Hargreaves Services plc

Source ❯ Process ❯ Distribute

Leading the way in solid fuel supply and bulk material logistics

Interim Report for the six months ended 30 November 2011

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

The Group has four complementary Divisions:

Production Division

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

Revenue

£55.7m +10.5%

Underlying Operating Profit

£1.3m -70.8%

Energy & Commodities Division

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

Revenue

£203.1m +35.8%

Underlying Operating Profit

£12.9m +6.5%

Transport Division

provides bulk logistics to UK customers.

Revenue

£39.7m +2.9%

Underlying Operating Profit

£2.2m +2.7%

Industrial Services Division

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

Revenue

£38.8m +7.7%

Underlying Operating Profit

£2.4m +16.9%

Highlights of the Period

- The Group, as expected, is trading strongly through the first three months of the second half and remains confident of achieving our full year profit targets.
- Tower production will be coming on stream ahead of our expectations and all the 2012 output has been successfully contracted.
- Industrial Services achieved exceptional success in the steel sector with contract wins totalling in excess of £80m at three major UK steel plants.
- Energy & Commodities has successfully secured additional contracts volumes for delivery through 2012 for PCI, thermal coal, coke and pond fines.
- Maltby's first half performance reflects both the budgeted face change which was completed successfully and the impact of poor coal yields from a thin coal section which is likely to impact full year production.
- Hatfield management and sales contracts have been extended for a further two years with an option on a fourth year.

	Unaudited six months ended 30 November 2011	Unaudited six months ended 30 November 2010	Change %
Revenue	£322.8m	£253.9m	+27.1%
Operating Profit	£16.7m	£19.1m	-12.7%
Underlying Operating Profit (1)	£18.9m	£20.9m	-9.8%
Profit Before Tax	£13.6m	£16.1m	-16.1%
Underlying Profit Before Tax (2)	£15.7m	£17.9m	-12.2%
Diluted EPS	30.8p	37.2p	-17.4%
Underlying Diluted EPS (2)	38.9p	43.8p	-11.3%
Interim Dividend	6.0p	5.1p	+17.6%

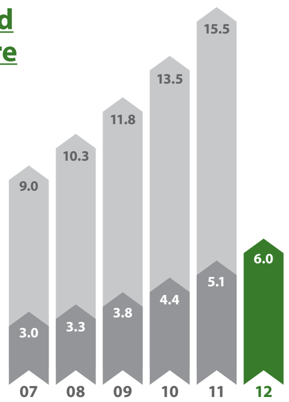
(1) Underlying operating profit is stated excluding the amortisation of acquired intangibles and including share of profit in jointly controlled entities and associates.
(2) Underlying profit before tax and underlying diluted EPS are stated excluding the amortisation of acquired intangibles.

Contents

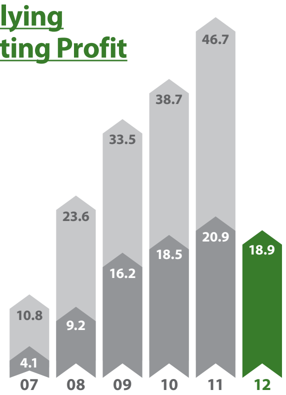
Review of the Period

Financial Statements

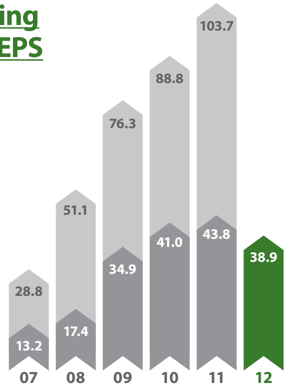
Dividend Per Share (pps)



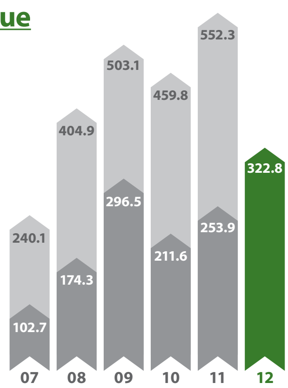
Underlying Operating Profit (£m)



Underlying Diluted EPS (pps)



Revenue (£m)



Interim Statement

"Our investment this year in developing our industrial, surface mining and energy and commodities businesses will reap significant benefits during 2012/13 and beyond."

