehicles and Plant. Depreciation and impairment for the year was £19.3m (2019: £16.1m), including £6.5m (2019: £5.7m) in relation to mining assets and mineral reserves.

Banking Facilities
The Group's existing bankers have provided an initial £45m facility until 31 July 2021. The facility steps down at certain points through the year to £35m by 30 June 2021. The structure of this facility, which is based on similar asset-based lending principles as its predecessor, is not considered to be appropriate as the Group's business model develops away from coal production to a Group which focusses more on trading, services and property development. During the next few months, we will be working with lenders to put a longer term facility in place which will fit better with Hargreaves' evolving business model.

Pensions
The Group has the obligation to fund two industry-wide defined benefit pension schemes and an unfunded concessionary fuel scheme, all of which are closed to new members and are related to the former mining operations at Maltby Colliery. The combined IAS 19 liability of these schemes at 31 May 2020 is £3.8m (2019: £4.2m). Contributions in the year of £1.9m (2019: £1.7m) have been offset by interest and expenses of £0.3m (2019: £0.3m) and net changes in actuarial measurements of £1.1m (2019: £1.2m). The actuarial movement is accounted for through the Statement of Other Comprehensive Income. The triennial valuation of the schemes as at 31 December 2018 was concluded within the year resulting a modest reduction in the technical provisions deficit.

IFRS 16
IFRS 16, Leases, came into effect for the year ended 31 May 2020. The Group has adopted the modified retrospective approach and not restated prior year figures. The impact on adoption was to recognise Right of Use assets with a combined value of £6.6m and an associated lease liability of £6.6m.

Financial Review continued

Covid-19
The Group has taken advantage of the UK Government's support for businesses impacted by Covid-19. In the financial year, £0.3m of cash was received under the Coronavirus Job Retention Scheme. Additionally, as permitted by law, the Group has deferred £4.8m of VAT payments which are accrued and will fall due for payment in June 2021.

Distributable Profits
The distributable profits of Hargreaves Services plc are £25.2m (2019: £23.6m). The Board is recommending an unchanged final dividend of 4.5p (2019: 4.5p) per share bringing the total for the year to 4.5p (2019: 7.2p). The proposed final dividend would cost approximately £1.4m and as a result, the Board can confirm that it has suitable levels of distributable profits to cover the dividend. It was decided not to pay an interim dividend as a precautionary measure until the possible impact of Covid-19 could be better understood.

Share Capital
There are 33,138,756 (2019: 33,138,756) ordinary shares of 10p each in issue of which the Company holds 856,410 (2019: 1,013,502) in treasury. During the year, 154,796 (2019: 56,402) shares were released from treasury to satisfy the exercise of share options.

Going Concern
The Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. Committed banking facilities are in place until 31 July 2021 and the Board is confident that suitable new facilities will be secured to replace them. A rigorous process of reviewing cash flow forecasts and testing for a range of challenging downside sensitivities has been undertaken. Only remedies to these downsides which are entirely within the Group's control have been assumed to be achievable mitigations to those sensitivities. At all times, the Group's banking covenants and cash headroom have remained intact under this stress testing process. Therefore, and after making appropriate enquiries, including reviewing budgets and strategic plans, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the Annual Report and Accounts.

John Samuel
Group Finance Director
28 July 2020

Audit & Risk Committee Report
Nigel Halkes FCA, Chair of the Audit & Risk Committee

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

On behalf of the Audit & Risk Committee I am pleased to present the Committee's Report for the year ended 31 May 2020.

Membership of the Committee
The Committee consists of the three Non-Executive Directors and is chaired by me as the Senior Independent Non-Executive Director. The composition of the Committee has changed during this financial year with the addition of Christopher Jones on joining the Board on 1 April 2020. Chris' expertise in property development brings a welcome insight to the Committee in a specialist area. The Board believes that the Committee members have the skills, qualifications and experience to discharge their duties in accordance with the Committee's terms of reference and have appropriate knowledge and experience in the sectors within which the Group operates.

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

For the financial year ending 31 May 2021, the Committee intends to continue with its programme of four meetings to be held during the year so that the work of the Committee is evenly spread, particularly with respect to Risk Management and internal audit.

Terms of Reference of the Committee
The Committee is established by and is responsible to the Board. It has written terms of reference, which are available for review at: **www.hsgplc.co.uk.**

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

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

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

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

- Setting the Internal Audit programme for the year and monitoring the progress and outcome of that, including reviewing reports from the Internal Auditor;
- Reviewing the Quarterly Risk Report and recommending appropriate actions and responses to the Board;
- Receiving quarterly reports on legal actions which the Group is concerned with;
- Receiving reports on any whistleblowing matters;
- Reviewing and approving changes in the Group's internal control policies and procedures;
- Reviewing the Group's procedures in respect of GDPR;
- Reviewing the draft interim financial statements;
- Recommending the appointment of a new auditor;
- Reviewing the audit plan proposed by the new external auditor;
- Reviewing the draft report and accounts for the year ended 31 May 2020 and recommending their approval to the Board including:
  - Considering the accounting policies adopted for the preparation of the accounts;
  - Considering the key accounting estimates and judgements used in their preparation including but not restricted to contract revenue, impairment of assets and Goodwill, mining production assets and associated restoration costs and provisions;
  - Considering the assumptions used to support the adoption of the going concern basis of accounting taking into account the potential impact of Covid-19;
  - Considering the Risk Management section of the Annual Report and in particular its completeness and relevance to the accounts.

Audit & Risk Committee Report continued

External Auditor
Following the completion of the audit for the year ended 31 May 2019, the Committee recommended to the Board that an audit tender process be carried out. KPMG LLP had served as auditor since the Company's incorporation in 2003 and the Committee believed that it was appropriate to reconsider their appointment. A robust and competitive tender process was undertaken, and the Committee recommended to the Board that PricewaterhouseCoopers LLP be appointed as auditor. This was implemented in January 2020.

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

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

After due and careful enquiry and after reviewing the external Auditors' Report to the Audit Committee and discussing the findings with the auditor, the Committee is satisfied that the scope of the audit was appropriate and that all significant accounting judgements exercised by management had been suitably challenged and tested including, but not limited to, the matters referred to in the long form Audit Report. The Committee recommended to the Board that in their opinion the audit had been carried out effectively and that the report of the external auditor be accepted.

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

Internal Audit
Before the start of each financial year, the Committee agrees a programme of work for the internal audit function. The programme is designed to test the effectiveness of the internal control systems and covers key financial and other controls which the Committee recognises are important in ensuring the integrity of the Group's operations, as well as its financial reporting. The programme includes self-assessment questionnaires, detailed testing of processes and the review of appropriate documentation. The Committee receives each full internal audit report, including any comments by management and any recommendations for improvement made by the internal audit function.

The 2019/20 programme included reviews of compliance with the Approvals and Authorisations Mandate, the Group's Data Retention Policy, compliance with a number of the Group's regulatory and legislative requirements, Starters and Leavers processes and the Business Continuity programme within IT. Business unit Finance teams were also required to complete a self-assessment questionnaire around their key financial controls, before Internal Audit carried out targeted testing of particularly high-risk areas to ensure that the controls were operating as described. No material findings were raised across the audit programme.

The 2020/21 programme will again include cyclical reviews of compliance with the Approvals and Authorisations Mandate, the Group's Data Retention Policy, key financial controls and various regulatory requirements. Payroll, procurement and insurance claim and renewal processes will be reviewed following the implementation of new systems and procedures, while assurance will also be provided around the design and effectiveness of controls relating to tendering in Industrial Services in the UK and as part of the HS2 contract.

The use of computer aided audit techniques to monitor transactional data using the Group's existing management information systems has been further developed, improving the efficiency, scope and effectiveness of the Internal Audit function moving forward.

Risk Management
The internal audit function reports quarterly to the Committee on the key risks identified by the Board as being so material that they need to be regularly monitored as to whether those risks have increased or decreased during the period and what remedial actions may need to be taken to counter them. Risk registers at a business unit level are reviewed on a quarterly basis, with any material changes being escalated to the Board. The Risk Management report which follows this report sets out these risks and the steps the Group has taken to mitigate them. The impact of the Covid-19 coronavirus pandemic on operations both in the UK and abroad has introduced a new risk. The Group has moved quickly to mitigate the risk where possible through the issuing of a pandemic policy to staff, as well as regular meetings of senior management to monitor the ongoing situation and the evolving government guidance. The minutes of these meetings are shared with the Board.

Going Concern Basis of Accounting
The Covid-19 pandemic has created major uncertainties for many businesses and combined with the Group's refinancing discussions, has placed particular importance on reviewing the assumptions used in testing the appropriateness of the going concern basis of accounting. The Group's cash flow model prepared as part of the annual budget and five-year plan process was subjected to a number of stress tests. These included measuring the impact of the deferral of certain specific anticipated revenues (for example in Hargreaves Land) and other more general sensitivity tests related to reductions in revenue and the deferral of certain specific anticipated receipts. These assumptions and sensitivities were subjected to thorough analysis and review by the external auditor. The Committee questioned both management and the external auditor on the assumptions and testing they had applied and were satisfied to recommend to the Board that the going concern basis of accounting remains appropriate.

The Audit & Risk Committee Report was approved by the Board on 28 July 2020 and signed on its behalf by:

Nigel Halkes FCA
Chairman of the Audit & Risk Committee
28 July 2020

Risk Management

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

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

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

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

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

Alongside management systems and legal compliance, the Group recognises the benefits that effective leadership and the setting of clear expectations has upon workplace behaviour. Therefore, the Group has visible performance metrics, which are communicated at all levels throughout the organisation and are designed to enable the early identification of adverse trends and the development of suitable intervention and improvement measures.
The Board carries out at least two site visits each year to see SHE processes at first hand and to emphasise to employees the importance the Board places on SHE activities, although the Covid-19 coronavirus response measures have not made this possible in 2019/20.

Since February of this year the Group has been intensely focused on managing the risk to the business posed by the Covid-19 outbreak. A Covid-19 steering Group is in place to ensure a consistent approach is applied across the Group with regards to the application of best practice in keeping our work environments Covid-19 secure and to also ensure a fair and caring approach to employee management and support as we work through this challenging time. As many of our activities supply goods and services that are critical to UK infrastructure we have managed to keep much of our business operational and these areas have been working in a safe and compliant state with controls which prevent the risk of infection transmission whilst as a minimum being compliant with government advice. An ongoing audit and inspection process is in place to ensure this remains the case. The evolving situation is monitored on an ongoing basis with changes agreed and implemented as local and government advice changes.

During the last 12 months the Board is pleased to note that the Group's safety performance improved significantly, with a particularly pleasing reduction in both the Lost Time Incident Frequency Rate ("LTIFR") and the severity of incidents. Key safety objectives for next year have been agreed with the aim of maintaining and, where possible, improving this year's excellent performance.

Insurance
A key piece of work towards the end of the year was the appointment of a new insurance broker. A robust tender and assessment process was carried out with the chosen advisor being Marsh, who are widely recognised as being one of the world's leading brokers. Whilst the number of personal injury claims has remained stable throughout the year, it is believed that by working closely alongside our new broker we will not only improve our claims management processes but also bring an improved understanding of risk management into the operational teams.

Corporate Risks
The Board undertakes a full annual review of the Group's risk profile and strategic approach to risk in light of the ongoing substantial changes to the Group's operations. A condensed high-level Risk Register, which identifies nine areas of corporate risk which the Board has determined are the most critical, was introduced last year and has been reviewed and deemed to remain appropriate. These areas were selected on the basis that a material adverse event in any one of them could potentially either:

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

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

Risk Management continued

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

- Contractual Risk
- Recruitment & Retention of Key Individuals
- Regulatory & Legislative Compliance
- Sudden Decline in Markets (particularly coal)
- Environmental Risk
- Fraud
- IT Security
- Liquidity & Credit Risk
- Failure of a Material Business Unit

A further risk was added to the Risk Register in March 2020 to cover the ongoing impact of the Covid-19 pandemic.

A table describing these risks and the mitigations in place throughout the Group to protect against them is set out on pages 14 to 15.

Key risks	Description	Mitigation
Contractual Risk	Multiple businesses of the Group enter into and manage diverse and complex contracts as part of their core operations. Bad planning, agreement to onerous terms, ineffective management and delivering services outside of the Group's core competencies could all erode the value of the contract and increase the risk exposure to the Group. Attached to the risk surrounding contracts are the potential financial and reputational impacts on the resolution of defective works and warranty claims following contract completion.	• Delegated Authority Mandates in place throughout the Group requiring appropriate levels of senior personnel to approve contracts. • Requirement for legal review of all potential contracts which meet the agreed criteria, detailed within the Delegated Authority Mandates. • Recruitment and employment of suitably qualified and competent personnel at all levels to undertake works to minimise risk relating to defective works and associated warranty claims. • Targeting of contracts where scope of work fits core competency of available resources.
Recruitment and Retention of Key Executives and Skilled Employees	Key executives, senior management and skilled employees possess the industry knowledge and experience, without which, our strategic objectives may not be achieved. If the Group is unable to recruit or retain both key executives and skilled employees, this could adversely affect the Group both operationally and financially.	• The provision of remuneration and terms of employment that are competitive in the market. • Identification of key strategic roles across the Group. • Succession planning for these identified key strategic roles.
Regulatory and Legislative Compliance	Failure of the Group or a business within the Group to comply with its applicable regulatory and legislative obligations, resulting in financial, reputational and potentially criminal implications for the Group or its responsible employees.	• Appropriate and specialist management systems are in place across the Group to ensure compliance with our obligations. • Competent and appropriately skilled individuals hold key roles in assuring our compliance to our regulatory and legislative obligations. • Memberships to various trade bodies to highlight any issues, allowing for early planning and appropriate representation.
Sudden Decline in Markets (particularly coal)	Early decline of markets in which the Group participates, in particular the coal market, could negatively impact the Production & Distribution division's ability to achieve its strategic objectives resulting in a material financial impact to the Group.	• The Board has implemented a strategic plan to lessen dependency on the coal market and to diversify the Group's activities into other industries. • The Board has taken the decision to cease all coal mining, minimising the exposure that the fluctuating coal prices created on a fixed cost of production.
Environmental	There are inherent environmental risks within some of the Group's operations. If not properly managed, these risks could result in environmental contamination with disruption to business, financial costs and loss of reputation. In particular, the processes used in the mining of coal present environmental risks which may affect not only the Group's property but also property belonging to third parties.	• Provision of clear guidance on the environmental standards which the Group's operations must adhere to. • Compliance with laws, regulations and industry best practice is a priority across the business. • Environmental management strategies are in place at all applicable sites and all mining ceased in July 2020.
Fraud	In the course of its operations, the Group is exposed to fraud risks from a number of internal and external sources.	• Fraud risk management policy is in place across the Group. • The Group has many controls and procedures in place to limit the risk of fraud. These controls include, but are not limited to, detailed Authorisation and Approvals Mandates, system automated controls, segregation of duties on particular processes and periodic Internal Audit reviews.

Key risks	Description	Mitigation
IT Security	There is an increasing reliance on the stability and security of the IT network for delivering day-to-day operations, whilst the volume and types of data held within it increases. This reliance on IT increases the potential for sophisticated cyber-attacks to target the Group's computer systems, infrastructure, networks and personal devices with the intention of paralysing operations for an immeasurable amount of time, carrying material financial and reputational implications for the Group.	• The Group has a dedicated IT function, with a high degree of skill and experience in maintaining and monitoring the IT infrastructure. • 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. • A risk-based IT strategy is in place focusing on four strategic initiatives: security, resilience, digital transformation and delivery.
Liquidity and Credit Risk	The Group's capital structure requires the ongoing provision of liquid credit provision from banks and asset funding institutions. The Group's trading relationships require contract and credit exposures to specific customers that are material to the results of the Group, sometimes over a long period. Credit risk arises from the possibility that customers may not be able to pay their debts. The failure of the Group to maintain access to liquidity or the failure of a material customer to meet its liabilities could result in a material adverse financial impact for the Group.	• The Group maintains strong relationships with its lenders and seeks to put in place appropriate finance facilities aligned to both the short and medium-term requirements of the business with sufficient flexibility to manage liquidity fluctuations within reasonable parameters has put a 12-month facility in place which continues to be based around asset-based lending principles. Over the next few months, the Group aims to secure medium-term facilities with a structure which will be more appropriate to its changing business model following the cessation of coal mining. • Short and medium-term cash flow forecasting is in place across the Group. • 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. • A robust capital expenditure procedure is in place Group-wide to control investment in illiquid assets.
Failure of a Material Business Unit	The Board assesses that the failure of HRMS in particular would create a material risk to the Group. HRMS is a key supplier of specialist raw materials to major European customers in the steel, foundry, smelting, ferroalloy, sugar, limestone, insulation, refractory and ceramic industries. During the year ended 31 May 2020, HRMS has invested in the construction of a Carbon Pulverisation Plant and owns a material steel waste recycling business. The Group's share of HRMS profits represents a material contribution to the Group profit before tax.	• The Group's investment in HRMS is governed by a shareholders' agreement which provides a series of rights to the Group including controls over the approval of budgets, the granting of security and business activities. • The agreement provides step in rights to the Group in the event of a material breach of the agreement. • The Group Chief Executive is a member of the Board of HRMS which meets each month. • Monthly financial information is submitted to the Group.
Impact of coronavirus	The continued spread and associated effects of the Covid-19 coronavirus may have a significant impact on operations both in the UK and abroad, with key employees potentially requiring self-isolation, customers' business operations being curtailed, and travel and communications being disrupted.	• Pandemic policy has been issued to all staff. • Regular Covid-19 meetings, chaired by the Chief Executive, held to ensure appropriate mitigation is in place wherever possible. • Frequency of Board meetings was increased to fortnightly from the end of March to the end of June. • All working locations have been made as Covid-19 secure as possible to protect the safety of our employees and visitors. • IT systems in place to enable key employees to work from home and robust controls implemented in both office and site working environments providing appropriate social distancing and hygiene measures.

Nigel Halkes FCA
Chairman of the Audit & Risk Committee
28 July 2020

Board of Directors

Roger McDowell (aged 65)
Non-Executive Chairman

Roger was appointed Chairman of the Company and the Nominations Committee on 1 August 2018 after joining the Board in May 2018. He is also a member of the Remuneration and Audit & Risk Committees. Roger spent his executive career working in his family's business, pipeline products distributor Oliver Ashworth. He was Managing Director for 18 years, leading the business through dramatic growth (from £1m to £100m turnover), main market listing and ultimate sale to St Gobain. Thereafter he has taken on Chairman or non-executive roles in private-equity backed and listed businesses in a variety of sectors including; engineering, manufacturing, waste management, renewable energy, financial services, IT, and telecoms. Roger currently serves as Chairman of Avingtrans plc. He is also a Non-Executive Director of Tribal Group plc, Proteome Sciences plc, ThinkSmart Limited, British Smaller Companies VCT2 PLC, Brand Architekts Group plc, Flowtech Fluidpower plc and Augean plc. As can be seen from the above, Roger has extensive business management experience in both executive and non-executive roles which provides the Board with relevant commercial and governance experience. He also has strong relationships with many of the Company's major shareholders, built up over several years with a number of companies.

Gordon Banham (aged 56)
Group Chief Executive

Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels and was appointed as General Manager of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, he was made Distribution Director responsible for the enlarged group's coal distribution activities. Gordon joined Hargreaves in 2001, subsequently being appointed as Group Chief Executive. He led the management buyout of the Company in 2004 and its subsequent flotation on the London Stock Exchange the following year. Gordon's knowledge of the Group and its various business interests is unrivalled, and he continues to have a detailed involvement in all material matters with which the Group is engaged.

John Samuel (aged 63)
Group Finance Director

John is a Chartered Accountant and qualified with Deloitte & Co in 1981. He became a partner with Baker Tilly in 1986, leaving that firm to join Filtronic plc in 1991, leading its flotation in 1994 and serving as finance director until 2004. He then served as Chief Financial Officer of Zetex plc for two years, before serving as Group Finance Director of Renew Holdings plc for 12 years from 2006, prior to joining the Company in January 2018. John's many years of experience as the senior financial officer in a number of public companies, including those which have experienced substantial growth through business change, is particularly relevant to the Group.

David Anderson (aged 53)
Group Property Director

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

Nigel Halkes (aged 64)
Non-Executive Director

Nigel was appointed to the Board in August 2015 and serves as Chairman of both the Audit & Risk Committee and the Remuneration Committee. He is also a member of the Nominations Committee. He is a Chartered Accountant and was a partner at Ernst & Young for 25 years, rising to become Managing Partner of Markets for the UK and Ireland, responsible for the firm's growth strategy, key relationships, and business development. He retired from Ernst & Young at the end of 2013 to pursue a portfolio non-executive career spanning the public, private and charitable sectors. Nigel is the Deputy Chair of Visit England and is a Non-Executive Director of i-nexus Global plc and Tribal Group plc. Nigel's extensive professional experience brings rigour and insight to the Board particularly with regard to financial accounting and risk management.

Chris Jones (aged 54)
Non-Executive Director

Chris joined the Board in April 2020. He is a property consultant and chartered surveyor with over 30 years' direct experience working with a broad range of organisations within the UK investment and development sectors of the commercial property market. As a founding partner of his investment practice – Christopher Dee, based in Manchester, he has provided advice to a range of private and institutional clients on all aspects of commercial property investment, development, and funding work. Chris retains a role within Christopher Dee to manage a UK wide unit linked property investment fund, where he reports directly to their board on all strategic matters.

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2020.

Principal Activities
The principal activities of the Group during the year were the provision of haulage services, waste transportation, mineral import, mining and processing of coal, mechanical and electrical engineering and materials handling, dealing in plant and machinery, the development and sale of land, civil engineering, and specialist earthworks. Coal mining ceased in July 2020.

Results and Proposed Dividend
The Group profit after tax for the year was £4,270,000 (2019: loss of £4,667,000). The Directors recommend a dividend for the year ended 31 May 2020 of 4.5p per share to be paid on 30 October 2020 to shareholders on the register on 18 September 2020. No interim dividend was declared or paid. The shares will be ex-dividend on 17 September 2020. The proposed dividend has not been provided for in these financial statements as it was not declared and approved before the year end.

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

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

Policy and Practice on Payment of Creditors
The Group does not operate a defined code of practice regarding payment to suppliers. The Group determines conditions of payment for its own supply of goods and services. It is the Group's policy that transactions are then settled in compliance with these legal or other contractual obligations having regard to good commercial practice.

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

Roger McDowell
Nigel Halkes
Gordon Banham
John Samuel
David Anderson
Christopher Jones (appointed 1 April 2020)

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

All Directors are required to retire by rotation every three years, in line with the Articles of Association. An evaluation of the performance of each Director and of the Board is carried out and the performance of each continues to be effective and demonstrates commitment to the role. The Directors required to retire by rotation at this year's AGM are noted on page 18.

