

Harworth Group plc

Annual Report and Accounts 2015

Formerly Coalfield Resources plc



Transforming | Regenerating | Revitalising

Strategic overview

In its first year under its simplified corporate structure, Harworth has made significant progress in positioning itself for long-term success.

Harworth Group specialises in the regeneration of former coalfield and other brownfield land into employment areas, new residential development and low carbon energy projects.

Business segments

Harworth operates its business through two separate but related segments:

- **Capital Growth** focuses on maximising value by developing the property portfolio, and includes planning and development activity, value engineering, proactive asset management and strategic land acquisitions, including putting in the necessary infrastructure and then bringing these sites to market; and
- **Income Generation** focuses on retaining selected land and property assets to generate growth and a long-term recurring income stream across the areas of business space, natural resources and the operations of recycling coal fines and aggregates during site remediation.

Vision

To be the leading brownfield regeneration company in the North of England and the Midlands, delivering superior returns to shareholders by providing innovative and sustainable solutions to customers.

Strategy

To promote, develop and utilise our existing property portfolio, in addition to replenishing our asset base with attractive investment opportunities, to enhance net asset value. To maintain an appropriately geared and well capitalised business which grows with employees through its established and improving stakeholder relations to achieve outperformance.

Contents

Strategic report

- 2 Performance highlights and key performance indicators
- 3 Chairman's statement
- 5 Chief Executive's review and operational report
- 7 Financial review
- 11 Strategic report

Corporate governance

- 24 Governance reports
- 25 Corporate governance statement
- 29 Report of the Nomination Committee
- 30 Directors' report on remuneration
- 46 Report of the Audit Committee
- 49 Directors' report
- 54 Directors' biographies
- 55 Directors' responsibility statement

Financial statements and shareholder information

- 56 Independent auditor's report
- 62 Financial statements
- 67 Notes to the financial statements
- 96 Company information and advisers

Waverley



Performance highlights and key performance indicators

Financial highlights¹

Strong 2015 financial performance, with reported profits ahead of expectations.

- Net asset value of £297.7m
- Profit before tax of £77.6m, including the £44.2m gain arising from the successful acquisition of the remaining 75.1% of Harworth Estates Property Group Limited
- Earnings per share of 3.1p (2014: 0.6p)
- Final dividend of 0.051p per share (£1.5m in total) announced, in line with the dividend policy.

Robust underlying² financial performance.

- Significant growth in net asset value to 10.2p per share (2014: 8.6p)
- EPRA net asset value per share rose to 10.6p per share (2014: 8.8p)
- Value gains through profit on disposal and asset revaluation of £40.4m (2014: £23.6m)
- Substantial increase in profit from operations to £2.1m (2014: £0.8m).

Operational and strategic highlights

Exploiting portfolio opportunities by optimising land use and securing planning consents.

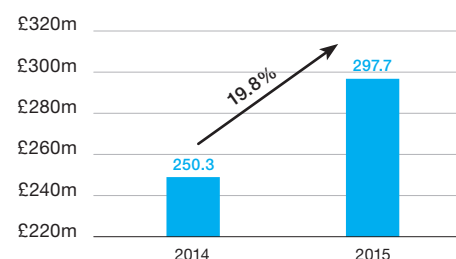
- Over 2,000 residential planning permission consents (granted or resolution to grant) secured
- Commercial sales of c.£18m at Logistics North and development management agreement with M&G signed
- Further progress with recurring income with nearly £1m of new and renewed leases and 21MW of renewable energy installed with more than 30MW to come on stream in 2016.

Expect momentum gathered in 2015 to be maintained through 2016.

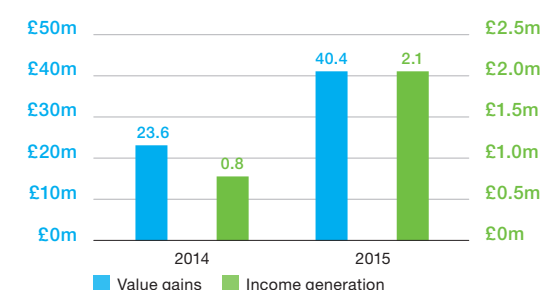
- c.£20m of acquisitions made in 2015, which have already increased in value
- Low level of loan to value (18.8%), giving financial flexibility to invest in the portfolio
- Focus on a select number of brownfield sites with higher value enhancement potential
- Acceleration of sales and investment in the portfolio, with further acquisitions expected from 2016 onwards.

Key performance indicators

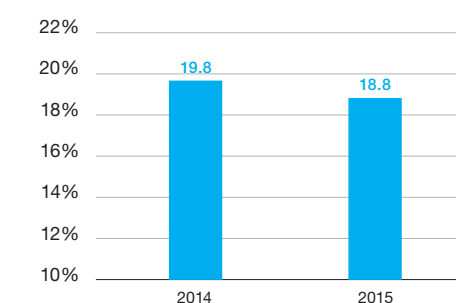
Net asset value²



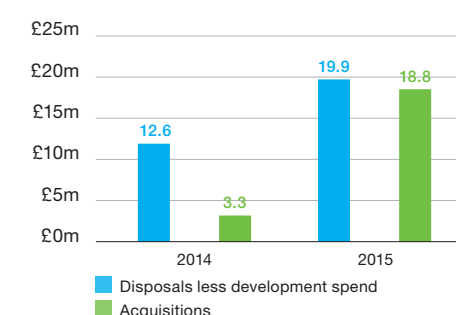
Value gains and income generation²



Gross loan to value²



Cash spend – Disposals less development spend and Acquisitions



¹ The 'Financial Highlights' include the effects of accounting for the acquisition of the 75.1% of shares in HEPGL on 24 March 2015, from which date the results of HEPGL were fully consolidated into the Group financial statements. Prior to this date, the results of HEPGL were included in the Group income statements as a share of profit of associate.

² The 'Underlying Financial Performance' shows the key results of the Group and its subsidiaries for the year to 31 December 2015, together with the results from the comparative prior-year period. Both sets of figures assume that HEPGL had been 100% owned during each year.

Chairman's statement



Jonson Cox
Chairman

I am pleased to report on the first financial year end of the renamed and reconstituted Harworth Group plc. The progress made by the Group during the period exceeded expectations and further built on the successful first half of the year.

Acquisition

In March 2015, Coalfield Resources plc, as the Group was then known, acquired the remaining 75.1 percent of the shares in Harworth Estates Property Group Limited that it did not already own from the Pension Protection Fund for an aggregate consideration of £150m. Upon completion of this acquisition Coalfield Resources plc changed its name to Harworth Group plc to reflect the change to the Group's underlying operations.

Financial results

Our 2015 results provide clear evidence that the acquisition was a value enhancing course of action for the Group. The strength of the Group is most accurately reflected in the balance sheet with net assets at the end of the year of £297.7m (2014: £58.7m). This increase, of course, reflects the acquisition of HEPGL but on a like-for-like basis the movement in the year would have been £47.4m, reflecting the strong value gains achieved from the portfolio.

Over the course of the year, both our Income Generation and Capital Growth segments delivered strong performances. Revenue from operations grew to £13.2m (2014: £1.5m). Profit before tax amounted to £77.6m (2014: £3.5m).

The acquisition and fundraising of March 2015 did have a one-off consequence on our results for the year with profit before tax increasing by the 'gain on bargain purchase' of £44.2m. This was highlighted in our half year statement released in August 2015. The accounting gain, which we are required to recognise in our accounts, arises from the difference between the fair value of the assets acquired against the consideration paid.

On an underlying basis, operating profit increased to £2.1m (2014: £0.8m). The gains in value from disposals and revaluation significantly exceeded expectations with total value gains of £40.4m (2014: £23.6m). This resulted in an operating profit, before exceptional items, of £42.6m (2014: £24.4m).

Dividend

At the time of the acquisition of HEPGL, the Board noted its intention to restore the payment of dividends to shareholders at an initial level of £2m on an annualised basis with a pro-rata dividend of £1.5m for 2015 at a rate of 0.051p per share (2014: £nil). The dividend is contingent on the successful completion of the process described below.

Following several years of losses and a very complicated restructuring, the Board recognises that the availability of distributable reserves in the current balance sheet may not be sufficient to pay the current proposed or any future dividends. A resolution will therefore be proposed at the Group's forthcoming AGM in April 2016 for a reduction of capital to facilitate the payment of dividends with the result that for this year the dividend will not be paid until September.

As detailed in the prospectus for the acquisition, it is the Board's intention to adopt a dividend policy which has due regard to sustainable levels of dividend cover and reflects the Directors' view on the outlook for sustainable earnings. The Board aims to grow the dividend broadly in line with earnings. Dividends will be paid from profits arising out of recurring income and from realised gains made from the sale of property. The Board will not distribute unrealised gains recognised on revaluation of property and will retain a proportion of its recurring income and realised gains for reinvestment into the property portfolio.

Share consolidation

The Board recognises that the large number of shares in issue with a nominal value of 1p per share is not practicable for the Group nor for investors. A resolution will be proposed as special business at the AGM for a share consolidation. This will propose that one new ordinary share of 10p is issued in replacement for every 10 existing ordinary shares of 1p (10:1 consolidation). Further details will be included in the notice of meeting to be sent to shareholders in late March 2016.

Incentive plans

Following the reconstitution of Harworth, the Board proposes a new Long Term Incentive Plan ('LTIP') to align key executives with shareholders. The LTIP will

Chairman's statement

continued



Torne Park

be subject to stretching performance conditions and measured over no less than a three-year period. Full details of the LTIP will be included in the Notice of Meeting for this year's AGM.

Board changes

On the acquisition of HEPGL, Owen Michaelson (CEO), Michael Richardson (FD), Anthony Donnelly and Martyn Bowes (NEDs) joined the Group Board. Jeremy Hague, the former Finance Director of Coalfield Resources plc, stepped down shortly after the completion of the acquisition. At the Interim Results, we also announced that Mike Richardson had chosen to step down from the Board following the release of the results for 2015. I thank Mike and Jeremy for their contribution in bringing the businesses together. Andrew Kirkman joined us on 1 January 2016 as FD and is already making a strong contribution to the Board.

Peter Hickson has decided to retire from the Board and therefore will not be seeking re-election at the AGM. Peter joined the then UK Coal as Senior Independent Director and Chairman of the remuneration committee to help us lead the restructuring of the Group and navigate our way to today's very focussed business. We would all like to thank Peter for his unwavering support and wide-ranging counsel. Lisa Clement will take the position of Senior Independent Director. A search is on-going for one additional independent Director.

Finally, Geoff Mason who originally joined as Company Secretary in the summer of 2012 to facilitate the restructuring that year and re-joined in the summer of 2014 to help deliver the acquisition of HEPGL, will also step down following the AGM. I thank Geoff too for his support and advice through challenging events. His successor will be announced in due course.

Our people

We have a small team of some fifty dedicated people many of whom have stayed the course with us through the last five years to create the business we have today. I thank them all for their contribution.

Outlook

The equity fundraising in March 2015 has provided additional capital and simplified the ownership structure, as well as improving access to new capital in the future. Our objective is to deliver value to shareholders over the medium term by being well positioned to pursue new growth opportunities in the redevelopment of brownfield land and to accelerate the execution of existing investment opportunities.

Jonson Cox

Chairman
31 March 2016

Chief Executive's review and operational report



Owen Michaelson
Chief Executive Officer

During the year, we successfully built on the growth momentum established in the first half of the year, to deliver full year results with reported profits ahead of expectations. Both the Capital Growth and Income Generation segments continued to build on the inherent value in the property portfolio and the strength and experience of the in-house teams.

The strategic focus for the business continues to lie in both the generation of income to meet the operating costs of the business but more importantly in the growth of net asset value in our landholdings. Our core skill is to create a strategic vision and planning for brownfield sites which, when brought to market with planning permission for housing or industry, or indeed with speculative build commercial units, creates value. The strategic imperative for the business is therefore to continue the pipeline of value growth and to replenish the portfolio with further former industrial land.

During the year, demand for new houses within our regions remained strong, which was reflected in our rate of sale achieved by our housebuilding partners. In addition, there remains an undersupply of new commercial properties coming to market, particularly those under 100,000 sq. ft. We do not expect this to change in the immediate future. While a lack of a clear national energy policy, as demonstrated by the changes in renewable incentives during the year, is unhelpful, it is manageable and we continue to monitor subsidy mechanisms.

The location of our business, which is essentially in the former mining areas of central and northern England, provides an obvious synergy with the Government's plans for a Northern Powerhouse. This is a useful concept in supporting our ambitions and the associated investment in new infrastructure to support growth is strongly welcomed.

Capital Growth

The Capital Growth segment of the business focuses on delivering value by developing the underlying portfolio, and includes planning and development activity, value engineering, proactive asset management and strategic land acquisitions. During the year, outline planning consents were granted for an additional 1,454 residential plots, together with resolutions to grant a further 570 plots, bringing the total number of consented residential plots in the portfolio to 10,308. These outline planning consents were geographically well spread, including in Yorkshire (Flass Lane,

560 plots), the North East (Ellington, 400 plots) and the Midlands (Gedling, 150 plots).

We plan the disposals of properties carefully to extract maximum value from our land portfolio with gains achieved over book value on all major sites. The cash realised is used for reinvestment. A total of 645 plots were sold for residential uses, on eight major development sites, to national and regional housebuilders. The average price per plot achieved was c.£36,000.

Planning consent was also granted for 198,000 sq. ft of commercial development at Gateway 36, near Barnsley, at the site of the former Rockingham Colliery. Development funding from Sheffield City Region has been utilised to undertake the construction of 65,000 sq. ft across three pre-let commercial units, which commenced in April 2015 and completed in January 2016.

Disposals for commercial use in 2015 were underpinned by three large plot sales at Logistics North, reflecting its position as an important manufacturing and logistics hub for the north of England. Joy Global, the global mining services company, purchased 8.3 acres in June, whilst Exeter Property Group purchased 18.3 acres in September.

In December 2015, a development funding agreement was signed with M&G Real Estate whereby it purchased 20.45 acres to construct 400,000 sq. ft of prime commercial space and we agreed to undertake the construction and development management. This deal reflects the strength of the North West logistics sector as well as the capabilities of the Group.

In response to improving sales prospects, capital investment at Logistics North and at the Advanced Manufacturing Park in Rotherham has been brought forward, ensuring that there is land available for immediate occupation on the next phases of these developments. This strategic infrastructure investment also delivers multiple sale points thereby diversifying risk across the portfolio.

Income Generation

The Income Generation segment of the business focuses on generating rental returns from the business park portfolio, rental returns and royalties from energy generation, environmental technologies and the agricultural portfolio, and income generating streams from recycled aggregates and secondary coal products.

Chief Executive's review and operational report

continued

Strong progress was made on renewables in 2015, with a total of 52.4MW of capacity now installed on our land as a result of 21.2MW of capacity being energised in the year. Whilst further schemes are in the pipeline for 2016, Government changes to renewables subsidies in the second half of 2015 has rendered some pipeline solar projects unviable currently, or resulted in some developers dropping projects if they could not be connected to the grid by 31 March 2016. We continue to monitor subsidy mechanisms and the cost of solar panel installation to see when these mothballed sites will become viable again.

We also made further progress with income generation from our Business Parks, with 30 new and renewed commercial lettings signed in 2015 with an annualised rent roll of £0.9m. The largest of these was to Barnsley Metropolitan Borough Council at Gateway 36. Practical completion of this project was achieved on 29 January 2016. Other new tenancies included Network Rail, Amec Foster Wheeler and Siniat Limited.

Rental income in 2015, on an underlying basis, was over £3.2m (2014: £2.8m) and is expected to increase further in 2016 as a result of the new leases signed. The weighted average unexpired lease term across the Business Parks is 8.3 years.

As we anticipated, and planned for, the market for coal fines will reduce over the next few years as a result of plant closures and the Government's announced policy that all coal-fired plants will be shut by 2025. This revenue stream will decrease over the next few years but we are intending to replace it by further income from renewable energy projects and rental income from Business Parks.

Acquisitions

An important aspect of our strategy is to replenish our strategic land portfolio. In 2015, six acquisitions were made, four of which were significant and three of which are worth commenting upon here. The first acquisition was that of the former Alcan smelter site at Lynemouth, Northumberland, which completed in April 2015. This 320 acre brownfield site will be developed for commercial usage including the retention of several existing units to lease.

The 41 acre Sinfin Lane Industrial Park in Derby was purchased in September 2015, comprising an existing 471,500 sq. ft of commercial space and

a further six acres for future housing development. The £6.95m acquisition cost represented a 9% yield on passing rent.

The final acquisition of the year was that of the 112 acre former McCormick Tractor site in Doncaster, which already benefits from an outline planning consent for 800 new homes, 200,000 sq. ft of commercial space and a variety of other uses. The existing masterplan for the site will now be refreshed and promoted as a major mixed-use development later this year.

Market outlook

We continue to see solid interest in the property sector in our core regions and we are optimistic that we can benefit from this, through improved prices for well-located commercial land and steady sales for residential land within our regions. As usual, however, we would anticipate property sales to be second half weighted.

As stated, a key aspect of our strategy is replenishing our portfolio and we will seek to continue to do this throughout 2016. Our focus remains on larger, mainly former industrial, sites in the Midlands and the North of England, where our core skill set lies, and where we believe there is significant enhancement potential.

In addition, we will continue with our stated strategy of exploiting portfolio opportunities by optimising land use and securing planning consents on key sites. We do approach this with a renewed focus however, which will concentrate on a smaller number of brownfield sites with greater enhancement potential. Lower value sites, mainly agricultural land, with little development potential will be sold freeing up management time to concentrate on our larger, more value enhancing sites.

With growth momentum now established, and by drawing on the financial and managerial resources available within the business, we anticipate a larger number of sales with increased development spend in 2016, plus further acquisitions. We are confident in our ability to deliver and grow shareholder value and our start to 2016 has been positive.

Owen Michaelson

Chief Executive Officer
31 March 2016

Financial review



Andrew Kirkman
Finance Director

The Group achieved excellent results in the financial year with both our Income Generation and Capital Growth segments delivering strong performances. Revenue from operations grew to £13.2m (2014: £1.5m) and profit before tax, including the gain on bargain purchase, amounted to £77.6m (2014: £3.5m). As described below, the re-acquisition of 75.1% of the shares in HEPGL resulted in complicated financial results for the year and comparatives. Consequently, our results are set-out below on both a statutory and underlying basis.

The acquisition and fundraising of March 2015 did have a one-off consequence on our results for the year with profit before tax increasing by the gain on bargain purchase of £44.2m. This was highlighted in our half year statement released in August 2015. The accounting gain arises from the difference between the fair value of the assets acquired against the consideration paid.

Reflecting the acquisition of HEPGL, net assets at the year-end were £297.7m (2014: £58.7m). On a like for like basis, net assets increased £47.4m on the prior year, reflecting the strong value gains achieved from the portfolio.

Operating results

The Group's operating profit, excluding exceptional items, was £37.1m (2014: £nil). This included valuation gains of £24.1m (2014: £nil) and profits from disposals of investment properties and options of £11.4m (2014: £nil). Within the profits from disposal, there was a gain of £3.2m (2014: £nil) in the first half of the year from the surrender of an option on the Chevington wind farm project (Peel Wind Farms (Blue Sky Forest) Limited).

The Group's operating profit, before exceptional items, is reconciled to the underlying operating performance for the year to 31 December 2015 as follows:

| | Harworth Group plc underlying £m | Harworth Group plc underlying Pre- acquisition £m | Fair value adjustments £m | Harworth Group plc £m |
|--|---|--|---------------------------------|-----------------------------|
| Profit from operations | 2.1 | (0.3) | (0.3) | 1.5 |
| Valuation gain | 28.9 | (4.8) | – | 24.1 |
| Profit from disposals | 11.5 | (0.1) | – | 11.4 |
| Pension credit | 0.1 | – | – | 0.1 |
| Operating profit, before exceptionals | 42.6 | (5.2) | (0.3) | 37.1 |

In the year, there were exceptional items of £2.9m comprising £2.4m of transaction costs related to the acquisition of HEPGL and a £0.5m impairment of the joint venture investment. Operating profit after exceptional items for the year was £34.2m (2014: £nil).

Underlying Harworth Group plc operating performance

| | Capital Growth £m | Income Generation £m | Central overheads £m | 2015 Total £m | 2014 Total £m |
|--|-------------------------|----------------------------|----------------------------|---------------------|---------------------|
| Profit from operations | (1.9) | 8.4 | (4.4) | 2.1 | 0.8 |
| Valuation gain | 18.4 | 10.5 | – | 28.9 | 15.7 |
| Profit from disposals | 7.3 | 4.2 | – | 11.5 | 7.9 |
| Pension credit | – | – | 0.1 | 0.1 | – |
| Operating profit, before exceptionals | 23.8 | 23.1 | (4.3) | 42.6 | 24.4 |

Financial review

continued

The underlying profit from operations amounted to £2.1m (2014: £0.8m). The Group recorded revenues of £16.7m (2014: £13.9m) comprising rental and royalty income together with the sales of coal fines and salvage. Cost of sales were £7.8m (2014: £5.2m) reflecting increased activity. Total overheads, which include the overhead costs of the Capital Growth and Income Generation segments and central costs, amounted to £6.8m (2014: £8.0m). Central costs were lower than the prior year due to the synergies of combining the Group and HEPGL offices and lower professional fees.

Revenues and cost of sales in the year both included £1.3m of amounts in respect of contract work performed at the end of the year relating to the M&G construction contract at Logistics North. Further amounts for revenue and cost of sales will be recognised in 2016 and profit will be recognised when certain milestones have been achieved.

Valuation gains in the year, both pre and post-acquisition, are set out in the table below:

| | Pre-acquisition £m | Post-acquisition £m | Total £m |
|--------------------|-----------------------|------------------------|-------------|
| Major developments | 0.3 | 15.1 | 15.4 |
| Business parks | 0.9 | 5.7 | 6.6 |
| Strategic land | 3.6 | (0.6) | 3.0 |
| Agricultural land | – | 2.5 | 2.5 |
| Natural resources | – | 1.4 | 1.4 |
| Total | 4.8 | 24.1 | 28.9 |

The valuation gains in the year across the divisions were:

- **Major developments** – Ongoing progress with planning consents, cost engineering and proven sales evidence;
- **Business parks** – Up-lifts at Asfordby and Gascoigne driven by new and renewed rentals along with progress at Gateway 36;
- **Strategic land** – Planning consents at Gedling and Flass Lane, offset by acquisition costs;
- **Agricultural land** – Uplifts reflect evidence from surplus land sales and aftercare advances; and
- **Natural resources** – Progress with solar and wind projects.

In the first half of the year, Harworth relinquished an option to purchase 50% of the share capital of Peel Wind Farms (Blue Sky Forest) Limited in return for a consideration of £4.4m. Profits from disposals of investment property and the above mentioned option amounted to £11.5m (2014: £7.9m).

The proceeds from disposals were £51.1m, of which £23.2m was for residential development, £18.4m for commercial development, £4.4m for the relinquished Peel Wind Farms option and £5.1m for other sundry disposals. All material disposals achieved a gain over book value.

The resulting underlying operating profit for the Group, before exceptionals, was £42.6m (2014: £24.4m).

Firm Placing and Placing and Open Offer

The acquisition of HEPGL in March 2015 was funded by a Firm Placing and Placing and Open Offer, which raised gross proceeds of approximately £115.0m. This was achieved through the issue of, in aggregate, 1,586,566,912 new ordinary shares of 1p. As at 31 December 2015, including the 730,674,465 shares issued to the Pension Protection Fund for the acquisition, the Group had a total of 2,922,697,857 Ordinary Shares in issue.

Net assets

| | 31 December 2015 £m | 31 December 2014 £m |
|--|---------------------------|---------------------------|
| Harworth Group plc | | |
| Investment properties (including assets held for sale) | 343.7 | – |
| Other investments | 0.8 | – |
| 24.9% share in HEPGL, up to 24 March 2015 | – | 56.9 |
| Carrying value of investments | 344.5 | 56.9 |
| Other assets and liabilities | (46.8) | 1.8 |
| Net assets | 297.7 | 58.7 |
| Number of shares in issue | 2,922,697,857 | 605,456,480 |
| Net assets per share | 10.2p | 9.7p |
| HEPGL | | |
| Investment properties | 343.7 | 289.6 |
| Other asset and liabilities | (59.7) | (41.0) |
| Net assets | 284.0 | 248.6 |
| Coalfield Resources plc | | |
| Cash | | 2.3 |
| Other net liabilities | | (0.6) |
| Net assets (excluding the investment in HEPGL) | | 1.7 |
| Underlying Harworth Group | | 250.3 |

Net assets increased to £297.7m at 31 December 2015 from £250.3m at 31 December 2014 as a result of a combination of the operating profit, before pension credit, of £42.5m and the cash raised on placing after acquisition of £15.1m less interest costs of £3.0m, tax of £4.5m and other movements, including transaction fees, of £2.7m. All figures are on an underlying basis.

Funding strategy

On 13 February 2015, HEPGL entered into a £65m, 5-year term, non-amortising, revolving credit facility with The Royal Bank of Scotland, replacing amortising facilities with the Lloyds Banking Group and Barclays Bank. This new facility provides the stability and flexibility to support the growth of the Group. Infrastructure funding, provided by public bodies to promote the development of major sites for employment and housing needs, continues to feature in our funding strategy. The latest such transaction was the use of a Sheffield City Region JESSICA fund loan to construct three units at Gateway 36, described in the Chief Executive's Review and Operational Report.

Going forward, the Group intends to maintain the positive momentum created by using disposal proceeds, particularly as it focuses the portfolio on brownfield sites with greater enhancement potential, to fund investment spend on developments and further acquisitions to replenish the portfolio. The Group's gearing of 18.8% loan to value at 31 December 2015 also gives flexibility to invest for the future.

Cash and net debt

The Group's cash and cash equivalents at 31 December 2015 were £27.6m (2014: £1.5m plus £0.8m contained in assets held for sale).

The Group had borrowing and loans of £64.5m at 31 December 2015 (2014: £nil), including a bank loan of £49.0m and infrastructure loans of £15.5m.

Taxation

The charge for taxation in the year was £3.5m (2014: £nil) reflecting a deferred tax charge on forecast future capital gains arising on the investment property portfolio.

At 31 December 2015, the Group had deferred tax liabilities of £11.4m (2014: £nil), related to unrealised gains on investment properties, and no deferred tax assets (2014: £nil).

Financial review

continued



Logistics Leeds

Dividends

The Board has proposed a full year dividend of £1.5m, payable at a rate of 0.051p per share (2014: £nil). This is subject to shareholder approval for a reduction of capital, effected through the cancellation of the share premium account, which will be sought at the AGM.

This capital reduction will require an application to the courts following the AGM. The Board expects this to be a matter of formality, however, company law requires that a set of accounts showing adequate distributable reserves has to be filed with the Registrar of Companies before the dividend can be paid. Accordingly the dividend will not be paid until early September, once the interim accounts have been filed with the Registrar.

Harworth Insurance Company Limited ('HICL')

Agreement has been reached with the administrators of the former UK Coal Mine Holdings Limited (Ocanti No 1 Limited) over the exercise of their option to acquire the shares of HICL. The agreement reflected the efforts of the Group in securing the restructure of the former insurance company to permit the transfer of the shareholding to a company in administration. Value is expected to the Group from the value realised by the administrators in the liquidation of the assets of HICL and is capped at £0.5m based on the value of the balance sheet of that company in September 2015.

The final sum, however, is as yet undetermined but will be verified by the receivers on HICL's liquidation, and is expected to be paid to the Group later in 2016. Accordingly, as at 31 December 2015, there are no assets or liabilities in respect of HICL recognised in the Group balance sheet. Movements in cash held by HICL have been shown in the cash flow statement as discontinued operations.

Andrew Kirkman

Finance Director

31 March 2016

Strategic report

Harworth Group strategy

Our Group strategy is to create value for shareholders by promoting the regeneration and development of our existing portfolio of former colliery and brownfield sites for residential, commercial and low carbon energy uses. We are also making, and will continue to make, strategic additions to our portfolio which will help ensure our long term aim of achieving sustained shareholder value. In order to provide security to the business model we are developing a strong recurring income stream from revenue derived from existing assets and the direct development of selected commercial assets. This will ultimately support and enhance profitability of the business as well as cover overheads and protect our planned level of shareholder dividend.

We aim to achieve valuation gains and subsequently sell at enhanced values by masterplanning our brownfield sites, delivering detailed planning approvals, applying value engineering principles in developing our land and investing in on-site infrastructure to increase the marketability of selected parts of the portfolio. We further increase value by selective investment in direct commercial development on specific sites, either for eventual sale or for retention in order to achieve our required level of recurring income.

To achieve this strategy we will invest both in our existing portfolio of land composed of former coalfield land in Yorkshire, the Midlands, the North West and North East and in complementary acquisitions of brownfield and other large scale former industrial sites both in our existing core areas and in selected adjacent regions where suitable opportunities arise.

We will continue to invest in our specialist delivery team of property professionals in order to grow the business but will only expand our human resource to promote the core strategy and only diversify the business into other parts of our market where the returns will justify the level of return required.

Business model

Our business model is split into the Capital Growth and Income Generation segments. Our portfolio of land can be exploited by either sector, with some sites bringing both elements to bear. Direct commercial development, for example, enhances value for capital growth whilst also achieving income generation by the selective retention of developed commercial units.

Commercial land and development

One of our aims is to grow and develop our large commercial land portfolio in order to meet increasing enquiries, interest and demand arising across the regions, matched by a reported shortage in the supply of appropriately sized commercial space – particularly in the logistics and industrial sectors. We have a range of projects moving forward as we prepare land and invest in key infrastructure, facilitating serviced plots. This will provide us with the opportunity to deliver a range of occupancy solutions to potential customers, ranging from the sale of the plot for the customer to develop their own bespoke solution through to pre-letting an income-generating building that can either be retained for income generation or sold as an investment opportunity. The decision on which of these options to promote will depend upon prevailing market conditions and our requirement for recurring income, as detailed above.

