Hargreaves Services plc

Leading the way in solid fuel supply and bulk material logistics

Interim Report for the six months ended 30 November 2012

Review of the Period

Financial Statements

Established in 1994, Hargreaves Services plc provides unrivalled performance in sourcing, producing, processing, handling and transporting carbon-based and other bulk materials throughout the UK and within Europe. The Group has four complementary divisions:

Production

Produces coal and coke and also recycles tyres for customers throughout the UK and Europe.

Revenue	Underlying Operating Profit
£45.7m +22.3%	**£5.6m** -2.2%

Energy & Commodities

Provides coal, coke, minerals, smokeless fuel and biomass products to a range of industrial, wholesale and public sector energy consumers.

Revenue	Underlying Operating Profit
£244.6m +20.5%	**£13.9m** +7.4%

Transport

One of the largest suppliers of bulk logistics to UK customers.

Revenue	Underlying Operating Profit
£40.0m +1.0%	**£2.1m** -5.5%

Industrial Services

Provides quality assured contract management services to the power generation, utilities, chemicals, minerals and steel industries.

Revenue	Underlying Operating Profit
£65.2m +68.3%	**£3.1m** +28.4%

Highlights of the Period

- The Group, as expected, is trading strongly through the first three months of the second half and, excluding Maltby and Belgium, results are expected to be in line with management's expectations
- The decision to mothball Maltby Colliery was announced in December 2012
- An initial investigation has been completed into the impact of the fraud in our Belgian business with further detailed work ongoing to ensure all necessary and appropriate steps are being taken. Investigations have confirmed that the problem is limited solely to the Belgian operation
- Tower production is increasing after seven months of exceptionally adverse weather. Production plans have been revised and Tower is still set to be a significant contributor to Group profit in this financial year
- Energy & Commodities has continued to trade well with a strong performance in UK and a steady performance in Germany
- We are targeting further opportunities to accelerate the development of our surface mining operations

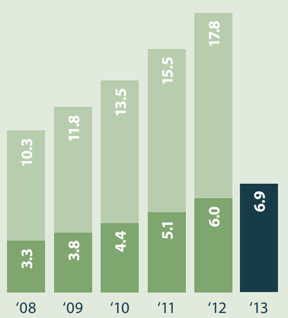
	Unaudited six months ended 30 November 2012	Unaudited six months ended 30 November 2011	Change %
Revenue	**£385.1m**	£322.8m	19.3%
Operating Loss/Profit	**(£6.8m)**	£16.7m	
Underlying Operating Profit (1)	**£24.6m**	£23.2m	6.0%
Loss/Profit Before Tax	**(£9.1m)**	£13.6m	
Underlying Profit Before Tax (2)	**£22.7m**	£20.8m	8.8%
Diluted EPS	**(28.4p)**	30.8p	
Underlying Diluted EPS (2)	**60.4p**	52.5p	15.2%
Interim Dividend	**6.9p**	6.0p	15.0%

(1) Underlying operating profit is stated excluding an £18.8m exceptional charge relating to the fraud in Belgium, a £9.8m operating loss on underground operations at Maltby (£4.3m loss in the six months to 30 November 2011) and the amortisation of acquired intangibles and including share of profit in jointly controlled entities and associates.
(2) Underlying profit before tax and underlying diluted EPS are stated excluding an £18.8m exceptional charge relating to the fraud in Belgium, a £10.5m loss before tax on underground operations at Maltby (£5.1m loss before tax in the six months to 30 November 2011) and the amortisation of acquired intangibles.

Dividend Per Share (pence)

6.9p

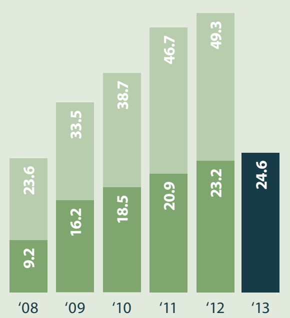
+15.0%



Underlying Operating Profit (£m)

£24.6m

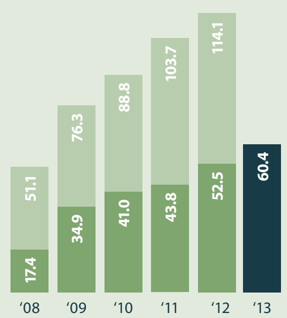
+6.0%



Underlying Diluted EPS (pence)

60.4p

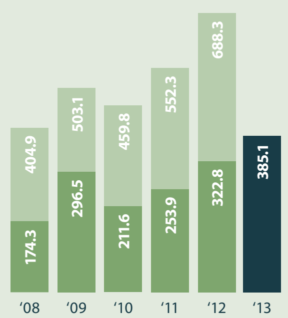
+15.2%



Revenue (£m)

£385.1m

+19.3%



The result of underground operations at Maltby are required to be reclassified as Discontinued Operations in the current full year and prior year, and therefore financial years ending 31 May 2011 and prior are as originally reported.

Interim Statement

Results

The problems encountered at Maltby and in Belgium have had a significant impact on our reported financial results. The impact of each of these issues is reviewed in detail below and the statement provides guidance on the underlying results and performance of the business. The underlying results eliminate the results of our operations at Maltby and the impact of the exceptional charge relating to the fraud in Belgium.

The decision to mothball Maltby was taken on 17 December 2012, just after the end of the reporting period. Accounting standards require that Maltby is not formally reported as a Discontinued Operation in these interim financial statements but will require Maltby to be treated as discontinued in the full year accounts. In our analysis of underlying results we have therefore categorised Maltby's Underground activities as discontinued to follow the treatment that will be required for full year reporting.