Tim Ross, Chairman

Results

While financial performance in the first half was below that of the same period last year, the Group has performed broadly in line with management's expectations. There were three factors which, as expected, contributed to a greater weighting of trading and profits to the second half of the financial year than has previously been the case. These were the impact of the face change at Maltby, Energy & Commodities new volumes and off-take being weighted to the second half and the benefit of higher contracted prices for the Production Division flowing through from 1 January 2012.

In addition to the scheduled Maltby face change, reduced coal yield from the face has resulted in lower contribution from Maltby. This has been compensated for by strong trading at Monckton and in the Energy & Commodities division in the UK in the first half, which is expected to be maintained across the remainder of the year. The Board is pleased with the current trading and performance across the rest of the Group and is confident of achieving its second half targets.

Group revenue in the period increased by £68.9m from £253.9m to £322.8m, mainly as a result of higher commodity prices and higher shipments of coal to power stations. Underlying operating profit for the Group decreased by £2.0m or 9.8% to £18.9m due to the scheduled face change and the lower coal yields from Maltby. Profit before tax and amortisation of intangibles ("underlying profit before tax") decreased by 12.2% from £17.9m to £15.7m. Reported profit before tax decreased by 16.1% from £16.1m to £13.6m.

Trading and Business Review

Production Division

Production Division revenues increased by £5.3m from £50.4m to £55.7m due mainly to third party coke being traded through at no margin and increased coal and coke prices. Underlying operating profit decreased by £3.3m from £4.6m to £1.3m as a result of lower underground production at Maltby.

Surface Coal – Tower Project

As previously announced the final planning certificate for our Tower Colliery project was issued in December 2011 and preparation work on the site commenced earlier this month. We are pleased to confirm that coal production will commence earlier than expected in the current financial year and we still expect to be running at the full production rate by the end of the financial year.

As previously indicated, following the grant of satisfactory planning permission, the Group will be providing a cash injection of £6.0m to Tower Regeneration Limited ("TRL"), bringing the Group's total loan to the project to £9.9m. We are also making good progress to finalise a contract with TRL to manage and operate the site on a cost plus basis and expect to have this completed in the near future. This arrangement will provide the Group with a suitable return whilst minimising associated risks.

The capital expenditure necessary to bring the site to full operation is forecast at £40.0m. An £8.0m loan facility will be provided by the Group, bringing our total commitment to £17.9m to TRL, allowing them to secure the necessary asset financing.

In order to facilitate the commencement of operations, an advance of £4.0m of cash has been made into an escrow account to provide security for initial restoration obligations. The Group has provided a temporary loan to TRL to enable this deposit to be made.

We are pleased to announce that a contract to supply all of the expected thermal coal output in the first year from Tower Colliery has been signed with RWE's Aberthaw Power Station on a fixed price basis, subject to a fixed annual increase. This contract will run for three years with the option for a one year extension. The production of PCI grade coal will commence from early 2013 and we are currently in negotiations with a number of parties interested in securing the supply on a long-term basis. It is our intention to contract this volume until at least 2015 during the summer of 2012, by which time meaningful test samples will have been trialled at various steel plants.

+27.1%

**Revenue up 27.1%
from £253.9m to £322.8m**

Surface Coal – General

Following our success at Tower, as stated previously, we are going to accelerate and increase efforts to develop other surface mining sites and the Board have approved proposals to target investment at a number of identified opportunities. We would anticipate investing approximately £0.8m in this financial year and £1.0m in the following financial year. We currently have a small site of 130,000 tonnes in the planning process. In addition there are a number of pipeline opportunities and we have secured agreements with landowners at two additional sites where we expect to have planning submissions completed by the end of the next financial year.