Our flexible approach enables us to make timely and informed decisions which maximise value growth for the business. On the sale of a plot we can re-invest the cash to replenish the portfolio with land that fits our business model whilst at the same time enhancing or confirming the valuation of the other plots on the site. We aim to provide a continuous pipeline of available plots across a range of locations in the regions that we operate.

In 2015 we saw further development at Logistics North, our flagship site in the North West of England that is situated just off the M61 motorway near to Bolton. This is a key scheme for the region with progress in the year enabling the business to move beyond the sale of serviced plots towards direct commercial development, with a development agreement being entered with M&G Investments. This agreement will see Harworth Group partnering with M&G to deliver two industrial logistics buildings totalling 400,000 sq. ft during 2016.

The progress which enabled this opportunity to come forward were sales of other plots including to Joy Global, to provide a regional headquarters and testing facility for this international mining and engineering business, and a further plot to Exeter Property Group who plan to develop a speculative 360,000 sq ft logistics facility.

Strategic report

continued



Phil Wilson

Director – Capital Growth

Phil joined Harworth Estates in June 2011 to develop and implement new strategies for the property portfolio. Prior to Harworth Estates, Phil worked with the Peel Group in their corporate development team, with responsibilities in corporate finance and developing new business initiatives focussing on energy and environmental sectors. Prior to this he was a managing director of a house-building company, and his career has involved roles in sales and acquisitions of land and property.

CASE STUDY 1: Capital Growth – The ongoing development of Logistics North



Logistics North continued to grow in 2015 following the completion of a further three land sales.

Joy Global, an international mining services company, purchased 8.3 acres in May 2015 to build an 82,000 sq. ft unit to act as their North West Headquarters. This was followed by Exeter Property Group purchasing 18.3 acres for the speculative development of a 357,700 sq. ft distribution facility.

December 2015 marked the first piece of institutional investment in the site with M&G Real Estate, part of Prudential Plc, funding the construction of two Grade 'A' warehouses totalling 400,000 sq. ft at the front of

the site. With Aldi and MBDA previously confirmed as occupiers, nearly 40% of its 4,000,000 sq. ft outline consent (received in December 2013) has been taken.

We also completed the final infrastructure works for the site in 2015, including new spine roads, to open up the remainder of the development. The creation of the site's 550 acre country park also began in 2015 to provide local residents and those working at the site with a unique and distinctive environment, with 40,000 new trees planted and 100 new ponds installed in the last year alone.

Key facts

| | |
|---|--|
| Location | Bolton, Greater Manchester |
| Acreage for commercial development | 250 acres |
| Acreage for country park | 550 acres |
| Consented sq. ft for commercial development | 4,000,000 sq. ft |
| Commercial development now under construction | 1,559,700 sq. ft |
| Plot purchasers | Aldi, MBDA, Joy Global, Exeter Property Group, M&G |

In addition to Logistics North we have also made progress at our Gateway 36 development located just off the M1 in Barnsley. We secured a head lease with Barnsley MBC in 2015 that enabled us to develop out 65,000 sq. ft of industrial buildings, which practically completed at the end of January 2016, and to build the required infrastructure to service further plots that will see additional development in 2016. We are now preparing for the construction of a speculative 75,000 sq. ft building on-site, in addition to bringing forward plans for other uses including a fast food facility and the development of a pub/restaurant.



Ian Ball

Director – Income Generation

Ian joined Harworth Estates on 1 September 2014 as a Director of Asset Management, having full responsibility for the management of all existing and future income generating assets within the business. Ian is a Chartered Surveyor by background, having worked for a number of European Real Estate funds in London prior to spending the last eight years in the real estate banking sector in the north of England. He was previously a Relationship Director at Barclays Bank, where he had responsibility for a number of their major northern real estate clients.

CASE STUDY 2: Income Generation – Design and build at Gateway 36



Our income generating portfolio was further augmented in 2015 by Barnsley Council taking a head lease on three new units built by ourselves – marking the start of the Gateway 36 development adjacent to the M1 in Yorkshire.

We secured outline consent for Phase 1 from Barnsley Council in March 2015, comprising approximately 198,000 sq. ft of commercial space. A detailed consent was then immediately secured within the outline for 65,000 sq. ft for three new units aimed at small and medium-sized businesses within the region.

Barnsley Council subsequently agreed to take a 25-year head lease on these three units which allowed us to successfully bid for Sheffield City Region JESSICA loan fund monies to pay for the construction of the units and for infrastructure works

for the entire first phase of development. The units practically completed in January 2016, ready for Barnsley Council to sub-let these to suitable occupiers. Opening up the remaining part of the development's Phase 1 has allowed us to come forward with plans to develop a 75,000 sq. ft unit speculatively that is scheduled to complete in Autumn 2016, with construction costs again funded through the Sheffield City Region JESSICA loan fund. Development of the remaining part of the site for roadside uses is also planned to come forward in 2016.

The success of Phase 1 underpins our desire to bring forward development in Phases 2 and 3 as part of a future planning application; these phases could deliver up to 1.1m sq. ft of further commercial development, subject to planning.

Strategic report

continued

CASE STUDY 2: Income Generation – Design and build at Gateway 36: continued

| Key facts | |
|--|---------------------------------------|
| Location | Barnsley, South Yorkshire |
| Acreage for Phase 1 commercial development | 17.4 acres |
| Consented sq. ft for Phase 1 commercial development | 198,056 sq. ft |
| Sq. ft of units built by Harworth as part of Phase 1 | 65,000 sq. ft |
| Tenant | Barnsley Metropolitan Borough Council |
| Sq. ft of speculative unit now under construction | 75,000 sq. ft |
| Proposed sq. ft for Phase 2 and 3 commercial development | 1,100,000 sq. ft |

The business model has therefore evolved from that used originally to develop the internationally recognised Advanced Manufacturing Park in Rotherham. As this remains our flagship commercial site, we have continued to make ready further parcels of land for development to meet the demand generated by the considerable success of the location, in addition to providing direct commercial development. We are also working closely with a range of private and public stakeholders in developing the UK's first Advanced Manufacturing Innovation District, with the Advanced Manufacturing Park at its core, in order to encourage further public and private investment in infrastructure, land and property.

We remain confident that the commercial property market, particularly in the logistics and industrial sector, will continue to remain favourable due to the shortage of existing supply and we will continue to evolve our schemes to suit areas of demand wherever possible in order to maximise return whilst providing other supporting development opportunities. We will continue to work closely with a range of stakeholders, including Local Enterprise Partnerships and Local Authorities, to support this aim and support the economic growth of the region.

Residential land

Alongside our commercial development opportunities, much of our strategic landholding realises value for shareholders from the promotion, planning and investment in residential land. On our larger projects such as the development of the 4,000 home Waverley new community in Rotherham, the value is enhanced as the scheme develops and matures by creating a location identity, improving the desirability of the site as a location to build and live in. Housebuilders also respond more swiftly and favourably to 'oven ready' sites on remediated land; this is one which has been fully restored, has a viable planning permission in place and with the site infrastructure available or in progress to service their development. As with our commercial land, as we are opening up more sites we can also provide a continuous delivery programme across a range of locations. This scale and flexibility enables us to manage the release of land and to select the right moment to invite housebuilders to invest and purchase our plots. 2015 saw us open up sites in Nottingham, Doncaster, Barnsley, Pontefract and Blyth in Northumberland.

We saw an improvement in the residential marketplace in 2015 with sustainable growth in the regions in which we operate. We recognise that a significant undersupply of housing persists across the areas we operate in, combined with an overall expectation of continued population growth. Demand from housebuilders, national and regional is increasing as we start to develop our larger sites and we are also seeing positive increases in rates of sale and house price inflation. We remain flexible in our delivery programme and can also see potential in other emerging residential sectors that could add further value and improve rates of land sale on our schemes. We also continue to explore opportunities in the private rented sector and retirement market that could complement our current schemes.

During the year, further land sales to Barratt and regional housebuilder Harron Homes at our consented Waverley development in Rotherham took place, in addition to the sale of plots at our consented 917 plot

Prince of Wales scheme in Pontefract where Avant Homes and Harron Homes have begun construction. At our Rossington site to the South of Doncaster – now renamed Torne Park, where we have a planning to consent to deliver 1,200 homes – we also secured our first land sale with further sales planned in 2016 following the completion of the new FARRRS (Finningley and Rossington Regeneration Route Scheme) link road. This new road provides easy access to the M18 for commuters to work in locations across the region and we anticipate that its opening in March 2016 will generate further interest in the site.

At the former Gedling Colliery site we secured the sale of all of the proposed residential land to housebuilder Bloor Homes following planning, restoration and remediation of the site. Further progress has also been made at our 325 plot North Gawber development with a conditional sale secured on the first phase following the restoration, remediation and infrastructure provision that is aimed to be completed in Spring 2016.

CASE STUDY 3: Capital Growth – Residential development at Gedling



Our ability to unlock value through long-term regeneration programmes is well illustrated by our redevelopment of the former Gedling Colliery in Nottinghamshire.

Gedling Colliery closed in 1991, with its 44 acres part-restored for future use. The site was previously constrained due to poor road access and had no previous planning designation. Careful and sensitive work by Harworth's Strategic Land team led to a site allocation for 150 homes as part of Gedling Borough Council's core strategy in 2014, underpinned by planning approval for a new publicly funded link road (through a Department of Transport grant) to open up the development.

An outline planning consent for these new homes was secured in March 2015, prior to us engineering

a development platform. A subsequent competitive bidding process led to Bloor Homes conditionally purchasing the site, their first deal with Harworth; the receipt of reserved matters planning consent in December 2015 triggered its purchase.

Part of Gedling's appeal to housebuilders lay in its proximity to the new Gedling Country Park, providing an attractive new environment for new residents to enjoy. We had previously let 250 acres to Gedling Borough Council on a long-term lease in 2013 to develop the park prior to its opening in March 2015.

A small amount of freehold land remains which we intend to bring forward for 28,000 sq. ft of commercial development and 25 new housing plots, both subject to planning.

Key facts

| | |
|---|---|
| Location | Lambley, Nottinghamshire |
| Residential land acreage | 23.61 acres |
| Purchaser | Bloor Homes |
| New homes being built | 150 |
| Planned further development on remaining freehold | 28,000 sq. ft of commercial space 25 new homes |

Strategic report

continued

Notable planning progress was also made in Swadlincote, Derbyshire where we obtained a resolution to grant planning for 570 plots adjacent to the new golf course which is currently under construction and also at the former Yorkshire Main colliery in Doncaster for a further 375 plots. At our scheme in Harworth in north Nottinghamshire, the adoption of a local Neighbourhood Plan has led to a further 700 residential plots now being allocated in Bassetlaw District Council's Local Plan for eventual development.

Our strategic land team continues to pursue planning on other potential major schemes in the Group portfolio as well as pursuing planning promotional agreements on selective land in third party control where we can add value through our expertise and experience. We secured planning consent for 2,024 additional plots in 2015.

We continue to expect a good level of activity from our residential land in the next year with increasing demand as housebuilders continue to seek attractive and viable land to replenish and grow their business.

Income Generation

Income producing property

We have held income producing assets for a number of years that are historically linked to our past in the coal industry. We actively asset manage these to generate income streams where applicable prior to development or to maximise the revenue generated to cover the running costs of the business.

These assets make up 39% of our property portfolio and we adopt proven asset management techniques as well as exploring new and emerging opportunities to add value – all undertaken by our team of experts assisted by local agents and developers where applicable.

This part of the income generating portfolio offers affordable rents on relatively short tenancies ensuring void rates remain low and that we can take advantage of longer term redevelopment opportunities. In addition we will seek to develop selected schemes where we can retain investment interest with a view to make sales when we consider it is most appropriate.

These assets include some multi let business parks with office, industrial and storage space as well as open storage on some of the land which we are holding for future development. We have recently added to the portfolio with the acquisition of industrial space in both Derby and Doncaster.

The capital growth sector of the business also delivers value to the income generation sector when speculative development is undertaken and the new build development is retained and let. This contributes additional rental income. The build of three new units totalling 65,000 sq. ft at Gateway 36 that was pre-let to Barnsley Council via a head lease is a good example of this model.

Low Carbon Energy generation

Much of our land portfolio lends itself to low carbon energy production, being located at remote sites without good transport access but often having significant former grid connections arising from the previous use of the land. We have exploited this by obtaining planning permission for these developments and then leasing the land to third party low carbon energy producers including wind and solar development who pay us a royalty on generation during the lifetime of their lease.

In 2015 three new solar farms became operational on our sites - two in Derbyshire and a further site in South Yorkshire, with a total of 20.2MW of capacity now installed on these schemes. The operating capacity of solar schemes on our land now totals 42.4MW. Planning consent has been achieved for further sites in Leicestershire, North Yorkshire and Derbyshire, with a further 14.8MW of solar capacity to come on stream during 2016.

CASE STUDY 4: Income Generation – The development of our Solar Portfolio



Income from our portfolio was supplemented by rent from three new solar farms that became operational on our land in 2015 – bringing the total number of live schemes within the portfolio to seven.

The three schemes that became operational in 2015 are:

- a 7.4MW solar farm, of which 2.4MW is community owned, at the former Arkwright surface mine in Derbyshire, developed in partnership with Conergy;
- a 5MW solar farm, also developed in partnership with Conergy, at the former Thorne Colliery in

Doncaster, South Yorkshire; and

- a 3.6MW solar farm at the former Coton Park Colliery in south Derbyshire, initially in partnership with Green Energy Networks and now owned by Armstrong Energy.

Planning consent was also secured for the construction of a further two solar farms, totalling 16.4MW of capacity, at Kellingley, North Yorkshire and Asfordby in Leicestershire - both in partnership with First Renewable. Our portfolio has the potential to generate a total of 86.6MW of generating capacity, subject to construction and planning.

Key facts

| | |
|--|--|
| Location of operational solar farms | Askern, Thorne (both Doncaster, South Yorkshire) Bilthorpe, Gedling, Welbeck (Notts) Coton Park, Arkwright (both Derbyshire) |
| Total installed capacity | 42.4MW |
| Potential future capacity | 44.2MW |
| Total potential capacity across all identified sites | 86.6MW |

Our energy portfolio also includes revenue achieved from 34.5MW of installed capacity which utilises methane which naturally arises in former coal mines. We have several of these sites, where the methane is extracted from the former mines and used to power gas engines operated again by third parties who pay a royalty income for tenancy on our sites.

In addition, we have a small operational division that secures further income through the recycling of coal fines, secondary aggregates and metals. The reclamation process also serves to provide further development land into the business, with the recovery of coal fines that arise from former mine slurry ponds often recovered as a first step in the remediation of our sites.

Acquisitions

Mark Twain is famously attributed as stating “buy land, they’re not making it anymore” and whilst we currently have approximately 27,000 acres not all of this is in readily deliverable plots in strong geographic locations. As we execute our strategy to concentrate on our ‘big, dirty and complicated’ sites rather than

Strategic report

continued

small, often agricultural land holdings, we will look to replenish our portfolio with land that matches both our strategy and business capabilities. We will therefore look to buy large former industrial sites in the North and the Midlands, alongside the acquisition of complementary parcels of land adjoining our existing sites to improve the dynamics and prospects of our current holdings.

We made six acquisitions in 2015 for £23.9m, including costs and deferred consideration. Significant commercial land acquisitions included the former Alcan Smelter in Northumberland, a 320 acre scheme with an existing rail connection, and Sinfin Lane Industrial Estate in Derby, our seventh business park with an initial 9% yield. Residential land acquisitions included additional land at our Flass Lane scheme in Castleford where we have secured planning for 600 plots, as well as the purchase of Wheatley Hall Road Doncaster in December which has an existing outline planning consent for up to 800 plots. We have also agreed a land promotion agreement at Market Warsop, Mansfield that could deliver a further 300 plots in future, subject to planning.

CASE STUDY 5: Capital growth – Acquisition of Wheatley Hall Road, Doncaster



As part of our desire to refill the strategic landbank with new sites, we purchased the former McCormick Tractors site at Wheatley Hall Road, Doncaster for £8.5m in December 2015.

A 112 acre major brownfield regeneration site located within one of the core regions in which we operate, the site already benefits from an outline planning consent for 800 new homes and over 200,000 sq. ft of employment space, in addition to a small income producing portfolio that generates £183,000 of income per annum.

The majority of the site has already been cleared for

redevelopment and benefits from being less than two miles from Doncaster Town Centre, adjacent to the principal road network and with a strong riverside frontage to the north.

Our aim is to use the existing planning consent and rework the existing masterplan to create a mixed-use development that makes the most of the site's natural assets to produce an attractive housing development whilst using our design and build capabilities to construct small or medium-sized commercial units aimed at small and medium-sized businesses within the region.

| Key facts | |
|------------------------------|---|
| Location | Doncaster, South Yorkshire |
| Site acreage | 112 |
| Existing outline consent | 800 homes; 200,000 sq. ft of commercial space |
| Other sites within Doncaster | Torne Park (former Rossington Colliery) Warmsworth Gate (former Yorkshire Main) Askern and Thorne solar farms |

Key Performance Indicators

We measure the achievements of our strategic objectives through the use of qualitative assessments and by monitoring the performance of quantitative key performance indicators (“KPIs”). Each KPI links to one or more of our strategic objectives set out in the Harworth Group Strategy section of the report and ties to the charts set out at page 2 of this report.

Net Asset Value

As a property investment group the growth in, and level of, our net asset value is the cornerstone measure of our success. Whilst the business benefits from delivering a strong level of operating income which it is intended will be developed to cover the operational running costs of the business, the main value for shareholders will be delivered by the growth of net asset value relative to the invested capital of the business.

Value Gains

The main mechanism for net asset value gain is the value gains generated by development of planning permissions, the remediation of land and investment in the infrastructure of our sites. This is the mechanism by which low value brownfield sites gain in value and return to use. Value gains comprise both the realised profits on sale and unrealised gains from the year end valuation exercise.

Income Generation

The increase in profits from operations which include the recovery of value from former industrial sites as part of remediation and the generation of income both from existing structures and sites, notably business parks as well as investment in new structures, is an important element of the business. The aim is to ensure the stability of the business by generating an underlying income stream to maintain the operating costs, including interest, of the business and ultimately to cover the dividend.

Gross Loan to Value

It is the intention of the Board to maintain the borrowings of the Group at a responsible level to give financial flexibility in a sector where a clear cycle of value exists.

Cash spend – Disposals less development spend and acquisitions

A key metric for the business is to maintain and grow the portfolio of property and land by re-investing a percentage of the net proceeds from disposals on acquisition of land to develop for future returns. Where possible, disposal proceeds should cover both the development spend and acquisitions.

Corporate social responsibility

As a small employer with a large land portfolio across the North of England and the Midlands, we recognise that we have a responsibility to the communities in which we work. Many of these have heritage connections to the sites that we own and our aim is to develop these sites responsibly to bring a mix of both employment opportunities and residential usage to previously blighted areas.

The redevelopment of the Waverley new community is a key case in point. The site is located on the former Orgreave coal and coking plant on the border between Sheffield and Rotherham which for a number of years was a blackened and polluted industrial site, scarring the local landscape. Today it is home to the Advanced Manufacturing Park, including employers such as Boeing and Rolls-Royce, and the new Waverley community that is intended to grow to up to 4,000 homes. As a business we are proud to base ourselves at this location as a testament to what can be achieved.

This is not our only success in building communities and sensitive development. At Gedling in Nottinghamshire on the former colliery site we have sold land to Bloor Homes for 150 new homes, partnered with Anesco in bringing forward a solar farm for low carbon generation and worked with Gedling Borough Council to deliver a country park on the former tipping site. We are also a previous recipient of the Nottinghamshire wildlife guardian award and became a North Nottinghamshire envoy in 2015 in recognition of our restoration work at the former Rufford Colliery.

Strategic report

continued

Greenhouse gas emissions from our operations

Harworth Group plc operates a Safety, Health and Environmental Management Policy to ensure the effective control of environmental risk and operates a management system to ensure environmental issues are considered at all levels. The policy advocates the promoting of sustainable and environmental opportunities by active resource management and waste minimisation.

This statement outlines the greenhouse gas emissions arising from the activities of the Harworth Group for the 2015 financial year and it follows the Environmental Reporting Guidelines set by the Department for Environment, Food and Rural Affairs (DEFRA).

Emissions are reported in tonnes of CO₂ equivalents (CO₂e) and refer to three areas:

Scope 1 Fuel use in vehicles for staff in pursuance of their duties

Scope 2 Gas oil used in plant at operational sites

Scope 3 Electricity (non-rechargeable) usage on Harworth sites.

| | Emission source | Tonnes of CO ₂ e |
|----------------|-------------------------|-----------------------------|
| Scope 1 | Fuel for staff vehicles | 224 |
| Scope 2 | Gas oil used in plant | 1,744 |
| Scope 3 | Electricity usage | 854 |
| Total | | 2,822 |

Harworth Group aims to improve its performance in 2016 by implementing an improvement plan covering three discrete areas:

- Examining the prospect of smart working to reduce staff fuel usage;
- Investing in energy efficient measures at its properties where these are cost effective, including the use of LED and passive lighting systems where appropriate; and
- Analysing opportunities to manage plant journeys more efficiently at operational sites.

Employee diversity

As a relatively small employer, we recognise our responsibility to look after and ensure the wellbeing of our staff. We commit to providing a working environment where everyone feels valued and respected. We have a good range of talented professional staff with a balance of skills and experience to ensure our continued success.

The Group operates to an equal opportunities policy which sets out individuals' rights and obligations. This policy covers the responsibilities and approach we have to our employees and our duty to avoid discrimination in all aspects of recruitment and employment.

The table below sets out the number of men and women employed (full-and part-time) as at 31 December 2015, across our business and split between the Board, our senior management and our employees.

In considering appointments to the Board and to senior executive positions, it is our policy to evaluate the skills, knowledge and experience required by a particular role with due regard for the benefit of diversity and to make an appointment accordingly.

| | Male | Female |
|--|------|--------|
| Board | 7 | 1 |
| Senior management (excluding Executive Directors) | 3 | – |
| Employees | 30 | 10 |

Training and development

We are proud to have a high level of staff retention and recognise that respected, rewarded and motivated staff perform better and enhance business stability.

At the end of the year, 60% of our management had more than three years' service and the average length of service across the business was 5.4 years.

All employees are encouraged to engage in Continuing Professional Development (CPD). Support is provided for staff to attain qualifications and professional memberships relevant to their role.

Finally, we remain committed to taking on new talent and nurturing skills into appropriate areas of our business.

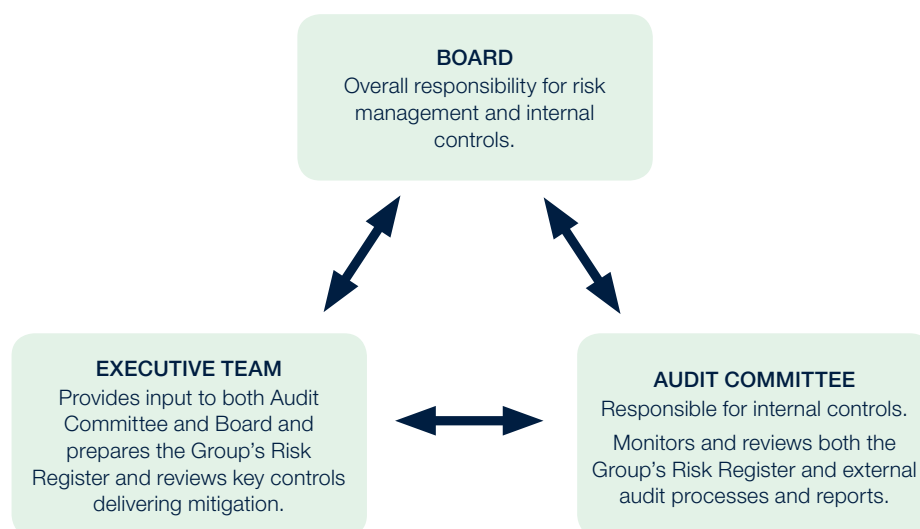
Human rights

We support the United Nations' Universal Declaration of Human Rights and have policies in place to ensure that we act in accordance with our principles in relation to areas such as anti-corruption, diversity and whistleblowing.

Group risk report

The Group operates principally from one office in Rotherham with relatively short management reporting lines and a small and focused team. Consequently, members of the Executive team are all closely involved in day-to-day matters and able to identify areas of changing risk quickly and respond accordingly.

Following the acquisition of Harworth Estates Property Group Limited in March 2015, the Group undertook an externally facilitated review of the Group's risk management process. This confirmed and further detailed both the inherent operational and financial risks of the business, and the mitigation already in place within the business to address these risks, as well as the programme for further action to achieve the risk appetite level targeted by the Board. Ownership of risk in the Group is shown in the chart below:



The review also made recommendations concerning the improvement of documentation of the Group's risk management process and recording of risk. During the current year, processes will be enacted to ensure that the risk register becomes embedded within the business. The Executive Committee of the business, which reviews all transactions within the business, will separately undertake a risk register review on a quarterly basis with new management process documents being prepared by the Executive Committee, to be reviewed by the Audit Committee and adopted by the main Board.

The Group's risk register will continue to be the core element of the risk management process. The register is prepared by the Executive Committee which initially identifies the risks facing the Group and

Strategic report

continued

then collectively assesses the likelihood of each risk, the impact on the Group's different operating businesses and the strength of the controls operating over the risk. This approach allows the effect of any mitigating procedures to be reflected in the final assessment. It also recognises that risk cannot be totally eliminated at an acceptable cost and that there are some risks which, with its experience, the Board will, after due consideration, choose to accept. The register, its method of preparation and the operation of the key controls in the Group's system of internal control have been reviewed by the Audit Committee.

In response to the 2014 update to the UK Corporate Governance Code, the Group has revised its procedures to ensure that the necessary monitoring of risks and controls will be carried out throughout the business at the appropriate level. The current risk register has divided risks between strategic risks, operational risks and financial risks.

The risk review undertaken following the acquisition of Harworth Estates Property Group Limited identified the inherent risks to the business and the current mitigation in place resulting in a clearly identified level of residual risk. These were scored on an impact and likelihood basis to identify the top residual risks for the business. This has resulted in the following table of principal risks and uncertainties faced by the Group, together with the potential effects, controls and mitigating factors. These are set out on the following pages:

| Risk | Controls and mitigation | Action |
|---|---|---|
| Market risk | | |
| The Company is exposed to the risk of fluctuations in the property market for the price of land. | The risk is mitigated in a variety of ways including diversification of the portfolio, monitoring of trends within the market and geographic spread. Additionally, cash flow planning within the business to ensure purchases and sales are undertaken at appropriate times within the market cycles. | Further work is ongoing to ensure market forecasting is undertaken and analysed on a continual basis and a review will be regularly undertaken with regard to management of the portfolio in this regard. |
| Financial risk | | |
| Volatility of the recurring income stream from operations impacting on covenants. | Mitigation has been undertaken through the appropriate negotiation of facilities and improved budgeting and forecasting process. | Continuous improvement of management information systems with development of a broader range of investment income generating opportunities. |
| Strategic risks | | |
| Failure or weakness of strategic plan impacting on Group direction with the potential influence of extraneous factors such as economic cycle. | The Group undertakes the development of a five year look forward strategic plan each year and aligns the budget process and a rolling financial forecast to this process. | Improved communication of the strategic plan throughout the business with further improvements to be developed for the strategic process itself. |
| Insufficient human resource to meet the strategic demands of the business. Key risk with a small specialist team. | The strategic planning process undertakes a review of our people plan recognising that a small growth company may be stretched for resources as the business grows. Key role identification and proper resource planning, as well as appropriate recruitment, is undertaken. | Development of stress area identification is key to ensuring that this risk is appropriately managed. |

| Risk | Controls and mitigation | Action |
|--|---|--|
| Operational risks | | |
| As the Company has been subject to great change over the last 12 months, there is the potential to fail to develop appropriate business processes, impacting on both efficiency and effectiveness. | Increased awareness of this risk has led to greater scrutiny of the issues by both the Executive Team and the Board. Clear lines of ownership of the risks identified have been established within the Executive Team. | Further action will be taken to both embed the appropriate processes and to monitor the effectiveness and suitability of processes constantly. Both the Executive and the Audit Committee have responsibility for regular review. |
| There is the potential for a decline in the market for recycled materials recovered in the regeneration process. The regeneration process includes the recovery of metals from sites as well as coal fines from slurry ponds on former mine locations. | The market for materials recovered from regeneration of sites fluctuates over time and the business models take this into account. The market for coal fines is governed by energy policy in the UK and therefore ensuring a broad customer base for this material is an important mitigating factor. | Development of plans to track the market closer will further mitigate the issues. Additionally, further diversification within the relevant teams and the incorporation of alternative solutions and technologies will further address this risk. |
| Human resource risks | | |
| In a small team, key man risks are magnified and the risk of loss of key skills and knowledge are relatively larger. | The Company has developed succession plans for key individuals as well as appropriate training at senior levels to ensure continuity. | Improved knowledge sharing across senior functions to eliminate silo effects as business grows. |
| Impact of growth leading to overstretching of resource with impact on quality of outcome. | Mitigation achieved by the review of the recruitment process to ensure delivery of appropriately timed resource to operations and performance review of individuals to ensure adequate training for responsibility is undertaken. | Further improvements to the performance appraisal process are identified and the recognition that at peak work load, temporary or contract staff will be planned. The strategic review will undertake a regular reappraisal of roles and responsibilities. |

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the Directors have assessed the prospect of the Group over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted this review for a period of five years, with three years of detailed assessment and two years of outline numbers. This period was selected for the following reasons:

- The Group's strategic review covers a five-year period;
- For a major scheme five years is a reasonable approximation of the time taken from remediating the site and obtaining planning permission to letting the property and/or developing significant parts of the site; and
- Most leases contain a five-year rent review pattern and therefore five years allows for the forecasts to include the reversion arising from those reviews.

The five-year strategic review considers the Group's recurring income, cash flows, covenant compliance, financing headroom and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions underlying the forecast both individually and in unison. Where appropriate, this analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring. The five-year review also makes certain assumptions about the normal level of capital recycling likely to occur and considers whether additional financing facilities will be required.