Trading and Business Review

The UK Coal Sector

The UK coal sector continues to operate in a testing and dynamic environment, facing a combination of challenges including internationally dictated fluctuations in market prices and legacy issues such as pension and restoration liabilities. It is worth reviewing some of the key developments to set some context for these results and to facilitate an understanding of the risks and opportunities presented to the Group from this sector.

Deep Mining

Deep mining in the UK continues to be a challenging activity. In Hargreaves, the geological risk and challenges have been emphasised by events at Maltby. UK Coal Mining Limited (formerly part of UK Coal PLC and now part of Coalfield Resources PLC) has continued to encounter issues. The recent landslide at Hatfield Colliery which is managed by Hargreaves on behalf of its owner ING, is a further example of the inherent risks over and above those related to coal price and production dynamics.

Surface Mining

We continue to view surface mining in the UK as an attractive sector with a more manageable risk profile than deep mining. New projects can be planned and steps can be taken, such as fixing coal and fuel prices, to reduce the risk profile on these projects. Although we have seen unprecedented levels of rainfall and weather disruption at Tower, the operation is still set to be profitable in its first year. We expect to see further opportunities to expand our surface activities either through organic developments as we identify and progress sites through the planning process or by acquiring operational sites.

Coal and Coke Prices

During the year European thermal coal prices have fallen over 20% from £68 per tonne to £54 per tonne. Although long term coal prices remain volatile and hard to forecast, the mothballing of Maltby Colliery materially reduces the Group's long term exposure to coal price fluctuations. At Tower, and any other future surface mining projects, the use of fixed price contracts and hedging will reduce the impact of price volatility. Price risk at Monckton will continue to be an issue that will require careful attention to ensure that coke sale contracts are managed in conjunction with coking coal purchase contracts. In our trading activities in the Energy & Commodities Division, we will continue to utilise back to back deals that do not create exposure to changing commodity prices.

This has been a challenging period for the Group. Although Maltby and Belgium have had a significant impact on reported results, the underlying performance of the business in the first half was good and the prospects for the second half are also encouraging.

Tim Ross, Chairman

Underlying Business Performance

The table below shows the reconciliation between Underlying profit measures and reported profit measures.

	Production Unaudited 30 November 2012 £000	Energy & Commodities Unaudited 30 November 2012 £000	Transport Unaudited 30 November 2012 £000	Industrial Unaudited 30 November 2012 £000	Total Unaudited 30 November 2012 £000
Reported operating (loss)/profit	**(4,682)**	**(6,377)**	**1,917**	**2,293**	**(6,849)**
Exceptional item	**–**	**18,866**	**–**	**–**	**18,866**
Intangible amortisation	**59**	**1,285**	**197**	**784**	**2,325**
Share of profit in jointly controlled entities	**351**	**114**	**–**	**–**	**465**
Maltby loss*	**9,827**	**–**	**–**	**–**	**9,827**
Underlying Operating Profit	**5,555**	**13,888**	**2,114**	**3,077**	**24,634**
Net financing costs	**(642)**	**(1,420)**	**(324)**	**(294)**	**(2,680)**
Maltby financing costs	**702**	**–**	**–**	**–**	**702**
Underlying Profit before Tax	**5,615**	**12,468**	**1,790**	**2,783**	**22,656**

	Production Unaudited 30 November 2011 £000	Energy & Commodities Unaudited 30 November 2011 £000	Transport Unaudited 30 November 2011 £000	Industrial Unaudited 30 November 2011 £000	Total Unaudited 30 November 2011 £000
Reported operating profit	1,333	11,717	2,040	1,613	16,703
Intangible amortisation	–	1,215	197	784	2,196
Share of loss in jointly controlled entities	(9)	–	–	–	(9)
Maltby loss*	4,347	–	–	–	4,347
Underlying Operating Profit	5,671	12,932	2,237	2,397	23,237
Net financing costs	(969)	(1,612)	(330)	(231)	(3,142)
Maltby financing costs	737	–	–	–	737
Underlying Profit before Tax	5,439	11,320	1,907	2,166	20,832

* Maltby loss/financing costs relate to the adding back of the result/financing costs of the Underground operations at Maltby which will be reclassified as Discontinued Operations in the full year results to 31 May 2013, and the comparative results for the year ended 31 May 2012.

Interim Statement
Continued

Review of Underlying Performance
The underlying profit before tax in the first half was £22.7m compared with £20.8m in the comparative period. Underlying operating profit in the first half increased by £1.4m from £23.2m to £24.6m. As has been typical in recent years, we expect to see a strong weighting to the second half of the year. Strong profits from coal trading in the UK offset weak production at Tower Colliery due to the unprecedented levels of rainfall that persisted from the spring through to December 2012.

Underlying Group revenue (excluding Maltby Underground operations revenue) in the period increased by £68.1m from £304.5m to £372.6m, mainly as a result of higher shipments of coal to power stations and steel plants.

Production Division
Production Division revenues, excluding Maltby Underground operations, increased by £8.3m from £37.4m to £45.7m. Production contractor services from the Group to the Tower joint venture contributed revenue of £11.1m. This new revenue stream more than offset a small reduction in coke revenues in the period.

Monckton operated during the first half on a blend of international and Maltby coal. Initial tests and customer reaction to the new coal blends have been very encouraging. We are confident that we have identified a source of coking coal from the US that will provide a consistent coke of the right specification for the majority of Monckton's coke customers. The key challenge will be managing coal and coke price risk to ensure a satisfactory profit margin. Coal contracts are already in place to cover this calendar year. Coke contracts are also in place, with the exception of approximately 40,000 tonnes for which negotiations are well advanced. Provided current prices are sustained, we expect average coke prices for this financial year to be similar to those of last year.