Maltby

As we indicated in our pre-close update, production at Maltby has continued to be challenging throughout the period as the production team moved to complete the geologically challenging T15 panel. Due to the poor yield of this panel we anticipate that our targeted production will be reduced by approximately 100k tonnes in the current year. The current panel is expected to be completed in October 2012. The next panel, T125, is over 2km closer to the shaft bottom and will be 50m wider at 400m. The coal in that panel is expected to be approximately 25% thicker, which should significantly improve the yield.

At an operational level the new working practices and new face equipment are performing as expected.

We expect that our average contracted coal price will continue to improve as historical contracts are completed. The average coal price achieved at Maltby in the first half improved to £63.57 per tonne compared to last year's average of £59.75.

Monckton

Monckton has continued to perform well. The Xstrata contract concludes at the end of this calendar year and efforts are already underway to secure a new contract for that output. It is expected that this contract will be replaced with a new contract at an improved pricing level.

Energy & Commodities Division

Revenues in Energy & Commodities increased by £53.6m from £149.5m to £203.1m driven mainly by additional power station volumes and the impact of rising commodity prices.

Underlying operating profit increased by £0.8m from £12.1m to £12.9m. The fall in operating margin from 8.1% to 6.4% reflects higher commodity prices and the mix impact of having a higher proportion of lower margin sales of ESI coal under the Hatfield contract.

The UK coal trading business has remained robust during the first half and is well positioned with stocks and contracts set up to secure a strong second half. The winter in the first half was unusually mild, and while this has reduced orders in the domestic and industrial heating markets, strong order levels from other sectors, including power generation have more than compensated.

We are also pleased to announce that the off-take contract for Hatfield Colliery has been extended. The initial contract was for one year and has been extended for a further two years with an option to extend for a further year.

In Europe, coal and coke markets continued to be very nervous as the uncertainty over the Euro and the economic climate continues, with many customers deferring product take-off as long as possible and placing shorter term orders. In previous statements we have

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

	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
Segment operating profit	**1,333**	**11,717**	**2,040**	**1,613**	**16,703**
Intangible amortisation and release of negative goodwill	–	1,215	197	784	2,196
Share of loss in jointly controlled entities	(9)	–	–	–	(9)
Underlying operating profit	**1,324**	**12,932**	**2,237**	**2,397**	**18,890**

	Production Unaudited 30 November 2010 £000	Energy & Commodities Unaudited 30 November 2010 £000	Transport Unaudited 30 November 2010 £000	Industrial Services Unaudited 30 November 2010 £000	Total Unaudited 30 November 2010 £000
Segment operating profit	**4,567**	**11,326**	**1,981**	**1,267**	**19,141**
Intangible amortisation and release of negative goodwill	–	815	197	784	1,796
Share of loss in jointly controlled entities	–	–	–	–	–
Underlying operating profit	**4,567**	**12,141**	**2,178**	**2,051**	**20,937**

Interim Statement (continued)

"The Board has considered a number of potential acquisition opportunities and will continue to look at opportunities but at this moment believes the best return for shareholder investment will be achieved through our current organic growth strategy."

Gordon Banham, Group Chief Executive

highlighted our intention to start developing opportunities to supply thermal coal into Europe and PCI coals into the steel sector globally and it is pleasing to note that the European team has made progress on these objectives, securing a number of orders from new customers, including customers in the steel sector. The coal and coke to support these orders has been acquired and will be shipped over the calendar year 2012. This will result in some additional working capital at year end, but will also contribute additional margin in the following year.

As indicated in the pre-close statement, we have secured our first contract to supply thermal coal to a generator in Germany through our joint venture with the Russian coal supplier, MIR Trade AG. This coal will be supplied as a blend, being sourced by Hargreaves Belgium and MIR Trade AG. The Group expects to invest approximately £5.0m to fund its share of the joint venture. Although the margin that will be made on this is relatively low, we are hopeful that we will be able to increase the scale of this operation and in doing so create additional margin opportunities.

Transport Division

Transport revenues increased by £1.2m from £38.5m to £39.7m. Underlying operating profit remained unchanged at £2.2m.