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Governance reports

Introduction

I am pleased to set out the Company's reporting on corporate governance for the year. The governance reports include the Corporate Governance Report, the Remuneration Report, the Audit Committee report and the Directors Report. These reports explain the governance policies followed by the Company and their importance in relation to shareholders.

While the Company remains a standard listed company on the London Stock Exchange, it aims to comply with the Corporate Governance Code save as disclosed in the Corporate Governance report. The Board is also committed to ensuring it demonstrates high ethical standards and maintains high standards of corporate governance to deliver the future success of the Company over time.

Following the acquisition of Harworth Estates Property Group Limited ('HEPGL'), the Board has had a strong engagement with the executive team to develop the business strategy within these governance guidelines. We aim to deliver above market growth on a strong balance sheet with a business capable of surviving property market fluctuations from a strong recurring income stream. We therefore set ourselves stretching financial objectives within a strong risk management culture.

The composition of the Board is an important matter and requires that we maintain the correct balance of skills and experience to facilitate the objectives of the Company. As such all Directors have both knowledge of the Company and the environment, past and present, in which it operates.

All Directors are also subject to re-election by shareholders at intervals of no more than three years but we have adopted a best practice of submitting all Directors for re-election at the Annual General Meeting.

Jonson Cox

Chairman

31 March 2016

Corporate governance statement

The Company recognises the importance of, and is committed to, high standards of corporate governance and the following sections explain how both the Company and the Group has applied the main and supporting principles set out in the UK Corporate Governance Code ('Code'), issued by the Financial Reporting Council in September 2014. The Board confirms that the Group has complied with the provisions set out in the Code throughout the year ended 31 December 2015, except for the following matters:

- The Audit Committee comprises two independent Non-Executive Directors and one non-independent Non-Executive Director.
- The Remuneration Committee comprises two independent Non-Executive Directors and one non-independent Non-Executive Director.

The Board

The Company is headed by a Board of Directors, now made up of the Chairman, Chief Executive, Finance Director and five Non-Executive Directors, three of whom are determined by the Board to be independent. The Board recognises that Steven Underwood, who is a Director and representative of Peel Holdings, which is the major shareholder in the Company, and Martyn Bowes who is the representative of the Pension Protection Fund, who hold 25% of the issued capital, are not independent. It is considered that their skills and experience are relevant to the business and they contribute to the realisation of the Group's strategy. Both shareholder relationships are governed by relationship agreements. Non-Executive Directors are required to confirm on appointment that they have sufficient time to undertake the requirement of the role and the letters of appointment specify the anticipated level of time commitment. The Chairman, who held the role as an executive in the Company through its various restructurings and led the acquisition of HEPGL, continues the role in a Non-Executive capacity. While it is recognised that he is a non-independent Director, given the size of the shareholdings concerned and the historic complexity of the Company, the Board deems that the current balance of independent and non-independent Board members is appropriate. This will be kept under review. The Company's principal focus is as parent of a property investment business trading under the name Harworth Estates.

The Chairman has overall leadership of the Board, with responsibility for creating the conditions for overall Board and individual Director effectiveness. He is also responsible for ensuring that a fixed schedule of matters is exclusively retained for the Board's review and approval, and that a framework exists to allow the clear and timely dissemination of relevant information to all Directors for such reviews to occur. He leads the Nomination Committee, regularly considers succession planning and is instrumental in ensuring that the Board's effectiveness and performance are kept under review. The Senior Independent Director is Peter Hickson who will step down at this year's Annual General Meeting with Lisa Clement taking on this role.

The Chief Executive holds responsibility for the management of the Group and leads on the formulation of strategy which, once agreed by the Board, falls to him to implement. He leads the Executive Management team and overseas investor communication. He is also responsible for social and ethical matters within the Group.

The Board of the Company is responsible for setting the Group's objectives and policies and for the stewardship of the Group's resources. The Board is responsible to the shareholders for the overall management of the Group.

The Board considers that its Non-Executive Directors bring judgement, knowledge and experience to the Board's deliberations. They have no financial or contractual interests in the Group, other than interests in ordinary shares as disclosed in the Directors' interests in ordinary shares section of the Remuneration Report. Non-Executive Directors are offered the opportunity to attend meetings with major shareholders and would attend them if requested by major shareholders.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The appointment and removal of the Company Secretary are matters for the Board as a whole. The Board has established a procedure under which any Director, wishing to do so in furtherance of his/her duties, may take independent advice at the Company's expense.

The Company maintains an appropriate level of Directors' and officers' insurance in respect of legal

Corporate governance statement

continued

action against the Directors. The interests of the Directors in the shares of the Company are shown in the in the Directors' interests in ordinary shares section of the Remuneration Report.

The Chief Executive and the Finance Director have service contracts, which may be terminated by the Company on not more than six months' notice; for Non-Executive Directors the notice period is three months with the exception of Peter Hickson, Senior Independent Director, and Jonson Cox, the Chairman whose appointments are subject to six months' notice. There are no Directors on fixed term contracts. There are no contractual clauses that give any of the Directors an entitlement to compensation exceeding their due payment in lieu of notice.

In accordance with the Articles of Association of the Company, the appointment of Non-Executive Directors and any subsequent re-appointment is subject to election or re-election by shareholders at the Annual General Meeting.

Board performance

Performance evaluation

A meeting of the Non-Executive Directors, led by the Chairman, takes place at least annually, to appraise the executive's performance.

The performance of the Board and its committees is considered and reviewed by the Board throughout the financial year with matters requiring attention identified and addressed.

The Chairman holds responsibility for the appraisal of the performance of the Non-Executive Directors together with responsibility to conduct a performance evaluation of Executive Directors and key staff of the Company. Following the acquisition of Harworth Estates in March 2015 time was allowed for the new board to bed in before a formal evaluation process is undertaken; this will commence in the second quarter of 2016. The performance review undertaken by the Board will, in future, consider the diversity of the Board membership, recognising the relative size of the Company and the Board and in particular the different experience and approach brought to the Board by its members.

Directors' development

All Directors receive an induction on joining the Company and access to further training is made

available. The Company provides the necessary internal and external resources to enable Directors to develop and update their knowledge and capabilities.

Committees of the Board

The Group's governance structure ensures that all decisions are made by the most appropriate people, in such a way that the decision making process itself does not unnecessarily delay progress.

The Board delegated specific responsibilities to the Nomination, Remuneration and Audit Committees, as described below. Each committee has terms of reference that the whole Board has approved. Terms of reference reflect the current structure and nature of the Group and its activities. The current terms of reference for the Nomination, Remuneration and Audit Committees can be found on the Company's website and are summarised below. Board and committee papers are circulated in advance of each meeting so that all Directors are fully briefed. Papers are supplemented by reports and presentations to ensure that Board members are supplied in a timely manner with the information they need.

Nomination Committee

The Nomination Committee leads the process for Board appointments by making recommendations to the Board about filling Board vacancies and appointing additional persons to the Board. The Committee also considers and makes recommendations to the Board on its composition, balance and membership and on the re-appointment by shareholders of any Director under the retirement by rotation provisions in the Company's Articles of Association. The Committee's members are the Chairman and two of the independent Non-Executive Directors (currently Peter Hickson and Lisa Clement). Although the Chairman is also Chairman of the Committee, he will not chair the Committee when it deals with the appointment of a successor to the chairmanship. The Nomination Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the roles and capabilities required for a particular appointment.

The Nomination Committee considers succession planning for appointments to the Board and to senior management positions so as to maintain an appropriate balance of skills and experience both on the Board and in the Company.

Remuneration Committee

The members of the Remuneration Committee in the year were Peter Hickson (Chairman), Lisa Clement and Jonson Cox. The terms of reference of the Remuneration Committee provide for it to determine and agree with the Board a policy for the remuneration of the Company's Executive Directors and key managers. The remuneration of Non-Executive Directors is a matter for the Chairman, Chief Executive and the Finance Director. No Director or manager may be involved in any decisions as to their own remuneration.

Audit Committee

Lisa Clement chairs the Audit Committee. Tony Donnelly, an independent Non-Executive together with Steven Underwood, a non-independent, Non-Executive Director, are members of the Audit Committee. Other individuals such as the Chairman of the Board, the Chief Executive, the Finance Director and other Directors are invited to attend committee meetings as and when appropriate and necessary. The terms of reference of the Audit Committee include consideration of matters relating to the appointment of the Company's auditors and the independence of the auditors, reviewing the integrity of the Company's annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance. The Committee also reviews the effectiveness of the Company's system of internal control and compliance procedures.

Further information on the Audit Committee is given in the Report of the Audit Committee which forms part of this report.

Attendance at Board meetings

Attendance by individual Directors at Board meetings (including those convened and held as conference calls) and at Committees during 2015 is shown in the table below. Attendance by non-committee members at Committee meetings is not included.

Internal controls and risk

Review of processes and controls are regularly undertaken by the management team. The Board reviewed the operation and effectiveness of the system of internal controls during the year and assesses and manages these key risks on an on-going basis. A key element of the system of controls adopted by the Board is a policy of Delegated Authority which was subject to a major redraft following the acquisition of HEPGL. The new policy was adopted by the Board in the summer of 2015 and the employment of third-parties to provide services to the Company, and the establishment of clearly defined responsibilities and reporting procedures between the Company and those third-parties.

The principal controls of the Company are:

Cash management

Treasury actions of the Company are limited and controlled jointly by the Finance Director, Chief Executive and Company Secretary who are responsible for placing deposits, for arranging borrowings and for making payments.

| | Board | | Audit | | Remuneration | | Nomination | |
|--------------------|----------|--------|----------|--------|--------------|--------|------------|--------|
| | Possible | Actual | Possible | Actual | Possible | Actual | Possible | Actual |
| Jonson Cox | 14 | 14 | n/a | n/a | 4 | 4 | 3 | 3 |
| Martyn Bowes | 10 | 9 | n/a | n/a | n/a | n/a | n/a | n/a |
| Lisa Clement | 14 | 14 | 5 | 5 | 5 | 5 | 3 | 3 |
| Tony Donnelly | 10 | 10 | 4 | 4 | n/a | n/a | n/a | n/a |
| Peter Hickson | 14 | 13 | n/a | n/a | 5 | 5 | 3 | 3 |
| Owen Michaelson | 10 | 10 | n/a | n/a | n/a | n/a | n/a | n/a |
| Michael Richardson | 10 | 10 | n/a | n/a | n/a | n/a | n/a | n/a |
| Steven Underwood | 14 | 13 | 5 | 5 | n/a | n/a | n/a | n/a |
| Jeremy Hague | 4 | 4 | n/a | n/a | n/a | n/a | n/a | n/a |

Corporate governance statement

continued

Transaction approval

All transactions are signed off in accordance with the delegated authority policy which requires approval by two separate authorisers for all transactions. Authority is granted to the statutory directors of the subsidiary entities concerned and others formally authorised subject to fiscal limits set out in the policy which also requires that authorisers should, where possible, operate within their areas of personal knowledge and expertise.

Disclosure and Transparency Rules

The Company voluntarily applies the UK Corporate Governance Code and therefore prepares a Corporate Governance Report. Other information required to be disclosed by the Disclosure and Transparency Rules of the Financial Conduct Authority is included in the Directors' Report and Remuneration Report.

Communication with shareholders

The Group maintains on-going dialogue with major shareholders through regular presentations and meetings to outline the Company's performance and objectives and also offers them the opportunity to meet Non-Executive Directors. The Senior Independent Director is available to all shareholders and the Chairman, Chief Executive, Finance Director and Company Secretary make themselves available as and when required to address shareholder queries. Copies of shareholder presentations and communications are available on the Company's website.

Annual General Meeting

The Board encourages shareholders to exercise their right to vote at the Annual General Meeting. The notice calling the meeting and related papers are sent to shareholders at least 21 clear days before the meeting and separate resolutions are proposed on each substantially separate issue.

All shareholders are encouraged to attend and participate through a question and answer session and individual Directors or, where appropriate, the Chairman of the relevant committee, respond to those questions directly. Shareholders have the opportunity to talk informally to the Directors before and after the formal proceedings. In the event that a significant percentage of shareholders vote against any resolution at a general meeting of the Company, the Chairman, Senior Independent Director and Company Secretary will seek to engage with any such shareholders with a view to addressing their concerns.

Proxy voting announcement

Rather than reading out proxy voting figures at general meetings, printed summaries of all proxy voting on all resolutions will be made available at the meeting and will also be posted on the Company's website after the meeting.

Report of the Nomination Committee

At the start of the year the Committee consisted of me, Lisa Clement and Peter Hickson. Following the completion of the acquisition of HEPGL in March 2015 the Committee remained unchanged although all Non-Executive Directors were invited to attend the meeting as was the new Chief Executive, Owen Michaelson where this was deemed appropriate. Both Lisa Clement and Peter Hickson are considered independent by the Company as they have no day-to-day involvement with the Company. As Chairman, I am not considered independent having previously held an executive position in the Group prior to the acquisition of HEPGL.

Roles and responsibilities

The terms of reference for the Committee are available on the Company's website and were reviewed and updated by the Board in November 2015.

Meetings

The Committee meets at least once a year to arrange for the annual appraisal of the Board and its Committees. Further meetings are arranged, as required, to discharge the Committee's responsibilities in connection with identifying and nominating new Board members. The Committee met three times in 2015.

Work of the Committee

During the year the Committee has carried out the following tasks:

Led the review of the of the Board and Committee membership that would follow the completion of the acquisition HEPGL in March 2015.

The Committee initiated and undertook the recruitment process for a new Finance Director for the Group following the decision taken by Mike Richardson in August 2015 to step down from the role at the year end. Mike Richardson agreed to remain on the Board until the release of the preliminary announcement of annual results in February 2016. This process was successful with Andrew Kirkman joining the Company on 1 January 2016 to undertake the role of Finance Director.

Subsequent to the year end, Peter Hickson has announced that he will not be seeking re-election as a Non-Executive Director at the Annual General Meeting in 2016. As a result the Committee has embarked on a process to secure a replacement that has the skills and experience required of a new Non-Executive Director. To undertake the process the Committee appoints suitably qualified search agencies for each role. In undertaking recruitment for Board members, the Committee also seek to ensure that the procedures are adequate to identify all suitably qualified candidates under the diversity recommendations of the UK Corporate Governance code.

Jonson Cox

Chairman

31 March 2016

Directors' report on remuneration



Peter Hickson
Chairman
Remuneration
Committee

Introduction

On behalf of the Board, I am pleased to present the Remuneration Committee's report of the Directors' remuneration for the year ended 31 December 2015 for which we will be seeking approval at the Annual General Meeting on 26 April 2016. This report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules and the principles of the UK Corporate Governance Code on a comply or explain basis.

In accordance with the Regulations, the following sections of the Remuneration Report are subject to audit: the single total figure of remuneration for Directors and accompanying notes (pages 39 to 43); scheme interests awarded during the financial year (page 42); payments to past Directors (page 43). The statement of Directors' shareholdings and share interests (page 45). The remaining sections of the report are not subject to audit.

As previously announced, following the publication of the preliminary announcement of results on 24 February 2016, Mike Richardson has stepped down from the Board and has been succeeded by Andrew Kirkman, who was appointed to the Board with effect from 1 January 2016. Both the future remuneration arrangements for Andrew Kirkman and the termination arrangements for Mike Richardson are outlined in the Annual Report on Remuneration below.

As foreshadowed in last year's prospectus, the Committee has carried out a review of our executive remuneration arrangements during the year.

As a result of this review we are proposing the introduction of a new long-term incentive plan, together with shareholder guidelines, aimed at ensuring our executive pay is appropriately aligned with shareholder interests and our strategy. During the year we consulted with our major shareholders to receive feedback on our proposals and subsequently updated our proposal to reflect this feedback.

In light of this review, fixed remuneration is broadly unchanged from the arrangement we put in place

at the time of our acquisition of full control of HEPGL in March 2015. Owen Michaelson's salary has been increased by 3% to £293,550 for 2016, in line with increases across the broader employee population. Our new Finance Director, Andrew Kirkman, was appointed on an annual salary of £200,000. Owen Michaelson's pension arrangements remain unchanged and Andrew Kirkman's have been set on the same basis; Executive Directors may elect to receive a pension contribution of 10% of salary or an equivalent cash allowance.

The annual bonus will continue to operate on the basis of a combination of financial performance (including operating profit, cash flow, net asset value gains and sales volume for 2015 and 2016), and personal objectives. Bonus opportunities for 2016 will remain unchanged at 100% of salary for the CEO and 75% of salary for the new FD. Our policy allows an increase in exceptional circumstances to 150%, but any amount awarded above 100% must be delivered in shares.

During the year the Committee determined to introduce a new long-term incentive plan, which will begin vesting in 2019 following the final vesting of the previous Harworth Estates Long-term Incentive Plan. Full details of the previous plan are set out on page 33 of the Policy Report of the Annual Report on Remuneration. The new long-term incentive plan will provide for a normal annual award of up to 100% of salary for Executive Directors, or up to 200% of salary in exceptional circumstances, such as on recruitment. Awards will vest after three years based 50% on total return and 50% on total shareholder return relative to Harworth's peers. Following consultation it was agreed that an additional 2-year holding period would apply to 50% of vested shares to ensure continued alignment of management and shareholder interests. Full details of the proposed LTIP are set out on page 33 of the Policy Report and proposed awards to Executive Directors' for 2016 are outlined on page 44 of the Annual Report on Remuneration.

The Committee is also proposing to introduce shareholding guidelines of 100% of gross salary for Executive Directors. Until the relevant shareholding levels are acquired, 50% of any long-term incentive vesting to the relevant director (after payment of tax) will be required to be held.

The above changes are outlined in Harworth Group's remuneration policy (pages 31 to 38) which will be put to a binding shareholder vote at the 2016 AGM, at which time the annual report on remuneration will also be put to shareholders for a non-binding vote. In accordance with Listing Rule 9.4, a shareholder vote will also be held at the 2016 AGM regarding the introduction of the new long-term incentive plan ('LTIP') outlined in this Report.

We hope to receive your support for the remuneration arrangements outlined in the rest of this report.

Peter Hickson
31 March 2016

Directors' remuneration policy

Harworth Group aims to balance the need to attract, retain and motivate Executive Directors and other senior executives of an appropriate calibre with the need to be cost effective, whilst at the same time rewarding exceptional performance. The Committee has designed a remuneration policy that balances those factors, taking account of prevailing best practice, investor expectations and the pay increases made generally to employees of the Group.

In addition to the above, the remuneration policy for the Executive Directors and other senior executives takes account of the following principles:

- A significant proportion of remuneration should be tied to the achievement of specific and stretching performance conditions that align remuneration with the creation of shareholder value and the delivery of the Group's strategic plan;
- There should be a focus on sustained long term performance, with performance measured over clearly specified timescales, encouraging executives to take action in line with the Group's strategic plan, using good business management principles and taking well considered risks; and
- Individuals should be rewarded for success, but steps should be taken, within contractual obligations, to prevent rewards for failure.

This section of the report sets out the Policy for Executive Directors which will be put to a binding shareholder vote at the 2016 AGM. The Policy will come into effect from 1 January 2016.

Directors' report on remuneration

continued

Policy table

| Function | Operation | Opportunity | Performance metrics |
|--|--|--|--|
| Base salary To recognise the individual's skills and experience and to provide a competitive base reward. | Base salaries are reviewed annually, with reference to: salary levels for similar roles at comparable companies, to individual contribution to performance; and to the experience of each Executive. Any adjustments will be effective 1 January in the year following review. | Any base salary increases are applied in line with the outcome of the review as part of which the Committee also considers average increases across the Group. In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with those of salaried employees as a whole. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain market competitive. | None |
| Pension To provide an opportunity for executives to build up income on retirement. | All Executives are either members of the Group pension scheme or receive a cash pension allowance. Salary is the only element of remuneration that is pensionable. | Executive Directors receive a pension contribution of 10% of salary or an equivalent cash allowance. | None |
| Benefits To provide benefits which are competitive in the market in which the executive is employed. | Executives receive benefits which consist primarily of the provision of a car allowance and fuel, although can include any such benefits that the Committee deems appropriate. | Benefits vary by role and individual circumstances; eligibility and cost is reviewed periodically. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially (e.g. increases in insurance premiums). | None |
| Annual bonus To incentivise and reward strong performance against financial and personal annual targets, thus delivering value to shareholders and being consistent with the delivery of the strategic plan. | Performance measures, targets and weightings are set at the start of the year. The scheme is based on a combination of financial performance and personal objectives. At the end of the year, the Remuneration Committee determines the extent to which targets have been achieved. Bonus payments are delivered in cash save where the exceptional provision for a bonus up to 150% is used. In which case, the Remuneration Committee has the discretion to defer any bonus above 100% of salary into shares in the Company for up to three years, subject to malus provisions. Malus (of deferred shares) and clawback (of any bonus paid) may be applied during employment or for two years post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Committee considers appropriate. | For Executive Directors, the normal maximum annual bonus opportunity is 100% of base salary. 50% of maximum annual bonus opportunity will be paid at Target and 100% at Maximum, with straight-line vesting between each. The Committee may set a Threshold level of performance for which no more than 10% of maximum would be paid. For FY2016, the maximum annual bonus opportunity will be 100% of salary for the CEO and 75% of salary for the FD. | Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year. The measures include financial measures and personal performance objectives. Financial measures will be weighted appropriately each year according to business priorities. Measures may include, but are not limited to, growth in net assets, maintaining free cash headroom, operating profit, meeting banking covenants and capital structure. No less than 75% of the annual bonus will be based on financial measures. Personal objectives are set annually to reflect individual contribution to the Group's annual strategic plan, developed in line with shareholder expectations. No more than 25% of the annual bonus will be based on personal objectives. The personal element shall not pay out unless there is a payout under the financial element. Overall payout under the annual bonus may be subject to additional underpins, determined by the Committee at the start of the financial year. The Committee has discretion to adjust the formulaic bonus outcomes in exceptional circumstances to ensure alignment of pay with performance. Any such adjustments would be fully explained in future Remuneration Reports. Further details of the measures, weightings and targets applicable are provided in the Annual Report on Remuneration. |

| Function | Operation | Opportunity | Performance metrics |
|--|---|--|--|
| LTIP To drive sustained long-term performance that supports the creation of shareholder value. (The Directors are proposing the adoption of a new LTIP scheme based on this policy at the Annual General Meeting in April 2016). | <p>Under the long-term incentive plan ('LTIP') annual awards of shares or nil-cost options may be made to participants. Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate.</p> <p>Malus (of any unvested LTIP) and clawback (of any vested LTIP) may be applied during employment or for two years post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes, a significant health and safety event, or environmental incident.</p> | <p>The LTIP provides for a normal annual award of up to 100% of salary for Executive Directors. In exceptional circumstances, such as on recruitment, awards of up to 200% of salary may be made.</p> <p>Up to 25% of each element of the LTIP will be paid for achieving Threshold performance against each metric.</p> <p>The Committee has the discretion to authorise a payment, in cash or shares, equal to the value of dividends which would have accrued on vested shares during the vesting period.</p> | <p>Vesting of LTIP awards is subject to continued employment and performance against at least two measures, which are currently as follows:</p> <ul style="list-style-type: none"> Group Total Return ('TR'); and Relative Total Shareholder Return ('TSR') <p>The Committee has the discretion to adjust the performance measures to ensure that they continue to be linked to the delivery of Company strategy.</p> <p>Overall vesting under the LTIP may be subject to additional underpins, determined by the Committee prior to the grant of each award.</p> <p>Awards made under the LTIP will have a performance period of at least three years and a minimum vesting period of three years. A minimum of 50% of any vested shares will be required to be held for an additional period of at least two years following vesting. Nil-cost options may be exercised between the date of vesting and within ten years of the date of grant.</p> <p>The Committee has discretion to adjust the formulaic LTIP outcomes in exceptional circumstances to ensure alignment of pay with performance. Any such adjustments would be fully explained in the DRR.</p> <p>Details of the targets to be used in future LTIP grants are included in the Annual Report on Remuneration.</p> |
| All employee share schemes | Although the Company does not currently operate any such scheme, the introduction of an all employee share scheme is under review and the Committee intends that executive directors should be eligible to participate if such a scheme is introduced in the next three years. Full information on the operation of such a scheme will be provided in the Directors' Remuneration Report following its introduction. | | |

Notes to the policy table

Harworth Estates LTIP

Both Executive Directors participate in the Harworth Estates LTIP, which is due to vest in 2018 following approval of the 2017 accounts. No further awards will be made under this incentive plan. The first cycle of the new LTIP (outlined in the policy table above) will be paid in 2019, following completion of the performance period on 31 December 2018. Following completion of the acquisition of the 75.1% of HEPGL in March 2015, the Remuneration Committee met to review the targets in the changed circumstance of HEPGL. Minor changes were made to the target structure to bring this more in line with a standard Total Return scheme measurement of performance. No further changes will be made. For reference, the operation of the Harworth Estates LTIP was as follows:

| Function | Operation | Opportunity | Performance metrics |
|--|--|--|---|
| Harworth Estates LTIP One-off plan to reward value created over five years from 1 January 2013, immediately following the separation of HEPGL into a standalone company. | <p>Under the long-term incentive plan (LTIP) participants were awarded a one-off award of LTIP units from a pool of 1,000 units.</p> <p>Any payments up to £5,000 per unit will be made within 60 days of the 2017 accounts being approved. Any payment above £5,000 will be paid 50% within 60 days of the 2018 accounts being approved and 50% within 60 days of the 2019 accounts being approved. Participants may take early redemption of units following approval of the 2015 and 2016 accounts at a discounted value based on performance.</p> <p>Any units paid may be subject to clawback during employment or for 2 years post-termination in the event of material financial restatement.</p> | <p>If Threshold level of value created is not achieved, units will have no value. If it is achieved the value of 1 unit will be £600, increasing on a straight-line basis to £2,600 for Target and £5,000 for Stretch. Above Stretch, an additional 50p per unit will be paid for each additional £100,000 of value created.</p> | <p>The value of each LTIP unit depends on the £ value created, i.e. the growth in net asset value, dividends paid and the reduction in net debt level.</p> <p>All payments will be subject to achievement of a minimum underpin that one third of value created comes from disposal proceeds.</p> <p>Further detail on the performance metrics and targets can be found in the Annual Report on Remuneration.</p> |

Directors' report on remuneration

continued

Performance measure selection and approach to target setting

The measures used under the annual bonus plan are selected annually to reflect the Group's main objectives for the year and reflect both financial and personal contribution to the strategic plan, developed in line with shareholder expectations. Additional underpins may be set, for example to ensure appropriate consideration of all relevant aspects of health and safety.

The Committee considers the combination of measures in the LTIP to be appropriate to our business and fully aligned with our strategy and with shareholders' interests. Total Return supports Harworth's key strategic objective to grow NAV (plus cash returns). Relative TSR captures market-to-book ratio, is the best measure to capture creation of shareholder value and rewards management for outperformance of the company's peers. Details of the comparator group used for each LTIP grant are included in the Annual Report on Remuneration. Additional underpins may be set to ensure that the underlying value created is sustainable.

Targets applying to the bonus and LTIP are reviewed annually, based on a number of internal and external reference points. Performance targets are set to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given year. Under the LTIP, total return targets reflect the company's long-term strategic aims, and targets for relative TSR outperformance of peers range from median vs. peers for Threshold vesting, to approximately upper quartile performance vs. peers for full vesting.

Remuneration policy for other employees

Harworth's approach to annual salary reviews is consistent across the Group, with consideration given to the level of experience, responsibility, individual performance and salary levels in comparable companies.

36 employees are eligible to participate in an annual bonus scheme with similar metrics to those used for the Executive Directors. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

Senior managers (currently 5 individuals) are eligible to participate in the new LTIP. Performance conditions are consistent for all participants, while award sizes vary by organisational level.

Shareholding guidelines

The Committee continues to recognise the importance of aligning Executive Directors' interests with shareholders' through building up a significant shareholding in the Company. Shareholding guidelines are in place that require Executive Directors to acquire a holding (excluding shares held conditionally pursuant to LTIP awards) equivalent to 100% of base salary. Until the relevant shareholding levels are acquired, 50% of any shares vesting to the relevant Director under the new LTIP (post-payment of tax) are required to be held. Details of the Executive Directors' current personal shareholdings are provided in the Annual Report on Remuneration.

Non-Executive Director remuneration

Subject to annual re-election by shareholders, Non-Executive Directors are appointed for an initial term of approximately three years. Subsequent terms of three years may be awarded. Although not a requirement

| Non-Executive Director | Date of service contract | all Non-Executive Directors offer themselves for re-election at each Annual General Meeting, the appointment and re-appointment and the remuneration of Non-Executive Directors are matters reserved for the full Board. Peter Hickson will stand down from the Board following the conclusion of this year's Annual General Meeting and has not offered himself for re-election. |
|------------------------|--------------------------|---|
| Martyn Bowes | 24 March 2015 | |
| Lisa Clement | 29 November 2011 | |
| Jonson Cox | 24 March 2015 | |
| Tony Donnelly | 24 March 2015 | |
| Peter Hickson | 30 June 2011 | |
| Steven Underwood | 27 July 2010 | |

The Non-Executive Directors are not eligible to participate in the Company's performance related bonus plan, long-term incentive plans or pension arrangements.

Fees payable for the services provided by Steven Underwood are paid to Peel Management Limited. Full terms and conditions for each of the Non-Executive Directors are available at the Company's registered office during normal business hours and will be available at the AGM for 15 minutes prior to the meeting and during the meeting.