The Company provides indemnities to each of its Directors in accordance with the provisions of the Company's Articles of Association. Additional information relating to Directors' remuneration, service contracts and interests in the Company's shares is given in the Remuneration Report.

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

	Class of share	Interest at end of year	Interest at beginning of year
Gordon Banham	Ordinary	**2,646,825**	2,632,575
Roger McDowell	Ordinary	**300,000**	300,000
Nigel Halkes	Ordinary	**5,000**	5,000
Christopher Jones	Ordinary	–	–
John Samuel	Ordinary	**28,000**	28,000
David Anderson	Ordinary	**32,775**	32,775

Details of Directors' emoluments are set out in the Remuneration Report. All the Directors benefited from qualifying third-party indemnity provisions in place during the year and at the date of this Directors' Report. Except as listed below, according to the register of Directors' interests, no rights to subscribe for shares in Group companies were granted to any of the Directors or their immediate families during the financial year and up to the date of this Directors' Report. None of the awards listed below may be exercised prior to 14 December 2022. No Director exercised any awards during the year.

Director	Exercise price per share	Date of share award	Number of shares awarded
Gordon Banham	10 pence per ordinary share	13 December 2019	48,894
John Samuel	10 pence per ordinary share	13 December 2019	48,894

These options were granted on 13 December 2019 under the Hargreaves Services plc Executive Share Option Scheme which was approved by shareholders at the Annual General Meeting on 30 October 2019.

Retirement of Directors
In accordance with the Articles of Association one-third of Directors retire by rotation each year. The Directors retiring by rotation are Gordon Banham and Nigel Halkes, who being eligible, offer themselves for re-election. Additionally, Christopher Jones, who was appointed to the Board during the year, also offers himself for re-election.

Disclosable Interests
At 24 July 2020 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
Harwood Capital	6,570,000	20.35%
Schroder Investment Management	5,756,016	17.83%
Artemis Investment Management	2,988,517	9.26%
Gordon Banham	2,646,825	8.20%
Downing	2,335,494	7.23%
Axxion S.A.	1,600,000	4.96%
The NFU Mutual Insurance Society Limited	1,360,000	4.21%

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

The Directors recognise the importance of good communications and good relations with employees. Regular meetings are held between the Chief Executive and senior managers who cascade relevant information through their reporting systems. The Group intranet also provides regular information to employees to inform them of developments within the Group.

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

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

As noted in the Corporate Governance Report on pages 21 to 24, the Group is headed by an experienced and effective Board, which controls and leads the Group. The Board meets at least ten times per year, receiving appropriate information from management on a timely basis, and making further detailed enquiries where necessary to enable it to fully discharge its duties. Each decision that is made by the Directors is supported by papers which analyse the possible outcomes so that an appropriate decision can be made based upon the likely impact on the performance and position of the Group. This enables a decision to be made which best promotes the success of the Group and considers the impact on the wider stakeholder group. Factors below, are all considered during the decision-making process. During the year, the Board took the major decision to cease coal mining. This decision was made against the background of a global movement to reduce carbon product consumption and as part of the Group's overall strategy to create shareholder value.

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

The Group has an annual budget and five-year plan which is reviewed regularly to benchmark performance and achievements against its long-term strategy. As part of its strategy the Board is focused on delivering reliable and growing profits in and unlocking capital from its Distribution & Services businesses enabling strong cash returns to shareholders alongside investment in the growth of Hargreaves Land. Progress on the Group's strategy of non-core asset realisation and cash generation has continued including the successful disposal of Drakelands Restoration Limited.

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

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

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

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

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

Impact of the Group's operations on the community and environment
The Group takes its responsibility within the community and wider environment seriously. There are specific information channels in respect of health & safety matters. The Group has a proactive approach to safety, health and the environment and is committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts (as further detailed in "Principle 8: Promote a corporate culture that is based on ethical values and behaviours" of the Corporate Governance Report).

The Group publishes its annual global emissions in compliance with the streamlined energy and carbon reporting ("SECR") regulations detailed in "Carbon emissions" below. This demonstrates the Group's reducing carbon footprint however the Board acknowledges improvements can still be made and should be seen in future years as the Group has now ceased coal mining operations.

The desirability of the Group maintaining a reputation for high standards of business conduct
The Group is committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code"). The Group's approach in relation to complying with each of the ten principles of the QCA Code is set out in the Corporate Governance Report on pages 21 to 24.

To strengthen further Group compliance with corporate governance, the Board undertakes a self-assessment annual performance review. The assessment provides an effective platform for reviewing performance and, over time, a greater focus has developed on particular recommendations, which has prompted fruitful discussions among the Board and influenced its operation. Following last year's annual performance review, the Board noted that a further Non-Executive Director, particularly someone with property development experience, was required in order to provide further balance and expertise to the Board. As a result, the Board appointed Christopher Jones as a Non-Executive Director on 1 April 2020. The 2020 review has been carried out with the Board focusing on those areas where one or more of the Directors had indicated a concern. The Board noted in particular that it would be challenging to address diversity issues without growing the Board in size which was not desirable from a cost perspective at this time. The Board also noted that an increased level of consideration and scepticism should be applied when considering the possible outcomes for investment proposals.

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

The need to act fairly between members of the Group
An important role of the Board is to represent and promote the interests of the Group's shareholders as well as being accountable to them for the performance and activities of the Group. The Board engages with its shareholders through presentations, conference calls, face-to-face meetings and the Annual General Meeting. Following the announcement of the Group's half-year and year-end results, presentations are made to analysts and major shareholders to update them on progress and invite them to ask questions. The Board 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. The Board incorporates this feedback into its decision-making processes. All Directors attended the Annual General Meeting in 2019 and engaged in discussion with the shareholders present. Due to Covid-19 restrictions, the Board has decided that the 2020 Annual General Meeting will be held with no external shareholders being present. The Group provides contact details on the investor relations page of its website and in the notice to the 2020 Annual General Meeting which investors can use to contact the Group, giving equal access to all investors and potential investors.

Directors' Report continued

Carbon emissions

In compliance with the streamlined energy and carbon reporting ("SECR") regulations, the Group publishes its annual global emissions using "tonnes of CO_2 equivalent". The reporting period for GHG emissions is 1 June 2019 to 31 May 2020, this represents the first year of reporting. The Group has taken the exemption to report prior period emissions in the first year of reporting.

Scope 1 and 2 Global GHG emissions:	Tonnes of CO_2e 2020
Combustion of fuels in operations and services provided	46,063
Electricity, steam, heat and cooling for own use	676
Total footprint	46,739
Emissions reported above per employee	26.8

Scope 3	Tonnes of CO_2e 2020
Business travel (air, rail and vehicles)	2,207

The Group has demonstrated its desire to reduce the level of greenhouse gas emissions through the announcement that coal mining operations are to cease. This not only reduces the downstream impact of coal supplied into Power Stations and Heavy Industry but also will reduce the volume of fuel required to undertake the mining operations.

Methodology

The Group follows ISO14064:1 standard for its reporting and takes the operational control approach to reporting. The conversion of units of fuel used into tonnes of CO_2e has been done utilising the UK Government Conversion Factors 2019.

Scope 1 emissions have been calculated by taking the total number of litres of fuel used in operations during the reporting period and converting them to tonnes of CO_2e using the appropriate conversion factor.

Scope 2 emissions have been calculated by taking the total kwh of electricity and gas used at the Group's premises during the reporting period and concerting them to tonnes of CO_2e using the appropriate conversion factor.

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

Purchase of Own Shares

The Directors are authorised to make market purchases of the Company's own shares under an authority granted at the Annual General Meeting held on 30 October 2019. The Directors will seek authority to make market purchases of up to fifteen per cent of the Company's own shares at the 2020 Annual General Meeting (full details are available in the 2020 Notice of Annual General Meeting).

Approval to Issue Shares

The Directors will seek authority to allot up to a maximum aggregate nominal amount of £1,076,078 at the 2020 Annual General Meeting (full details are available in the 2020 Notice of Annual General Meeting).

Disclosure of Information to Auditor

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

Independent Auditor

Following a thorough tender process, the Board decided to appoint PricewaterhouseCoopers LLP as auditor to the Group in place of KPMG LLP.

By order of the Board

John Samuel
Company Secretary
28 July 2020

Corporate Governance

The Company is committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code"). The Company's approach in relation to complying with each of the ten principles of the QCA Code is set out below. Whilst this policy sets out the Board's position, measures to deal with the threat from Covid-19 may mean that certain of these steps may have to be adapted to ensure the safety of all concerned.

Deliver Growth

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

The Board has established a strategy and business model which seeks to promote long-term value for shareholders. This is set out in the Strategic Report section of this Annual Report. The Group's business model is evolving, evidenced by the cessation of mining, towards trading, services and property development. The risks to the Group posed by this transition have been evaluated by the Board and continue to be on a regular basis. These risks and the Board's views on the mitigations which balance them, are set out in the Risk Management section of this report.

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

An important role of the Board is to represent and promote the interests of the Company's shareholders as well as being accountable to them for the performance and activities of the Group. The Board believes it is important to engage with its shareholders and aims to do this through presentations, conference calls, face-to-face meetings and the Annual General Meeting. Following the announcement of the Group's half-year and year-end results, presentations are made to analysts and major shareholders to update them on progress and invite them to ask questions. The Board is updated on the latest shareholder information by the receipt of shareholder register movements, analyst reports and feedback from the Company'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. The Company provides contact details on the investor relations page of its website which investors can use to contact the Company.

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

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

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

The Company's approach to risk is set out within the Risk Management section of this Annual Report. The Board has devolved considerable levels of autonomy to management to run and develop the business of the Group. The Board believes that a well-designed system of internal reporting and control is necessary. The Board therefore continues to have overall responsibility to develop and strengthen internal controls. The Audit & Risk Committee, on behalf of the Board, has the responsibility for reviewing internal controls. The system is designed to provide reasonable, but not absolute, assurance that the assets of the Group are safeguarded, that proper accounting records are maintained, and that reliable financial information is produced. All subsidiary undertakings are required to adhere to specified internal control procedures. The Audit & Risk Committee receives regular reports on internal control. Monitoring of compliance with the Group's system of internal control is undertaken by all levels of management and the internal audit function. This is reinforced by the role fulfilled by the Audit & Risk Committee (as further detailed below at "Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board").

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

The Board

The Group is headed by an effective Board, which controls and leads the Group. The Board meets at least ten times per year, receiving appropriate information from management on a timely basis, and making further detailed enquiries where necessary to enable it to fully discharge its duties. As a response to the Covid-19 pandemic, the frequency of Board meetings was increased to fortnightly from the end of March until the end of June 2020.

The Directors attended the following meetings in the year ended 31 May 2020:

Attendance at meetings	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings	13	4	5	1
Gordon Banham	13 attended	n/a	n/a	n/a
Nigel Halkes	13 attended	4 attended	5 attended	1 attended
John Samuel	13 attended	n/a	n/a	n/a
Roger McDowell	13 attended	4 attended	5 attended	1 attended
David Anderson	13 attended	n/a	n/a	n/a
Christopher Jones (appointed 1 April 2020)	5 attended	n/a	n/a	n/a

Corporate Governance continued

Deliver Growth continued

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

The Board continued

The Board is collectively responsible for the long-term success of the Group and has ultimate responsibility for the management, direction and performance of the Group and its businesses. The Board is required to exercise objective judgement on all corporate matters and is accountable to shareholders for the proper conduct of the business. All Directors have access to the advice and services of the Company Solicitor who assists the Company Secretary. The Company Secretary is responsible to the Board for ensuring that procedures are followed and for compliance with applicable rules and regulations. There is a clearly defined division of responsibilities between the Chairman and the Group Chief Executive. The Chairman is primarily responsible for the leadership and effective working of the Board. This is achieved by:

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

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

Non-Executive Directors

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

Conflicts of Interest

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

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

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

All newly appointed Directors receive a full, formal and tailored induction on joining the Board, including meetings with senior management and advisers and visits to the Group's operational locations. The Board calendar is planned to ensure that Directors are briefed on a wide range of topics throughout the year and are given the opportunity to visit sites and discuss aspects of the business with employees. The Board recognises that the Directors have a diverse range of experience and encourages them to attend external seminars and briefings that will assist them individually. Directors have access to independent professional advice at the Group's expense where they judge this to be necessary to discharge their responsibilities as Directors. All Directors have access to the advice and services of the Company Solicitor who assists the Company Secretary, who is responsible to the Board for ensuring compliance with Board procedures.

Whilst there have been no significant matters during the year on which the Board or any Committee has sought external advice, the Board is advised by its nominated adviser N+1 Singer.

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

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

The criteria for effectiveness include assessing:

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

Following this year's annual performance review, which was carried out using a self-assessment questionnaire, the Board debated categories that achieved scores below 3.5 out of 5. The Board noted in particular that it would be challenging to address diversity issues without growing the Board in size which was not desirable from a cost perspective at this time. The Board also noted that an increased level of consideration and scepticism should be applied when considering the possible outcomes for investment proposals.

As set out in our 2019 Annual Report, following last year's performance review, the Board noted that a further Non-Executive Director was required in order to provide further balance and experience to the Board. As a result, the Board appointed Christopher Jones as Non-Executive Director on 1 April 2020.

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

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

Culture

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

Compliance with Laws

The Group has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice. Compliance with the Bribery Act 2010 involves an Anti-Corruption Policy and a Group Whistleblowing Policy. Training is given to all appropriate employees through the use of online tools to ensure that there is full understanding of the Bribery Act 2010 and competition law and awareness of the consequences of not adhering to Group policies. The Group's Whistleblowing Policy is used to encourage staff to raise concerns in the knowledge that concerns raised in good faith will be taken seriously and investigated.

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

Safety, Health and Environment

The Group has a proactive approach to safety, health and the environment and is committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts. The Board ensures that health and safety issues for employees, customers and the public are of foremost concern in all Group activities and ingrained in day-to-day activities. The Group Chief Executive, supported by external advice, is charged with overall responsibility. The Group encourages both internal and external training through a formal network of full-time officers and Health and Safety nominated "champions" at all levels. Statistical analysis is used to highlight any areas where additional training or improved working practices would be beneficial, and positive action is promptly implemented. All divisions have formulated safety management systems. To protect employees, customers and contractors, the Group has implemented a series of measures to safeguard against the threat posed by Covid-19 both in the office environment and at sites details of which are set out in the Risk Management section of this Annual Report.

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

The Board

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

Board Committees

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

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

Remuneration Committee

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

Corporate Governance continued

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

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

During the year the Nominations Committee reviewed the composition of the Board, leadership requirements and succession planning, which led to the appointment of Christopher Jones as a Non-Executive Director on 1 April 2020.

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

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

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

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and relevant stakeholders
In addition to this Annual Report, the Company's website contains full information on the governance, management and activities of the Group and features all presentations given by the Executive Directors to shareholders.

Approval
The Board approved the Corporate Governance Report on 28 July 2020.

Roger McDowell
Chairman
28 July 2020

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

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

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

Nigel Halkes (Chair)
Roger McDowell
Christopher Jones (appointed 1 April 2020)

All members of the Committee are Non-Executive Directors and are recognised by the Board as capable of bringing independent judgement to bear. During the year, the Board appointed a further Non-Executive Director, Christopher Jones who joined the Board and the Committee on 1 April 2020. Chris will become Chair of the Committee after the 2020 Annual General Meeting. The Group Chief Executive is consulted and invited to attend meetings, when appropriate. The Group Finance Director also attended meetings as required and provided relevant information to the Committee to ensure that the Committee's decisions are informed and take account of pay and conditions across the Group. No Director can be present when his own remuneration is discussed.

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

Components of 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. Due to Covid-19, the Committee decided to defer the 2020 annual salary review, which is normally carried out at 1 June, until such times as the future trading and market conditions facing the Group could be better understood. At the date of this report, no date has been set for the review to be carried out. During the year, there have been no changes to the benefits which the Executive Directors receive. The Committee is recommending that there be no increase in the salaries of the Executive Directors for the year ending 31 May 2021.

Annual Bonus
Executive Directors participate in an annual incentive bonus scheme linked to the actual achievement of a Group profit before tax target set by the Committee. Additionally, should that target be achieved, a deduction of 10% is made if the Group Health & Safety target is not achieved. For the year ended 31 May 2020, the Committee also set some specific cash targets for the Group which would have resulted in a further deduction of 10% of any bonus earned should they not have been achieved. The total bonus which could have been earned was capped at 100% of salary. No bonus counts in the calculation of pension entitlement. The bonus target for the financial year ended 31 May 2020 was not achieved and accordingly no bonuses have been earned in respect of either the financial year ended 31 May 2020 or that ended 31 May 2019. Similar criteria have been set in respect of bonus arrangements for the financial year ending 31 May 2021. As part of the terms of his recruitment, David Anderson receives a guaranteed bonus of £40,000 for each of the financial years ending 31 May 2020 and 2021.

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

At the Annual General Meeting held on 30 October 2019, shareholders approved a new Long-Term Incentive Plan, the Hargreaves Services plc Executive Share Option Scheme, under which awards were made.

Benefits in Kind and Pensions
In addition to basic salary, Executive Directors are entitled to the following benefits: paid holiday, company car, contributions to a personal pension plan and life assurance, private medical insurance and permanent health insurance. No Director has benefits under any of the Group's defined benefit pension schemes.

Non-Executive Directors' Remuneration
The Non-Executive Chairman's basic salary is £80,000 per annum and other Non-Executive Directors receive a basic salary of £40,000 per annum. Additionally, Non-Executive Directors receive an additional £2,500 per annum for chairing each Board Committee.

Directors' Remuneration for the Year to 31 May 2020 (Audited)

	Salary/Fees		Bonus		Share options exercised		Benefits		Total		Pension	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Gordon Banham	**470**	470	–	–	–	–	**53**	53	**523**	523	**118**	118
John Samuel	**280**	264	–	–	–	–	**19**	19	**299**	283	**42**	40
David Anderson	**225**	125	**40**	–	–	–	**45**	13	**310**	138	**45**	25
Roger McDowell	**80**	76	–	–	–	–	–	–	**80**	76	–	–
Nigel Halkes	**45**	43	–	–	–	–	–	–	**45**	43	–	–
David Morgan	–	46	–	–	–	–	–	–	–	46	–	–
Peter Jones	–	23	–	–	–	–	–	–	–	23	–	–
Christopher Jones	**7**	–	–	–	–	–	–	–	**7**	–	–	–
Total	**1,107**	1,047	**40**	–	–	–	**117**	85	**1,264**	1,132	**205**	183

Notes:

David Anderson's in 2019 represent the period from 14 November 2018 to 31 May 2019.
David Anderson's contract includes a guaranteed bonus of £40,000 for each of the years ending 31 May 2020 and 31 May 2021.
Christopher Jones's emoluments in 2020 represent the period from 1 April 2020 to 31 May 2020.
David Morgan's emoluments in 2019 represent the period from 1 June 2018 to 31 July 2018 and include £29,000 payment in lieu of notice.
Peter Jones emoluments in 2019 represent the period from 1 June 2018 to 30 October 2018.

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	2019/20 annual salary (£)	Notice period
3 September 2013	Gordon Banham	Group Chief Executive	1 October 2001	470,442	12 months
2 January 2018	John Samuel	Group Finance Director	2 January 2018	280,000	6 months
14 November 2018	David Anderson	Group Property Director	14 November 2018	225,000	6 months
11 May 2018	Roger McDowell	Non-Executive Chairman	11 May 2018	80,000	1 month
21 August 2015	Nigel Halkes	Non-Executive Director	21 August 2015	45,000	n/a
1 April 2020	Christopher Jones	Non-Executive Director	1 April 2020	42,500	See note below

Christopher Jones's service contract runs until 31 March 2021 and is then cancellable by either party with no notice. Non-Executive Directors are not generally eligible to participate in any incentive plans, share option schemes or Company pension arrangements and are not entitled to any payment in compensation for any early termination of their appointment although, as a condition of Roger McDowell's appointment, he was granted LTIPs as set out below.

Directors' Share Options

No rights to subscribe for shares in Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year and up to the date of this Directors' Report except as indicated below. At 31 May 2020, no Director holds any rights to subscribe for shares in Group companies.

Long-Term Incentive Plan ("LTIP") (Audited)
The Hargreaves Services plc Executive Share Option Scheme

At the Annual General Meeting held on 30 October 2019, the Hargreaves Services plc Executive Share Option Scheme ("the Executive Share Option Scheme"), was approved by shareholders. The scheme contains performance criteria measuring both the Company's own Total Shareholder Return over a three-year period and also measuring its comparative performance against a basket of other listed companies. It is envisaged that awards with a value up to 50% of a recipient's base salary will be made annually under the Executive Share Option Scheme to Executive Directors and other senior management as determined by the Committee. The following awards were granted in the year ended 31 May 2020:

Director	Date of grant	Exercise price	No. of options granted	Exercise period
Gordon Banham	13 December 2019	10p per share	48,894	14 Dec 2022-13 Dec 2024
John Samuel	13 December 2019	10p per share	48,894	14 Dec 2022-13 Dec 2024

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

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

1. 50% of the Option is based upon the Company's performance (the "Company Performance Option"). If the Total Shareholder Return figure on the Strike Date reflects 100% or more growth in excess of the Base Value, the Company Performance Option may be exercised in full. If the Total Shareholder Return figure at the Strike Date reflects less than 25% growth in excess of the Base Value, the Company Performance Option lapses and ceases to be exercisable. In the event that the Total Shareholder Return figure at the Strike Date reflects percentages between 25% growth and 100% growth above the Base Value, the number of shares to be acquired under the Company Performance Option is based on a linear calculation between the 25% growth and 100% growth outcomes from zero at 25% growth to 100% at 100% growth or greater.

2. 50% of the Option is based upon benchmarking the Company's performance against the Peer Group (the "Peer Group Performance Option"). The growth of each of the companies in the Peer Group is measured using the average mid-market closing share price of such company for the 21 Trading Days preceding 1 June during the year of grant of the Option and calculating the growth at the Strike Date by reference to the average share price for the 21 Trading Days preceding the Strike Date. The growth of the Company (measured using the Base Value and the Strike Value) is then ranked in the "Peer Group TSR List" alongside the growth of the companies in the Peer Group. If the Company:
   - is ranked below the median position of the Peer Group TSR List, the Peer Group Performance Option lapses and is not exercisable;
   - is ranked first in the Peer Group TSR List, the Peer Group Performance Option may be exercised in full; and
   - is ranked at or above the median of the Peer Group TSR List but below first, the number of shares in respect of which the Peer Group Performance Option may be exercised shall be calculated on a straight-line basis from 25% at the median position to 100% for ranking first (rounded up to the nearest whole number of Shares).