Both the Tanker and Dry Bulk fleets delivered a solid performance in the first half. The Dry Bulk fleet looks set to slightly exceed internal forecasts for the year, reflecting good management and a market that appears to be starting to stabilise following two or three challenging years. The Tankers business continues to perform well and at this time is expected to meet its full year target.

Industrial Services Division

Industrial Services Division revenues were £38.8m in the six months to 30 November 2011, an increase of £2.8m compared to the six months to 30 November 2010. Underlying operating profit for the period was £2.4m, an increase of £0.3m on last year. Performance in the first half benefitted from the timing of major annual power station outage projects.

In the last few statements we have highlighted the intention to break into the steel sector, leveraging the skills and experience we have developed in the power station markets. We continue to be very pleased with the progress that is being made in this regard, having secured four new contracts to carry out work at three major steel plants in the UK. The largest contract is a material handling contract from Sahaviriya Steel Industries UK Limited at the Redcar steelworks on Teesside. The base value of this contract over its initial five year term will be approximately £60.0m. There is an option to extend the contract by a further five years. The other three contracts won during the first half have a base value of approximately £20.0m. We would anticipate deploying fixed and working capital of approximately £7.0m over the coming months to support these new contracts.

The consulting projects in Asia remain on plan. We are pleased with the progress and expect the first tenders later in this calendar year and will report on developments as they occur.

We continue to be excited by the prospects for the division and note that current tender opportunities exceed £60m in value in the steel sector alone.

Financial Review

Revenue

Revenue increased by £68.9m from £253.9m in the six months to 30 November 2010 to £322.8m in the six months to 30 November 2011, driven mainly by additional power station volumes, including those relating to the Hatfield off-take contract and the impact of increased commodity prices on the mineral purchases and sales in our Energy & Commodities division.

Operating Profit and Margins

Underlying operating profit decreased by £2.0m from £20.9m to £18.9m. Overall Group underlying operating profit margin decreased to 5.9% in the six months to 30 November 2011 from 8.2% for the six months to 30 November 2010. The reduction in operating margin was mainly due to the impact of rising commodity prices and the performance at Maltby.

Interest

In the six months to 30 November 2011 the net finance charge for the Group increased £0.1m from £3.0m to £3.1m. The net finance charge included amortisation of bank fees for the facility of £0.4m. Interest cover remained strong at 9.2 times.

Taxation

The tax charge for the first half is £3.7m compared with £4.6m for the six months ended 30 November 2010. This charge represents an estimated effective tax rate for the Group of 27.4%, the same effective rate as for the year ended 31 May 2011. The tax charge for the first half is assumed to be higher than the UK corporation tax rate of 26% due to disallowed costs and overseas profits taxable at a higher rate than the UK.

Earnings per Share

Reported basic earnings per share decreased from 37.9p to 31.0p. Underlying fully diluted earnings per share decreased by 11.3% from 43.8p to 38.9p. Non-controlling interest share of profits in the period increased by £0.1m to £1.5m.

Dividend

The Board has recommended an increase of 17.6% in the interim dividend from 5.1p in the comparative period to 6.0p. The dividend will be paid on 23 March 2012 to all shareholders on the register at the close of business on 2 March 2012. The dividend cover is a comfortable 5.1 times.

Net Debt

Net debt increased by £35.4m from £66.0m at 31 May 2011 to £101.4m at 30 November 2011 reflecting the normal seasonal increase in working capital.

Group net equity increased from £114.7m at 31 May 2011 to £121.2m at 30 November 2011. Gearing (measured as net debt compared to net equity) at the end of November 2011 was 84% compared with 101% at the end of November 2010.

+17.6%

Interim dividend up 17.6% from 5.1p to 6.0p

The Group's financial position remains strong with net debt at 30 November 2011 equal to 1.7 times earnings before interest, tax, depreciation and amortisation ("EBITDA"), comfortably below our maximum covenant levels. We have commenced a process of re-financing the Group's UK facilities which are due to expire in September 2012. The process is progressing well and we are pleased to note that we have strong support from our banking relationships. We will report on progress in due course.