Details of the policy on fees paid to our Non-Executive Directors are set out in the table below:

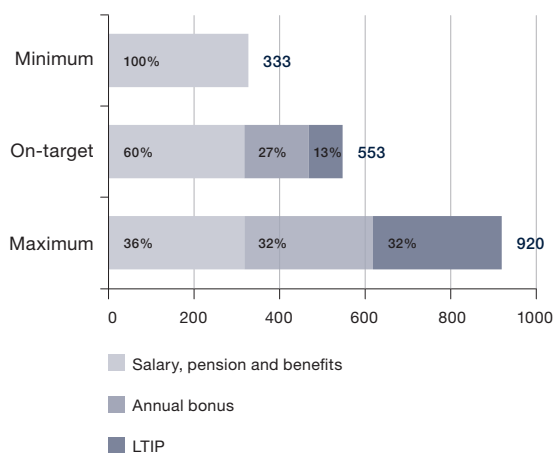
| Function | Operation | Opportunity | Performance metrics |
|---|---|---|---------------------|
| Fees To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company. | Fee levels are reviewed annually, with any adjustments effective 1 January in the year following review. The fees paid to the Chairman are determined by the Committee, whilst the fees of the Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chairman of any of the Board's Committees. Fee levels are benchmarked against similar roles at comparable companies. Time commitment and responsibility are taken into account when reviewing fee levels. | Non-Executive Director fee increases are applied in line with the outcome of the annual fee review. Fees for the year commencing 1 January 2016 are set out in the Annual Report on Remuneration. Fee levels will be next reviewed during 2016, with any increase effective 1 January 2017. It is expected that increases to Non-Executive Director fee levels will be in line with salaried employees over the life of the policy. However, in the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level. | None |

Pay for performance scenarios

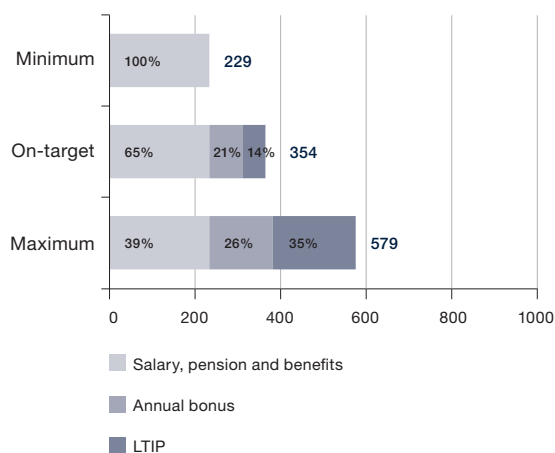
The charts below provide an illustration of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on Harworth's remuneration policy, applied to the base salaries effective 1 January 2016. The annual bonus and LTIP are based on the level of maximum opportunities applied in 2016. Note that the LTIP awards granted in a year do not normally vest until the third anniversary of the date of grant, and the projected value is based on the face value at award rather than vesting (i.e., the scenarios exclude the impact of any share price movement over the period).

Owen Michaelson



Andrew Kirkman



Directors' report on remuneration

continued

The 'minimum' scenario reflects base salary, pension and benefits (i.e., fixed remuneration) which are the only elements of the Executive's remuneration packages not linked to performance. Base salaries and pensions (10% of salary) as at 1 January 2016 as set out on page 43, benefits are based on expected payments in FY2016.

The 'on-target' scenario reflects fixed remuneration as above, plus bonus payout of 50% of maximum annual bonus opportunity (50% of salary for Owen Michaelson and 37.5% of salary for Andrew Kirkman for FY2016) and LTIP threshold vesting at 25% of maximum award (25% of salary for both EDs for FY2016).

The 'maximum' scenario reflects fixed remuneration, plus full payout of all incentives (annual bonus of 100% of salary for Owen Michaelson and 75% of salary for Andrew Kirkman and LTIP of 100% of salary for both EDs for FY2016).

Approach to recruitment remuneration

External appointment

In the cases of hiring or appointing a new Executive Director from outside the Company, the Remuneration Committee may make use of all the existing components of remuneration, as follows:

| Component | Approach | Maximum annual grant value |
|---------------------|--|----------------------------|
| Base salary | The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases subject to the individual's development in the role. | |
| Pension | New appointees will receive pension contributions or an equivalent cash supplement in line with existing policy. | |
| Benefits | New appointees will be eligible to receive benefits which may include (but are not limited to) the provision of a company car or cash alternative and fuel allowance and any necessary relocation expenses. | |
| Annual bonus | The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal element will be tailored to each executive. | 150% of salary |
| LTIP | New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table. | 200% of salary |

In determining appropriate remuneration, the Remuneration Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both Harworth and its shareholders. The Committee may make an award in respect of a new appointment to 'buy out' remuneration arrangements forfeited on leaving a previous employer on a like-for-like basis, which may be awarded in addition to the remuneration structure outlined in the table above. In doing so, the Committee will consider relevant factors including time to vesting, any performance conditions attached to these awards and the likelihood of those conditions being met. Any such 'buy-out' awards will typically be made under the existing annual bonus and LTIP schemes, although in exceptional circumstances the Committee may exercise the discretion available under Listing Rule 9.4.2 R to make awards using a different structure. Any 'buy-out' awards would have a fair value no higher than the awards forfeited.

Internal promotion

In cases of appointing a new Executive Director by way of internal promotion, the Remuneration Committee and Board will be consistent with the policy for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements. The Remuneration policy for other employees is set out on page 34. Incentive opportunities for below Board employees are typically no higher than Executive Directors, but measures may vary to provide better line-of-sight.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Remuneration Committee will utilise the policy as set out in the table on page 45. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director and /or as Chairman of a Board Committee.

Service contracts and treatment for leavers and change of control

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee. Each of the Executive Directors has a rolling service contract requiring six months' notice of termination on either side. Such contracts contain no specific provision for compensation for

| Executive | Date of service contract | loss of office, other than an obligation to pay for any notice period waived by the Company, where pay is defined as salary plus benefits only. Executive Director service contracts are available to view at the Company's registered office. |
|-----------------|--------------------------|--|
| Owen Michaelson | 24 March 2015 | |
| Andrew Kirkman | 1 January 2016 | |

When considering exit payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the annual bonus and LTIP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

| Reason for leaving | Calculation of vesting / payment |
|----------------------------|--|
| Annual bonus | |
| Resignation | No annual bonus payable. |
| 'Good' leaver ¹ | Cash bonuses will typically be paid to the extent that financial and individual objectives set at the beginning of the plan year have been met. Any resulting bonus will typically be pro-rated for time served during the year. The Committee retains discretion to waive performance and/or time pro-rating in appropriate circumstances. |
| Change of control | |
| LTIP | |
| Resignation | Outstanding awards lapse. |
| 'Good' leaver ¹ | The Committee determines whether and to what extent outstanding awards vest based on the extent to which performance conditions have been achieved and the proportion of the vesting period worked. The Committee retains discretion to waive performance and/or time pro-rating in appropriate circumstances. |
| Change of control | The determination of vesting will be made as soon as reasonably practical following the end of the performance period or such earlier date as the Committee may agree (within 12 months in the event of death). In the event of a change of control, awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate. |

¹ 'Good leaver' is defined as a participant ceasing to be employed by the Group by reason of death, disability, ill health, redundancy, retirement or any other reason that the Committee determines in its absolute discretion.

External appointments

The Board will consider any request by an Executive Director to take potential non-executive appointments on a case by case basis, taking account of the overriding requirements of the Group and the extent to which the NED opportunity supports the agreed personal development objectives of the Executive.

Consideration of conditions elsewhere in the Company

When making decisions on Executive Director remuneration, the Committee considers pay and conditions across the Group. Prior to the annual salary review, the HR Manager provides the Committee with a summary of the proposed level of increase for overall employee pay. The Remuneration Committee does not formally consult with employees on the executive remuneration policy and framework.

Consideration of shareholder views

The Remuneration Committee maintains a regular dialogue with its major shareholders. In early 2016, we conducted a shareholder consultation regarding this Policy. Overall shareholders were supportive of the proposals for executive directors' remuneration and the introduction of a new share-based long-term incentive for the top executives; following feedback we updated our proposal to include a two-year holding

Directors' report on remuneration

continued

period on 50% of vested LTIP shares and to base 30% of the TSR element of the LTIP on outperformance of the FTSE Real Estate Investment Services Index for 2016. The Committee will continue to monitor trends and developments in corporate governance, market practice and shareholder views to ensure the structure of the executive remuneration remains appropriate.

Annual report on remuneration

Remuneration committee membership

The primary role of the Committee is to:

- Determine and agree with the Board the remuneration policy for the Chairman, Executive Directors and officers of the Board.
- Determine the remuneration package for each of the Executive Directors and officers.
- Confirm remuneration arrangements for other members of the senior management team.

Remuneration Committee activities during the year were as follows:

- Conducted a benchmarking exercise of the current Chief Executive Officer's salary and total remuneration.
- Determined the salary and other remuneration arrangements for the incoming Finance Director, in light of a benchmarking exercise of salary and total remuneration.
- Reviewed and approved salary increases for other senior management for 2015.
- Reviewed and approved the Executive Directors' performance against 2014 annual objectives; determined bonuses payable.
- Reviewed and approved a new long-term incentive plan (2016 LTIP scheme), see separate resolution and/or Policy Report and Chairman Statement for further details.
- Reviewed and approved the establishment of a Deferred Share Bonus Plan for 41 employees and Directors of Harworth Estates who were awarded a success bonus on the completion of the acquisition of Harworth Estates by the Company
- Consulted with major shareholders and updated our proposals for Executive Directors' remuneration to reflect their feedback.
- Determined performance targets for the Executive Directors' 2015 bonus in line with the Company's strategic plan.
- Agreed termination arrangements for outgoing Directors (Jeremy Hague and Mike Richardson).
- Prepared the Directors Remuneration Report.

The Committee's terms of reference are set out on the Company's website and can be found at www.harworthgroup.com/investors/governance/.

During the year, the Committee consisted of two independent Non-Executive Directors together with the Chairman of the Company, who is deemed non-independent, due to his role in the restructuring of the Group. He was appointed as a member of the committee following the completion of the acquisition of HEPGL to bring experience from his previous role on the Remuneration committee of HEPGL:

- Peter Hickson, Remuneration Committee Chairman and Senior Independent Director, appointed 30 June 2011, attended five out of five meetings during the year.
- Lisa Clement, Independent Non-Executive Director, appointed 29 November 2011, attended five out of five meetings, for which he was a member of the Committee, during the year,
- Jonson Cox, Non-Executive Chairman, appointed 24 March 2015, attended four out of four meetings, for which he was a member of the Committee, during the year.

The Board will undertake an annual evaluation of the Committee's performance to ensure continued ability to independently and objectively review remuneration at the Group starting in 2016. It was not considered

appropriate to undertake a review in 2015 immediately following the changes that arose on the acquisition of Harworth Estates.

Advisers

The Company Secretary is Secretary to the Committee. The following individuals may be invited to attend Committee on certain occasion to provide advice and to help the Committee to make informed decisions. No individuals are involved in decisions relating to their own remuneration.

- Owen Michaelson, Chief Executive Officer
- Laura Ibbotson, HR Manager
- Kepler Associates, a brand of Mercer Ltd.

During the year, the Committee appointed Kepler Associates, a brand of Mercer and part of the MMC group of companies (Kepler), to provide independent advice on executive remuneration matters. Kepler was appointed by the Committee following a competitive selection process, through which the Committee has satisfied itself that Kepler's advice is objective and independent. Kepler is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consulting Group's website at www.remunerationconsultantsgroup.com. Services provided by Kepler included advice on remuneration packages for executives and assistance with a review of their incentive arrangements, drafting the Director's remuneration report, as well as other ad-hoc advice related to remuneration. The fees paid to Kepler in relation to advice provided to the Committee for 2015 were £28,050. The Committee evaluates the support provided by Kepler annually and is comfortable that they do not have any connections with Harworth Group that may impair their independence. Other than advice on remuneration, no other services were provided by Kepler (or any other part of the MMC group of companies) to the Group.

External appointments

None of the Executive Directors currently hold external appointments.

Single total figure of remuneration for Executive Directors

The table below sets out a single figure for the total remuneration received by each Executive Director of the company for the financial year ended 31 December 2015 and the previous year, representing payments received in respect of the period for which each individual was a Director of the Company.

| | Owen Michaelson ¹ | Mike Richardson ¹ | Jeremy Hague ³ | | Jonson Cox ² Executive to 24 March 2015 | |
|-----------------------------------|------------------------------|------------------------------|---------------------------|----------------|---|----------------|
| | 2015 £ | 2015 £ | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| Salary | 213,750 | 136,144 | 39,291 | 118,000 | 182,500 | 250,000 |
| Taxable benefits ⁴ | 9,428 | 7,524 | 3,333 | 14,000 | 4,000 | 16,000 |
| Single-year variable ⁵ | 235,003 | 86,383 | 15,000 | 40,000 | 100,000 | – |
| Multiple-year variable | – | – | – | – | – | – |
| Pension benefit ⁴ | 21,375 | 13,614 | 7,858 | 24,000 | – | 75,000 |
| Total | 479,550 | 243,665 | 65,482 | 196,000 | 286,500 | 341,000 |

¹ Owen Michaelson and Mike Richardson became executive directors of Harworth Group plc with immediate effect upon its listing on 24 March 2015.

² Jonson Cox stepped down from his role as Executive Chairman on 24 March 2015 and remained in the role in a non-executive capacity with a reduced fee arrangement replacing the salary he had previously received. The above figures include £120,000 in non-executive fees.

³ Jeremy Hague stepped down as a director of the Company and left with effect from 30 April 2015.

⁴ Taxable benefits for 2015 consist primarily of car and fuel allowance of £8,682, for Owen Michaelson, £7,448 for Mike Richardson, £3,333 for Jeremy Hague (£10,000 for 2014) and £4,000 for Jonson Cox (£16,000 for 2014). Other benefits included life assurance and health insurance.

⁵ Annual bonus payments for performance during 2015 were received by Owen Michaelson and Mike Richardson, details of which are included below in "Incentive outcomes for year ending 31 December 2015" below. The Annual bonus for 2015 was paid in March 2016. Jeremy Hague received a bonus payment for 2015 based on his contribution to the successful re-listing of the Company of £15,000.

⁶ Jonson Cox received a one-off transaction bonus of £100,000 for completion of the acquisition of HEPGL.

⁷ No LTIP awards vested based on performance periods ending during 2014 or 2015.

Directors' report on remuneration

continued

⁸ Owen Michaelson, Mike Richardson and Jeremy Hague all participated in the company's defined contribution scheme, in relation to which the Company contributed 10% of salary to Owen Michaelson and Mike Richardson, 20% of salary to Jeremy Hague and 30% of salary to Jonson Cox for the period that he held an executive role.

Single total figure of remuneration for Non-Executive Directors

The table below sets out a single figure for the total remuneration received by each Non-Executive Director of the company for the financial year ended 31 December 2015 and the previous year, representing payments received in respect of the period for which each individual was a director of the Company. Jonson Cox received £120,000 in respect of his role as Non-Executive Chairman from 24 March 2015. His figures are shown in the totals for Executive Directors' remuneration above which reflects his role as Executive Chairman for the period to 24 March 2015.

| | Base fee | | Committee fees | | SID fee | | Total | |
|---------------------------|-----------|-----------|----------------|-----------|-----------|-----------|-----------|-----------|
| | 2015 £ | 2014 £ | 2015 £ | 2014 £ | 2015 £ | 2014 £ | 2015 £ | 2014 £ |
| L. Clement | 41,875 | 40,000 | 7,125 | 6,000 | n/a | n/a | 49,000 | 46,000 |
| P. Hickson ¹ | 65,000 | 65,000 | – | – | – | – | 65,000 | 65,000 |
| S. Underwood ² | 41,875 | 40,000 | n/a | n/a | n/a | n/a | 41,875 | 40,000 |
| T. Donnelly | 31,875 | n/a | n/a | n/a | n/a | n/a | 31,875 | n/a |
| M. Bowes | 31,875 | n/a | n/a | n/a | n/a | n/a | 31,875 | n/a |

¹ On appointment to what was UK Coal plc, Mr Hickson agreed a unitary fee for his role as Non-Executive Director, Senior Independent and Remuneration Committee Chairman. This fee reflected the substantial commitment as SID to the restructuring of the Group. The fee has not been reviewed or increased in the period.

² The fees for Steven Underwood are paid to Peel Management Ltd.

Incentive outcomes for year ending 31 December 2015

Annual bonus

Annual bonuses for 2015 were paid to both Executive Directors based on a combination of financial performance and personal objectives. Maximum annual bonus opportunities were 100% of salary for Owen Michaelson and 75% of salary for Mike Richardson. Performance was measured based 75% on financial and 25% on personal performance for Owen Michaelson and 67% and 33% on each respectively for Mike Richardson. Performance against targets and subsequent vesting of 2015 annual bonuses are set out in the tables below. The bonus calculation takes into account salary paid in respect of the period prior to appointment as directors (24 March 2015).

Financial performance outcomes

For 2015 bonuses, no bonus is paid for achieving below Target, 50% of bonus is paid for achieving Target, increasing on a straight-line basis to 100% of bonus paid for achieving Stretch performance.

| Measure | Weight (% of financial performance) | Performance targets (£000s) | | Actual performance | Vesting outcome |
|---|---|---------------------------------|-----------|-----------------------|--------------------|
| | | 'Target' | 'Stretch' | | |
| Operating profit less financial expenses | 25% | 500 | 2,500 | 506 | 50% |
| Net cashflow | 25% | 7,000 | 13,000 | 15,317 | 100% |
| Total value gains | 30% | 30,000 | 37,500 | 40,395 | 100% |
| Total sales | 20% | 42,000 | 48,000 | 51,079 | 100% |
| Total financial vesting (sum product of weighting and vest %) | | Owen Michaelson (75% weighting) | | | 87.5% |
| | | Mike Richardson (67% weighting) | | | 87.5% |

Personal performance outcomes

| Executive | Achievements during the year | Vesting of component |
|-------------------------------|---|----------------------|
| O. Michaelson (25% weighting) | <ul style="list-style-type: none"> Strategic development of the business to meet or exceed the presentations given to investors at the time of the acquisition of Harworth Estates To ensure organisational health To deliver personal leadership of the team To deliver a business plan for 2016 based on a strong outcome for 2015 Mitigate the impact of mining closure and manage the recovery of the land assets | 80% |
| M. Richardson (33% weighting) | <ul style="list-style-type: none"> Facilitating a smooth and orderly transition to new Finance Director Effective management and ownership of investor relations including positive feedback on roadshows and site visits Development of tax strategy Business positioned for effective headroom in debt facilities Established effective financial reporting Development of 5 year business plan demonstrating required rate of return | 100% ¹ |

¹ Given Mike Richardson's resignation during the year the Committee used its judgement to focus his objectives on achieving a smooth handover to the incoming FD. The Committee determined this had been achieved beyond expectations, and assessed his personal performance outcome accordingly.

Overall bonus outcomes

| Executive | Financial | | Personal vesting | | Overall bonus outcome | |
|---------------|-----------|---------|------------------|---------|-------------------------------------|---------|
| | Weighting | Vesting | Weighting | Vesting | Sum product of weighting and vest % | |
| O. Michaelson | 75% | 87.5% | 25% | 80% | 85.625% | 85.625% |
| M. Richardson | 67% | 87.5% | 33% | 100% | 91.7% | 68.8% |

Harworth Estates LTIP

Details of the operation of the Harworth Estates LTIP can be found in the notes to the policy table on page 33. Outstanding awards and performance conditions for the Harworth Estates LTIP are as follows:

| Executive | Number of units granted | £ value created | | |
|---------------|-------------------------|-----------------|--------|---------|
| | | Threshold | Target | Stretch |
| O. Michaelson | 275 | £121m | £150m | £231m |
| M. Richardson | 60 | | | |

As disclosed in the prospectus, the composite metrics for performance are the growth in net asset value, dividends paid and the reduction in net debt level. Overall, the Target level of vesting will be met by an average absolute shareholder return of approximately 11.5% p.a. and the Stretch level by a 16% p.a. average return. There are provisions for a smaller entry level award from 10% p.a. shareholder return (Threshold) and provisions for continuing awards above Stretch. In translating these targets into value created, the impact of interest, tax and Group costs was miscalculated in the prospectus and targets were detailed to be £140m at Threshold, £169m at Target and £250m at Stretch, respectively. The above targets show the corrected figures, reflecting the inclusion of these items.

Any vesting of units under the Harworth Estates LTIP is subject to one-third of value created coming from disposal proceeds.

Directors' report on remuneration

continued

Percentage change in CEO remuneration

Owen Michaelson was appointed CEO of Harworth Group when he joined the Board upon listing on 24 March 2015, prior to which the Company did not have a CEO. Therefore, the percentage change in CEO remuneration will be disclosed in next year's annual report on remuneration once two years of information are available for comparison.

Relative importance of spend on pay

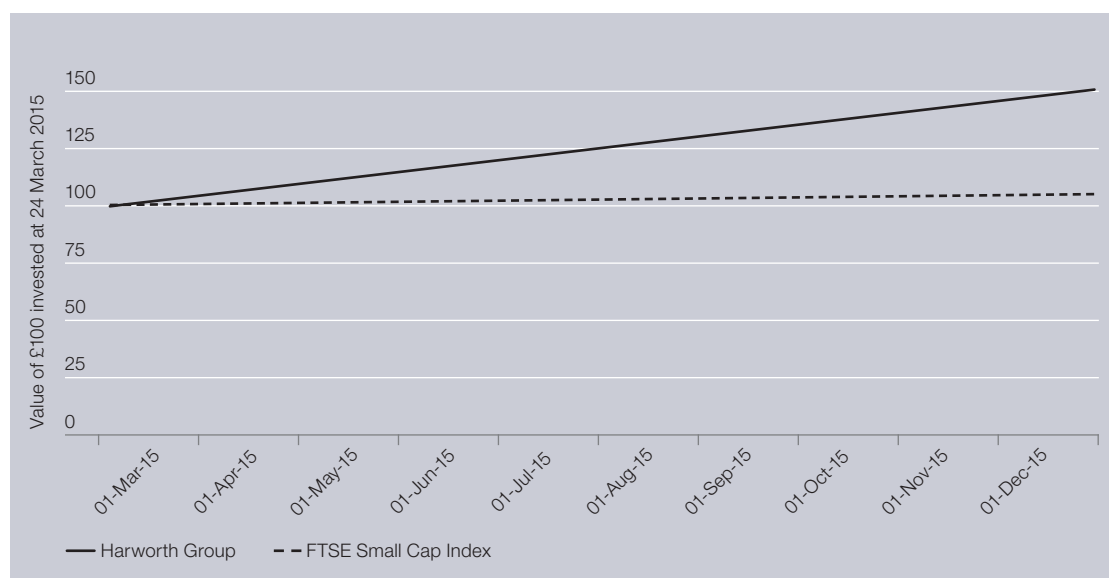
Total employee pay expenditure for the financial year ending 31 December 2015 was £3.52m and for 31 December 2014 was £0.96m. The increase reflects the significant change in number of employees of the Group over the prior year. No distributions to shareholders were made in the year ending 31 December 2015 or the prior year.

Review of past performance

The following graph charts the TSR of the Company and the FTSE Small Cap Index over the period from listing on 24 March 2015 to 31 December 2015, which represents the most appropriate broad index comparison for a company of Harworth's size. The table below details the Chief Executive's 'single figure' remuneration over the same period.

Historical TSR performance

Growth in the value of a hypothetical £100 holding over the period from listing on 24 March 2015 to 31 December 2015:



Historical CEO remuneration

| | 2015 £ |
|--|-----------|
| CEO single figure of remuneration (£000) | 480 |
| STI award as a % of maximum opportunity | 85.6% |
| LTI award as a % of maximum opportunity | n/a |

Scheme interests awarded in 2015

On 25 June 2015 both Michael Richardson and Owen Michaelson were each awarded 214,132 shares in the company at a price of £ 0.11675 under a Deferred Share Bonus Scheme under which 41 employees of Harworth Estates had a small outstanding element of their 2014 bonus settled following the acquisition by the Company. The shares for the two directors and two of the senior managers have a three year retention period and are not subject to any additional performance conditions.

On appointment in January 2016, the new Finance Director was awarded 60 units under the Harworth Estates LTIP, a cash scheme the full details of which are provided in the notes to the Policy Table on page 33. Details of the scheme interests awarded to him on appointment are outlined in detail below.

| Aspect of scheme | Detail |
|--|--|
| Recipient in January 2016 | Andrew Kirkman |
| Type of interest awarded | Units in the Harworth Estates LTIP, a cash scheme, the full details of which are provided on page 33 of the Policy Report. |
| Basis on which the award is made | An award was made to Andrew based on his expected contribution to the management team over the remainder of the performance period. |
| Number of Units awarded | 60 Units |
| Value of Units if minimum performance is achieved | £600 per unit if NAV of £121m is achieved, subject to one-third of value created coming from disposal proceeds. |
| End of performance period | Units will be paid following approval of the 2017 accounts. Participants may take early redemption of units following approval of the 2015 and 2016 accounts at a discounted value based on performance. |
| Performance measures and targets | Outlined on page 41 of the Annual Report on Remuneration in the 'Harworth Estates LTIP' section. |

Exit payments made in the year

Pursuant to the terms of Jeremy Hague's settlement agreement with the Company and Harworth Estates Property Group Limited in relation to his employment with the Company, following the cessation of his employment on 30 April 2015 he received the following payments in addition to those in relation to the fulfilment of his role as an executive director of the Company, which are included in the Single Figure of Remuneration Table on page 39 of the Annual Report on Remuneration.

A termination payment of £75,724 less relevant PAYE deductions due from the Company in relation to Jeremy Hague's employment, paid on 30 April 2015. A payment relating to settlement of the Harworth Estates LTIP arrangements which he had foregone on departure of £45,000.

During the year, the following exit payments were agreed in relation to Mike Richardson's decision to step down from the Board following the publication of the preliminary announcement of results on 24 February 2016. As a good leaver, Mr Richardson would be entitled to benefit from the shares issued to him under the deferred share bonus scheme.

Payments to past Directors

During 2015, a payment of £30,000 was made to Gareth Williams a former director of the Company who resigned from the board and the Company on 7 December 2012 at the time of the 2012 restructuring when he took up a role with Ocanti Opco Limited, (formerly UK Coal Operations Limited). The payment was made in full and final settlement of all claims against the Company.

Implementation of Executive Director's remuneration policy for 2016

Base salary

Positioning of base salary is approached on an individual basis, taking account of advice received from the Committee's independent advisors on the rates of salary for similar roles in selected groups of comparable companies, the individual performance and experience of each Executive and increases awarded to the wider workforce.

The Committee approved the following base salary increases for 2016:

| Executive Director | Annual base salary at 24 March 2015 | Annual base salary at 1 January 2016 | Percentage increase |
|-------------------------|-------------------------------------|--------------------------------------|---------------------|
| O. Michaelson | £285,000 | £293,550 | 3% |
| A. Kirkman ¹ | N/A | £200,000 | N/A |

¹ Andrew Kirkman was appointed Finance Director on 1 January 2016.

Directors' report on remuneration

continued

A typical salary increase of 3% was awarded across the Group at the annual pay review, effective 1 January 2016.

Pension

Executive Directors will continue to receive a pension contribution of 10% of salary or an equivalent cash allowance.

Performance related annual bonus

For 2016 the Committee has approved the following annual bonus opportunities for Executive Directors, unchanged from 2015 maxima. The CEO's bonus will be based 80% on financial measures and 20% on personal objectives, the FD's bonus will be based 75% on financial measures and 25% on personal objectives, as detailed below:

| Executive | Maximum financial bonus opportunity (% of salary) | Maximum personal bonus opportunity (% of salary) | Overall maximum bonus opportunity (% of salary) |
|---------------|--|---|--|
| O. Michaelson | 80% | 20% | 100% |
| A. Kirkman | 56.25% | 18.75% | 75% |

The Committee has reviewed the financial performance measures to ensure they are appropriately aligned with Harworth's strategic plan for the coming year and determined that financial performance for 2016 will be measured against the following financial performance measures:

| Executive | Weight (% of financial bonus opportunity) |
|-----------------------|--|
| Net Asset Value gains | 60% |
| Sales volume | 15% |
| Operating profit | 15% |
| Financial headroom | 10% |

Payment of the personal element is subject to achieving a payout under the financial performance condition. The overall payout of the bonus will be subject to achieving an additional underpin based on Harworth's health and safety record during the financial year and no significant irregularities in contracts or project management systems being identified, including but not limited to financial misstatement or a material breach of banking covenant conditions.

Performance targets are considered to be commercially sensitive at this time, but the Committee intends that they will be disclosed in next year's Annual Report on Remuneration.

LTIP

LTIP awards of 100% of salary will be made in 2016 to Owen Michaelson and Andrew Kirkman under the new 2016 LTIP, the details of which are outlined in the Policy Report on page 33 above. For all participants, awards will vest after three years in accordance with the performance conditions outlined in the table below, subject to achieving the additional underpins that 30% of value created comes from disposal proceeds and that dividends are sustainable. No award will vest below Threshold performance and vesting will increase on a straight-line basis between defined levels of performance.

| Vesting schedule | Total shareholder return ¹ | | | Absolute total return | | |
|------------------|---------------------------------------|--|-------------------------|-------------------------------|-------------------------|-------------------------|
| | Weighting (% of 2016 LTIP) | 3-year TSR outperformance of median p.a. | % of element vesting | Weighting (% of 2016 LTIP) | 3-year Group TR p.a. | % of element vesting |
| Threshold | | 0% | 25% | | 8% | 10% |
| Target | 50% | | | 50% | 10% | 25% |
| Maximum | | 9% | 100% | | 14% | 100% |

¹ For 2016 awards, 70% of the TSR outperformance condition is measured vs. the median of Harworth's 5 closest peers: Inland Homes, Henry Boot, U+I, Urban & Civic and St. Modwen, and 30% vs. the FTSE All Share Real Estate Investment Services Index.

Executive Directors will be required to hold 50% of any shares that vest (post-tax) for an additional two years post-vesting.

Implementation of Non-Executive Director remuneration policy for 2016

Chairman and Non-Executive Director Fees

The Chairman of the Board receives a fee of £160,000 per annum, unchanged from 2015.

With effect from April 2015, Non-Executive Directors' fees were fixed at the following levels for a period of three years:

- Basic Non-Executive Director fee of £42,500 per annum.
- Additional fee payable for chairing the Audit Committee of £7,500 per annum.

