

# Harworth

Transforming Regenerating Revitalising

Harworth Group plc  
Annual Report and Financial Statements 2016

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# Harworth

Harworth Group plc  
Advantage House,  
Poplar Way,  
Rotherham,  
S60 5TR  
[www.harworthgroup.com](http://www.harworthgroup.com)

Front cover:  
View of Waverley and  
the AMP, Summer 2016

Before shot (our Vision):  
Logistics North, Spring 2014

After shot (our Strategy):  
Logistics North, Autumn 2016

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# BEFORE

## **Our 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.

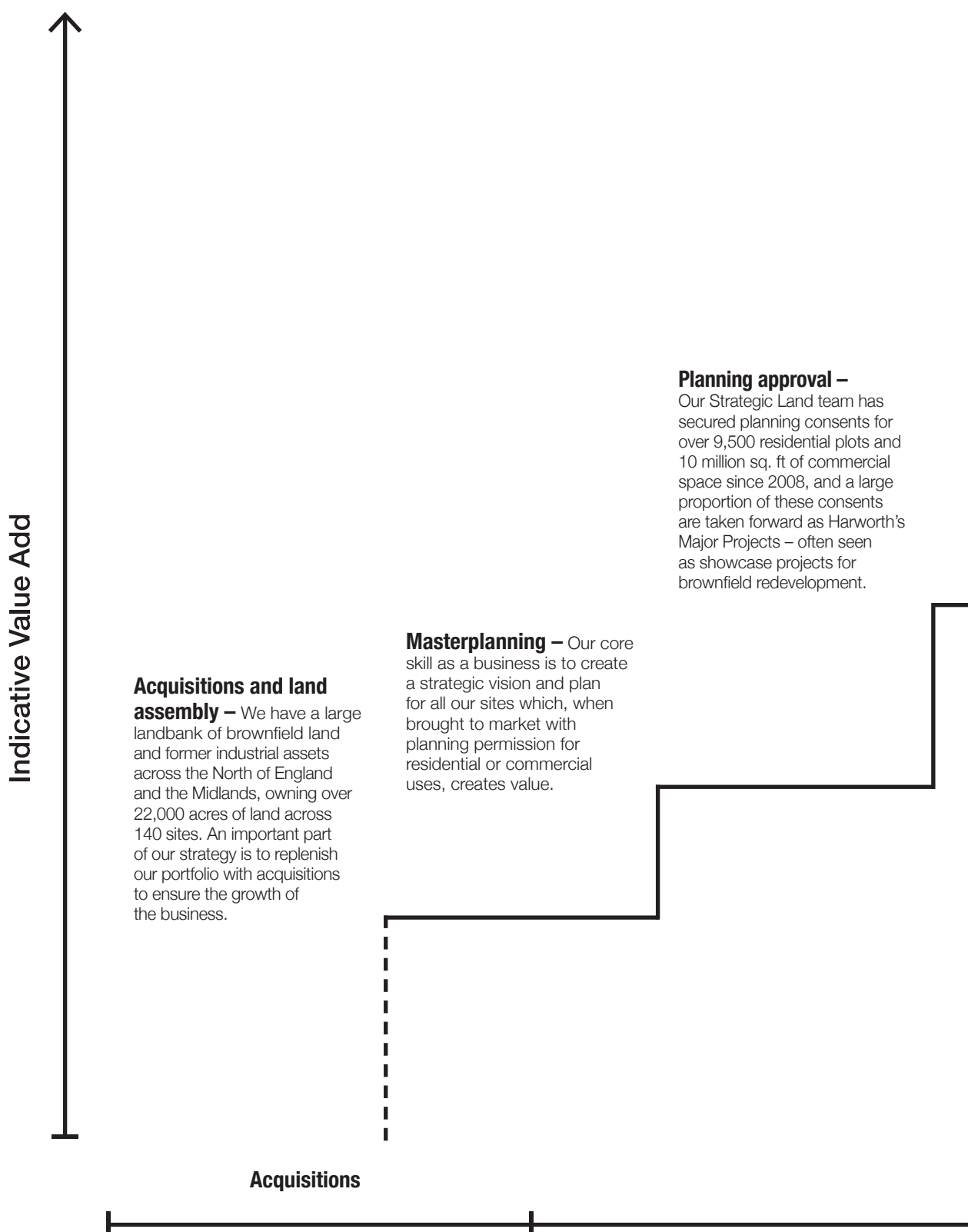
# NOW

## **Our strategy**

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

# How we add value

## The Harworth effect

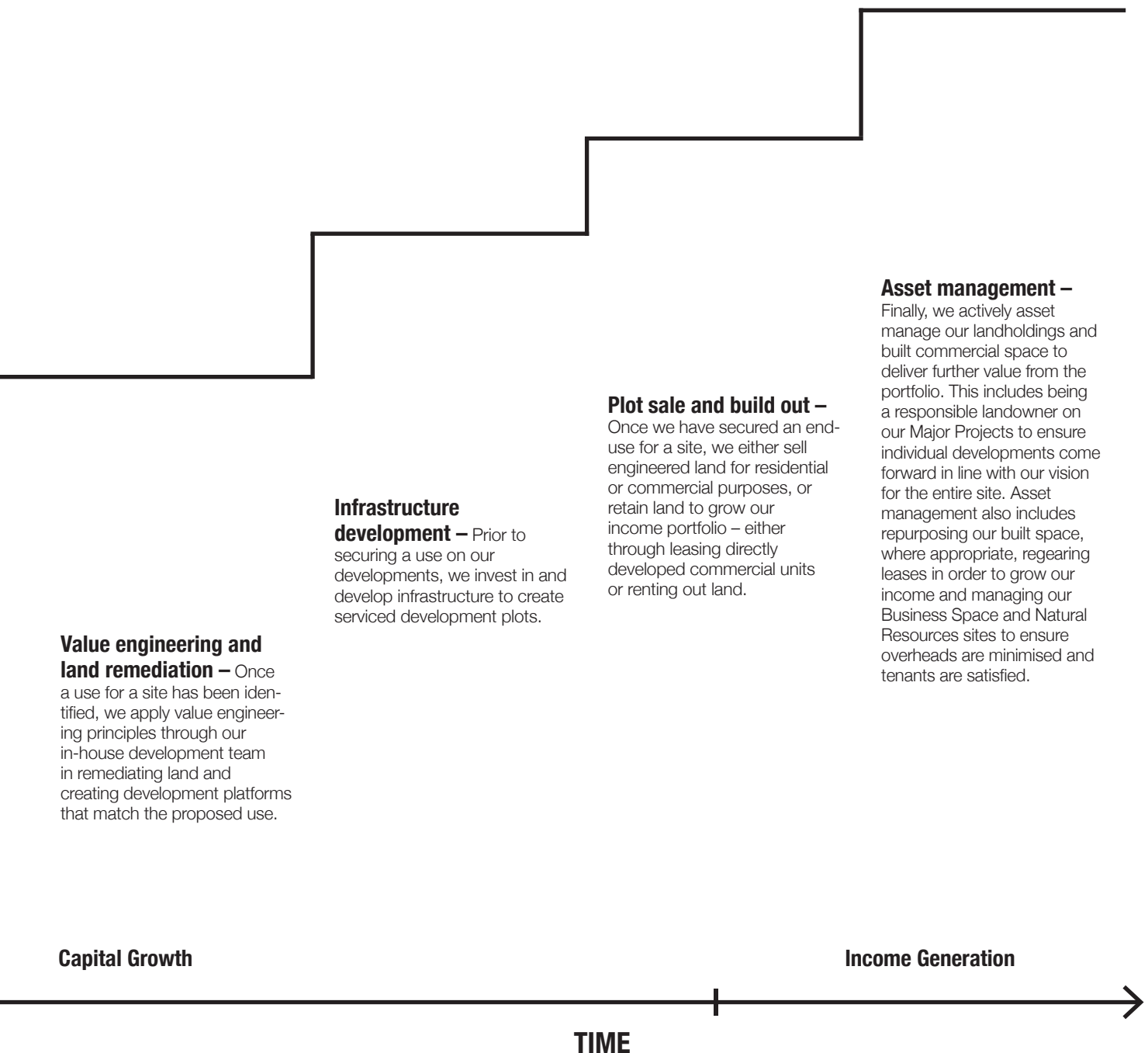


## Harworth operates its business through three separate but related segments.

**CAPITAL GROWTH** (pages 16 to 21) focuses on maximising value by developing the property portfolio and includes taking sites through the development cycle from masterplanning inception through to plot sale and build out.

**INCOME GENERATION** (pages 22 to 27) focuses on retaining and effectively managing selected land and property assets to generate a long-term recurring income stream.

**ACQUISITIONS** (pages 28 to 33) focuses on replenishing our land and property portfolio with new sites in order to assure the sustainable growth of the business.



## Our business model

**Competitive advantage comes from our ability to add value through management actions rather than reliance on market movements.**

## Delivering on our strategy

OUR STRATEGY	OUR DELIVERY
Expanding our geographical reach	To expand progressively our geographical reach into all regions of the UK that have strong and stable markets, with initial focus on our core regions and adjacent areas.
Maintaining sector diversity	To maintain our focus on residential, commercial and energy occupiers to underpin our site-specific masterplans.
Building resilient income	To build and improve the quality of our recurring income, to cover overheads (including strategic land promotion), interest and ultimately tax and dividends.
Targeted site selection and commercial development via flexible deal structures	To select sites carefully on a targeted basis, whilst delivering direct commercial development and value add initiatives to optimise equity returns by employing a range of deal structures.



# Our markets

## COMMERCIAL

- Demand for well-connected industrial and logistics space remains strong, driven by the rise of e-tailing, with agents continuing to highlight the sector as the most attractive of the commercial real estate sectors.
- Supply of units continues to be squeezed across all regions, both under and above 100,000 sq. ft driving take-up and rental growth.

## RESIDENTIAL

- National housing under-supply is driving strong demand for land across all regions, with housebuilders reporting consistent sales of new homes.
- Presumption remains in favour of residential development on brownfield land.
- Government stimulus measures for housing purchasers remain in place, as confirmed in the recent Housing White Paper.

## LOW CARBON ENERGY

- Planned closure of Britain's eight remaining coal-fired power stations by 2025 provides opportunities for alternative energy technologies to replace the power generation capacity lost when they cease operation.
- Good interest remains for multi-energy schemes to address current grid system imbalances, including battery storage technology.

<sup>(1)</sup> Comprises South Yorkshire, West Yorkshire and part of North Yorkshire.

# Performance highlights and Key Performance Indicators

## FINANCIAL HIGHLIGHTS<sup>(1)</sup>

### Strong 2016 financial performance, with profits and Net Asset Value (NAV) ahead of expectations

- NAV rose to £334.9m (115p per share), a 12.5% increase from 2015 NAV of £297.7m (102p per share)
- EPRA NAV, which excludes deferred tax and the mark to market movement on financial instruments, up to £350.1m (120p per share), a 13.3% increase from 2015 of £309.1m (106p per share)
- Operating profit of £45.8m<sup>(2)</sup> (2015: £37.9m), including value gains of £43.7m<sup>(3)</sup> (2015: £36.3m) and profit from operations of £2.2m (2015: £1.5m)
- Earnings per share of 3.5p (2015: 3.1p), underlying earnings per share 13.7p (2015: 12.2p)

## STRATEGIC AND OPERATING HIGHLIGHTS

### Clear strategic focus on residential and commercial markets in our regions that continue to be supportive of growth. This reflects strong fundamentals, being the shortage of housing supply and available commercial space

- Six acquisitions (£31.6m) made including 50% purchase of the investment vehicle that owns Gateway 45, Leeds' largest live commercial development, and two North West business parks that are both fully let; strengthening the income base and growing our geographic presence
- £58.9m of disposals made to capture value increases on mature residential and commercial sites and to increase our focus on sites with higher value add potential. Portfolio now comprises the ownership or management of 22,000 acres on over 140 sites

### Operational performance across all sectors was very good with continuing momentum into 2017

- Residential sales progress was consistent through the year with 619 plots sold across 6 sites. Planning consent was secured for 65 new plots and applications for a further 1,200 plots were submitted. Across the portfolio, consents stand at over 9,500 plots with a further c.8,000 plots in the planning pipeline
- Commercial sales were made at a number of sites, the highlight being the sale of 43.7 acres at Logistics North to Lidl UK for £22.5m, realising a healthy profit above book value. Across the portfolio, c.10.0m sq. ft is consented on our land<sup>(4)</sup>, with 1.9m sq. ft of new applications submitted and a further 6.3m sq. ft to be submitted
- The income portfolio made further progress with new and renewed business park lettings and further low carbon energy tenants, offsetting the previously flagged trend of declining coal fines sales. Practical completion of direct developments in Yorkshire and the M&G Real Estate forward-funded units at Logistics North also provide a pipeline of further income producing opportunities into 2017

## FINANCING

### New debt financing secured to provide headroom and advance income generating acquisitions

- In August, existing RCF increased from £65m to £75m and extended by 1 year to 2021
- Portfolio gearing of 9.9% net loan to value (LTV) which equates to 31.3% set against the Business Space and Natural Resources properties

## KEY PERFORMANCE INDICATORS

### Net Asset Value

### Value gains<sup>(3)</sup> and income generation

### Net loan to value

### Disposals less development spend and acquisitions

<sup>(1)</sup> 2015 NAV and earnings per share figures assume 2016's 1 for 10 share consolidation had occurred in 2015 and 2015 underlying figures assume that Harworth Estates Property Group Limited had been owned from the start of the year.

<sup>(2)</sup> Operating profit before exceptional items and including share of profit of associate and joint ventures.

<sup>(3)</sup> Increase/(decrease) in fair value of investment properties and assets held for sale (2016: £33.5m), profit/(loss) on sale of investment properties and assets held for sale (£8.8m) together with other gains, being overages (£0.7m), and share of profit of associate and joint ventures (£0.6m).

<sup>(4)</sup> Consented figures includes 2.64m sq. ft at Gateway 45 Leeds, our joint 50:50 venture with Evans Property Group.

# Harworth at a glance

STRATEGIC REPORT

## WE ARE ONE OF THE UK'S LARGEST REGENERATION COMPANIES

Over **22,000** acres

**£400.3m**

Investment property value<sup>(1)</sup>

CORPORATE GOVERNANCE

## WE DELIVER NEW HOMES, NEW COMMERCIAL SPACE AND NEW LOW CARBON PROJECTS BY USING OUR BROWNFIELD LAND EXPERTISE

**9,529**

Consented housing plots

**c.10m sq. ft**

Consented employment space

**144.5MW**

Low carbon energy capacity installed on our land

FINANCIAL STATEMENTS

## ONCE FULLY DEVELOPED, OUR DEVELOPMENTS COULD MAKE A BIG DIFFERENCE TO THE NORTH OF ENGLAND AND THE MIDLANDS

Potential to deliver

**17,000** homes

Potential to deliver

**22m sq. ft**  
employment space

Potential to deliver

**300MW**  
of capacity to the National Grid

This could deliver up to

**£2.8bn**

in Gross Value Added to UK plc

This could deliver up to

**58,000**

new jobs

This could power over

**100,000**

Family homes

## WE WORK SAFELY AND RESPONSIBLY IN MAKING THIS DIFFERENCE

**51**  
staff

**22%**

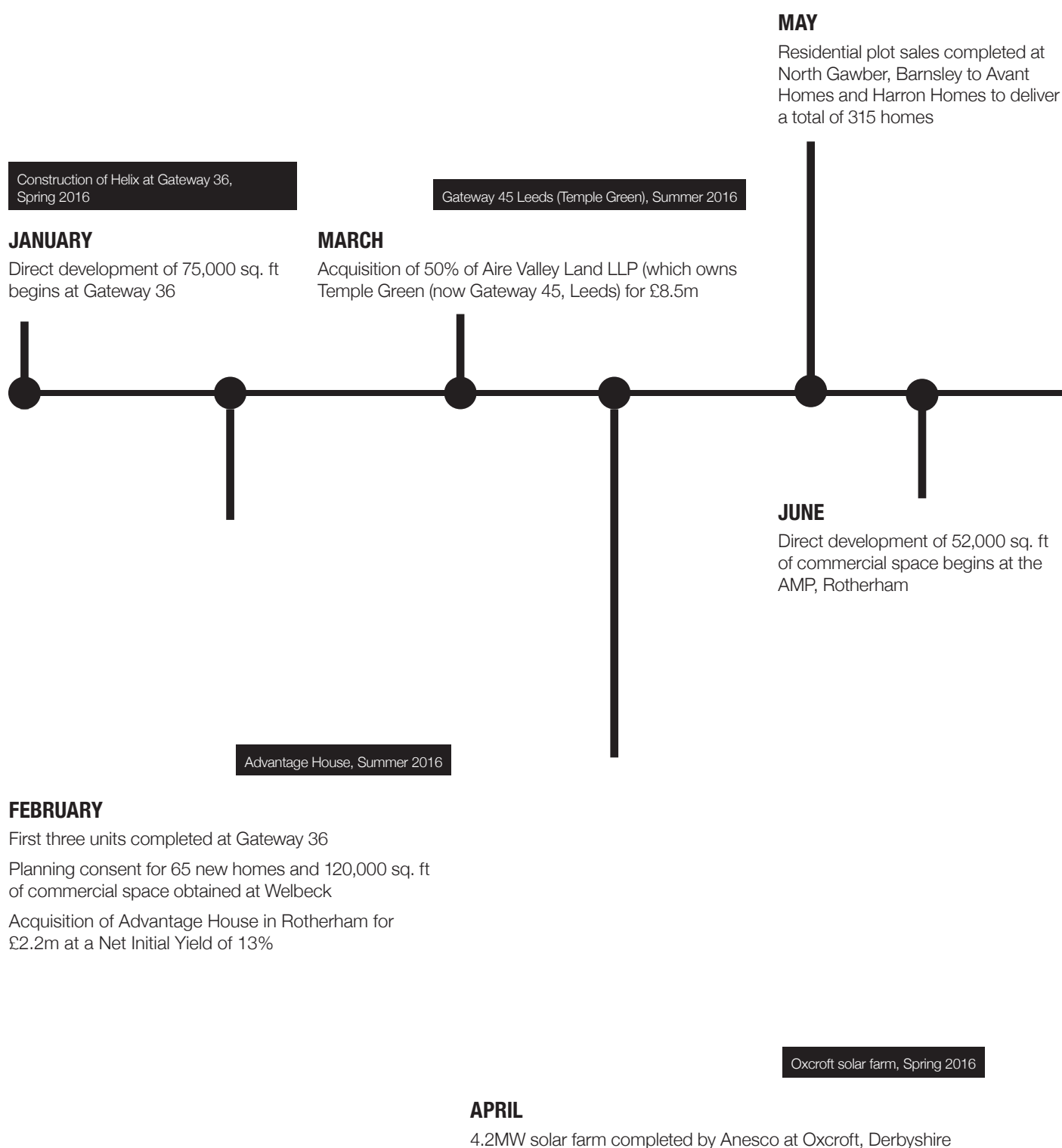
Reduction in CO2 emissions from activities in 2016

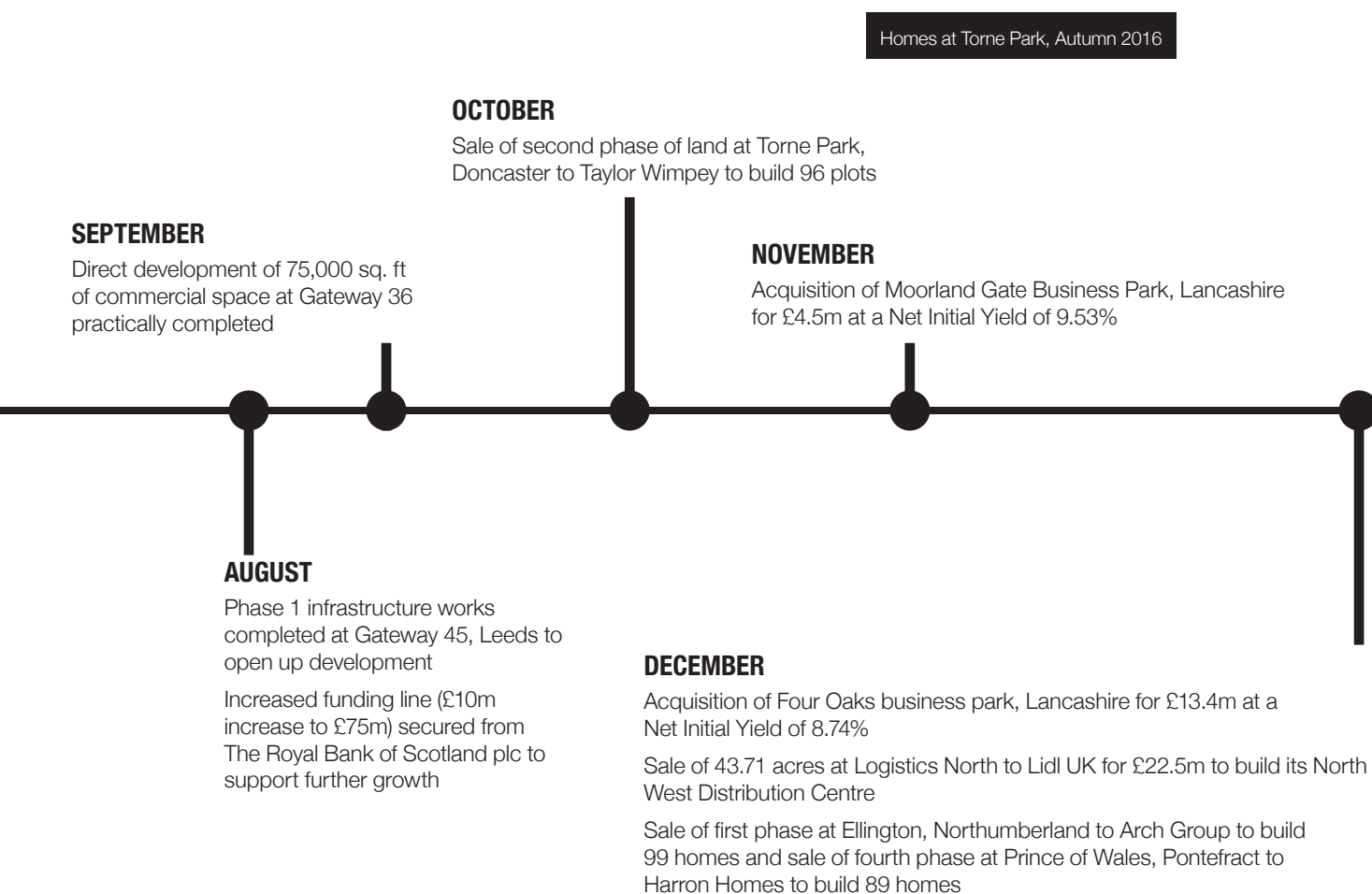
**0**

RIDDOR reports filed by Harworth in 2016

<sup>(1)</sup> Includes investment properties, assets held for sale, joint ventures, overages and owner occupied properties.

# Our year





Logistics North, Autumn 2016

Entrance to Prince of Wales, February 2016

# Chairman's statement

**I am pleased to present the Group's Annual Report and Financial Statements for the financial year ended 31 December 2016. We have delivered another year of strong growth, despite the political events that overshadowed the property industry in 2016. The business continued to meet its ambition of increasing net asset value (NAV) by at least 10% per annum through the property cycle. NAV has grown by 12.5% (2015: 18.9% reflecting capital raised) to £334.9m at the year-end (2015: £297.7m). EPRA NAV at the end of the year rose to £350.1m, representing a 13.3% increase over the year (2015: £309.1m).**

## OVERVIEW, STRATEGY AND PERFORMANCE

Our core strategy is to grow and realise value from our extensive land bank, much of which derives from our heritage coalfield portfolio, supplemented by a range of land and property acquisitions in the North and Midlands over the past two years.

Harworth has extensive experience in remediating and developing large previously used sites for future use for commercial and residential purposes. Our Capital Growth team continued to deliver value growth across our underlying portfolio by securing planning consents, re-engineering land for future uses, proactive asset management and strategic land acquisitions during the year. We achieved particularly good progress at our Logistics North site in Bolton, completing sales to Lidl UK (for £22.5m), Aldi and Greene King, a letting to Costa Coffee and achieving practical completion of two forward funded units on behalf of M&G Real Estate in December 2016. One of these units was let to Whistl shortly after the year-end.

Our commitment to investors is, over time, to seek to cover the Group's operating costs, interest, tax and dividends from ongoing rental and operating income. A significant proportion of this income has been generated from minerals and coal fines recovered during the development process. As previously flagged, this income stream experienced a downturn in 2016, following the sharp reduction in coal burn in the UK power industry. Our Income Generation team performed very well in mitigating this downturn by growing our rental income and undertaking targeted direct development to create further opportunities for rental growth in 2017. We also focused our acquisition strategy during the second half of 2016 on income generating assets, including Moorland Gate and Four Oak business parks, which present significant opportunities for rental improvement and yield compression.

Six acquisitions were completed during the year, for a total of £31.6m, all within the core regions in which we operate. Two of those acquisitions have continued to replenish the strategic land bank in order to secure our long-term development pipeline; a key component of our strategy.

We review our strategy each year. This year's review reinforced to the Board that the current strategy remains robust and appropriate. Our consistently strong rates of

value growth are driven more by management initiatives than underlying movements in the real estate markets, making the Group's operational performance less exposed to market fluctuations. This has been particularly evident in the Group's performance in the second half of the year.

## DIVIDEND

We paid a dividend of 0.51p per share (£1.5m or £2.0m on an annualised basis) for the 2015 financial year on 9 September 2016. This was the first dividend in many years. The Board has stated its intention to grow the dividend, broadly in line with the growth of the business, and pay it from recurring income and realised gains from disposals. The Board will not distribute unrealised gains recognised on the revaluation of property and will retain a proportion of its recurring income and realised gains for reinvestment into the property portfolio. Consistent with that policy, we declared and paid an interim dividend of 0.23p per share in December 2016 and I am pleased to say that the Board is recommending a final dividend of 0.523p per share to give a total dividend of 0.753p per share (£2.2m) for the year, being a 10% increase on last year's annualised dividend. The final dividend will be paid on 30 May 2017 to Shareholders on the register as at 5 May 2017.

## OUR BOARD

At the start of 2016 we welcomed Andrew Kirkman as Finance Director. Andrew joined us from Viridor, one of the two main subsidiaries of Penmon Group plc. Andrew has already made a significant contribution, in particular strengthening our financial management and improving our investor relations approach. In April, Peter Hickson retired from the Board at the 2016 Annual General Meeting, having served as Senior Independent Director and Chairman of the Remuneration Committee for five years. I would like to thank Peter for his strong support and guidance to me and the Board over that time, not least through our complicated restructuring and the subsequent re-acquisition of Harworth Estates in 2015.