The Tower joint venture was heavily affected by rain that persisted across the first half and through December 2012. Although production levels were below target, the project was profitable to the Group in the first half and we are confident that Tower will produce a strong second half despite the record breaking rainfall in December and the snow disruption in January. It is clear that the Tower project is well founded as the coal quality is good and the overall site ratio is in line with our projections. The equipment has also worked well, when it has been possible to operate.

Energy & Commodities Division
Revenues in Energy & Commodities increased by £41.5m from £203.1m to £244.6m, driven mainly by a combination of strong power station volumes and the first significant shipments of coking coal for the Redcar steelworks. Underlying operating profit increased by £1.0m from £12.9m to £13.9m. The fall in underlying operating margin from 6.4% to 5.7% reflects the mix impact of increased volumes and hence a higher proportion of lower margin sales of power station and coking coal.

Following the end of the first half we have established a major new coal handling venture at Redcar Bulk Terminal. This operation will provide a platform for sourcing coal for Pulverised Coal Injection ("PCI" coal) for the steelworks at Redcar. The PCI plant at Redcar is expected to be operational before the end of the year and therefore it is expected that PCI shipments will commence before the end of the financial year.

Sales of specialised products were in line with targets. UK Coal Mining Limited ("UKCML"), failed to supply all of its contractual commitments. Additional product has been sourced from alternative suppliers. We recognise that UKCML has had production issues and we have sought to be flexible and supportive.

Good progress is being made in developing a portfolio of surface mining opportunities. Having progressed planning for the small Well Hill site in Northumberland, we are on track to submit two further planning applications in this financial year.

Gordon Banham, Group Chief Executive

In summary, the Group's UK coal trading business has remained robust during the first half and is well positioned with stocks and contracts to secure a strong second half. Following the mothballing of Maltby, we will be seeking to increase supply of international coals to take advantage of market demand, including the demand created through the loss of Maltby production. We can announce that we have agreed a new contract with a major power generator to supply one million tonnes of power station coal.

Following the land slip on the Hatfield tip that has caused significant disruption to the rail lines at Hatfield, the Group has worked hard to support Hatfield Colliery. We have increased our support for product off-take and have deployed significant road transport resources to move coal to customers. We would hope that the rail access can be quickly re-established.

In Europe, our coke trading operations that are managed from Germany continue to operate independently from the coal operations in Belgium. The coke markets remain subdued although there are signs that volumes and activity levels are starting to turn. The European team continues to work closely with Monckton's ferro-alloy customer base in looking for additional trading opportunities. We are hopeful of securing a significant new coke contract in the second half. The European coke trading operation delivered an operating profit of £2.4m in the first half.

Our joint venture with MIR Trade AG to source and supply thermal coal to the continental European markets continues to develop. Approximately 217,000 tonnes were supplied to customers in the first half and tender activity remains high. The margin is currently very low but we are hopeful of achieving margin enhancement opportunities as the business develops and increases in scale. This operation has been and will continue to be run from the UK.

The fraud in Belgium is discussed in more detail below. As we work through the issues in Belgium, we continue to evaluate the future of the Belgian business and would expect to make a decision by the end of the financial year. Until that time, having ceased trading in anthracite coal (save for fulfilling existing commitments), we would expect the business to run at a small loss.

Transport Division

Transport revenues increased by £0.3m from £39.7m to £40.0m. Underlying operating profit decreased by £0.1m from £2.2m to £2.1m.

Both the Tanker and Dry Bulk fleets delivered a solid performance in the first half. The Dry Bulk fleet continues to trade strongly and is expected to exceed its full year target. The Tankers business is expected to have a slower second half and finish the year slightly behind our targets. This is due to the realignment of vehicles and contracts following the administration of Petroplus and the consequent loss of the associated contract just before the end of the last financial year.

Interim Statement
Continued

Industrial Services Division
Industrial Services Division revenues were £65.2m in the six months to 30 November 2012, an increase of £26.5m compared with the six months to 30 November 2011. The increase in revenue was driven by two large biomass conversion projects that are being undertaken on behalf of E.ON.

The two engineering conversion projects contributed £18.8m of revenue. The first project, a conversion at Ironbridge, is nearing completion. The other project, at Liverpool Bulk Terminal, is scheduled to complete around the end of the financial year. Setting these contracts aside, the Division's core revenue increased by £7.6m from £38.8m to £46.4m, the increase being driven by the contracts that had been secured in the steels sector during the prior financial year. The underlying operating profit of the division increased by £0.7m from £2.4m to £3.1m. The core business continues to trade strongly with a high level of tender opportunity and activity. All the contracts won in the steel sector have been operating profitably.

A second outage project has been completed in Hong Kong for China Light and Power. We expect the tender for the core material handling contracts to be issued in the next few months.

Mothballing of Maltby
Following consultation with employees and trade union representatives, the decision to proceed with the mothballing of Maltby Colliery on health and safety, geological and financial grounds was announced on 17 December 2012.

The mothballing process is progressing well and the forecast closure costs are in line with plan. It is still anticipated that the substantial elements of the mothballing process, including recovery of equipment, can be completed by the end of March 2013.

As previously indicated, the Group expects that the net cash effect of the mothballing process will be positive. In particular, discussions regarding the sale of plant and equipment are progressing well with a number of parties, and the Group remains confident that cash realisations of £14m, as previously announced, will be achieved.