Additional fees for chairing the Remuneration Committee and/or fulfilling the role of Senior Independent Director will be considered by the Board during the year and may be applied within the Remuneration Policy for Non-Executive Directors undertaking these roles.

Directors' interests

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 31 December 2015 is set out below.

None of the Directors has a beneficial interest in the shares of any other Group company.

Since 31 December 2015 there have been no changes in the Directors' interests in shares.

Details of Directors' share options are set out in the tables below.

Current shareholding as a percentage of salary is based on the middle market price for the shares on 31 December 2015 of £0.123750.

| | Shares held | | | Options held | | Shareholding requirement % salary/fee | Current shareholding % salary/fee | Requirement met? |
|---------------|--------------------------|--------------------------------------|--|--------------------------|--|--|--------------------------------------|------------------|
| | Owned outright or vested | Vested but subject to holding period | Unvested and subject to perf. conditions | Vested but not exercised | Unvested and subject to continued employment | | | |
| O. Michaelson | 920,688 | 214,132 | – | – | – | 100% | 47.84% | 100% |
| A. Kirkman | – | – | – | – | – | 100% | 0% | 100% |
| J. Cox | 8,665,047 | – | – | – | – | n/a | 670.19% | n/a |
| L. Clement | – | – | – | – | – | n/a | – | n/a |
| P. Hickson | 689,655 | – | – | – | – | n/a | 130.30% | n/a |
| S. Underwood | 278,599 | – | – | – | – | n/a | 81.12% | n/a |
| T. Donnelly | – | – | – | – | – | n/a | – | n/a |
| M. Bowes | – | – | – | – | – | n/a | – | n/a |

Summary of shareholder voting at the 2015 AGM

Results of the vote on the approval of the Directors' Remuneration Report at the Harworth Group plc AGM on 21 May 2015 are as below:

| | Total number of votes | % of votes cast |
|--|-----------------------|-----------------|
| For (including discretionary) | 1,480,941,315 | 99.95 |
| Against | 717,806 | 0.05 |
| Total votes cast (excluding withheld votes) | 1,481,659,121 | |
| Votes withheld | 396,178 | |
| Total votes cast (including withheld votes) | 1,482,055,299 | |

On behalf of the Board

Peter Hickson

Chairman

Remuneration Committee

31 March 2016

Report of the Audit Committee



Lisa Clement
Chairman
Audit Committee

As Chairman of the Company's Audit Committee (the 'Committee'), I am pleased to present the Committee's report to shareholders for the year ended 31 December 2015 as required under the Companies Act 2006 and the UK Corporate Governance Code (the 'Code').

The roles of the Committee

The principal roles of the Committee are to:

- i. to consider the appropriateness of the Group's accounting policies;
- ii. to review and consider the effectiveness of the Group's internal controls, financial controls and risk management;
- iii. to review the Group's half-year and annual financial statements before recommending them to the Board for approval;
- iv. to review the auditors annual strategy report, their independence and objectivity and agree their fees;
- v. to oversee the selection process with regard to external auditors, to consider the appointment and/or re-appointment of the external auditors and make appropriate recommendations through the Board to the shareholders to consider at the Annual General Meeting; and
- vi. to oversee the external audit process.

Under the Code, the Committee is now required to report on the effectiveness of the external audit process and on any significant issues and areas of audit risk in respect of the Group's Annual Report and Financial Statements that were identified in the course of the audit. Relations with the external auditors are managed through a series of meetings and regular discussions and we ensure a high quality audit by challenging the key areas of the external auditors' work.

The Committee is also required to advise the Board as to whether the Group's annual report, taken as a whole, is fair, balanced and understandable, and provides shareholders with the information they need to assess the Group's business model, strategy and performance.

Composition and meetings of the Committee

The Committee members at the beginning of the year were Steven Underwood and myself. Following the completion of the open offer and placing to acquire the 75.1% of HEPGL we did not already own, Tony Donnelly joined the Board and this Committee as an independent Non-Executive Director having previously served as the chair of the HEPGL audit committee. The Board is satisfied that we have recent and relevant financial experience with all members having trained as chartered accountants. The Board also recognise that Steven Underwood is not an independent Non-Executive Director. The Chairman, Chief Executive, Finance Director and the external auditors are invited to attend meetings. The minutes of meetings of the Committee are circulated to all Directors. Going forward the Committee will meet at least four times a year to review the Group's accounting and financial reporting practices, the work of external auditors and compliance with policies, procedures and applicable legislation. The Committee will also seek to build on the work undertaken during the year to establish the regular risk review process and seek to ensure that risk measurement and reporting is embedded within internal process. The Committee will review risk twice a year at regular meetings.

The Committee also reviews the half year and annual financial statements before submission to the Board. During the year under review the Committee reviewed the scope, remit and effectiveness of internal audit provision and the effectiveness of the Group's internal control systems. Following the completion of the acquisition of HEPGL in March 2015, the Committee initiated a detailed risk review of the business during the second half of the year. This was facilitated by PricewaterhouseCoopers LLP and established a more stringent risk reporting regime as well as a new risk register for the business. It also reviewed 'whistle-blowing' arrangements by which employees of the Group may, in confidence, raise concerns about

possible financial or other improprieties. Following the acquisition of HEPGL the Committee has recognised that, whilst the business is not large or complex enough for a separate internal audit function an external facilitated controls review is now appropriate and a whistleblower structure has also been reintroduced to the Group. The terms of reference of the Committee were reviewed by the Board in November 2015 and are available to shareholders on request and are also available on the Company's website at www.harworthgroup.com/investors/governance.

The external auditors

The auditors throughout 2015 have been PricewaterhouseCoopers LLP, and fees payable are detailed below:

| Audit services | 2015 £000 | 2014 £000 |
|--|----------------------|----------------------|
| Fees payable to the Company auditors for the audit of the parent company and the consolidated financial statements | 65 | 30 |
| Fees payable to the Company auditors and its associates for other services: | | |
| – The audit of the Company's subsidiaries pursuant to legislation | 85 | 15 |
| – Audit related assurance services | 15 | 54 |
| – All other assurance related services | – | – |
| – Tax advisory services | 98 | 4 |
| – Tax compliance services | 33 | 15 |
| – Fees in relation to transaction | 529 | – |
| | 825 | 118 |

The Board recognises the importance of safeguarding auditor objectivity and has taken the following steps to ensure that auditor independence is not compromised:

- The Committee reviews the audit appointment periodically;
- It is Group policy that the external auditors will not, as a general rule, provide consulting services to the Group. The external auditors provide audit-related services such as regulatory and statutory reporting as well as work relating to shareholder and other circulars. In 2015 this included work in relation to the acquisition of the Pension Protection Fund's 75.1% shareholding in HEPGL and the facilitation of the risk review process;
- The external auditors may undertake due diligence reviews and provide assistance on tax matters given their knowledge of the Group's businesses. Such provision will, however, be assessed on a case by case basis so that the best placed adviser is retained. The Committee monitors the application of the policy in this regard, for adherence to EU Regulations, and keeps the policy under review;
- The Committee reviews on a regular basis all fees paid for audit, and all other fees, with a view to assessing reasonableness of fees, value of delivery, and any independence issues that may have arisen or may potentially arise in the future;
- The Committee has noted both the revised UK Corporate Governance Code where there is now a recommendation for FTSE 350 companies to put external audit contracts out to tender at least every ten years and the European Union Audit Directive and Regulation which will require rotation of audit firms. The Committee has agreed that following on from the last four years of considerable change to the parent company, it is not appropriate for the Company to seek a tender for audit services but recognises that under the EU directive such a decision may have to be taken by 2020; and
- The independent auditors' report to the Directors and the Committee confirming their independence in accordance with Auditing Standards.

Report of the Audit Committee

continued

Significant issues considered in respect of the Annual Report and Financial Statements

Whilst there were a number of issues considered, it is worth highlighting the most significant:

- **Accounting for the acquisition of HEPGL**
 The most significant event for the business this year was the firm placing and polacing and open offer which raised the necessary funding to allow the acquisition of the 75.1% of the shares in HEPGL not owned by the Group. Areas that were considered and focused upon with regard to the acquisition included being clear which was the acquiring entity recognising that it was a stepped acquisition assessing the fair values of the consideration and acquired assets and liabilities.
- **The valuation of the investment property portfolio**
 The portfolio of investment properties, including assets held for sale, comprises the vast majority of the total assets of the business. Whilst the same independent external valuers were used to value the portfolio, there remain a number of key judgements that are made regarding cost plans, estimated rental values, yields and comparable sales evidence, especially considering that the properties are at different stages of completion. The assumptions and methodology were reviewed for consistency and appropriateness.

The deductions from the expected land values include not just the costs to complete from external firms but also an assessment of the potential restoration costs that may be incurred by the Group if the obligations are not completed by the mining tenants. The adequacy and necessity of the provisions were considered by the Committee as well as satisfying itself that the Group did not exercise control over the mining businesses.
- **Going concern basis**
 This is discussed in the Directors' Report.

Conclusions in respect of the Annual Report and Financial Statements

The production and external audit of the Group's Annual Report and Financial Statements involves a number of parties including, in addition to the external auditor, the Finance Director, Company Secretary, actuary and tax accountants. The Committee has reviewed the controls which are in place to ensure the completeness and accuracy of the Company's financial records. The Committee has also noted the reviews that are undertaken during this process by the various parties including the external auditor to ensure consistency and balance in the presentation of the Annual Report and Financial Statements.

As a result, the Committee has concluded that the annual report for the year ended 31 December 2015, when taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's business model, strategy and performance. The Committee has reported to the Board and the Board's conclusions are set out in the Statement of Directors' Responsibilities included in the Directors' Report which forms part of this annual report.

Re-appointment of the external auditor

Having reviewed the services provided by the external auditor, including any non-audit work provided to the Company, the Committee is satisfied as to the independence of the external auditor. As such it recommends their re-appointment at the forthcoming Annual General Meeting. Details of non-audit fees paid to the external auditor are as set out in this report.

Lisa Clement
 Chairman
 Audit Committee
 31 March 2016

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2015.

Scope of reporting

For the purposes of compliance with paragraphs 4.1.5R(2) and 4.1.8R of the Disclosure and Transparency Rules of the Financial Conduct Authority (the 'FCA'), the required content of the 'management report' can be found in the Strategic Report and this Directors' Report (including the sections of the Annual Report and Accounts incorporated by reference).

The Directors' responsibility for the preparation of the Annual Report and Financial Statements, which forms part of this report, and the statement by the auditors about their reporting responsibilities, are set out on pages 55, and 56 to 61, respectively, of this Annual Report.

A review of the development of the Group and its future prospects is included in the Chairman's and Chief Executive's statements, which are incorporated into this Directors' Report by reference. The Group's business model and strategy are summarised in the Strategic Report.

The FCA's Disclosure and Transparency Rules also require certain information to be included in a corporate governance statement in the Directors' Report. Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance report and the Audit Committee Report, which are incorporated into this Directors' Report by reference.

For the purpose of paragraph 9.8.4CR of the FCA's Listing Rules, the applicable information required to be disclosed can be found in the following locations:

- (1) Details of long-term incentive schemes
Directors' Remuneration Report
- (2) Non-pre-emptive issues of equity for cash
– Not applicable
- (3) Contracts of significance Directors' Report.

All the information cross-referenced above is hereby incorporated by reference into this Directors' Report.

Disclosure of risk management objectives and policies is made on page 21 of the Strategic Report.

The Company

Legal form

Harworth Group plc (the 'Company') is a company incorporated in the United Kingdom with company number 2649340. The principal subsidiaries and associated undertakings are listed on page 82.

Financial results

The Group's consolidated income statement set out on page 62 shows Group profit before taxation of £77.6m (2014: £3.5m) including the £44.2m gain arising from the successful acquisition of the remaining 75.1% of Harworth Estates Property Group Limited. The net assets attributable to shareholders of the Group increased to £297.7m (2014: £58.7m) over the financial year to 31 December 2015. The Group's net asset value rose by 407% during the year largely as a result of the acquisition. The results for the Group are reviewed in the Chairman's Statement and Financial Review and the detailed results are set out in the financial statements on pages 62 to 66 which accompany this report.

Note 35 to the Financial Statements on page 95 reports two post balance sheet events, neither of which required adjustment at the balance sheet date.

Share capital and consolidation

The Company's issued share capital as at 31 December 2015 comprised a single class of ordinary shares. All shares rank equally and are fully paid. No person holds shares carrying special rights with regard to control of the Company.

During the year 1,586,566,912 shares (representing approximately 54.28% of the existing issued share capital) were issued at 7.25p per share via a firm placing and placing and open offer to partially fund the acquisition of Harworth Estates Property Group Limited ('HEPGL'), raising total gross proceeds of approximately £115m of which £97m was paid to the Pension Protection Fund as vendors of the 75.1% of HEPGL not already held. A further 730,674,465 ordinary shares (representing approximately 25.00% of the existing issued share capital) were issued to the Pension Protection fund as the balance of the agreed consideration of £150m. The acquisition was approved by shareholders at a General Meeting held on 23 March 2015.

Directors' report

continued

Consequential upon the Firm Placing, Placing and Open offer which facilitated the acquisition of Harworth Estates Property Group Limited, the Company now has an issued shares capital of 2,922,697,857 ordinary shares of 1p each fully paid. Given the large number of shares in issue the Board is proposing a share consolidation based on ten ordinary shares of 1p nominal value being replaced by one new ordinary share of 10p nominal value. A detailed proposal on the share consolidation will accompany the notice for the Annual General Meeting at which approval will be sought.

Dividends and reduction of capital

The Group has not paid a dividend for a number of years following the poor results of its former mining subsidiaries which were separated from the Group in the 2012 restructuring. As discussed in the Prospectus issued for the firm placing and open offer, the Group is planning to pay a final dividend in respect of the 2015 financial year. Historic losses incurred however have affected the level of distributable reserves in the parent company of the Group and a resolution will be submitted to shareholders at the Annual General Meeting to facilitate an application to the Court to cancel the value held in the share premium account of £129m to create distributable reserves. A detailed explanation of the process will be included in the notice of the meeting.

Subject to the approval of shareholders and the court to the reduction in capital, company law requires that the dividend can only be paid after accounts showing the increased level of distributable reserves have been filed with the Registrar of Companies. To avoid the significant expense of publishing special accounts drawn to a date immediately following the court decision the Group proposes to pay a final dividend of 0.051p per ordinary share of nominal value 1p to holders on the register following the publication of the interim accounts for the first six months of 2016. Accordingly, conditional upon the approval of the shareholders and the court the proposed dividend will be paid on 9 September 2016 to shareholders on the register at 19 August 2016.

Directors and Directors' interests

The following have served as Directors during the year:

Jonson Cox – Group Chairman

Owen Michaelson – Chief Executive – appointed 24 March 2015

Martyn Bowes – Non-Executive representing the Pension Protection Fund – appointed 24 March 2015

Lisa Clement – independent Non-Executive

Anthony Donnelly – independent Non-Executive – appointed 24 March 2015

Jeremy Hague – resigned 30 April 2015

Peter Hickson – independent Non-Executive

Michael Richardson – appointed 24 March 2015, resigned 29 February 2016

Steven Underwood – Non-Executive Director representing Peel Holdings Limited.

Peter Hickson has decided not to seek re-election at the Annual General Meeting to be held on 26 April 2016 and will step down from the Board and his roles as Chairman of the Remuneration Committee and Senior Independent Director at that time. On 1 January 2016, Andrew Kirkman joined the Board in the role of Finance Director to replace Michael Richardson who had advised of his decision to step down at the time of the interim results in August 2015.

The biographical details of the Directors of the Company are given on page 54.

The powers of the Directors, and their service contracts and terms of appointment, are described in the Corporate Governance report.

The Directors' beneficial interests in, and options to acquire, ordinary shares in the Company, are set out in the Directors' Remuneration Report on pages 30 to 45 of this Annual Report and Financial Statements.

The Directors do not have any interest in any other Group company, other than as Directors. No Director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the Company's business.

Appointment and replacement of Directors

The Board must comprise not less than two Directors with no maximum number of Directors. Directors may be appointed by shareholders (by ordinary resolution) or by the Board.

Under the Company's Articles of Association, any Director appointed by the Board since the last AGM may only hold office until the date of the next AGM, at which time that Director must stand for election by shareholders. Andrew Kirkman will therefore be standing for election at the AGM on 26 April 2015.

The Articles also require one-third of the Directors to retire by rotation at each AGM. Any Director who has not retired by rotation must retire at the third AGM after his or her last appointment or re-appointment. However, in accordance with the Corporate Governance Code, which requires all directors of FTSE 350 companies to be subject to annual re-election by shareholders, the Board has again decided that all the Directors (save for Peter Hickson who will not be standing for re-election) will be subject to re-election at this year's AGM.

Directors' indemnities and insurance

As permitted by the Company's Articles of Association, qualifying third-party indemnities have been in place throughout the period under review and remain in force at the date of this report in respect of liabilities suffered or incurred by each Director. The deeds of indemnity are available for inspection by shareholders at the Company's registered office. The Company also maintains an appropriate level of Directors' and officers' insurance in respect of legal actions against the Directors. Neither the qualifying third party indemnities nor the insurance provide cover where the Director has acted fraudulently or dishonestly.

Employees

The average number of persons, including Directors, employed by the Group and their remuneration, is set out in Note 8 to the financial statements. A breakdown of employee diversity, as required by the 2006 Act, can be viewed on page 20 of the Strategic Report.

We believe in involving our employees in matters affecting them and keeping them informed of all relevant factors concerning the Group's performance, strategy, financial status and other issues. We achieve this through formal and informal

briefings. We also undertake employee surveys to gain feedback.

We aim to promote equality and fairness for all in our employment and to ensure that no job applicant or employee receives less favourable treatment or is disadvantaged by conditions or requirements that cannot be shown to be justifiable, on the grounds of gender, race, disability, sexual orientation, religion or belief, age, and pregnancy or maternity. We avoid discrimination in working conditions and terms of employment and are committed to making reasonable adjustments for disabled employees. We oppose all forms of unlawful and unfair discrimination and aim to ensure working environments are free from harassment and bullying and that all individuals are treated equally and fairly and that selection for employment, promotion and training will be taken solely on merit and ability against job-based criteria.

Greenhouse gas emissions

Disclosure relating to the Group's GHG emissions and the actions being taken to reduce them are set out within the Strategic Report on page 20.

Political donations

No political donations were made during the period (2014: £nil). It is not the Company's policy to make cash donations to political parties. This policy is strictly adhered to and there is no intention to change it. However, the definitions used in the 2006 Act for 'political donation' and 'political expenditure' remain very broad, which may have the effect of covering a number of normal business activities that would not be considered political donations or political expenditure in the usual sense. These could include support for bodies engaged in law reform or governmental policy review or involvement in seminars and functions that may be attended by politicians. To avoid any possibility of inadvertently contravening the 2006 Act, the Directors are again seeking shareholder authority at the AGM to ensure that the Company acts within the provisions of current UK law when carrying out its normal business activities.

Financial instruments and risk management

The Group's exposure to and management of capital, liquidity, credit, and interest rate risk are set out within the Financial Review section on page 9.

Directors' report

continued

Issue of shares

Section 551 of the 2006 Act provides that the Directors may not allot shares unless empowered to do so by the shareholders. A resolution giving such authority was passed at the AGM held on 13 June 2015. The AGM authorities have not been used in the period since the AGM.

In accordance with the Share Capital Management Guidelines published in July 2014 by The Investment Association, following its merger with ABI Investment Affairs, the Directors propose to renew the authority granted to them at the 2015 AGM to allot shares up to an aggregate nominal value of one-third of the Company's issued share capital plus a further one-third (i.e. two-thirds in all) where the allotment is in connection with a rights issue.

Allotment of shares for cash

Under Section 561 of the 2006 Act, if the Directors wish to allot unissued shares for cash (other than pursuant to an employee share scheme) they must first offer them to existing shareholders in proportion to their holdings (a pre-emptive offer). A Special Resolution will be proposed at the AGM in order to renew the Directors' authority to allot shares for cash other than by way of rights to existing shareholders. By restricting such authority to an aggregate nominal value of no more than five per cent of the Company's total issued equity capital, the Company will be in compliance with the Pre-Emption Group's Statement of Principles ('The Principles').

Shareholders should note that the Listing Rules of the FCA do not require shareholders' specific approval for each issue of shares for cash on a non-pre-emptive basis to the extent that under section 570 of the 2006 Act the provisions of Section 561 are disapplied generally. If given, this authority will expire on the date of the next AGM of the Company. The Principles also request that in any rolling three-year period a company does not make non-pre-emptive issues for cash or of equity securities exceeding 7.5% of the Company's issued share capital without prior consultation with shareholders.

The Directors have no current plans to make use of the renewed authorities although they consider their renewal appropriate in order to retain maximum flexibility to take advantage of business opportunities as they arise.

Purchase of own shares

The Company has authority under a shareholders' resolution passed at the 2015 AGM to repurchase up to 292,269,785 of the Company's ordinary shares in the market. The shares may be purchased at a price ranging between the nominal value for each share and an amount equal to the higher of (i) 105% of the average of the middle-market price of an ordinary share for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned and (ii) the higher of the price of the last independent trade and the highest independent current bid on the London Stock Exchange at the time the purchase is carried out. This authority expires at the conclusion of the forthcoming AGM on 26 April 2016. No shares have been repurchased by the Company under the authority granted at the 2015 AGM.

A special resolution will be proposed at the AGM in order to renew this authority. Although the Directors have no immediate plans to do so, they believe it is prudent to seek general authority from shareholders to be able to act if circumstances were to arise in which they considered such purchases to be desirable. This power will only be exercised if and when, in the light of market conditions prevailing at that time, the Directors believe that such purchases would increase earnings per share and would be for the benefit of shareholders generally. Any shares purchased under this authority will be cancelled (unless the Directors determine that they are to be held as treasury shares) and the number of shares in issue will be reduced accordingly.

Whilst the Company does not presently hold shares in treasury, the Treasury Shares Regulations allow shares purchased by the Company out of distributable profits to be held as treasury shares, which may then be cancelled, sold for cash or used to meet the Company's obligations under its employee share schemes. The authority sought by this resolution is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Treasury Shares Regulations.

General meetings

An AGM must be called on at least 21 days' clear notice. All other general meetings are also required to be held on at least 21 days' clear notice unless the Company offers shareholders an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. The Directors are proposing at the AGM to renew the authority obtained at last year's AGM to reduce the notice period for general meetings (other than AGMs) to at least 14 days. It is intended that this shorter notice period will only be used for non-routine business and where merited in the interests of shareholders as a whole.

Substantial shareholdings

As at the date of this report the Company had been notified, pursuant to paragraph 5 of the FCA's Disclosure and Transparency Rules, of the following notifiable voting rights in its ordinary share capital:

| Name of holder | Number of ordinary shares | Percentage of total voting rights |
|------------------------------------|---------------------------|-----------------------------------|
| Goodweather Holdings Limited* | 809,180,391 | 27.69% |
| Pension Protection Fund | 730,674,465 | 25.00% |
| Invesco Perpetual | 289,347,088 | 9.90% |
| Pelham Capital Management | 249,825,937 | 8.48% |
| London and Amsterdam Trust Company | 103,640,662 | 3.55% |

* Goodweather Holdings Limited is a member of the Peel Holdings Group Limited.

Significant agreements – change of control provisions

The following significant agreement contains a provision entitling the counterparties to exercise termination rights in the event of a change of control in the Company:

Under the terms of the banking facility agreements entered between Royal Bank of Scotland plc and HEPGL in February 2015 if any person or group of persons acting in concert gains direct or indirect control of HEPGL the facility will be cancelled and all outstanding Loans and Bonds, Guarantees or letters of credit together with accrued interest shall become immediately due and payable.

Going concern

Having considered the Group's position and financial projections the Directors have a reasonable expectation that the Group has adequate resource to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Auditors

Resolutions to re-appoint PricewaterhouseCoopers LLP as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

Statement of disclosure of information to auditors

The Directors in office at the date of approval of this report confirm that: (a) so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and (b) they have each made such enquiries of their fellow Directors and of the Company's auditors and have each taken such other steps as were required by their duty as a Director of the Company to exercise due care, skill and diligence in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the 2006 Act.

Annual General Meeting

The resolutions to be proposed at the AGM to be held on 26 April 2016, together with the explanatory notes, appear in the separate Notice of Annual General Meeting accompanying this Annual Report. The Notice is also available on our website at www.harworthgroup.com.

Approval

This report was approved by the Board of Directors on 31 March 2016 and signed on its behalf by:

Geoff Mason
Company Secretary
31 March 2016

Registered office
AMP Technology Centre
Brunel Way, Rotherham S60 5WG

Cautionary statement

The Directors' Report has been prepared solely for existing members of the Company in compliance with UK company law and the Listing, Prospectus, and Disclosure and Transparency Rules of the FCA. The Company, the Directors and employees accept no responsibility to any other person for anything contained in the Directors' Report. The Directors' liability for the Directors' Report is limited, as provided in the 2006 Act. The Company's auditors report to the Board whether, in their opinion, the information given in the Directors' Report is consistent with the financial statements, but the Directors' Report is not audited. Statements made in this Directors' Report reflect the knowledge and information available at the time of its preparation. The Directors' Report contains forward-looking statements in respect of the Group's operations, performance, prospects and financial condition. By their nature, these statements involve uncertainty. In particular, outcomes often differ from plans or expectations expressed through forward looking statements, and such differences may be significant. Assurance cannot be given that any particular expectation will be met. No responsibility is accepted to update or revise any forward-looking statement, resulting from new information, future events or otherwise. Liability arising from anything in this Annual Report and Financial Statements shall be governed by English law. Nothing in this Annual Report and Financial Statements should be construed as a profit forecast.

Directors' biographies



Jonson Cox
Chairman

Jonson joined the Board on 15 November 2010 to lead the former UK Coal plc through the restructuring of 2012, and subsequently served as Chairman of Coalfield Resources plc and of Harworth Estates. Jonson's early career was with Royal Dutch Shell Group and Kelda Group plc and he joined AWG plc (later Anglian Water Group plc) as Chief Executive from January 2004 until March 2010. He was a Non-Executive Director of Wincanton plc from October 2005 to May 2014. In November 2012 he was appointed Chairman of the Water Services Regulation Authority (Ofwat). He was appointed in 2015 as the Chairman of the Cory Group. He serves as a senior policy advisor to infrastructure fund I Squared Capital LLP. Having led Coalfield Resources plc through its recent acquisition of Harworth Estates Property Group Limited, Jonson now continues in a Non-Executive role as Chairman of Harworth Group plc.



Owen Michaelson
Chief Executive

Owen joined the Board on 24 March 2015 as Chief Executive officer and was previously the Chief Executive of Harworth Estates Property Group Limited. He has more than 25 years' experience in the remediation of brownfield land and was previously the managing director of the Property Division (2010 to 2012) and a Board member (2007 to 2012) of the former UK Coal, joining from Peel Group, bringing experience from that role and his earlier experience as a director at Black Country Properties (1999 to 2005) and a senior manager at Viridor (1991 to 1999). He took over the stand alone operations of the Harworth Estates Group at the time of the Restructuring of UK Coal Group in December 2012 and established the business as a recognised regional developer of brownfield land.



Andrew Kirkman
Finance Director

Andrew joined as Finance Director in January 2016. Andrew is a chartered accountant and has extensive experience having worked in a number of senior finance roles including Finance Director of Viridor, the recycling and renewable energy company from March 2011. Prior to that time Andrew held the position of Chief Financial Officer of Balfour Beatty Capital and Global Head of Corporate Finance at Bovis Lend Lease.



Martyn Bowes
Non-Executive Director

Martyn joined the Board as the nominee of the Pension Protection Fund on 24 March 2015. He was appointed to the Board of Harworth Estates Property Group Limited as the nominee of the Industry Wide Mining Pension Scheme Trustees in 2013 and was retained by the Pension Protection Fund when they acquired the Trustees interest in Harworth Estates Property Group Limited in 2014. Martyn originally trained as an accountant and a banker and has spent the majority of his career in banking, most recently from 2001 to 2007 with Barclays Capital as Managing Director, Real Estate Finance. Since leaving Barclays he has pursued a portfolio business career, which in 2012 involved a takeover with fellow directors of the South of England based Welbeck Land

real estate business. Martyn now acts as Finance Director for Welbeck Land, and also maintains other interests in debt advisory and healthcare.



Lisa Clement
Non-Executive Director

Lisa is a chartered accountant and was appointed as an independent Non-Executive Director and Chairman of the Audit Committee with effect from 15 December 2011. She was formerly Chief Financial Officer of Sea Containers Limited, Managing Director of Capita Learning and Development and has held senior divisional roles at Cendant Inc. and BPP Holdings Plc. Lisa is a director of Everything But The Cow Limited.



Anthony Donnelly
Non-Executive Director

Anthony joined the Board as an Independent Non-Executive Director on 24 March 2015. After early finance roles with Scottish & Newcastle Breweries from 1986, he joined Morrison Homes Limited as Finance Director in 1990. In 2000 he was appointed Managing Director of Scottish based AWG Property Limited. He has overseen the workout and extraction of value from an extensive commercial and residential portfolio across the UK & Ireland and its transformation into a strategic and income generating portfolio. He has been on the board of Harworth Estates Property Group Limited as an independent Non-Executive Director since 2012.



Peter Hickson
Non-Executive Director

Peter was appointed as a Non-Executive Director, Senior Independent Director and Chairman of the remuneration committee with effect from 1 July 2011. He is currently Chairman of Communisis plc and Chairman of Chemring Group plc. He was Chairman of Anglian Water Group from 2003 to 2009, and served as Finance Director of Powergen plc between 1996 and 2002. He was a Non-Executive Director of Kazakhmys plc from 2009 to 2011, Scottish Power plc from 2006 to 2007, Marconi Corporation plc from 2004 to 2007 and RAC plc from 1994 to 2002. He was also Senior Independent Director of London & Continental Railways Ltd between 2007 and 2011. He is a trustee and board member of Orbis Charitable Trust, the international sight saving charity, and a Fellow of the Institute of Chartered Accountants. He will be standing down from the Board following the Annual General Meeting on 26 April 2016.