In April we also welcomed Andrew Cunningham, formerly Chief Executive of Grainger plc, to the Board and we benefit from his extensive experience in adjacent markets. The Board appointed Lisa Clement, who has been a Board member since 2011, as Senior Independent

Director, and Lisa also took on the chair of the Remuneration Committee. Andrew Cunningham replaced Lisa as chair of the Audit Committee. We also welcomed Chris Birch as our Company Secretary and Group General Counsel in June.

## OUR PEOPLE

We have a dedicated team of skilled and experienced professionals who know how to drive value and income from our portfolio. As the business grows and matures, so does the team. I am pleased to say that 15% of our people earned well-deserved promotions at the beginning of this year, reflecting the growing experience and capabilities across the business. We have actively recruited during the year and are continuing to do so, to meet the demands of our growing land and property portfolio. As we grow our talent, continuing to increase diversity remains a priority.

## OUR SHAREHOLDERS

We appreciate the continued strong support from all our Shareholders as we continue to grow. Our two largest Shareholders, The Peel Group and the Pension Protection Fund (PPF), have reaffirmed their strong medium to long term support to the Group. The PPF has recently confirmed that it has now moved its shareholding in the Group from its portfolio of “assets acquired through restructuring” into its core, long-term investment portfolio, with a desire to support the full realisation of value by the Group over the medium to long-term.

At the end of 2016, the return to Shareholders of 25% since our ‘relisting’ in March 2015 was broadly in line with the absolute return in the business over the period. However, in common with our peer Group, the share price at the end of the year continued to reflect a material

discount to NAV. Steps to close this discount remain a strategic priority for the Board, which believes that the resilience of our markets and current attractive pricing level relative to NAV present a compelling opportunity for new investors.

## OUTLOOK

The Group is well positioned to capitalise on the regional residential and commercial markets, which continue to have strong fundamentals and perform well. Regional markets, specifically in the areas in which we operate, have seen continued government support and infrastructure investment, and have not seen the volatility experienced in the London and South East property markets. Further, housing remains much more affordable. We have a strategy for, and a track record of, delivering resilient, sustainable value growth and we look to the future with confidence. To maintain momentum, it is important that the Group continues to replenish its strategic land bank, particularly given the amount of time it takes to develop our sites into mature assets. It was therefore pleasing that we were able to raise additional equity in March 2017, by way of a share placing, to accelerate the acquisition of sites for our future pipeline.

**Jonson Cox**  
Chairman  
19 April 2017

**“We have a dedicated team of skilled and experienced professionals who know how to drive value and income from our portfolio.”**

**Jonson Cox - Chairman**

# Chief Executive's statement

**I am pleased to report another robust set of results to Shareholders, reflecting a strong year of progress for the business. In 2016, the Group once again delivered a year of double-digit net asset value (NAV) growth of 12.5% (2015: 18.9%), with a NAV of £334.9m at the year-end (2015: £297.7m). EPRA NAV at the end of the year rose to £350.1m, representing a 13.3% increase over the year (2015: £309.1m). We achieved an operating profit of £45.8m<sup>(1)</sup> (2015: £37.9m) with value gains of £43.7m<sup>(2)</sup> (2015: £36.3m) – ahead of expectations – and profit from operations rose to £2.2m (2015: £1.5m).**

## OVERVIEW

This continued success lies in our focused strategy, the ability of our in-house teams to extract maximum value from the portfolio, the underlying strength of the regional markets in which we operate and the maintenance of excellent working relationships with the key external Stakeholders that we work with throughout the Company's value cycle.

Our strategic focus remains unchanged – extracting maximum value from our predominantly brownfield land portfolio to grow NAV, whilst building our recurring income base to meet the operating costs of the business. We do this by continuing to use our masterplanning, placemaking and technical expertise to transform redundant land into places where people want to live and work.

As our business has grown, we have increased our focus on replenishing our strategic land bank to ensure that we maintain a pipeline of new sites to continue the value growth journey. We have also focused our in-house capabilities to build and retain new commercial space in our strongest markets, reflecting a desire to generate long-term income from our assets. This response to the continued under-supply of good quality commercial units in the regions in which we operate also shows the growing maturity of the business.

Our business model is supported by the continued strength of our core markets across the North of England and the Midlands. Demand for new homes within those regions remained consistently strong throughout the year, reflected by the rate of sales achieved by our housebuilding partners on our larger sites. The rise of e-tailing and the increasing demands of consumers is also driving up demand for logistics and distribution space, with a number of our sites – such as Logistics North in Bolton and Gateway 45 in Leeds – ideally placed to meet that need.

National Government policy continues to support the redevelopment of brownfield sites, as evidenced by the recently published Housing White Paper (February 2017). We also welcome the UK's new industrial strategy as a lever to improve infrastructure, a critical factor in accelerating economic growth in our core regions.

## CAPITAL GROWTH

Our Capital Growth team, led by Phil Wilson, has continued to deliver value growth and realisations. In particular, during 2016 the team secured outline planning consents for 65 plots, whilst converting 1,560 plots that had a resolution to grant planning into outline consents. We also purchased land with consent for 2.64m sq. ft of commercial space at Temple Green, Leeds. Following this activity, total consented residential plots under ownership or management (including sites where we are promoting third party interests through Planning Promotion Agreements (PPAs)) stand at 9,529 plots and consented commercial space on our land at 9.95m sq. ft.

We have live planning applications in the planning system for 1,200 new housing plots and 1.92m sq. ft of commercial space. Four PPAs were signed during the year with the potential to deliver c.500 housing plots, bringing the total number of plots promoted through PPAs to c.1,100. PPAs are agreements with landowners by which Harworth incurs the cost and risk of promoting land through planning. If successful, Harworth shares some of the value gain, after first recovering its costs, when the land is sold.

On the 450-acre former Thoresby Colliery site in Nottinghamshire, consent is being sought for 800 new homes alongside 250,000 sq. ft of new commercial space. An application has also been submitted for the former Kellingley Colliery site in North Yorkshire to deliver 1.4m sq. ft of new commercial space on a site that benefits from an existing rail and canal link. Decisions on both sites are expected in the first half of 2017.

We have continued to plan carefully whether and when to dispose of investment properties to maximise the return from our portfolio. In 2016 we achieved receipts in excess of book value in all sections of the business, realising cash which can be reinvested in bringing other sites and acquisitions forward. A total of 619 residential plots were sold across 6 major development sites to national and regional housebuilders including Taylor Wimpey, Harron Homes and Arch Group.

Disposals for commercial uses in 2016 included the sale of 43.7 acres at our Logistics North development in Bolton to Lidl UK for £22.5m for the Company to set-up



its regional distribution headquarters. This deal set a new benchmark price per acre for the development and marked the sixth key investment at the site in the past three years, following previous sales to Aldi, MBDA, Joy Global and Exeter Property Group and the signing of a forward funding agreement with M&G Real Estate for us to construct two new Grade A commercial units totalling 400,000 sq. ft. As announced just after year end, the larger of these units – a 225,000 sq. ft unit known as ‘Logistics 225’ – was leased to Whistl on a ten-year lease, reflecting the strength of the North West logistics and distribution market.

To generate similar returns in the future, we are continuing to prioritise capital investment on our sites with the largest value enhancement potential, including the Advanced Manufacturing Park in Rotherham, Logistics North in Bolton and Gateway 45 in Leeds, to ensure that both land and property is available for immediate occupation. This strategic infrastructure investment delivers multiple sale points, diversifying risk across our portfolio, and during the year, the team opened up new sites at Rossington, Ellington and Castleford. Such strategic infrastructure investment has been complemented by our continued disposal of lower value sites – mainly agricultural land with little value add potential – to free up management time on our highest value-enhancing sites.

## INCOME GENERATION

Our Income Generation team, led by Ian Ball, has maintained its push for increasingly resilient recurring income. This has been achieved by: improving rental returns from our expanding business park portfolio; increasing rental returns and royalties from energy generation, environmental technologies and the agricultural portfolio; and deriving income from recycled aggregates that arise from the development process – thereby offsetting the flagged and managed decline in the sale of coal fines.

Our Business Space team increased income from our business parks in 2016, driven by 32 new and renewed commercial lettings in 2016 with an annualised rent roll of £663,000. This was supplemented by the acquisition of two business parks in the North West during the fourth quarter with a combined annualised rent roll of £1.62m. Asset management opportunities have already been identified to grow the income and the underlying asset value of both sites in the future. Business Space profit from operations in 2016 was £3.8m (2015: £2.2m on an underlying basis) and is expected to increase further in 2017 as we look to sign new leases on a number of new units, including our 75,000 sq. ft Helix unit at Gateway 36 in Barnsley. The weighted average unexpired lease term (WAULT) across the portfolio now stands at 7.5 years (2015: 8.3 years).

Strong progress was made in driving up income from our renewable energy tenants in the first half of 2016, with a total of 144.5MW of capacity now installed on our land as a result of a net 19.0MW of capacity being energised during the year. Demand for new schemes slowed following changes to renewables subsidies at the end of March, rendering some projects unviable. In light of this, management focus within our Natural Resources team has now shifted to alternative technologies with better short term prospects and governmental support, including battery storage facilities that are seen as critical to helping balance supply and demand in the UK power system.

## ACQUISITIONS

Our continued success in unlocking the latent value in our portfolio has meant that refilling our strategic land bank for future value growth has become an even more important part of our strategy. We expanded our Acquisitions team, led by Gary Owens, in 2016 to identify further suitable sites and, as a direct result, made six acquisitions in the year for £31.6m, reflecting our desire to supplement our strategic land bank and improve the quality of our recurring income base. All of our acquisitions were made utilising existing cash reserves with completion in each case taking place within six weeks of agreeing heads of terms, helping to build our reputation for acting swiftly and in a straightforward manner.

Our first acquisition was Advantage House in Rotherham in February 2016. This 20,000 sq. ft office building was purchased for £2.2m at a net initial yield of 13.3% and is fully let to Civica UK on a long-term lease. It is also located adjacent to our flagship Waverley development, thereby solidifying our presence close to Junction 33 of the M1.

**“Our continued success in unlocking the latent value in our portfolio has meant that refilling our strategic landbank for future value growth has become an even more important part of our strategy.”**

**Owen Michaelson - Chief Executive**

# Chief Executive's statement

continued

In March, we purchased Keyland Developments' 50% share of The Aire Valley Land LLP, a joint venture with Evans Property Group, for £8.5m. Aire Valley Land LLP owns Gateway 45 Leeds, a 166-acre logistics hub in the Leeds City Region Enterprise Zone. The site, adjacent to Junction 45 of the M1, already benefits from outline planning consent for 2.64m sq. ft of commercial space for logistics and distribution uses. During the remainder of the year we worked with Evans to complete the infrastructure works for the first phase of development land, thereby allowing the completion of the sale of land for a Park and Ride facility to Leeds City Council, before relaunching the site as 'Gateway 45 Leeds' to improve the site's promotion to third-party logistics and e-tailing businesses. We expect this work to bear fruit with new deals at the site in 2017.

Two further key acquisitions in the year were both in the North West and made in the fourth quarter, in line with our strategy to strengthen our income portfolio and to build our presence in the region. In November, we completed the acquisition of Moorland Gate business park in Chorley, Lancashire for £4.5m. This site comprises 10.75 acres with 125,122 sq. ft of built space. It generates a net initial yield of 9.53%, with a reversionary yield of 10.4% and further asset management and potential development opportunities already identified. This was followed by the acquisition in December of Four Oaks business park in Preston, Lancashire for £13.4m. The site extends across 19.4 acres with 428,800 sq. ft of built logistics warehousing space, with a net initial yield of 8.74% and a reversionary yield of 11.4%. Together with our Logistics North development, we are beginning to build critical mass across our North West portfolio, with all three sites located along a corridor of junctions on the M61.

We recognise the need to replenish and grow the Company's strategic land bank, to maintain delivery of our target for NAV growth through the property cycle. To that end, we have entered into four option agreements to acquire strategic land sites that extend to approximately 228 acres, comprising a mixture of potential residential and commercial sites located in our core regions. Subject to confirmation through due diligence, these stand the business in good stead as we look to grow our portfolio further in 2017 and beyond.

On 17 March 2017, we announced a share placing to raise £27.1m (net of expenses) to accelerate the growth of our strategic land bank. This is covered in more detail on the following page of this report.

## MAINTAINING MOMENTUM

Momentum from 2016 has been carried over into the new financial year with a number of key deals already completed or agreed, highlighting the solid fundamentals of the property sector in the North of England and the Midlands, and the team's ability to realise value growth in our portfolio.

January saw Whistl take a ten-year lease of M&G Real Estate's Logistics 225 unit at Logistics North. This was at the benchmark rental level in the North West for industrial property of £6 per sq. ft and also triggered a promote fee from M&G Real Estate for letting the building within six weeks of practical completion. This was followed in February by the sale of the next phase of 4.7 acres of engineered housing land at Waverley to Avant Homes for £2.5m and the exchange of contracts with Keepmoat for the first phase of our Flass Lane development in Castleford. Keepmoat will pay £3.65m for 9.88 acres of land, where it plans to build 157 new homes.

With clear growth momentum established and maintained across all key parts of the business and the maintenance of favourable market conditions – both across our sectors and the regions in which we operate – we remain confident in our ability to continue to deliver growth in net asset value, whilst expecting performance to remain second-half weighted. We therefore anticipate a healthy number of sales and increased development spend in 2017.

Our continued strong performance is testament to the strength of our core team of around 50 people and our achievements would not have materialised without the dedication, patience and perseverance of our staff. I thank all of our team for their hard work and diligence in making the Group what it is today.

**Owen Michaelson**  
Chief Executive  
19 April 2017

### Notes:

<sup>(1)</sup> Operating profit before exceptional items and including share of profit of associate and joint ventures.

<sup>(2)</sup> Increase/(decrease) in fair value of investment properties and assets held for sale (2016: £33.5m), profit/(loss) on sale of investment properties and assets held for sale (£8.8m) together with other gains, being overages (£0.7m), and share of profit of associate and joint ventures (£0.6m).

# March 2017 equity placing

Thoresby development, 2016

**Following the publication of our preliminary results on 6 March 2017, we successfully undertook an equity placing that raised £27.1m (net of expenses). This involved placing 29,226,974 new Ordinary Shares (representing 9.9% of the Company's share capital prior to the placing) at a price of 95.0 pence per share (representing a discount of approximately 1.6% to the closing mid-market price of the Company's shares on the day before the announcement of the placing) to accelerate the continued expansion of our strategic land bank.**

Replenishing our land and property portfolio, both by securing new recurring income streams and growing and expanding our strategic land bank, is fundamental to us continuing to deliver value to our Shareholders. While we have made good progress in the past two years in securing valuable acquisition opportunities, this placing enables us to accelerate our acquisition strategy through the funding of the purchase of, and investment in, further sites to support the long term growth prospects of the business.

Prior to the equity placing, strategic land encompassed approximately 5% of the value of the Group's portfolio, markedly down from approximately 15% at the end of 2015, as a result of the Groups success at moving this strategic land through the development process.

## **The need to replenish our landbank: our portfolio as at 31 December 2016**

In order to address this, we recently entered into four option agreements to acquire, in aggregate, approximately 200 acres of strategic land, the masterplans for which are expected to deliver in aggregate over 1,500 residential plots and c.600,000 sq. ft of new commercial space. Approximately £19.2m is required to exercise the options and fund the first three years of expenditure on planning, remediation and infrastructure works, and further site assembly.

This would increase our strategic land bank to approximately 2,750 acres assuming the option agreements are exercised following successful confirmatory due diligence. The option agreements are expected to generate an internal rate of return in excess of management's target return requirements, being accretive to both earnings and net asset value per share in the medium term after taking account of the impact of the placing.

Four further potential strategic land opportunities are also in negotiation, to acquire in aggregate up to 407 acres of strategic land for both residential and commercial development, requiring approximately £15.5m of investment. If pursued, they could be part funded by the balance of the net proceeds of the placing, with the remainder of any capital requirement being met by the Group's internally generated free cash.

Significant brownfield development sites and multi-let business parks with asset management opportunities will continue to form the backbone of the Group's acquisitions strategy, firmly reflecting our confidence in the markets in which we operate to deliver growth for Shareholders. Investment in edge of settlement sites and the assembly of new land parcels will also be pursued in order to create new, large scale communities attractive to both residential and commercial customers – such as that achieved at Waverley.

# Capital Growth in 2016

**The Capital Growth segment of the business continues to focus on maximising value by developing the land and property portfolio to its optimum extent, thereby growing NAV. Our core skill is to transform underutilised and undervalued land into valuable residential or commercial development sites, working closely with local authorities, residents and other key local Stakeholders to secure beneficial uses. The strategic imperative for the business is therefore to continue the pipeline of value growth and to replenish the portfolio with further land to sustain the business.**

We had another excellent year in 2016, with the Group once again delivering a year of double-digit NAV growth of 12.5% (2015: 18.9%), with NAV standing at £334.9m at the year-end (2015: £297.7m). Value gains of £43.7m (2015: £36.3m) – ahead of expectations – further emphasises our ability to transform redundant land into developments of lasting value.

## STRATEGIC LAND IN 2016

We focused on planning preparation and promotion in 2016, with a range of applications submitted in the second half of the year. These included the two last deep coal mining sites in the UK: the 450-acre former Thoresby Colliery in Nottinghamshire, where we have sought consent for 800 new homes and 250,000 sq. ft of employment space; and the 150-acre former Kellingley Colliery in North Yorkshire, where we have submitted a planning application to deliver 1.4m sq. ft of new commercial employment space to make the most of its many transport links. Planning decisions on both schemes are expected in the first half of 2017.

Elsewhere in the portfolio, we received a planning decision notice for our residential development in Coalville, Leicestershire to deliver 1,100 new homes as part of a wider consortium that will be delivering a total of 2,700 homes, with this scheme subsequently becoming one of our Major Projects moving forward. This was supplemented by the receipt of planning consent at the former Welbeck Colliery in Nottinghamshire in the first half of the year for 65 new residential plots and over 120,000 sq. ft of commercial space. The purchase of 50% of Aire Valley Land LLP, covered within the Acquisitions section of this Annual Report, also added a further 2.64m sq. ft of consented space to our strategic land bank.

PPAs are also being signed with third-party landowners as a source of strategic land and to provide further income to the business should a planning consent be secured. We signed four PPAs in 2016 with the potential to deliver c.500 housing plots, bringing the total number of housing plots we are promoting through PPAs to c.1,100. On the back of the first PPA we signed in 2014 with the Trustees of Warsop Estate for a 30-acre site less than five miles from Mansfield Town Centre, we submitted a planning application for 400 new residential plots in the second half of 2016. A planning decision on this application is expected in the first half of 2017.

## DELIVERING OUR MAJOR PROJECTS IN 2016: ENGINEERING, PLOT SALES AND BUILD OUT

Value growth through planning was supplemented by the preparation of a number of sites for either the sale of engineered land for residential or commercial purposes or for retention to increase our income portfolio. With demand for residential and commercial land continuing to remain strong, Strategic Land and Major Projects disposals in 2016 achieved a price over book value with the receipts subsequently reinvested in bringing further sites in our strategic landbank forward for development.

Whilst the outcome of the European referendum in June 2016 caused housebuilders to pause the purchase of new sites briefly, the deals we signed in the second half of the year were a reflection of the market reverting back to normal. It is also worth reflecting that the referendum decision had no bearing on the commercial markets in which we operate, with the logistics and industrial sectors continuing to perform strongly.

We sold six residential parcels of land to housebuilders in 2016, totalling 619 plots at five separate sites. The first half of the year saw both available phases at North Gawber, Barnsley sold to Avant Homes (174 plots) and Harron Homes (141 plots), whilst our landholding at Measham, Leicestershire was sold to regional housebuilder Cameron Homes (20 plots). The second half of the year saw three further sales made, with Harron Homes acquiring the third phase of our Prince of Wales development in Pontefract (89 plots), Taylor Wimpey purchasing the second phase of our Rossington development in Doncaster (96 plots) and Arch Group, the North East regeneration Company, acquiring the first phase of our Ellington development (99 plots).

Key sites with the highest value-add potential are increasingly being retained by us. They provide opportunities for us to build new commercial units that can be retained as new income-producing assets, including at the Advanced Manufacturing Park in Rotherham, Logistics North in Bolton at Gateway 36 in Barnsley. We will however continue to pursue commercial land disposals on major developments where the receipt allows us to extract optimum value and reinvest in our portfolio. This was certainly the case at Logistics North in December, when we sold 43.7 acres of prepared land to Lidl UK for £22.5m. This sale is covered in further detail within the case study on page 18.

Following all of this activity, total consented residential plots under ownership or management (including sites where we are promoting third party interests through PPAs) stand at 9,529 plots and consented commercial space on our land at 9.95m sq. ft.

### LOOKING FORWARD TO 2017

Our markets remain robust, putting the business in a good position to grow. Demand for residential land remains steady, with housebuilders reporting consistent plot sales in the North of England and the Midlands. This is underpinned by housing starts in the UK continuing to be well below acknowledged Government targets, meaning the gap between supply and demand continues to increase. Demand for well-connected industrial and logistics space also remains good, with an under-supply of new units of all sizes being reported across the regions. With a number of our sites being located close to key motorway and principal road junctions, we are well-placed to take advantage of this trend.

This solid interest, coupled with the experience and expertise of our in-house team, underpins our four-pronged strategy to grow further the value of the business:

- We will continue with our stated strategy of exploiting portfolio opportunities by optimising land use and securing planning consents for both residential and commercial uses.
- We will also continue to invest in the sites in our portfolio with the highest value enhancement potential, whilst increasing our points of sale to increase value creation and to diversify risk.
- We will invest in the sites with the highest value-add potential. This will also provide further outlets for us to build new commercial units that can be retained as income-producing assets.
- Lower value sites with little development potential will continue to be sold to free-up management time further.

#### Phil Wilson

Managing Director, Capital Growth  
19 April 2017

CGI of planned Thoresby development, Autumn 2016

New homes at Waverley, Summer 2016

**“We had another excellent year in 2016, with the Group once again delivering a year of double-digit NAV growth of 12.5%.”**

**Phil Wilson - Managing Director, Capital Growth**

## Capital Growth case study

### Logistics North

**Logistics North continued to establish itself as one of the North of England's leading logistics and distribution locations, with plot sales and new unit completions in 2016 underpinning its status.**

Two key milestones were achieved in December 2016. Early December saw us practically complete Logistics 225 and Logistics 175 – two new speculative Grade 'A' warehouses totalling 400,000 sq. ft – on behalf of M&G Real Estate, part of Prudential plc. Shortly after year end, Whistl announced its intention to take a ten year lease on Logistics 225 at a North West benchmark rent of £6 per sq. ft p.a., whilst significant interest continues to be registered in the Logistics 175 unit.

At the end of December, Lidl UK purchased 43.7 freehold acres for £22.5m to create a new Regional Distribution Centre (RDC) to service its growing number of North West stores. The distribution centre – likely to total 500,000 sq. ft – will be built later this year following the receipt of detailed planning consent.

With sales and lettings to Aldi, Lidl, MBDA, Joy Global, Exeter Property Group, Greene King and Costa, over half of Logistics North's 4,000,000 sq. ft outline consent (received in December 2013) has been either built out or committed to be built out.

This strong precedent encouraged us to commit to our own direct development in 2017. We plan to build two units totalling 52,000 sq. ft from April to the same specification we have completed at both the Advanced Manufacturing Park in Rotherham and Gateway 36 in Barnsley, with the units aimed at growing small and medium-sized enterprises that are struggling to find good quality space under 100,000 sq. ft in the region.



## 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 built or committed to be built	2,059,700 sq. ft
Plot purchasers and tenants	Aldi, MBDA, Joy Global, Exeter Property Group, M&G Real Estate, Lidl UK, Greene King and Costa

## Capital Growth case study

### Prince of Wales

**The 303-acre former Prince of Wales colliery site, adjoining the M62 at Junction 32, was producing 1.5 million tonnes of coal a year until 2002. It is now one of our most mature housing developments, implementing a vision that will see the site become one of West Yorkshire's largest mixed-use developments with housing, employment opportunities and a range of amenities for local people.**

We received planning consent from Wakefield Council in December 2013 to turn the former pit yard into a new development comprising 917 homes and 21,500 sq. m of employment development, along with retail units, cafes, a medical centre, community centre, nursery and parkland. Remediation of the site began in December 2013 and Phase 1 infrastructure work completed at the end of December 2014, supported by a £1.95m Growing Places Fund loan from the Leeds City Region to speed up work.

Avant was selected as the first housebuilder for the scheme and they began building the first phase of 131 homes in January 2015. The first residents received their keys by the end of 2015. Harron Homes also purchased the second phase of land in 2015, building the first of 95 new homes. With housing sales progressing beyond its expectations, Harron then purchased the third phase of land in the second half of 2016 to build a further 89 plots. This phase realised an average plot price of £47,361, reflecting the attraction of the site as a residential location.

110 homes have now been built and occupied and we expect to complete the full development, with up to 917 homes and associated facilities, within the next ten years.

The former spoil heap next to the pit yard will also become a new country park, providing new public open space for the community. Alongside nearby Pontefract Park and Pontefract Racecourse, this will provide an attractive gateway into Pontefract. It also provides the engineered road corridor for the Northern link road, which was completed in February 2015 and is a central piece of infrastructure for the future growth of Pontefract.



## KEY FACTS

Location	Pontefract, West Yorkshire
Acreage of development	303 acres, including former spoil heap
Planning consent in place	917 homes 265,000 sq. ft of commercial development
Housebuilders	Harron Homes, Avant Homes
Total number of plots bought by housebuilders/number of homes built	317/110

# Income Generation in 2016

**The Income Generation segment of the business continues to focus on creating, managing and retaining selected land and property assets to generate value growth and a long-term recurring income stream. Our income-producing assets make up a significant part of our property portfolio and we adopt a range of asset management techniques to maximise the income it generates.**

As well as contributing to NAV growth it is our aim that this income is also used to cover:

- the running costs of the business (including strategic land promotion);
- our interest costs; and ultimately
- tax; and
- a sustainable and rising dividend to Shareholders.

Profit from operations increased in 2016 to £2.2m (2015: £1.5m), reflecting our strategy of building a more resilient income base by building new commercial space to lease, purchasing income-producing assets and increasing the number of rents derived from low-carbon energy developments.

## BUSINESS SPACE IN 2016

Our Business Space portfolio grew in 2016, now comprising a total of 15 business parks and development sites where we receive both rent and service charges. These sites comprise a total of 1.7m sq. ft of built space and 459 acres of development land, with 93% of our portfolio classified as 'industrial'.