From a Group financial reporting perspective, the timing of the decision to mothball the mine means that whilst the results of Maltby's Underground operations will be included in Discontinued Operations in the full year, at 30 November 2012, the Group's half year, Maltby remains in Continuing Operations. The loss before tax of the Underground operations to 30 November 2012 was £10.5m.

The Board anticipates the 'Results from Discontinued Operations' for Maltby for the full year to be in line with the detailed guidance provided on 17 December 2012. In particular, the post tax forecast loss from Discontinued Operations in the full year is anticipated to be approximately £58m including redundancy, closure costs and non-cash write-offs relating to plant and equipment, development costs and other related assets.

Maltby will continue to trade with ongoing surface coal fines harvesting and processing and also a continuation of the provision of mining management services to Hatfield Colliery Limited. It is expected that these activities will continue to provide a modest profit stream.

The loss of jobs at Maltby is very regrettable. The Group, management and unions have worked together closely to minimise the inevitable socio-economic impacts. In this regard great efforts continue to be made to find alternative jobs for as many of the workforce as possible.

Surface Mining – Tower
Tower Regeneration Limited ("TRL"), our joint venture project at the Tower Colliery in Wales, is now fully operational. The start-up phase has been well executed in spite of extremely adverse weather; according to our rainfall statistics over 1.67 metres of rain fell on the site between June 2012 and December 2012. Ten months into the project, we remain confident of the quality and longevity of the site and expect Tower to contribute significantly to the Group's results both this year and going forward. The Group has a 35% profit share in TRL. In addition it will generate a profit on the cost-plus contract mining services and financial support provided by Hargreaves Surface Mining.

We announced in the pre-close update in December 2012 that project volumes had been impacted by exceptional weather in the first half of the year. Notwithstanding this, strong margins, combined with the ability to mitigate costs when the mine cannot be active, have resulted in the project contributing over £2.0m of underlying operating profit. This profit is the aggregation of profits through a combination of profit from Hargreaves' 35% share in the TRL joint venture, the profit made by our contract mining operation, and financing fees.

Whilst the difficult weather continued though December, production improved at the turn of the year and we hope this recovery will continue through to the end of the financial year resulting in the project performing broadly in line with management's expectations. Although production is well behind schedule, we remain on track to satisfy the contractual tonnages for the first year of our three-year thermal coal contract with RWE.

Surface Mining – General
Good progress is being made in developing a portfolio of surface mining opportunities. Having progressed planning for the small Well Hill site in Northumberland, we are on track to submit two further planning applications in this financial year. We are targeting further opportunities to accelerate the development of our surface mining operations.

Fraud in Belgium
The fraud in our Belgium business, which was set up as a joint venture in 2008, is an extremely disappointing development. The investigation to date suggests that the fraud was very significant and was orchestrated by a Managing Director. Following the work that has been done we are confident that we have accurately estimated the direct financial impact of the fraud. The net loss is estimated at £17.7m before any potential recovery from those involved in perpetrating the fraud.

The investigation has been hampered by the scale of document forgeries. It is clear that a concerted effort has been made by the Managing Director, a staff member, two foreign agents and former staff from a major supplier to extract funds and overstate profits. In addition to the evidence regarding manipulation of stock quantities, values and qualities, we continue to investigate other discrepancies within the Belgian company records. There has been widespread forgery of accounting and contractual documents, including supplier and customer contracts.

A detailed review of stock quantities and qualities has been completed to assess the true value of the book stock. A significant misstatement in the value of the stock has been identified. We have also reviewed all other balance sheet values and identified those that were also fraudulently misstated. Finally we have reviewed the contract position and identified the quantity and value of coal that needs to be purchased to allow us to complete the delivery of the valid and genuine customer contracts. This has given us a high degree of confidence in our estimate of the impact.

As stated earlier, significant detailed work is ongoing to ensure all necessary and appropriate steps are being undertaken to ensure the maximum possible recovery.

We have previously stated that we are confident that no such issues exist in other parts of the Group. To provide additional confidence, we have engaged PricewaterhouseCoopers to carry out a detailed forensic investigation into certain balance sheet items in the German business and to review the related local control environment. The controls review is ongoing and the forensic investigation, which is largely complete, has identified no issues or concerns to date.

Interim Statement
Continued

Financial Review

Revenue
Revenue increased by £62.3m from £322.8m in the six months to 30 November 2011 to £385.1m in the six months to 30 November 2012, despite the impact of significantly reduced commodity prices in the period. This increase in revenue is driven mainly by continuing strong power station volumes and the impact of increased coking coal sourcing in our Energy & Commodities division. Revenue from the two biomass conversion projects undertaken by our Industrial Services division accounted for £18.8m of the revenue increase.

Excluding the impact of Maltby's Underground operations, which will be reclassified as Discontinued Operations in the full year results, revenue increased by £68.1m from £304.5m to £372.6m.

Exceptional Charge
Following the discovery of a fraud in our Belgium subsidiary, a post tax exceptional charge of £17.7m has been booked in the six months to 30 November 2012. This exceptional item relates to the write-off of numerous balance sheet items including inventory and receivables. Further details are provided in Note 4.

The table on page 3 shows the underlying operating profit and underlying profit before tax of the Group after adjusting for the exceptional charge and after adding back the Maltby loss on underground operations which will be reclassified as a Discontinued Operation in the full year.