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

The Hargreaves Services plc Executive Share Option Scheme 2019

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

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

The Share Option Scheme 2019 requires a minimum 35% Total Shareholder Return to be achieved over the three-year period ending on 31 July 2021 ("the Vesting Period") from a Base Value of £3.515 ("Base Value") before vesting can commence. 100% vesting would occur at an 85% Total Shareholder Return over the above period from the Base Value. The rules of the Share Option Scheme 2019 allow participants to exercise options, to the extent they have satisfied the performance conditions, after the expiry of the Vesting Period. An option lapses five years after the date of the grant, except if the participant dies, in which case the option lapses 12 months following death, whichever date is earlier. No disposal may be made of any shares arising from the exercise of an option until five years after the date of grant other than to satisfy any tax liability arising on exercise. The options under the Share Option Scheme 2019 lapse if the minimum performance criterion is not met.

No further options will be granted under the Share Option Scheme 2019.

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

Deferred Bonus Scheme

A Deferred Bonus Scheme ("the Deferred Bonus Scheme") was implemented in December 2019. Deferred Bonus Scheme G was implemented on 14 December 2019 when a total of 74,470 options were granted to three employees, none of whom are Directors. Details are set out in Note 27 to the financial statements.

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

The Remuneration Committee Report was approved by the Board on 28 July 2020 and signed on its behalf by:

Nigel Halkes FCA
Chair of the Remuneration Committee
28 July 2020

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 regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Independent Auditors' Report to the Members of Hargreaves Services plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 May 2020 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the group and company balance sheets as at 31 May 2020; the consolidated statement of profit and loss and other comprehensive income, the group and company cash flow statements, and the group and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

- Overall group materiality: £2,198,000 (2019: £2,000,000), based on 1% of revenue.
- Overall company materiality: £1,453,000 (2019: £1,200,000), based on 1% of total assets capped by group allocation.

- The group is structured along four segments being Distribution & Services, Hargreaves Land, Unallocated (Corporate) and Hargreaves Services Europe. The Group financial statements are a consolidation of the 106 reporting units within these four segments and the Group's centralised functions.
- Given the significance of the components to the Group's revenue, Hargreaves Industrial Services Limited, and the bulk haulage and minerals divisions of Hargreaves (UK) Services Ltd were considered significant components.
- For further coverage Hargreaves Services plc, CA Blackwell (Contracts) Limited and HSM – Scotland were included as full scope components.
- Specific audit procedures were performed over property, plant and equipment, investment property, inventory, retirement benefit obligations, trade debtors and accrued income, administration expenses, cash and cash equivalents, investments in joint ventures, amounts due from undertakings in which the group/company have a participating interest, share of profit from joint ventures and taxation across a further 13 reporting units.
- As a result of this scoping we obtained coverage over £184.6m (83%) of the consolidated revenues.

- Risk of impairment to assets – Goodwill and intangible assets (Group) and investments (Company).
- Contracting risk within C.A. Blackwell (Contracts) Limited (Group)
- The impact of COVID-19 on Going Concern – Group and Company

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Risk of impairment to assets – Goodwill (Group), intangible assets (Group) and investments (Company) The group has £9.4 million (2019: £11.0 million) of goodwill and the company has investments of £34.9 million (including investments in associates and joint ventures) (2019: £36.7 million). A total impairment of £1.6 million has been recorded by management in the current year in respect of goodwill within the group and £2.1 million in respect of investment balances within Hargreaves Services plc. The risk we have focused on is that these non-current assets could be overstated and a further impairment charge may be required. The determination of whether or not these non-current assets are impaired involves subjective judgements and estimates about the future results and cash flows of the business. On an annual basis, management calculate the amount of headroom between the value in use of the group's Cash Generating Units ('CGUs') and their carrying value to determine whether there is a potential impairment of the goodwill and investments relating to those CGUs. The value in use of the CGU with respect to goodwill within the group and the investment held in Hargreaves Services plc is dependent on a number of key assumptions which include: • Forecast cash flows for the next five years; • A long-term (terminal) growth rate applied beyond the end of the five year forecast period; and • A discount rate applied to the model. Management consider there to be three CGU's in respect of goodwill within Hargreaves Services plc, we have therefore assessed each CGU separately to assess the future cash flows of the relevant entities which represent the CGU's. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 15 and Note 16 for detailed goodwill and investment disclosures within the consolidated financial statements.	We understood and evaluated management's budgeting and forecasting process. Upon obtaining the group's impairment analysis we tested the reasonableness of the key assumptions, including the following: • Verifying the mathematical accuracy of the impairment models and agreeing the carrying value of non-current assets being assessed for impairment to the balance sheet and no issues were noted on the conclusion of procedures performed; • We challenged management's calculated group weighted average cost of capital (WACC) used for discounting future cashflows within the impairment model, utilising valuation experts to assess the cost of capital for the group and comparable organisations. It was identified that the WACC used by management was outside of an acceptable range and as such we built this difference into our procedures and performed sensitivity analysis to ascertain the impact on the valuation of goodwill. No issues were noted on the conclusion of procedures performed; • We traced the forecast financial information within the model to the latest Board approved budget and challenged management to provide support to corroborate revenue and margin assumptions, support for capital expenditure and considered the accuracy of previous forecasts and we consider that the assumptions were supported by appropriate evidence; • We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required at the CGU level; and • We have reviewed the financial statement disclosures made with respect to the sensitivity of the WACC, cashflows and growth rates and we consider these to be appropriate. We have also considered the impact of which COVID-19 has had on future cash flows for each CGU with further detail on procedures performed included within 'Going Concern and the impact of COVID-19 – Group and Company' Key audit matter below. In summary, we found, based on our audit work, the carrying value of goodwill, intangibles and investments to be acceptable. We also considered the disclosures made within the financial statements and considered these to be appropriate.

Key audit matter	How our audit addressed the key audit matter
The impact of COVID-19 on Going Concern – Group and Company COVID-19 was declared a global pandemic by the World Health Organisation on 11 March 2020 and the on-going response is having an unprecedented impact on the economy which was considered as part of the audit. Because of its significance to the financial statements and to our audit, we determined that management's consideration of the potential impact of COVID-19 on going concern is a key audit matter. In relation to the Group's going concern assessment, the Directors have prepared a 'base case' cash flow forecast for the period to 30 November 2021 reflecting what they believe the impact of the COVID-19 pandemic to be on future cash flows. The Group's forecast cash flows contain assumptions over revenue, profitability and cash generation. These forecasts have been stress-tested for severe but plausible scenarios that could impact the Group, as referred to within the Going Concern and COVID-19 disclosure on page 2. This downside scenario included a severe but plausible reduction within 3 key divisional revenue streams over the course of the forecast period and includes the deferral of significant cash receipts across the group and also includes mitigating factors such as the option to suspend the final dividend payment, the deferral of staff pay increases and bonuses and the deferral of a number of land projects. As disclosed within page 2, the group's financing facility was renewed for a period of 12 months and is due to expire on 31 July 2021. As disclosed in the Going concern statement on page 2, this indicated that the Group would operate within its new banking facilities throughout the forecast period including complying with all banking covenants.	In assessing management's consideration of the potential impact of COVID-19, we undertook the following procedures: • We obtained and assessed management's board report that details the Group's assessment and conclusion with respect to their ability to continue as a going concern; • We evaluated the historical accuracy of the budgeting process to assess the reliability of the data; • We evaluated management's board approved base case forecast and COVID-19 downside scenarios, and challenged the adequacy and appropriateness of the underlying assumptions, including the level and period of reduction in revenue and timing of significant cash receipts, and confirmed management's mitigating actions are within their control and can be taken on a timely basis if needed. We reviewed the composition of costs at a divisional level within the forecasts to ensure they were prepared on a consistent and appropriate basis. • We reviewed the latest trading results for the year to date in 2020 including trading within the lockdown period and compared to management's budget, FY19 actuals and revised forecasts, and considered the impact of these actual results on the future forecast period; • We understood the mitigating actions taken by management, including the option to suspend the final dividend payment; • We reviewed management's sensitivity scenarios and we challenged management to run further downside scenarios in order to assess the possible impact of headroom against their borrowing facilities; • We reviewed the disclosures included within the Annual Report and consider these to be appropriate; and • We have reviewed all supporting evidence to confirm that the existing financing facility has been extended to 31 July 2021. We are satisfied that appropriate financing is in place to support the going concern assumption. Our conclusion in respect of going concern is included in the "Conclusions related to going concern" section below. We have reviewed management's disclosures in the financial statements in relation to COVID-19 and are satisfied that they are consistent with the risks affecting the Group, their impact assessment and the procedures that we have performed.

Independent Auditors' Report continued

Key audit matter	How our audit addressed the key audit matter
Contracting risk within C.A Blackwell (Contracts) Limited (Group) With regards to long term contracts in C.A. Blackwell (Contracts) Limited, the recognition of revenue over time, requires judgement in respect of stage completion and costs to come. The Group undertakes a number of construction and development contracts and a relatively small change in the judgements applied, such as the level of provision for remedial works and treatment of contract variations required, could result in a material misstatement to the financial statements. The effect of these matters is that, as part of our risk assessment, it was determined that contract revenue, profit recognition and the recoverability of contract assets involve a high degree of estimation uncertainty, with a potential range of reasonable outcomes which could potentially be greater than our materiality for the financial statements as a whole. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 22 for detailed disclosures in respect of contract assets within the consolidated financial statements.	We evaluated management's revenue and profit recognition on a sample of contracts that we selected based on factors such as risk and size and found that it was consistent with the supporting evidence obtained; Our procedures performed over a sample of contracts included the following; • We performed a recalculation of the revenue recognised in the year for a sample of contracts; • We substantively tested the revenue raised on construction contracts during the year through to customer certification and underlying contract; • We assessed management's overall profit recognition methodology, including a sample assessment of the accuracy of revenue and profit forecasts from prior years; • We substantively tested costs to complete schedules by selecting a sample of forecast costs and agreeing the expected cost to supporting evidence. We also reviewed costs to complete for reasonableness by looking at historical forecasting accuracy on costs to complete; • We substantively tested a sample of accruals for contract work undertaken by corroborating them to supporting documentation including applications for payment and invoices. • Variations recognised on contracts were substantiated to supporting evidence on a sample basis and discussed with management's internal experts. These were then considered against the guidance on contract modifications and variable consideration in IFRS 15; and • The level of provision held against the work in progress on contracts was considered using our professional judgement and compared against the inherent uncertainty and range of outcomes in the underlying contracts. On completion of our work we consider the level of provision reasonable. In summary, we found, based on our audit work, the value of contract revenue, profit recognition and the recoverability of contract assets within the group to be acceptable. We also considered the disclosures made within the financial statements and considered these to be appropriate.

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

The Group is structured along four business segments being Distribution & Services, Hargreaves Land, Unallocated (Corporate) and Hargreaves Services Europe Limited. The Group financial statements are a consolidation of the 106 reporting units within these four business segments and the Group's centralised functions.

Of the Group's 106 reporting units, we identified six which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics.

Specific audit procedures were performed over property, plant and equipment, investment property, inventory, retirement benefit obligations, trade debtors and accrued income, administration expenses, cash and cash equivalents, investments in joint ventures, amounts due from undertakings in which the group/company have a participating interest, share of profit from joint ventures and taxation across a further 13 reporting units. This, together with additional procedures performed on the Group's centralised functions, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

As a result of this scoping we obtained coverage over £184.6 million (83%) of the group's external revenues.

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

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

	Group financial statements	Company financial statements
Overall materiality	£2,198,000 (2019: £2,000,000).	£1,453,000 (2019: £1,200,000).
How we determined it	1% of revenue.	1% of total assets capped by group allocation.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, we consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.	We believe that total assets are considered to be appropriate as it is not a profit oriented company. The company is a holding company only and therefore total assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £600,000 and £1,980,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £109,000 (Group audit) (2019: £100,000) and £109,000 (company audit) (2019: £100,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' Report continued

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 May 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Nicholas Cook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
28 July 2020

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 May 2020

Continuing operations	Note	2020 £000	2019 £000
Revenue	2	**222,242**	302,613
Cost of sales		**(199,385)**	(285,902)
Gross profit		**22,857**	16,711
Other operating income	3	**5,288**	4,291
Administrative expenses		**(26,840)**	(30,690)
Operating profit/(loss)		**1,305**	(9,688)
Analysed as:			
Operating profit (before exceptional items and amortisation)		**4,563**	6,590
Exceptional items	5	**(1,683)**	(16,136)
Amortisation and impairment of intangible assets	15	**(1,575)**	(142)
Operating profit/(loss)		**1,305**	(9,688)
Finance income	8	**845**	450
Finance expenses	8	**(2,134)**	(2,154)
Share of profit in joint ventures (net of tax)	16	**2,135**	1,534
Profit/(loss) before tax		**2,151**	(9,858)
Taxation	9	**2,119**	1,665
Profit/(loss) for the year from continuing operations		**4,270**	(8,193)
Discontinued operations			
Profit for the year from discontinued operations	10	**-**	3,526
Profit/(loss) for the year		**4,270**	(4,667)
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	26	**(1,129)**	(1,197)
Tax recognised on items that will not be reclassified to profit or loss	9	**283**	203
Items that are or may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		**366**	318
Equity adjustment relating to adoption of IFRS 16		**(161)**	-
Effective portion of changes in fair value of cash flow hedges		**83**	(1,269)
Tax recognised on items that are or may be reclassified subsequently to profit or loss	9	**(11)**	216
Other comprehensive expense for the year, net of tax		**(569)**	(1,729)
Total comprehensive income/(expense) for the year		**3,701**	(6,396)

	Note	2020 £000	2019 £000
Profit/(loss) attributable to:			
Equity holders of the Company		**4,315**	(4,741)
Non-controlling interest		**(45)**	74
Profit/(loss) for the year		**4,270**	(4,667)
Total comprehensive income/(expense) attributable to:			
Equity holders of the Company		**3,746**	(6,470)
Non-controlling interest		**(45)**	74
Total comprehensive income/(expense) for the year		**3,701**	(6,396)
Basic earnings/(loss) per share (pence)	11	**13.40**	(14.75)
Diluted earnings/(loss) per share (pence)	11	**13.11**	(14.75)
Basic earnings/(loss) per share from continuing operations (pence)	11	**13.40**	(25.71)
Diluted earnings/(loss) per share from continuing operations (pence)	11	**13.11**	(25.71)
Non-GAAP Measures			
Basic underlying earnings per share from continuing operations (pence)*	11	**19.87**	15.30
Diluted underlying earnings per share from continuing operations (pence)*	11	**19.44**	15.30

* See Alternative Performance Measures Glossary on page 90.

Balance Sheet
at 31 May

		Group		Company	
	Note	2020 £000	Restated 2019* £000	2020 £000	2019 £000
Non-current assets					
Property, plant and equipment	12	**15,561**	45,528	–	–
Right-of-use assets**	13	**15,845**	–	–	–
Investment property	14	**9,216**	10,067	–	–
Intangible assets including goodwill	15	**9,418**	10,983	–	–
Investments in joint ventures	16	**14,093**	11,744	**4,984**	4,984
Investments in subsidiary undertakings	16	–	–	**29,940**	31,688
Deferred tax assets	19	**8,332**	6,229	–	–
		72,465	84,551	**34,924**	36,672
Current assets					
Other financial assets	17	**65**	25	–	–
Inventories	20	**64,009**	48,040	–	–
Trade and other receivables	21	**71,316**	75,562	**130,239**	114,102
Income tax asset		**8**	–	–	–
Contract assets*	22	**11,456**	19,545	–	–
Cash and cash equivalents	23	**18,499**	21,583	–	312
		165,353	164,755	**130,239**	114,414
Total assets		**237,818**	249,306	**165,163**	151,086
Non-current liabilities					
Other interest-bearing loans and borrowings***	24	**(9,437)**	(35,222)	–	(26,924)
Retirement benefit obligations	26	**(3,768)**	(4,184)	–	–
Provisions*	28	**(1,679)**	(4,757)	–	–
Other financial liabilities	18	–	(137)	–	–
		(14,884)	(44,300)	–	(26,924)
Current liabilities					
Other interest-bearing loans and borrowings***	24	**(37,186)**	(4,289)	**(34,346)**	–
Trade and other payables*	25	**(43,362)**	(65,995)	**(22,754)**	(18,962)
Provisions*	28	**(12,088)**	(6,501)	**(1,000)**	–
Income tax liability		–	(594)	**(568)**	(613)
Other financial liabilities	18	**(243)**	(150)	–	–
		(92,879)	(77,529)	**(58,668)**	(19,575)
Total liabilities		**(107,763)**	(121,829)	**(58,668)**	(46,499)
Net assets		**130,055**	127,477	**106,495**	104,587

	Note	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Equity attributable to equity holders of the Parent					
Share capital	29	**3,314**	3,314	**3,314**	3,314
Share premium	29	**73,955**	73,955	**73,955**	73,955
Other reserves	29	**211**	211	–	–
Translation reserve	29	**(326)**	(692)	–	–
Merger reserve	29	**1,022**	1,022	**1,022**	1,022
Hedging reserve	29	**174**	102	–	–
Capital redemption reserve	29	**1,530**	1,530	**1,530**	1,530
Share-based payment reserve	29	**1,462**	1,139	**1,462**	1,139
Retained earnings****		**48,703**	46,841	**25,212**	23,627
		130,045	127,422	**106,495**	104,587
Non-controlling interest		**10**	55	–	–
Total equity		**130,055**	127,477	**106,495**	104,587

* The comparative balance sheet has been restated to increase provisions by £5.2m (see Note 28) decrease trade and other payables by £3.3m (see Note 25) and increase contract assets by £1.9m (see Note 22).

** The Group has adopted IFRS 16 starting 1 June 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

*** Interest-bearing loans and borrowings at 31 May 2020 include £1.4m of additional current liabilities and £6.2m of additional non-current lease liabilities recognised under IFRS 16.

**** The Company's profit for the year was £3.0m (2019: £5.8m)

The notes on pages 44 to 89 form an integral part of these financial statements.

These financial statements on pages 44 to 89 were approved by the Board of Directors on 28 July 2020 and were signed on its behalf by:

Gordon Banham
Director

Registered number: 4952865

Statement of Changes in Equity
for year ended 31 May 2020

Group	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total Parent equity £000	Non-controlling interest £000	Total equity £000
At 1 June 2018	3,314	73,955	(1,010)	1,155	211	1,530	1,022	1,043	54,886	136,106	(19)	136,087
Total comprehensive (expense)/income for the year												
(Loss)/profit for the year	–	–	–	–	–	–	–	–	(4,741)	(4,741)	74	(4,667)
Other comprehensive income/ (expense)												
Foreign exchange translation differences	–	–	318	–	–	–	–	–	–	318	–	318
Effective portion of changes in fair value of cash flow hedges	–	–	–	(1,269)	–	–	–	–	–	(1,269)	–	(1,269)
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	(1,197)	(1,197)	–	(1,197)
Tax recognised on other comprehensive income	–	–	–	216	–	–	–	–	203	419	–	419
Total other comprehensive income/ (expense)	–	–	318	(1,053)	–	–	–	–	(994)	(1,729)	–	(1,729)
Total comprehensive income/ (expense) for the year	–	–	318	(1,053)	–	–	–	–	(5,735)	(6,470)	74	(6,396)
Transactions with owners recorded directly in equity												
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	96	–	96	–	96
Dividends paid	–	–	–	–	–	–	–	–	(2,310)	(2,310)	–	(2,310)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	96	(2,310)	(2,214)	–	(2,214)
At 31 May 2019	**3,314**	**73,955**	**(692)**	**102**	**211**	**1,530**	**1,022**	**1,139**	**46,841**	**127,422**	**55**	**127,477**

Group	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total Parent equity £000	Non-controlling interest £000	Total equity* £000
At 1 June 2019	3,314	73,955	(692)	102	211	1,530	1,022	1,139	46,841	127,422	55	127,477
Total comprehensive income/(expense) for the year												
Profit/(loss) for the year	–	–	–	–	–	–	–	–	4,315	4,315	(45)	4,270
Other comprehensive income/(expense)												
Foreign exchange translation differences	–	–	366	–	–	–	–	–	–	366	–	366
Effective portion of changes in fair value of cash flow hedges	–	–	–	83	–	–	–	–	–	83	–	83
Equity adjustment relating to adoption of IFRS 16*	–	–	–	–	–	–	–	–	(161)	(161)	–	(161)
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	(1,129)	(1,129)	–	(1,129)
Tax recognised on other comprehensive income	–	–	–	(11)	–	–	–	–	283	272	–	272
Total other comprehensive income/(expense)	–	–	366	72	–	–	–	–	(1,007)	(569)	–	(569)
Total comprehensive income/(expense) for the year	–	–	366	72	–	–	–	–	3,308	3,746	(45)	3,701
Transactions with owners recorded directly in equity												
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	323	–	323	–	323
Dividends paid	–	–	–	–	–	–	–	–	(1,446)	(1,446)	–	(1,446)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	323	(1,446)	(1,123)	–	(1,123)
At 31 May 2020	**3,314**	**73,955**	**(326)**	**174**	**211**	**1,530**	**1,022**	**1,462**	**48,703**	**130,045**	**10**	**130,055**

* The Group has adopted IFRS 16 starting 1 June 2019 using the modified retrospective transition option which has resulted in an impact of £161,000 on the Group's opening equity. Under this option, the comparative information is not restated. See Note 1.