Income from our Business Space portfolio grew commensurately, with Business Space profit from operations rising to £3.8m (2015: £2.2m). We now have 108 individual tenants across the portfolio and a portfolio WAULT of 7.5 years, with 87% of our space now let. This was driven by three principal management actions:

- 32 new and renewed commercial lettings in 2016 with an annualised rent roll of £663,000. These new lettings included Barnsley Council taking a 25 year head lease on three new units totalling 65,000 sq. ft at Gateway 36, with two sub-leases already agreed and in place by the end of March 2017 – thus proving the reversionary value in the head lease;
- the acquisition of two business parks in the North West during the fourth quarter with a combined annualised rent roll of £1.6m, covered in more detail in the Acquisitions section. Asset management opportunities have already been identified to grow the income and the underlying asset value of both sites in the future; and

- the direct build of approximately 600,000 sq. ft of new industrial space between 2014 and 2016, with eight units across three sites – including 400,000 sq. ft built on behalf of M&G Real Estate at Logistics North. A further c.106,000 sq. ft of units are now under construction at the AMP in Rotherham and Logistics North in Bolton.

## NATURAL RESOURCES IN 2016

We also retain a significant natural resources portfolio across our geographies. This comprises rent and royalties from low-carbon energy developments including solar farms, wind farms and coal mine methane extraction operations, alongside Short-Term Operating Reserve (STOR) operations, tipping and composting works and our agricultural portfolio. This portfolio generates a long-term base rent of c.£2m and a royalty income of c.£2m.

We grew income from renewables in 2016, with a further net 19MW of capacity installed on our land in the first half of 2016. Further information is provided within the case study that follows. The team also secured a new letting at Meriden in Warwickshire, with Rebellion Biomass LLP taking a 25 year lease for 7 acres to develop a state-of-the-art biomass energy and waste water treatment facility. Construction of the new unit began in October 2016, with the facility set to open in 2017.

Changes to Government subsidies introduced on 1 April 2016 have meant that a number of our prospective schemes are currently deemed to be financially unviable, hence the remainder of the year saw the team developing proposals to tap into alternative technologies that have strong Governmental support, including the nascent battery storage market.

## OPERATIONS IN 2016

Income from the Operations business comprises revenue from the recycling and sale of coal fines, aggregates and scrap that are by-products from the development process. Due to regulatory changes signalling the end of coal-fired power stations by the end of 2025, the sale of coal fines declined in 2016 – thus reinforcing our decision to make a concerted effort to drive income from other sources.

Coal fines sales have not disappeared completely however, with income continuing to be generated from the supply to DRAX power station in North Yorkshire and Ratcliffe power station in Nottinghamshire. Income also continued to be generated from the sale of aggregates

that are nominally by-products from the demolition and remediation of a number of our sites.

### LOOKING FORWARD TO 2017

As with Capital Growth, our core markets remain robust and we are confident that we can grow our recurring income base further in 2017. Demand for well-connected industrial and logistics space remains good owing to an under-supply of new units. Positive interest remains for multi-energy schemes across a number of our sites, to address current system imbalances. We are aiming to maintain coal fines sales in the medium-term, given the required blend of power sources needed to keep the lights on in the UK.

We retain a clear strategy to increase our income base and improve its quality:

- our focus on effective asset management will remain in place to drive further value and income from our present portfolio, including further reducing our vacancy rate and regearing leases as appropriate;
- we will continue to progress selected direct developments to 'move up the value curve' and deliver long-term income on our highest value and best connected sites, including the AMP in Rotherham, Logistics North in Bolton and Gateway 45 in Leeds;
- we will also look to grow our recurring income by identifying additional income producing acquisitions;
- Natural Resources management time will continue to focus on driving income from well-supported new technologies to address energy imbalances, including battery storage, whilst progressing planned existing schemes within our pipeline;
- we will look to secure larger contracts from our existing coal fines customers – DRAX and Uniper (Ratcliffe) – to build a more resilient Operations business in the short-term; and
- our Business Space team will continue to explore property venture transactions on our most valuable sites in order to capture development management, asset management and promotion fees from third parties.

**Ian Ball**

Executive Director, Income Generation  
19 April 2017

Construction of new unit at AMP, March 2017

Bilthorpe Wind Farm, Spring 2016

**“Our core markets remain robust and we are confident that we can grow our recurring income base further in 2017.”**

**Ian Ball - Executive Director, Income Generation**

## Income Generation case study

### Gateway 36

**Our income generating portfolio has benefited from excellent progress at our Gateway 36 development in Barnsley, adjacent to Junction 36 of the M1 in Yorkshire.**

Barnsley Council took a 25-year head lease on three units totalling 65,000 sq. ft on 25 February 2016, ready to sub-let to small and medium-sized tenants. Its first tenant, Talurit UK Limited, a wire rope manufacturer, took a long-term lease on the largest unit – totalling 30,000 sq. ft – in February 2017, with healthcare manufacturer, Esco, taking a long-lease on the second unit. There is strong demand for the other available unit.

We achieved practical completion of a further 75,000 sq. ft directly developed unit, known as 'Helix', in September 2016 ready for immediate occupation. Construction costs were funded in large part through the Sheffield City Region JESSICA loan fund and we expect to let this unit over forthcoming months.

We also practically completed a 4,700 sq. ft fast-food drive-thru unit on the same day as 'Helix' – with a lease granted to Fieldrose Limited for the unit to be converted into a KFC and Taco Bell. Both operations opened in October. Finally we sold a further plot to Greene King to develop a new 'Farmhouse Inn' which is also now open. There is now just 1.63 acres of land remaining to be developed at the site for roadside, retail or leisure uses.

The success of Phase 1 underpins our desire to bring forward the development of Phases 2 and 3 as part of a future planning application by 2019. These phases could deliver up to 1.1m sq. ft of further commercial space, subject to planning consent.

## 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
Total sq. ft built on site/sq. ft of units built by Harworth as part of Phase 1	157,154 sq. ft/144,700 sq. ft
Tenants already signed up	Barnsley Metropolitan Borough Council, Fieldrose Limited (KFC and Taco Bell)
Proposed sq. ft for Phase 2 and 3 commercial development	1,100,000 sq. ft

## Income Generation case study

### Renewables

Income from our portfolio was supplemented by rent from two major renewables schemes that became operational on our land in 2016, bringing the total number of live solar and wind schemes within the portfolio to 14, with 75.8MW of capacity installed.

The two schemes that became operational in 2016 are:

- a 4.8MW solar farm at the former Oxcroft coal disposal point in Derbyshire, developed in partnership with Anesco. This facility went live in March 2016; and
- an 18MW wind farm, developed in partnership with Infinis, on the site of a restored, former open-cast coal mine near Widdrington Village, Northumberland. This facility became operational in June 2016.

A 5MW solar farm is also under construction by First Renewables close to the former Kellingley Colliery in North Yorkshire, which is expected to complete in 2017. Our solar and wind portfolio forms a significant part of our Natural Resources portfolio that has a total installed capacity of 144.5MW.

## KEY FACTS

Location of operational solar projects	Askern, Thorne (both Doncaster, South Yorkshire)
	Bilthorpe, Gedling, Welbeck (Nottinghamshire)
	Coton Park, Arkwright, Oxcroft (Derbyshire)
Location of operational wind projects	Arkwright (Derbyshire)
	Bilthorpe (Nottinghamshire)
	Ellington, North Steads (Northumberland)
	Lounge (Leicestershire)
	Shafton (South Yorkshire)
Total installed capacity	75.8MW
Potential future capacity	17.5MW
Total potential capacity across all identified sites	93.3MW

# Acquisitions in 2016

**An important part of our strategy is to replenish our property portfolio to ensure the sustainable growth of the business, particularly given that not all of our 22,000 acres has development potential. Significant brownfield development sites, edge of settlement, strategic land opportunities or multi-let business parks with asset management opportunities form the backbone of our acquisitions strategy, with a dedicated team now in place to deliver it.**

We made six acquisitions in the year for £31.6m in aggregate, reflecting our desire to supplement our strategic land bank and improve the quality of our recurring income base. These acquisitions added 244 acres to our strategic landbank, whilst adding 3.54m sq. ft of consented and proposed commercial space to our portfolio alongside a further £2m of recurring income per annum. All of our acquisitions were made utilising existing cash reserves with completion in the majority of cases taking place within six weeks of agreeing heads of terms, helping to build our reputation for acting swiftly and in a straightforward manner that stands us in good stead to make further purchases.

## KEY ACQUISITIONS MADE IN 2016

We made four key acquisitions in 2016 that blended both Capital Growth and Income Generation opportunities.

**Advantage House, Rotherham.** This 20,000 sq. ft office building was purchased for £2.2m at a net initial yield of 13.3% and is fully let to Civica UK on a long-term lease. It is also located adjacent, and forms part of the gateway, to our flagship Waverley development thereby solidifying our presence close to Junction 33 of the M1. We subsequently moved into Advantage House August 2016 and it is now our headquarters and registered office.

**Gateway 45, Leeds.** In March, we purchased Keyland Developments' 50% share of The Aire Valley Land LLP, a joint venture with Evans Property Group, for £8.5m: a key strategic land purchase. Aire Valley Land LLP owns Gateway 45 Leeds, a 166-acre logistics hub in the Leeds City Region Enterprise Zone. The site, adjacent to Junction 45 of the M1, already benefits from outline planning consent for 2.64m sq. ft of commercial space for logistics and distribution uses. Our reputation for swift delivery at Logistics North played an extremely important role in convincing Keyland that we were a suitable party to acquire its share in the venture, alongside being price competitive and demonstrating a thorough understanding of how to acquire an interest in a dynamic, corporate property vehicle. Further information is provided within the case study overleaf.

### **Moorland Gate Business Park, Lancashire.**

In November, we completed the acquisition of Moorland Gate Business Park in Chorley, Lancashire for £4.5m in order to boost our income portfolio. This site comprises 10.75 acres with 125,122 sq. ft of built space, generating a net initial yield of 9.53% with a reversionary yield of 10.4%.

Further asset management and potential development opportunities have already been identified, including the regearing of a number of leases and a further 2 acres with development opportunities.

**Four Oaks Business Park, Lancashire.** Our final purchase of the year was Four Oaks Business Park in Preston, Lancashire for £13.4m to further improve the quality of our income portfolio and to grow our presence in the strong North West market. Purchased in December following an off-market negotiation, the site extends across 19.4 acres with 428,800 sq. ft of built logistics warehousing space, with a net initial yield of 8.74% and a reversionary yield of 11.4%. This purchase is covered in further detail in the case study that follows.

We also made two other smaller acquisitions in the year to further increase our strategic landholding. In February 2016, we purchased 47 acres of greenbelt land at Wingates in Bolton for £470,000. The site, which sits close to Junction 5 of the M61, could potentially deliver 1.6m sq. ft of new logistics space in the future should it be formally designated within the Greater Manchester Spatial Framework (GMSF) and is viewed as a successor site for our highly successful Logistics North development. In April 2016, we also purchased 5 acres of land at Potland Burn, Northumberland for £855,000 in order to capture income from SITA's in-vessel composting facility, further improving the quality of our recurring income base.

As previously explained within the section on our March 2017 equity placing, we have also recently entered into four option agreements to acquire, in aggregate, approximately 200 acres of strategic land. These sites could deliver in aggregate over 1,500 residential plots and 600,000 sq. ft of new commercial space. Two of the sites – Bewshill Farm in Bolton and land at Chatterley Valley in Stoke – are adjacent to our Logistics North and Chatterley Valley commercial developments, respectively.

Work was also supplemented by the signing of four PPAs to promote 59 acres of land for residential uses, which could deliver c. 500 plots subject to the successful receipt of planning consent. As stated elsewhere in this report, PPAs allow the business to leverage its planning expertise to secure new income streams.



## LOOKING FORWARD TO 2017

We have an annual target of acquiring land with the ability to deliver over 1,000 residential units and over 1m sq. ft of employment land, translating to over 200 acres of net developable land. Whilst this target is a challenging one, our strengthened Acquisitions team increased the number of potential opportunities open to us in 2016, allowing the targeting of a blend of short, medium and long-term opportunities to strengthen our development pipeline.

There are an abundance of good opportunities available to Harworth across its core regions, specifically within our target growth areas of the Midlands and North West. Our future success is supported by our track record of completing thorough due diligence quickly and efficiently, including our ability to draw on a variety of deal structures to design transactions to the mutual benefit of both parties. Our acquisitions strategy will make the most of our experience delivering major projects across the legacy coalfield portfolio and our track record of investing over £55m in new acquisitions over the last two years, to secure new opportunities across the following three key areas:

- The purchase of major brownfield land development opportunities, including distressed land sales, surplus government estate disposals and the anticipated closure of coal-fired power stations. These sites underpin our strategy and will maximise the expertise and track record within the team, delivering value returns through value add initiatives.
- Strategic promotion of edge of settlement sites. We intend to grow our strategic land portfolio through PPAs and options, targeting edge of settlement sites that can be promoted through the local development plan process.
- The purchase of income producing multi-let business parks. We remain committed to strengthening our recurring income base by acquiring multi-let business parks that offer opportunities to add value through asset management and development, in a similar manner to Moorland Gate and Four Oaks.

Moorland Gate Business Park, Autumn 2016

Sinfin Business park (2015 purchase), Spring 2016

### Gary Owens

Director, Acquisitions  
19 April 2017

**“There are an abundance of good opportunities available to Harworth across its core regions, specifically within our target growth areas of the Midlands and North West.”**

**Gary Owens, Director, Acquisitions**

## Acquisitions case study

### Gateway 45, Leeds

**In March 2016, Harworth completed the acquisition of Keyland Developments' 50% share in Aire Valley Land LLP for £8.5m. Aire Valley Land LLP is a joint venture with Evans Property Group which owns Gateway 45, Leeds' largest live commercial development.**

The acquisition was wholly funded through existing cash reserves. Our bid was ultimately successful due to our significant experience and complementary skills in bringing forward logistics and distribution development, with Logistics North in Bolton held up as a key exemplar scheme.

The site is adjacent to Junction 45 of the M1 and is viewed as a major logistics and industrial development site. It extends to 166 acres and has an outline planning consent for 2.64m sq. ft of commercial space. Gateway 45 Leeds benefits from Government Enterprise Zone status and also sits adjacent to Skelton Grange – the 162-acre former power station we purchased in November 2014 which also benefits from an employment consent.

We will be working with Evans Property Group to deliver a commercial scheme of national significance, building on our previous success at Logistics North in Bolton and the AMP in Rotherham, to deliver the logistics space that is in short supply across the North of England. To accelerate development at the site, we announced our intention to construct two new units, totalling 157,500 sq. ft of space, in 2017.

This followed confirmation of our second occupier in September, with CJ Stern committing to a 1.2 acre plot at the site to incorporate a BP petrol filling station with three HGV and four vehicle pumps along with a 2,000 sq. ft Spar convenience store. It joins Leeds City Council, which is constructing a new park and ride facility that is due to practically complete in 2017.

## KEY FACTS

Location	Leeds, West Yorkshire
Acreage for entire development	166 acres
Consented sq. ft	2,640,000 sq. ft
Sq. ft of units planned to be built by Aire Valley Land LLP in 2017	157,500 sq. ft
Tenants already signed up	Leeds City Council, CJ Stern
Largest unit that could be accommodated at Gateway 45 Leeds	515,000 sq. ft

## Acquisitions case study

### Four Oaks business park

Our fourth major acquisition of 2016 was Four Oaks business park in Preston, Lancashire for £13.4m. The site was purchased to strengthen our income portfolio and to expand our presence in the strong North West market, following on from our acquisition in November of Moorland Gate business park in Chorley.

As with Gateway 45 Leeds, the acquisition was wholly funded through existing cash reserves. The completion also took place within six weeks of agreeing heads of terms with FDC (Holdings) Limited, thus further strengthening our reputation for fast, no-nonsense delivery regardless of the nature of the acquisition.

The site extends across 19.4 acres with 428,800 sq. ft of built logistics warehousing space, sitting at the intersection of Junction 9 of the M61, Junctions 29 and 30 of the M6 and Junction 2 of the M65. The freehold purchase represented a Net Initial Yield of 8.74% with a reversionary yield of 11.39%, a WAULT of 6.44 years and a low capital value of £31.30 per sq. ft.

Four Oaks Business Park is a multi-let investment comprising six lettings. The Park is currently fully let and tenants include FDC (Holdings) Limited, Bosal Automotive and H Parkinson Haulage. There are further asset management and development opportunities that we will look to capture in 2017 and beyond, including lease re-gears to conservative ERVs of £3.75 per sq. ft and the potential development of a further 0.5 acres of roadside uses.

## KEY FACTS

Location	Preston, Lancashire
Built space	428,800 sq. ft
Purchase price	£13.4m
Net Initial Yield/Reversionary Yield	8.74%/11.39%
Tenants already signed up	FDC (Holdings) Limited, Bosal Automotive and H Parkinson Haulage
Further asset management opportunities	Lease re-gears; potential development of further land for roadside uses

# Financial review

**The Group delivered another set of strong results for the financial year across both segments of our business, Capital Growth and Income Generation. NAV increased to £334.9m as at 31 December 2016, which is a 12.5% increase on NAV at 31 December 2015 (£297.7m). EPRA NAV increased by 13.3% to £350.1m (2015: £309.1m).**

## OVERVIEW

Revenue from operations rose to £33.7m (2015: £13.2m), largely as a result of the recognition of pass-through construction costs and development fee income of £16.1m (2015: £1.3m) arising from the construction of two industrial units at Logistics North which were forward funded by M&G Real Estate. Revenue also increased as a result of increased rent from business parks, and rent and royalties from low-carbon energy sites, albeit somewhat offset by a decline in coal fines revenues.

Operating profit before exceptionals was £45.8m<sup>(1)</sup> (2015: £37.9m) largely as a result of revaluation gains of £34.8m<sup>(2)</sup> (2015: £25.0m), profit on disposals of £8.9m (2015: £11.4m) and profit from operations of £2.2m (2015: £1.5m). Exceptional items netted to £nil (2015: charge of £2.9m) largely relating to the Group's legacy activities. Profit before tax was £43.5m (2015: £77.6m), with 2015 benefiting from a gain on bargain purchase of £44.2m.

The comparative statutory results for 2015 are complicated by the acquisition and fundraising of March 2015 associated with the re-acquisition of 75.1% of the shares in HEPGL, which led to the gain on bargain purchase of £44.2m. In addition, a 1 for 10 share consolidation occurred in the first half of 2016. Consequently, our results are set out below on both a statutory and underlying basis.

The table below shows the Group's statutory operating profit, before exceptional items, for 2015 reconciled to the underlying operating performance for 2015, and set against the results for 2016.

	2016 Harworth Group plc £m	2015 Harworth Group plc Underlying £m	2015 Harworth Group plc Underlying Pre-acquisition £m	2015 Fair value adjustments £m	2015 Harworth Group plc £m
<b>Twelve months to December</b>					
Revenue	33.7	16.7	(3.3)	(0.3)	13.2
Cost of sales	(20.9)	(7.9)	1.9	–	(6.0)
Overheads	(10.5)	(6.8)	1.1	–	(5.7)
Other operating expense	(0.1)	–	–	–	–
<b>Profit/(loss) from operations</b>	<b>2.2</b>	<b>2.1</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>1.5</b>
Valuation gain/(loss)	34.2	28.9	(4.8)	–	24.1
Profit/(loss) from disposals	8.9	11.5	(0.1)	–	11.4
Pension (charge)/credit	(0.1)	0.1	–	–	0.1
Share of profit of associate and joint ventures	0.6	–	0.9	–	0.9
<b>Operating profit/(loss), before exceptionals</b>	<b>45.8</b>	<b>42.6</b>	<b>(4.3)</b>	<b>(0.3)</b>	<b>37.9</b>

Note: There are minor differences on some totals due to rounding

## UNDERLYING PERFORMANCE

The Group recorded revenues of £33.7m in 2016 (2015: £16.7m) comprising rental and royalty income together with sales of coal fines and salvage. The significant increase in 2016 revenues reflected £16.1m (2015: £1.3m) in respect of contract work on the construction of units at Logistics North which were forward funded by M&G Real Estate. These units were completed in December 2016. As Harworth has been acting on behalf of M&G Real Estate, the associated revenue and cost of sales are pass-through amounts at the same level except for the recognition of a construction management fee of £0.5m. Further "promote" fees will be recognised on each of the two units from 2017 onwards if Harworth is successful in letting the units quickly, at favourable rental levels and to occupiers with appropriate covenants. The larger 225,000 sq. ft unit was let to Whistl in January 2017, only six weeks after the building was practically completed and a promote fee will be recognised in 2017. The smaller 175,000 sq. ft unit is being actively marketed.

The table below shows the results of the business split between Capital Growth, Income Generation and central overheads:

	Capital Growth £m	Income Generation £m	Central overheads £m	FY 2016 Total £m	FY 2015 Total £m
Revenue	16.3	17.4	–	33.7	16.7
Cost of sales	(16.0)	(4.9)	–	(20.9)	(7.8)
Overheads	(1.8)	(1.5)	(7.3)	(10.6)	(6.8)
Other operating expense	–	(0.1)	–	(0.1)	–
<b>(Loss)/profit from operations</b>	<b>(1.5)</b>	<b>10.9</b>	<b>(7.3)</b>	<b>2.2</b>	<b>2.1</b>
Valuation gain	24.2	10.0	–	34.2	28.9
Profit from disposals	7.6	1.3	–	8.9	11.5
Pension (charge)/credit	–	–	(0.1)	(0.1)	0.1
Share of profit of associate and joint ventures	–	0.6	–	0.6	–
<b>Operating profit including joint ventures, before exceptionals</b>	<b>30.2</b>	<b>22.7</b>	<b>(7.2)</b>	<b>45.8</b>	<b>42.6</b>

Note: There are minor differences on some totals due to rounding

Total overheads, which include the overhead costs of the Capital Growth and Income Generation segments and central costs, amounted to £10.6m (2015: £6.8m). The increase in costs reflected: an increased accrual for the Executive Long Term Incentive Plan reflecting continued NAV outperformance; a number of one-off costs associated with the share consolidation, capital reduction and recruitment; as well as increased staffing and business costs reflecting greater and more productive operational activity.

Value gains, which comprise revaluation gains and profit on disposals, for 2015 and 2016 are set out below:

	2016				
	Revaluation gains				
£m	Profit on disposal	Management	Market	Total	2015 Underlying
Major Developments	6.8	8.7	3.4	18.9	21.0
Strategic Land	0.7	10.8	1.3	12.8	4.7
Business Space	0.1	5.7	0.9	6.7	6.9
Natural Resources	0.0	4.0	1.2	5.2	5.4
Agricultural Land	1.2	0.0	(1.1)	0.1	2.4
<b>Total</b>	<b>8.8</b>	<b>29.2</b>	<b>5.7</b>	<b>43.7</b>	<b>40.4</b>

The Group made sales of £58.9m in 2016 (2015: £51.1m), including £3.4m of deferred consideration, with profit on disposal of £8.9m (2015: £11.5m). The proceeds were split between residential serviced plots (£20.5m), commercial development (£26.8m) and other, essentially agricultural land, (£11.6m). All segments of the business made a profit on disposal with the largest profit on disposal resulting from the sale of 43.7 acres at Logistics North to Lidl UK for £22.5m.

The Group achieved revaluation gains of £34.9m<sup>(2)</sup> (2015: £28.9m). In conjunction with our valuers, BNP Paribas and Savills, we have split these gains to reflect the contribution from management actions, £29.2m, and market movement, £5.7m. Whilst there is a degree of subjectivity in this split, it highlights that the majority of the value gains come from management actions. The market element of revaluation gains includes the effects of 2016 stamp duty charges, forecast to have impacted values across the portfolios by £2.9m. The principal 2016 revaluation gains across the divisions were as follows:

- Major Developments – Healthy profit on disposal from Lidl UK at Logistics North. Improved masterplan and tenant interest at Wheatley Hall Road, new option agreement at Chatterley Valley, and cost savings at Harworth and Flass Lane;
- Strategic Land – Signing of S106 and collaboration agreement at Coalville. Planning application submitted at Thoresby;
- Business Space – Completion of pre-let and direct development at Gateway 36. Improved lettings at other sites;
- Natural Resources – New lettings, particularly at Meriden; and
- Agricultural Land – Reduced land values predominantly on former surface mine sites.

The resulting underlying operating profit for the Group, before exceptional items, was £45.8m including share of profit of associate and joint ventures (2015: £42.6m).

# Financial review

## continued

### EXCEPTIONAL ITEMS

Exceptional items comprise four separate items, all of which largely relate to the Group's legacy activities. With regard to Harworth Insurance Company Limited, Harworth has now received £0.5m from the administrator, which essentially represents final settlement. In addition, £0.2m has been received from the administrator of Ocanti Opco Limited which relates to the reimbursement of management expenses incurred by Harworth (then known as Coalfield Resources plc). In respect of coal fines activities, an exceptional charge of £0.7m has been taken to reflect the under recovery of amounts relating to the cessation of activities at Rugeley and a provision taken against the value of coal fines stocks to reflect reduced demand.

### Net assets

As set out below, net assets increased to £334.9m as at 31 December 2016 from £297.7m as at 31 December 2015.

	31 December 2016 £m	31 December 2015 £m
Investment properties (including investments in joint ventures, assets held for sale, overages and occupied properties)	400.3	345.2
Cash	13.0	27.6
Other assets	25.2	20.9
<b>Total assets</b>	<b>438.5</b>	<b>393.7</b>
Gross borrowings	52.5	64.5
Deferred tax liability	14.9	11.4
Other liabilities	36.2	20.1
<b>Net assets</b>	<b>334.9</b>	<b>297.7</b>
Number of shares in issue	292,269,786	2,922,697,857
Net assets per share	114.6p	10.2p
Underlying net assets per share	114.6p	101.9p
Underlying EPRA net assets per share	119.8p	105.8p

This increase was as a result of movements in the year, being operating profit of £45.8m<sup>(1)</sup> less interest costs of £2.3m, tax of £3.6m, dividends of £2.2m and other movements of £0.5m. The graph below shows the movement between NAV and EPRA NAV at the start and end of the year in pence per share.



The table below sets out a reconciliation of the various constituent elements of our £400.3m of investment properties:

	Opening £m	Acquisitions £m	Subsequent Expenditure £m	Change in fair value £m	Transfers £m	Disposals £m	Closing £m
Investment properties (Note 17)	334.6	22.5	22.7	33.7	(9.1)	(25.2)	379.2
Joint ventures (Note 18)	0.8	9.1	–	0.6	–	–	10.5
Available for sale (Note 21)	9.1	–	1.6	(0.2)	8.3	(10.5)	8.4
Overages (Note 16)	0.7	–	–	0.7	–	–	1.4
Owner occupied (Note 15)	–	–	–	–	0.8	–	0.8
<b>TOTAL</b>	<b>345.2</b>	<b>31.7</b>	<b>24.2</b>	<b>34.9</b>	<b>–</b>	<b>(35.7)</b>	<b>400.3</b>

Note: There are minor differences on some totals due to rounding.