Operating Profit and Margins
Operating profit, pre exceptional charge, reduced by £4.7m from £16.7m in the six months to 30 November 2011 to £12.0m in the six months to 30 November 2012. Underlying Group operating profit increased by £1.4m from £23.2m to £24.6m. Underlying operating margin reduced from 7.6% in the six months to 30 November 2011 to 6.6% for the six months to 30 November 2012 reflecting increased power station and coking coal volumes, which represent a strong return on the Group's capital but are relatively low margin, and also a lower than expected margin from our Industrial Services division in the period due to the large conversion projects.

Interest
In the six months to 30 November 2012, finance expenses for the Group were in line with the six months to 30 November 2011 at £3.2m. Finance income increased by £0.4m from £0.1m to £0.5m due mainly to interest earned on balances invested in the Tower joint venture. Interest cover remained strong at 9.5 times.

Taxation
Income tax expense pre exceptional charge for the first half is £2.5m compared with £3.7m for the six months ended 30 November 2011. This charge represents an estimated effective tax rate for the Group of 25.7%. The underlying rate, excluding the loss in Maltby, is 27.0%, representing the best estimate of the full year effective income tax rate.

The reduction from the 28.6% rate for the year ended 31 May 2012 is driven mainly by the fall in the UK corporation tax rate from 26% to 24%. The tax charge for the first half is higher than the UK corporation tax rate of 24% reflecting disallowed costs and overseas profits taxable at a higher rate than the UK.

Earnings per Share
Reported basic earnings per share decreased from 31.0p to (28.4)p. Underlying fully diluted earnings per share increased by 15.2% from 52.5p to 60.4p.

Dividend
The Board has recommended an increase of 15% in the interim dividend from 6.0p in the comparative period to 6.9p. The dividend will be paid on 28 March 2013 to all shareholders on the register at the close of business on 8 March 2013. The dividend cover, excluding the exceptional write down in Belgium, is 3.6 times.

Net Debt
Net debt increased by £28.3m from £77.7m at 31 May 2012 to £106.0m at 30 November 2012. Coking coal purchases added to the normal seasonal increase in working capital. This was partially offset by a number of advance payments from customers.

Group net equity reduced from £136.4m at 31 May 2012 to £125.6m at 30 November 2012. Gearing (measured as net debt compared to net equity) at the end of November 2012 remained in line with the position at November 2011 at 84%. The write-off associated with the mothballing of Maltby will reduce net equity in the second half.

The Group's financial position remains strong with net debt at 30 November 2012 equal to 1.5 times earnings before interest, tax, depreciation and amortisation ("EBITDA") pre exceptional charge, comfortably below our maximum covenant levels.

Cash Flow

EBITDA for the six months to 30 November 2012 was £26.1m (excluding the exceptional charge). Following the write-off of working capital balances in Belgium at 30 November 2012, the increase in working capital during the period was reduced to £15.5m. Working capital management within the Group remains strong, with debtor days at an efficient 24 days at the period end. This debtor days figure reflects the continuing strong power station sales and also the increase in coking coal activity, both of which are on short credit terms.

Whilst stock levels have reduced compared to 30 November 2011 due to the exceptional write-off of stock in the Belgian operation and also the unwinding of positions in the German operation, stock days have remained at 60. This stock days figure reflects both an increased level of coking coal sales to SSI and also the remaining balance of the forward purchased coal in our UK coal operations, which we anticipate will be unwound by the year end.

Trade creditor days have fallen to 20 days, also reflecting the increased power station and coking coal activity.

As in prior years we expect core coal stocks and debtors to reduce at the end of the second half. In the second half we will be investing in new working capital flows including the new coal terminal at Redcar and continuing the coking coal flows for SSI and Monckton. Whilst these will create additional working capital requirements we expect them to produce a good profit stream and return on investment once established.

Net capital expenditure in the first half was £10.7m compared with £13.1m in the six months to 30 November 2011 largely due to deferral, and ultimately, cancellation of capital spend at Maltby Colliery. No asset realisations from Maltby took place during the first half.

There was no cash outflow in relation to acquisitions of subsidiaries, however as expected, a further advance of £4.4m was made to Tower Colliery. Total loans as at 30 November 2012 to Tower stand at £26.8m. We expect cash repayments to start early in the next financial year.

Tax payments of £6.9m were made in the first half. These related to the corporation tax due for the prior year. No tax payments are expected to be made for this year as a result of the Maltby mothballing expenses.

Dividend payments in the first half of £0.3m relate solely to dividends paid to minority shareholders of the European subsidiaries. The final dividend of 11.8p per share for year ended 31 May 2012 was paid on 7 December 2012.

Current Trading and Outlook

The Board is disappointed by the impact of events at Maltby and in Belgium. Excluding these issues, the Group has continued to trade well, supported by a strong performance in our UK coal distribution business. We believe the UK coal sector, despite the challenges faced, still offers significant opportunities for growth. We also believe that Hargreaves continues to be well placed to drive value from the marketing and distribution of its own production. Whilst there are some strong mining companies, a number of operators are facing significant financial challenges and we are very cognisant of the additional counterparty risks that this presents. We believe that as a result of these pressures, there will be opportunities to accelerate our penetration of the surface mining sector.

We remain determined to grow the business on an international basis. The problems in Belgium provide a hard lesson in ensuring the right business partners are selected, carefully vetted and monitored. We will seek to continue to strengthen the team whilst ensuring that appropriate financial controls operate across the Group.

Our short term international expansion is most likely to be led by the Industrial Services Division and we will continue to invest in supporting these initiatives. The focus for growth in that division will be in its core competencies of material handling and related services for both power generators and steel manufacturers.