Statement of Changes in Equity continued
for year ended 31 May 2020

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total Parent equity £000
At 1 June 2018	3,314	73,955	1,530	1,022	1,043	20,174	101,038
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	5,763	5,763
Total comprehensive income for the year	–	–	–	–	–	5,763	5,763
Transactions with owners recorded directly in equity							
Equity-settled share-based payment transactions	–	–	–	–	96	–	96
Dividends paid	–	–	–	–	–	(2,310)	(2,310)
Total contributions by and distributions to owners	–	–	–	–	96	(2,310)	(2,214)
At 31 May 2019 and 1 June 2019	**3,314**	**73,955**	**1,530**	**1,022**	**1,139**	**23,627**	**104,587**
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	3,031	3,031
Total comprehensive income for the year	–	–	–	–	–	3,031	3,031
Transactions with owners recorded directly in equity							
Equity-settled share-based payment transactions	–	–	–	–	323	–	323
Dividends paid	–	–	–	–	–	(1,446)	(1,446)
Total contributions by and distributions to owners	–	–	–	–	323	(1,446)	(1,123)
At 31 May 2020	**3,314**	**73,955**	**1,530**	**1,022**	**1,462**	**25,212**	**106,495**

Cash Flow Statement for year ended 31 May 2020

	Note	Group 2020 £000	Group Restated 2019* £000	Company 2020 £000	Company 2019 £000
Cash flows from operating activities					
Profit/(loss) for the year from continuing operations		**4,270**	(8,193)	**3,031**	(211)
Adjustments for:					
Depreciation and impairment of property, plant and equipment and right-of-use assets****	12, 13	**19,305**	16,136	**-**	-
Amortisation and impairment of goodwill and intangible assets	15	**1,575**	142	**-**	-
Net finance expense	8	**1,289**	1,704	**858**	203
Share of profit in joint ventures (net of tax)	16	**(2,135)**	(1,534)	**-**	-
Impairment of investment in subsidiaries	16	**-**	-	**2,071**	1,814
Profit on sale of property, plant and equipment, investment property and right-of-use assets	3	**(2,851)**	(4,291)	**-**	-
Equity-settled share-based payment expenses	27	**323**	96	**-**	-
Income tax (credit)/expense	9	**(2,119)**	(1,665)	**507**	1,960
Contributions to defined benefit pension schemes	26	**(1,858)**	(1,746)	**-**	-
Translation of non-controlling interest and investments		**-**	(100)	**-**	-
		17,799***	549	**6,468**	3,766
Change in assets held for sale		**-**	8,961	**-**	-
Change in inventories		**(15,969)**	(11,262)	**-**	-
Change in trade and other receivables*		**12,611**	24,223	**(16,138)**	20,249
Change in trade and other payables*		**(22,863)**	(20,719)	**3,792**	(13,636)
Change in provisions and employee benefits*		**2,740**	7,031	**1,000**	-
		(5,682)	8,783	**(4,878)**	10,379
Interest paid		**(1,104)**	(1,635)	**(782)**	(189)
Income tax (paid)/received		**(272)**	307	**(552)**	(1,425)
Net cash (outflow)/inflow from continuing operating activities		**(7,058)**	7,455	**(6,212)**	8,765
Net cash inflow from operating activities in discontinued operations		**-**	15,593	**-**	6,419
Net cash (outflow)/inflow from operating activities		**(7,058)**	23,048	**(6,212)**	15,184
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment and investment property		**12,172**	12,231	**-**	-
Acquisition of property, plant and equipment and investment property		**(3,052)**	(8,433)	**-**	-
Net cash inflow from investing activities		**9,120**	3,798	**-**	-
Cash flows from financing activities					
Principal elements of lease payments (2019 Payment of finance lease liabilities)**	24	**(8,769)**	(6,780)	**-**	-
Dividends paid	29	**(1,446)**	(2,310)	**(1,446)**	(2,310)
Proceeds from/(repayment of) Group banking facilities	24	**5,000**	(12,300)	**5,000**	(12,300)
Net cash (outflow)/inflow from financing activities		**(5,215)**	(21,390)	**3,554**	(14,610)
Net (decrease)/increase in cash and cash equivalents		**(3,153)**	5,456	**(2,658)**	574
Cash and cash equivalents at 1 June		**21,583**	16,110	**312**	(262)
Effect of exchange rate fluctuations on cash held		**69**	17	**-**	-
Cash and cash equivalents at 31 May	23, 24	**18,499**	21,583	**(2,346)**	312

* The comparative Group cash flow statement has been restated to decrease change in trade and other receivables by £1.9m (see Note 22), increase change in trade and other payables by £3.3m (see Note 25) and increase change in provisions and employee benefits by £5.2m (see Note 28).

** The Group has adopted IFRS 16 starting 1 June 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

*** Operating cash inflows before movements in working capital for the year ended 31 May 2020 are £4,058,000 higher due to the adoption of IFRS 16. Interest paid for the year ended 31 May 2020 is £280,000 higher due to the adoption of IFRS 16. Cash outflows in respect of the capital element of lease rental payments for the year ended 31 May 2020 are £2,895,000 higher due to the adoption of IFRS 16.

**** Additional depreciation on the Group's right-of-use assets due to the adoption of IFRS 16 amounted to £4,173,000 for the year ended 31 May 2020.

Notes
(forming part of the financial statements)

1 Accounting Policies
Hargreaves Services plc (the "Company") is a public company limited by shares and incorporated, domiciled and registered in England, UK.

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

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") using interpretations issued by the IFRS Interpretations Committee and in line with the Companies Act 2006 as applicable to companies using IFRS. In publishing the Parent Company financial statements together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Income Statement and related notes that form a part of these approved financial statements. The financial statements are presented in Sterling since this is the currency in which the majority of the Group's transactions are denominated.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. The Group has restated the May 2019 balance sheet in relation to the reclassification of certain provision balances from accruals and contract assets to provisions. A third balance sheet has not been presented as the impact of the restatement is not considered to be qualitatively material to users of the accounts and all balances as at the opening balance sheet date are disclosed within the relevant notes.

In these financial statements the following IFRSs which are effective for the first time have been adopted, including the following standards, amendments and interpretations:
- IFRS 16, Leases.

Adoption of IFRS 16
For the year ending 31 May 2020, IFRS 16, Leases, has become effective and replaces the requirements of IAS 17, Leases. The Group has adopted IFRS 16 using the modified retrospective approach under which the cumulative effect of adoption is recognised through reserves, with comparatives continuing to be reported under IAS 17. An asset representing the Group's right as a lessee to use a leased item and a liability for the associated future lease payments, has been recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The cost of leases has been recognised in the consolidated income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the accounting for finance leases under IAS 17, but different to the accounting for operating leases (under which no lease asset or lease liability was recognised, and operating lease rentals were charged to the consolidated income statement on a straight-line basis).

As a result of adopting the new accounting standard for the year ended 31 May 2020, the Group's profit before tax has reduced by £115,000, and operating profit has increased by £165,000. The reduction in profit before tax is the net impact of £280,000 of additional finance charges and £4,173,000 of additional depreciation, replacing £2,895,000 of operating lease rental charges and £1,443,000 of onerous lease costs. Finance charges under IFRS 16 are front-loaded in the early part of the lease term and when using the modified retrospective approach to adoption, this results in the overall cost of leases being greater than operating lease rental charges would have been under IAS 17.

Net debt increased by £6,608,000 at 1 June 2019 as a result of the recording of the additional lease liabilities on the balance sheet. This was largely offset within net assets by an increase of £6,560,000 in right-of-use assets recorded in property, plant and equipment and the recognition of £113,000 of associated accruals.

The Group adopted IFRS 16 with a date of initial application of 1 June 2019 using the modified retrospective approach whereby the right-of-use asset on transition equalled the lease liability, before the reclassification and adjustment of associated balance sheet items. The comparative information for the year ended 31 May 2019 has not been restated and continues to be reported under IAS 17.

The Group applied the following measures/exemptions available on transition to IFRS 16, to leases previously classified as operating leases;
- on transition the Group has applied IFRS 16 only to those contracts that were previously identified as containing a lease. Contracts previously identified as not containing leases under IAS 17 were not reassessed;
- The Group has relied on its previous assessment of whether leases are onerous in accordance with IAS 37 immediately before the date of initial application as an alternative to performing an impairment review;
- The Group has not recognised right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis;
- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term in a similar class of underlying asset in a similar economic environment);
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- The Group may use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has changed its accounting policies and updated its internal processes and controls relating to leasing. The new definition of a lease has been applied to contracts entered into from 1 June 2019.

The impact on the Group's opening balance sheet at 1 June 2019 as a result of the adoption of IFRS 16 was as follows:

	£'000
Net assets at 31 May 2019	127,477
Right-of-use assets recognised	6,560
Reclassification of accruals	(113)
Lease liabilities recognised	(6,608)
Net assets at 1 June 2019	**127,316**

Applying the Group's incremental borrowing rate to discount the operating lease commitments reported at 31 May 2019 results in a liability of £5.2m. This reconciles to the lease liability recognised as follows:

	£'000
Operating lease commitments at 31 May 2019	5,784
Discount using the incremental borrowing rate at 1 June 2019	(563)
Discounted operating lease commitments	5,221
Recognition exemption for short-term and low-value leases	(250)
Reassessment of lease terms including extension and termination options reasonably certain to be exercised	1,637
Lease liability recognised at 1 June 2019	**6,608**
Of which are:	
Current lease liabilities	1,652
Non-current lease liabilities	4,956
	6,608

The change in accounting policy affected the following items in the consolidated balance sheet on 1 June 2019:

- plant and machinery – decrease by £13,186,000
- right-of-use assets – increase by £6,560,000
- accruals – increase by £113,000
- lease liabilities – increase by £6,608,000

The net impact on retained earnings on 1 June 2019 was a decrease of £161,000.

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

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

Accounting Estimates involving Judgements

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

a) Construction Contract Revenue

IFRS 15, Revenue from Contracts with Customers, applies to all revenue recognition, and replaced IAS 11, "Construction Contracts", insofar as the Group carries out construction contracts in its Specialist Earthworks business and represents a key area of judgement. Management must assess the performance obligations under each contract and the point at which those obligations have been fulfilled, allocating the transaction price as necessary to each obligation. The estimates and judgements which management must carry out to assess the total expected costs on a contract remain necessary under IFRS 15. The Group has control and review procedures in place to monitor, and evaluate, regularly, the estimates being made to ensure that they are consistent and appropriate. This includes reviewing the independent certification of the value of work done, the progress of work against contracted timescales and the costs incurred against plan. In particular, management makes judgements on the expected recoverability of value recorded in respect of performance obligations which have been completed but not yet agreed with the customer and on the likelihood of the entitlement to any variable consideration. Differences arising on the ultimate completion of the contract and any unforeseen changes or events as the contract progresses may result in material changes to expected financial outcomes. Construction contract revenue in the year ended 31 May 2020 was £15.7m (2019: £57.6m). There is deemed to be no impact of Covid-19 in relation to the recognition of construction contract revenue as all contracts had completed on site prior to the impact of the pandemic.

b) Mining Production and Profitability

The Group has a surface mining business although it ceased to operate after the end of the financial year. Estimates of mine life and production levels, and the profitability of future production (which in the medium-term continues to be partly dependent on future prices for coal) are included in Group forecasts. These forecasts are used in the impairment assessment of mining assets, including goodwill. Estimates of mine life and production levels also form the basis of depreciation of capitalised mining costs. The carrying value of the mining assets as at 31 May 2020 is £0.5m (2019: £4.3m). There has been no impact of Covid-19 on the estimation of mine life and production levels as the Group has ceased mining in July 2020 and activities were not curtailed by Covid-19.

1 Accounting Policies continued
Accounting Estimates involving Judgements continued
c) Restoration Costs
In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Board makes provisions for liabilities which exist but where judgements have to be made as to the quantification of such liabilities.

The Group's surface mining activities give rise to obligations for site restoration. The restoration provisions, which are set out in Note 28, 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. The carrying value of restoration provisions at 31 May 2020 is £5.9m (2019: £5.1m).

d) Redundancy Provision
Following the announcement to cease mining, management has made a provision in respect of possible redundancy costs for affected employees. The value of the redundancy provision at 31 May 2020 is £1.1m. In the prior year there was a redundancy provision of £1.7m in relation to possible redundancies following the announcement that British Steel Limited had gone into an insolvency process. Following the acquisition of British Steel by Jingye Group in March 2020 the unused portion of this provision has been released.

e) Contract Provision
The Group has made provisions against contract assets and potential contract liabilities which require judgements to be made regarding recoverable amounts and reasonably possible costs which may be incurred. The nature of these items are such that there timing and quantum is uncertain and so the Directors have made judgements based upon the facts as they are known at the date of this report. The view has been taken that all of these items could potentially occur within the next 12 months and so all of the provision has been classified as current. The carrying value of contract provisions at 31 May 2020 is £6.8m (2019: £4.4m).

f) Net Realisable Value of Coal Inventory
Inventory is carried at the lower of cost and net realisable value. Determining the net realisable value of the coal inventory requires some judgement which include reference to prevailing market conditions for different types of coal and contractual arrangements. For some types of coal, global market indices can be used as a proxy for net realisable value. In determining the quantum of coal inventory judgement is applied in the use of density factors, which are utilised to estimate how much coal is present in a location. These factors are based on management's experience in this area and are applied consistently. The total carrying value of coal inventory is £39,374,000 (2019: £29,686,000).

g) Post Retirement Employee Benefits
The Group operates two funded defined benefit schemes and an unfunded concessionary fuel scheme. Independent actuaries calculate the Group's asset/liability in respect of the defined benefit schemes. The actuaries make assumptions as to discount rates, salary escalations, net interest on scheme assets/liabilities, future pension increases, mortality rates applicable to members and future rates of inflation. These assumptions are made under the Board's direction. The Board determines the appropriateness of these assumptions by benchmarking them against those used by other schemes and by taking advice from the independent actuaries. If the actual experience of the schemes is different from the assumptions used, then the pension asset/liability may differ from that shown in these financial statements. More information is given in Note 26 to these financial statements. The impact of the equalisation of Guaranteed Minimum Pensions has been assessed to be negligible. The deficit of the defined benefit schemes in the balance sheet at 31 May 2020 is £3.8m (2019: £4.2m).

h) Measurement of the Recoverable Amounts of Cash-Generating Units ("CGUs") Containing Goodwill, Property Assets and Parent Company Intra-Group Balances
In accordance with IAS 36 "Impairment of Assets", the Board identifies appropriate CGUs and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these CGUs, the discount rate applied in the calculations and the comparison of the cash flows to the carrying value of the goodwill. These are key areas of judgement and include significant accounting estimates. Management has assessed the sensitivity of carrying amounts of CGUs containing goodwill to reasonably possible changes in key assumptions. More information on the assumptions used and the sensitivities applied are set out in Note 16 to these financial statements. Freehold property assets, including investment properties and properties held for development and resale are recorded at the lower of cost and net realisable value. The carrying value is assessed on the basis of the strategy for each asset and the expected net proceeds arising, with reference to estimated market value where relevant. An assessment is made regarding the recoverability of intra-Group balances on a regular basis. This assessment includes, but is not restricted to, a review of net assets and future trading opportunities within each Group business. There have been no impairments identified as a result of Covid-19.

Accounting Judgements
i) Discontinued Operations
In accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", a non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss, this represents an area of judgement. The same applies to gains and losses on subsequent re-measurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In accordance with IFRS 5, the above policy is effective from the start of the accounting period in which the operation meets the criteria to be classified as held for sale. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical

area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Income Statement is restated as if the operation has been discontinued from the start of the comparative period.

j) Treatment of the Jointly controlled entity
Management have considered the level of control of each of the Group's individual Joint Venture arrangements and are satisfied that the Group does not have control, either through voting rights or other circumstances, of any of these arrangements. Tower Regeneration Limited is a Joint Venture between the Group and a third party. The purpose of this joint venture was to enable the Group's access to an open cast coal mine in South Wales. The mine ceased to operate in 2016 and restoration work is ongoing. The Group is entitled to 35% of the profits from the operation. The strategic business decisions of the Joint Venture are taken by both the Group and the third party equally. This is reflected in the equal representation on the Board of each investing party and the ownership of voting rights is split 50:50 between both parties.

Hargreaves Services Europe Limited ("HSEL") (consolidated entity), is a material joint venture to the Group. HSEL owns 100% of Hargreaves Raw Materials Services GmbH ("HRMS") which is a key supplier of specialist raw materials to major European customers in the steel, foundry, smelting, ferroalloy, sugar, limestone, insulation, refractory and ceramic industries. 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 HRMS to compete in the supply of bulk carbon products in Europe. The Group is entitled to 86% of the profits of HRMS, however the Group does not exert control over the business. The Group holds 49% of the voting rights in HSEL, with the remainder being held by the HRMS management team. One of the four Directors is appointed by the Group. The Group does not have the power to change these arrangements. A shareholder agreement is in place to provide the Group with safeguards designed to protect its investment; however, the key strategic decisions affecting the operation and its results are not taken by the Group. In the event of a dispute between the Group and the operation which could not be resolved, the operation would be subject to an orderly wind down. Whilst the voting rights demonstrate significant influence, the Group does not control the operation and therefore the Board accounts for the investment as a joint venture.

On 10 December 2019, HRMS acquired 94.9% of DK Recycling und Roheisen GmbH ("DK") from DK Holdings GmbH. The acquisition cost was €1. By virtue of its shareholder agreement with HRMS, the Group is effectively entitled to 81.6% of the profits of DK, however the Group does not exert control over that business.

Measurement Convention
The financial statements are prepared on the historical cost basis except that derivative financial instruments and financial instruments classified as fair value through the Statement of Profit and Loss or as available for sale are stated at their fair value.

Impact of Covid-19
The Group has not seen a significant impact on its trading and results for the year ended 31 May 2020 as a result of Covid-19 other than the delay to certain expected sales of land. The Group continues to monitor the situation closely. The impact of Covid-19 on the accounting estimates and judgements made is detailed above.

Going Concern
The Group's business activities, together with the factors likely to affect its future development performance and position are set out in the Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition, Note 30 to the financial statements includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. The Group's existing bankers have provided an initial £45m committed facility until 31 July 2021. The facility steps down at certain points over the year to £35m. A rigorous process of reviewing cash flow forecasts and testing for a range of challenging downside sensitivities has been undertaken including assessing severe yet plausible impacts of Covid-19. Only remedies to these downsides which are entirely within the Group's control have been assumed to be achievable mitigations to those sensitivities. At all times, the Group's banking covenants have remained intact under this stress testing process.

The structure of this facility, which is based on similar asset based lending principles as its predecessor, is not considered to be appropriate in the long term as the Group's business model develops away from coal production to a Group which focusses more on trading, services and property development. During the next few months, we will be working with lenders to put a longer term facility in place which will fit better with Hargreaves' evolving business model. The Board is confident that suitable new facilities will be secured to replace the new facility before it expires. Therefore, and after making appropriate enquiries including reviewing budgets and strategic plans, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the Annual Report and Accounts.

The financial statements were approved by the Board of Directors on 28 July 2020.

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.

Notes continued
(forming part of the financial statements)

1 Accounting Policies continued

Basis of Consolidation continued

Change in Subsidiary Ownership and Loss of Control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Application of the Equity Method to Joint Ventures

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

Transactions Eliminated on Consolidation

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

Parent Company Financial Statements

In the Parent Company financial statements, all investments in subsidiaries and joint ventures are carried at cost less impairment.

Foreign Currency

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

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

Classification of Financial Instruments Issued by the Group

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

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

Financial Assets

Financial assets classified as "loans and receivables" under IAS 39 (being trade and other receivables and amounts due from undertakings in which the Group has a participating interest) continue to be classified within the "amortised cost" category according to IFRS 9.

The Group classifies financial assets under the following measurement categories:

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

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

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

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

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

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

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Derivatives are intended to be highly effective in mitigating the above risks, and hedge accounting is adopted where the required hedge documentation is in place and the relevant test criteria are met. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement as part of financing costs. The Group continues to apply IAS 39 for the purposes of hedge accounting as permitted under IFRS 9.

Non-Financial Assets
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Intra-Group Financial Instruments
Where the Company enters into financial guarantee contracts to guarantee the 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 is stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful economic lives, they are accounted for as separate items of property, plant and equipment.

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

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

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

Depreciation of right-of-use assets is based on the same categorisation as above.

Mining Assets

Surface mine development	-	units of coal production.
Stripping activity asset	-	units of coal production from the specific box cut to which the associated stripping asset relates.
Mineral reserves	-	units of coal production.

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.

1 Accounting Policies continued
Mining Assets continued
Surface Mine Development Asset
Costs incurred in preparing and developing sites are referred to as "surface mine development costs" and are capitalised within "property, plant and equipment" as part of "Mining assets". Surface mine development costs principally comprise:
- the costs associated with achieving the necessary planning permission and consents, licences and permits required to operate the site;
- drilling, pumping, geology and mine design costs; and
- site development and infrastructure costs.

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

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

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

Mineral Reserves
Costs associated with the acquisition of mining reserves, such as coal, are referred to as "mineral reserves" and are capitalised within "property, plant and equipment" as part of "Mining assets". This asset is amortised to the statement of comprehensive income on a units of production method.

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

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

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

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

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

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

After classification lessor accounting is applied to the sublease.

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

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

All investment properties within the Group currently relate to Land.

Investments
Investments in joint ventures and subsidiaries are carried at cost less impairment in the Parent Company accounts.

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

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

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.

Notes continued
(forming part of the financial statements)

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. Where necessary, provisions are made against obsolete, defective or slow-moving inventories. Finished goods includes items of plant and machinery which are regarding as trading stock.

Properties Held for Development and Resale

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

Cash and Cash Equivalents

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

Trade and Other Payables

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

Interest-Bearing Borrowings

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

Reversals of Impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee Benefits

Defined Benefit Pension Plans

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

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

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

Defined Contribution Pension Plans

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

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

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

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

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

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

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

Sales of Plant, Coal, Coke and Other Mineral Sales
Revenue is recognised at a point in time when delivery of the product has been made and title has passed to the customer. A number of mineral 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 at a point in time when the conditions above have been met.

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

Services
Revenue is recognised over time as contractual performance obligations are fulfilled. A proportion of sales are subject to long-term contracts, typically on a cost-plus or similar basis. Typically, these contracts take the form of a continuing performance obligation. The revenue and profit on such contracts is recognised (and invoiced) using the input method of measuring progress on completion of the performance obligation. Profit is recognised in line with the recognition of revenue allocating costs to each separate performance obligation as appropriate. Any losses on contracts are recognised in full immediately.

Construction Contract Revenue
When the outcome of individual contracts can be estimated reliably, contract revenue and costs are recognised as revenue and expenses respectively over time by reference to the fulfilment of performance obligations using the input method of estimating progress of delivery at the reporting date. Costs are recognised as incurred, and revenue is recognised using the input method. The stage of completion of a contract is assessed by reference to completion of a physical proportion of the contract work. Revenue includes the initial amount agreed in the contract plus any variations in contracted work, to the extent that it is probable that they will result in revenue and can be measured reliably. Revenue includes an assessment of any variable consideration which may become receivable based upon relevant performance measures. Variable consideration is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised. Provision is made for all known or expected losses on contracts as soon as they are foreseen. These provisions are reviewed throughout the contract life and are adjusted as required. However, the nature of the risks on contracts are such that is often not possible to resolve them until the end of the contract and therefore the provisions may not reverse until the contract is concluded.

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

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

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

Notes continued
(forming part of the financial statements)

1 Accounting Policies continued

Contract Assets

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

Contract Liabilities

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

Net Financing Costs

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

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

Taxation

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

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

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

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

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

Provisions

A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate. The effect is not deemed material for the Group's provisions.

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.

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

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

Adopted IFRSs Not Yet Applied

Certain new accounting standards and interpretations have been published that are not mandatory for 31 May 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Segmental Information

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

The sectors distinguished as operating segments are Distribution & Services, Hargreaves Land, Unallocated and HSEL.

- **Distribution & Services:** Provides coal distribution, including mining operations, materials handling and contracting services and logistics to a range of industrial, wholesale and public sector customers. The business unit also provides earth moving and infrastructure services across the UK and trades in plant and machinery.
- **Hargreaves Land:** The development and realisation of value from the land portfolio including rental income from investment properties.
- **Unallocated:** The corporate overhead contains the central functions that are not devolved to the individual business units.
- **Hargreaves Services Europe ("HSEL"):** The Group's share of its German joint venture.