## FINANCING AND FUNDING STRATEGY

On 13 February 2015, HEPGL entered into a £65m, five-year term, non-amortising, Revolving Credit Facility (RCF) with The Royal Bank of Scotland (RBS), replacing amortising facilities with the Lloyds Banking Group and Barclays Bank. On 19 August 2016, HEPGL completed a planned extension to its RCF with RBS, increasing the limit to £75m and extending the term by a further year such that it now expires in February 2021, on substantially the same terms (including pricing) as the existing facility. This enhanced facility reflects confidence in the business, providing both headroom and funds to accelerate the strategic 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. At 31 December 2016, the Group had five infrastructure facilities with all-in funding rates of between 2.4% and 4.0%. Since the EU referendum vote, public infrastructure funding has continued and we signed two facility agreements to fund small direct build schemes at Logistics North and the Advanced Manufacturing Park in the second half of 2016. Infrastructure spend is assessed against, and matched with, the quantum and timing of expected disposals.

On 21 June 2016, HEPGL entered into a four-year swap with RBS to fix £30m of borrowings at an all-in rate of 2.955%, including fees. The swap is hedge accounted with any unrealised movements going through reserves. The Group's hedging strategy is to have roughly half of its debt at a fixed rate and half of its debt exposed to floating rates. The weighted average cost of debt, using 31 December 2016 balances and rates, was 2.9% with a 0.8% non-utilisation fee on undrawn RCF amounts.

The Group's cash and cash equivalents at 31 December 2016 were £13.0m (2015: £27.6m). The Group had borrowings and loans of £52.5m at 31 December 2016 (2015: £64.5m), being the RBS RCF of £37.0m (2015: £49.0m) and infrastructure loans of £15.5m (2015: £15.6m). The resulting net debt was £39.5m (2015: £37.0m).

The chart below shows the Group's management of net debt during the year.

The Group continues with its aim of balancing its cash flows by using disposal proceeds to fund infrastructure spend and investment in acquisitions to replenish the portfolio, as well as improving its focus on brownfield sites with greater value enhancement potential. The Group is also maintaining its policy of prudent gearing with gross Loan To Value (LTV) of 13.1% (2015: 18.7%) and net LTV of 9.9% (2015: 10.7%). However, Capital Growth sites are deliberately not geared, so if gearing is just assessed against the value of Business Space and Natural Resources properties this equates to gross LTV of 41.6% and net LTV of 31.3%.

Harworth's policy of prudent gearing gives the Group the ability to complete acquisitions quickly, which is often a source of competitive advantage. In addition, this policy of prudent gearing allows working capital swings to be appropriately managed given that infrastructure spend is usually in advance of sales and thus net debt can increase by over £20m during the year.

# Financial Review

continued

New Logistics 225 unit at Logistics North, Autumn 2016

## TAXATION

The charge for taxation in the year was £3.6m (2015: £3.5m) comprising the deferred tax charge on forecast future capital gains arising on the investment property portfolio. The Group does not currently pay cash tax as brought forward tax losses are still being utilised.

At 31 December 2016, the Group had deferred tax liabilities of £23.3m (2015: £11.4m) related to unrealised gains on investment properties. As a result of additional work performed during the year, there is now greater certainty regarding the tax loss position and the expected pattern of usage. The Group has therefore recognised a deferred tax asset of £8.4m (2015: £nil). The net deferred tax liability was £14.9m (2015: £11.4m).

## DIVIDENDS

At the Annual General Meeting on 26 April 2016, the full year proposed dividend for 2015 of £1.5m (0.051p per share), the reduction of capital and the 1 for 10 share consolidation were approved. The capital reduction was subsequently approved by the court and the share consolidation was effected on 3 May 2016. As a result, the 2015 full year dividend of £1.5m (now 0.51p per share) was paid on 9 September 2016.

A first interim dividend of £0.66m (0.23p per share) for the 2016 financial year was paid on 1 December 2016. A final dividend for the 2016 financial year of £1.53m (0.523p per share) is proposed. This gives a total dividend of £2.2m for 2016, a 10.0% increase over the 2015 annualised dividend of £2.0m, reflecting the growth in the business and the Board's confidence in the future prospects for growth. The final dividend will be paid on 30 May 2017 to Shareholders on the register as at 5 May 2017.

**Andrew Kirkman**

Finance Director  
19 April 2017

### Notes:

<sup>(1)</sup> Operating profit before exceptional items and including share of profit of associate and joint ventures.

<sup>(2)</sup> Increase/(decrease) in fair value of investment properties and assets held for sale (2016: £33.5m) together with other gains, being overages (£0.7m), and share of profit of associate and joint ventures (£0.6m).



## How we manage our risks

**The Board has ultimate responsibility for determining the risk appetite of the Group and for the implementation and regular review of policies, processes and controls to mitigate and manage risk. The Board recognises that not all risks can be eliminated at an acceptable cost and that there are some risks which, given the nature of the Group's business and the growing track record and experience of the team, it is prepared to accept. The Board also acknowledges that the Group's insurance programme plays an important part in mitigating the impact of certain inherent risks which are neither acceptable nor capable of removal.**

Following the Company's acquisition of Harworth Estates in March 2015, the Group undertook a review of its principal risks and the processes in place to manage them. This led to the development of a Group Risk Register, which identified risks within 8 categories: strategic; operational; people; sites; markets; legal; financial; and IT and communications. For each risk, mitigating factors and controls already in place were assessed and recorded and further mitigation steps were identified. Risks were scored and graded on a "heat map", based on likelihood and impact, taking account of mitigating factors already in place.

The Board has delegated to the Audit Committee responsibility for periodic review of the Group Risk Register and the Group's internal control systems and procedures. Since the establishment of the Group Risk Register, it has been reviewed every six months by the Audit Committee.

The Executive Committee has ultimate responsibility on a day-to-day basis for the Group's risk profile, the implementation of, and adherence to, risk management controls and procedures, and for monitoring the continued effectiveness of the same. This includes a six-monthly formal review following which recommendations are made to inform the Audit Committee's similar periodic reviews. The Group operates predominantly from a single office in Rotherham, with a relatively small team and short reporting lines. As such, members of the Executive Committee are closely involved in day-to-day operations and so are often able to identify new and changing risks and respond in a timely manner. The Executive Committee is also informed by regular feedback from its experienced senior management team on existing and new operational risks and the effectiveness of our internal controls and procedures. Our Company Secretary facilitates the process by which feedback is taken from the senior management team, shared with the Executive Committee and acted upon.

The establishment of the Group Risk Register forms the core element of the Group's risk management framework but it was acknowledged in the 2015 Annual Report that further steps would need to be taken to ensure that: (i) it remains subject to regular review; (ii) risk management is embedded within the business; and (iii) the further risk mitigating steps identified in the register are actioned in a timely fashion. A number of steps have been undertaken since the publication of the 2015 Annual Report and further action points have been identified for implementation and progression in 2017.

**Key risk management initiatives since the publication of the 2015 Annual Report**

- Establishment of regular review meetings between our Company Secretary and the senior management team to identify changes in the operational risk profile of the Group and improvements that can and should be made to internal controls and processes.
- Establishment of a revised Delegated Authorities Policy.
- Review and refinement of the Group's document approval, execution and records process.
- Insurance broker re-tender and appointment, and comprehensive review of insurance programme.

**Key risk management initiatives identified for implementation and/or progress in 2017**







- Implementation of additional internal controls identified by senior management teams.
- Further work on the newly established process for reviewing risk, internal controls and process with senior managers.
- An audit of the Group's internal controls and processes in the second half of 2017.



# How we manage our risks




continued

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group Risk Register has been updated following a robust assessment by the Directors of the Group's principal risks and uncertainties, including those that would threaten its business model, future performance, solvency or liquidity. Those risks and uncertainties are set out below.


KEY	Risk level		
	Low	Medium	High
Our estimate of the current level of risk. Risk is difficult to estimate with accuracy and so may be more or less than indicated.			
	Increasing	Unchanged	Decreasing
Current assessment of direction of travel of level of risk.			

Risks	Controls and mitigation already in place	Further actions to be taken	Current risk status and change during the year
<b>Market risk</b>			
The Group is exposed to the risk of fluctuations in the property market for the price of land.	<p>There is diversity in the Group's property portfolio, both in terms of sector and geography. Regional markets are typically less volatile than the London market.</p> <p>Value gains are driven more by management actions than market conditions.</p> <p>We have an ability to control working capital movements by managing the rate of acquisitions and development expenditure.</p> <p>We build headroom into our forecasts by identifying potential alternative sales in the event that planned sales do not proceed as quickly as anticipated.</p> <p>We monitor continuously, and maintain regular and open dialogue with our agents and advisers in relation to, prevailing market conditions.</p>	<p>We will continue to grow and strengthen our recurring income portfolio to create stability during periods of market downturn.</p> <p>We will continue to review the composition of the Group's portfolio regularly.</p> <p>Our cash flow forecasts provide for a minimum £10m "buffer" throughout the year.</p>	
Changes in political policy, such as in relation to Brexit, the Northern Powerhouse, HS2 and Help To Buy, could have an adverse impact on the Group's principal markets.	<p>The diversity of the Group's portfolio affords a degree of mitigation to adverse political changes in that, in response to changes affecting a particular market (for example, coal fines sales), the Group can leverage other markets (for example, logistics space).</p> <p>The Group continues to make effective representations with key industry bodies, including the British Property Federation, the Royal Institution of Chartered Surveyors and the Home Builders Federation, to ensure that the effect of any political policy changes is fully understood by Government, thereby minimising the chances of adverse policy changes being enacted.</p>	<p>The Group will input into upcoming Government consultations on key policy matters, including those that relate to the recent Housing White Paper and Industrial Strategy.</p>	

Risks	Controls and mitigation already in place	Further actions to be taken	Current risk status and change during the year
<b>Financial risk</b>			
Volatility of the recurring income stream from operations impacting on banking covenants.	<p>We have implemented more sophisticated financial modelling and more robust financial reporting systems.</p> <p>We have taken steps to grow and strengthen our recurring income in 2016 by: (i) acquiring income-generating investment properties: Advantage House (office), Moorland Gate and Four Oaks (business parks); (ii) re-gearing existing leases across our portfolio; and (iii) carrying out a targeted amount of direct development.</p> <p>Despite difficult market conditions, new coal fines sales have been agreed with Drax and Uniper (Ratcliffe) during 2016.</p> <p>We have reached an "in principle" agreement with RBS to include a share of income from our joint ventures in covenant calculations. We anticipate that this will be documented during 2017.</p>	<p>We will continue to build our income portfolio via targeted income-generating acquisitions, direct development, and lease renewals and re-gearing.</p> <p>We are actively exploring development management opportunities on certain of our sites, which would lead to the generation of development management, promote and asset management fees.</p> <p>We have signed our first planning promotion agreements and are in advanced negotiations on a number of other agreements. We are targeting income from these agreements from 2018 onwards and are confident that they will represent another resilient income stream in the medium and long term.</p>	
<b>Strategic risk</b>			
Failure or weakness of strategic plan impacting on Group direction with the potential influence of extraneous factors such as economic cycle.	<p>A detailed strategic review was undertaken by the Board and Executive Committee in June 2016, with external input from Eden McCallum. A further analysis was undertaken following the result of the EU referendum. Both concluded that the Group's strategy was appropriate and robust, notwithstanding volatility in the wider economy.</p> <p>The Executive Committee and Board also carried out its annual 5-year financial and strategic review exercise in November and December as part of the budgeting process.</p> <p>All papers submitted to the Board for approval include an explanation as to how the proposal outlined in the paper aligns with strategy.</p>	<p>Further improvement in communication of the strategic plan throughout the business.</p> <p>Increasing the regularity of strategic updates by the Chief Executive to the Board.</p>	 <p>Reduced risk due to mitigation undertaken during the year.</p>
<b>Human resources risk</b>			
<p>Insufficient human resource to meet the strategic and operational demands of a growing business, with adverse impact on outcomes.</p> <p>In a small team, "key-person" risks (eg. loss of key skills and knowledge) are magnified.</p>	<p>Whilst having a small team amplifies capacity and "key-person" risks, it also means that the Executive Committee can keep those risks under close and continuous review.</p> <p>The Nomination Committee carries out an annual review of succession and development planning for the Executive Committee and senior management team, to ensure that such plans are appropriate and robust.</p> <p>Six strategic promotions were approved by the Executive Committee at the end of 2016, which creates more strength in depth in the senior echelons of the business.</p> <p>Performance reviews were carried out for all employees who had worked in the business for 12 months or more.</p> <p>The strategic planning process includes a review of roles and responsibilities within the Group. This year that process has led to our recruiting for three new roles, two of which had been filled at the date of this report. Every recruitment process (whether for new or replacement roles) begins with a detailed review of the role specification to ensure that roles are complementary and drive maximum efficiency across the business.</p>	<p>Recruitment into the new roles already identified by the Executive Committee.</p> <p>The Executive Committee carried out a resources review during the first quarter of 2017.</p>	 <p>Increased risk due to growth of business requiring resources review and recruitment in 2017.</p>

# How we manage our risks

## continued

Risks	Controls and mitigation already in place	Further actions to be taken	Current risk status and change during the year
<b>Operational risk</b>			
Given the nature of the Group's business, it faces a heightened exposure to health and safety and environmental risks, which can have consequences from a financial and reputational perspective.	<p>A monthly Estates, Environmental and Safety (EES) report is prepared and submitted by the senior manager who leads our EES team to both the Executive Committee and Board, which includes updates on all environmental and health and safety matters.</p> <p>The Associate Director of EES meets with the Board annually.</p> <p>We have appointed an external health and safety consultant who advises on all health and safety issues across the business. He audits and advises on site specific matters as well as Group policy and procedures.</p> <p>A review has been carried out during the year of all of the Group's Environmental Permits. This has led to the surrender (or submission of applications to surrender) of all redundant permits.</p> <p>The EES team maintains a site risk register, which is used to monitor the risk status of all sites and informs remediation plans. A member of the EES team inspects medium and high risk sites not less than annually. High risk sites are inspected more frequently based on the risk rating score.</p>	Our Environmental Manager will complete his Waste Management Industry Training and Advisory Board qualification, which will enable him to manage our waste licences in-house pro-actively.	 <p>Reduced risk due to mitigation undertaken during the year.</p>



## BUSINESS CONTINUITY ASSESSMENTS

The Directors have assessed the Group's prospects, both as a going concern and in the context of its viability longer term. This assessment informs the following distinct statements:

1. The Directors considered it appropriate to adopt the going concern basis of accounting in the preparation of the Company's and Group's financial statements.
2. The Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

Both assessments are closely linked to the Directors' robust assessment of the principal risks facing the Group (including those that would threaten its business model, future performance, solvency or liquidity), which is outlined on pages 42, 43 and 44.

## GOING CONCERN STATEMENT

Accounting standards require that the Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using the going concern basis of accounting for a period of at least 12 months following the approval of this Annual Report. In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At year end, the Group had cash and cash equivalents of £13.0m, net debt of £39.5m and a net loan to value of 9.9%. The Group has a £75m revolving credit facility with RBS, which contains typical financial covenants and runs until February 2021. At year end there was headroom of £38.0m on that facility. It also had infrastructure loans totalling £15.6m at the year-end. The financial position of the Group, including information on cash flow, can be found in the Financial Statements on pages 97 to 132. The equity placing undertaken by the Company in March 2017 and referred to on page 15 had a positive impact on the Group's prospects, both as a going concern and in the context of longer-term viability. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see Our business model, Delivering on our strategy and our markets on pages 4 and 5 ) and the Group's principal risks and uncertainties (see pages 42, 43 and 44).

## 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 ending 31 December 2021, 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 obtaining planning permission and remediating the site 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 focusses on the expected growth of the business primarily in terms of NAV but also dividends. The strategic review also considers the Group's recurring income, cash flows, covenant compliance (particularly interest cover), 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. The main assumptions relate to the forecast supply and demand dynamics for the residential and commercial property markets, and the availability of acquiring new, particularly brownfield sites. 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.

The principal risks that are considered relate to economic assumptions, income generation variability and appropriate staffing levels. Sensitivity analysis has been applied in terms of income generation, cash flow and net asset value impacts, particularly from changes in value gains. These risks are fairly well balanced on the up and downside. No mitigating or remedial actions have been identified but, if needed, more cash could be generated through increased sales and/or reduced development spend and acquisitions, and, if needed, such cash could be targeted toward the acquisition of income generating properties.

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

# Harworth in the community

**Regenerating large parts of the UK's former industrial heartland regularly gives us the opportunity to give something back to the communities we operate in. The following case studies provide a reflection of some of the community work we perform alongside bringing forward new development.**

## NEW APPRENTICESHIPS AT WAVERLEY

Starting in March 2016, we have helped fund the University of Sheffield AMRC Training Centre's new 'Flexible Apprenticeship Programme' – a programme tailored to meet the needs of small businesses close to Waverley and providing young people from the Sheffield City Region with new apprenticeship opportunities.

Working in conjunction with Sheffield Business Park, the AMRC Training Centre – based at Waverley – we have helped to create eight places on the new programme for the first year. These places were specifically awarded to business start-ups and small employers who have not recruited an apprentice within the last 12 months.

We part funded this programme through two sources. In 2015, we won the £15,000 Lambert Smith Hampton Enterprise Award for demonstrating how the proposed Advanced Manufacturing Innovation District across Sheffield and Rotherham will make the most of the Government's devolution programme, showcasing innovative thinking in the property industry.

We then matched the prize money to create a £30,000 fund to enable local young people that are not in education, employment or training, to get apprenticeships with local advanced manufacturers and a place at the AMRC Training Centre.

One of the firms that benefitted from this programme was Sheffield-based Tribosonics, a growing small and medium-sized enterprise (SME) that designs and manufactures ultrasonic measurement and monitoring devices. In addition, seven other SMEs had taken on an apprentice from the programme by the end of 2016 to help create the workforce of the future.

## AWARD-WINNING RESTORATION AT RUFFORD

Our Operations team has worked in close partnership with the Nottinghamshire Wildlife Trust to transform the former Rufford Colliery into a superb new open space for local residents to enjoy, resulting in the programme winning a Nottinghamshire 'Green Guardians' award.

The programme is Nottinghamshire's largest ever heathland re-creation programme – totalling over 100 hectares – to help restore the landscape of the wider Sherwood Forest. Nearly five years in the making, the restoration programme has brought a range of new wildlife habitats to the site, whilst also creating a series of new trails and public rights of way to encourage public use.

All restoration ground works have been undertaken under the guidance of an experienced ecologist in order to minimise disruption to native species. This resulted in works taking place outside of the nesting season (February to mid-July) and all seeding and planting undertaken so as to optimise potential growing opportunities.

We have now extended our partnership with the Trust to deliver the restoration of Thoresby Colliery's 350-acre former spoil heap in line with a restoration scheme previously agreed with Nottinghamshire County Council. The scheme, which will take at least two years to complete fully, will provide a series of new public rights of way and a further raised viewing platform that will offer spectacular views across the entire Sherwood Forest and its immediate environs. This remains an important part of our plans at Thoresby, where we continue to consult, and work closely with, the community, to maintain support for our regeneration masterplan and proposals.

University of Sheffield AMRC at the AMP, Spring 2016

**“The scale of habitat restoration required in Sherwood Forest will require true partnership working and the transformation of this site is a great example of what can be achieved.”**

**Rob Fitzsimons, Chief Executive for Nottinghamshire Wildlife Trust**

Restoration at the former Rufford Colliery, Summer 2016

# Harworth and the environment

**We take our environmental obligations extremely seriously, reflected in the extensive remediation and restoration works we undertake on our brownfield developments, through to minimising the greenhouse gas emissions resulting from our operations.**

## RESPONSIBLY MANAGING THE REDEVELOPMENT AND RESTORATION OF SITES

Harworth and its predecessor business has over twenty years' experience in tackling large, complex, brownfield sites. We have a reputation for delivering new developments responsibly, whilst also extracting value from materials that can be recycled for uses elsewhere.

## REMEDIATION AND RESTORATION

We work with a small number of trusted contractors to decontaminate previously polluted land and remove dangerous underground structures at a range of brownfield sites across the UK – eventually preparing land for redevelopment. Waverley's redevelopment is the most striking example of the transformation of a site.

## RE-USING PUBLIC ASSETS

We believe that former industrial assets should be retained to support future development uses where practicable and Harworth has followed this principle across a number of its brownfield sites. Assets reconditioned and reused for new purposes include railheads, substations, access roads and enhanced public open spaces that surround our sites.

## DEMOLITION

We are experts in project managing complex demolition works in a safe and efficient manner. Over the past three years we have safely and successfully demolished the former Daw Mill Colliery in Warwickshire, formerly the UK's largest coal mine, the former Alcan Aluminium Smelter in Northumberland and also Harworth tower, Nottinghamshire's tallest building, at the former Harworth Colliery. We have also started demolition at the former Thoresby and Kellingley collieries in preparation for redevelopment.

## MATERIAL RECOVERY

Whether it is coal slurry, metals, concrete or fill material, we have the capability to extract the maximum value from derelict land and property, raising revenue that can ultimately be put to preparing land for eventual redevelopment whilst also being environmentally responsible. The team has been able to extract and sell over 1m tonnes of coal slurry to power station operators to produce electricity between 2011 and 2016 – a material previously considered as waste.

## MINIMISING PUBLIC IMPACT

The team has been able to achieve all of this whilst minimising disruption to residents, businesses and other Groups that are close to the sites that we are working on. We pride ourselves in maintaining clear communication and professionalism through all stages of the development process, building on our track record as a responsible regeneration Company.

## REDUCING GREENHOUSE GAS EMISSIONS FROM OUR OPERATIONS

Harworth operates a Safety, Health and Environmental Management System (SHEMS) 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 promotion of sustainable and environmental opportunities by active resource management and waste minimisation.

We declared in our 2015 Annual Report and Financial Statements that we were aiming to improve environmental 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 our 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.

We are pleased to report that we have reduced our greenhouse gas emissions year-on-year by over 20% following the instigation of the following actions:

- smart working principles have been implemented whereby some staff have organised their diaries to reduce unnecessary business miles to attempt to offset increasing staff numbers;
- we have isolated the electricity supply to buildings that are unoccupied, ensuring lighting or heating cannot be accidentally left on; and
- our Operations team has markedly reduced yellow plant journeys on the sites it operates from.

This statement outlines the greenhouse gas emissions arising from our activities during the 2016 financial year and follows the Environmental Reporting Guidelines set by the Department for Environment, Food and Rural Affairs (DEFRA).

Emissions are reported in tonnes of CO<sub>2</sub> equivalents (CO<sub>2</sub>e) 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; and

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

	Emission source	Tonnes of CO <sub>2</sub> e (2015)	Tonnes of CO <sub>2</sub> e (2016)
Scope 1	Fuel for staff vehicles	224	243
Scope 2	Gas oil used in plant	1,744	1,326
Scope 3	Electricity usage	854	639
<b>Total</b>		<b>2,822</b>	<b>2,208</b>

We aim to further improve performance in 2017 by:

- continuing to monitor and encouraging a smart working programme where staff plan their business miles in the most efficient way possible;
- ensuring that we operate all newly acquired properties as efficiently as possible; and
- continuing to use well maintained yellow plant and periodically review material recovery and recycling techniques to ensure their effectiveness.

# Our people

**We recognise that, alongside our property portfolio, our people are our biggest asset. We have a small but vastly experienced and dedicated team who help to drive consistent levels of value growth and income from our property portfolio. We know how important it is that we listen to our employees, create an environment in which they can develop their skills and experience, and reward them for their hard work and contribution.**

## EMPLOYEE NUMBERS AND COSTS

The average number of persons, including Executive Directors, employed by the Group and our staff costs are set out in Note 8 to the financial statements.

## ENGAGEMENT

In December 2015, we conducted our first employee survey covering a range of themes including communication, development, morale and motivation. We implemented a number of initiatives in response to feedback from that survey, including a staff away-day which focused on teamwork and communication, presentations to all employees following the Group's interim and full-year results, a leadership training programme for senior managers and increased investment in Continuous Personal Development (CPD) for all employees.

We repeated the survey in December 2016. There was a completion rate of 96%, well above the average for similar surveys, and improved scores across all sections of the survey. We have identified further initiatives which we are looking to implement during 2017, including the introduction of a Harworth newsletter and cascading Board feedback, market announcements and press releases to all employees to improve communication and awareness throughout the business and to celebrate better our successes.

## RECRUITMENT AND DEVELOPMENT

For every role, our recruitment process (whether for new or replacement roles) begins with a detailed review of the role specification to ensure that roles are complementary and drive maximum efficiency across the business.

All of our employees have undertaken an externally facilitated personality profile exercise, which helps us to understand the dynamics of our team and informs our recruitment of new employees and our plans for CPD of existing team members.

We aim to carry out performance reviews for all employees every year and all employees who had been with the Group for more than 12 months participated in a review during 2016.

In 2016, a significant number of our employees attended external training courses and, in some cases, gained professional qualifications.

Ten of our senior managers participated in an external leadership programme during the year, completing six modules covering topics such as performance management and presentation skills. A second wave of 10 employees are about to start the programme. External coaching is also available to our Executive Committee and senior management team and we encourage them all to use this resource from time to time.

There were six strategic promotions at the end of 2016, reflecting the growing experience and capabilities as well as creating more strength in depth, across the business.

It is important that we maintain enough, and the right mix of, resources for a growing business. During the first quarter of 2017, the Executive Committee has carried out a review of resources, which will lead to us recruiting for a number of new roles over the coming months, to track the growth of the business.

## EQUAL OPPORTUNITIES AND DIVERSITY

We operate an Equal Opportunities and Dignity at Work policy. We are committed to creating a working environment that is free from discrimination, harassment and victimisation, where everyone feels valued and respected. 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 on the grounds of gender, race, disability, sexual orientation, religion or belief, age, and pregnancy or maternity.

We are committed to making reasonable adjustments for disabled employees and to giving full and fair consideration to disabled applicants for roles in our business. We will provide equal opportunities for CPD and promotion within our business to any disabled employees.

We recognise the value of diversity and continue to take steps to encourage it throughout the business. The charts on the facing page show a breakdown, by gender, of the Company's Directors, the Group's senior management team and all our employees at the end of 2016. Whilst we have already taken steps to promote diversity across the business, we recognise that we have a long way to go to address historic imbalances. That said, selection for employment and promotion will continue to be based on merit and ability.

## RECOGNITION AND REWARD

We offer a comprehensive employee benefits package for all employees, which includes a pension scheme with substantial employer contributions, private medical insurance, life insurance and income protection.