Steven Underwood
Non-Executive Director

Steven has served on the Board as a Non-Executive Director since 2010 representing the Peel Group. Peel remains the Company's largest shareholder alongside the PPF, with holdings of 27.69% and 25% respectively. Steven is Chief Executive of the Peel Group of Companies and brings the extensive experience of the Peel Group in brownfield land remediation and regeneration. He is also a Non-Executive Director of Pinewood Group plc and an alternate Director of Intu Properties plc.

Directors' responsibility statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group 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 the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report, Operations and Business reporting (contained in the Chief Executive's report and Strategic Report sections of the Annual Report) include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Each Director in office at the date the Directors' Report is approved, confirms that:

- a) so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- b) they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Owen Michaelson

Andrew Kirkman

31 March 2016

Independent auditors' report

to the members of Harworth Group plc

Report on the financial statements

Our opinion

In our opinion:

- Harworth Group 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 December 2015 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:

- the Balance Sheet as at 31 December 2015;
- the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Context

The Group previously held a 24.9% investment in Harworth Estates Property Group Limited ('HEPGL'), which was accounted for as an investment in an associate. On 24 March 2015, the Group acquired the remaining 75.1% shareholding in HEPGL and, as a result, from that date HEPGL has been fully consolidated. The acquisition of the entire shareholding of HEPGL completes the long term restructuring of the former UK Coal group, with the Group now reconstituted as a listed property investment business.

Overview

Materiality:

- Overall Group materiality: £3.9m, which represents 1% of total assets.
- Specific Group materiality, applied to pre-tax profit excluding the fair value movement on the revaluation of investment properties and gain on bargain purchase: £0.5m which represents 5% of this measure.

Audit scope:

- We identified the companies within the Group that had the most significant effect on the Balance Sheet and/or the Consolidated Income Statement.
- We performed full scope audit work on the Balance Sheet and/or the Consolidated Income Statement as appropriate.
- The companies subject to full scope audit work on the Balance Sheet and/or the Consolidated Income Statement accounted for 97% of total assets and 85% of profit before tax.

Areas of focus:

- Valuation of investment property.
- Acquisition accounting.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing 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.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

| Area of focus | How our audit addressed the area of focus |
|--|---|
| Valuation of investment property <p>We focused on this area because the Group's investment property assets represent a significant proportion of the assets in the Balance Sheet.</p> <p>The Group's portfolio includes properties at varying stages of completion, across various sectors, including mixed-use, industrial and retail. Property valuations are subject to a high degree of judgement as they are calculated from a number of different assumptions specific to each individual property. These include actual and estimated rental values, yields, costs to complete and expected land values per acre.</p> <p>The Group engaged independent external valuers to value its investment properties in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards.</p> <p>For the majority of properties, the residual appraisal method was used, by estimating the fair value of the completed project using a capitalisation method based on expected land values per acre less estimated costs to completion and a risk premium. Completed properties were valued on an income approach basis, taking into consideration assumptions for yields and estimated market rent.</p> <p>A relatively small percentage change in the valuations of individual properties, in aggregate, could result in a material impact on the financial statements.</p> | <p>We read the third party property valuation reports obtained by the Directors and considered if the overall approach and methodology adopted were appropriate given the nature of the properties being valued and whether they were in line with market practice. We also considered the extent to which the approach and methodology were consistent with prior years.</p> <p>For a sample of properties representing 75% of the value of the property portfolio, we discussed the valuation approach on a property by property basis directly with the third party valuer. We considered the specific assumptions used by the valuer for each property, including the expected land values per acre, costs to complete, estimated rental values and yields, and considered whether these were consistent with market evidence and, where relevant, actual sale proceeds on properties disposed of during the year. For properties where further investment property spend is forecast to be incurred, we obtained management estimates for the costs to completion to be incurred and for a sample of costs agreed to supporting documentation, such as tenders or agreements, to check the accuracy of the forecast costs.</p> <p>In addition, we considered the extent to which existing mining tenants on investment property owned by the Group would perform their obligations to remediate land at the conclusion of mining activity. Where restoration obligations may revert to the Group, we considered whether these were appropriately considered in the carrying value of the investment property and where appropriate agreed back to third party estimates.</p> <p>We found the methodologies used by the third party valuers to be consistent across the portfolio of properties and with prior years. We also found that the assumptions used were within the ranges typically used for similar valuations.</p> |

Independent auditors' report

to the members of Harworth Group plc: continued

Area of focus

Acquisition accounting

We focused on this area as the acquisition of Harworth Estates Property Group Limited ('HEPGL') required a number of judgements in order to determine the appropriate accounting treatment to be applied under IFRS 3 'Business Combinations' as well as assessing the fair value of assets and liabilities acquired at the acquisition date.

The Group firstly considered who, in substance, the accounting acquirer should be in respect of the acquisition, given that, prior to the acquisition Coalfield Resources plc (later renamed Harworth Group plc) was a non-trading property investment holding company. These considerations included, amongst others, the cashflows relating to the acquisition and the composition of the board and senior management. The Group assessed that Harworth Group plc (formerly Coalfield Resources plc) was the accounting acquirer.

Consequently the acquisition was accounted for as a stepped acquisition, with the original investment in an associate being remeasured to fair value at the acquisition date. The Group then assessed the fair value of the assets and liabilities being acquired, with particular focus on the valuation of the investment property portfolio, which was subject to an internal management valuation.

Given the judgements inherent in the acquisition accounting above, this represented an area of focus for our audit.

How our audit addressed the area of focus

We assessed the appropriate accounting treatment for the acquisition under IFRS 3 'Business Combinations', considering the indicators supporting which company was the accounting acquirer. This included assessment of the company transferring cash and other assets under the acquisition, the composition of shareholders, board and management both before and after the acquisition and the initiator of the acquisition. We agreed with the Group's identification of the accounting acquirer.

We obtained and read the relevant sections of the key supporting documentation for the acquisition, including the Share Purchase Agreement in order to obtain an understanding of the acquisition.

We then agreed the cash element of the consideration paid to bank statements and tested the valuation of the share consideration by reference to the market price of the company's shares on the acquisition date.

We considered movements in the relevant property markets between the date of the last external property valuation (31 December 2014) and the date of acquisition (24 March 2015) and determined that the likelihood of a material increase in the fair value of the properties due purely to market factors was low. Following this assessment, we focussed on those properties where the recognised fair value had increased since the prior year end. For these we agreed to external documentation to support the movement in fair value, such as planning consents and approvals.

Other assets and liabilities were agreed to supporting documentation on a sample basis to confirm that fair values were appropriate.

In light of the significant gain on bargain purchase recognised as part of the acquisition, the audit team revisited the overall IFRS 3 methodology and approach followed by management to agree that such a gain was indeed appropriate under the circumstances. No material issues were noted as a result of these procedures.

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, the accounting processes and controls, and the industry in which the Group operates.

We identified the companies within the Group that had the most significant effect on the Balance Sheet and/or the Consolidated Income Statement. We performed full scope audit work on the Balance Sheet and/or the Consolidated Income Statement as appropriate. The companies subject to full scope audit work on the Balance Sheet and/or the Consolidated Income Statement accounted for 97% of total assets and 85% of profit before tax.

All work was performed by the group audit team; no component auditors were involved.

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 on the financial statements as a whole.

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

| | |
|--|--|
| Overall Group materiality | £3.9m (2014: £0.6m). |
| How we determined it | 1% of total assets (2014: 1% of total assets less assets held for sale). |
| Rationale for benchmark applied | The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets. |

In addition, we set a specific materiality level of £0.5m for items within pre-tax profit, excluding the impact of fair value movements on investment properties and the gain on bargain purchase. This equates to 5% of this measure; in arriving at this judgement, we had regard to the fact that pre-tax profit, excluding these items, is a secondary financial indicator of the Group. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £175,000 (2014: £30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 53, required for companies with a premium listing on the London Stock Exchange.

The Directors have requested that we review and report on this statement as required under the Listing Rules for premium listed companies. We have nothing to report having performed our review.

The Directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the 'Code'). Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required and voluntary reporting

Consistency of other information

Companies Act 2006 opinion

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

ISAs (UK & Ireland) reporting

As a result of the Directors' voluntarily reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion, the Information in the Annual Report is:

Materially inconsistent with the information in the audited financial statements; or
apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or otherwise misleading.

We have no exceptions to report.

Independent auditors' report

to the members of Harworth Group plc: continued

The statement given by the Directors on page 55, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.

We have no exceptions to report.

The section of the Annual Report on page 46, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

The Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group and the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

The Directors' confirmation on page 21 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group and Company, including those that would threaten their business model, future position and performance, solvency or liquidity.

We have nothing material to add or to draw attention to.

The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

We have nothing material to add or to draw attention to.

The Directors' explanation on page 23 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

The Directors have requested that we review and report on the statement that they have carried out a robust assessment of the principal risks facing the Group and the statement in relation to the longer-term viability of the Group, as required under the Listing Rules for companies with a premium listing on the London Stock Exchange.

Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

The Directors have requested that we review the parts of the Corporate Governance Statement relating to the Company's compliance with the ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules for companies with a premium listing on the London Stock Exchange. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit**Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' responsibilities set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andy Ward (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield
31 March 2016

Consolidated income statement

for the year ended 31 December 2015

| | Note | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|--|------|---|---|
| Revenue | 4 | 13,172 | 1,458 |
| Cost of sales | | (6,013) | – |
| Gross profit | | 7,159 | 1,458 |
| Other operating income and expenses | | | |
| Administrative expenses | 7 | (5,731) | (1,653) |
| Increase in fair value of investment properties | 7 | 24,060 | – |
| Profit on sale of investment properties | 7 | 8,180 | – |
| Other gains | 7 | 3,208 | – |
| Other operating income | 7 | 176 | 196 |
| Operating profit before exceptional items | | 37,052 | 1 |
| Exceptional items | 6 | (2,859) | – |
| Operating profit | | 34,193 | 1 |
| Finance income | 9 | 62 | 10 |
| Finance costs | 9 | (1,803) | – |
| Share of profit of associate | 18 | 856 | 3,454 |
| Gain on bargain purchase | 3 | 44,244 | – |
| Profit before tax | | 77,552 | 3,465 |
| Tax charge | 11 | (3,508) | – |
| Profit for the financial year | | 74,044 | 3,465 |

Profit per share from continuing operations attributable to the owners of the Group during the year

| Earnings per share from operations | Note | pence | pence |
|---|------|------------|------------|
| Basic and diluted earnings per share | 14 | 3.1 | 0.6 |

The notes on pages 67 to 95 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2015

| | Note | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|--|------|---|---|
| Profit for the financial year | | 74,044 | 3,465 |
| Other comprehensive income – items that will not be reclassified to profit or loss: | | | |
| Re-measurements of Blenkinsopp Pension Scheme | 27 | (3) | (8) |
| Total other comprehensive expense | | (3) | (8) |
| Total comprehensive income for the financial year | | 74,041 | 3,457 |

Balance sheet

as at 31 December 2015

| | | Group | | Company | |
|---|------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | | As at 31 December 2015 £000 | As at 31 December 2014 £000 | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| | Note | | | | |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Other receivables | 16 | 650 | — | — | — |
| Pension asset | 27 | — | 564 | 435 | 564 |
| Investment in subsidiaries | 18 | — | — | 207,896 | 3,374 |
| Investment in associates | 18 | — | 56,890 | — | 56,890 |
| Investment properties | 17 | 334,617 | — | — | — |
| Investment in joint ventures | 18 | 768 | — | — | — |
| | | 336,035 | 57,454 | 208,331 | 60,828 |
| Current assets | | | | | |
| Inventories | 19 | 1,092 | — | — | — |
| Trade and other receivables | 20 | 19,906 | 659 | 7,670 | 532 |
| Cash and cash equivalents | 22 | 27,564 | 1,489 | 6,887 | 1,489 |
| Assets classified as held for sale | 21 | 9,128 | 5,119 | — | — |
| | | 57,690 | 7,267 | 14,557 | 2,021 |
| Total assets | | 393,725 | 64,721 | 222,888 | 62,849 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 24 | (17,369) | (5,035) | (1,011) | (5,084) |
| Borrowings | 23 | (400) | — | — | — |
| Liabilities classified as held for sale | 21 | — | (469) | — | — |
| | | (17,769) | (5,504) | (1,011) | (5,084) |
| Net current assets/(liabilities) | | 39,921 | 1,763 | 13,546 | (3,063) |
| Non-current liabilities | | | | | |
| Trade and other payables | 24 | (2,280) | — | — | — |
| Borrowings | 23 | (64,119) | — | — | — |
| Deferred income tax liabilities | 11 | (11,379) | — | — | — |
| Retirement benefit obligations | 27 | (435) | (564) | (435) | (564) |
| | | (78,213) | (564) | (435) | (564) |
| Total liabilities | | (95,982) | (6,068) | (1,446) | (5,648) |
| Net assets | | 297,743 | 58,653 | 221,442 | 57,201 |
| SHAREHOLDERS' EQUITY | | | | | |
| Capital and reserves | | | | | |
| Called up share capital | 28 | 29,227 | 6,055 | 29,227 | 6,055 |
| Share premium account | 29 | 129,121 | 32,911 | 129,121 | 32,911 |
| Fair value reserve | 30 | 24,060 | — | — | — |
| Capital redemption reserve | 30 | 257 | 257 | 257 | 257 |
| Merger reserve | 31 | 45,667 | — | 45,667 | — |
| Retained earnings | | 69,411 | 19,430 | 17,170 | 17,978 |
| Total equity | | 297,743 | 58,653 | 221,442 | 57,201 |

The financial statements on pages 62 to 95 were approved by the Board of Directors on 31 March 2016 and were signed on its behalf by:

Jonson Cox
Chairman

Andrew Kirkman
Finance Director

Company Registered Number 2649340

Consolidated statement of changes in equity

for the year ended 31 December 2015

| | Note | Called up share capital £000 | Share premium account £000 | Merger reserve £000 | Fair value reserve £000 | Capital redemption reserve £000 | Retained earnings £000 | Total equity £000 |
|---|------|---------------------------------|-------------------------------|------------------------|----------------------------|------------------------------------|---------------------------|----------------------|
| Balance at 1 January 2014 | | 6,055 | 32,911 | – | – | 257 | 15,973 | 55,196 |
| Profit for the financial year to 31 December 2014 | | – | – | – | – | – | 3,465 | 3,465 |
| Other comprehensive expense: | | | | | | | | |
| Re-measurement of post retirement benefits | 27 | – | – | – | – | – | (8) | (8) |
| Total comprehensive income for the year ended 31 December 2014 | | – | – | – | – | – | 3,457 | 3,457 |
| Balance at 31 December 2014 | | 6,055 | 32,911 | – | – | 257 | 19,430 | 58,653 |
| Transactions with owners: | | | | | | | | |
| Shares issued | 28 | 15,865 | 99,160 | – | – | – | – | 115,025 |
| Costs relating to share issue | 29 | – | (2,950) | – | – | – | – | (2,950) |
| Shares issued in lieu of consideration | 28 | 7,307 | – | 45,667 | – | – | – | 52,974 |
| | | 23,172 | 96,210 | 45,667 | – | – | – | 165,049 |
| Comprehensive income for the year ended 31 December 2015 | | | | | | | | |
| Profit for the financial year to 31 December 2015 | | – | – | – | – | – | 74,044 | 74,044 |
| Fair value gain on revaluation of investment properties | | – | – | – | 24,060 | – | (24,060) | – |
| Other comprehensive expense: | | | | | | | | |
| Re-measurement of post retirement benefits | 27 | – | – | – | – | – | (3) | (3) |
| Total comprehensive profit for the year ended 31 December 2015 | | – | – | – | 24,060 | – | 49,981 | 74,041 |
| Balance at 31 December 2015 | | 29,227 | 129,121 | 45,667 | 24,060 | 257 | 69,411 | 297,743 |

Company statement of changes in equity

for the year ended 31 December 2015

| | Note | Called up share capital £000 | Share premium account £000 | Merger reserve £000 | Capital redemption reserve £000 | Retained earnings £000 | Total equity £000 |
|---|------|---------------------------------|-------------------------------|------------------------|------------------------------------|---------------------------|----------------------|
| Balance at 1 January 2014 | | 6,055 | 32,911 | – | 257 | 14,516 | 53,739 |
| Profit for the financial year to 31 December 2014 | | – | – | – | – | 16 | 16 |
| Other comprehensive income/(expense): | | | | | | | |
| Change in value of investment in associate* | | – | – | – | – | 3,454 | 3,454 |
| Re-measurement of post retirement benefits | 27 | – | – | – | – | (8) | (8) |
| Balance at 31 December 2014 | | 6,055 | 32,911 | – | 257 | 17,978 | 57,201 |
| Transactions with owners: | | | | | | | |
| Shares issued | 28 | 15,865 | 99,160 | – | – | – | 115,025 |
| Costs relating to share issue | 29 | – | (2,950) | – | – | – | (2,950) |
| Shares issued in lieu of consideration | 28 | 7,307 | – | 45,667 | – | – | 52,974 |
| Loss for the financial year to 31 December 2015 | | – | – | – | – | (1,661) | (1,661) |
| Other comprehensive income/(expense): | | | | | | | |
| Change in value of investment in associate* | | – | – | – | – | 856 | 856 |
| Re-measurement of post retirement benefits | 27 | – | – | – | – | (3) | (3) |
| Balance at 31 December 2015 | | 29,227 | 129,121 | 45,667 | 257 | 17,170 | 221,442 |

*change in the fair value of associate is shown within Other comprehensive income to reflect the accounting treatment within the Company's financial statements (Note 18).

Statement of cash flows

for the year ended 31 December 2015

| | | Group | | Company | |
|---|------|---|---|---|---|
| | | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
| | Note | | | | |
| Cash flows from operating activities | | | | | |
| Profit/(loss) before tax for the financial year | | 77,552 | 3,465 | (1,661) | 16 |
| Net interest payable/(receivable) | 9 | 1,741 | (10) | (109) | (14) |
| Profit on disposal of subsidiary | 18 | – | – | (1,426) | – |
| Share of post-tax profit from associate | | (856) | (3,454) | – | – |
| Gain on bargain purchase | 3 | (44,244) | – | – | – |
| Fair value increase in investment properties | 17 | (24,060) | – | – | – |
| Profit on disposal of investment properties | 7 | (8,180) | – | – | – |
| Other gains | 7 | (3,208) | – | – | – |
| Impairment of investment in joint venture | 18 | 465 | – | – | – |
| Pension contributions in excess of charge | | (132) | (7) | (3) | (7) |
| Operating cash outflows before movements in working capital | | (922) | (6) | (3,199) | (5) |
| Increase in inventories | | (781) | – | – | – |
| Decrease in receivables | | 9,881 | 23 | 90 | 23 |
| (Decrease)/increase in payables | | (10,512) | 34 | 654 | 29 |
| Cash (used in)/generated from operations | | (2,334) | 51 | (2,455) | 47 |
| Loan arrangement fees paid | | (170) | – | – | – |
| Interest paid | | (1,101) | – | – | – |
| Cash generated from/(used) by discontinued operations | 2 | 228 | (120) | – | – |
| Cash (used in)/generated from operating activities | | (3,377) | (69) | (2,455) | 47 |
| Cash flows from investing activities | | | | | |
| Interest received | | 62 | 10 | 32 | 14 |
| Acquisition of subsidiary, net of cash acquired | 3 | (87,823) | – | (97,026) | – |
| Proceeds from disposal of investment properties and option | | 42,302 | – | – | – |
| Expenditure on investment properties | | (41,215) | – | – | – |
| Cash (used by)/generated from discontinued operations | 2 | (1,068) | 1,275 | – | – |
| Cash (used in)/generated from investing activities | | (87,742) | 1,285 | (96,994) | 14 |
| Cash flows from financing activities | | | | | |
| Net proceeds from issue of ordinary shares | | 112,075 | – | 112,075 | – |
| Proceeds from other loans | | 13,455 | – | – | – |
| Repayment of bank loans | | (400) | – | – | – |
| Repayment of other loans | | (8,776) | – | – | – |
| Loan to subsidiary undertakings | | – | – | (7,228) | – |
| Cash used by discontinued operations | 2 | – | (3,278) | – | – |
| Cash generated from/(used in) financing activities | | 116,354 | (3,278) | 104,847 | – |
| Increase/(decrease) in cash | | 25,235 | (2,062) | 5,398 | 61 |
| At 1 January | | | | | |
| Cash | | 1,489 | 1,428 | 1,489 | 1,428 |
| Cash and cash equivalents classified as held for sale | | 840 | 2,963 | – | – |
| | | 2,329 | 4,391 | 1,489 | 1,428 |
| Increase in cash | | 26,075 | 61 | 5,398 | 61 |
| Decrease in cash and cash equivalents classified as held for sale | | (840) | (2,123) | – | – |
| | | 25,235 | (2,062) | 5,398 | 61 |
| At 31 December | | | | | |
| Cash | | 27,564 | 1,489 | 6,887 | 1,489 |
| Cash and cash equivalents classified as held for sale | | – | 840 | – | – |
| Cash and cash equivalents | 22 | 27,564 | 2,329 | 6,887 | 1,489 |

Notes to the financial statements

for the year ended 31 December 2015

1. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

General information

Harworth Group plc (formerly Coalfield Resources plc) (the 'Company') is a limited liability company incorporated and domiciled in the UK. The address of its registered office is AMP Technology Centre, Advanced Manufacturing Park, Brunel Way, Rotherham, South Yorkshire S60 5WG. Coalfield Resources plc changed its name to Harworth Group plc on 24 March 2015.

The Company is listed on the London Stock Exchange.

Basis of preparation

The consolidated financial statements of Harworth Group plc have been prepared on a going concern basis and in accordance with EU adopted International Financial Reporting Standards ('IFRS'), IFRS 1C interpretations and the Companies Act 2006 applicable to companies reporting under IFRS and therefore complies with Article 4 of the EU IAS regulations. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and financial assets and liabilities at fair value through profit or loss.

Going concern basis

These financial statements are prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares cash flow forecasts based upon its assumptions with particular consideration to the key risks and uncertainties as summarised in 'Key risks and uncertainties' section of this annual report, as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed on page 88.

The key factor that has been considered in this regard is:

Following the acquisition of Harworth Estates Property Group Limited ('HEPGL'), the Group has a £65m revolving credit facility with The Royal Bank of Scotland, for a term of five years, on a non-amortising basis. The facility is in the form of a debenture security whereby there is no charge on the individual assets of the Group. The facility is subject to financial and other covenants.

The covenants are based upon gearing, tangible net worth, loan to property values and interest cover. Property valuations affect the loan to value covenants. Breach of covenants could result in the need to pay down in part some of these loans, additional costs, or a renegotiation of terms or, in extremis, a reduction or withdrawal of facilities by the banks concerned.

The Directors confirm their belief that it is appropriate to use the going concern basis of preparation for these financial statements.

Accounting policies

The Group did not early adopt any new or amended standards and does not plan to early adopt any standards issued but not yet effective. Following the acquisition of HEPGL the following accounting policies are in place:

Revenue recognition

Revenue comprises rental and other land related income arising on investment properties and income from construction contracts. Rentals are accounted for on a straight-line basis over the lease term of ongoing leases.

Revenue from the sale of coal slurry is recognised at the point of despatch.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes.

Construction contracts

Contracts for the construction of substantial assets are accounted for as construction contracts. Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion to recognise in a given period. The assessment of the stage of completion is dependent on the nature of the contract, but will generally be based on the estimated proportion of the total contract costs which have been incurred to date. If a contract is expected to be loss making, a provision is recognised for the entire cost.

Interest income and expense

Interest income and expense are recognised within 'finance income' and 'finance costs' in the income statement using the effective interest rate method.

Notes to the financial statements

for the year ended 31 December 2015: continued

1. Accounting policies: continued

Accounting policies: continued

Interest income and expense: continued

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability.

Other receivables (non-current)

Other receivables (non-current) relate to overages. An overage is the right to receive future payments following the sale of investment properties if specified conditions relating to the site are satisfied. The conditions may be the granting of planning permission for development on the site or practical completion of a development. Overages are initially recorded at fair value and are reviewed annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of overages is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense.

Inventories

Inventories comprise coal slurry that has been processed and is ready for sale. It is stated at the lower of cost and estimated net realisable value. Inventories comprise all the direct costs incurred in bringing the coal slurry to their present state.

Investments in joint ventures

Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement. Interests in joint ventures through which the Group carries on its business are classified as jointly controlled entities and accounted for using the equity method. This involves recording the investment initially at cost to the Group and then, in subsequent years, adjusting the carrying amount of the investment to reflect the Group's share of the joint venture's results less any impairment in carrying value and any other changes to the joint venture's net assets such as dividends.

Impairment

Investments in subsidiaries are reviewed for impairment if there is any indication that the carrying amount may not be recoverable.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the present value of expected future cash flows of the relevant cash generating unit) or 'fair value less costs to sell'. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Company could receive for the cash generating unit in an arm's length transaction.

The impairment testing is carried out under the principles described in IAS 36 'Impairment of assets' which includes a number of restrictions on the future cash flows that can be recognised in respect of restructurings and improvement related to capital expenditure.

Investment properties

Investment properties are those properties which are not occupied by the Group and which are held for long term rental yields, capital appreciation or both. Investment property also includes property that is being developed or constructed for future use as investment property. Investment properties comprise freehold land and buildings and are measured at fair value. At the end of a financial year the fair values are determined by obtaining an independent valuation prepared in accordance with the current edition of the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. External, independent valuation firms having appropriate, recognised professional qualifications and recent experience in the location and category of property being valued are used.

Where the development of investment property commences with a view to sale, the property is transferred from investment properties to inventories at fair value, which is then considered to represent deemed cost.

At each subsequent reporting date, investment properties are re-measured to their fair value. Movements in fair value are included in the income statement.

Where specific investment properties have been identified as being for sale within the next twelve months, a sale is considered highly probable and the property is immediately available for sale, their fair value is shown under assets classified as held-for-sale within current assets, measured in accordance with the provisions of IAS 40 'Investment Property'.

1. Accounting policies: continued

Accounting policies: continued

Profit or loss on disposal of investment properties

Disposals are accounted for when legal completion of the sale has occurred or there has been an unconditional exchange of contracts. Profits or losses on disposal arise from deducting the asset's net carrying value and where appropriate a proportion of future costs attributable to the development of the overall land area from the net proceeds (being net purchase consideration less any clawback liability arising on disposal) and is recognised in the income statement. Net carrying value includes valuation in the case of investment properties.

In the case of investment properties, any fair value reserve, for the property disposed of is treated as realised on disposal of the property and transferred to retained earnings.

Properties in the course of development

Directly attributable costs incurred in the course of developing a property are capitalised as part of the cost of the property. Development costs on investment properties are capitalised and any resultant change in value is therefore recognised through the next revaluation.

Financial assets

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the income statement within 'other gains' in the period in which they arise.

Provisions

Provisions are recognised when:

- The Group has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; and
- The amount can be reliably estimated.

Share-based payments

Equity-settled share-based payment to employees of the Company and its subsidiary undertakings are measured at fair value of the equity instruments at the date of grant and are expensed on a straight line over the vesting period in the consolidated income statement. The fair value of the equity instruments is determined at the date of grant taking into account any market based vesting conditions attached to the award. Non-market based vesting conditions are taken into account in estimating the number of awards likely to vest. The estimate of the number of awards likely to vest is reviewed regularly and the expense charged adjusted accordingly.

Operating segments

Management has determined the operating segments based upon the operating reports reviewed by the Executive Board of Directors that are used to assess both performance and strategic decisions. Management has identified that the Executive Board of Directors is the Chief Operating Decision Maker in accordance with the requirements of IFRS 8 'Operating Segments'.

Following the acquisition of HEPGL, the Group is now organised into two operating segments: Income Generation and Capital Growth. Group costs are not a reportable segment. However information about them is considered by the Executive Board in conjunction with the reportable segments.

The Income Generation segment focuses on generating rental returns from the business park portfolio, rental returns and royalties from energy generation, environmental technologies and the agricultural portfolio, and income generating streams from recycled aggregates and secondary coal products. The Capital Growth segment focuses on delivering value by developing the underlying portfolio, and includes planning and development activity, value engineering, proactive asset management and strategic land acquisitions.

All operations are carried out in the United Kingdom.

Notes to the financial statements

for the year ended 31 December 2015: continued

1. Accounting policies: continued

Accounting policies: continued

Operating segments: continued

Segmental operating profit represents the profit earned by each segment excluding the profit on sale and revaluation of investment properties and is consistent with the measures reported to the Executive Board for the purpose of the assessment of the performance of each segment.

Consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

Exceptional items

Exceptional items are material non-recurring items excluded from management's assessment of profit because by their nature they could distort the Group's underlying quality of earnings. These are excluded to reflect performance in a consistent manner and in line with how the business is managed and measured on a day to day basis.

Share capital and reserves

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where shares are issued in direct consideration for acquiring shares in another company, and following which the Group holds at least 90% of the nominal share capital of that company, any premium on the shares issued as consideration is included in a merger reserve rather than share premium.

Changes in accounting policy and disclosures

a) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual years beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. These have been set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary

1. Accounting policies: continued

Changes in accounting policy and disclosures: continued

a) *New standards and interpretations not yet adopted: continued*

measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted subject to EU endorsement. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Group is assessing the impact of IFRS 15.

IFRS 16, 'Leases', replaces the current guidance in IAS 17. IFRS 16 defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. Under IFRS 16 lessees have to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for almost all lease contracts. In the income statement lessees will have to present interest expense on the lease liability and depreciation on the right-of-use asset. As under IAS 17, the lessor has to classify leases as either finance or operating, depending on whether substantially all of the risk and rewards incidental to ownership of the underlying asset have been transferred. For both lessees and lessors IFRS 16 adds significant new, enhanced disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, subject to EU endorsement, but only in conjunction with IFRS 15, 'Revenue from contracts with customers'.

Estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are as follows:

Estimation of fair value of Investment Property

The fair value of investment property reflects, amongst other things, rental income from our current leases, assumptions about rental income from future leases and the possible outcome of planning applications, in the light of current market conditions. The valuation has been arrived at primarily after consideration of market evidence for similar property, although in the case of those properties where fair value is based on their ultimate redevelopment potential, development appraisals have been undertaken to estimate the residual value of the landholding after due regard to the cost of, and revenue from the development of the property.

The Group has also estimated the extent to which existing mining tenants on investment property owned by the Group would perform their obligations to remediate land at the conclusion of mining activity, and therefore the impact of any restoration obligations which may revert to the Group.

The values reported are based on significant assumptions and a change in fair values could have a material impact on the Group's results. This is due to the sensitivity of fair value to the assumptions made as regards to variances in development costs compared to Management's own estimates.

Investment properties are disclosed in Note 17.

Notes to the financial statements

for the year ended 31 December 2015: continued

2. Restructuring and discontinued operations

UK Coal plc underwent a solvent restructuring in December 2012 and split into a mining division, (of which the parent company was UK Coal Mine Holdings Limited ('UKCMHL')) and a property division (HEPGL).

As part of this restructure the Company retained a 24.9% shareholding in HEPGL with the remaining 75.1% being transferred to pension trustees to meet UK Coal plc's debts to the pension scheme. Full disclosure of this restructuring is given in the 2014 Annual Report.

Blenkinsopp Pension Scheme

The Company remains liable for the Blenkinsopp Section of the Industry-Wide Mineworkers' Pension Scheme. Harworth Estates Mines Property Limited, a subsidiary of HEPGL, has provided a guarantee to the Company, to meet future obligations of the pension scheme should the Company cease to make payment.

Harworth Insurance Company Limited ('HICL')

On 7 December 2012 the Company granted a put and call option to UKCMHL to acquire the entire issued share capital of HICL, and UKCMHL granted the Company a put option to require UKCMHL to acquire HICL. The consideration for the call option was £4,650,000. Exercise of the call option is conditional on obtaining Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) consent or the parties agreeing that such consent is no longer legally required. Before consent from the FCA and PRA could be obtained the underlying insurance business had to be sold. This sale process took longer than expected and was not completed until July 2014 when the insurance business of HICL was sold to Royal Sun Alliance. Following this sale only residual cash and a single property remained. The call option was exercised on 8 December 2015, the level of recovery from the residual cash noted is currently unknown and therefore no potential value has been recognised in the accounts for the 2015 year end.

The combined cash flows of the HICL discontinued operations (including assets held for sale) noted above were as follows:

| Group | 2015 £000 | 2014 £000 |
|-------------------------|--------------|----------------|
| Operating cash flows | 228 | (120) |
| Investing cash flows | (1,068) | 1,275 |
| Financing cash flows | – | (3,278) |
| Total cash flows | (840) | (2,123) |

3. Business combinations

Acquisition of HEPGL

On 24 March 2015, the Group acquired the remaining 75.1% of the issued share capital of HEPGL, a company incorporated in the United Kingdom who heads up a group which is engaged in the regeneration of former coalfield sites and other brownfield land into employment areas, new residential development and low carbon energy projects.

The following table summarises the consideration paid for HEPGL, the fair value of assets acquired, liabilities assumed and the non-controlling interest held at the acquisition date.

Consideration at 24 March 2015

| | £000 |
|---|----------------|
| Cash | 97,026 |
| Equity instruments (730m ordinary shares) | 52,974 |
| Total consideration transferred | 150,000 |
| Fair value of associate interest | 57,746 |
| Total consideration | 207,746 |

3. Business combinations: continued

Acquisition of HEPGL: continued

Recognised amounts of identifiable assets acquired and liabilities assumed:

| | Attributed fair value £000 |
|--|----------------------------------|
| Investment property (Note 17) | 299,355 |
| Investments and other non-current receivables | 1,883 |
| Cash and cash equivalents | 9,203 |
| Inventory | 311 |
| Trade and other current receivables | 23,054 |
| Financial asset | 1,200 |
| Borrowings | (60,407) |
| Deferred tax liability (Note 11) | (7,871) |
| Trade and other payables | (14,738) |
| Fair value of acquired interest in net assets of subsidiary | 251,990 |
| Gain on bargain purchase | (44,244) |
| Total consideration | 207,746 |

The purchase consideration disclosed above comprises cash and cash equivalents paid to acquire the previous majority shareholder of £150.0m which was satisfied by the payment of £97,026,000 and the allotment and issue of 730,674,465 ordinary shares of £0.01 each in the capital of Harworth Group plc. The share premium arising from the shares issued to the Pension Protection Fund, ('PPF') is held within the merger reserve shown in the consolidated balance sheet.

Acquisition related costs of £2.4m have been recognised in the consolidated income statement as an exceptional item. The fair value of the 730m ordinary shares issued as part of the consideration paid for HEPGL (£53.0m) was based upon the price the shares were placed at 7.25 pence. Issuance costs of £2.95m have been netted against the deemed proceeds.

The revenue included in the consolidated income statement since 24 March 2015 contributed by HEPGL was £12.9m and profit before tax was £40.7m. Had HEPGL been consolidated from 1 January 2015, the consolidated income statement would show pro-forma revenue of £16.7m and profit before tax of £39.2m.

The net cash outflow associated with the acquisition was as follows:

| | £000 |
|--|----------------|
| Fair value of acquired interest in net assets of subsidiary | 251,990 |
| Fair value of associate interest already held | (57,746) |
| Gain on bargain purchase | (44,244) |
| Total purchase consideration | 150,000 |
| Less: cash and cash equivalents of subsidiary acquired | (9,203) |
| Less: equity instruments issued | (52,974) |
| Net outflow of cash and cash equivalents on acquisition | 87,823 |

Notes to the financial statements

for the year ended 31 December 2015: continued

4. Segment information

31 December 2015

| Group | Capital Growth £000 | Income Generation £000 | Unallocated costs £000 | Total £000 |
|--|---------------------------|------------------------------|------------------------------|----------------|
| Revenue | 1,319 | 11,533 | 320* | 13,172 |
| Operating (loss)/profit before other income and expenses and exceptional items | (1,471) | 6,579 | (3,680) | 1,428 |
| Transaction costs | – | – | (2,394) | (2,394) |
| Impairment of investment | (465) | – | – | (465) |
| Increase in fair value of investment properties | 14,503 | 9,557 | – | 24,060 |
| Profit on sale of investment properties | 7,111 | 1,069 | – | 8,180 |
| Other gains | – | 3,208 | – | 3,208 |
| Other operating income | – | 47 | 129 | 176 |
| Operating profit/(loss) | 19,678 | 20,460 | (5,945) | 34,193 |
| Finance income | | | | 62 |
| Finance costs | | | | (1,803) |
| Share of profit of associates | | | | 856 |
| Gain on bargain purchase | | | | 44,244 |
| Profit before tax | | | | 77,552 |

* Unallocated revenues relate to recharges to Harworth Estates Limited prior to its acquisition by the Group.

| | | | | |
|--------------------------------|--------|-------|---|---------------|
| Other information | | | | |
| Investment property additions: | | | | |
| Direct acquisitions | 14,578 | 8,255 | – | 22,833 |
| Subsequent expenditure | 17,603 | 6,360 | – | 23,963 |

Segmental assets

| | Capital Growth £000 | Income Generation £000 | Unallocated costs £000 | Total £000 |
|-------------------------------|---------------------------|------------------------------|------------------------------|----------------|
| Total investment properties | 210,004 | 124,613 | – | 334,617 |
| Assets held for sale | 30 | 9,098 | – | 9,128 |
| Inventories | – | 1,092 | – | 1,092 |
| Other receivables | 650 | – | – | 650 |
| Investments in joint ventures | 768 | – | – | 768 |
| | 211,452 | 134,803 | – | 346,255 |
| Unallocated assets: | | | | |
| Trade and other receivables | – | – | 19,906 | 19,906 |
| Cash and cash equivalents | – | – | 27,564 | 27,564 |
| Total assets | 211,452 | 134,803 | 47,470 | 393,725 |

Financial liabilities are not allocated to the reporting segments as they are managed and measured on a Group basis. There is no segmental analysis available for the prior period as prior to the acquisition of HEPGL, the Group had only one operating segment.

5. Operating profit

| | | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|------|---|---|
| | Note | | |
| Operating profit before tax is stated after charging: | | | |
| Staff costs – continuing operations | 8 | 3,520 | 963 |

6. Exceptional items

Operating profit is stated after charging exceptional items of:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Costs associated with acquisition of subsidiary | (2,394) | – |
| Write down of investment in joint venture | (465) | – |
| Exceptional items | (2,859) | – |

Costs associated with the acquisition of subsidiary relates to the costs of the Group's acquisition of 75.1% of the issued share capital of HEPGL (Note 3).

Write down of investment relates to the write down of a joint venture investment held by the Group at 31 December 2015 (Note 18).

7. Other operating income and expenses

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Administrative expenses | (5,731) | (1,653) |
| Other operating income | 176 | 196 |
| Other gains | 3,208 | – |
| Profit on sale of investment properties | 8,180 | – |
| Increase in fair value of investment properties | 24,060 | – |
| Other operating income and expenses | 29,893 | (1,457) |

Other gains in 2015 represents a gain on the sale of an option. Other operating income in 2015 represents the re-measurement of the Blenkinsopp Scheme and other items. Prior year 'Other operating income' represents the third party contributions to, and re-measurement of, the Blenkinsopp Scheme.

8. Employee information

The monthly average number of persons (including Executive Directors) employed by the Group during the year was:

| | Group | |
|----------------|---|---|
| | Year ended 31 December 2015 Number | Year ended 31 December 2014 Number |
| Administration | 45 | 3 |
| Total | 45 | 3 |

Total staff costs were:

| | Group | |
|---|---|---|
| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
| Staff costs (including the Board of Directors) | | |
| Wages and salaries | 2,985 | 848 |
| Social security costs | 333 | 85 |
| Other pension costs | 202 | 30 |
| | 3,520 | 963 |

Notes to the financial statements

for the year ended 31 December 2015: continued

8. Employee information: continued

Key management remuneration

Remuneration details for key management of the Group (excluding Directors' remuneration) is detailed below:

| | Group | |
|-----------------------|---|---|
| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
| Wages and salaries | 446 | – |
| Social security costs | 57 | – |
| Other pension costs | 42 | – |
| | 545 | – |

Detailed information relating to Directors' remuneration is disclosed in the Directors' remuneration reports and forms part of these financial statements.

9. Finance income and costs

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|-----------------------------------|---|---|
| Interest expense | | |
| – Bank interest | (977) | – |
| – Facility fees | (485) | – |
| – Other interest | (341) | – |
| Finance costs | (1,803) | – |
| Interest received | 62 | 10 |
| Net finance (costs)/income | (1,741) | 10 |

10. Auditors' remuneration

During the year the Group obtained the following services from its auditors, PricewaterhouseCoopers LLP, at costs as detailed below:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Audit services | | |
| Fees payable to the Company auditors and its associates for the audit of the parent company and the consolidated financial statements | 65 | 30 |
| Fees payable to the Company auditors and its associates for other services: | | |
| – The audit of the Company's subsidiaries pursuant to legislation | 85 | 15 |
| – Audit related assurance services | 15 | 54 |
| – Tax advisory services | 98 | 4 |
| – Tax compliance services | 33 | 15 |
| – Fees in relation to transaction | 529 | – |
| | 825 | 118 |

From time to time, the Group employs PricewaterhouseCoopers LLP on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. They are awarded assignments on a competitive basis. The Audit Committee reviews non-audit assignments quarterly, and approves all assignments above a predetermined cost threshold.

11. Tax charge

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Analysis of tax charge in the year | | |
| Corporation tax | – | – |
| Deferred tax | 3,508 | – |
| Tax charge | 3,508 | – |

The tax for the year is different to the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Profit before tax on continuing operations | 77,552 | 3,465 |
| Profit before tax multiplied by rate of corporation tax in the UK of 20.25% (2014: 21.5%) | 15,704 | 745 |
| Effects of: | | |
| Share of associated company profit not taxable | (173) | (742) |
| Non taxable income | (7,084) | – |
| Expenses not deducted for tax purposes | 436 | 4 |
| Gain on bargain purchase | (8,959) | – |
| Revaluation gains | 4,176 | – |
| Changes in tax rates | (651) | – |
| Deferred tax not recognised | 59 | (7) |
| Total tax charge | 3,508 | – |

Deferred tax

The analysis of deferred tax liabilities is as follows:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| No more than twelve months after the reporting period | – | – |
| More than twelve months after the reporting period | 11,379 | – |
| | 11,379 | – |

The gross movement on the deferred income tax account is as follows:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|----------------------------|---|---|
| At 1 January 2015 | – | – |
| Acquisition of subsidiary | 7,871 | – |
| Income statement charge | 3,508 | – |
| At 31 December 2015 | 11,379 | – |

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 18% (2014: 20%). A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017), and further reductions to 18% (effective from 1 April 2020) were enacted as part of the Finance Act 2015. The deferred tax liabilities are shown at 18% being the rate expected to apply to the reversal of the liability.

The deferred tax charge of £3,508,000 for the year ended 31 December 2015 is in respect of property revaluation gains where tax is expected to arise when the property is sold.

Deferred tax assets and liabilities are offset when there is a legally enforced right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Deferred tax assets have not been recognised owing to the uncertainty as to their recoverability. If these deferred tax assets were recognised, the total asset would be £3,380,000 (2014: £2,345,000) as set out below:

Notes to the financial statements

for the year ended 31 December 2015: continued

11. Tax charge: continued

Deferred tax: continued

| | As at 31 December 2015 Total amount recognised £000 | As at 31 December 2015 Total potential asset £000 | As at 31 December 2014 Total amount recognised £000 | As at 31 December 2014 Total potential asset £000 |
|-------------------------------|---|---|---|---|
| Tax losses | – | 3,380 | – | 2,345 |
| Net deferred tax asset | – | 3,380 | – | 2,345 |

The Company has no recognised deferred tax in 2015 (2014: none), but has a potential deferred tax asset of £3,380,000 (2014: £2,345,000) in respect of unused tax losses.

12. (Loss)/profit for the financial year for the parent entity

As permitted by section 408 of the Companies Act 2006, the Company's income statement and statement of comprehensive income have not been included separately in these financial statements. The loss for the financial year was £1,661,000 (2014: profit £16,000) and the total comprehensive expenditure for the financial year was £808,000 (2014: income £3,462,000).

13. Dividends

No dividends have been paid in relation to 2015 or 2014. The Company is proposing to recommend a final dividend of 0.051 pence per share (£1.5m in total) at the Annual General Meeting. If approved by shareholders the Company intends to pay the dividend in September 2016 to shareholders on record on 26 August 2016.

14. Earnings per share

Earnings per share has been calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of shares in issue and ranking for dividend during the year. The weighted average number of shares for 31 December 2015 includes the adjustments necessary to reflect the new shares issued on 24 March 2015.

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Profit from continuing operations attributable to owners of the parent | 74,044 | 3,465 |
| Loss from discontinued operations attributable to owners of the parent | – | – |
| Profit for the year | 74,044 | 3,465 |
| Weighted average number of shares used for basic earnings per share calculation | 2,395,763,516 | 605,456,480 |
| Dilutive effect of share options | – | – |
| Weighted average number of shares used for diluted earnings per share calculation | 2,395,763,516 | 605,456,480 |
| Basic and diluted profit per share (pence) | 3.1 | 0.6 |

Adjusted basic and diluted earnings per share for the period ended 31 December 2015 were 1.1 pence, being based on profit before tax adjusted for the exceptional gain on bargain purchase of £44,244k, acquisition fees of £2,394k and write down of investments of £465k.

15. Blenkinsopp pension asset

Following the 2012 Restructuring the Group's only defined benefit pension liability was for the Blenkinsopp Section of the Industry-Wide Mineworkers Pension Scheme. The liability of the Group to make contributions was indemnified by UKCOL. UKCOL went into Creditors Voluntary Liquidation following the Mining Group July 2013 Restructuring but as part of this restructuring the indemnity was novated to a new company, UK Coal Production Limited.

Additionally Harworth Estates Mines Property Limited (HEMPL) has indemnified the Company up to an amount of £3,100,000 should UK Coal Production Limited fail to pay its obligations under its indemnity. HEMPL is a company in the Harworth Estates Group and owns the freeholds of the deep mines operated by UK Coal Production Limited. Further the Group retains capped charges over certain operating deep mines land against this liability but there is no guarantee that these assets would cover the liability, and the amount recoverable under such security is limited to the cap of £3,100,000.

15. Blenkinsopp pension asset: continued

During the year to 31 December 2015 all contributions have been paid to the pension fund by UK Coal Production Limited.

As a result of uncertainty around the Blenkinsopp pension liability being reimbursed by a third party, the consolidated balance sheet recognises a net liability equal to the IAS 19 (revised) liability (Note 27), but no corresponding asset.

The Company recognises a net liability equal to the IAS 19 (revised) liability and an equal amount within non-current assets, due to its ability to call upon the HEMPL indemnity.

16. Other receivables

The benefit of overages is recorded as a non-current receivable as shown below:

| Group | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|----------|---|---|
| Overages | 650 | – |

17. Investment properties

Investment property at 31 December 2015 has been measured at fair value. The Group holds five categories of investment property being agricultural land, natural resources, major developments, strategic land and business parks in the UK, which sit within the operating segments of Capital Growth and Income Generation.

| | Income Generation | | | Capital Growth | | Total £000 |
|-----------------------------------|------------------------------|------------------------------|---------------------------|-------------------------------|---------------------------|----------------|
| | Agricultural land £000 | Natural resources £000 | Business parks £000 | Major developments £000 | Strategic land £000 | |
| At 31 December 2014 | – | – | – | – | – | – |
| Acquisition of subsidiaries | 22,070 | 18,574 | 72,724 | 139,842 | 46,145 | 299,355 |
| Direct acquisitions | – | 978 | 7,277 | 1,366 | 13,212 | 22,833 |
| Subsequent expenditure | 604 | 312 | 5,444 | 15,562 | 2,041 | 23,963 |
| Increase/(decrease) in fair value | 2,477 | 1,375 | 5,705 | 15,075 | (572) | 24,060 |
| Transfer to assets held for sale | (6,013) | (3,085) | – | – | (30) | (9,128) |
| Disposals | (2,375) | (1,200) | (254) | (14,256) | (8,381) | (26,466) |
| At 31 December 2015 | 16,763 | 16,954 | 90,896 | 157,589 | 52,415 | 334,617 |

Valuation process

The properties were valued in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation – Professional Standards (the 'Red Book'), by BNP Paribas Real Estates and Savills both independent firms acting in capacity of external valuers with relevant experience of valuations of this nature. The valuations are on the basis of Market Value as defined with the Red Book, which RICS considers meets the criteria for assessing Fair Value under International Reporting Standards. The valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and the likelihood of achieving and implementing this change in arriving at its valuation. Most of the Group's properties have been valued on the basis of their development potential which differs from their existing use.

At each financial year end, Management:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

The different valuation levels are defined as:

Level 1: valuation based on quoted market prices traded in active markets.

Level 2: valuation based on inputs other than quoted prices included within Level 1 that maximise the use of observable data either directly or from market prices or indirectly derived from market prices.

Notes to the financial statements

for the year ended 31 December 2015: continued

17. Investment properties: continued

Valuation process: continued

Level 3: where one or more inputs to valuation are not based on observable market data.

The Directors determine the applicable hierarchy that each investment property falls into by assessing the level of unobservable inputs used in the valuation technique. As a result of the specific nature of each investment property, valuation inputs are not based on directly observable market data and therefore all investment properties were determined to fall into Level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the date of the event or change in circumstance that caused the transfer. There were no transfers between hierarchy in the year ended 31 December 2015.

Valuation techniques underlying management's estimation of fair value

Agricultural land

Most of the agricultural land is valued using the market comparison basis, with an adjustment made for the length of remaining term on the tenancy and the estimated cost to bring the land to its highest and best use. Where the asset is subject to a secure letting, this is valued on a yield basis, based upon sales of similar types of investment.

Natural resources

Natural resource sites in the portfolio are valued based on a discounted cashflow for the operating life of the asset.

Major developments

Major development sites are generally valued using residual development appraisals, a form of discounted cash flow which estimates the current site value from future cash flows measured by observable current land and/or completed built development values, observable or estimated development costs, and observable or estimated development returns.

Where possible development sites are valued by direct comparison to observable market evidence with appropriate adjustment for the quality and location of the property asset, although this is generally only a reliable method of measurement for the smaller development sites.

Strategic land

Strategic land is valued on the basis of discounted cash flows, with future cash flows measured by current land values adjusted to reflect the quality of the development opportunity, the potential development costs estimated by reference to observable development costs on comparable sites, and the likelihood of securing planning consent. The valuations are then benchmarked against observable land values reflecting the current existing use of the land, which is generally agricultural and where available, observable strategic land values.

Business parks

The business parks are valued on the basis of market comparison with direct reference to observable market evidence including rental values, yields and capital values and adjusted where required for the estimated cost to bring the property to its highest and best use. The evidence is adjusted to reflect the quality of the property assets, the quality of the covenant profile of the tenants and the reliability/volatility of cash flows.

| At 31 December 2015 | | Agricultural land | Natural resources | Major developments | Strategic land | Business parks |
|-----------------------------|------------------|----------------------|----------------------|-----------------------|-------------------|-------------------|
| Reversionary rental yield % | weighted average | – | – | – | – | 10.54 |
| | low | – | – | – | – | 5.12 |
| | high | – | – | – | – | 16.95 |
| Land value per acre £000 | weighted average | 3 | 6 | 71 | 18 | 41 |
| | low | 1 | 1 | 24 | 1 | 2 |
| | high | 11 | 89 | 330 | 500 | 250 |
| Cost report totals* | £000 | – | – | 99,430 | 56,368 | 19,630 |

* Cost report totals represent the estimated cost to bring investment properties to their highest and best use.

17. Investment properties: continued

Valuation techniques underlying management's estimation of fair value: continued

The table below shows some possible sensitivities to the key valuation metrics and the resultant changes to the valuations.

At 31 December 2015

| Valuation metric | +/- change | +/- effect on valuation | | | | |
|-------------------------|------------|-------------------------|-------------------|--------------------|----------------|----------------|
| | | Agricultural land | Natural resources | Major developments | Strategic land | Business parks |
| Value per acre | 5% | 1,237 | 904 | 7,879 | 2,623 | 4,545 |
| Rental | 5% | – | – | – | – | 2,697 |
| Yield (e.g. 11% to 10%) | 1% | – | – | – | – | 6,255 |
| Cost report totals | 5% | – | – | 4,972 | 2,818 | 982 |

The property rental income earned by the Group from its occupied investment property, all of which is leased out under operating leases amounted to £4,601,100. Direct operating expenses arising on investment property generating rental income in the year amounted to £2,603,200. Direct operating expenses arising on the investment property which did not generate rental income during the year amounted to £86,700.

18. Investments

(a) Investment in subsidiaries

| Company | Year ended 31 December 2015 £000 | Restated* Year ended 31 December 2014 £000 |
|----------------------------------|---|--|
| Cost: | | |
| At 1 January | 3,374 | 3,374 |
| Additions in the year | 207,746 | – |
| Disposals in the year | (3,224) | – |
| At 31 December | 207,896 | 3,374 |
| Provision for impairment: | | |
| At 1 January | – | – |
| Additions in the year | – | – |
| Disposals in the year | – | – |
| At 31 December | – | – |
| Net book amount: | | |
| At 31 December | 207,896 | 3,374 |

*Prior year cost and provision for impairment comparatives have been restated to remove previously disposed of investments. There is no effect on any of the primary statements or other notes to the accounts in either the year ended 31 December 2015 or the year ended 31 December 2014.

The disposal relates to the disposal of the Company's interest in HICL, resulting in a profit of £1,426,000.

Investments in subsidiaries are stated at cost less provision for impairment. As permitted by section 616 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

Notes to the financial statements

for the year ended 31 December 2015: continued

18. Investments: continued

(a) Investment in subsidiaries

Particulars of the Group undertakings at 31 December 2015 are as follows:

| Company name | Activity | Description of shares held | Proportion of nominal value of issued share capital held by the Company % |
|---|---------------------|----------------------------|---|
| Coalfield Estates Limited | Non-trading | Ordinary | 100 |
| Harworth Guarantee Company Limited | Non-trading | Ordinary | 100 |
| Harworth Trustees Limited | Dormant | Ordinary | 100 |
| Harworth Secretariat Services Limited | Non-trading | Ordinary | 100 |
| Harworth Estates Property Group Limited | Property Investment | Ordinary | 100 |
| Harworth Estates Group Limited | Property Investment | Ordinary | 100 |
| Harworth No. 3 Limited | Non-trading | Ordinary | 100 |
| Harworth Services Limited | Non-trading | Ordinary | 100 |
| Harworth Estates Limited | Trading | Ordinary | 100 |
| Bates Regeneration Limited | Trading | Ordinary | 50 |
| Bilthorpe Waste Limited | Dormant | Ordinary | 50 |
| EOS Inc Limited | Trading | Ordinary | 100 |
| Harworth Estates (Agricultural) Limited | Trading | Ordinary | 100 |
| Harworth Estates (Waverley Prince) Limited | Trading | Ordinary | 100 |
| Waverley Community Management Company Limited | Trading | Ordinary | 100 |
| Harworth Estates Curtilage Limited | Trading | Ordinary | 100 |
| Harworth Estates Investments Limited | Trading | Ordinary | 100 |
| Harworth Estates Mines Property Limited | Trading | Ordinary | 100 |
| Harworth Estates No 2 Limited | Trading | Ordinary | 100 |
| Harworth Estates Overage Limited | Trading | Ordinary | 100 |
| Harworth Estates Warwickshire Limited | Dormant | Ordinary | 100 |
| Harworth TRR Limited | Dormant | Ordinary | 100 |
| Houghton Main Waste Limited | Dormant | Ordinary | 50 |
| Kellingley Colliery Waste Limited | Dormant | Ordinary | 50 |
| Logistics North MC Limited | Trading | Ordinary | 21.93 |
| North Selby Mine Waste Limited | Dormant | Ordinary | 50 |
| POW Management Company Limited | Dormant | Ordinary | 100 |
| Rossington Community Management Company Limited | Non-trading | Ordinary | 100 |
| Wardley Waste Limited | Dormant | Ordinary | 50 |
| Harworth Regeneration Limited | Dormant | Ordinary | 100 |

All of the above companies are incorporated in England and Wales.

(b) Investment in associates

Group

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|------------------------------------|---|---|
| At start of period | 56,890 | 53,436 |
| Share of profit | 856 | 3,454 |
| Purchase of share capital not held | (57,746) | – |
| At 31 December | – | 56,890 |

The Group accounted for its investment in HEPGL, a private company incorporated in England and Wales, as an associate up to and including 24 March 2015 because it considered that it had significant influence over that entity due to its 24.9% shareholding and representation on the HEPGL board.

18. Investments: continued**(b) Investment in associates: continued****Group: continued**

The Group's share of net assets of HEPGL was reduced by £5,000,000 to reflect the fact that, under the terms of the Shareholder Agreement prior to 24 March 2015, the first £5,000,000 of dividend income due to the Company would be paid to the Pension Protection Fund ('PPF').

On 24 March 2015, Harworth Group plc acquired the remaining 75.1% of HEPGL that it did not own from the PPF. HEPGL therefore ceased to be accounted for as an associate at that date and has been fully consolidated in these accounts.

The results and assets and liabilities of the Group's associates as at the period end are as follows:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|--|---|---|
| Harworth Estates Property Group Limited | | |
| Country of incorporation – England and Wales | | |
| Interest held at period end | – | 24.9% |
| Non-current assets | – | 291,484 |
| Current assets | – | 35,198 |
| Current liabilities | – | (64,436) |
| Non-current liabilities | – | (13,692) |
| Revenues | – | 13,934 |
| Profit | – | 13,984 |
| Total comprehensive income | – | 13,984 |

Company

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|------------------------------------|---|---|
| Fair value: | | |
| At start of period | 56,890 | 53,436 |
| Increase in fair value | 856 | 3,454 |
| Purchase of share capital not held | (57,746) | – |
| At end of period | – | 56,890 |

The fair value is measured by reference to the fair value of the net asset value of the investment being measured. In 2014 the largest amount in net assets was investment properties (£289,611,000) which are measured at fair value. All other assets and liabilities fair value approximates carrying amounts.

In 2014 HEPGL held investment properties principally in five categories. These are detailed below together with valuation techniques used and effect on valuation from possible sensitivities. Fair value of investment properties are determined by obtaining an independent the Royal Institution of Chartered Surveyors. External, independent valuation firms having appropriate, recognised professional qualifications and recent experience in the location and category of property being valued, value the portfolio at each reporting date. Such measurement falls into level 3 of the fair value hierarchy.

| | Agricultural land £000 | Natural resources £000 | Business parks £000 | Major developments £000 | Strategic land £000 | Total £000 |
|-------------------------|------------------------------|------------------------------|---------------------------|-------------------------------|---------------------------|----------------|
| At December 2013 | 21,394 | 21,204 | 68,551 | 117,463 | 48,128 | 276,740 |
| Transfers | 4,993 | (4,993) | – | 4,291 | (4,291) | – |
| Direct acquisitions | 285 | – | 2,883 | – | 100 | 3,268 |
| Subsequent expenditure | 845 | 382 | 439 | 19,813 | 1,785 | 23,264 |
| Increase in fair value | (4,538) | 1,058 | 3,533 | 17,388 | (1,693) | 15,748 |
| Disposals | (259) | (221) | (4,000) | (23,955) | (974) | (29,409) |
| At December 2014 | 22,720 | 17,430 | 71,406 | 135,000 | 43,055 | 289,611 |

Notes to the financial statements

for the year ended 31 December 2015: continued

18. Investments: continued

(b) Investment in associates: continued

Company: continued

Valuation techniques underlying Harworth Estates management's estimation of fair value

Agricultural land

Most of the agricultural land is valued using the market comparison basis, with an adjustment made for the length of remaining term on the tenancy and the estimated cost to bring the land to its highest and best use. Where the asset is subject to a secure letting, this is valued on a yield basis, based upon sales of similar types of investment.