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

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

	Distribution & Services 2020 £000	Hargreaves Land 2020 £000	Unallocated 2020 £000	HSEL 2020 £000	Total 2020 £000
Revenue					
Total revenue	216,283	6,217	–	–	222,500
Intra-segment revenue	(258)	–	–	–	(258)
Revenue from external customers	**216,025**	**6,217**	**–**	**–**	**222,242**
Operating profit/(loss) (before exceptional items and amortisation)	**8,496**	**(194)**	**(3,739)**	**–**	**4,563**
Share of profit in joint ventures (net of tax)*	–	–	–	2,135	2,135
Net financing costs	(1,641)	(115)	467	–	(1,289)
Amortisation and impairment of intangibles	(1,575)	–	–	–	(1,575)
Exceptional items	(4,120)	–	2,437	–	(1,683)
Profit/(loss) before taxation	**1,160**	**(309)**	**(835)**	**2,135**	**2,151**
Taxation	603	979	537	–	2,119
Profit/(loss) after taxation	**1,763**	**670**	**(298)**	**2,135**	**4,270**
Depreciation charge	**(18,666)**	**(116)**	**(523)**	**–**	**(19,305)**
Capital expenditure	**(2,578)**	**(94)**	**(129)**	**–**	**(2,801)**
Net assets/(liabilities)					
Segment assets	161,859	58,635	3,231	–	223,725
Segment liabilities	(65,172)	(2,423)	(40,168)	–	(107,763)
Segment net assets/(liabilities)	**96,687**	**56,212**	**(36,937)**	**–**	**115,962**
Joint ventures	–	–	–	14,093	14,093
Total net assets/(liabilities)	**96,687**	**56,212**	**(36,937)**	**14,093**	**130,055**

* Share of profit in joint ventures includes £0.6m of fair value gain on an acquisition by a joint venture.

Unallocated net liabilities of £36.9m include the Group banking facilities liability (£32.0m), cash and cash equivalents (£6.3m liability), derivative financial instruments (£0.2m liability), VAT liability (£1.9m) and deferred tax asset (£8.3m), retirement benefit obligations (£3.8m) and other corporate items (£1.0m liability).

2 Segmental Information continued

	Distribution & Services 2019 £000	Hargreaves Land 2019 £000	Unallocated 2019 £000	HSEL 2019 £000	Total 2019 £000
Revenue					
Total revenue	293,787	3,634	6,054	–	303,475
Intra-segment revenue	–	(862)	–	–	(862)
Revenue from external customers	293,787	2,772	6,054	–	302,613
Operating profit/(loss) (before exceptional items and amortisation)	8,734	2,232	(4,376)	–	6,590
Share of profit in joint ventures (net of tax)	–	–	–	1,534	1,534
Net financing costs	(1,646)	(144)	86	–	(1,704)
Amortisation and impairment of intangibles	(142)	–	–	–	(142)
Exceptional items	(16,770)	–	634	–	(16,136)
(Loss)/profit before taxation	(9,824)	2,088	(3,656)	1,534	(9,858)
Taxation	1,436	(305)	534	–	1,665
(Loss)/profit after taxation	(8,388)	1,783	(3,122)	1,534	(8,193)
Depreciation charge	(15,416)	(192)	(528)	–	(16,136)
Capital expenditure	(15,535)	(15)	(365)	–	(15,915)
Net assets/(liabilities)					
Segment assets	190,148	27,288	20,126	–	237,562
Segment liabilities	(85,624)	(2,970)	(33,235)	–	(121,829)
Segment net assets/(liabilities)	104,524	24,318	(13,109)	–	115,733
Joint ventures	–	–	–	11,744	11,744
Total net assets/(liabilities)	104,524	24,318	(13,109)	11,744	127,477

Unallocated net liabilities of £13.1m include the Group banking facilities liability (£26.9m), cash and cash equivalents (£0.9m liability), derivative financial instruments (£0.3m liability), corporation tax liability (£0.6m) and deferred tax asset (£6.2m), retirement benefit obligations (£4.2m), and other assets of £13.6m.

The following table analyses revenue by significant category:

	2020 £000	2019 £000
Sale of goods	**75,734**	104,349
Provision of services	**130,849**	140,711
Construction contracts	**15,659**	57,553
	222,242	302,613

The timing of revenue recognition is analysed as follows:

	Distribution & Services 2020 £000	Hargreaves Land 2020 £000	Unallocated 2020 £000	Total 2020 £000
Over time	**102,711**	**259**	–	**102,970**
At a point in time	**113,314**	**5,958**	–	**119,272**
Revenue	**216,025**	**6,217**	–	**222,242**

	Distribution & Services 2019 £000	Hargreaves Land 2019 £000	Unallocated 2019 £000	Total 2019 £000
Over time	198,264	–	–	198,264
At a point in time	95,523	2,772	6,054	104,349
Revenue	293,787	2,772	6,054	302,613

Geographical Information

	2020 Revenue £000	2020 Non-current assets £000	2019 Revenue £000	2019 Non-current assets £000
UK	**190,023**	**72,092**	251,073	84,098
Europe	**5,220**	**–**	10,017	–
Hong Kong	**24,896**	**346**	27,504	266
Other overseas	**2,103**	**27**	14,019	187
	222,242	**72,465**	302,613	84,551

3 Other Operating Income/(expense)

	2020 £000	2019 £000
Profit on disposal of property, plant and equipment	**2,519**	2,718
Profit on disposal of investment property	**870**	1,573
Loss on disposal of right-of-use assets	**(538)**	–
Profit on disposal of subsidiary undertakings (Note 5)	**2,437**	–
Total other operating income	**5,288**	4,291

4 Expenses and Auditors' remuneration
The following items have been charged to the Statement of Profit and Loss:

	2020 £000	2019 £000
Amortisation and impairment of goodwill and other intangibles	**1,575**	142
Depreciation of property, plant and equipment owned	**6,820**	8,250
Depreciation of right-of-use assets (2019: property, plant and equipment held under finance lease)	**5,992**	2,154
Depreciation of mining assets and mineral reserves	**6,493**	5,732
Interest payable on right-of-use leases (2019: finance leases)	**675**	489
Expense relating to short-term leases	**2,369**	–
Expense relating to leases of low-value assets that are not shown above as short-term	**1,150**	–

Auditors' remuneration:

	2020 £000	2019 £000
Audit of these financial statements	**67**	52
Amounts receivable by the Company's auditor and its joint ventures in respect of:		
Audit of financial statements of subsidiaries of the Company	**300**	182
Audit of financial statements of joint ventures of the Company	**146**	90
Taxation compliance services	**–**	2
Other tax advisory services	**–**	130
Other assurance services	**10**	9

In addition to the above, fees of £nil (2019: £50,000) were receivable by the Company's auditor for other advisory services in respect of discontinued operations. The fees in respect of 2020 were receivable by PricewaterhouseCoopers LLP and by KPMG LLP in respect of 2019.

5 Exceptional Items

The Group incurred a number of exceptional items in the year as follows:

	2020 £000	2019 £000
Exceptional items in Revenue		
Reduction in value of legacy contracts in C.A. Blackwell (Contracts) Limited	**(933)**	–
Total exceptional items in Revenue	**(933)**	–
Exceptional items in Cost of Sales		
Losses on legacy contracts in C.A. Blackwell (Contracts) Limited	**(487)**	(676)
Cessation of coal mining activities	**(4,108)**	–
Movement in provision in respect of the insolvency of British Steel	**1,408**	(3,839)
Losses due to insolvency of Wolf Minerals (UK) Limited	–	(8,130)
Total exceptional items in Cost of Sales	**(3,187)**	(12,645)
Exceptional items in Other Operating income		
Gain on disposal of Drakelands Restoration Limited	**2,437**	–
Total exceptional items in Other Operating income	**2,437**	–
Exceptional items in Administrative expenses		
Losses due to insolvency of British Steel	–	(4,125)
Net amounts recovered from C.A. Blackwell (Contracts) Limited breach of warranty claim	–	634
Total exceptional items in Administrative expenses	–	(3,491)
Total	**(1,683)**	(16,136)

Following the decision to cease all coal mining operations the Group incurred an exceptional charge of £4,108,000, reflecting employment related liabilities of £1,421,000, associated asset write-downs of £1,746,000 and restoration liabilities of £941,000.

On 2 December 2019 the Group disposed of its shareholding in Drakelands Restoration Limited ("DRL") for proceeds of £2,800,000, the total assets and net assets of DRL at date of disposal were nil and directly attributable costs totalled £363,000 resulting in a profit on disposal of £2,437,000, reported within the unallocated reportable segment.

Following the insolvency of British Steel, a cost of £7,964,000 was recognised in the year ended 31 May 2019 with £1,681,000 relating to employment liabilities and the remainder relating to debtor, WIP and associated plant impairments. Following the acquisition of British Steel in the year ended 31 May 2020 there is no longer any need for the remaining employment related provision, and it has been released reversing the exceptional charge from the prior year.

Further losses have been recognised on the legacy contracts within C.A. Blackwell (Contracts) Limited resulting in a reversal of previously recognised revenue of £933,000 and further costs of £487,000.

6 Staff Numbers and Costs

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

	Number of employees Group	
	2020	2019
Directors and senior management	**17**	25
Administration	**263**	333
Production	**1,462**	1,700
	1,742	2,058

The aggregate payroll costs of these persons were as follows:

	Group	
	2020 £000	2019 £000
Wages and salaries	**67,646**	80,536
Share-based payments (see Note 27)	**323**	96
Social security costs	**5,319**	6,698
Contributions to defined contribution pension scheme (see Note 26)	**2,831**	3,153
Expenses of defined benefit pension schemes (see Note 26)	**233**	241
	76,352	90,724

The Company has no employees (2019: nil).

7 Directors' Remuneration

	2020 £000	2019 £000
Directors' emoluments	**1,264**	1,132
Company contributions to defined contribution pension schemes	**205**	183
	1,469	1,315

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £523,000 (2019: £523,000), and £118,000 (2019: £118,000) was paid in lieu of Company pension contributions.

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

	Number of Directors	
	2020	2019
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	**3**	3
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	**4**	3

None of the Directors hold any rights to subscribe for shares in the Group (2019: nil).

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

8 Finance Income and Expense Recognised in Profit or Loss

	2020 £000	2019 £000
Finance income		
Bank interest receivable	**156**	183
Early settlement discount	**260**	168
Foreign exchange gain	**270**	–
Interest received from jointly controlled entities	**159**	99
Total finance income	**845**	450
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**1,379**	1,450
Interest payable on leases*	**675**	489
Foreign exchange loss	**–**	118
Interest on defined benefit pension scheme obligation (see Note 26)	**80**	97
Total finance expense	**2,134**	2,154

* The Group initially applied IFRS 16 at 1 June 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. In 2019 interest expense relating to lease liabilities is for finance leases under IAS 17 while in 2020 the interest expense is for lease liabilities under IFRS 16.

9 Taxation

Recognised in the Income Statement

	2020 £000	2019 £000
Current tax		
Current year	**89**	87
Adjustments for prior years	**(377)**	344
Current tax (credit)/expense	**(288)**	431
Deferred tax		
Origination and reversal of temporary timing differences	**(381)**	(1,178)
Reduction in tax rate	**(885)**	–
Adjustments for prior years	**(565)**	(918)
Deferred tax credit	**(1,831)**	(2,096)
Tax credit in Income Statement (excluding share of tax of equity accounted investees)	**(2,119)**	(1,665)

The deferred tax adjustment in respect of prior years of £565,000 relates to capital allowances, which were disclaimed within the Group provision previously.

Recognised in Other Comprehensive Income

	2020 £000	2019 £000
Deferred tax (expense)/income		
Effective portion of changes in fair value of cash flow hedges	**(11)**	216
Remeasurements of defined benefit pension schemes	**283**	203
	272	419

Reconciliation of Effective Tax Rate

	2020 £000	2019 £000
Profit/(loss) for the year from continuing operations	**4,270**	(8,193)
Total tax credit	**(2,119)**	(1,665)
Profit/(loss) excluding taxation from continuing operations	**2,151**	(9,858)
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	**409**	(1,873)
Effect of tax rates in foreign jurisdictions	**(13)**	(39)
Tax effect of joint ventures	**(405)**	(292)
(Previously unrecognised)/unrecognised tax losses	**(678)**	576
Non-deductible expenses	**395**	537
Impact of change in tax rates	**(885)**	–
Adjustment in respect of previous periods	**(942)**	(574)
Effective total tax credit	**(2,119)**	(1,665)

The UK corporation tax rate has been 19.00% for the duration of the financial year (2019: 19.00%).

Factors That May Affect Future Current and Total Tax Charges

The rate of tax for the current and prior year was 19%. 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. Following the March 2020 budget, the corporate tax rate will now remain at 19% and will not reduce to 17% in April 2020 as previously announced. The deferred tax balances at 31 May 2020 and 31 May 2019 have been calculated based on the rate substantively enacted at the balance sheet date of 19% (2019: 17%).

10 Discontinued Operations and Assets Held for Sale

Discontinued Operations

There were no discontinued operations in 2020. The discontinued operation results in the prior year are attributable to equity holders and recorded a profit of £3,526,000 after tax in that year.

The discontinued operations in the prior year represent the activities and disposal of Brockwell Energy Limited ("Brockwell"). The Company disposed of the whole of its shareholding in Brockwell on 19 October 2018 generating a profit after tax of £4,534,000. Proceeds include the reimbursement of certain costs and expenses incurred by or in respect of Brockwell. Possible contingent consideration of £2m has not been recognised on the grounds that any fair value attributable under IFRS 9 would be immaterial. In addition to this, prior year discontinued operations include a loss after tax of £1,008,000 relating to a write off of a receivable in relation to the Belgian fraud uncovered in 2012. There are no remaining balances relating to this matter.

	2020 £000	2019 £000
Proceeds from disposal of subsidiary	–	21,733
Assets disposed	–	(10,034)
	–	11,699
Administrative expenses	–	(7,760)
Profit before tax of discontinued operations	–	3,939
Current tax charge	–	(313)
Deferred tax charge	–	(100)
	–	(413)
Profit for the year from discontinued operations	–	3,526

11 Earnings per Share

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

	2020			2019		
	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Underlying earnings per share from continuing operations	**6,399**	**19.87**	**19.44**	4,918	15.30	15.30
Exceptional items, fair value adjustments and amortisation (net of tax)	**(2,084)**	**(6.47)**	**(6.33)**	(13,185)	(41.01)	(41.01)
Continuing basic earnings/(loss) per share	**4,315**	**13.40**	**13.11**	(8,267)	(25.71)	(25.71)
Discontinued operations	–	–	–	3,526	10.96	10.96
Basic earnings/(loss) per share	**4,315**	**13.40**	**13.11**	(4,741)	(14.75)	(14.75)
Weighted average number of shares		**32,199**	**32,913**		32,150	32,150

The calculation of weighted average number of shares includes the effect of own shares held of 856,410 (2019: 1,013,502).

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) for the year and the weighted average number of ordinary shares in issue in the year the potentially dilutive effect of the share options outstanding (effect on weighted average number of shares) is 714,075 (2019: 425,491); effect of basic earnings/(loss) per ordinary share in the current year is 0.29p (2019: 0.00p). Effect on continuing basic earnings/(loss) per ordinary share is 0.29p (2019: 0.00p). In relation to the discontinued operations in 2019 there was no impact on the diluted EPS.

Notes continued
(forming part of the financial statements)

12 Property, Plant and Equipment
Group

	Freehold land and buildings and leasehold improvements £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Mining assets £000	Mineral reserves £000	Total £000
Cost							
At 1 June 2018*	12,589	5,892	78,929	667	9,577	–	107,654
Other acquisitions	37	318	9,850	4	3,371	2,335	15,915
Disposals	(312)	(1,567)	(16,005)	(259)	–	–	(18,143)
Transfers	524	19	(538)	(5)	–	–	–
Transfer to current assets	(1,139)	–	–	–	–	–	(1,139)
Effect of movements in foreign exchange	(1)	4	(152)	–	–	–	(149)
At 31 May 2019*	11,698	4,666	72,084	407	12,948	2,335	104,138
At 1 June 2019	11,698	4,666	72,084	407	12,948	2,335	104,138
Other acquisitions	151	181	1,201	8	1,260	–	2,801
Disposals	(49)	(57)	(24,867)	–	–	–	(24,973)
Transfers	–	(41)	–	41	–	–	–
Transfer to right-of-use assets	–	–	(18,190)	–	–	–	(18,190)
Effect of movements in foreign exchange	(3)	2	(312)	(3)	–	–	(316)
At 31 May 2020	**11,797**	**4,751**	**29,916**	**453**	**14,208**	**2,335**	**63,460**
Depreciation and impairment							
At 1 June 2018*	4,450	4,846	40,107	621	3,853	–	53,877
Depreciation	278	586	9,528	12	4,818	914	16,136
Disposals	(88)	(1,542)	(9,400)	(259)	–	–	(11,289)
Effect of movements in foreign exchange	–	3	(117)	–	–	–	(114)
At 31 May 2019*	4,640	3,893	40,118	374	8,671	914	58,610
At 1 June 2019	4,640	3,893	40,118	374	8,671	914	58,610
Depreciation	304	522	5,980	14	5,072	1,421	13,313
Disposals	–	(57)	(18,718)	–	–	–	(18,775)
Transfers	–	(41)	–	41	–	–	–
Transfer to right-of-use assets	–	–	(5,004)	–	–	–	(5,004)
Effect of movements in foreign exchange	(2)	–	(239)	(4)	–	–	(245)
At 31 May 2020	**4,942**	**4,317**	**22,137**	**425**	**13,743**	**2,335**	**47,899**
Net book value							
At 1 June 2018	8,139	1,046	38,822	46	5,724	–	53,777
At 31 May 2019	7,058	773	31,966	33	4,277	1,421	45,528
At 31 May 2020	**6,855**	**434**	**7,779**	**28**	**465**	**–**	**15,561**

* The cost and depreciation and impairment at 1 June 2018 have been restated to correct for an opening balance error. The impact of the adjustment is to increase overall cost and accumulated depreciation at 1 June 2018 by £35,215,000 each. There is nil impact on the overall net book value at 31 May 2019.

The Company has no property, plant and equipment.

Leased Motor vehicles and plant
At 31 May 2019 the net carrying amount of leased plant and machinery was £14,211,000. At 31 May 2019, the leased equipment secured lease obligations (see Note 24). From 1 June 2019 and following the adoption of IFRS 16, Leases, leased assets are presented as Right-of-Use Assets in the consolidated balance sheet (see Note 13).

Security
The Group's property, plant and equipment is used to secure some of its interest-bearing loans and borrowings (see Note 24).

13 Right-of-Use Assets
Group

	Land and buildings £000	Motor vehicles and plant £000	Total £000
Cost			
At 1 June 2019	–	–	–
Transition to IFRS 16	1,500	8,801	10,301
Additions	296	3,741	4,037
Disposals	(88)	(6,598)	(6,686)
Transfer from fixed assets	–	18,190	18,190
Effect of movements in foreign exchange	3	–	3
At 31 May 2020	**1,711**	**24,134**	**25,845**
Depreciation and impairment			
At 1 June 2019	–	–	–
Transition to IFRS 16	56	3,685	3,741
Depreciation	1,281	4,711	5,992
Disposals	(88)	(4,650)	(4,738)
Transfer from fixed assets	–	5,004	5,004
Effect of movements in foreign exchange	1	–	1
At 31 May 2020	**1,250**	**8,750**	**10,000**
Net book value			
At 31 May 2019	–	–	–
At 31 May 2020	**461**	**15,384**	**15,845**

In the year ended 31 May 2019, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17, Leases. The assets were presented in motor vehicles and plant and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 June 2019, please see Note 24.

The Company has no right-of-use assets.

14 Investment Property

	Group		Company	
At cost	2020 £000	2019 £000	2020 £000	2019 £000
At 31 May	**10,067**	11,909	–	–
Additions	**324**	232	–	–
Disposals	**(1,175)**	(1,086)	–	–
Transfer to stock	–	(988)	–	–
At 31 May	**9,216**	10,067	–	–

The fair value of the Investment Properties is estimated by the Directors at £14,825,000 (2019: £16,595,000). The reduction in the estimated fair value is due to disposals made during the year.

Notes continued
(forming part of the financial statements)

15 Intangible Assets including Goodwill
Group

	Goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total Cost £000
Cost					
At 1 June 2018, 31 May 2019 and 1 June 2019	22,040	13,785	8,148	1,015	44,988
Disposals	–	(12,438)	(8,148)	(1,015)	(21,601)
At 31 May 2020	**22,040**	**1,347**	–	–	**23,387**
Amortisation and impairment					
At 1 June 2018	10,934	13,785	8,148	1,000	33,867
Impairment	142	–	–	–	142
Exchange movements	(4)	–	–	–	(4)
At 31 May 2019	11,072	13,785	8,148	1,000	34,005
At 1 June 2019	11,072	13,785	8,148	1,000	34,005
Impairment and amortisation charge	1,560	–	–	15	1,575
Disposals	–	(12,438)	(8,148)	(1,015)	(21,601)
Exchange movements	(10)	–	–	–	(10)
At 31 May 2020	**12,622**	**1,347**	–	–	**13,969**
Net book value					
At 31 May 2018	11,106	–	–	15	11,121
At 31 May 2019	10,968	–	–	15	10,983
At 31 May 2020	**9,418**	–	–	–	**9,418**

The disposals of cost and accumulated amortisation and impairment above relate to historic contracts that are no longer in place therefore have been removed accordingly.

The Group does not have any internally generated intangible assets. All intangibles have finite lives and are amortisation over their useful lives depending on the life of the contracts.

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

	2020 £000	2019 £000
Administrative expenses	**1,575**	142

The Company has no intangible assets (2019: £nil).

Impairment Testing
During the year following a review of the future cash flows of the relevant Cash-Generating Units ("CGUs") the remaining intangible asset relating to the Other intangibles was impaired.

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

	Goodwill	
	2020 £000	2019 £000
Hargreaves Industrial Services Limited	**1,252**	1,252
Coal 4 Energy Limited/Maxibrite Limited	**4,594**	6,140
C.A. Blackwell Group Limited	**3,572**	3,572
Other	–	4
	9,418	10,968

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

	2020	2019
Period on which management approved forecasts are based	**5 years**	5 years
Discount rate	**8%**	9%

In order to test goodwill for impairment the Group performs value in use calculations by preparing cash flow forecasts for each CGU derived from the most recent financial budget and strategic plan approved by management going forward five years. In the Group's five-year plan, the rates of growth in revenue forecast by the Distribution & Services business is 2.5% compound. Revenue growth rate is not as relevant to the Property business, which can record income from joint ventures and other similar arrangements which would not be recorded as revenue, however the forecasts included in the five year plan are based on development plans for existing projects and identified opportunities where the Group already holds a strong strategic position. An annual growth rate of 2% has been assumed after the five-year plan period. The Board considers that the assumptions of growth provide management with a conservative estimate against which to compare the corresponding CGU carrying values. Sustaining maintenance capital expenditure in each CGU has been included in the calculations but no cash flows relating to enhancement capital expenditure have been included. A pre-tax discount rate of 8% (2019: 9%) has been used in the first instance. Management consider this to be higher than a market participant's discount rate for each individual CGU. The reduction in the discount rate is due to a change in the Group's weighting of debt to equity. Over the last twelve months debt has represented a larger proportion of the Group's capital resources and has thus decreased the Group's weighted average cost of capital.