During 2016, the Remuneration Committee approved the introduction of a share incentive plan for our senior management team and made the first awards under that plan in April 2017. This will mirror aspects of the Executive Committee long-term incentive plan, thereby helping to incentivise and reward our senior managers, whilst aligning their interests with those of Shareholders. The options which vest under this plan will be satisfied by shares purchased in the market.

We are also proposing the introduction of an all-employee Save As You Earn scheme. If the scheme is approved by Shareholders at this year's Annual General Meeting, it will offer all employees the opportunity to save up to £500 a month over 3 years and then purchase shares in the Company at a discount of 20% to the market price of the shares at the outset of the scheme. We see this as an important and tangible way in which our employees can share in the Group's success, to which they all contribute.

# Health and safety

Health and safety has an extremely high profile in our business. Our Chief Executive has ultimate responsibility for all health and safety matters, but day-to-day review and management rests with our Estates, Environment and Safety (EES) team, led by our Associate Director of EES.

Harworth's Safety, Health and Environment Management System (SHEMS) is based on the Plan, Do, Check and Act model advocated by the Health and Safety Executive (HSE).

The EES team maintains a "site risk register" which rates each of our sites as "low risk", "medium risk" or "high risk", from a health and safety perspective. A medium or high risk rating recognises that action needs to be taken at the site, whether within a prescribed timetable (medium risk sites) or immediately (high risk sites). All our low and medium risk sites are inspected at least annually and our high risk-rated sites are inspected more regularly. Further proactive safety initiatives are undertaken in the form of health and safety inspections and audits. The geographical spread of our sites is large and the type of sites is varied. Any issues reported, whether they are incidents or accidents, are logged and appropriate follow up action is undertaken. This process is key to identifying areas for improvement across the portfolio.

There were only six minor accidents recorded at our sites during the year. For completeness, this statistic includes accidents involving contractors at our demolition sites, where our contractors take responsibility for health and safety whilst works are ongoing.

There were no RIDDOR accidents or incidents reported by Harworth during the year, although there was one RIDDOR report filed with the HSE by one of our demolition contractors when a structure at our former Harworth colliery site failed to fall after the use of explosives. Procedures for this eventuality were in place and followed and the demolition was completed using alternative means, without further incident.

Meetings are held between our Chief Executive and the EES team monthly, following which our Associate Director of EES reports to both our Executive Committee and the Board. He also meets with the Board in January of each year to report on key issues encountered and actions undertaken during the previous year and priorities for the coming year.

During 2016 we engaged JPW Consultancy Limited, an external health and safety consultant, to advise on all health and safety issues across the business on an ongoing basis, including site specific matters and Group policy and procedures.

The strategic report is approved by the Board and signed on its behalf by:

**Owen Michaelson**

Chief Executive

19 April 2017

# Corporate Governance

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STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

# Board of Directors and Company Secretary

**Jonson Cox**  
Chairman

**N R**

**Term of office**

Joined the Board on 15 November 2010 as Executive Chairman. Non-Executive Chairman since December 2012. Last re-elected in April 2016. Chair of the Nomination Committee.

**Length of service**  
6 years 5 months

**Independent**  
No

**Skills and experience**

Jonson's early career was with Royal Dutch Shell and Kelda Group. He joined Anglian Water as Chief Executive from 2004 until 2010. He was a Non-Executive Director of Wincanton plc from 2005 to 2014. In November 2012 he was appointed Chairman of the Water Services Regulation Authority (Ofwat). Jonson joined the Board in 2010 to lead the former UK Coal plc through its 2012 restructuring. He has served as Non-Executive Chairman since the restructuring and led the Company through its 2015 acquisition of Harworth Estates.

**External appointments**  
Chairman of Water Services Regulation Authority (Ofwat) and the Cory Group. Advisor to I Squared Capital LLP.

**Owen Michaelson**  
Chief Executive

**Term of office**

Joined the Board on 24 March 2015 having previously been Chief Executive of HEPGL from 28 September 2012 and of the Harworth Estates division of UK Coal since August 2010. Last re-elected in April 2016.

**Length of service**  
2 years (6 years 5 months including appointment to HEPGL and Harworth Estates division of UK Coal)

**Independent**  
No

**Skills and experience**

Owen has more than 25 years' experience in the remediation of brownfield land and has held executive roles at the Peel Group, Black Country Properties and Viridor. Prior to becoming the Chief Executive of Harworth Group plc, he took over the stand alone operations of Harworth Estates at the commencement of the restructuring of the UK Coal Group in August 2010. He established the business as a recognised developer of brownfield land, before being appointed to the Board of Harworth Group plc following its acquisition of Harworth Estates in 2015.

**External appointments**  
None

**Andrew Kirkman**  
Finance Director

**Term of office**

Joined the Board on 1 January 2016. Elected in April 2016.

**Length of service**  
1 year 3 months

**Independent**  
No

**Skills and experience**

Prior to joining Harworth, Andrew was Finance Director of Viridor, the recycling and renewable energy subsidiary of Pennon Group plc, for five years. He has also previously held a number of other senior finance roles, including Chief Financial Officer at Balfour Beatty Capital and Global Head of Corporate Finance at Bovis Lend Lease. Andrew is a Fellow of the Institute of Chartered Accountants and has an MA in politics, philosophy and economics from Oxford University.

**External appointments**  
None

**Lisa Clement**  
Senior Independent Director

**R N**

**Term of office**

Joined the Board on 15 December 2011. Last re-elected in April 2016. Appointed Chair of the Remuneration Committee and Senior Independent Director on 1 October 2016. Formerly Chair of the Audit Committee.

**Length of service**  
5 years 3 months

**Independent**  
Yes

**Skills and experience**

Lisa 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.

**External appointments**  
Director of Everything But The Cow Limited.

**Anthony Donnelly**  
Non-Executive Director

**R A**

**Term of office**

Joined the Board on 24 March 2015 having previously been a Non-Executive Director of HEPGL from 10 December 2012 and a Director of the Harworth Estates division of UK Coal from January 2011. Last re-elected in April 2016.

**Length of service**  
2 years (6 years 3 months including appointment to HEPGL and Harworth Estates division of UK Coal)

**Independent**  
Yes

**Skills and experience**

After early finance roles with Scottish and Newcastle Breweries from 1986, Anthony joined Morrison Homes Limited as Finance Director in 1990. In 2000 he was appointed Managing Director of Scotland-based AWG Property Limited. He has consequently overseen the workout and extraction of value from an extensive commercial and residential portfolio across the UK and Ireland and its transformation into a strategic and income generating portfolio.

**External appointments**  
Director of various private limited companies in the AWG Group.

## KEY

<b>A</b>	=	member of the Audit Committee
<b>N</b>	=	member of the Nomination Committee
<b>R</b>	=	member of the Remuneration Committee
<b>A</b>	=	Chair of the Audit Committee
<b>N</b>	=	Chair of the Nomination Committee
<b>R</b>	=	Chair of the Remuneration Committee

### Andrew Cunningham

Non-Executive Director

**A** **N****Term of office**

Joined the Board on 26 April 2016. Appointed as Chair of the Audit Committee with effect from 1 October 2016.

**Length of service**  
1 year

**Independent**  
Yes

**Skills and experience**

Andrew graduated from Cambridge University and then trained as a chartered accountant with Deloitte Haskins and Sells (a predecessor firm of PwC). In 1989 he was made a corporate finance and audit partner. In 1996 he was appointed Finance Director of Grainger plc, which was to become the UK's largest listed residential investor, and then Chief Executive in 2009. He retired from Grainger at the end of 2015. Andrew is a Fellow of the Institute of Chartered Accountants and of the Royal Institution of Chartered Surveyors.

**External appointments**

The Banks Group Limited, Cussins Limited, and Cussins (North East) Limited. Commissioner at The Port of Blyth.

### Steven Underwood

Non-Executive Director

**R** **A****Term of office**

Joined the Board on 2 August 2010. Last re-elected in April 2016.

**Length of service**  
6 years 8 months

**Independent**  
No, representative of the Peel Group

**Skills and experience**

Steven is Chief Executive of the Peel Group of companies and brings to the Board the extensive experience of the Peel Group in brownfield land remediation and regeneration.

**External appointments**

Alternate Director of Intu Properties plc. Director of multiple private limited companies, mostly connected to the Peel Group.

### Martyn Bowes

Non-Executive Director

**Term of office**

Joined the Board on 24 March 2015 having previously been a Non-Executive Director of HEPGL from 19 March 2013. Last re-elected in April 2016.

**Length of service**  
2 years (4 years including appointment to HEPGL)

**Independent**  
No, representative of the PPF

**Skills and experience**

Martyn originally trained as an accountant and as a banker. He 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.

**External appointments**

Director of multiple private limited companies in the Welbeck Land Group. Non-Executive Director at Clouston Group and Conger Finance Limited.

### Chris Birch

Group General Counsel and Company Secretary

**Term of office**

Appointed on 6 June 2016

**Skills and experience**

Chris graduated from Sheffield University in 2003 with a first class LLB and a distinction in the Legal Practice Course. He joined Eversheds LLP, where he qualified as a solicitor in 2005 and spent 12 years as a corporate restructuring lawyer, before joining Harworth as Group General Counsel and Company Secretary in June 2016.

**External appointments**

None

# Chairman's introduction

Dear Shareholder,

On behalf of the Board, I am pleased to present the Company's Corporate Governance Statement.

It comprises the Statement of Corporate Governance, the Directors' Remuneration report, the Audit Committee report, the Nomination Committee report and the Directors' report. The Board is accountable to Shareholders for good corporate governance. We recognise the importance of good governance as a foundation for long-term value growth and are committed to demonstrating high standards in this regard.

These reports explain the governance framework and policies we have established and, importantly, continue to review and develop.

While the Company remains a standard listed Company on the London Stock Exchange, it aims to comply with the UK Corporate Governance Code (the Code). I am pleased to report that, save as explained in the Directors' report on page 90, the Company has complied with the 2014 Code for the period under review. The revised Code was released in April 2016 and applies to financial periods beginning on or after 17 June 2016. Changes are being made to the Company's policies and procedures to ensure its continued compliance with the revised Code.

## COMPOSITION OF THE BOARD

As reported in last year's annual report, Andrew Kirkman was appointed to the Board on 1 January 2016 as Finance Director. Some of the work Andrew has undertaken during the year has helped to improve the effectiveness of the Board in monitoring the operational and financial performance of the Group.

Peter Hickson stepped down as Senior Independent Director at the 2016 Annual General Meeting, having served on the Board since July 2011. We were delighted to welcome Andrew Cunningham as an independent Non-Executive Director in his place. Lisa Clement has taken on the role of Senior Independent Director. We also took the opportunity to rotate the chairs of the Remuneration and Audit Committees. With effect from 1 October 2016, Andrew Cunningham was appointed chair of the Audit Committee, which enabled Lisa to be appointed as chair of the Remuneration Committee. I continue to chair the Nomination Committee.

We continue to adopt best practice of submitting all Directors for re-election at the Annual General Meeting.

The Nomination Committee has carried out another annual review of succession planning and development during the year, with a view to developing a pipeline of potential future leaders and helping all employees reach their full potential. Encouraging greater diversity

throughout the business also has a significant part to play in our succession planning. The Board recognises the value that can be derived from a broader range of ideas, skills, experience and perspectives and is striving for a better balance at all levels within the business, in terms of gender and ethnicity. This continues to be an ongoing exercise.

## LEADERSHIP AND ACCOUNTABILITY

We aim to deliver above market growth with the foundation of a strong balance sheet and a business capable of surviving property market fluctuations with a strong recurring income stream. We set ourselves stretching strategic and financial objectives but within a culture of robust risk management.

The Board adds value through constructive dialogue with, and challenge to, the Executive Directors and wider Executive Committee to create accountability and drive performance. To that end, the composition of the Board is important. We recognise that it must include a balance of skills and experience to facilitate the objectives of the Company and that all Directors must have a good knowledge of the Company's business and the markets in which it operates. We have introduced a timetable of site visits for our Non-Executive Directors throughout the year. These visits help to improve knowledge and understanding of our sites and, at the same time, are an opportunity for our Non-Executive Directors to get to know better the operational teams driving value growth from our portfolio.

There has been a strong focus on strategy and risk management this year. The Audit Committee has overseen the appointment of new insurance brokers after a competitive tendering process, a comprehensive review of the Group's insurance programme and the first steps towards implementing more frequent and rigorous reviews of risk and more robust risk management at an operational level. The Audit Committee report on pages 80 to 83 contains further details. There has also been a review of the Company's delegated authorities policy which has led to revisions to define more precisely Board reserved matters.

The Board undertook its annual, comprehensive review of the Group's strategy in June with external input from Eden McCallum. That review re-affirmed the fundamentals of the Group's long-term strategy, which is outlined in the Strategic Report on page 4. The strategy was revisited following the EU referendum result, but the Board concluded that it remains robust and appropriate. We believe the medium-term outlook is positive given the market fundamentals for both housing and logistics remain strong.

We strive for continuous improvements in the way the Board operates. We have given some structure to our annual Board evaluation by using an online platform designed by "Evalü8" and tailored by me and the Company Secretary. We have analysed the results of our latest evaluation and will implement action points to address the areas it has identified for improvement. We are also beginning to plan for Board successions.

## REMUNERATION

Our Executive Director remuneration policy and arrangements are designed to support the Group's objectives. We continue to believe that the current remuneration packages are appropriate for incentivising management to drive long-term value growth. The Remuneration Policy tabled at the 2016 Annual General Meeting received overwhelming support from Shareholders. A summary of the policy appears at pages 68 to 71.

## ANNUAL GENERAL MEETING

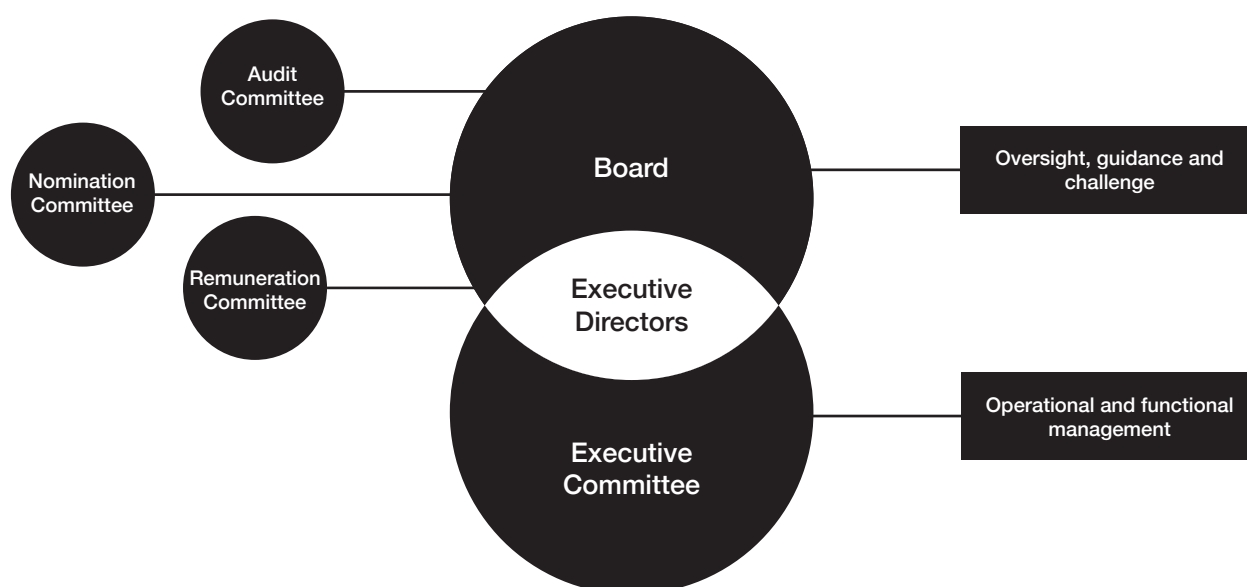
Our Annual General Meeting will be held at 11.00 a.m. on Wednesday 24 May 2017 at The Bessemer Conference Room, AMP Technology Centre, Advanced Manufacturing Park, Brunel Way, Waverley, Rotherham, S60 5WG. I would like to encourage all Shareholders to attend and look forward to meeting as many of you as possible.

**Jonson Cox**

Chairman

19 April 2017

# Statement of Corporate Governance



## ROLE OF THE BOARD

The Company is headed by a Board of Directors. Its key responsibilities are summarised in the table below. During the year, the Board, assisted by the Company Secretary, carried out a comprehensive review of the Group's delegated authorities policy, which includes matters reserved for the Board. Examples of Board reserved matters are also set out in the table below.

Key responsibilities	Examples of reserved matters
<ul style="list-style-type: none"> <li>Set objectives and strategy for delivery of value to Shareholders.</li> <li>Monitor management performance against strategy and targets.</li> <li>Provide constructive challenge to management proposals and activity.</li> <li>Stewardship of the Group's resources and overall responsibility for management of the Group.</li> <li>Ultimate responsibility for risk appetite and management.</li> </ul>	<ul style="list-style-type: none"> <li>Group strategy and budgets.</li> <li>Constitution, corporate Group, capital structure.</li> <li>Annual and half-year accounts and reports, and the declaration of dividends.</li> <li>The Group's principal banking facilities and hedging arrangements.</li> <li>Material sales, lettings, acquisitions and joint ventures.</li> <li>Risk appetite and insurance programme.</li> <li>Appointment of Non-Executive Directors, Executive Directors and Company Secretary.</li> <li>Policies relating to bribery, modern slavery and business continuity.</li> </ul>

The Board has delegated certain responsibilities to the Remuneration, Audit and Nomination Committees. The terms of reference of those Committees can be found on the Group's website at [www.harworthgroup.com/investors/governance](http://www.harworthgroup.com/investors/governance).

## ROLE OF THE EXECUTIVE COMMITTEE

The Executive Committee has responsibility for day-to-day management of the Group's business, with reference to, and challenge from, the Board on Board reserved matters. It comprises the Chief Executive, Finance Director and Company Secretary, together with: the Managing Director, Capital Growth; the Executive Director, Income Generation; and the Director, Acquisitions. The Group's delegated authorities and reporting structure below Board level (which was also reviewed and revised last year) ensures that decisions are made by the most appropriate people within the business, with eight senior managers reporting into the Executive Committee.

During the year, the Chairman led an evaluation of the Executive Committee, with the assistance of an external consultant. That process was designed to identify both strengths and weaknesses in the way the Executive Committee operates and, going forward, will help to enhance its effectiveness.

## COMPOSITION OF THE BOARD

The Board is made up of the Chairman, Chief Executive, Finance Director and five Non-Executive Directors. The Directors' biographies appear on pages 54 and 55.

The Board considers that its Non-Executive Directors bring the requisite 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 Directors' Remuneration report at page 79.

The composition of the Board is reviewed annually by the Nomination Committee to ensure an effective balance of skills and experience on the Board.

## INDEPENDENCE

The Code recommends that, as a Company outside of the FTSE 350, the Company should have at least two independent Non-Executive Directors. The Board considers that Lisa Clement, Anthony Donnelly and Andrew Cunningham are independent and, as such, considers that the current balance of independent and non-independent Board members is appropriate. This will be kept under review.

The Board recognises that Steven Underwood, who is a Director and representative of the Peel Group, which is the largest Shareholder in the Company, and Martyn Bowes, who is the representative of the Pension Protection Fund, which holds 25% of the issued capital, are not independent. The Board considers 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.

The Chairman, who held the role as an executive of the Company prior to the restructuring of the UK Coal Group in 2012, now continues the role in a non-executive capacity, but the Board recognises that he is not independent.

# Statement of Corporate Governance

continued

Role/Committee	Key responsibilities
<b>Chairman</b> Jonson Cox	<ul style="list-style-type: none"> <li>Overall leadership of the Board, with responsibility for ensuring its effectiveness by facilitating a constructive dialogue between the Board and the Executive Committee</li> <li>Ensures that a fixed schedule of matters is retained for the Board's review and approval</li> <li>Sets the annual Board agenda programme and Board meeting agendas, with support from the Company Secretary, and ensures that there is adequate time available for discussion of agenda items</li> <li>Ensures there is ongoing and effective communication with Shareholders</li> </ul>
<b>Chief Executive</b> Owen Michaelson	<ul style="list-style-type: none"> <li>Responsible for all operational matters within the parameters of the authorities delegated by the Board</li> <li>Leads on the formulation of strategy which, once agreed by the Board, falls to him to implement</li> <li>Leads and chairs the Executive Committee</li> <li>Responsible for the Group's risk profile, including health and safety and environmental policies, procedures and matters</li> <li>Ensures that the Board is appraised of all material matters</li> <li>Responsible for the Company's profile with Shareholders</li> <li>Responsible for social and ethical matters within the Group</li> <li>Responsible for formulation and implementation of people strategy</li> </ul>
<b>Finance Director</b> Andrew Kirkman	<ul style="list-style-type: none"> <li>Supports the Chief Executive on strategy and risk</li> <li>Leads on all financial matters, including tax and treasury</li> <li>Responsible for leading the raising of any new equity capital</li> <li>Leads on investor relations</li> <li>Reviews the financial analysis of all major transactions including acquisitions, sales and capital investments</li> <li>Responsible for insurance and pensions, in conjunction with the Company Secretary</li> <li>Responsible for controls, systems and processes, in conjunction with the Company Secretary</li> </ul>
<b>Senior Independent Director</b> Lisa Clement	<ul style="list-style-type: none"> <li>Provides a sounding board for the Chairman</li> <li>Acts as an intermediary for other Non-Executive Directors</li> <li>Available to Shareholders if they have concerns where communication through the Chairman or Executive Directors is not successful or appropriate</li> </ul>
<b>Non-Executive Directors</b> Lisa Clement Anthony Donnelly Andrew Cunningham Steven Underwood Martyn Bowes	<ul style="list-style-type: none"> <li>Help to formulate a strategy for the Group and monitor the delivery of that strategy</li> <li>Provide constructive challenge to the Executive Directors on matters referred to the Board</li> <li>Scrutinise the performance of the business against the strategy, agreed objectives and targets</li> <li>Review and scrutinise financial information and internal risk controls</li> <li>Available for meetings if requested by major Shareholders</li> </ul>
<b>Remuneration Committee</b> Lisa Clement (chair) Anthony Donnelly Jonson Cox Steven Underwood	<ul style="list-style-type: none"> <li>Determines and agrees with the Board the Company's remuneration policy for Executive Directors</li> <li>Determines the salaries, bonuses, long-term incentive arrangements, pension arrangements other benefits and contract terms of the Executive Directors and members of the Executive Committee</li> <li>Carries out an annual review of benefits available to all Group employees</li> <li>Responsible for changes to certain Group-wide employee policies</li> </ul>



Role/Committee	Key responsibilities
<b>Nomination Committee</b> Jonson Cox (chair) Lisa Clement Andrew Cunningham	<ul style="list-style-type: none"> <li>Leads the process for Board appointments by making recommendations to the Board, both for filling Board vacancies and appointing additional persons to the Board, following evaluation of the balance of skills, knowledge and experience on the Board</li> <li>At least annually, carries out a review of succession and development planning for the Executive Directors, the Chairman and Non-Executive Directors, members of the Executive Committee and certain senior managers, to maintain an appropriate balance of skills and experience on the Board and in the business</li> <li>Considers and makes recommendations to the Board on its composition, balance and membership and on the re-appointment by Shareholders of any Director</li> </ul> <p>Note: the Chairman will not chair the Committee when it deals with the appointment of a successor to the chairmanship. This process will be led by the Senior Independent Director</p>
<b>Audit Committee</b> Andrew Cunningham (chair) Anthony Donnelly Steven Underwood	<ul style="list-style-type: none"> <li>Reviews the integrity of the Company's annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance</li> <li>Reviews the effectiveness of the Group's system of internal financial and risk controls and the Group's insurance programme</li> <li>Reviews the independence and effectiveness of the Company's external auditors and makes recommendations to the Board on the auditors' remuneration</li> <li>Considers matters relating to the appointment of the Company's auditors and the independence of the auditors</li> <li>Reviews and updates the Group's risk register</li> <li>Reviews the Group's anti-bribery policy and other policies relating to financial security, business ethics and compliance</li> </ul>
<b>Group General Counsel and Company Secretary</b> Chris Birch	<ul style="list-style-type: none"> <li>Secretary to the Board and its committees</li> <li>Ensures that all Board reserved matters are referred to the Board for review and approval and that all Board procedures are complied with</li> <li>Advises on regulatory compliance and Corporate Governance</li> <li>Prepares Board and committee agendas and collates and distributes papers</li> <li>Available to advise the Directors on all legal and compliance matters</li> <li>Assists the Chairman with Board evaluations and Director inductions and development</li> <li>Responsible for controls, systems and processes, in conjunction with the Finance Director</li> <li>Responsible for insurance and pensions, in conjunction with the Finance Director</li> </ul>

# Statement of Corporate Governance

continued

## BOARD DIVERSITY

The Board recognises that, to enable it to meet its responsibilities, it is important that the Board's composition is sufficiently diverse so as to reflect a broad range of skills, knowledge and experience.

The Board is conscious of the fact there is only one woman and no individuals of an ethnic minority amongst the Board and Executive Committee. The Board is committed to increasing the representation of women and ethnic minorities on the Board and in senior positions in the Company. The Board has not, and will not, set arbitrary numerical targets for diversity and future appointments will continue to be made based on objective criteria to ensure that the best candidates are appointed for all roles. Diversity is and will, however, remain an active and important consideration in all succession plans and when appointments are to be made to the Board and Executive Committee.

## INSURANCE AND ADVICE FOR DIRECTORS

The Company maintains an appropriate level of Directors' and officers' insurance for claims made against the Directors in that capacity. That insurance does not extend to fraudulent or dishonest activity.

All Directors have access to the advice and services of the Company Secretary. The Board has established a procedure by which any Director, for the purpose of furthering his or her duties, may take independent professional advice at the Company's expense. No Director had reason to use this facility in 2016.

## CONTRACTUAL TERMS AND CONDITIONS

The Chief Executive and the Finance Director have service contracts, which may be terminated by the Company on not more than six months' notice. Termination of the Chairman's appointment is also subject to six months' notice, whilst the appointments of all other Non-Executive Directors are subject to three 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.

## EXTERNAL APPOINTMENTS, CONFLICTS OF INTEREST AND TIME COMMITMENT

Upon appointment, each Director is required to notify the Company of its external board appointments, other significant commitments and any actual or potential conflict of interest. Where a Director proposes to take on additional external responsibilities, the Chairman and Chief Executive, with advice from the Company Secretary, consider whether such appointment could give rise to potential conflicts of interest. Each Director has an opportunity to disclose actual or potential conflicts

of interests to the Board, either by way of general notice or at the beginning of each Board meeting and Board committee meeting. The Articles of Association provide that the Board can authorise actual and potential conflicts of interest of Directors.