Cash Flow
EBITDA for the six months to 30 November 2011 was £29.0m. The increase in working capital during the period was £40.9m. Average debtor days increased from 31 to 33 days due to the sales mix.

As in prior years, the Group expects working capital to decrease significantly in the second half as contract shipments are fulfilled, although an additional £10m of coke stocks relating to the purchase of a large coke batch in December 2011 to support a 12 month coke supply deal is expected to be on the books at the end of the year. These stocks are contracted to be lifted on a monthly basis during the remainder of the calendar year.

As the Group moves into new markets such as steel, and starts to deal in larger trades and contracts, the business will require greater flexibility in the absolute level of working capital utilised by the business. This is also important to maximise the benefits of our stocking yards by undertaking "carry-trades" when the forward coal price curve facilitates the forward purchase of physical stock. Although stock levels have increased we would note that stock days are only slightly increased at 60 compared to 57 at the comparative period. The Board would also note that return on both total capital and working capital remains largely in line with our expectations and historical performance. The Board remain comfortable to approve working capital investment to support these initiatives which, in its view, offer attractive returns and utilise the Group's core skills.

Net capital expenditure in the first half was £13.1m compared with £7.2m in the six months to 30 November 2010. An additional £2.0m of capital expenditure has been committed to facilitate the additional 50m face length for the next production face (T125) at Maltby.

Cash outflow in relation to acquisitions of subsidiaries totalled £2.4m in the six months to 30 November 2011, with no outflow in the comparative period. As previously announced, the Group raised its stake in its European businesses and also purchased Oxbow Coal Limited's 50% share in our joint venture, Eastgate Materials Handling Limited for the sum of £1.8m.

Tax payments of £0.7m were lower than the comparative period due to timing difference in cash payments arising from the sale and leaseback scheme undertaken in the prior year. Tax payments in the second half will revert to the normal level.

Dividend payments in the first half included £1.8m paid to minority shareholders of the European subsidiaries.

Cash generation was in line with management expectations and, as always, remains a key area of management focus.

Current Trading and Outlook
The Board is again pleased with the progress and development of the Group during the first half and confident that the strong trading that has been seen since the period end will be sustained for the balance of the year.

The commencement of operations at Tower is a very significant milestone for the Group and paves the way to develop further surface mining opportunities.

The Industrial Services Division has delivered on its promises of winning market share in the steel sector and is well placed to drive further profitable growth for the next financial year.

The Energy & Commodities division has secured its first PCI and European thermal coal orders. These sectors offer excellent prospects to grow the trading businesses.

Maltby has continued to underperform but the outlook for the mine improves significantly as contracted sales prices increase and the operation moves to the next production panel that will benefit both from thicker coal and being closer to the pit bottom. Strong performances across the rest of the divisions combined with the expectation of coal production at Tower commencing before the end of the financial year provide opportunities to offset the impact of Maltby. We will continue to manage Maltby carefully through the remainder of this current panel.

Although the economic climate remains uncertain, our strategy of selling forward our production output has insulated us from the recent falls in commodity prices. As noted previously, we take additional comfort in knowing that even current international prices of coal and coke continue to be significantly above the average of existing contracts.

The Board remains confident of achieving management's expectations for the full year.