Following this year's review management have identified an impairment within the Maxibrite goodwill and recognised a reduction of £1,560,000. Each of the other CGUs has significant headroom under the annual impairment review, which remains after allowing for reasonably possible changes in assumptions.

Other than changes to the discount rate, the key assumption which would impact the carrying value of goodwill is the margin generated by each CGU. Whilst the sensitivities vary according to CGU, for a material impairment to take place the discount rate would have to increase to 38% (2019: 21%) or the assumed operating margins would have to decrease by more than 27% (2019: 40%) before any further impact on any single CGU.

The Company has no intangible assets.

16 Investments in Subsidiaries and Joint Ventures

List of Registered Offices:

16.1 West Terrace, Esh Winning, Durham, DH7 9PT
16.2 Tower Colliery, Tirherbert Road, Rhigos, Aberdare, CF44 9UF
16.3 Böningerstraße 29, 47051 Duisburg, Germany
16.4 Van Heetveldelei 178, 2100 Deurne, Antwerp, Belgium
16.5 31F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, HK
16.6 Plac Rodla, 8/914, 70-419 Szczecin, Polska
16.7 Flat No.333, 3rd Floor, Devika Tower, 6 Nehru Place, Delhi-110019, India
16.8 3 Nobel Boulavard, Cape Gate NE3, Vanderbijlpark, Gauteng, 1900
16.9 Lot 6.05, Level 6, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia
16.10 Room 1117-8, 11th Floor, Tuen Mun Central Square, N0.22 Hoi Wing Road, Tuen Mun, New Territories, HK
16.11 Cp House, Otterspool Way, Watford, Hertfordshire, England, WD25 8JJ
16.12 Werthausser Str. 182, 47053 Duisburg, Germany

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

	Address of registered office	Class of shares held	Ownership 2020	Ownership 2019
Company				
Subsidiary undertakings				
Hargreaves (UK) Limited	16.1	Ordinary	**100%**	100%
Hargreaves Industrial Services Limited	16.1	Ordinary	**100%**	100%
Forward Sound Limited	16.1	Ordinary	**100%**	100%
Hargreaves Services (HK) Limited	16.6	Ordinary	**100%**	100%
Hargreaves Land Limited	16.1	Ordinary	**100%**	100%
H Technical Resources Limited (formerly Hargreaves Technical Resources Limited)*	16.1	Ordinary	**100%**	100%
Hargreaves Maltby Limited	16.1	Ordinary	**100%**	100%
Hargreaves Property Ventures Limited	16.1	Ordinary	**100%**	100%
Hargreaves Services (Westfield) Limited	16.1	Ordinary	**100%**	100%
Hargreaves Services (Castlebridge) Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Services (Blindwells) Limited	16.1	Ordinary	**100%**	100%
Hargreaves Services Forestry Limited	16.1	Ordinary	**100%**	100%
Hargreaves Services South Africa (Pty) Ltd	16.8	Ordinary	**100%**	100%
Hargreaves Mining India Private Limited	16.7	Ordinary	**100%**	100%
C.A. Blackwell Group Limited	16.1	Ordinary	**100%**	100%
Hargreaves Industrial Services Sdn Bhd	16.9	Ordinary	**100%**	100%
Hargreaves Pension Company Limited	16.1	Ordinary	**100%**	100%

16 Investments in Subsidiaries and Joint Ventures continued

	Address of registered office	Class of shares held	Ownership 2020	Ownership 2019
Hargreaves Land Holdings Limited*	16.1	Ordinary	**100%**	100%
Blackwell Earthmoving Limited	16.1	Ordinary	**100%**	–
Dormant				
Coal 4 Energy Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Carbon Products Europe Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (Damside) Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (Broken Cross) Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (Glentaggart) Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (House of Water) Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (Chalmerston) Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Corporate Director Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Services (Muir Dean) Limited*	16.1	Ordinary	**100%**	100%
H Aggregates Limited (formerly Hargreaves Aggregates Limited)*	16.1	Ordinary	**100%**	100%
HBLT Limited (formerly Hargreaves (Bulk Liquid Transport) Limited)*	16.1	Ordinary	**100%**	100%
R Hanson & Son Limited*	16.1	Ordinary	**100%**	100%
HESOTT Limited (formerly Hargreaves ESOT Trustee Limited)*	16.1	Ordinary	**100%**	100%
HS Australia Limited (formerly Hargreaves Services Australia Limited)*	16.1	Ordinary	**100%**	100%
H Europe Limited (formerly Hargreaves Europe Limited)*	16.1	Ordinary	**100%**	100%
Joint ventures				
Mir Trade Services Limited*	16.1	Ordinary	**50%**	50%
Hargreaves Services Europe Limited	16.1	Ordinary	**49%**	49%
Group				
Subsidiary undertakings				
Hargreaves (UK) Services Limited	16.1	Ordinary	**100%**	100%
The Monckton Coke & Chemical Company Limited	16.1	Ordinary	**100%**	100%
Maltby Colliery Limited	16.1	Ordinary	**100%**	100%
HE Contracts Limited (formerly Hargreaves Engineering & Contracts Limited)*	16.1	Ordinary	**100%**	100%
Maxibrite Limited	16.1	Ordinary	**85.2%**	85.2%
RocPower Limited	16.1	Ordinary	**85%**	85%
Hargreaves Carbon Products NV	16.4	Ordinary	**100%**	100%
Hargreaves Industrial Services (HK) Limited	16.5	Ordinary	**100%**	100%
Access Services (HK) Limited	16.10	Ordinary	**100%**	100%
OCCW (St Ninians) Limited	16.1	Ordinary	**100%**	100%
OCCW (Duncanziemere) Limited	16.1	Ordinary	**100%**	100%
OCCW (Chalmerston) Limited	16.1	Ordinary	**100%**	100%
OCCW (Netherton) Limited	16.1	Ordinary	**100%**	100%
OCCW (Damside) Limited	16.1	Ordinary	**100%**	100%
OCCW (Broken Cross) Limited	16.1	Ordinary	**100%**	100%
OCCW (House of Water) Limited	16.1	Ordinary	**100%**	100%
C. A. Blackwell (Contracts) Limited	16.1	Ordinary	**100%**	100%
HBR Limited	16.1	Ordinary	**100%**	100%
Geofirma Soils Engineering Limited	16.1	Ordinary	**100%**	100%
Renaissance Land Regeneration Limited	16.1	Ordinary	**100%**	100%
Hargreaves Land (North) Limited	16.1	Ordinary	**100%**	100%
Hargreaves Land (South) Limited	16.1	Ordinary	**100%**	100%
Hargreaves Power Services (HK) Limited	16.10	Ordinary	**100%**	–
Joint ventures				
Tower Regeneration Limited	16.2	Ordinary	**50%**	50%
Tower Regeneration Leasing Limited	16.2	Ordinary	**50%**	50%
Hargreaves Raw Material Services GmbH	16.3	Ordinary	**49%**	49%
Hargreaves Carbon Products Polska Sp. z o.o.	16.6	Ordinary	**49%**	49%
Carbon Action Ltd	16.1	Ordinary	**50%**	50%
Hargreaves Darlington Limited	16.1	Ordinary	**50%**	50%
Waystone Hargreaves Land LLP	16.11	Ordinary	**50%**	–
DK Recycling und Roheisen GmbH	16.12	Ordinary	**47%**	–

	Address of registered office	Class of shares held	Ownership 2020	Ownership 2019
Dormant companies				
Hargreaves Metallurgical Supplies Limited*	16.1	Ordinary	**100%**	100%
Tru-Green Limited*	16.1	Ordinary	**100%**	100%
Hargreaves Hatfield Limited*	16.1	Ordinary	**100%**	100%
Eastgate Materials Handling Limited*	16.1	Ordinary	**100%**	100%
Old Egridco Limited (formerly Hargreaves EG Limited)*	16.1	Ordinary	**100%**	100%
Hargreaves Regeneration Limited*	16.1	Ordinary	**100%**	100%
Drakelands Holdings Limited*	16.1	Ordinary	**100%**	100%
Renaissance Land Management Limited*	16.1	Ordinary	**100%**	100%
517EPA Limited*	16.1	Ordinary	**100%**	100%
RocFuel Limited*	16.1	Ordinary	**50.1%**	50.1%
R&A Fuels Limited*	16.1	Ordinary	**100%**	100%
Squire Distribution Services Limited*	16.1	Ordinary	**100%**	100%
Har Transport Limited (formerly Hargreaves Transport Limited)*	16.1	Ordinary	**100%**	100%
Industrial Dormant Limited (formerly Hargreaves Industrial Dormant Limited)*	16.1	Ordinary	**100%**	100%
HS Transport Services Limited (formerly Hargreaves Transport Services Limited)*	16.1	Ordinary	**100%**	100%
DWL Engineering Services Limited*	16.1	Ordinary	**100%**	100%
Norton Wind Energy Limited*	16.1	Ordinary	**100%**	100%
Premier Lime and Stone Company*	16.1	Ordinary	**100%**	100%
C.A. Blackwell (Plant) Limited*	16.1	Ordinary	**100%**	100%

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

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

The Group's share of post-acquisition total recognised profit or loss in the above jointly controlled entities for the year ended 31 May 2020 was a profit of £2,135,000 (2019: £1,534,000).

Joint Ventures

Carrying amount of equity accounted investees:

Group	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2018	–	10,064	52	10,116
Group's share of total comprehensive income	–	1,534	–	1,534
Exchange differences	–	94	–	94
At 31 May 2019	–	11,692	52	11,744

Group	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2019	–	11,692	52	11,744
Group's share of total comprehensive income (including fair value gain on acquisition of £555,000)	–	2,135	–	2,135
Exchange differences	–	282	(68)	214
At 31 May 2020	**–**	**14,109**	**(16)**	**14,093**

16 Investments in Subsidiaries and Joint Ventures continued

Joint Ventures continued

Group	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Interests in immaterial joint ventures £000	Total £000
Hargreaves share of net assets/(liabilities)	(3,917)	11,957	52	8,092
Amount not recognised	3,917	–	–	3,917
Non-distributable reserves	–	(265)	–	(265)
Investment at 31 May 2019	–	11,692	52	11,744

Group	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Interests in immaterial joint ventures £000	Total £000
Hargreaves share of net assets/(liabilities)	(5,190)	16,316	(16)	11,110
Amount not recognised	5,190	–	–	5,190
Non-distributable reserves	–	(2,207)	–	(2,207)
Investment at 31 May 2020	**–**	**14,109**	**(16)**	**14,093**

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

	Tower Regeneration Limited		Hargreaves Services Europe Limited	
At cost	2020	2019	2020	2019
Voting rights	**50%**	50%	**49%**	49%
Cash and cash equivalents	**569**	357	**423**	–
Other current assets	**6,112**	6,471	**75,185**	51,960
Total current assets	**6,681**	6,828	**75,608**	51,960
Non-current assets	**1,186**	1,101	**52,760**	20,401
Current liabilities	**(22,696)**	(15,474)	**(45,809)**	(45,498)
Non-current liabilities	–	(3,647)	**(63,587)**	(12,895)
Net (liabilities)/assets (100%)	**(14,829)**	(11,192)	**18,972**	13,968
Revenue	–	5	**170,352**	149,580
Other expenses	**(1,624)**	(4,900)	**(163,437)**	(145,532)
Depreciation and amortisation	–	–	**(1,459)**	(131)
Interest income	**22**	25	**13**	8
Interest expense	**(1,085)**	(1,281)	**(1,654)**	(1,144)
(Loss)/profit before tax from continuing operations	**(2,687)**	(6,151)	**3,815**	2,781
Income tax expense	–	–	**(1,253)**	(1,011)
Post tax (loss)/profit from continuing operations (100%)	**(2,687)**	(6,151)	**2,562**	1,770

The total financial liabilities included in current liabilities is: Tower Regeneration Limited £nil (2019: £nil); Hargreaves Services Europe Limited ("HSEL") £55,932,000 (2019: £42,217,000) borrowing base facility and term loans.

Included within non-current liabilities above and disclosed in Note 34 Related parties are loans amounting to €13m (2019: €13m) due from HRMS to Hargreaves Services plc, the amounts represent £11.7m (2019: £11.4m). These loans are not due for repayment until 31 May 2027. Interest on the loans is charged at a rate of 1.8% being 1.7% over UK base rate.

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

Company	Group undertakings £000	Joint ventures £000
Shares at cost and net book value		
At 1 June 2018	33,406	4,984
Capital contribution arising on share options (Note 27)	96	–
Impairment	(1,814)	–
At 31 May 2019	31,688	4,984
At 1 June 2019	31,688	4,984
Capital contribution arising on share options (Note 27)	323	–
Impairment	(2,071)	–
At 31 May 2020	**29,940**	**4,984**

The capital contribution arising on share options is as a result of the share-based payment charge during the year.

17 Other Financial Assets

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Current				
Currency contracts designated as fair value through profit or loss	**65**	25	–	–
	65	25	–	–

18 Other Financial Liabilities

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Non-current				
Other derivatives designated as fair value through hedging reserve	–	137	–	–
	–	137	–	–

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Current				
Currency contracts designated as fair value through hedging reserve	**154**	36	–	–
Other derivatives designated as fair value through hedging reserve	**89**	114	–	–
	243	150	–	–

Notes continued
(forming part of the financial statements)

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	
	2020 £000	2019 £000	2020 £000	2019 £000
Property, plant and equipment	**3,517**	1,405	**–**	–
Financial assets	**34**	45	**–**	–
Employee benefits	**715**	710	**–**	–
Share-based payments	**48**	59	**–**	–
Tax value of loss carry-forwards recognised	**3,723**	3,454	**–**	–
Other temporary timing differences	**295**	556	**–**	–
Tax assets/(liabilities)	**8,332**	6,229	**–**	–

Movement in Deferred Tax During the Year

	31 May 2019 £000	Recognised in income £000	Recognised in equity £000	31 May 2020 £000
Property, plant and equipment	**1,405**	**2,112**	**–**	**3,517**
Financial assets	**45**	**–**	**(11)**	**34**
Employee benefits	**710**	**(278)**	**283**	**715**
Share-based payments	**59**	**(11)**	**–**	**48**
Tax value of loss carry-forwards recognised	**3,454**	**269**	**–**	**3,723**
Other temporary timing differences	**556**	**(261)**	**–**	**295**
	6,229	**1,831**	**272**	**8,332**

Movement in Deferred Tax During the Prior Year

	31 May 2018 £000	Recognised in income £000	Recognised in equity £000	31 May 2019 £000
Property, plant and equipment	1,709	(304)	–	1,405
Financial assets	(171)	–	216	45
Employee benefits	747	(240)	203	710
Share-based payments	86	(27)	–	59
Tax value of loss carry-forwards recognised	1,043	2,411	–	3,454
Other temporary timing differences	400	156	–	556
	3,814	1,996	419	6,229

The amount recognised in income includes £nil deferred tax charge (2019: £100,000 deferred tax credit) in relation to discontinued operations, see Note 10. The deferred tax assets are recoverable based on an assessment for future profitability for the Group.

The Group has an unrecognised deferred tax asset of £2,040,000 relating to trading losses (2019: £2,455,000).

Company
Recognised Deferred Tax Assets and Liabilities
The Company has no recognised or unrecognised deferred tax assets or liabilities (2019: £nil).

The deferred tax asset has been calculated based at the rate of 19% (2019: 17%) substantively enacted at the balance sheet date.

20 Inventories

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Raw materials and consumables	**3,360**	6,355	–	–
Finished goods	**36,682**	25,426	–	–
Properties held for development and resale	**23,967**	16,259	–	–
	64,009	48,040	–	–

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

Changes in raw material and consumables and finished goods recognised as cost of sales in the year amounted to £59,704,000 (2019: £91,110,000).

The write-down of inventories to net realisable value was £5,922,000 (2019: £331,000).

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

21 Trade and Other Receivables

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Trade receivables	**24,475**	27,318	–	–
Amounts due from Group undertakings	–	–	**118,278**	100,900
Amounts due from undertakings in which the Group/Company has a participating interest	**30,912**	27,005	**11,961**	11,681
Other receivables	**1,908**	4,384	–	1,521
Prepayments and accrued income	**14,021**	16,855	–	–
	71,316	75,562	**130,239**	114,102

The Company has impaired an amount due from Group undertakings by £1,700,000 as the amount is unlikely to be recovered.

Included within prepayments and accrued income is £1,042,000 (2019: £2,975,000) expected to be recovered in more than 12 months.
The Group has a variety of credit terms depending on the customer. These terms range from 30 to 90 days.

Trade receivables are shown net of an expected credit loss allowance of £326,000 (2019: £486,000) arising from the ordinary course of business, as follows:

	2020 £000	2019 £000
Group		
At 1 June	**486**	418
Provided during the year	**4**	205
Released	**(159)**	(58)
Utilised during the year	**(5)**	(79)
At 31 May	**326**	486

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

21 Trade and Other Receivables continued

The ageing of trade receivables was:

31 May 2020	Gross trade receivables £000	Expected credit losses £000	Net trade receivables £000
Group			
Not past due date	**17,967**	**-**	**17,967**
Past due date (0-90 days)	**4,567**	**(3)**	**4,564**
Past due date (over 90 days)	**2,064**	**(120)**	**1,944**
Individually impaired amounts	**203**	**(203)**	**-**
	24,801	**(326)**	**24,475**

31 May 2019	Gross trade receivables £000	Expected credit losses £000	Net trade receivables £000
Group			
Not past due date	20,693	-	20,693
Past due date (0-90 days)	5,327	(35)	5,292
Past due date (over 90 days)	1,640	(307)	1,333
Individually impaired amounts	144	(144)	-
	27,804	(486)	27,318

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

	2020 £000	2019 £000
UK	**17,535**	22,446
European	**1,646**	630
Hong Kong	**5,294**	3,958
Other regions	**-**	284
	24,475	27,318

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

22 Contract Assets

	2020 £000
Group	
At 1 June 2019 (Restated)*	**19,545**
Transfers from contract assets recognised at the beginning of the year to receivables	**(10,611)**
Increase related to services provided in the year	**3,882**
Reclassified from Contract Provisions	**(150)**
Impairments on contract assets recognised at the beginning of the year	**(1,210)**
At 31 May 2020	**11,456**

* Contract assets at 1 June 2019 has been restated by increasing the carrying value by £1,949,000 to gross up for the provision against the amounts recoverable on contracts which is now included within Provisions Note 28. The equivalent restated contract asset balance as at 1 June 2018 would have been £17,789,000.

Aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £71,252,000 (2019: £135,179,000).

Progress billings and advances received from customers under open construction contracts amounted to £61,867,000 (2019: £117,346,000).

Contract liabilities being advances for which related work has not started, and billings in excess of costs incurred and recognised profits are included in deferred income and amounted to £21,000 (2019: £13,000).

Contract assets include £1,646,000 (2019: £2,543,000) relating to retentions, of which £640,455 (2019: £1,949,000) are expected to be recovered in more than 12 months. The Company has no contract assets.

23 Cash and Cash Equivalents

	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Cash and cash equivalents per Balance Sheet	**18,499**	21,583	–	312
Cash and cash equivalents per Cash Flow Statement	**18,499**	21,583	–	312

Included in cash and cash equivalents above is £1,048,000 (2019: £1,039,000) which is held in an interest-bearing account for the Group's benefit and which will be repaid to the Group following the completion of restoration works at the House of Water mine in Ayrshire which are due to be finished shortly.

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

24 Other Interest-Bearing Loans and Borrowings

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

	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Non-current liabilities				
Lease liabilities (2019: Finance lease liabilities)	**9,437**	8,298	–	–
Borrowing base facility	–	26,924	–	26,924
	9,437	35,222	–	26,924
Current liabilities				
Current portion of lease liabilities (2019: Finance lease liabilities)	**5,186**	4,289	–	–
Borrowing base facility	**32,000**	–	**32,000**	–
Bank overdraft	–	–	**2,346**	–
	37,186	4,289	**34,346**	–

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2020 £000	Carrying amount 2020 £000	Face value 2019 £000	Carrying amount 2019 £000
Lease liabilities (IFRS 16)	Sterling	3.7%	2019–2024	**14,623**	**14,623**	–	–
Finance lease liabilities	Sterling	2.0% – 4.8%	2016–2019	–	–	12,587	12,587
Borrowing base facility	Sterling	LIBOR + 1.5%	2020	**32,000**	**32,000**	27,000	26,924
				46,623	**46,623**	39,587	39,511

In accordance with the presentation requirements of IFRS 9, these liabilities have been classified according to the maturity date of the longest permitted refinancing. These amounts have been classified as falling due within less than one year due to the Group's facilities in existence at 31 May 2020 which were due to mature on 31 August 2020.

The Group has a committed £45m borrowing base facility which reduces in stages to £35m by 30 June 2021. This facility is secured by a debenture over the Group's assets and matures on 31 July 2021.

24 Other Interest-Bearing Loans and Borrowings continued

Lease Liabilities

Lease liabilities are payable as follows:

Group	Minimum lease payments 2020 £000	Interest 2020 £000	Principal 2020 £000	Minimum lease payments 2019 £000	Interest 2019 £000	Principal 2019 £000
Less than one year	**5,650**	**(464)**	**5,186**	4,679	(390)	4,289
Between one and five years	**9,938**	**(501)**	**9,437**	8,702	(404)	8,298
	15,588	**(965)**	**14,623**	13,381	(794)	12,587

Changes in Liabilities from Financing Activities

	Group	
	Loans and borrowings £000	Lease liabilities £000
At 1 June 2018	39,260	7,634
Changes from financing cash flows		
Repayment of loans and borrowings	(12,300)	–
Payment of finance lease liabilities	–	(6,780)
Total changes from financing cash flows	(12,300)	(6,780)
Other changes		
New finance leases	–	11,733
Interest expense	1,450	489
Interest paid	(1,486)	(489)
Total other changes	(36)	11,733
At 31 May 2019	**26,924**	**12,587**
Changes from financing cash flows		
Proceeds from loans and borrowings	5,000	–
Principal elements of lease payments	–	(8,769)
Total changes from financing cash flows	5,000	(8,769)
Other changes		
Recognised on adoption of IFRS 16 (see Note 1)	–	6,608
New leases	–	4,197
Interest expense	1,379	675
Interest paid	(1,303)	(675)
Total other changes	76	10,805
At 31 May 2020	**32,000**	**14,623**

25 Trade and Other Payables

	Group		Company	
	2020 £000	Restated 2019 £000	2020 £000	2019 £000
Current				
Trade payables	**6,928**	22,561	**–**	–
Amounts due to Group undertakings	**–**	–	**21,899**	18,144
Amounts due to undertakings in which the Group/Company has a participating interest	**1,140**	29	**720**	–
Other trade payables	**581**	1,368	**–**	406
Non-trade payables and accrued expenses	**34,713**	42,037	**135**	412
	43,362	65,995	**22,754**	18,962

The Non-trade payable and accrued expenses balance for 31 May 2019 has been restated to reflect a reclassification of £1,039,000 to restoration provisions and £2,225,000 to contract provisions (Note 28). The equivalent non-trade payables and accrued expenses balance for 1 June 2018 is £52,711,000.