The project to mothball Maltby is progressing to plan. The extent of the issues in Belgium is now clear and we will review the future of those operations over the coming months. We would like to recognise and thank those Belgium staff who helped us work through what has been a very difficult time. Their loyalty and professionalism is greatly appreciated.

We have already mobilised our efforts to help Hatfield Colliery overcome the issues with the tip slip and railway disruption. We will continue to support the business, as required, with management services and product off-take.

The Board expects a strong second half performance and remains confident of achieving its expectations for the full year, excluding the impacts of Maltby and Belgium.

Underlying operating profit increased by

£1.4m

to £24.6m in the six months to 30 November 2012

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 30 November 2012

	Note	Unaudited Pre Exceptional six months ended 30 November 2012 £000	Unaudited Exceptional six months ended 30 November 2012 £000	Unaudited Total six months ended 30 November 2012 £000	Unaudited six months ended 30 November 2011 £000	Audited year ended 31 May 2012 £000
Revenue		**385,107**	**–**	**385,107**	322,843	688,262
Cost of sales		**(348,584)**	**(18,866)**	**(367,450)**	(283,612)	(593,329)
Gross profit		**36,523**	**(18,866)**	**17,657**	39,231	94,933
Other operating income		**185**	**–**	**185**	125	835
Administrative expenses		**(24,691)**	**–**	**(24,691)**	(22,653)	(46,288)
Operating (loss)/profit		**12,017**	**(18,866)**	**(6,849)**	16,703	49,480
Financial income		**537**	**–**	**537**	62	2,304
Financial expenses		**(3,217)**	**–**	**(3,217)**	(3,204)	(8,764)
Share of profit/(loss) of jointly controlled entities (net of tax)		**465**	**–**	**465**	(9)	99
(Loss)/profit before tax		**9,802**	**(18,866)**	**(9,064)**	13,552	43,119
Income tax expense	5	**(2,521)**	**1,162**	**(1,359)**	(3,707)	(12,312)
(Loss)/profit for the period/year		**7,281**	**(17,704)**	**(10,423)**	9,845	30,807
Other comprehensive income						
Foreign exchange translation differences				**217**	(205)	(2,201)
Effective portion of changes in fair value of cash flow hedges				**1,806**	3,891	3,068
Actuarial gains on defined benefit pension plans				**–**	–	(3,274)
Tax recognised on other comprehensive income				**(433)**	(1,011)	(6)
Other comprehensive income for the period, net of tax				**1,590**	2,675	(2,413)
Total comprehensive (expense)/income for the period/year				**(8,833)**	12,520	28,394
(Loss)/profit attributable to:						
Equity holders of the company				**(7,752)**	8,354	29,455
Non-controlling interest				**(2,671)**	1,491	1,352
(Loss)/profit for the period/year				**(10,423)**	9,845	30,807
Total comprehensive (expense)/income for the period attributable to:						
Equity holders of the company				**(6,187)**	11,035	27,310
Non-controlling interest				**(2,646)**	1,485	1,084
Total comprehensive (expense)/income for the period/year				**(8,833)**	12,520	28,394
Basic earnings per share (pence)	7			**(28.42)**	30.99	109.00
Diluted earnings per share (pence)	7			**(28.42)**	30.77	106.12

	Note		
Non GAAP measures:			
Underlying EPS			
Basic earnings per share (pence)	7	**61.54**	**52.85**
Diluted earnings per share (pence)	7	**60.42**	**52.47**

Condensed Consolidated Balance Sheet
as at 30 November 2012

	Unaudited 30 November 2012 £000	Unaudited 30 November 2011 £000	Audited 31 May 2012 £000
Non-current assets			
Property, plant and equipment	**98,492**	90,964	98,340
Intangible assets	**27,510**	31,470	29,831
Investments in jointly controlled entities	**600**	34	140
Derivative financial instruments	**219**	–	–
	126,821	122,468	128,311
Current assets			
Inventories	**114,067**	128,899	112,027
Derivative financial instruments	**9,966**	1,980	6,051
Trade and other receivables	**136,564**	85,936	114,779
Cash and cash equivalents	**44,478**	21,424	45,852
	305,075	238,239	278,709
Total assets	**431,896**	360,707	407,020
Non-current liabilities			
Other interest-bearing loans and borrowings	**(116,695)**	(8,637)	(82,405)
Retirement benefit obligations	**(5,520)**	(3,406)	(5,969)
Provisions	**(9,558)**	(9,151)	(9,282)
Derivative financial instruments	**(3,824)**	(230)	(3,258)
Deferred tax liabilities	**(2,131)**	(4,902)	(3,482)
	(137,728)	(26,326)	(104,396)
Current liabilities			
Bank overdraft	**(26,279)**	(38,766)	(31,215)
Other interest-bearing loans and borrowings	**(14,094)**	(75,448)	(12,094)
Trade and other payables	**(106,785)**	(83,833)	(100,462)
Income tax liabilities	**(17,531)**	(14,778)	(20,117)
Derivative financial instruments	**(3,857)**	(308)	(2,375)
	(168,546)	(213,133)	(166,263)
Total liabilities	**(306,274)**	(239,459)	(270,659)
Net assets	**125,622**	121,248	136,361
Equity attributable to equity holders of the parent			
Share capital	**2,749**	2,709	2,709
Share premium	**33,046**	32,103	32,105
Other reserves	**211**	211	211
Translation reserve	**(1,191)**	351	(1,383)
Merger reserve	**1,022**	1,022	1,022
Hedging reserve	**1,898**	1,121	525
Capital redemption reserve	**1,530**	1,530	1,530
Retained earnings	**87,471**	80,104	97,804
	126,736	119,151	134,523
Non-controlling interest	**(1,114)**	2,097	1,838
Total equity	**125,622**	121,248	136,361