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 November 2011

	Note	Unaudited six months ended 30 November 2011 £000	Unaudited six months ended 30 November 2010 £000	Audited year ended 31 May 2011 £000
Revenue		**322,843**	253,944	552,259
Cost of sales		**(283,612)**	(214,709)	(468,045)
Gross profit		**39,231**	39,235	84,214
Other operating income		**125**	38	469
Administrative expenses		**(22,653)**	(20,132)	(41,619)
Operating profit		**16,703**	19,141	43,064
Financial income		**62**	56	1,443
Financial expenses		**(3,204)**	(3,048)	(7,602)
Share of (loss)/profit of jointly controlled entities (net of tax)		**(9)**	–	23
Profit before tax		**13,552**	16,149	36,928
Income tax expense	4	**(3,707)**	(4,582)	(10,108)
Profit for the period/year		**9,845**	11,567	26,820
Other comprehensive income				
Foreign exchange translation differences		**(205)**	(431)	705
Effective portion of changes in fair value of cash flow hedges		**3,891**	(2,221)	(1,418)
Actuarial gains on defined benefit pension plans		**–**	–	891
Tax recognised on other comprehensive income		**(1,011)**	621	17
Other comprehensive income for the period, net of tax		**2,675**	(2,031)	195
Total comprehensive income for the period/year		**12,520**	9,536	27,015
Profit attributable to:				
Equity holders of the company		**8,354**	10,150	24,600
Non-controlling interest		**1,491**	1,417	2,220
Profit for the period/year		**9,845**	11,567	26,820
Total comprehensive income for the period attributable to:				
Equity holders of the company		**11,035**	8,193	24,671
Non-controlling interest		**1,485**	1,343	2,344
Total comprehensive income for the period/year		**12,520**	9,536	27,015
Basic earnings per share (pence)	6	**30.99**	37.94	91.85
Diluted earnings per share (pence)	6	**30.77**	37.23	90.50

Condensed Consolidated Balance Sheet

as at 30 November 2011

	Unaudited 30 November 2011 £000	Unaudited 30 November 2010 £000	Audited 31 May 2011 £000
Non-current assets			
Property, plant and equipment	**90,964**	84,424	87,120
Intangible assets	**31,470**	32,814	31,616
Investments in jointly controlled entities	**34**	–	–
	122,468	117,238	118,736
Current assets			
Inventories	**128,899**	84,380	105,944
Derivative financial instruments	**1,980**	147	266
Trade and other receivables	**85,936**	86,435	66,072
Cash and cash equivalents	**21,424**	11,199	17,243
	238,239	182,161	189,525
Total assets	**360,707**	299,399	308,261
Non-current liabilities			
Other interest-bearing loans and borrowings	**(8,637)**	(81,144)	(51,190)
Retirement benefit obligations	**(3,406)**	(5,676)	(3,886)
Provisions	**(9,151)**	(8,801)	(8,815)
Derivative financial instruments	**(230)**	(188)	(168)
Deferred tax liabilities	**(4,902)**	(5,144)	(3,883)
	(26,326)	(100,953)	(67,942)
Current liabilities			
Bank overdraft	**(38,766)**	(21,963)	(23,994)
Other interest-bearing loans and borrowings	**(75,448)**	(7,729)	(8,059)
Trade and other payables	**(83,833)**	(61,363)	(79,205)
Income tax liabilities	**(14,778)**	(5,735)	(11,788)
Derivative financial instruments	**(308)**	(3,389)	(2,623)
	(213,133)	(100,179)	(125,669)
Total liabilities	**(239,459)**	(201,132)	(193,611)
Net assets	**121,248**	98,267	114,650
Equity attributable to equity holders of the parent			
Share capital	**2,709**	2,680	2,683
Share premium	**32,103**	31,422	31,490
Other reserves	**211**	211	211
Translation reserve	**351**	(388)	550
Merger reserve	**1,022**	1,022	1,022
Hedging reserve	**1,121**	(2,290)	(1,759)
Capital redemption reserve	**1,530**	1,530	1,530
Retained earnings	**80,104**	59,984	74,158
	119,151	94,171	109,885
Non-controlling interest	**2,097**	4,096	4,765
Total equity	**121,248**	98,267	114,650

Consolidated Statement of Changes in Equity
for the six months ended 30 November 2011