26 Pension Schemes and Other Retirement Benefits

Defined Contribution Scheme

The Group operates a Group personal pension scheme. The pension cost charge for the year represents contributions payable by the Group to the employees' funds and amounted to £2,831,000 (2019: £3,153,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

Defined Benefit Schemes

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

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

The latest full actuarial valuation of these schemes was carried out at 31 December 2018 by AON Hewitt. The valuation of the IWCSSS showed a deficit of £6.4m (previously £7.5m) and a contribution schedule was agreed at £1.4m per annum to meet the technical provisions of the scheme by 30 April 2023. The valuation of the IWMPS showed a deficit of £2.8m (previously £2.7m) and a contribution schedule was agreed at £0.4m per annum to meet the technical provisions of the scheme by 31 May 2023. For accounting purposes under IAS 19, actuaries use different assumptions than for the triennial valuation. The major difference relates to assumptions concerning the future return on the growth assets portfolio. The 2018 valuations have been used as the basis, adjusted for the requirements of IAS 19 to 31 May 2019 by a qualified independent actuary, to enable the Directors to account for the schemes as follows:

	2020 £000	2019 £000
Present value of unfunded defined benefit obligations	**(3,000)**	(2,072)
Present value of funded defined benefit obligations	**(56,446)**	(55,506)
Fair value of scheme assets	**55,678**	53,394
Deficit in the schemes – Pension liability	**(3,768)**	(4,184)

Movements in Present Value of Defined Benefit Obligation

	2020 £000	2019 £000
At the beginning of the year	**57,578**	54,597
Interest cost	**1,357**	1,483
Remeasurement (gains)/losses:		
– Changes in demographic assumptions	**780**	(1,257)
– Changes in financial assumptions	**4,806**	3,959
– Experience	**(2,875)**	167
Benefits paid	**(2,200)**	(1,371)
At the end of the year	**59,446**	57,578

Notes continued
(forming part of the financial statements)

Movements in the Fair Value of Scheme Assets

	2020 £000	2019 £000
At the beginning of the year	**53,394**	50,202
Net interest on scheme assets	**1,277**	1,386
Remeasurement gain	**1,582**	1,672
Employer contributions	**1,858**	1,746
Benefits paid	**(2,200)**	(1,371)
Expenses paid	**(233)**	(241)
At the end of the year	**55,678**	53,394

Expense Recognised in the Income Statement

	2020 £000	2019 £000
Expenses paid from schemes	**233**	241
Interest expense on net defined benefit pension schemes	**80**	97
	313	338

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

	2020 £000	2019 £000
Administrative expenses	**233**	241
Financial expenses	**80**	97
	313	338

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

	2020 £000	2019 £000
At 1 June	**(8,209)**	(7,012)
Recognised in the year	**(1,129)**	(1,197)
At 31 May	**(9,338)**	(8,209)

Scheme Assets

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

	Fair value at 2020 £000	Fair value at 2019 £000
Growth assets	**29,516**	28,702
Matching assets	**25,636**	23,678
Cash	**526**	1,014
	55,678	53,394

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

The major assumptions used in this valuation were:

	2020	2019
Rate of increase in deferred pensions	**2.70%**	3.20%
Rate of increase in pensions in payment	**2.70%**	3.20%
Discount rate applied to scheme liabilities	**1.50%**	2.40%
Inflation assumption	**2.80%**	3.30%

26 Pension Schemes and Other Retirement Benefits continued
Scheme Assets continued
The assumptions used by the actuary and approved by the Board are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

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

IWMPS
Current pensioner aged 60: 23.4 years (male), 27.1 years (female) (2019: 22.9 years (male), 26.7 years (female)).
Future retiree upon reaching 60: 24.7 years (male), 28.4 years (female) (2019: 24.2 years (male), 28.0 years (female)).

IWCSSS
Current pensioner aged 60: 24.9 years (male), 27.5 years (female) (2019: 24.7 years (male), 26.8 years (female)).
Future retiree upon reaching 60: 26.0 years (male), 28.8 years (female) (2019: 25.9 years (male), 28.0 years (female)).

Sensitivity Analysis
The Directors consider the discount rate and inflation rate assumptions to be the most significant actuarial assumptions and therefore the only assumptions relevant for sensitivity analysis purposes. Reasonably possible changes at the reporting date to one of the actuarial assumptions, holding other assumptions constant, would have increased/(decreased) the defined benefit obligation by the amounts shown below.

	2020 £000	**2019 £000**
Discount rate (1% increase)	**(10,065)**	(10,364)
Inflation (1% increase)	**11,241**	10,916

	2020 £000	**2019 £000**
Discount rate (1% decrease)	**13,048**	13,668
Inflation (1% decrease)	**(9,161)**	(9,600)

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

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

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

The weighted average duration of the defined benefit obligation is 18 years (2019: 19 years).

The Company has no retirement benefit obligation (2019: £nil).

Notes continued
(forming part of the financial statements)

27 Employee Share Schemes

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

	Date of grant	Employees entitled	Number of shares granted	Principal vesting conditions	Contractual life
Deferred bonus scheme A	December 2014	Senior employees	112,122	3 years' service	3 years
Deferred bonus scheme B (50%)	December 2014	Senior employees	91,722	3 years' service	3 years
Deferred bonus scheme B (50%)	December 2014	Senior employees	91,722	4 years' service	4 years
Deferred bonus scheme C	August 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
Deferred bonus scheme E	May 2017	Senior employees	29,260	3 years' service	3 years
Deferred bonus scheme F	July 2018	Senior employees	60,240	3 years' service	3 years
Share option scheme January 2019	January 2019	Directors	499,801	3 years' service and Total Shareholder Return of between 35% and 85%	3 years
Share option scheme December 2019	December 2019	Directors	97,788	3 years' service and 50% Absolute Total Shareholder Return of between 35% and 85% and 50% Relative Total Shareholder Return of between 35% and 85%	3 years
Deferred bonus scheme G	December 2019	Senior employees	74,470	3 years' service	3 years

Share Option Schemes

	2020 Weighted average exercise price	2020 Number of options	2019 Weighted average exercise price	2019 Number of options
Outstanding at the beginning of the year	**10p**	**499,801**	–	–
Granted during the year	**10p**	**97,788**	10p	499,801
Outstanding at the end of the year	**10p**	**597,589**	10p	499,801

None of the share options outstanding at the end of the year are exercisable. There were 97,788 options granted in the year with a weighted average exercise price of 10p per share. These options are not exercisable before 14 December 2022.

Deferred Bonus Schemes

	2020 Weighted average exercise price	2020 Number of options	2019 Weighted average exercise price	2019 Number of options
Outstanding at the beginning of the year	–	**244,296**	–	240,458
Granted during the year	–	**74,470**	–	60,240
Lapsed during the year	–	–	–	–
Exercised during the year	–	**(154,796)**	–	(56,402)
Outstanding at the end of the year	–	**163,970**	–	244,296
Exercisable at the end of the year	–	–	–	25,774

The options outstanding at 31 May 2020 have an exercise price of £nil and a weighted average contractual life of 1 year 10 months. There were 74,470 options granted in the year with a weighted average exercise price of £nil. These options are not exercisable before 14 December 2022. There were 154,796 options exercised in the year with a weighted average market value of 271p.

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

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

	2015 Deferred Bonus Scheme A	2015 Deferred Bonus Scheme B	2017 Deferred Bonus Scheme C	2017 Deferred Bonus Scheme D	2017 Deferred Bonus Scheme E	2019 Deferred Bonus Scheme F	2019 January Share option scheme	2019 December Share option scheme	2019 Deferred Bonus Scheme G
Fair value at grant date	3.28	4.42	1.48	2.11	3.05	**3.32**	**0.34**	**1.84**	**2.69**
Exercise price	–	–	–	–	–	–	**0.10**	**0.10**	**-**
Share price	3.49	4.70	1.73	2.25	3.25	**3.54**	**2.96**	**2.85**	**2.86**
Expected volatility	20%	20%	20%	40%	40%	**40%**	**29%**	**31%**	**31%**
Option life	3 years	3–4 years	3 years	3 years	3 years	**3 years**	**3 years**	**3 years**	**3 years**
Expected dividend	2%	2%	5%	2%	2%	**2%**	**2.44%**	**2.53%**	**2.53%**
Risk-free rate	5.8%	5.8%	5.8%	5.8%	5.8%	**1.7%**	**0.87%**	**0.55%**	**1.7%**

Volatility was calculated with reference to the Group's daily share price volatility. The average share price in the year was 250p (2019: 319p).

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

	Expiry date	Exercise price	Options outstanding 2020	Options outstanding 2019
Deferred Bonus Scheme A	31 August 2019	–	**-**	16,990
Deferred Bonus Scheme B (3 Year)	31 August 2019	–	**-**	5,147
Deferred Bonus Scheme B (4 Year)	31 August 2019	–	**-**	3,637
Deferred Bonus Scheme C	31 May 2020	–	**-**	109,022
Deferred Bonus Scheme D	31 May 2020	–	**-**	20,000
Deferred Bonus Scheme E	31 May 2021	–	**29,260**	29,260
Deferred Bonus Scheme F	31 May 2022	–	**60,240**	60,240
Share option scheme January 2019	30 January 2024	10p	**499,801**	499,801
Share option scheme December 2019	13 December 2024	10p	**97,788**	–
Deferred Bonus Scheme G	13 December 2024	–	**74,470**	–
			761,559	744,097

Long-Term Incentive Plans and Deferred Bonus Schemes
The costs (credited)/charged to the Income Statement relating to share-based payments were as follows:

	2020 £000	2019 £000
Share options granted in 2014	**(39)**	(66)
Share options granted in 2016	**172**	68
Share options granted in 2018	**30**	30
Share options granted in 2019	**123**	64
Share options granted in 2020	**37**	–
	323	96

28 Provisions

Group	Contract provisions £000	Surface mining restoration £000	Redundancy provision £000	Total provision £000
At 1 June 2019 (Restated)*	4,438	5,139	1,681	11,258
Provisions made	3,119	2,407	1,146	6,672
Released to contract assets	(150)	–	–	(150)
Provisions utilised	(231)	(1,682)	(273)	(2,186)
Provisions reversed	(419)	–	(1,408)	(1,827)
At 31 May 2020	**6,757**	**5,864**	**1,146**	**13,767**

- * The Contract provisions balance at 1 June 2019 has been restated by increasing the carrying value by £4,174,000. £1,949,000 of this restatement relates to the gross up for amounts recoverable on contracts which is included within Contract assets Note 22. The remaining £2,225,000 relates to losses expected to arise, but not yet incurred on construction contracts. The balance of contract provisions at 1 June 2018 was £4,474,000 under the same reclassification.

- * The Surface mining restoration balance at 1 June 2019 has been restated by increasing the carrying value by £1,039,000 for the completion of restoration works at the House of Water mine, see Note 23. The balance of surface mining restoration provisions at 1 June 2018 was £3,820,000 under the same reclassification.

Included within the Surface mining restoration provisions is an amount of £4,185,000 (2019: £5,139,000) that is expected to be utilised in the next 12 months. The redundancy provision of £1,146,000 (2019: £1,681,000) and the contract loss provision of £6,757,000 (2019: £4,438,000) is expected to be utilised in the next 12 months.

Provisions comprise:
1 The contract provisions represent losses expected to arise, but not yet incurred on construction contracts and other contracts where the Group has identified potential warranty, defects or performance obligations.
2 A £5,864,000 restoration provision, which relates to the surface mining obligation to restore the sites now that mining operations have ceased.
3 A redundancy provision of £1,681,000 was created in 2019 following the announcement that the Group's customer British Steel entered insolvency proceedings. During the year £273,000 was utilised and the remaining £1,408,000 reversed following the acquisition of British Steel by Jingye Group on 9th March 2020. A provision of £1,146,000 was made in year in relation to the redundancies following the announcement of the cessation of Scottish mining.

The Company has a £1,000,000 provision at 31 May 2020 (2019: £nil) which was created during the year in respect of a contract where it has a potential liability in respect of a contract guarantee.

29 Capital and Reserves
Share Capital

	Group and Company ordinary shares	
	2020 Number	2019 Number
In issue at 1 June and 31 May	**33,138,756**	33,138,756

	2020 £000	2019 £000
Allotted, called up and fully paid		
32,282,346 (2019: 32,125,254) ordinary shares of 10p each (excluding own shares held)	**3,228**	3,213
Own shares held of 10p each 856,410 (2019: 1,013,502)	**86**	101
	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 856,410 (2019: 1,013,502) within Treasury shares, representing own shares purchased as part of the Group's share buyback programme. These shares have a market value of £1.7m at 31 May 2020 (2019: £2.3m) and were purchased for an aggregate consideration of £4.9m (2019: £5.8m).

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

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

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

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

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

Dividends
The aggregate amount of dividends paid in the year comprises:

	2020 £000	2019 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year (4.5p per share (2019: 4.5p))	**1,446**	1,443
Interim dividends paid in respect of the current year (nil per share (2019: 2.7p))	–	867
	1,446	2,310
Proposed dividend (4.5p per share (2019: 4.5p))	**1,453**	1,448

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

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

(a) Fair Values of Financial Assets and Financial Liabilities
Fair Value Hierarchy
The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:
Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.
Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In both 2020 and 2019 all of the forward exchange contracts and the commodity contracts are considered to be Level 2 contracts. There have been no transfers between categories in the current or preceding year.

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

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

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

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

Exposure to Credit Risk
The maximum Group exposure to credit risk at the balance sheet date was £68,751,000 (2019: £78,252,000) being the total of the carrying amount of trade receivables, other receivables, contract assets and amounts due from undertakings in which the Group has a participating interest.

The maximum Company exposure to credit risk at the balance sheet date was £130,239,000 (2019: £114,102,000) being the total of the carrying amount of trade receivables, other receivables and amounts due from Group undertakings.

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

(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 Group's existing bankers have provided an initial £45m facility until 31 July 2021. The facility steps down at certain points over the year to £35m. The structure of this facility, which is based on similar asset based lending principles as its predecessor, is not considered to be appropriate as the Group's business model develops away from coal production to a Group which focusses more on trading, services and property development. During the next few months, the Board will be working with lenders to put a longer-term facility in place which will fit better with Hargreaves' evolving business model.

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

Group

		2020						Restated 2019				
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Represented Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Lease liabilities (2019 Finance lease liabilities)	**14,623**	**15,588**	**5,650**	**4,304**	**5,634**	**-**	12,587	13,381	4,679	4,178	4,524	-
Trade and other payables*	**43,362**	**43,362**	**43,362**	**-**	**-**	**-**	65,995	65,995	65,995	-	-	-
Group banking facilities	**32,000**	**32,000**	**32,000**	**-**	**-**	**-**	26,924	26,924	-	26,924	-	-
Derivative financial liabilities												
Forward exchange contracts used for hedging: Outflow	**154**	**154**	**154**	**-**	**-**	**-**	36	36	36	-	-	-
Commodity contracts: Outflow	**89**	**89**	**89**	**-**	**-**	**-**	251	251	114	137	-	-
	90,228	**91,193**	**81,255**	**4,304**	**5,634**	**-**	105,793	106,587	70,824	31,239	4,524	-

* Excludes derivatives (shown separately).

Company

		2020						2019				
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Trade and other payables	**22,754**	**22,754**	**22,754**	**-**	**-**	**-**	18,962	18,962	18,962	-	-	-
Overdraft	**2,346**	**2,346**	**2,346**	**-**	**-**	**-**	-	-	-	-	-	-
Group banking facilities	**32,000**	**32,000**	**32,000**	**-**	**-**	**-**	26,924	26,924	-	26,924	-	-
	57,100	**57,100**	**57,100**	**-**	**-**	**-**	45,886	45,886	18,962	26,924	-	-

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

Commodity Price Risk

Commodity price risk is the risk of financial loss to the Group through open positions on the trading of 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 surface mining activities, the Group has a longer term exposure to price movements, favourable or unfavourable, in international coal prices.

30 Financial Instruments continued
(d) Market Risk continued
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 2020

	Euro £000	US Dollar £000	Hong Kong Dollar £000	South African Rand £000	Indian Rupee £000	Malaysian Ringgit £000	Total £000
Cash and cash equivalents	**10**	**5**	**1,686**	**812**	**76**	**85**	**2,674**
Trade receivables	**216**	**1,364**	**5,294**	**–**	**–**	**–**	**6,874**
Loans due from undertakings in which the Group has a participating interest	**11,693**	**–**	**–**	**–**	**–**	**–**	**11,693**
Trade receivables due from undertakings in which the Group has a participating interest	**475**	**11**	**–**	**–**	**–**	**–**	**486**
Other receivables	**12**	**–**	**31**	**5**	**–**	**1**	**49**
Prepayments and accrued income	**1**	**–**	**4,939**	**125**	**–**	**–**	**5,065**
Trade payables	**(7)**	**–**	**(1,543)**	**–**	**–**	**–**	**(1,550)**
Other trade payables	**–**	**–**	**(1)**	**–**	**(12)**	**–**	**(13)**
Non-trade payables and accrued expenses	**(13)**	**–**	**(3,250)**	**(328)**	**–**	**(6)**	**(3,597)**
Balance Sheet exposure	**12,387**	**1,380**	**7,156**	**614**	**64**	**80**	**21,681**
Contracted future sales	**861**	**1,806**	**3,164**	**–**	**–**	**–**	**5,831**
Contracted future purchases	**(931)**	**(771)**	**(517)**	**–**	**–**	**–**	**(2,219)**
Gross exposure	**12,317**	**2,415**	**9,803**	**614**	**64**	**80**	**25,293**
Forward exchange contracts	**(414)**	**(2,399)**	**(2,647)**	**–**	**–**	**–**	**(5,460)**
Net exposure	**11,903**	**16**	**7,156**	**614**	**64**	**80**	**19,833**

31 May 2019

	Euro £000	US Dollar £000	Hong Kong Dollar £000	South African Rand £000	Indian Rupee £000	Malaysian Ringgit £000	Total £000
Cash and cash equivalents	61	10	1,479	659	81	95	2,385
Trade receivables	258	246	3,958	1	–	–	4,463
Loans due from undertakings in which the Group has a participating interest	11,404	–	–	–	–	–	11,404
Trade receivables due from undertakings in which the Group has a participating interest	540	–	–	–	–	–	540
Other receivables	13	–	4,116	6	–	1	4,136
Prepayments and accrued income	1	–	4,588	187	–	–	4,776
Trade payables	(7)	–	(1,828)	(30)	–	–	(1,865)
Other trade payables	–	–	(1,232)	–	(13)	–	(1,245)
Non-trade payables and accrued expenses	(18)	–	(4,056)	(337)	–	(14)	(4,425)
Balance Sheet exposure	12,252	256	7,025	486	68	82	20,169
Contracted future sales	652	–	1,001	–	–	–	1,653
Contracted future purchases	(3,572)	–	–	–	–	–	(3,572)
Gross exposure	9,332	256	8,026	486	68	82	18,250
Forward exchange contracts	2,920	–	(1,001)	–	–	–	1,919
Net exposure	12,252	256	7,025	486	68	82	20,169

Company

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

31 May 2020

	Euro £000	Hong Kong Dollar £000	South African Rand £000	Total £000
Trade receivables due from Group undertakings	–	–	**97**	**97**
Loans due from Group undertakings	–	–	**944**	**944**
Loans due from undertakings in which the Group has a participating interest	**11,693**	–	–	**11,693**
Trade receivables due from undertakings in which the Group has a participating interest	**268**	–	–	**268**
Trade payables due to Group undertakings	**(1,011)**	–	–	**(1,011)**
Balance Sheet exposure	**10,950**	–	**1,041**	**11,991**
Contracted future sales	–	**3,164**	–	**3,164**
Contracted future purchases	–	**(517)**	–	**(517)**
Gross exposure	**10,950**	**2,647**	**1,041**	**14,638**
Forward exchange contracts	**(268)**	**(2,647)**	–	**(2,915)**
Net exposure	**10,682**	–	**1,041**	**11,723**

31 May 2019

	Euro £000	Hong Kong Dollar £000	South African Rand £000	Total £000
Trade receivables due from Group undertakings	–	5	852	857
Loans due from undertakings in which the Group has a participating interest	11,404	–	–	11,404
Trade receivables due from undertakings in which the Group has a participating interest	277	–	–	277
Trade payables due to Group undertakings	(1,011)	–	–	(1,011)
Balance Sheet exposure	10,670	5	852	11,527
Contracted future sales	–	1,001	–	1,001
Gross exposure	10,670	1,006	852	12,528
Forward exchange contracts	–	(1,001)	–	(1,001)
Net exposure	10,670	5	852	11,527

Sensitivity Analysis

Group

A 10% weakening of the following currencies against the Pound Sterling at 31 May 2020 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 2019.

	Equity		Profit or loss	
	2020 £000	2019 £000	2020 £000	2019 £000
€	**1,082**	1,084	**1,082**	1,084
$	**1**	23	**1**	23
HKD	**651**	639	**651**	639
ZAR	**56**	44	**56**	44
INR	**6**	6	**6**	6
MYR	**7**	7	**7**	7

A 10% strengthening of the above currencies against the Pound Sterling at 31 May 2020 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 continued
(forming part of the financial statements)

30 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	
	2020 £000	2019 £000	2020 £000	2019 £000
Fixed rate instruments				
Financial liabilities	**(14,623)**	(12,587)	–	–
	(14,623)	(12,587)	–	–
Variable rate instruments				
Financial assets	**18,499**	21,583	–	–
Financial liabilities	**(32,000)**	(26,924)	**(34,346)**	(26,924)
	(13,501)	(5,341)	**(34,346)**	(26,924)

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 2019.