Condensed Statement of Changes in Equity
for the six months ended 30 November 2012

	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000	Total parent equity £000	Non-controlling interest £000	Total equity £000
Balance at 1 June 2012	2,709	32,105	(1,383)	525	211	1,530	1,022	97,804	134,523	1,838	136,361
Total comprehensive income and expense for the period											
Loss for the period	–	–	–	–	–	–	–	(7,752)	(7,752)	(2,671)	(10,423)
Other comprehensive income											
Foreign exchange translation differences	–	–	192	–	–	–	–	–	192	25	217
Effective portion of changes in fair value of cash flow hedges	–	–	–	1,806	–	–	–	–	1,806	–	1,806
Tax recognised on other comprehensive income	–	–	–	(433)	–	–	–	–	(433)	–	(433)
Total other comprehensive income	–	–	192	1,373	–	–	–	–	1,565	25	1,590
Total comprehensive income for the period	–	–	192	1,373	–	–	–	(7,752)	(6,187)	(2,646)	(8,833)
Transactions with owners recorded directly in equity											
Issue of shares	40	941	–	–	–	–	–	–	981	–	981
Equity settled share-based payment transactions	–	–	–	–	–	–	–	641	641	–	641
Dividends	–	–	–	–	–	–	–	(3,222)	(3,222)	(306)	(3,528)
Total contributions by and distributions to owners	40	941	–	–	–	–	–	(2,581)	(1,600)	(306)	(1,906)
Balance at 30 November 2012	**2,749**	**33,046**	**(1,191)**	**1,898**	**211**	**1,530**	**1,022**	**87,471**	**126,736**	**(1,114)**	**125,622**

Condensed Consolidated Cash Flow Statement
for the six months ended 30 November 2012

	Unaudited six months ended 30 November 2012 £000	Unaudited six months ended 30 November 2011 £000	Audited year ended 31 May 2012 £000
Cash flows from operating activities			
(Loss)/profit for the period	**(10,423)**	9,845	30,807
Adjustments for:			
Depreciation	**10,742**	9,629	20,555
Amortisation of intangible assets	**2,325**	2,196	4,392
Net finance expense	**2,680**	3,142	6,460
Share of (profit)/loss of jointly controlled entities	**(465)**	9	(99)
Profit on sale of property, plant and equipment	**(185)**	(125)	(836)
Equity settled share-based payment expenses	**641**	611	1,332
Income tax expense	**1,359**	3,707	12,312
Translation of non-controlling interest	**25**	(6)	(269)
	6,699	29,008	74,654
Change in inventories	**(1,884)**	(23,700)	(8,717)
Change in trade and other receivables	**(16,028)**	(20,173)	(48,189)
Change in trade and other payables	**2,580**	3,138	22,350
Change in provisions and employee benefits	**(173)**	(144)	(713)
	(8,806)	(11,871)	39,385
Interest paid	**(2,172)**	(3,217)	(5,384)
Income tax paid	**(6,903)**	(710)	(4,974)
Net cash from operating activities	**(17,881)**	(15,798)	29,027
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**688**	652	2,468
Acquisition of subsidiaries, net of cash acquired	**–**	(2,437)	(2,940)
Acquisition of property, plant and equipment	**(4,138)**	(5,965)	(22,493)
Net cash from investing activities	**(3,450)**	(7,750)	(22,965)
Cash flows from financing activities			
Proceeds from issue of share capital	**981**	639	641
Repayment of pre-lease creditor	**–**	(1,593)	(1,593)
Issue of secured loan	**(4,367)**	(2,680)	(2,192)
Payment of finance lease liabilities	**(4,386)**	(4,642)	(8,941)
Proceeds from invoice discounting facility	**11,127**	4,545	–
Dividends paid	**(306)**	(4,598)	(8,070)
Proceeds from promissory notes	**2,000**	5,067	5,025
Proceeds from revolving credit facility	**20,000**	16,000	31,000
Debt refinancing costs	**–**	–	(2,026)
Net cash from financing activities	**25,049**	12,738	13,844
Net increase/(decrease) in cash and cash equivalents	**3,718**	(10,810)	19,906
Cash and cash equivalents at the start of the period/year	**14,637**	(6,751)	(6,751)
Effect of exchange rate fluctuations on cash held	**(156)**	219	1,482
Cash and cash equivalents at the end of the period/year	**18,199**	(17,342)	14,637

Notes to the Interim Report

1. Basis of preparation

The interim financial information set out in this statement for the six months ended 30 November 2012 and the comparative figures for the six months ended 30 November 2011 are unaudited. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. It does not comply with IAS34 'Interim Financial Reporting', as is permissible under the rules of the AIM market ("AIM").

This interim statement, which is neither audited nor reviewed, has been prepared in accordance with the measurement and recognition criteria of Adopted IFRS's. This statement does not include all the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 May 2012.

2. Accounting policies

The accounting policies applied in preparing these interim financial statements are the same as those applied in the preparation of the annual financial statements for the year ended 31 May 2012, as described in those financial statements.