	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 2011	2,683	31,490	550	(1,759)	211	1,530	1,022	74,158	109,885	4,765	114,650
Total comprehensive income for the period											
Profit for the period	–	–	–	–	–	–	–	8,354	8,354	1,491	9,845
Other comprehensive income											
Foreign exchange translation differences	–	–	(199)	–	–	–	–	–	(199)	(6)	(205)
Effective portion of changes in fair value of cash flow hedges	–	–	–	3,891	–	–	–	–	3,891	–	3,891
Tax recognised on other comprehensive income	–	–	–	(1,011)	–	–	–	–	(1,011)	–	(1,011)
Total other comprehensive income	–	–	(199)	2,880	–	–	–	–	2,681	(6)	2,675
Total comprehensive income for the period	–	–	(199)	2,880	–	–	–	8,354	11,035	1,485	12,520
Transactions with owners recorded directly in equity											
Issue of shares	26	613	–	–	–	–	–	–	639	–	639
Equity settled share-based payment transactions	–	–	–	–	–	–	–	611	611	–	611
Dividends	–	–	–	–	–	–	–	(2,804)	(2,804)	(3,784)	(6,588)
Total contributions by and distributions to owners	26	613	–	–	–	–	–	(2,193)	(1,554)	(3,784)	(5,338)
Changes in ownership interests											
Acquisition of non-controlling interest without a change in control	–	–	–	–	–	–	–	(215)	(215)	(369)	(584)
Total transactions with owners	26	613	–	–	–	–	–	(2,408)	(1,769)	(4,153)	(5,922)
Balance at 30 November 2011	2,709	32,103	351	1,121	211	1,530	1,022	80,104	119,151	2,097	121,248

Condensed Consolidated Cash Flow Statement

for the six months ended 30 November 2011

	Unaudited six months ended 30 November 2011 £000	Unaudited six months ended 30 November 2010 £000	Audited year ended 31 May 2011 £000
Cash flows from operating activities			
Profit for the period	**9,845**	11,567	26,820
Adjustments for:			
Depreciation	**9,629**	8,391	17,120
Amortisation of intangible assets	**2,196**	1,796	3,592
Net finance expense	**3,142**	2,992	6,159
Share of loss/(profit) of jointly controlled entities	**9**	–	(23)
Profit on sale of property, plant and equipment	**(125)**	(38)	(469)
Equity settled share-based payment expenses	**611**	459	1,067
Income tax expense	**3,707**	4,582	10,108
Translation of non-controlling interest	**(6)**	(74)	124
	29,008	29,675	64,498
Change in inventories	**(23,700)**	(2,941)	(22,936)
Change in trade and other receivables	**(20,173)**	(24,417)	(5,540)
Change in trade and other payables	**3,138**	1,985	21,248
Change in provisions and employee benefits	**(144)**	(686)	(1,732)
	(11,871)	3,616	55,538
Interest paid	**(3,217)**	(2,975)	(6,083)
Income tax paid	**(710)**	(3,395)	(4,732)
Net cash from operating activities	**(15,798)**	(2,754)	44,723
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**652**	265	1,452
Acquisition of subsidiaries, net of cash acquired	**(2,437)**	–	(730)
Acquisition of property, plant and equipment	**(5,965)**	(4,383)	(12,777)
Acquisition of other investments	**–**	–	(44)
Net cash from investing activities	**(7,750)**	(4,118)	(12,099)
Cash flows from financing activities			
Proceeds from issue of share capital	**639**	1,013	1,084
(Repayment of)/proceeds from pre-lease creditor	**(1,593)**	–	1,593
Issue of loan	**(2,680)**	–	–
Payment of finance lease liabilities	**(4,642)**	(5,349)	(10,068)
Proceeds from/(repayment of) invoice discounting facility	**4,545**	(327)	(9,827)
Dividends paid	**(4,598)**	(2,438)	(3,892)
Proceeds from promissory notes	**5,067**	–	–
Proceeds from revolving credit facility	**16,000**	10,144	(10,857)
Net cash from financing activities	**12,738**	3,043	(31,967)
Net (decrease)/increase in cash and cash equivalents	**(10,810)**	(3,829)	657
Cash and cash equivalents at the start of the period/year	**(6,751)**	(7,206)	(7,206)
Effect of exchange rate fluctuations on cash held	**219**	271	(202)
Cash and cash equivalents at the end of the period/year	**(17,342)**	(10,764)	(6,751)

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 2011 and the comparative figures for the six months ended 30 November 2010 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 2011.