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Profit or loss				
Decrease	**(94)**	(142)	**(305)**	(328)

(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:

	2020 Expected cash flows					2019 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 years £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Forward exchange contracts:										
Assets	**65**	**65**	–	–	–	25	25	–	–	–
Liabilities	**(154)**	**(154)**	–	–	–	(36)	(36)	–	–	–
Commodity contracts:										
Assets	–	–	–	–	–	–	–	–	–	–
Liabilities	**(89)**	**(89)**	–	–	–	(251)	(114)	(137)	–	–
	(178)	**(178)**	–	–	–	(262)	(125)	(137)	–	–

(f) Capital Management
The Group manages its capital to ensure that it will be able to continue as a going concern, whilst maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings of £46,623,000 (2019: £46,119,000 adjusted for IFRS 16), cash and cash equivalents of £18,499,000 (2019: £21,583,000), and equity attributable to equity holders of the Parent, comprising capital, reserves and retained earnings of £130,055,000 (2019: £127,477,000).

The capital structure is reviewed regularly by the Directors. The Group's policy is to maintain gearing at levels appropriate to the business. The Directors take consideration of gearing determined as the proportion of net debt to total capital. It should be noted that the Directors review gearing taking careful account of the working capital needs and flows of the business. The nature of the Group's principal borrowing facility is that of an asset-based lending structure based upon eligible inventories and receivables. As a result, the facility varies in line with the Group's working capital requirements.

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

31 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Less than one year	–	2,313	–	–
Between one and five years	–	3,442	–	–
More than five years	–	29	–	–
	–	5,784	–	–

Group

During the year £nil was recognised as an expense in the Income Statement in respect of operating leases (2019: £5,548,000).

Company

During the year £nil was recognised as an expense in the Income Statement in respect of operating leases (2019: £nil).

From 1 June 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases (see Note 1).

32 Capital Commitments

Group

At 31 May 2020, the Group did not have any capital commitments (2019: £nil).

Company

At 31 May 2020, the Company did not have any capital commitments (2019: £nil).

33 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 Group has performance bonds and guarantees in place in relation to various performance obligations under certain contracts. The total value of these bonds at 31 May 2020 is £8.9m (2019: £8.0m).

In relation to HRMS, the Group has provided a €5m or £4.5m (2019: €5m or £4.4m) guarantee in connection with the banking facilities of HRMS.

Notes continued
(forming part of the financial statements)

34 Related Parties
Identity of Related Parties with which the Group has Transacted
The Group and the Company have a related party relationship with their subsidiaries and joint ventures (Note 16) and its Directors.

Group
Other Related Party Transactions

	Sales to		Purchases from	
	2020 £000	2019 £000	2020 £000	2019 £000
Joint ventures				
Tower Regeneration Limited	**2,065**	9,518	–	–
Tower Regeneration Leasing Limited	–	–	–	687
Waystone Hargreaves Land LLP	**35**	–	–	–
Hargreaves Services Europe Limited	**129**	2,228	–	–
	2,229	11,746	–	687

	Interest received from		Interest paid to	
	2020 £000	2019 £000	2020 £000	2019 £000
Joint ventures				
Hargreaves Darlington Limited	**85**	16	–	–
Hargreaves Services Europe Limited	**74**	83	–	–
	159	99	–	–

	Loan receivables outstanding		Trade receivables outstanding		Payables outstanding	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Joint ventures						
Tower Regeneration Limited	**11,513**	12,825	**573**	192	**7**	4
Tower Regeneration Leasing Limited	–	–	**3**	18	**1,133**	–
Carbon Action Limited	–	–	**114**	–	–	–
Hargreaves Darlington Limited	**2,201**	2,026	–	–	–	–
Waystone Hargreaves Land LLP	**4,319**	–	**20**	–	–	–
Hargreaves Services Europe Limited	**11,693**	11,404	**476**	540	–	25
	29,726	26,255	**1,186**	750	**1,140**	29

Transactions with Key Management Personnel
The Directors are the key management personnel of the Group. Details of Directors' remuneration, share options, pension benefits and other non-cash benefits can be found in Note 7. In addition to this, the element of the share-based payment charge for the year that relates to key management personnel is £71,000 (2019: £20,000) and the social security costs amounted to £170,000 (2019: £146,000). There are no other post-employment or other long-term benefits.

The Company had no transactions with key management personnel.

Company
Other Related Party Transactions

	Receivables outstanding		Payables outstanding	
	2020 £000	2019 £000	2020 £000	2019 £000
Subsidiaries	**118,278**	100,900	**21,899**	18,144
Joint ventures	**11,961**	11,681	**720**	–
	130,239	112,581	**22,619**	18,144

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

36 Post balance sheet events
On 28 July 2020 the Group entered into a £45m banking facility through to 31 July 2021. The facility agreement includes step downs at certain points during the year, reducing to £35m at 30 June 2021.

All coal mining operations within the Group ceased in July 2020.

Alternative Performance Measure Glossary

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

Alternative Performance Measure | **Definition and Purpose**

Underlying profit before tax

Represents the profit before tax prior to exceptional items, fair value adjustments, amortisation and impairment of intangible assets, and, in accordance with International Accounting Standards, includes the Group's share of the post-tax profit of its German joint venture. This measure is consistent with how the business measures performance and is reported to the Board.

	2020 £'000	2019 £'000
Profit before tax	**2,151**	(9,858)
Exceptional items (see Note 5)	**1,683**	16,136
Amortisation and impairment of intangible assets and goodwill	**1,575**	142
Fair value gain on acquisition by a joint venture	**(555)**	–
Underlying Profit before Tax	**4,854**	6,420

Underlying Operating Profit

Represents operating profit prior to exceptional items, amortisation and impairment of intangible assets and fair value gains on acquisition.

	2020 £'000	2019 £'000
Operating profit	**1,305**	(9,688)
Exceptional items (see Note 5)	**1,683**	16,136
Amortisation and impairment of intangible assets and goodwill	**1,575**	142
Underlying Operating Profit	**4,563**	6,590

Underlying Operating Margin

Represents the calculation of Underlying Operating Profit divided by Revenue

	2020 £'000	2019 £'000
Distribution and Services		
Underlying operating profit (see Note 2)	**8,496**	8,734
Revenue	**216,025**	293,787
	3.9%	3.0%

Basic underlying earnings per share

Profit attributable to the equity holders of the Company prior to exceptional items, the amortisation and impairment of intangible assets and fair value gains on acquisition after tax divided by the weighted average number of ordinary shares during the financial year adjusted for the effects of any potentially dilutive options. See Note 11.

Net Debt

Represents the net position of the Group's cash and loan balances including leases. Calculated as follows:

	2020 £'000	2019 £'000
Cash and cash equivalents	**18,499**	21,583
Non-current interest-bearing loans and borrowings	**(9,437)**	(35,222)
Current interest bearings loans and borrowings	**(37,186)**	(4,289)
Net Debt (2019 pre-IFRS 16 adjustment)	**(28,124)**	(17,928)
IFRS 16 lease liability adjustment	–	(6,608)
Net Debt (2019 post IFRS 16 adjustment)	**(28,124)**	(24,536)

Net Asset Value per share

Represents the Net Asset value of the Group divided by the number of shares in issue less those shares held in treasury. Calculated as follows:

	2020 £'000	2019 £'000
Total shares in issue	**33,138,756**	33,138,756
Less shares in treasury	**(856,410)**	(1,013,502)
Shares for calculation	**32,282,346**	32,125,254
Net Asset Value per Balance Sheet	**£130,055,000**	£127,477,000
Net Asset Value per share	**£4.03**	£3.97

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

NOTICE IS GIVEN that this year's **Annual General Meeting** of Hargreaves Services plc (the **Company**) will be held at the Company's registered office at West Terrace, Esh Winning, Durham, DH7 9PT on 28 October 2020 at 11.00am to consider and, if thought fit, approve the following resolutions:

Ordinary Business

1. To adopt and receive the Directors' Report, the Strategic Report, the Directors' Corporate Governance and Remuneration Reports, the Audit & Risk Committee Report, the Auditors' Report and the Financial Statements for the year ended 31 May 2020.
2. To approve the Directors' Corporate Governance and Remuneration Reports for the year ended 31 May 2020.
3. To declare a dividend for the year ended 31 May 2020 of 4.5 pence per ordinary share, no interim dividend having been declared or paid.
4. To re-appoint Gordon Banham as a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
5. To re-appoint 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 re-appoint Christopher Jones as a director of the Company in accordance with article 29.2 of the Company's articles of association, who offers himself for re-appointment.
7. To appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the next general meeting at which accounts are laid before the Company.
8. To authorise the Audit & Risk Committee of the board of directors to determine the remuneration of the auditors.
9. To authorise the directors of the Company pursuant to section 551 of the Companies Act 2006 (the **Act**) generally and unconditionally to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into such shares in the Company (**Rights**):
   9.1 up to an aggregate nominal value of £1,076,078 (representing approximately one-third of the total ordinary share capital in issue as at 24 July 2020); and
   9.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,152,156 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 9.1) in connection with or pursuant to an offer or invitation by way of a rights issue (as defined below), provided that such authorities conferred by this resolution 9 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless varied, revoked or renewed by the Company in general meeting, save that the Company may at any time before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and the directors may allot shares and grant Rights pursuant to such offers or agreements as if the relevant authorities conferred by this resolution 9 had not expired. These authorities shall be in substitution for all previous authorities previously granted to the directors to allot shares and grant Rights which are pursuant to this resolution 9 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 9.
   For the purposes of this resolution 9, **rights issue** means an offer or invitation to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the directors of the Company consider necessary, as permitted by the rights of those securities, to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable instrument) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatsoever.
10. Subject to and conditional upon the passing of resolution 9 (and in substitution for all existing like powers granted to the directors of the Company (to the extent they remain in force and unexercised)), the directors be and are empowered pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) of the Company for cash pursuant to the authority conferred upon them by resolution 9 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561(1) of the Act and sub-sections (1) – (6) of section 562 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
    10.1 pursuant to the authority conferred upon them by resolution 9.1 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561(1) of the Act and sub-sections (1) – (6) of section 562 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
        10.1.1 in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and
        10.1.2. (otherwise than pursuant to resolution 10.1.1) up to an aggregate nominal value of £322,823 (representing approximately 10% of the total ordinary share capital in issue as at 24 July 2020); and
    10.2 pursuant to the authority conferred upon them by resolution 9.2, in connection with or pursuant to a rights issue, as if section 561(1) of the Act and sub-sections (1) – (6) of section 562 of the Act did not apply to any such allotment, and the powers given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless renewed or extended prior to such expiry, save that the directors of the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

For the purpose of this resolution 10:

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

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

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

Special Business

11. The Company be and is generally and unconditionally authorised for the purpose of section 701 of the Act to make market purchases (which in this resolution shall have the meaning given to this term in section 693(4) of the Act) of its ordinary shares of 10 pence each in the capital of the Company (Ordinary Shares) on the terms set out below:
    - 11.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 11 is 4,842,352 (representing approximately 15% of the total ordinary share capital in issue as at 24 July 2020); and
    - 11.2 the minimum price which may be paid for each of those Ordinary Shares (exclusive of expenses) is 10 pence; and
    - 11.3 the maximum price (exclusive of expenses) which may be paid for each of those Ordinary Shares is not more than the higher of (i) 5% above the average of the middle market quotations for Ordinary Shares (as derived from the Daily Official Lists of the London Stock Exchange) for the five dealing days immediately preceding the date of purchase and (ii) the price stipulated by European Commission-adopted Regulatory Technical Standards pursuant to Article 5(6) of the Market Abuse Regulation, but so that this authority shall (unless previously varied, revoked or renewed) expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year, save that the Company may before the expiry of this authority conclude any contract for the purchase of its own shares pursuant to the authority conferred by this resolution 11 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 11 had not expired

Under Covid-19 restrictions in force as at the date of this Notice, attendance in person at the Annual General Meeting will not be possible. The Board takes its responsibility to safeguard the health of its shareholders, stakeholders and employees very seriously. The holding of the Annual General Meeting will be kept under review in line both with restrictions on travel and assembly put in place by the UK government and Public Health England guidance. The Board expects that, in line with restrictions in force as at the date of this Notice, shareholders will be prevented from attending the Annual General Meeting and will be refused entry, so that it will only be attended by two shareholders in order to achieve a quorate meeting. External shareholders and their proxy appointments if they are not appointing the chair of the meeting will be refused entry. Accordingly, shareholders are strongly advised to appoint the chair of the Annual General Meeting as their proxy with their voting instructions as set out below. You will not receive a hard copy form of proxy for the AGM in the post. Instead, you will be able to vote electronically using the link www.signalshares.com. You will need to log into your Signal Shares account, or register if you have not previously done so. To register you will need your Investor Code, this is detailed on your share certificate or available from our Registrar, Link Asset Services (previously called Capita).

The Board encourages shareholders to exercise their right to vote by proxy in the following ways:

i. by logging on to www.signalshares.com and following the instructions;

ii. by requesting a hard copy form of proxy directly from the registrar, Link Asset Services, on Tel: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside of the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 and 17:30, Monday to Friday excluding public holidays in England and Wales. Alternatively, you can request a hard copy proxy card by emailing shareholderenquiries@linkgroup.co.uk; or

iii. CREST members may use the CREST electronic proxy appointment service to submit their proxy appointment in respect of the Annual General Meeting as detailed in the Notes to this notice on pages 93 and 94.

In order for a proxy appointment to be a valid, a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by 11:00 on 26 October 2020.

Full details of how to vote using the proxy form can be found in the Notes to this notice on pages 93 and 94. Completion and return of the proxy form will not itself prevent shareholders from attending in person and voting at the meeting should they subsequently decide to do so (although shareholders and their proxies if not the chair of the meeting are expected to be prohibited from attending in person as a result of Covid-19 precautions).

As we expect that shareholders will be prevented from attending the Annual General Meeting in person, we are providing a facility for shareholders to ask questions of the Board of Directors. Please email all questions to investor.relations@hsgplc.co.uk by 11.00am on 26 October 2020 stating your name. We will provide answers directly to the shareholder who asked the question.

The UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. Any changes to the Annual General Meeting will be communicated to shareholders before the meeting through our website (www.hsgplc.co.uk) and, where appropriate, by RNS announcement. We trust that all our shareholders will understand the need for these precautions in light of Government public health guidelines on Covid-19.

28 July 2020
By order of the Board

John Samuel
Company Secretary

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

Notes

1. This notice is the formal notification to members of the Company's Annual General Meeting (the Meeting), its date, time and place and the matters to be considered. If you are in doubt as to what action you should take you should consult an independent adviser. Given the guidance and restrictions in force on the date of this notice in relation to Covid-19, the Company currently expects that shareholders will not be able to attend the Meeting in person and will be refused entry so that the Meeting will only be attended by two shareholders in order to achieve a quorate meeting. External shareholders will be refused entry. However, the Company will continue to monitor the impact of Covid-19 and reserves the ability to revise arrangements in relation to the Meeting should circumstances change. Any relevant updates regarding the Meeting will be available on the Company's website.
2. Resolutions 1 to 9 will be proposed as ordinary resolutions. A simple majority (being more than 50%) or votes cast must be in favour of each such resolution in order for it to be passed.
   Resolutions 10 and 11 will be proposed as special resolutions. A special resolution requires 75% or more of votes cast to be in favour of the resolution in order for it to be passed.
   All business proposed at the Meeting is ordinary business, pursuant to Article 24.1, save for Resolution 11.2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those shareholders registered in the register of members of the Company at close of business on 26 October 2020 as holders of ordinary shares of £0.10 each in the capital of the Company shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at the time (although shareholders are expected to be prohibited from attending the Meeting in person). Changes to entries in the register of members after close of business on 26 October 2020 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
3. If you are a member of the Company at the time set out in Note 2 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend and to speak and vote on your behalf at the Meeting (although shareholders and their proxy appointments if not the chair of the meeting are expected to be prohibited from attending the Meeting in person). You can only appoint a proxy using the procedures set out in these notes.
   A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a shareholder of the Company. To appoint a proxy please use one of the methods set out above.
4. To be valid any proxy form or other instrument appointing a proxy must be received by electronic means or by post or (during normal business hours only) by hand at the office of the Registrars of the Company, Link Asset Services, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00am on 26 October 2020.
5. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in Note 12 below) will not in itself prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so (although shareholders are expected to be prohibited from attending the Meeting in person) .
6. Although shareholders are expected to be prohibited from attending the Meeting in person, 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 require additional hard copy proxy forms, please contact Link Asset Services, PXS, The Registry, 34 Beckenham Road, Kent, BR3 4TU.
7. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see Note 4 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
8. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Link Asset Services, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. If you submit more than one valid proxy appointment, by paper or by electronic means the appointment received last before the latest time for the receipt of proxies will take precedence.
9. In order to revoke a proxy instruction, you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link 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 Link Asset Services at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00am on 26 October 2020. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to Note 7 above, your appointment will remain valid.
10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
11. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (Euroclear) specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00am on 26 October 2020. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
12. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).

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

14. If a corporation is a member of the Company, it may by resolution of its directors or other governing body authorise one or more persons to act as its representative or representatives at the Meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company. Corporate representatives should bring with them either an original or certified copy of the appropriate board resolution or an original letter confirming the appointment, provided it is on the corporation's letterhead and is signed by an authorised signatory and accompanied by evidence of the signatory's authority.
15. As at 24 July 2020 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 32,282,346 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 24 July 2020 are 32,282,346.
16. The following documents will be available for inspection at the Company's registered office at West Terrace, Esh Winning, Durham, DH7 9PT during normal business hours on any week day (Saturdays and English public holidays excepted) from the date of this notice until the close of the Meeting and at the place of that Meeting for at least 15 minutes prior to and during the Meeting:
    - copies of the service contracts for the Executive Directors of the Company; and
    - copies of the letters of appointment of Non-Executive Directors of the Company.

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

Resolution 1: Accounts
The directors will present their Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the audited Financial Statements for the financial year ended 31 May 2020 to the meeting as required by law. These reports and statements are set out on pages 17 to 89 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 2020 which is set out in full on pages 25 to 27 of the Company's Annual Report. The vote is advisory and the directors' entitlement to remuneration is not conditional upon this resolution being passed.

Resolution 3: Final Dividend
The Board proposes a dividend for the financial year ended 31 May 2020 of 4.5 pence per ordinary share. No interim dividend was declared or paid. If the meeting approves resolution 3, the dividend will be paid on 30 October 2020 to shareholders on the register of members on 18 September 2020.

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

Brief biographical details of Gordon Banham and Nigel Halkes are set out on page 16 of this document.

Resolutions 6: Appointment of Director
As Christopher Jones was appointed to the Board subsequent to the date of the last Annual General Meeting, he is required by the Company's articles of association to be re-appointed at this year's Annual General Meeting. Accordingly, the directors recommend that Christopher Jones be re-appointed as a director and resolution 6 proposes his re-appointment.

Brief biographical details of Christopher Jones are set out on page 16 of this document.

Resolutions 7 and 8: Appointment and Remuneration of Auditors
The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the next general meeting. PricewaterhouseCoopers LLP are willing to be appointed for a year and resolution 7 proposes their appointment and, in accordance with standard practice, resolution 8 authorises the Audit & Risk Committee of the board of directors of the Company to determine the level of the auditors' remuneration.

Resolution 9: Renewal of Board's Authority to Allot Shares
Resolution 9.1 grants the directors authority to allot relevant ordinary shares up to an aggregate nominal amount of £1,076,078 being approximately one-third of the Company's issued ordinary share capital as at 24 July 2020.

In line with guidance issued by the Investment Association, resolution 9.2 grants the directors authority to allot ordinary shares in connection with a rights issue up to an aggregate nominal amount of £2,152,156 (representing 21,521,564 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 9.1. This amount, before any such reduction, represents approximately two-thirds of the Company's issued ordinary share capital as at 24 July 2020. Under a rights issue, ordinary shareholders are invited to subscribe for further ordinary shares in proportion (as near as is practicable) to their holdings of shares in the Company and, if they accept the invitation, their holding of shares is not diluted (and if they decline the offer then they can sell their "rights" in the market for value).

Guidelines issued by the Investment Association provide that an authority for directors to allot new shares up to an amount equal to one-third of the existing share capital, such as that granted by resolution 9.1, will be regarded as routine. The Investment Association guidelines also state that an authority for directors to allot a further amount equal to one-third of the existing issued share capital, such as that granted by resolution 9.2, will also be regarded as routine as long as that additional authorisation applies only to fully pre-emptive rights issues.

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

Resolution 10: Disapplication of Statutory Pre-emption Rights
esolution 10.1.1 grants the directors power to allot shares without first offering them to existing shareholders in proportion to their existing shareholdings, where such offers are made in connection with or pursuant to a pre-emptive offer of shares.

Resolution 10.1.2 permits the directors to allot shares without first offering them to existing shareholders and otherwise than in connection with a pre-emptive offer, but only up to a limit of 10% of the total ordinary share capital. Historically, the Pensions and Lifetime Savings Association (PLSA) (previously known as the National Association of Pension Funds) guidelines suggested that AIM companies should be permitted to take authority to allot up to 10% of issued share capital for cash on a non pre-emptive basis (which the Company has done each year since joining AIM). The PLSA has changed its guidance which now states that the limit should be 5% but that an additional 5% is acceptable provided that the Company confirms that it intends to use the additional 5% only in connection with an acquisition or specified capital investment which would be announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. Taking note of the PLSA's guidance, the directors are proposing that the resolution remains unchanged from that passed at last year's Annual General Meeting and in previous years.

Resolution 10.2 grants the directors power to allot those shares issued further to the powers granted to them under resolution 9.2 without first offering them to existing shareholders.

Resolution 11: Purchase of Own Shares
Resolution 11 authorises the Company to purchase its own shares (in accordance with section 701 of the Act) during the period from the date of this Annual General Meeting until the end of the next Annual General Meeting of the Company or the expiration of six months after the Company's current financial year end, whichever is the sooner, up to a total of 4,842,352 ordinary shares. This represents approximately 15% of the issued ordinary share capital of the Company as at 24 July 2020. The maximum price payable for a share shall not be more than the higher of 5% above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated in the European Commission-adopted Regulatory Technical Standards pursuant to Article 5(6) of the Market Abuse Regulation (being the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out). The minimum price payable for a share will be 10 pence. Companies are permitted to retain any of their own shares which they have purchased as treasury shares with a view to possible re-issue at a future date, rather than cancelling them. The Company will consider holding any of its own shares that it purchases pursuant to the authority conferred by this resolution as treasury shares. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively and would provide the Company with additional flexibility in the management of its capital base.

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

Shareholder Information

Company Secretary
John Samuel FCA

Auditor
PricewaterhouseCoopers LLP
Floor 6
Central Square South
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Newcastle upon Tyne
NE1 3AZ

Bankers
HSBC
Floor 3
Central Square South
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Newcastle upon Tyne
NE1 3AZ

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NE1 6AG

Legal Advisers
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Leeds
LS1 4DL

Nominated Adviser and Joint Stockbroker
N+1 Singer
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EC2N 2AX

Joint Stockbroker
Investec Bank plc
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EC2V 7QP

Registered Office
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DH7 9PT

Registrar
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The Registry
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BR3 4TU

Hargreaves Services plc
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Tel: 0191 373 4485
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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.