Natural resources

Natural resource sites in the portfolio are valued based on a discounted cash flow for the operating life of the asset.

Major developments

Major development sites are generally valued using residual development appraisals, a form of discounted cash flow which estimates the current site value from future cash flows measured by observable current land and/or completed built development values, observable or estimated development costs, and observable or estimated development returns.

Where possible development sites are valued by direct comparison to observable market evidence with appropriate adjustment for the quality and location of the property asset, although this is generally only a reliable method of measurement for the smaller development sites.

Strategic land

Strategic land is valued on the basis of discounted cash flows, with future cash flows measured by current land values adjusted to reflect the quality of the development opportunity, the potential development costs estimated by reference to observable development costs on comparable sites, and the likelihood of securing planning consent. The valuations are then benchmarked against observable land values reflecting the current existing use of the land, which is generally agricultural and where available, observable strategic land values.

Business parks

The business parks are valued on the basis of market comparison with direct reference to observable market evidence including rental values, yields and capital values and adjusted where required for the estimated cost to bring the property to its highest and best use. The evidence is adjusted to reflect the quality of the property assets, the quality of the covenant profile of the tenants and the reliability/volatility of cash flows.

Information about fair value measurements using significant unobservable inputs (level 3)

| As at 31 December 2014 | | Agricultural land | Natural resources | Major developments | Strategic land | Business parks |
|-----------------------------|------------------|-------------------|-------------------|--------------------|----------------|----------------|
| Reversionary rental yield % | weighted average | – | – | – | – | 11.0 |
| | low | – | – | – | – | 8.8 |
| | high | – | – | – | – | 18.1 |
| Land value per acre £000 | weighted average | 3 | 7 | 55 | 16 | 30 |
| | low | 1 | 1 | 6 | 1 | 3 |
| | high | 33 | 71 | 150 | 449 | 254 |
| Cost report totals* | £000s | 2,334 | – | 107,693 | 56,837 | 19,407 |

* Cost report totals represent the estimated cost to bring investment properties to their highest and best use.

The table below shows some possible sensitivities to the key valuation metrics and the resultant changes to the valuations.

As at 31 December 2014

| Valuation metric | +/- change | +/- effect on valuation | | | | |
|-------------------------|------------|-------------------------|-------------------|--------------------|----------------|----------------|
| | | Agricultural land | Natural resources | Major developments | Strategic land | Business parks |
| Value per acre | 5% | 1,136 | 872 | 6,750 | 2,153 | 3,570 |
| Rental | 5% | – | – | – | – | 1,735 |
| Yield (e.g. 11% to 10%) | 1% | – | – | – | – | 2,451 |
| Cost report totals | 5% | 117 | – | 5,385 | 2,842 | 970 |

There are no inter-relationships between unobservable inputs.

18. Investments: continued

(c) Investment in joint ventures

| | £000 |
|---|------------|
| At 31 December 2014 | – |
| Arising on acquisition of subsidiaries | 1,233 |
| Impairment of investment in joint venture | (465) |
| At 31 December 2015 | 768 |

As a result of the acquisition of HEPGL, the Group holds 50% of the issued ordinary shares of Bates Regeneration Limited, a joint venture with Banks Property Limited for the development of an investment property at Blyth, Northumberland. At the end of the year the carrying value of the investment was reviewed, the result of which was an impairment of £465k which has been taken through the income statement and disclosed as an exceptional item given its one-off nature.

The Group's share of the assets and liabilities are:

| 2015 | Country of incorporation | Assets £000 | Liabilities £000 | Interest held % |
|----------------------------|--------------------------|----------------|---------------------|--------------------|
| Bates Regeneration Limited | England and Wales | 1,213 | (445) | 50 |

The risks associated with this investment are as follows:

- Decline in the availability and or an increase in the cost of credit for residential and commercial buyers
- Decline in market conditions and values.

The Group also owns a number of other joint ventures which are listed in Note 18 (a) whose value is minimal.

19. Inventories

| | Group | | Company | |
|--------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Raw materials | – | – | – | – |
| Work in progress | 114 | – | – | – |
| Finished goods | 978 | – | – | – |
| Total inventories | 1,092 | – | – | – |

Finished goods inventories comprises coal slurry that has been processed and is ready for sale. The cost of inventory is recognised as an expense within cost of sales in the year of £1,083,000.

20. Trade and other receivables

| | Group | | Company | |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Trade receivables | 1,564 | 264 | – | 264 |
| Less: provision for impairment of trade receivables | (121) | – | – | – |
| Net trade receivables | 1,443 | 264 | – | 264 |
| Other receivables | 16,723 | 336 | 153 | – |
| Prepayments and accrued income | 1,159 | 59 | – | 59 |
| Amounts recoverable on construction contracts | 581 | – | – | – |
| Amounts owed by subsidiary undertakings (Note 27) | – | – | 7,517 | 209 |
| | 19,906 | 659 | 7,670 | 532 |

The carrying amount of trade and other receivables approximate to their fair value due to the short time frame over which the assets are realised. All of the Group's and Company's receivables are denominated in sterling.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables as disclosed in Note 26. The Group and Company do not hold any collateral as security.

Notes to the financial statements

for the year ended 31 December 2015: continued

20. Trade and other receivables: continued

Group

Movements on the Group provisions for impairment of trade receivables are as follows:

| | Group | |
|--|--------------|--------------|
| | 2015 £000 | 2014 £000 |
| At the beginning of the year | – | – |
| Arising on acquisition of subsidiaries | (121) | – |
| Receivables written off during the year as uncollectable | – | – |
| Provided for in the year | – | – |
| At the end of the year | (121) | – |

The other classes of assets within trade and other receivables for the Group contain impaired assets of £1,055,000; against which a provision of £262,000 is held.

As at 31 December 2015, trade receivables of £1,120,000 (2014: £nil) were past due but not impaired. These mainly relate to customers for whom the arrears are being collected through agreed payment plans or where cash has been collected in 2016. The aging of these was as follows:

| | Group | |
|-------------------------------|--------------|--------------|
| | 2015 £000 | 2014 £000 |
| Up to 3 months | 1,095 | – |
| Over 3 months | 25 | – |
| At the end of the year | 1,120 | – |

As at 31 December 2015, trade receivables of £121,000 (2014: £nil) were impaired. The aging analysis of the impaired trade receivables was as follows:

| | Group | |
|-------------------------------|--------------|--------------|
| | 2015 £000 | 2014 £000 |
| Up to 3 months | – | – |
| Over 3 months | 121 | – |
| At the end of the year | 121 | – |

Provision for impairment charged to the income statement in the year was £nil (2014: £nil).

Company

The Company had no external receivables as at 31 December 2015. The other classes of assets within trade and other receivables do not contain impaired assets.

21. Assets and liabilities classified as held for sale

a) Assets classified as held for sale

| | Group | |
|-------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Investment properties | 9,128 | 335 |
| Trade and other receivables | – | 666 |
| Available for sale financial assets | – | 3,278 |
| Cash and cash equivalents | – | 840 |
| Total | 9,128 | 5,119 |

21. Assets and liabilities classified as held for sale: continued

b) Liabilities of disposal group classified as held for sale

| | Group | |
|--|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Trade and other payables | – | 263 |
| Remeasurement loss on carrying value of Harworth Insurance Company Limited | – | 206 |
| Total | – | 469 |

The assets classified for sale at the year end relate to investment properties expected to be sold within twelve months.

The assets and liabilities of the disposal group held for sale at December 2014 relate to Harworth Insurance Company Limited ('HICL').

Agreement was reached with the administrators of the former UK Coal Mine Holdings Limited (Ocanti No 1 Limited) over the exercise of their option to acquire the shares of Harworth Insurance Company Limited. The agreement was to reflect the efforts of the Company securing the restructure of the former insurance company to permit the transfer of the shareholding to a company in administration. The value to the Company achieved will reflect the value realised by the administrators in the liquidation of the assets of Harworth Insurance Company Limited after the cost of the liquidation and is capped at £500k based on the value of the balance sheet of that company in September 2015. The share transfer completed on 8 December 2015, however due to the uncertain value and timing of any receivable the Group has not recognised any proceeds in respect of this contingent asset.

22. Cash and cash equivalents

| | Group | | Company | |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Cash | 27,564 | 1,489 | 6,887 | 1,489 |
| Cash equivalents | – | – | – | – |
| Continuing operations | 27,564 | 1,489 | 6,887 | 1,489 |
| Cash and cash equivalents classified as held for sale | – | 840 | – | – |
| Cash and cash equivalents in the cash flow statement | 27,564 | 2,329 | 6,887 | 1,489 |

23. Borrowings

| | Group | |
|-------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Bank loans | | |
| Current: | | |
| Secured – bank loans and overdrafts | – | – |
| Secured – other loans | (400) | – |
| | (400) | – |
| Non-current: | | |
| Secured – bank loans | (48,968) | – |
| Secured – other loans | (15,151) | – |
| | (64,119) | – |

Details of the borrowings acquired as part of the acquisition of subsidiary on 24 March 2015 are provided in Note 3.

At 31 December 2015, the Group had bank borrowings of £50.0m (2014: £nil) and a further £15.7m (2014: £nil) of infrastructure loans, which resulted in total borrowings of £65.7m (2014: £nil). The bank borrowings are part of a £65.0m revolving credit facility from The Royal Bank of Scotland. The facility is repayable on 13 February 2020 (five year term) on a non-amortising basis and is subject to financial and other covenants.

Notes to the financial statements

for the year ended 31 December 2015: continued

23. Borrowings: continued

The infrastructure loans of £15.7m are provided by public bodies in order to promote the development of major sites. They comprise a £1.2m loan from Leeds LEP in respect of the Prince of Wales site, £10.9m from the Homes and Community Agency in respect of Waverley and £3.6m from Sheffield City Region JESSICA Fund for Rockingham.

The loans are drawn as work on the respective sites is progressed and they are repaid on agreed dates or when disposals are made from the sites.

Current loans are stated after deduction of unamortised borrowing cost of £nil (2014: £nil). Non-current bank and other loans are stated after deduction of unamortised borrowing costs of £1,236k (2014: £nil). The bank loans and overdrafts are secured by way of fixed charges over certain assets of the Group.

24. Trade and other payables

Current liabilities

| | Group | | Company | |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Current | | | | |
| Trade payables | 875 | 28 | 19 | 28 |
| Amounts owed to subsidiary undertakings (Note 27) | – | – | 600 | 49 |
| Taxation and social security | 1,530 | 76 | 213 | 76 |
| Other creditors | 2,920 | – | – | – |
| Accruals and deferred income | 12,044 | 4,931 | 179 | 4,931 |
| | 17,369 | 5,035 | 1,011 | 5,084 |

Included in accruals and deferred income in respect of both the Group and the Company is £nil (2014: £4,650,000) relating to the deferred income on the option for Harworth Insurance Company Limited.

Non-current liabilities

| | Group | | Company | |
|--------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Non-current | | | | |
| Other creditors | 2,280 | – | – | – |
| | 2,280 | – | – | – |

Non-current creditors relate to deferred consideration due on land purchases after one year.

25. Financial instruments and derivatives

The Group's principal financial instruments during the year included trade and other receivables, cash and cash equivalents, interest bearing borrowings and trade and other payables.

Other financial assets and liabilities

| | 31 December 2015 | | 31 December 2014 | |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| Group | Book value £000 | Fair value £000 | Book value £000 | Fair value £000 |
| Assets | | | | |
| Cash and cash equivalents | 27,564 | 27,564 | 1,489 | 1,489 |
| Trade and other receivables | 19,906 | 19,906 | 659 | 659 |
| Liabilities | | | | |
| Bank and other borrowings | 64,519 | 64,519 | – | – |
| Trade and other payables | 17,369 | 17,369 | 4,959 | 4,959 |

25. Financial instruments and derivatives: continued

| Company | 31 December 2015 | | 31 December 2014 | |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | Book value £000 | Fair value £000 | Book value £000 | Fair value £000 |
| Assets | | | | |
| Cash and cash equivalents | 6,887 | 6,887 | 1,489 | 1,489 |
| Trade and other receivables | 7,670 | 7,670 | 532 | 532 |
| Liabilities | | | | |
| Bank and other borrowings | – | – | – | – |
| Trade and other payables | 1,446 | 1,446 | 5,084 | 5,084 |

In accordance with IAS 39, the Group classifies the assets and liabilities in the analysis above as 'loans and receivables' and 'other financial liabilities', respectively. At the 2015 and 2014 year ends, the Group did not have any 'held to maturity' or 'available for sale' financial assets or 'held for trading' financial assets and liabilities as defined by IAS 39.

Included in 2014 trade and other payables was deferred income of £4,650,000 relating to the deferred income on the option for Harworth Insurance Company Limited.

The fair value of bank and other borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are within Level 2 of the fair value hierarchy.

26. Financial risk management

The Group's overall risk management programme focuses on credit and liquidity risks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out centrally under policies approved by the Board of Directors. The Board discusses and agrees courses of action to cover material risk management areas, including credit risk and investment of excess liquidity.

The Shareholders' Agreement in place during 2014, ceased on 24 March 2015, when the Group acquired the remaining 75.1% of the issued share capital of Harworth Estates, see Note 3.

Credit risk

The Group is subject to credit risk arising from outstanding receivables and committed cash and cash equivalents and deposits with banks and financial institutions. The Group's policy is to manage credit exposure to trading counterparties within defined trading limits.

The Group is exposed to counterparty credit risk on cash and cash equivalent balances. The Group and Company hold all of their cash deposits with their principal bankers.

Interest rate risk

The Group's interest rate risk arises from external borrowings which are charged at LIBOR plus 2%.

Liquidity risk

The Group is subject to the risk that it will not have sufficient liquid resources to fund its on-going business. The Group manages its liquidity requirements with the use of both short and long-term cash flow forecasts.

The Group had net debt at 2015 of £36,955,000; (2014: £nil). The Group used cash from operating activities and investing activities for the year of £90,279 (2014: generated £61,000).

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the gross contractual undiscounted cash flows.

| | Less than 1 year £000 | Between 1 and 2 years £000 | Between 2 and 5 years £000 |
|--|-----------------------------|----------------------------------|----------------------------------|
| At 31 December 2015 | | | |
| Trade and other payables (including deferred income) | 19,645 | – | – |
| Interest payable on borrowings | – | – | 345 |
| Bank and other borrowings | 400 | 3,000 | 60,774 |
| At December 2014 | | | |
| Trade and other payables (including deferred income) | 4,959 | – | – |
| Bank and other borrowings | – | – | – |

Notes to the financial statements

for the year ended 31 December 2015: continued

26. Financial risk management: continued

Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern and have the resources to provide returns for shareholders and benefits for other stakeholders;
- to maximise returns to shareholders by allocating capital across the business based upon the expected level of return and risk; and
- to maintain an optimal capital structure to reduce the cost of capital.

The Group manages and monitors its cash balances to ensure it has sufficient capital to manage and maintain its business activities. Cash balances are disclosed Note 22.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of net debt to equity. Net debt is total debt less cash and cash equivalents and at 31 December 2015 this was £37.0m, (2014: net funds £1.5m).

The Group has in place a £65.0m revolving credit facility from The Royal Bank of Scotland ('RBS'). The facility is a five year term facility which ends in February 2020. It is on a non-amortising basis and is subject to financial and other covenants.

The facility provided by RBS is subject to covenants over loan to market value of investment properties, gearings, and minimum consolidated net worth.

The Group comfortably operated within its requirements throughout the year.

27. Retirement benefit obligations

Defined contribution pension schemes

The Group pays defined contribution payments to pension insurance plans. Contributions to defined contribution schemes in the year amounted to £202,000 (2014: £27,000). The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense when they are due.

Defined benefit obligations

The Group and Company has defined benefit obligations in respect of the Blenkinsopp Section of the Industry-Wide Mineworkers' Pension Scheme (the Blenkinsopp scheme). This scheme is closed to new members.

The balance sheet amounts in respect of retirement benefit obligations are:

| | Group | | Company | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Relating to continuing activities | | | | |
| Blenkinsopp | 435 | 564 | 435 | 564 |
| | 435 | 564 | 435 | 564 |

Contributions to the Blenkinsopp scheme were £189,300 (2014:£189,300) and were paid under an indemnity by UK Coal Production Limited. It is expected that contributions of the same amount will be paid under this indemnity or the Harworth Estates guarantee in 2015. At December 2015, no contributions remained unpaid (2014: £nil).

The pension scheme is valued annually by a qualified independent actuary for the purposes of IAS 19 (revised) and the preparation of financial statements. The assumptions which usually have the most significant effect on the results of the valuation are the discount rate, which is based on bond yields, and the rates of increase in pensions. There are no active members of this scheme. The main assumptions underlying the valuation of the Blenkinsopp scheme:

27. Retirement benefit obligations: continued**Defined benefit obligations: continued**

| | As at 31 December 2015 | As at 31 December 2014 |
|--|--|--|
| Discount rate | 3.8% p.a. | 3.6% p.a. |
| Rate of pension increases | 2.2% p.a. | 2.1% p.a. |
| Rate of price inflation (RPI) | 3.2% p.a. | 3.1% p.a. |
| Rate of price inflation (CPI) | 2.2% p.a. | 2.1% p.a. |
| Rate of cash commutation | 20.00% | 20.00% |
| | Year ended 31 December 2015 | Year ended 31 December 2014 |
| Longevity at age 60 for current pensioners (years) | 18.6–21.9 | 18.7–22.1 |
| Longevity at age 60 for future pensioners (years) | 20.2–23.9 | 20.4–24.1 |

The assumed pension increases depend on the period of service accrual (before April 1997: no increases, after 1997: in line with statutory minimum increases based on consumer price inflation).

Defined benefit obligations

The amounts recognised in the Balance Sheet:

| | 2015 £000 | 2014 £000 | 2013 £000 | 2012 £000 | 2011 £000 |
|--|--------------|--------------|--------------|--------------|--------------|
| Fair value of plan assets | 1,727 | 1,740 | 1,393 | 1,282 | 1,106 |
| Present value of funding obligations | (2,162) | (2,304) | (2,076) | (2,002) | (1,698) |
| Net liability recognised in the Balance Sheet | (435) | (564) | (683) | (720) | (592) |

The Blenkinsopp scheme does not own any shares in the Company.

The amounts recognised in the consolidated income statement are:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---------------|---|---|
| Expenses | (36) | (36) |
| Interest cost | (21) | (26) |
| | (57) | (62) |

A further cost of £3,000 (2014: loss of £8,000) has been reflected in the statement of comprehensive income in the year. This represents the net effect of experience and actuarial gains and losses on the scheme in the year.

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|--|---|---|
| Change in assets | | |
| Fair value of plan assets at the start of the year | 1,740 | 1,393 |
| Interest income | 59 | 63 |
| Actual return on scheme assets excluding interest income | (72) | 213 |
| Employer contributions | 189 | 189 |
| Expenses | (36) | (36) |
| Benefits paid | (153) | (82) |
| Fair value of plan assets at the end of the year | 1,727 | 1,740 |

Notes to the financial statements

for the year ended 31 December 2015: continued

27. Retirement benefit obligations: continued

Defined benefit obligations: continued

Plan assets are comprised as follows:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|-----------------|---|---|
| Gilts | 1,282 | 1,301 |
| Corporate bonds | 435 | 423 |
| Other | 10 | 16 |
| Total | 1,727 | 1,740 |

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Change in defined benefit obligations | | |
| Present value of defined benefit obligation at the start of the year | (2,304) | (2,076) |
| Interest cost | (80) | (89) |
| Remeasurements: | | |
| – Gain/(loss) arising from changes in demographic assumptions | 56 | (243) |
| – Loss arising from changes in financial assumptions | 13 | 22 |
| Benefits paid | 153 | 82 |
| Present value of defined benefit obligation at the end of the year | (2,162) | (2,304) |

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|--|---|---|
| Analysis of the movement of the balance sheet liability | | |
| At the start of the year | (564) | (683) |
| Total amounts recognised in the income statement | (57) | (62) |
| Contributions | – | – |
| Employer contributions | 189 | 189 |
| Net actuarial loss recognised in the year | (3) | (8) |
| At the end of the year | (435) | (564) |

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Cumulative actuarial gains and losses recognised in equity | | |
| At the start of the year | 215 | 223 |
| Net actuarial loss in the year | (3) | (8) |
| At the end of the year | 212 | 215 |

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|---|---|---|
| Experience gains and losses | | |
| Actual return on scheme assets excluding interest income | (72) | 213 |
| Remeasurements: | | |
| – Gain/(loss) arising from changes in demographic assumptions | 56 | (243) |
| – Gain arising from changes in financial assumptions | 13 | 22 |
| Net actuarial loss | (3) | (8) |

Contributions are determined by a qualified actuary on the basis of triennial valuations, using the projected credit unit method. The most recent valuations for the purpose of determining contributions were at 31 December 2009, which were agreed in September 2011. This showed an estimated past service deficit of £2,674,000. The next valuation has yet to be agreed and signed.

27. Retirement benefit obligations: continued**Defined benefit obligations: continued**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

| | Year ended 31 December 2015 £000 | Year ended 31 December 2014 £000 |
|--|---|---|
| Change in discount rate by 0.1% | 37 | 39 |
| Change in price inflation (and associated assumptions) by 0.1% | 10 | 20 |
| Increase in life expectancy by 1 year | 40 | 43 |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice some of the assumptions may be correlated. No changes have been made to the method and types of assumptions from those in the previous year.

28. Called up share capital

| Group and Company | 2015 | | 2014 | |
|----------------------------------|----------------------|---------------|---------------------|--------------|
| | Number of shares | £000 | Number of shares | £000 |
| Authorised share capital | | | | |
| At the start and end of the year | | | | |
| Ordinary shares of 1 pence each | Unlimited | Unlimited | Unlimited | Unlimited |
| Issued and fully paid | | | | |
| Ordinary shares of 1 pence each | | | | |
| 1 January | 605,456,480 | 6,055 | 605,456,480 | 6,055 |
| Shares issued | 2,317,241,377 | 23,172 | – | – |
| 31 December | 2,922,697,857 | 29,227 | 605,456,480 | 6,055 |

On 24 March 2015 the Company issued 2,317,241,377 ordinary shares at 7.25 pence each as part of a placing and open offer of which 730,674,465 ordinary shares were issued to the PPF as part of the purchase consideration for the acquisition of 75.1% of the issued share capital of HEPGL.

Long Term Incentive Plan

A Long Term Incentive Plan was introduced in 2000 for Executive Directors and Senior Executives. There were no shares outstanding at December 2015 (2014: nil). The Directors' remuneration report which forms part of these financial statements provides details of current incentive plans.

29. Share premium account

| Group and Company | 2015 £000 | 2014 £000 |
|--------------------------------|----------------|--------------|
| At 1 January | 32,911 | 32,911 |
| Premium on shares issued | 99,160 | – |
| Costs relating to Rights Issue | (2,950) | – |
| At 31 December | 129,121 | 32,911 |

30. Fair value and capital redemption reserves

| Group | Fair value reserve £000 | Capital redemption reserve £000 | Total £000 |
|---|-------------------------------|--|---------------|
| At 1 January 2015 | – | 257 | 257 |
| Movement in period | 24,060 | – | 24,060 |
| At 31 December 2015 | 24,060 | 257 | 24,317 |
| | | | |
| Company | Fair value reserve £000 | Capital redemption reserve £000 | Total £000 |
| At 1 January 2015 and 31 December 2015 | – | 257 | 257 |

The fair value and capital redemption reserves do not represent realised reserves.

Notes to the financial statements

for the year ended 31 December 2015: continued

31. Merger reserve

| Group and Company | Merger reserve £000 |
|---------------------|------------------------|
| At 1 January 2015 | – |
| Addition in period | 45,667 |
| At 31 December 2015 | 45,667 |

The merger reserve reflects the premium on the shares issued to the PPF. These shares were issued as part of the consideration for the purchase of the 75.1% of the issued share capital.

32. Capital and other financial commitments

Capital expenditure contracted for at 31 December 2015 is £nil (2014: £nil).

33. Operating lease commitments

The Group leases a number of vehicles, office equipment and office facilities under operating leases. The leases run for between one year and three years.

Future minimum lease payments

At 31 December 2015, the future minimum lease payments under non-cancellable leases were payable as follows:

| | Group | | Company | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Less than one year | 33 | – | – | – |
| Between one and five years | 30 | – | – | – |
| More than five years | – | – | – | – |
| | 63 | – | – | – |
| Amounts recognised in the income statement | | | | |
| Lease cost | 25 | – | – | – |

34. Related party transactions

Group

Directors and key management compensation

The remuneration of the Directors and key management is disclosed in the Directors' remuneration report.

Peel Group

The Peel Group charged £41,875 (2014: £41,666) in respect of fees for Steven Underwood and £8,202 for the rental of office space (2014: £16,000).

The Group relinquished an option to purchase 50% of the share capital of Peel Wind Farms (Blue Sky Forest) Limited in return for £4.4m from Peel Holdings Wind Farms (IOM) Limited. This has resulted in a gain of £3.2m shown in the consolidated income statement within other gains.

Harworth Estates Group

Revenue includes £320k for the period up to 24 March 2015 (2014: £1,458k) in respect of recharges to the Harworth Estates Group for on-going costs of the Company.

The Harworth Estates Group owed £nil to the Group at 31 December 2015 as the results are now fully consolidated (2014: £261k).

Scratching Cat

Geoff Mason, our Company Secretary, supplies his services through Scratching Cat Limited, a company of which he is a director. During the year charges were made in relation to company secretarial duties of £115k (2014: £32k).

Company

The Company carried out the following transactions with subsidiary undertakings.

34. Related party transactions: continued

Company: continued

Management charges

During the year the Company raised management charges of £48,011 on subsidiary undertakings (2014: £1,000).

Details of the Company's intercompany balances and interest at 31 December 2015 are set out below:

| | Net Interest receivable/ (payable) in year £000 | Net amounts due from/(to) £000 |
|---|---|--------------------------------------|
| EOS Inc Limited | 75 | 7,303 |
| Harworth Estates Limited | 3 | (281) |
| Harworth Guarantee Limited | (1) | (50) |
| Coalfield Estates Limited | 5 | 214 |
| Harworth Estates Property Group Limited | – | (269) |
| | 82 | 6,917 |

Dividends received

During the year the Company received dividends of £nil (2014: £nil) from subsidiary undertakings.

Interest

During the year the Company received interest of £86,000 (2014: £5,000) from and paid interest of £4,000 (2014: £1,000) to subsidiary companies that form part of the continuing operations.

All transactions occurred whilst the related parties were subsidiary undertakings.

Receivables and indebtedness

Details of the Company's receivables and indebtedness are set out in notes 20 and 24 and amounts due from, or owed to, related parties are set out below:

| | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
|---|--------------------------------------|--------------------------------------|
| Owed to: | | |
| Scratching Cat Limited | (9) | – |
| Harworth Guarantee Company Limited | (50) | (49) |
| Harworth Estates Limited | (281) | – |
| Harworth Estates Property Group Limited | (269) | – |
| | (609) | (49) |
| | | |
| | As at 31 December 2015 £000 | As at 31 December 2014 £000 |
| Owed by: | | |
| Harworth Estates Property Group Limited | – | 261 |
| Coalfield Estates Limited | 214 | 209 |
| EOS Inc Limited | 7,303 | – |
| | 7,517 | 470 |

35. Events after the reporting period

Subsequent to the year end the Group has made two further acquisitions.

The first was the acquisition of the freehold of an office building on the border of the Advanced Manufacturing Park in Rotherham. This was acquired for a consideration of £2.2m and will provide a significant rental income from existing tenants. The transaction completed on 29 February 2016.

The second event was the acquisition of a 50% share of Aire Valley Land LLP from Keyland Developments Limited for a consideration of £8.5m. Aire Valley Land LLP is a joint venture company which controls 165 acres of land in Leeds that abuts existing landholding of the Group on the former Skelton Grange power station site. The transaction completed on 14 March 2016.

Company information and advisers

Chairman

Jonson Cox ^{2, 3}

Chief Executive

Owen Michaelson

Finance Director

Andrew Kirkman

Non-Executive Directors

Martyn Bowes

Lisa Clement ^{1, 2, 3, 5}

Anthony Donnelly ^{1, 5}

Peter Hickson ^{2, 3, 4, 5}

Steven Underwood ¹

Company Secretary and Registered Office

Geoff Mason

AMP Technology Centre

Brunel Way

Rotherham

South Yorkshire

S60 5WG

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

St Paul's Place

121 Norfolk Street

Sheffield

S1 2LE

Solicitors

Eversheds LLP

Bridgewater Place

Water Lane

Leeds

LS11 5DR

Brokers

Investec Bank PLC

2 Gresham Street

London

EC2V 7QP

Registrars

Equiniti Limited

Aspect House

Spencer Road

Lancing

West Sussex

BN99 6DA

Principal bankers

Royal Bank of Scotland PLC

3rd Floor

2 Whitehall Quay

Leeds

LS1 4HR

Lloyds Banking Group PLC

2nd Floor

Lisbon House

116 Wellington Street

Leeds

LS1 4LT

Company registered number

2649340

Share price information

The Company's Ordinary Shares are traded on the London Stock Exchange.

SEDOL number 0719072

ISIN number GB0007190720

Reuters ticker HWG.L

Bloomberg ticker HWG:LN

Definitions and abbreviations used

| | |
|------------------|--|
| Harworth Estates | Harworth Estates Property Group Ltd and its subsidiaries |
|------------------|--|

| | |
|-------------------|---|
| Harworth or Group | Harworth Group plc and its subsidiaries |
|-------------------|---|

| | |
|---------|--------------------|
| Company | Harworth Group plc |
|---------|--------------------|

| | |
|-------|-------------------------------------|
| HEPGL | Harworth Estates Property Group Ltd |
|-------|-------------------------------------|

¹ Audit Committee

² Nomination Committee

³ Remuneration Committee

⁴ Senior Independent Non-Executive Director

⁵ Independent Non-Executive Director

Harworth Group plc
AMP Technology Centre
Brunel Way
S60 5WG

T: 0114 30 30 880

harworthgroup.com