3. Status of financial information

The comparative figures for the financial year ended 31 May 2012 are not the company's statutory financial statements for that financial year. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

4. Exceptional Item

The exceptional charge relates to the write-off of numerous balance sheet items following the discovery of a complex and elaborate fraud in our Belgium subsidiary. The overstatement appears to have arisen from the date of business inception in 2008 until early December 2012 when the issue was discovered. The fraud is believed to have been perpetrated by senior Belgium company personnel in collusion with other parties. Due to the intricacies of the fraud and the lack of documentation for many of these transactions, it is not possible to allocate the write-off to respective accounting periods with any precision, and it has therefore been accounted for in full in the current half year.

5. Taxation

Income tax pre exceptional charge for the six month period is charged at 25.7% (six months ended 30 November 2011: 27.4%; year ended 31 May 2012: 28.6%). The underlying tax rate, excluding the loss at Maltby is 27.0%, representing the best estimate of the annual effective rate expected for the full year.

Taxation on the exceptional item relates to corporation tax expected to be recovered from the Belgian tax authorities. No deferred tax asset has been recognised on the balance of the losses due to uncertainty over future recoverability of these losses.

6. Dividends

The dividend of 11.8 pence per ordinary share, proposed in the 2012 Annual Accounts and agreed by the shareholders at the Annual General Meeting on 23 November 2012, was paid on 5 December 2012. This has been included in Trade and Other Payables in these interim financial statements.

The directors have recommended an interim dividend of 6.9 pence per share which will be paid on 28 March 2013.

7. Earnings per share

Earnings per share for the ordinary shares are as follows:

	Unaudited six months ended 30 November 2012	Unaudited underlying six months ended 30 November 2012	Unaudited six months ended 30 November 2011	Unaudited underlying six months ended 30 November 2011	Audited underlying year ended 31 May 2012
Ordinary shares					
Basic earnings per share	**(28.42p)**	**61.54p**	30.99p	52.85p	109.00p
Diluted earnings per share	**(28.42p)**	**60.42p**	30.77p	52.47p	106.12p

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

Ordinary shares

	Unaudited six months ended 30 November 2012	Unaudited underlying six months ended 30 November 2012	Unaudited six months ended 30 November 2011	Unaudited underlying six months ended 30 November 2011	Audited underlying year ended 31 May 2012
(Loss)/profit for the period/year attributable to equity holders (£000)	**(7,752)**	**(7,752)**	8,354	8,354	29,455
Exceptional item		14,517		–	
Maltby loss		7,697		3,696	
Intangible amortisation		2,325		2,196	
Underlying (loss)/profit attributable to equity holders	**(7,752)**	**16,787**	8,354	14,246	29,455
Weighted average number of shares	**27,277,663**	**27,277,663**	26,958,611	26,958,611	27,022,535
Earnings per ordinary share	**(28.42p)**	**61.54p**	30.99p	52.85p	109.00p

The calculation of diluted earnings per share is based on the profit for the period/year and on the weighted average number of ordinary shares in issue in the period/year adjusted for the dilutive effect of the share options outstanding.

	Unaudited six months ended 30 November 2012	Unaudited underlying six months ended 30 November 2012	Unaudited six months ended 30 November 2011	Unaudited underlying six months ended 30 November 2011	Audited underlying year ended 31 May 2012
(Loss)/profit for the period/year attributable to equity holders (£000)	**(7,752)**	**(7,752)**	8,354	8,354	29,455
Exceptional Item		14,517		–	
Maltby loss		7,697		3,696	
Intangible amortisation		2,325		2,196	
Underlying (loss)/profit attributable to equity holders	**(7,752)**	**16,787**	8,354	14,246	29,455
Weighted average number of shares	**27,783,438**	**27,783,438**	27,152,763	27,152,763	27,755,029
Earnings per ordinary share	**(28.42p)**	**60.42p**	30.77p	52.47p	106.12p

Notes to the Interim Report
Continued

8. Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors, since they are responsible for strategic decisions.

	Production Unaudited 30 November 2012 £000	Energy & Commodities Unaudited 30 November 2012 £000	Transport Unaudited 30 November 2012 £000	Industrial Services Unaudited 30 November 2012 £000	Total Unaudited 30 November 2012 £000
Revenue					
Total revenue	58,195	244,628	40,009	65,239	408,071
Inter-segment revenue	(4,987)	(11,005)	(5,247)	(1,725)	(22,964)
Revenue from external customers	53,208	233,623	34,762	63,514	385,107
Segment operating (loss)/profit pre exceptional item	(4,682)	12,489	1,917	2,293	12,017
Exceptional item	–	(18,866)	–	–	(18,866)
Share of profit in jointly controlled entities	351	114	–	–	465
Net financing costs	(642)	(1,420)	(324)	(294)	(2,680)
(Loss)/profit before taxation	(4,973)	(7,683)	1,593	1,999	(9,064)

	Production Unaudited 30 November 2011 £000	Energy & Commodities Unaudited 30 November 2011 £000	Transport Unaudited 30 November 2011 £000	Industrial Services Unaudited 30 November 2011 £000	Total Unaudited 30 November 2011 £000
Revenue					
Total revenue	55,663	203,089	39,655	38,768	337,175
Inter-segment revenue	(4,255)	(4,179)	(4,654)	(1,244)	(14,332)
Revenue from external customers	51,408	198,910	35,001	37,524	322,843
Segment operating profit	1,333	11,717	2,040	1,613	16,703
Share of loss in jointly controlled entities	(9)	–	–	–	(9)
Net financing costs	(969)	(1,612)	(330)	(231)	(3,142)
Profit before taxation	355	10,105	1,710	1,382	13,552

9. Interim results

These results were approved by the Board of Directors on 27 February 2013. Copies of this interim statement will be sent to all shareholders and will be available to the public from the Group's registered office.

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