2 Accounting policies

The accounting policies applied in preparing these interim financial statements, other than those noted below, are the same as those applied in the preparation of the annual financial statements for the year ended 31 May 2011, as described in those financial statements. From 1 June 2011 the following standards, amendments and interpretations endorsed by the EU became effective and were adopted by the Group:

- Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement';
- Revised IAS 24 'Related Party Disclosures' (revised 2009); and
- Improvements to IFRS's (issued May 2010).

The adoption of the above has not had a significant impact on the Group's interim financial statements.

3 Status of financial information

The comparative figures for the financial year ended 31 May 2011 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 Taxation

Taxation is based on the estimated effective rate for each year as a whole, including deferred tax.

5 Dividends

The dividend of 10.4 pence per ordinary share, proposed in the 2011 Annual Accounts, agreed by the shareholders at the Annual General Meeting on 7 November 2011 and paid on 16 November 2011, has been charged to reserves in these interim financial statements.

The directors have recommended an interim dividend of 6.0 pence per share which will be paid on 23 March 2012.

6 Earnings per share

Earnings per share for the ordinary shares are as follows:

	Unaudited six months ended 30 November 2011	Unaudited six months ended 30 November 2010	Audited year ended 31 May 2011
Ordinary shares			
Basic earnings per share	**30.99p**	37.94p	91.85p
Diluted earnings per share	**30.77p**	37.23p	90.50p

The calculation of earnings per share is based on the 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 2011	Unaudited six months ended 30 November 2010	Audited year ended 31 May 2011
Profit for the period/year attributable to equity holders (£000)	**8,354**	10,150	24,600
Weighted average number of shares	**26,958,611**	26,750,140	26,782,240
Earnings per ordinary share (pence)	**30.99**	37.94	91.85

6 Earnings per share (continued)

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 2011	Unaudited six months ended 30 November 2010	Audited year ended 31 May 2011
Profit for the period/year attributable to equity holders (£000)	**8,354**	10,150	24,600
Weighted average number of shares	**27,152,763**	27,260,276	27,181,904
Diluted earnings per ordinary share (pence)	**30.77**	37.23	90.50

7 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 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
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

	Production Unaudited 30 November 2010 £000	Energy & Commodities Unaudited 30 November 2010 £000	Transport Unaudited 30 November 2010 £000	Industrial Unaudited 30 November 2010 £000	Total Unaudited 30 November 2010 £000
Revenue					
Total revenue	50,360	149,536	38,525	35,998	274,419
Inter-segment revenue	(8,818)	(4,971)	(5,313)	(1,373)	(20,475)
Revenue from external customers	41,542	144,565	33,212	34,625	253,944
Segment operating profit	4,567	11,326	1,981	1,267	19,141
Share of loss in jointly controlled entities	–	–	–	–	–
Net financing costs	(1,230)	(1,048)	(390)	(324)	(2,992)
Profit before taxation	3,337	10,278	1,591	943	16,149

8 Interim results

These results were approved by the Board of Directors on 14 February 2012. Copies of this interim statement will be sent to all shareholders and will be available to the public from the Group's registered office.

Investor Information

Company Secretary
Steve MacQuarrie

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

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

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

Nominated Adviser and Joint Stock Broker
N+1 Brewin
34 Lisbon Street
Leeds
LS1 4LX

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

Registered Office
West Terrace
Esh Winning
Durham
DH7 9PT

Registrar
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

> For more information

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

MIX
Paper from
responsible sources
FSC® C008886

Printed on Arctic Volume White (Matt).
Arctic Volume White (Matt) is an FSC-recognised paper, produced from well-managed forests. This publication was printed with vegetable oil-based inks by an FSC-recognised printer that holds an ISO 14001 certification.

Designed and produced by **Emperor Design Consultants Ltd**
Tel **+44 (0)131 220 7990 www.emperordesign.co.uk**

Hargreaves Services plc

Hargreaves Services plc
West Terrace
Esh Winning
Durham DH7 9PT
Tel: 0191 373 4485
Fax: 0191 373 3777

www.hargreavesservices.co.uk