Steven Underwood and Martyn Bowes are Board representatives of Peel and the Pension Protection Fund respectively. The Board has approved any actual or potential conflicts of interest that may arise as a result thereof.

Steven Underwood has previously declared by way of general notice, and the Board has approved, a potential conflict of interest arising from the fact that he is Peel's Board representative and an executive Director of a number of Peel companies, including Peel Environmental Limited, with whom Harworth Estates Limited has entered into certain joint venture arrangements for the delivery of waste to energy schemes at five of the Group's sites. No actual conflict of interest has arisen.

During the year, Andrew Cunningham declared by way of general notice, and the Board has approved, a potential conflict of interest arising from his appointment as Non-Executive Director of The Banks Group Limited and the fact that Harworth Estates Limited has entered into a joint venture arrangement with Banks Property Limited for the remediation, promotion and sale of land at the former Bates Colliery in Blyth. No actual conflict of interest has arisen. Andrew Cunningham has also made a general declaration of interest in connection with his appointment as a Commissioner of The Port of Blyth, but no conflict of interest has arisen in this regard.

The Executive Directors are also Directors of a number of Group subsidiary companies.

Where actual or potential conflicts of interest arise, the relevant Director is excluded from discussions and voting on the subject matter that gives rise to the conflict.

Each Non-Executive Director is aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. In addition to Board and Board committee meetings, a programme of site visits has recently been introduced to give Non-Executive Directors a better understanding of the Group's key sites and afford them an opportunity to get to know better more of the Group's employees.

## TENURE AND RE-ELECTION

The Articles of Association of the Company provide that one third of the Directors should be subject to re-election by Shareholders. The Board considers it good practice for all Directors to be subject to re-election at every Annual General Meeting and, as such, all Directors will stand for election or re-election by Shareholders at the 2017 Annual General Meeting.

The terms of appointment of all Directors appear on pages 54 and 55. Those terms range from one year to six years. The Board is mindful that, under the Code, Non-Executive Directors will be deemed to lose their independence after nine years in office and, as such, succession planning is underway.

## EFFECTIVENESS

### Induction, professional development and external advice

The Chairman and the Company Secretary are responsible for preparing and coordinating an induction programme when new Directors are appointed to the Board. Andrew Cunningham participated in that programme following his appointment during the year.

The members of the Remuneration Committee receive updates and advice from the Company's remuneration advisers, Kepler Associates. The members of the Audit Committee receive periodic updates from the Company's auditors, PricewaterhouseCoopers LLP including comments on the Group's internal controls. The Company Secretary also provides updates to the Board and the Board committees on governance and regulatory changes, such as the coming into force and effect of the Market Abuse Regulation during 2016. Our recent Board evaluation highlighted that further work needs to be done to formalise our programme of CPD for Directors. This will be looked at in the second half of 2017.

## Performance evaluation

The performance of the Board and Board committees has historically been reviewed by the Board on an informal basis throughout the year, with matters requiring attention identified and addressed promptly. A formal evaluation process has now been put in place, using the Eval8 online platform. A full Board evaluation has been undertaken and the results have been analysed and fed back to the Board. Action points have been identified to address areas identified for improvement. Similar evaluations will be initiated for each of the Board committees and the Chairman over the next 12 months. In each case, they will be conducted by the committee Chair, with assistance from the Company Secretary.

Thereafter, internal evaluations of the Board and the Chairman will be undertaken annually, evaluations of each Committee will be undertaken bi-annually and 360 reviews will be undertaken by Non-Executive Directors periodically. An external Board evaluation will be undertaken every 3 years.

A meeting of the Non-Executive Directors, led by the Chairman, takes place at least annually, to appraise the performance of the Executive Directors. Similarly, a meeting of Non-Executive Directors, except the Chairman and led by the Senior Independent Director, is held annually to appraise the performance of the Chairman.

## Strategy, budget and Board information

The Board engages in a robust process annually to review and approve the Group's strategy and annual budget. The Board and Executive Committee undertook a detailed review of strategy, with external input from Eden McCallum, in June. The strategy will continue to be subject to internal, annual reviews, with external input periodically. In the context of the Group's agreed strategy, a draft budget is prepared by the Executive Committee and presented to the Board in November each year for the following financial year. The Board provides comment and challenge, which is incorporated into a revised draft for further Board review and approval in December. Activities and performance of the business is then monitored by the Board throughout the year against the approved strategy and budget.

Board and Committee papers are circulated both in soft and hard copies in advance of each meeting so that all Directors are fully briefed. Papers are supplemented by reports and presentations, as appropriate. The papers include monthly reports from the Chief Executive and Finance Director, the latter including monthly financial management information to enable the Board to monitor performance against the approved budget and strategy. Quarterly updates are given to the Board, on a rotating basis and both in writing and in person, by the Managing Director, Capital Growth; the Executive Director, Income Generation; and the Director, Acquisitions. An annual update report is given, both in writing and in person, by the Associate Director for EES, who has divisional responsibility for environmental and health and safety matters.

Following feedback from Non-Executive Directors during this year, the Company Secretary has implemented a process by which Board papers are circulated not less than one full week prior to each meeting. The quality, consistency and presentation of Board papers has also been reviewed and improved during the year. The Company Secretary maintains an "Action Schedule" which records action points agreed at Board meetings. That schedule, together with the minutes of each meeting are reviewed by the Chairman and then, at the following Board meeting, the wider Board.



# Statement of Corporate Governance

continued

## ATTENDANCE AT BOARD MEETINGS

There were 11 regular Board meetings scheduled during 2016 and additional meetings held by conference call in July and August, following the result of the EU Referendum. Attendance by individual Directors at Board meetings is shown in the table opposite. A timetable of site visits by Non-Executive Directors has also been introduced.

	Number of meetings attended	Attendance
Jonson Cox	13/13	100%
Owen Michaelson	13/13	100%
Andrew Kirkman	13/13	100%
Lisa Clement	12/13	92%
Anthony Donnelly	13/13	100%
Steven Underwood	13/13	100%
Martyn Bowes	12/13	92%
Andrew Cunningham	9/9	100%
Peter Hickson	3/3	100%

## INTERNAL CONTROLS AND RISK

The Board acknowledges its responsibility for identifying business risks, determining risk appetite and ensuring the maintenance of a robust systems of internal controls and risk management. The Strategic Report on pages 42 to 44 comments on the principal risks facing the Group. The Group has put in place a number of processes and controls, which are reviewed regularly by the Executive Committee and senior management team. Material changes to internal controls are reported to the Board. The Strategic Report at pages 40 and 41 and the Audit Committee report, on pages 82 and 83, describe in detail how risks are monitored and managed in the business. The principal internal controls of the Group are summarised below.

### Delegated authorities

The Company's delegated authorities policy, which determines matters reserved exclusively for the Board, also provides a framework for decision-making throughout the business, was reviewed and revised during the year. As a result, Board reserved matters and authority levels throughout the business are defined more precisely.

### Document approval and execution

In conjunction with the review of and revisions to the delegated authorities policy, the internal process for approval and execution of legal documents has been revisited and strengthened. Once transactions have been approved in accordance with the delegated authority policy, legal documents must be executed by one or two (as appropriate) members of the Executive Committee. The Company Secretary is notified of, and maintains a record of, all legal documents executed on behalf of Group companies and this record is reported to the Board in the Board meeting papers each month.

## 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.

## Risk register

In March 2015 the Group undertook a review of its risks and risk management processes, facilitated by PricewaterhouseCoopers LLP. This led to the establishment of a Group risk register, which the Audit Committee reviews at least every six months. A more robust structure has now been put in place at an operational level so that risks are reviewed regularly by team leaders, in conjunction with the Company Secretary. This process at an operational level informs updates to the Group risk register and identifies additional and better internal controls and processes for risk management. Further details are set out in the Strategic Report at pages 40 and 41 and in the Audit Committee report at pages 82 and 83.

## COMMUNICATION WITH SHAREHOLDERS

The Board places great emphasis on open and regular communications with Shareholders. The Chief Executive and Finance Director meet and present to large investors, institutional Shareholders and analysts after the publication of the Company's preliminary and interim results. The Company also hosted a capital markets morning in January 2017 in London for existing and potential institutional Shareholders.

The Board regularly receives feedback from the Company's brokers and the Executive Directors on the views of major Shareholders, particularly after publication of annual and half-year results. It receives reports at each Board meeting on the main changes to the composition of the Company's share register and copies of notes prepared by analysts.

The Chairman and Senior Independent Director are available to meet with the Company's Shareholders, on request, to discuss governance and strategy. The Company Secretary is also available and deals with Shareholder queries throughout the year.

The Company has a planned programme of announcements throughout the year, prepared by our Associate Directors of Group Partnerships and Communications and approved by the Executive Committee, and, where appropriate, the Board to ensure that investors are updated regularly on progress in the business. The annual and interim reports, together with the [www.harworthgroup.com](http://www.harworthgroup.com) website, are our principal means of communication with all Shareholders during the year. Copies of all reports, Shareholder presentations and communications are available on the investors section of the website.

The Chairman, Senior Independent Director and/or Company Secretary will engage with Shareholders in the event of a substantial vote against any resolution proposed at an Annual General Meeting.

## ANNUAL GENERAL MEETING

The Board encourages Shareholders to attend, participate and exercise their right to vote at the Annual General Meeting. The Annual Report and Financial Statements and Notice of Annual General Meeting are sent to Shareholders at least 20 working days before the meeting.

The resolutions to be proposed at the 2017 Annual General Meeting to be held on 24 May 2017, 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/investors/reports-presentations](http://www.harworthgroup.com/investors/reports-presentations).

Separate resolutions are proposed on each substantially separate issue. All Directors normally attend the Annual General Meeting and are available to answer questions, both formally during the meeting and informally both before and after the meeting. The Board welcomes questions from Shareholders, whether asked formally or informally before, during or after the meeting.

For each resolution the proxy appointment forms provide Shareholders with the option to direct their proxy vote either for or against the resolution or to withhold their vote.

All valid proxy appointments are properly recorded and counted. Information on the number of shares represented by proxy, the proxy votes for and against each resolution, and the number of shares in respect of which the vote was withheld for each resolution, together with the voting result, are given at the meeting and made available on the Company's website. A vote withheld will not be counted in the calculation of the proportion of the votes for and against a resolution.

**Jonson Cox**  
Chairman  
19 April 2017

# Directors' Remuneration report

## Chair's introduction

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration report for the year ended 31 December 2016 for which we will be seeking approval at the Annual General Meeting on 24 May 2017. I was appointed Chair of the Committee during the year and would like to put on record the Board's thanks to my predecessor, Peter Hickson, for his strong leadership of the Committee over a number of years.

## THE REMUNERATION POLICY

The Company's Remuneration policy has been designed to align with the Group's strategy and help to retain and incentivise a management team with the requisite skills, knowledge and experience to deliver strong, long-term, sustainable growth for Shareholders. We believe that the remuneration of the Executive Directors reflects appropriately the strong performance of the Group.

The Remuneration Policy was approved by Shareholders at the 2016 Annual General Meeting with a strong majority of in excess of 99% of all votes cast and is expected to be in place until 2019.

## THIS REPORT

This report is divided into 3 sections: this Chair's introduction, an 'at a glance' summary of the Remuneration policy, and the Annual Remuneration report, which explains how the policy was implemented in 2016 and how it will be implemented in 2017.

This report has been prepared in accordance with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). 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 72 and 73); scheme interests awarded during the financial year (pages 74 and 75); payments to past Directors (page 76); and the statement of Directors' shareholdings and share interests (page 79). The remaining sections of the report are not subject to audit.

## SALARY INCREASES FOR 2017

The salaries of the Executive Directors have been increased by 2.5%, in line with the median salary increases applied across the wider workforce.

### Members and attendance at meetings during the year ended 31 December 2016

<b>Lisa Clement</b>	6(6)
Chair and Senior Independent Director (appointed Chair from 1 October 2016)	
<b>Anthony Donnelly</b>	2(2)
Independent Non-Executive Director (member from 1 October 2016)	
<b>Steven Underwood</b>	5(6)
Non-Executive Director (not independent)	
<b>Jonson Cox</b>	6(6)
Chairman (not independent)	
<b>Peter Hickson</b>	2(2)
Former Chair of the Committee and Senior Independent Director (ceased to be a member from 26 April 2016)	

### Key responsibilities

- Determines and agrees with the Board the Company's remuneration policy for Executive Directors.
- Determines the salaries, bonuses, long-term incentive arrangements, pension arrangements other benefits and contract terms of the Executive Directors, the Chairman, and members of the Executive Committee.
- Carries out an annual review of benefits available to all Group employees.
- Responsible for changes to certain Group-wide employee policies.

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

The Board will undertake a bi-annual evaluation of the Committee's performance to ensure continued ability to independently and objectively review remuneration at the Group.



## PENSION

The pension arrangements of the Executive Directors remain unchanged. They may elect to receive a pension contribution of 10% of salary or an equivalent cash allowance.

## BONUS

The annual bonus will continue to operate on the basis of a combination of financial performance (including net asset value, sales volume, strategic business development and operating profit), and personal objectives. Bonus opportunities for 2017 will remain unchanged at 100% of salary for the Chief Executive and 75% of salary for the Finance Director.

## LONG TERM INCENTIVE PLAN

At the 2016 Annual General Meeting, Shareholders approved the adoption of a new Long Term Incentive Plan (LTIP) by a strong majority of in excess of 99% of all votes cast. The first awards under that LTIP were made to Executive Directors and other members of the Executive Committee shortly after the 2016 Annual General Meeting. Following a review of the performance measures adopted for the 2016 awards, the Committee concluded that those measures remained appropriate. However, the total returns performance targets were considered by the Committee and have been adjusted to between 8% and 12% p.a. growth to align better with the Company's plans over the next 3 years.

### Key activities of the Committee since publication of the 2015 Annual Report

- Reviewing the 2016 Remuneration policy approved by Shareholders to ensure it continues to align with Group strategy and Shareholders' interests.
- Approving the Directors' Remuneration report.
- Approving base salary increases for the Executive Directors and members of the Executive Committee.
- Reviewing performance against 2016 bonus targets and consideration of bonus payable.
- Approving 2017 bonus targets.
- Reviewing performance for LTIP awards.
- Considering changes to performance measures and approving 2017 LTIP awards and performance measures.
- Reviewing a report on Group-wide remuneration for 2017.
- Approving and adopting a deferred share bonus scheme for the senior management team.
- Reviewing and approving proposed terms for a Group-wide Save As You Earn Scheme.
- Carrying out an annual review of Group-wide employee benefits.
- Approving changes to the Group's maternity, paternity, adoption and shared parental leave policies.

## SHAREHOLDING GUIDELINES

During 2016, the Committee introduced shareholding guidelines of 100% of gross salary for Executive Directors. Until the relevant shareholding levels are acquired, 50% of any long-term incentive which vests to the relevant Executive Director (after payment of tax) must be retained.

## SENIOR MANAGEMENT DEFERRED SHARE BONUS PLAN

During the year, the Committee approved the adoption of a deferred share bonus plan for the senior management team, to retain and incentivise senior members of the team who make a significant contribution to value growth, but are not members of the Executive Committee and so do not participate in the LTIP. The first awards under that new scheme were made shortly after the announcement of the Company's preliminary results. Those awards vest subject to an absolute total return performance measure, which mirrors that aspect of the LTIP awards. Any awards that vest will be satisfied with shares purchased in the market.

## CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The fees for the Chairman (£160,000) and the basic fees for Non-Executive Directors (£42,500) have remained unchanged during 2016 and for 2017. With effect from 1 October 2016, Andrew Cunningham receives an additional fee of £7,500 for chairing the Audit Committee, and I receive additional fees of £7,500 for chairing the Remuneration Committee and £3,000 as Senior Independent Director. The Committee considers that these fees reflect appropriately the additional work and responsibilities associated with the roles undertaken.

## SAVE AS YOU EARN SCHEME

The Committee is keen to strengthen employee engagement in the business and is supportive of wider share ownership by employees. To that end, the Committee is proposing a Save As You Earn scheme for all employees by which shares will be offered to employees at a 20% discount to current market value. This will be put to Shareholders for approval at the 2017 Annual General Meeting.

I will be available at the Annual General Meeting to respond to questions and discuss any aspect of the Remuneration policy, Annual Remuneration report or the Committee's activities.

**Lisa Clement**

Chair of Remuneration Committee  
19 April 2017

# Directors' Remuneration report

continued

## Remuneration policy – at a glance

Our Remuneration policy was approved by Shareholders at the 2016 AGM with more than 99% of votes in favour and is expected to continue until 2019. The full policy can be found in last year's report, which is also on the Company's website ([www.harworthgroup.com/investors](http://www.harworthgroup.com/investors)), and a summary is outlined below.

### REMUNERATION PRINCIPLES

Attract, retain and motivate high calibre executives	Reflect best practice, investor expectations and pay conditions across the workforce	Reward exceptional performance	Align pay with the Group's long-term strategic plan and value created for Shareholders
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### SALARY

What is it for?	How is it determined?	How much is it?									
To provide competitive base reward that recognises the individual's skill and experience	Salaries are reviewed annually with reference to similar roles at comparable companies, individual contribution and experience, and the average pay review across the workforce	+2.5% for 2017, in line with average annual pay review across the Group									
		<table> <tr> <th></th><th>1 January 2016</th><th>1 January 2017</th></tr> <tr> <td>CEO</td><td>£293,550</td><td>£301,000</td></tr> <tr> <td>FD</td><td>£200,000</td><td>£205,000</td></tr> </table>		1 January 2016	1 January 2017	CEO	£293,550	£301,000	FD	£200,000	£205,000
	1 January 2016	1 January 2017									
CEO	£293,550	£301,000									
FD	£200,000	£205,000									

### PENSION AND BENEFITS

What is it for?	What does it consist of?	How much is it?
To provide competitive benefits	Group pension scheme or cash in lieu	10% of salary
	Car allowance and fuel (or such other benefits that the Committee deems appropriate)	Varies by role and individual circumstances, cost is reviewed periodically

### ANNUAL BONUS

What is it for?	How does it operate?	What performance is measured?	How much is it?									
To incentivise and reward strong performance against financial and personal annual targets, aligned with progress against the strategic plan and value delivered to Shareholders	Paid in cash*	At least 75% financial and no more than 25% personal, with Committee discretion to add underpins or override outcomes if they are misaligned with underlying performance	Up to 100% of salary (or exceptionally 150%)									
	Malus and clawback apply (up to 2 years post-employment) in case of misconduct, misstatement, miscalculation or at the Committee's discretion	2017 performance conditions:	Maximum for 2017:									
	<i>*If bonuses are (exceptionally) &gt;100% of salary, any amount over 100% of salary would be deferred in shares for up to 3 years</i>		CEO 100% of salary									
			FD 75% of salary									
		<table><thead><tr><th></th><th>CEO</th><th>FD</th></tr></thead><tbody><tr><td>Financial*</td><td>75%</td><td>75%</td></tr><tr><td>Personal**</td><td>25%</td><td>25%</td></tr></tbody></table>		CEO	FD	Financial*	75%	75%	Personal**	25%	25%	<b>What pays out?</b> (as a% of maximum)
	CEO	FD										
Financial*	75%	75%										
Personal**	25%	25%										
		Payment subject to health and safety, business reputation, covenant compliance, financial irregularity and leadership underpins	Below Target 0%									
		<i>* NAV gains (60%), sales volume (15%), operating profit (10%) and strategic development of the business (15%)</i>	Target 50%									
		<i>** Payment of personal element subject to achieving a payment under the financial element</i>	Maximum 100%									



**LONG-TERM INCENTIVE PLAN (LTIP)**

What is it for?	How does it operate?	What performance is measured?	How much is it?		
To drive sustained long-term performance that supports value creation for Shareholders	3-year performance period	At least 2 measures, linked to strategy, with Committee discretion to add underpins or override outcomes if they are misaligned with underlying performance	100% of salary for all Executive Directors (or exceptionally 200%)		
	2-year holding period post-vesting on 50% of all vested shares				
	50% of any vested shares (after-tax) must be held until Executive Director achieves a shareholding of 100% of salary in Harworth	2017 performance conditions:	<b>What pays out?</b> <i>(as a % of maximum)</i>		
	Dividends accrue on shares that vest	50% on Total Shareholder Return between median and median +9% p.a.*			
	Malus and clawback may apply (up to 2 years post-employment) in case of misconduct, misstatement, miscalculation or a significant health, safety or environmental incident	50% on Absolute Total Return (NAV growth + dividends) between 8%, 10% and 12% p.a. growth			
	Vesting subject to disposal proceeds and sustainable dividend underpins				
		<i>*70% vs tailored peer Group comprising Inland Homes, Henry Boot, U+I, Urban and Civic and St. Modwen and 30% vs FTSE All Share Real Estate Investment Services Index</i>			
			TSR = Total Shareholder Return ATR = Absolute Total Return		

# Directors' Remuneration report

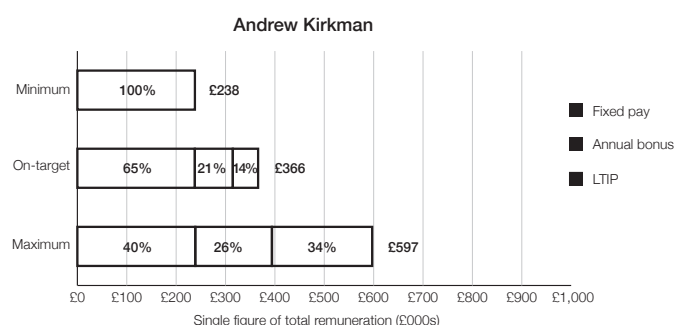
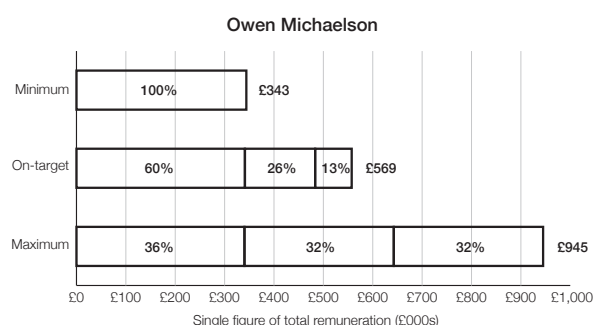
continued

## Remuneration policy – at a glance (continued)

### TIMING OF 2017 PAY

CEO pay	2017	2018	2019	2020	2021	2022
Salary	£301k					
Pension	10% of salary					
Benefits	c.£10k					
Annual bonus	up to 100% of salary					
LTIP	up to 100% of salary					➡ 50% held for at least 2 years ➡
FD pay	2017	2018	2019	2020	2021	2022
Salary	£205k					
Pension	10% of salary					
Benefits	c.£10k					
Annual bonus	up to 75% of salary					
LTIP	up to 100% of salary					➡ 50% held for at least 2 years ➡

### PERFORMANCE SCENARIOS FOR 2017 PAY ( £'000s)



Performance scenario	Fixed pay	Annual bonus	LTIP
Minimum	Salary (as at 1 January 2017) plus	None	None
On-target	Pension (10% of salary) plus	50% of maximum	25% of maximum
Maximum	Benefits (based on 2016 actual)	100% of maximum	100% of maximum

## NED FEES

How are they structured?	What are the fees in 2017?	
Chairman receives a single all-inclusive fee, set by the Committee	No change since 2016	
NEDs receive a base fee plus additional fees for acting as a Committee Chair or Senior Independent Director. Their fees are set by the Chairman and Executive Directors.		1 January 2017
	Chairman fee	£160,000
	NED base fee	£42,500
	Audit and Remuneration Committee Chair	£7,500
	Senior Independent Director	£3,000

# Directors' Remuneration report

continued

## Annual Remuneration report

### THE REMUNERATION COMMITTEE

Membership, attendance, key responsibilities and activities of the Committee are summarised in the Chair's introduction.

The Company Secretary is secretary to the Committee. The following individuals may be invited to attend Committee meetings on certain occasions to provide advice and to help the Committee to make informed decisions:

- Owen Michaelson, Chief Executive Officer
- Andrew Kirkman, Finance Director
- Laura Ibbotson, Group HR Manager
- Representatives of Kepler Associates (see further below).

No individuals are involved in decisions relating to their own remuneration.

The Committee has retained 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 in 2015 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](http://www.remunerationconsultantsgroup.com). Services provided by Kepler during the period under review included advice on the overall remuneration packages for the Executive Directors, assistance with putting in place the new LTIP including advice on the structure and key terms of the scheme, advising on the performance conditions for the first awards under the LTIP scheme and 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 2016 were £22,765. The Committee evaluates the support provided by Kepler annually. Other than advice on remuneration, no other services were provided by Kepler to the Group. During the year, the Company appointed Marsh, which is also a member of the MMC Group of companies, as its new insurance brokers (for further information see the Audit Committee report on page 82). The Committee considered that appointment and concluded that it does not impair Kepler's independence.

### 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 2016 and the previous year, representing payments received in respect of the period for which each individual was a Director of the Company<sup>(1)</sup>.

	Owen Michaelson <sup>(2)</sup>		Andrew Kirkman		Michael Richardson <sup>(2,3)</sup>		Jeremy Hague <sup>(4)</sup>
	2016 £	2015 £	2016 £	2015 £	2016 £	2015 £	2015 £
Salary	293,550	213,750	200,000	26,667	136,144	39,291	
Taxable benefits <sup>(5)</sup>	12,320	9,428	12,857	1,728	7,524	3,333	
Relocation allowance	–	–	75,000	–	–	–	
Single-year variable <sup>(6)</sup>	264,195	235,003	138,375	24,893	86,383	15,000	
Multiple-year variable <sup>(7)</sup>	–	–	–	–	–	–	
Pension benefit <sup>(8)</sup>	29,355	21,375	20,000	2,667	13,614	7,858	
<b>Total</b>	<b>599,420</b>	<b>479,556</b>	<b>446,232</b>	<b>55,955</b>	<b>243,665</b>	<b>65,482</b>	

<sup>(1)</sup> The 2015 Annual Report and Financial Statements reported that Jonson Cox held the role of Executive Chairman prior to the Company's acquisition of HEPGL. In fact, Jonson Cox ceased to be Executive Chairman and became Non-Executive Chairman of the Company in December 2012. As such, he does not appear in the table above. Instead, the fees paid to him during 2015 appear in the "Single total figure of remuneration for Non-Executive Directors" table below.

<sup>(2)</sup> Owen Michaelson and Michael Richardson became Executive Directors of the Company with immediate effect upon its acquisition of HEPGL on 24 March 2015.

<sup>(3)</sup> Michael Richardson stepped down as a Director of the Company and left with effect from 29 February 2016.

<sup>(4)</sup> Jeremy Hague stepped down as a Director of the Company and left with effect from 30 April 2015.

<sup>(5)</sup> Taxable benefits consist primarily of car and fuel allowance. For 2016 these were £11,579 for Owen Michaelson (£8,682 for 2015), £12,417 for Andrew Kirkman and £1,601 for Michael Richardson (£7,448 for 2015). Other benefits included life assurance and health insurance.

<sup>(6)</sup> Annual bonus payments for performance during 2016 were received by Owen Michaelson and Andrew Kirkman, details of which are included below in "Incentive outcomes for year ending 31 December 2016". The Annual bonus for 2016 was paid in March 2017. As disclosed in last year's annual report, as a good leaver Mr Richardson was entitled to benefit from 214,132 shares of 1p each issued to him under a deferred bonus scheme connected to the Company's acquisition of Harworth Estates. Those shares vested on 29 February 2016 and were valued at the closing price on that date of 11.625p. See last year's annual remuneration report for details of annual bonus payments for performance during 2015.

<sup>(7)</sup> No LTIP awards vested based on performance periods ending during 2015 or 2016.

<sup>(8)</sup> Owen Michaelson, Andrew Kirkman, Michael 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, Andrew Kirkman and Michael Richardson, and 20% of salary to Jeremy Hague.

## 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 years ended 31 December 2015 and 31 December 2016, representing payments received in respect of the period for which each individual was a Director of the Company.

	Base fee		Committee chair fees		SID fee		Total	
	2016 £	2015 £	2016 £	2015 £	2016 £	2015	2016 £	2015 £
J. Cox <sup>(1)</sup>	160,000	286,500	–	–	–	n/a	160,000	286,500
L. Clement <sup>(2)</sup>	42,500	41,875	7,500	7,125	750	n/a	50,750	49,000
P. Hickson <sup>(3)</sup>	21,667	65,000	–	–	–	–	21,667	65,000
S. Underwood <sup>(4)</sup>	42,500	41,875	n/a	n/a	n/a	n/a	42,500	41,875
A. Donnelly	42,500	31,875	n/a	n/a	n/a	n/a	42,500	31,875
M. Bowes	42,500	31,875	n/a	n/a	n/a	n/a	42,500	31,875
A. Cunningham <sup>(5)</sup>	29,008	n/a	1,200	n/a	n/a	n/a	30,208	n/a

<sup>(1)</sup> In 2015 Jonson Cox was paid base fees of £182,500, taxable benefits of £4,000 and a bonus of £100,000, full details of which can be found in last year's Annual Remuneration report.

<sup>(2)</sup> Going forward, Lisa Clement will receive an annual fee of £3,000 per annum for her role as Senior Independent Director in addition to a fee of £7,500 for her role as Chair of the Remuneration Committee. The figure for 2016 reflects that she was appointed to that role on 1 October 2016.

<sup>(3)</sup> On appointment to what was UK Coal plc, Peter Hickson agreed a single consolidated fee for his role as Non-Executive Director, Senior Independent and Remuneration Committee Chairman. This fee reflected the substantial commitment as Senior Independent Director to the restructuring of the Group. Mr Hickson ceased to be a Director of the Company on 26 April 2016.

<sup>(4)</sup> The fees for Steven Underwood are paid to Peel Management Limited.

<sup>(5)</sup> Andrew Cunningham receives a base fee of £42,500 as Non-Executive Director and a fee of £7,500 for his role as Chair of the Audit Committee. The fees entered reflect that he was appointed to the Board on 26 April 2016 and as Chair of the Audit Committee with effect from 1 October 2016.

## INCENTIVE OUTCOMES FOR YEAR ENDED 31 DECEMBER 2016

### Annual bonus

Annual bonuses for 2016 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 Andrew Kirkman. Performance was measured based 80% on financial and 20% on personal performance for Owen Michaelson and 75% and 25% on financial and personal performance respectively for Andrew Kirkman. Performance against targets and subsequent vesting of 2016 annual bonuses are set out in the tables below.

### Financial performance outcomes

For 2016 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'		
NAV gains	60%	34,800	43,500	43,700	100%
Sales volume	20% <sup>(1)</sup>	54,000	60,000	61,700 <sup>(2)</sup>	100%
Operating profit	10% <sup>(1)</sup>	2,180	3,000	2,216	52%
Financial headroom	10%	Absolute target only	10,000	49,162	100%
Total vesting on financial performance outcomes	Owen Michaelson (80% weighting) Andrew Kirkman (75% weighting)				

<sup>(1)</sup> Note, in the 2015 Annual Report and Financial Statements the weightings for these elements of the 2016 Group performance targets were incorrectly stated as 15% for each element.

<sup>(2)</sup> This sales figure includes internal sales for direct development and sales by joint ventures.

# Directors' Remuneration report

continued

## Annual Remuneration report (continued)

### Personal performance outcomes

Executive Director	Achievements during the year	Vesting of component
O. Michaelson (20% weighting)	<ul style="list-style-type: none"> <li>To deliver strategic development of Harworth consistent with aspiration to (i) increase net asset value by 10% p.a. through the property cycle over the next five years, (ii) over time, cover all operating costs, interest, tax and dividends from ongoing recurring income, and (iii) develop the Group to optimise performance as a leading brownfield regeneration specialist, to include (but not limited to):               <ul style="list-style-type: none"> <li>a 5-year board approved strategic plan;</li> <li>clear progress in building and delivery of acquisition book to replenish sites sold;</li> <li>managing the team to set sights on stretching, strategic targets and take on more operational responsibility to free up strategic development time for Chief Executive; and</li> <li>building network of contacts necessary to implement strategy.</li> </ul> </li> </ul>	70%
A. Kirkman (25% weighting)	<ul style="list-style-type: none"> <li>To manage investor relations: build investor base and effective coverage of the business.</li> <li>To establish clear tax strategy for 5-year business plan and put in place monitoring systems to ensure preservation of tax position.</li> <li>To lead financial analysis of business plan review.</li> <li>Effective financial analysis of all new business opportunities. Clear performance and risk management reporting to the Board.</li> <li>To demonstrate leadership on cash-flow management.</li> </ul>	84%

### Overall bonus outcomes

Executive	Financial		Personal vesting		Overall bonus outcome Sum product of weighting and vest%	
	Weighting	Vesting	Weighting	Vesting	% of bonus	% of salary
O. Michaelson	80%	95%	20%	70%	90%	90%
A. Kirkman	75%	95%	25%	84%	92%	69%

The overall bonus outcomes for the Chief Executive and Finance Director reflect a strong year of performance for the business, with net asset value growth of 12.5% and increased stability in the Group's recurring income stream.

### SCHEME INTERESTS AWARDED DURING 2016

#### 2016 LTIP awards

LTIP awards of 100% of salary were made in 2016 to Owen Michaelson and Andrew Kirkman under the new 2016 LTIP, the details of which were outlined in last year's report and are summarised on page 69.

Executive Director	Type of award	Date of award	Number of shares granted	Face value <sup>(1)</sup>	% receivable at threshold <sup>(2)</sup>	End of performance period
O. Michaelson	2016 LTIP	25 May 2016	313,957	£293,550	17.5%	25 May 2019
A. Kirkman	2016 LTIP	25 May 2016	213,903	£200,000	17.5%	25 May 2019

<sup>(1)</sup> Face value based on the average share price on the three trading days immediately preceding the date of grant of 93.5p

<sup>(2)</sup> 25% vesting for threshold performance of 50% of the award based on TSR performance and 10% vesting for threshold performance of 50% of the award based on ATR performance.

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. For Executive Directors, 50% of any vested shares will be subject to a minimum two-year post-vesting holding period. 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 <sup>(1)</sup> (50% weighting)		Absolute total return (50% weighting)	
	3-year TSR outperformance of median p.a.	% of element vesting	3-year TR p.a.	% of element vesting
Threshold	0%	25%	8%	10%
Target			10%	25%
Maximum	9%	100%	14%	100%

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

### Harworth Estates LTIP

As disclosed last year, on his appointment in January 2016, the Committee resolved to award 60 units (previously held by Michael Richardson, but forfeited by him upon his departure from the Company) to Andrew Kirkman in recognition of his anticipated contribution to growth in net asset value from the date of his appointment on 1 January 2016 until 31 December 2017 when the performance measures under the scheme will be tested.

The full details of the scheme are provided in the notes to the Remuneration policy in last year's report. Details of the scheme interests awarded to Andrew Kirkman on appointment are outlined below, together with the scheme interests that had been awarded to Owen Michaelson at the outset of the scheme.

Executive	Number of units granted	Performance conditions			
			Threshold	Target	Stretch
O. Michaelson	275	£ value created:	£121m	£150m	£231m
A. Kirkman	60	£ per unit:	£600	£2,600	£5,000

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

### PERCENTAGE CHANGE IN CEO REMUNERATION

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2015 and 2016 compares with the percentage change in the average of each of those components of pay for the employees of the Group as a whole.

	Salary £'000		Percentage change	Taxable benefits £'000		Percentage change	Bonus £'000		Percentage change
	2016	2015 <sup>(1)</sup>		2016	2015		2016	2015	
CEO Pay	294	285	3%	10	9.5	5%	264	235	12%
Average per employee			3%			0%			22%

<sup>(1)</sup> Annual base salary at 24 March 2015, upon acquisition of HEPGL

# Directors' Remuneration report

continued

## Annual Remuneration report (continued)

### RELATIVE IMPORTANCE OF SPEND ON PAY

Total employee pay expenditure			Distributions to Shareholders		
2016	2015	% change	2016	2015	% change
£5.806m	£3.52m	65%	£2.2m	£2.0m (annualised)	10%

Staff costs increased markedly between 2015 and 2016 due to: (i) an increase in the number of staff employed; (ii) higher bonuses; and (iii) the fact that staff costs for 2015 only related to the period after the Company's acquisition of HEPGL on 24 March 2015. If HEPGL had been acquired for a full year, the staff costs would have been £4.675m, and therefore an increase of 24% between 2015 and 2016.

A first dividend of £0.51 per share was paid to Shareholders for the year ended 31 December 2015 resulting in total dividends of £1.5m (£2.0m on an annualised basis). Total dividends for the financial year ended 31 December 2016 are £0.753p per share, resulting in total dividends of £2.2m (ignoring the Company's equity placing in March 2017).

### REVIEW OF PAST PERFORMANCE

The following graph charts the Total Shareholder Return (TSR) of the Company and the FTSE Small Cap Index over the period from the Company's re-listing on 24 March 2015 to 31 December 2016. The FTSE Small Cap Index represents the most appropriate broad index comparison for a Company of Harworth's size. The table below shows 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 re-listing on 24 March 2015 to 31 December 2016:

#### Historical CEO remuneration

	2015 £	2016 £
CEO single figure remuneration ( £'000)	480	600
Short term incentive award as a% of maximum opportunity	85.6%	90%
Long term incentive award as a% of maximum opportunity	n/a	n/a

### PAYMENT PAID TO PAST DIRECTORS

During the year, no payments were made to past Directors other than those included in the Single Figure Table on page 72.

### EXIT PAYMENTS MADE IN THE YEAR

No exit payments were paid to former Directors during the year.



## IMPLEMENTATION OF EXECUTIVE DIRECTORS' REMUNERATION POLICY FOR 2017

### 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 Director and increases awarded to the wider workforce.

The Committee approved the following base salary increases for 2017:

Executive Director	Annual base salary at 1 January 2016	Annual base salary at 1 January 2017	Percentage increase
O. Michaelson	£293,550	£301,000	2.5%
A. Kirkman	£200,000	£205,000	2.5%

A typical salary increase of 2.5% was awarded across the Group at the annual pay review, effective 1 January 2017.

### Pension

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

### Performance related annual bonus

For 2017 the Committee has approved the following annual bonus opportunities for Executive Directors, unchanged from 2016. The Chief Executive's and Finance Director's bonuses will each 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	75%	25%	100%
A. Kirkman	56.25%	18.75%	75%

The Committee has reviewed the financial performance measures to ensure they are appropriately aligned with the Company's strategic plan for the coming year. Financial performance for 2017 will be measured against the following financial performance measures:

Executive	Weight (% of financial bonus opportunity)
NAV gains	60%
Sales volume	15%
Operating profit	10%
Strategic development of business	15%

Payment of the personal element is subject to achieving a payment under the financial performance condition. The overall payment of the bonus will be subject to achieving additional underpins based on the Company's health and safety record during the financial year, no deficiencies or materially adverse issues arising which materially damage the reputation or performance of the business, no covenant breach or financial irregularity and no material issues relating to leadership of the business.

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

# Directors' Remuneration report

continued

## Annual Remuneration report (continued)

### LTIP

LTIP awards of 100% of salary have been made in 2017 to Owen Michaelson and Andrew Kirkman under the 2016 LTIP scheme, the details of which are outlined in the Remuneration Policy Report in last year's report on page 33. 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 the defined levels of performance shown in the table below. Executive Directors will be required to hold 50% of any shares that vest (post-tax) for an additional two years post-vesting.

Vesting schedule	Total Shareholder return <sup>(1)</sup> (50% weighting)		Absolute total return (50% weighting)	
	3-year TSR outperformance of median p.a.	% of element vesting	3-year Group TR p.a.	% of element vesting
Threshold	0%	25%	8%	10%
Target			10%	25%
Maximum	9%	100%	12%	100%

<sup>(1)</sup> For 2017 awards, 70% of the TSR outperformance condition is measured vs. the median of the Company's five closest listed peers: Inland Homes, Henry Boot, U+I, Urban and Civic and St. Modwen, and 30% vs. the FTSE All Share Real Estate Investment Services Index.

### IMPLEMENTATION OF NON-EXECUTIVE DIRECTOR REMUNERATION POLICY FOR 2017

- The Chairman of the Board receives a fee of £160,000 per annum, unchanged from 2016.
- Non-Executive Directors receive a base fee of £42,500 per annum, unchanged from 2016.
- An additional fee of £7,500 per annum is payable to each of the Chair of the Audit Committee (Andrew Cunningham) and the Chair of the Remuneration Committee (Lisa Clement) for chairing those respective committees. No additional fee is paid to the Chairman for chairing the Nomination Committee.
- A further additional fee of £3,000 is paid to Lisa Clement as Senior Independent Director.
- The fee payable to the Chairman of the Audit Committee remains unchanged from 2016. The fees payable to the Chair of the Remuneration Committee and Senior Independent Director were agreed during the course of the year. They had not been paid previously because those roles had been occupied by Peter Hickson who, on his appointment to the then UK Coal plc, had agreed a unitary fee for his roles as Non-Executive Director, Senior Independent Director and Chair of the Remuneration Committee.

## DIRECTORS' INTERESTS

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 19 April 2017 (taking account of the participation by certain of the Directors in the Company's equity placing announced on 17 March 2017 and being the latest possible date prior to the publication of this report) is set out below. None of the Directors has a beneficial interest in the shares of any other Group Company. Details of Directors' share options are also set out in the tables below. Current shareholding (including shares vested but subject to a holding period, but excluding share options) as a percentage of salary is based on the middle market price for the shares on 31 March 2017 of 97.5p.

	Shares held		Options held		Shareholding requirement % salary/fee	Current shareholding % salary/fee	Requirement met?
	Beneficially owned	Vested but subject to holding period	Vested but not exercised	Unvested and subject to perf. conditions			
O. Michaelson	146,463	21,413	–	624,213	100%	56%	No
A. Kirkman	70,000	–	–	425,207	100%	34%	No
J. Cox	866,504	–	–	–	n/a	n/a	n/a
L. Clement	–	–	–	–	n/a	–	n/a
A. Donnelly	–	–	–	–	n/a	–	n/a
A. Cunningham	17,333	–	–	–	n/a	n/a	n/a
S. Underwood	38,385	–	–	–	n/a	n/a	n/a
M. Bowes	–	–	–	–	n/a	–	n/a

The table above includes the shares for which certain Directors subscribed pursuant to the Company's equity placing announced on 17 March 2017 or, in the case of Andrew Kirkman, purchased on the day following the announcement of the equity placing, as follows:

O. Michaelson	21,052
A. Kirkman	19,587
A. Cunningham	1,576
S. Underwood	10,526

There have been no other changes in the Directors' shareholdings between 31 December 2016 and 19 April 2017.

## SUMMARY OF SHAREHOLDER VOTING AT THE 2016 AGM

The table below shows the results of votes at the Harworth Group plc Annual General Meeting on 26 April 2016 on resolutions relating to remuneration.

	Votes				
	For and discretion	For and discretion as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
<b>Resolution 5:</b> Approval of Annual Remuneration report	1,558,080,183	98.88%	17,996,147	1.12%	243,546
<b>Resolution 6:</b> Approval of revised Remuneration policy	1,575,091,080	99.96%	633,272	0.04%	267,524
<b>Resolution 16:</b> Approval of Long-Term Incentive Plan	1,575,202,841	99.97%	452,193	0.03%	336,842

The Directors' Remuneration report has been approved by the Board and signed on its behalf by:

**Lisa Clement**

Chair of the Remuneration Committee  
19 April 2017

# Audit Committee report

## Members and attendance at meetings during the year ended 31 December 2016

<b>Andrew Cunningham</b> Chair (with effect from 1 October 2016) and Independent Non-Executive Director	1(1)
<b>Anthony Donnelly</b> Independent Non-Executive Director	4(4)
<b>Steven Underwood</b> Non-Executive Director (not independent)	4(4)
<b>Lisa Clement</b> Former Chair and Independent Non-Executive Director (ceased to be a member of the Committee from 1 October 2016)	3(3)

## Key responsibilities

- Reviews the integrity of the Company's annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance.
- Reviews the effectiveness of the Group's system of internal financial and risk controls and the Group's insurance programme.
- Reviews the independence and effectiveness of the Company's external auditors and makes recommendations to the Board on the auditor's remuneration.
- Consideration of matters relating to the appointment of the Company's auditors and the independence of the auditors.
- Reviews and updates the Group's risk register.
- Reviews the Group's anti-bribery policy and other policies relating to financial security, business ethics and compliance.

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

The Board will undertake bi-annual evaluation of the Committee's performance to ensure continued ability to discharge its key responsibilities.

## Key areas of focus during the period since the publication of the 2015 Annual Report

- Oversight of the Group's appointment of new insurance brokers and comprehensive review of its insurance programme prior to renewal.
- Implementation of a more robust, operational risk monitoring structure.
- Review of the Group's tax policies and treatment.

Dear Shareholder,

I am pleased to present the Audit Committee Report for the year ended 31 December 2016, having taken on the chairmanship of the Committee from Lisa Clement during 2016. I would like to thank Lisa for all of her hard work as chair over the last few years.

The Committee comprises three Non-Executive Directors. From the beginning of the year until 30 September 2016, Lisa Clement chaired the Committee. I joined and was appointed chair of the Committee on 1 October 2016. At the same time, Lisa Clement stepped down as both chair and a member of the Committee. The other members of the committee are Steven Underwood and Anthony Donnelly. The experience of each member of the Committee is summarised on pages 54 and 55. The Board is satisfied that we have recent and relevant financial experience with all members having trained as chartered accountants. I was a partner at the predecessor firm to PricewaterhouseCoopers LLP from 1989 to 1996 and then held the role of Finance Director at Grainger plc from 1996 until 2009.

The Company Secretary is secretary of the Committee. 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.

During the year, the Committee held four formal meetings and there were calls between the Finance Director, Company Secretary and Chair of the Committee on the day preceding the announcement of the Company's preliminary and interim results, so that the Chair of the Committee could authorise their release, having been delegated the authority to do so by the Committee and the Board.

I will be available at the Annual General Meeting to respond to any questions or discuss matters relating to the Committee's activities.

**Andrew Cunningham**

Audit Committee Chairman

19 April 2017

## ANNUAL AND INTERIM REPORTS

The areas to which the Committee has given particular focus since the publication of the 2015 Annual Report and Financial Statements are summarised below.

### Significant financial statement reporting issues considered by the Audit Committee

#### Valuation of the investment portfolio

The portfolio of investment properties, including assets held for sale, joint ventures, overages and owner occupied properties, 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, where relevant, 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 business tenants.

#### Other risks considered by the Audit Committee (and highlighted in the critical accounting estimates and judgements section of the financial statements)

##### Going concern basis

This is discussed in the How we manage our risks section of the Strategic Report.

##### Revenue

Overdue rents and royalties from the mining business tenants have been included in revenue for 2016. Prior to this year the Committee concluded that there was a less than remote possibility of recoverability of this income and therefore it was not included in revenue. A clearer outcome of the winding up of the mining businesses during 2016 has given the Committee the ability to re-assess the recoverability of this revenue.

##### Taxation

The Group has recognised a deferred tax asset of £8.4m during the year. The assumptions underlying the recognition of this asset have been reviewed and the Committee are comfortable that the value recognised is appropriate based upon the certainty of recoverability.

The Committee has reviewed the controls which are in place to ensure the completeness and accuracy of the Company's financial records. 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, Financial Controller, our Associate Director of Partnerships and Communications, actuary and tax accountants. 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 and Financial Statements for the year ended 31 December 2016, 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.

## EXTERNAL AUDITORS

The Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor. Audit quality is reviewed by the Audit Committee throughout the year and includes reviewing and approving the annual audit plan.

Having reviewed:

- the independence and objectivity of the external auditor, PricewaterhouseCoopers LLP (PwC), including consideration of the non-audit work it has undertaken for the Company (see further analysis below);
- the effectiveness of PwC's audit of this Annual Report and Financial Statements; and
- the quantum of fees payable for the audit (see further analysis below),

the Committee has recommended the re-appointment of PwC as external auditor at the forthcoming Annual General Meeting.

PwC, then known as Coopers and Lybrand, was first appointed as the Company's auditors before 17 June 1994. This means that, for the purposes of the Companies Act 2006 (as amended by The Statutory Auditors and Third Country Auditors Regulations 2016) need not undertake an audit tender process before the accounts for the financial year ending 31 December 2021 are audited. Nevertheless, the Committee intends to tender the audit not later than 2020, which would coincide with the expiry of Andy Ward's term as lead audit partner. This is the second set of the Company's Financial Statements for which Andy Ward has led PwC's audit team. The Committee will, however, keep the position under review. There are no contractual obligations which restrict the Committee's choice of auditor.

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;
- with effect from 31 December 2016, the Group has introduced a policy that, save for audit-related services (such as regulatory and statutory reporting and work relating to circulars) and exceptional circumstances only with the Committee's prior approval, the external auditors will not provide non-audit services to the Group;
- the Group has recently appointed Deloitte LLP to provide advice and assistance on most tax matters going forward. KPMG has been appointed to advise on tax matters relating to our joint venture agreements and pension accounting;
- the Committee reviews on a regular basis all fees paid for audit, and non-audit 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. An analysis of all audit and non-audit fees are shown overleaf; and
- the external auditors' report to the Directors and the Committee confirming their independence in accordance with Auditing Standards.

# Audit Committee report

continued

## ANALYSIS OF FEES PAID TO THE EXTERNAL AUDITORS AND NON-AUDIT FIRMS FOR THE YEARS ENDED 31 DECEMBER 2015 AND 31 DECEMBER 2016

	2016 £'000	2015 £'000
<b>Audit services</b>		
Fees payable to the external auditors for:		
– the audit of the Company and the consolidated financial statements	40	65
– the audit of the Company's subsidiaries accounts	80	85
– the audit of the Company's joint ventures	10	–
<b>Total</b>	<b>130</b>	<b>150</b>
<b>Non-audit services</b>		
Fees payable to the external auditors and its associates for non-audit services:		
– audit related assurance services	50	15
– tax advisory services	84	98
– tax compliance services	38	33
– fees in relation to transactions	–	529
<b>Total</b>	<b>172</b>	<b>675</b>
<b>Total fees payable to external auditors and associates for audit and non-audit services</b>	<b>302</b>	<b>825</b>
<b>Fees payable to non-audit firms for non-audit services</b>		
– tax advisory services	13	15
– tax compliance services	26	30
– fees in relation to transactions	25	–
– pension accounting	1	1
<b>Total</b>	<b>65</b>	<b>46</b>

Resolutions to re-appoint PwC as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

### INSURANCE BROKERS AND INSURANCE PROGRAMME

During the year under review, the Company undertook a re-tendering process, overseen by the Committee, for the appointment of insurance brokers to the Group. Four brokers participated in the process pursuant to which Marsh were appointed as the Group's new brokers.

That appointment was effected with a view to a comprehensive review of the Group's insurable risk profile and insurance programme, which the Company undertook, in conjunction with Marsh and supervised by the Committee, in the second half of 2016. That review has led to extensions to, and increased limits within, the Group's insurance programme, reflecting the expanding scope of the Group's activities as its business matures.

### REVIEW OF TAX POLICIES AND TREATMENT

During the year the Group reviewed its tax strategy, policies and treatment. This was assisted by both PwC and Deloitte. Whilst there was little amendment to the strategy, additional work resulted in greater certainty regarding the tax loss position and expected pattern of usage of losses. As such, a deferred tax asset was recognised.

### RISK REVIEW AND MANAGEMENT

Following the detailed risk review initiated by the Committee in the second half of 2015, which established the Group's risk register, the Committee has continued to carry out a formal review of risk twice-yearly. It is, however, overseeing steps, led by our Company Secretary, to introduce a more regular and robust process for monitoring and managing risk at an operational level. Our objective is to embed a risk management process running through the business which makes the periodic risk reviews carried out by the Audit Committee and the Executive Committee more effective and ensures that the Group's risk register is a robust and evolving tool.

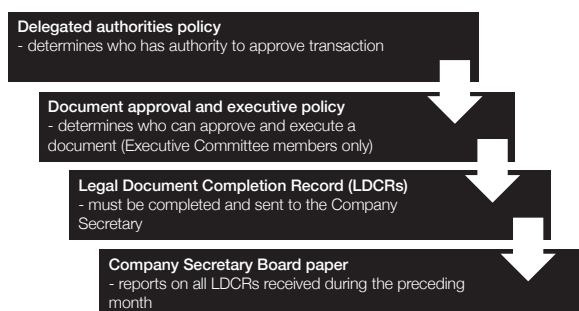
An operational risk review structure and process is now in place by which our Company Secretary meets with the senior management team in advance of the periodic risk reviews carried out by the Executive Committee and Audit Committee. Those meetings are designed to identify, at an operational level, both changes in the Group's risk profile and improvements that can be made to the Group's internal risk controls. As an example, action points have already been identified to improve document management and Group-wide communication.

Given the nature of the Group's business and the condition of certain of our immature sites, health and safety forms a material element of the Group's risk profile. Our Chief Executive has overall responsibility for health and safety across the business, but day-to-day management falls to our EES team, led by our EES



Associate Director. He provides monthly updates to the Board in writing and an annual update in person. A more detailed explanation of the Group's internal controls and processes in the context of health and safety appears at page 51 of the Strategic Report.

The Group has also revised its delegated authorities policy this year, which not only identifies Board reserved matters but also prescribes authority levels within the business. The Group's document approval, execution and records process has also been reviewed and refined. As a result, the number of authorised signatories within the business has been restricted appropriately and a record of every legal document entered into by a Group subsidiary should be logged with the Company Secretary, who reports to the Board on a monthly basis.



## INTERNAL CONTROLS

The Group has continued to strengthen the internal control environment especially around treasury and financial reporting. The new levels of delegated authority have been incorporated into the day to day operations of the finance function to ensure that purchase commitments are authorised appropriately. Investment in training and resource has enabled more detailed information to be entered into and taken from the accounting and reporting system which has assisted with monthly reporting and preparing the budget for 2017.

The Board has carried out a review of the effectiveness of the Company's risk management and internal controls systems, including financial, operational and compliance. As set out in the paragraphs above, these controls have continued to improve during 2016, but it is acknowledged that further improvements can and should be made. To that end, whilst the Committee recognises that, as things stand, the business is not large or complex enough for a separate internal audit function, it intends to instruct an external firm to review and advise on the Group's internal controls during the course of 2017.

## WHISTLEBLOWING, BRIBERY, HUMAN RIGHTS AND MODERN SLAVERY

The Company re-introduced a whistle-blower policy and reporting structure in 2015. This was reviewed during the first half of 2016. The policy is available, with all other Group policies, on the Group's shared drive, which is accessible by all employees.

The Committee takes responsibility for monitoring and reviewing the Company's policies and procedures for preventing bribery. The Company has a zero-tolerance position with regard to bribery and the Committee is committed to ensuring that that position is respected and adhered to throughout the business. The Group operates a Business Conduct policy, which outlines the Group's position on bribery and other matters of business ethics, and is available to all employees on the Group's shared drive. One of the Committee's priorities in 2017 is to review and update the policies and procedures in connection with hospitality.

We are committed to ensuring that we have in place practices to ensure respect for human rights and to combat slavery and human trafficking both in our business and those of third party contractors. The Committee takes responsibility for delivering on that commitment. Since the publication of our 2015 Annual Report and Financial Statements, the following steps have been taken in this regard:

- the introduction of a modern slavery and human trafficking policy, which is available to all employees on the Group's shared drive;
- amendments to the Group's "standard terms of business", to include provisions designed to reduce the risk of slavery and trafficking by our contractors; and
- updates to the Group's template "site inspection" report to encourage employees to think about and report any evidence of slavery and trafficking at any of the Group's sites.

We intend to take further steps, including:

- the delivery of external training to all employees so that they understand better the risks of slavery and trafficking in our business and supply chains; and
- the inclusion of anti-slavery and trafficking provisions in our standard form construction agreements: this will form part of a wider review of those documents.

The Report of the Audit Committee has been approved by the Board on its behalf by:

**Andrew Cunningham**  
Chair of the Audit Committee  
19 April 2017

# Nomination Committee report

## Members and attendance at meetings during the year ended 31 December 2016

<b>Jonson Cox</b> Chairman of the Committee and the Board (not independent)	3(3)
<b>Lisa Clement</b> Independent Non-Executive Director	3(3)
<b>Andrew Cunningham</b> Independent Non-Executive Director (joined the Committee from 1 October 2016)	1(1)

## Key responsibilities

- Leads the process for Board appointments by making recommendations to the Board, both for filling Board vacancies and appointing additional persons to the Board, following evaluation of the balance of skills, knowledge and experience on the Board.
- At least annually, carries out a review of succession and development planning for the Executive Directors, the Chairman and Non-Executive Directors, members of the Executive Committee and certain senior managers to maintain an appropriate balance of skills and experience on the Board and in the business.
- Considers and makes recommendations to the Board on its composition, balance and membership and on the re-appointment by Shareholders of any Director.

## Key activities of the Committee since publication of the 2015 Annual Report

- Appointment of Andrew Cunningham as Non-Executive Director following the retirement of Peter Hickson from the Board.
- Appointment of Chris Birch as Group General Counsel and Company Secretary following the planned departure of Geoff Mason.
- Review of the succession and development plans in place for the Executive Committee and senior management team.
- Commencement of a succession plan for Non-Executive Directors, to be progressed in 2017.

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

The Board will undertake bi-annual evaluation of the Committee's performance to ensure continued ability to discharge its key responsibilities.

Dear Shareholder,

I am pleased to present to you the Nomination Committee Report for the year ended 31 December 2016.

At the start of the year the Committee consisted of me, Lisa Clement and Peter Hickson. Following Peter's retirement from the Board at the 2016 Annual General Meeting, Andrew Cunningham joined the Committee, with effect from 1 October 2016.

All Non-Executive Directors are invited to attend meetings of the Committee. So too is the Chief Executive when this is considered appropriate.

The Committee meets at least once a year to review succession and development planning for the Executive Committee and senior management team and to appraise the balance, experience and skills of the Board. 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 2016.

I will be available at the Annual General Meeting to answer any questions from Shareholders on the activities of the Committee.

**Jonson Cox**

Chair of the Nomination Committee  
19 April 2017



## APPOINTMENT OF ANDREW CUNNINGHAM AS INDEPENDENT NON-EXECUTIVE DIRECTOR

Peter Hickson stepped down from his position as Senior Independent Director at the 2016 Annual General Meeting. The Committee led the search for his replacement. Potential candidates were compiled by Russell Reynolds based on an agreed role description approved by the Committee. The Chairman identified a list of candidates for interview. Initial interviews were led by the Chairman, together with certain of the Non-Executive Directors. Candidates on a shortlist were then interviewed by most of the remaining Directors. Following that process, the Committee recommended that the Board appoint Andrew Cunningham as an Independent Non-Executive Director.

Andrew was appointed to the Board on 26 April 2016. He undertook our induction programme for Non-Executive Directors which includes, amongst other things, meetings with the Non-Executive Directors and Executive Committee, two days of site visits and one to-one meetings with the Company Secretary, Group HR Manager, and Associate Directors of EES and Partnerships and Communications.

In conjunction with Andrew's appointment, the Committee recommended that Lisa Clement be appointed Senior Independent Director and Chair of the Remuneration Committee, to fill the positions vacated by Peter Hickson, Anthony Donnelly be appointed as a member of the Remuneration Committee, to maintain the number of Independent Non-Executive Directors on that Committee and, given his financial background and experience, Andrew Cunningham be appointed as Chairman of the Audit Committee in place of Lisa. Andrew was also appointed to the Nomination Committee, to fill the place vacated by Peter Hickson. Those appointments took effect on 1 October 2016. Andrew is a very welcome addition to the Board and has already made a substantial contribution since his arrival.

Russell Reynolds has no other connection with the Group.

## APPOINTMENT OF CHRIS BIRCH AS GENERAL COUNSEL AND COMPANY SECRETARY

Geoff Mason was re-appointed as Company Secretary in June 2014 on a temporary basis with the principal objective of assisting with the Company's acquisition of HEPGL. Following completion of that transaction, the Company began a process, overseen by the Committee, to identify a permanent replacement. Suitable candidates for the role were identified, with assistance from two recruitment consultants, and a series of interviews and meetings followed with a number of individuals. Chris Birch was appointed as Group General Counsel and Company Secretary with effect from 6 June 2016.

## SUCCESSION AND DEVELOPMENT PLANNING

The Committee is responsible for overseeing the succession and development plans in place for the Executive Committee and senior management team. The Chief Executive reports to the Committee annually, and did so again in the fourth quarter of 2016, on progress with respect to those plans. This year the Committee spent some time focussing on the succession plans for members of the Executive Committee, particularly the Chief Executive, both in terms of emergency succession plans in the event that the Board needed to appoint a temporary Chief Executive at short notice, due to unforeseen circumstances, and for medium to long-term succession plans. The Committee was satisfied that appropriate plans are in place for both the Executive Committee and senior management team and resolved to review the position again in the summer of 2017, when certain development initiatives have been completed.

## BOARD COMPOSITION

The Committee is responsible for keeping under review the composition of the Board, to ensure that its membership comprises an appropriate balance of experience and skills and includes the right number of independent Directors.

The Board is mindful that our Chairman and two of our Independent Non-Executive Directors have served on the Board for close to or more than six years. In that context, succession to the Chairman's role and for our long-serving Independent Non-Executive Directors has formed an important part of the Board evaluation that has recently been undertaken. Following that process, and further discussion amongst the Board, we are beginning to put in place succession plans.

## DIVERSITY

The Board supports the need for improving diversity, both at Board level and throughout the business. This is an important consideration when scoping and monitoring succession and development planning within the business. It will also be a key objective as Board succession plans are developed and implemented, albeit the Committee and Board will continue to recruit on merit to ensure the best candidates are appointed to all roles.

# Directors' report

## Statements for the year ended 31 December 2016

### Introduction

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2016.

Pages 86 to 90 inclusive, together with sections of this Annual Report referred to below, constitute the Directors' Report for year ended 31 December 2016, prepared and presented in accordance with the Companies Act 2006. The liabilities of the Directors in connection with the report are subject to the limitations and restrictions provided by English Company law.

The Directors' Report should be read in conjunction with the Strategic Report (pages 2 to 51) and the wider Corporate Governance Statement (pages 52 to 91) which are incorporated by reference into this Directors' Report.

The information required to be disclosed in the Directors' Report, including pursuant to the Companies Act 2006 (CA06), the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, paragraphs 4.1.5R and 4.1.8R of the FCA's Disclosure and Transparency Rules and paragraph 9.8.4CR of the FCA's Listing Rules can be found in this Annual Report on the pages listed below.

	Reference
Agreements with Shareholders	Statement of corporate governance, p59
Amendment of the Articles	Directors' report, p88
Annual General Meeting	Statement of Corporate Governance, p65
Appointment and replacement of Directors	Directors' report, p88
Board of Directors	Board of Directors and Company Secretary, pp54-55 Directors' report, p88
Charitable donations	Directors' report, p89
Change of control	Directors' report, p89
Composition and operation of administrative, management and supervisory bodies and committees	Statement of corporate governance, pp58-61
Directors' insurance and indemnities	Statement of Corporate Governance, p62 Directors' report, p89
Disclosure of information to auditors	Statement of Directors' responsibilities, p91
Diversity	Strategic report: Our people, p51
Employee numbers	Strategic report: Our people, p50
Employee involvement	Strategic report: Our people, p50
Employees with disabilities	Strategic report: Our people, p51
Employee share scheme	Strategic report: Our people, p51 Directors' Remuneration report, p67 Directors' report, p89
Future developments of the business	Strategic report, pp4-5
Going concern and viability	Strategic report: How we manage our risks, p45
Greenhouse gas emissions	Strategic report: Harworth and the environment, p49
Independent auditors	Audit Committee report, p81 Independent auditors' report, pp92-96
Political donations	Directors' report, p89
Post-balance sheet events	Strategic report: Chief Executive's statement, p14
Powers for the Company to issue or buy back shares	Directors' report, p88
Powers of the Directors	Directors' report, p88
Profit/loss and dividends	Chairman's statement, p10 Directors' report, p88
Restrictions on transfer of securities	Directors' report, p87
Rights attaching to shares	Directors' report, p87
Risk management and internal controls	Strategic report: How we manage our risks, pp40-41 Audit Committee report, pp82-83
Risk management – financial risks and use of financial instruments to mitigate risk	Strategic report, Financial review, p37 Directors' report, p89 Financial statements, Note 25, p125
Share capital	Directors' report, p87
Significant related party agreements	Financial statements, Note 32, p131
Significant Shareholders	Directors' report, p89
Statement of corporate governance including compliance with corporate governance code	Directors' report, p89
Voting rights	Directors' report, p87

## The Company

### Legal form

Harworth Group plc is a Company incorporated in the United Kingdom with Company number 2649340. The principal subsidiaries and associated undertakings are listed in Note 18 of the Financial Statements.

### Financial results

The Group's consolidated income statement set out on page 97 shows Group profit before taxation of £43.5m (2015: £77.6m, which included the £44.2m gain arising from the Company's acquisition of the remaining 75.1% of HEPGL). The net assets attributable to Shareholders of the Group increased to £334.9m (2015: £297.7m) over the financial year to 31 December 2016. The Group's NAV rose by 12.5% during the year. The results for the Group are reviewed in the Chairman's Statement, the Chief Executive's Statement and Financial Review and the detailed results are set out in the financial statements on pages 97 to 132 which accompany this report.

### Share capital and authority to allot and purchase shares

During the year under review the Shareholders approved at the 2016 Annual General Meeting, and the Company effected, a share consolidation whereby 2,922,697,860 Ordinary Shares of 1 pence each were consolidated into 292,269,786 Ordinary Shares of 10 pence each. As such, the issued share capital of the Company at 31 December 2016 was 292,269,786 Ordinary Shares of 10 pence each. Details of the share capital as at 31 December 2016 are set out in Note 29 to the Financial Statements on page 130.

On 22 March 2017, the Company issued and allotted a further 29,226,974 Ordinary Shares of 10 pence each pursuant to a placing of shares. As such, the issued share capital of the Company at 19 April 2017 (being the latest date prior to publication of this report) was 321,496,760 Ordinary Shares of 10 pence each. The ISIN of the shares is GB00BYZJ7G42.

All shares carry equal rights to dividend, voting and return of capital on the winding up of the Company, as set out in the Company's Articles of Association, and are fully paid. No person holds shares carrying special rights with regard to control of the Company.

On 14 March 2017, the PPF entered into a lock-in deed with the Company, pursuant to which it undertook not to sell or otherwise dispose of the shares it holds in the Company for a period of 6 months. There are no other restrictions on the transfer of securities in the Company, save for the power of the Board to refuse to transfer shares in certain circumstances prescribed by the Articles of Association, and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any other arrangement between holders of shares which may result in restrictions on the transfer of securities or voting rights, nor any arrangement whereby a Shareholder has waived or agreed to waive dividends (other than the EBT – see below).

The Harworth Group plc Employee Benefit Trust (EBT) holds shares for the purposes of satisfying awards that may vest under the Company's share-based incentive schemes. The EBT may purchase shares in the Company from time to time to satisfy awards granted to Executive Directors and members of the Executive Committee and senior management team, subject to the achievement of performance targets under the Company's incentive schemes. At 31 December 2016 the EBT held 68,966 Ordinary Shares of 10 pence each in the Company (2015: 1,695,057 Ordinary Shares of 1 pence each) in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards are set out in the Directors' Remuneration report on page 79. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

Section 551 of the CA06 provides that the Directors may not allot shares unless empowered to do so by Shareholders. In conjunction with the Share Capital Management Guidelines published by the Investment Association, a resolution was passed at the 2016 Annual General Meeting giving the Directors authority 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. The Company issued and allotted three Ordinary Shares of 1 pence each on 26 April 2016 in conjunction with, and to facilitate, the share consolidation referred to above. On 22 March 2017, the Company issued and allotted a further 29,226,974 Ordinary Shares of 10 pence each (representing an aggregate nominal value of approximately 9.9% of the Company's issued share capital) for the purposes of the placing referred to above. At the 2017 Annual General Meeting, the Directors propose to renew the authorities granted to them at the 2016 Annual General Meeting.

### 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). By a special resolution at the 2016 Annual General Meeting, the Shareholders gave authority to the Directors to dis-apply the above mentioned pre-emption and to allot shares for cash other than by way of rights to existing Shareholders, provided that the aggregate nominal value of such shares does not exceed 5% of the Company's total issued equity capital. This authority was compliant with the Pre-Emption Group's Statement of Principles (PEG Principles).

The Directors did not make use of this authority during the period under review, but did issue shares for non-cash consideration pursuant to the share placing in March 2017 referred to above.

The Directors propose to renew this authority at the 2017 Annual General Meeting.

The Directors have no current plans to make use of the renewed authority should it be granted, although they consider their renewal appropriate in order to retain maximum flexibility to take advantage of business opportunities as they arise. That said, the PEG Principles 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 intend to comply with that guidance.

# Directors' report

## Continued

### Purchase of own shares

The Company has authority under a Shareholders' resolution passed at the 2016 Annual General Meeting to purchase up to 29,226,978 of the Company's Ordinary Shares, representing approximately 10% of the Company's total issued share capital, in the market during the period expiring at the 2017 Annual General Meeting.

No shares have been purchased by the Company under the authority granted at the 2016 Annual General Meeting.

A special resolution will be proposed at the 2017 Annual General Meeting 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.

### Amendment of Articles of Association

The Articles of Association may be amended by special resolution of the Shareholders.

### Reduction of capital

During the year under review and with the approval of Shareholders (at the 2016 Annual General Meeting) and the court, the Company effected a capital reduction by way of cancellation of the Company's share premium account.

### Dividends

The Board is recommending a final dividend of 0.523 pence per share which, together with the interim dividend of 0.23 pence per share paid in December 2016, makes a combined dividend of 0.753 pence (2015: 0.51 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 30 May 2017 to Shareholders registered at the close of business on 5 May 2017. The ex-dividend date will be 4 May 2017.

The dividend paid in the year to 31 December 2016 and disclosed in the Consolidated Income Statement is 0.74 pence (2015: nil) per share, being the previous year's final dividend of 0.51 pence per share and the interim dividend of 0.23 pence per share in respect of the year ended 31 December 2015. These were paid on 9 September 2016 and 1 December 2016 respectively.

### Directors and Directors' interests

A list of the Company's Directors and their biographies appear in the Corporate Governance Statement on pages 54 and 55. In addition to the individuals in that list, during the period under review:

- Michael Richardson was a Director of the Company, by way of a transition period following the appointment of Andrew Kirkman as Finance Director on 1 January 2016, until his resignation on 29 February 2016; and
- Peter Hickson was the Senior Independent Director until his retirement at the 2016 Annual General Meeting.

Details of the Directors' remuneration and beneficial interests in, and options to acquire, Ordinary Shares in the Company as at 31 December 2016 are set out in the Directors' Remuneration report on page 79. Details of the Directors' beneficial interests in, and options to acquire, Ordinary Shares as at 19 April 2017 (being the latest practical date prior to publication of this report), which reflect the share placing in March 2017, are set out in the Remuneration Report on page 79. 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, replacement and powers of Directors

The appointment and replacement of Directors is governed by the Articles of Association.

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 Annual General Meeting may only hold office until the date of the following Annual General Meeting, at which time that Director must stand for election by Shareholders. Andrew Cunningham will, therefore, be standing for election at the 2017 Annual General Meeting.

The Articles also require one-third of the Directors to retire by rotation at each Annual General Meeting. Any Director who has not retired by rotation must retire at the third Annual General Meeting after his or her last appointment or re-appointment. However, in accordance with the 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 other Directors will be subject to re-election at the 2017 Annual General Meeting.

The Directors may exercise all of the powers of the Company, subject to compliance with relevant laws, the Company's Memorandum and Articles of Association and any directions given by special resolution of Shareholders. These include specific restrictions regarding the Company's power to borrow money.

### Directors' indemnities and insurance

As permitted by the 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.

### Political donations

No political donations were made during the year (2015: £nil). It remains the Company's policy to not make any cash donations to political parties. This policy is strictly adhered to and there is no intention to change it. However, the definitions of 'political donation' and 'political expenditure' used in the Companies Act 2006 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 Companies Act 2006, the Directors obtained authority from Shareholders at the 2016 Annual General Meeting for certain political donations and expenditure, subject to financial limits. The Directors will seek to renew this authority at the 2017 Annual General Meeting.

### Charitable donations

The Group made charitable donations during 2016 in the aggregate sum of £7,558 (2015: £300).

### 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 on page 37.

### General meetings

An Annual General Meeting must be called on at least 21 days' clear notice, although the Company gives not less than 20 working days' notice of its Annual General Meeting in order to comply with the Code.

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. A special resolution reducing the period of notice for general meetings (other than Annual General Meetings) to not less than 14 days was passed at the 2016 Annual General Meeting. The Directors are proposing to seek renewal of that authority at the 2017 Annual General Meeting. 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*	88,892,667	27.65%
Pension Protection Fund	80,374,189	25.00%
Invesco Perpetual	31,993,428	9.95%
Pelham Capital Management	27,480,851	8.55%
London and Amsterdam Trust Company	11,707,924	3.64%

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

### 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 agreement entered between Royal Bank of Scotland plc and HEPGL in February 2015 and amended in August 2016 and December 2016 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.

The rules governing the LTIP provide for the treatment of awards under the LTIP in the event of a takeover of the Company. A summary of those rules was included in the Notice of the 2016 Annual General Meeting, a copy of which is available on the Company's website at [www.harworthgroup.com/investors/](http://www.harworthgroup.com/investors/).



# Directors' report

## Continued

### Agreements with related parties

There continue to subsist five joint venture agreements with members of the Peel Group, which were approved by Shareholders in June 2017, for the promotion and development of energy from waste schemes at five sites owned by the Group. The Company is seeking Shareholder approval for certain amendments to those joint venture arrangements at the 2017 Annual General Meeting.

### Compliance with UK Corporate Governance Code

Whilst the Company is listed on the standard segment of the Official List, it has applied the main and supporting principles of the UK Corporate Governance Code 2014, which applied during the financial year ended 31 December 2016 and is publicly available on the website of the Financial Reporting Council. The Company has complied with the provisions of the Code throughout the year ended 31 December 2016, save for the following matters:

- The Audit Committee comprises two independent Non-Executive Directors (Andrew Cunningham and Anthony Donnelly) and one non-independent Non-Executive Director (Steven Underwood). The Company considers that Mr Underwood makes a valuable and important contribution to the Committee because: (i) he is a chartered accountant; and (ii) in his role as Chief Executive of the Peel Group, he has extensive experience of reviewing and scrutinising the accounts of a large property business. The independent Non-Executive Directors carry a majority of votes on the Committee.
- The Remuneration Committee comprises two independent Non-Executive Directors (Lisa Clement and Anthony Donnelly), the Chairman (Jonson Cox) and one non-independent Non-Executive Director (Steven Underwood). The Company considers that Mr Underwood makes a valuable and important contribution to the Committee because he relays the views of the Company's largest Shareholder on remuneration matters. The independent Non-Executive Directors carry 50% of the votes on the Committee and the independent Chair has a casting vote.
- Whilst the Company has in the past undertaken regular evaluations of the Board, Committees, Chairman and Non-Executive Directors, the Company has only recently put in place a formal evaluation process and undertaken a formal Board evaluation. Formal evaluations of the Committees and Chairman will follow during this year and formal 360 degree reviews will be undertaken by Non-Executive Directors periodically.
- In response to feedback from the Board evaluation process referred to above further work will be done in 2017 to formalise the process for reviewing and managing the CPD of Non-Executive Directors.

### Approval

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

#### Chris Birch

Group General Counsel and Company Secretary  
19 April 2017

# Statement of Directors' responsibilities

## in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

The Directors are responsible for the maintenance and integrity of the Group and 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 2016 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and Statements provides the information necessary for Shareholders to assess the Group and Company's position, performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 54 and 55 confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, 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 and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- 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 Group and Company's auditors are aware of that information.

By order of the Board

**Owen Michaelson**

**Andrew Kirkman**

19 April 2017

# 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 2016 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 sheets as at 31 December 2016;
- the Consolidated income statement and the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated and Company statement of changes in equity for the year then ended;
- the Statements of cash flows 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 Group financial statements is 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, and applicable law.

### OUR AUDIT APPROACH

#### Overview

- Overall Group materiality: £4.6m which represents 1% of total assets.
- We identified the reporting units 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 reporting units subject to full scope audit work on the Balance Sheet and/or the Consolidated income statement accounted for 98% of total assets and 79% of profit before tax.
- Valuation of investment property.

#### 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 and 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 on page 93. 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

### Valuation of investment property (£379.2m) (Refer to Note 17 of the financial statements)

We focused on this area because the Group's investment property assets represent a significant proportion of the assets in the Consolidated balance sheet.

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.

The Group engaged independent external valuers to value its investment properties in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards.

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.

A relatively small percentage change in the valuations of individual properties, in aggregate, could result in a material impact on the financial statements.

### How our audit addressed the area of focus

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.

For a sample of properties representing 76% 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.

In addition, we considered the extent to which existing surface 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.

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.

## 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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along two business lines being Capital Growth and Income Generation. The Group financial statements are a consolidation of the 28 reporting units within these two business lines and the Group's centralised functions.

Of the Group's 28 reporting units, we identified 5 which, in our view, had the most significant effect on the Balance sheet and/or the Consolidated income statement due to their size or their risk characteristics. We performed a full scope audit on the Balance sheet and/or the Consolidated income statement as appropriate. The reporting units subject to full scope audit work on the Balance sheet and/or the Consolidated income statement accounted for 98% of total assets and 79% of profit before tax.

This, together with additional procedures performed on the Group's centralised functions, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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	£4.6m (2015: £3.9m)
How we determined it	1% of total assets
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.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £196,000 (2015: £175,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

# Independent auditors' report

## to the members of Harworth Group plc

### 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 45, required for companies with a premium listing on the London Stock Exchange.

The Directors have requested that we review the statement on going concern as if the Company were a premium listed Company. 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") as if the Company were a premium listed Company. Under ISAs (UK and 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 on page 45, 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 and Company have adequate resources to remain in operation, and that the Directors intend them 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 and Company's ability to continue as a going concern.

### OTHER REQUIRED REPORTING

#### Consistency of other information and compliance with applicable requirements

##### Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

##### ISAs (UK and Ireland) reporting

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

<ul style="list-style-type: none"> <li>• information in the Annual Report is:               <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited financial statements; or</li> <li>– 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</li> <li>– otherwise misleading.</li> </ul> </li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>• the statement given by the Directors on page 81, 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 position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.</li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>• the section of the Annual Report on page 80, 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.</li> </ul>	We have no exceptions to report.

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

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK and Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> <li>the Directors' confirmation on page 42 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, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>the Directors' explanation on page 45 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.</li> </ul>	We have nothing material to add or to draw attention to.

## 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.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibility set out on page 91, 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 and 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.

# Independent auditors' report

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## to the members of Harworth Group plc

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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

**Andy Ward (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Sheffield**  
19 April 2017

# Consolidated income statement

for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Revenue	4	33,693	13,172
Cost of sales		(20,905)	(6,013)
<b>Gross profit</b>		<b>12,788</b>	<b>7,159</b>
Administrative expenses	7	(10,457)	(5,731)
Increase in fair value of investment properties	7	33,713	24,060
Decrease in fair value of assets classified as held for sale	7	(224)	–
Profit on sale of investment properties	7	9,166	8,180
Loss on sale of assets classified as held for sale	7	(375)	–
Other gains	7	747	3,208
Other operating (expenses)/income	7	(204)	176
<b>Operating profit before exceptional items</b>		<b>45,154</b>	<b>37,052</b>
Exceptional income	6	689	–
Exceptional expense	6	(682)	(2,859)
<b>Operating profit</b>		<b>45,161</b>	<b>34,193</b>
Finance income	9	247	62
Finance costs	9	(2,588)	(1,803)
Share of profit of associate and joint ventures	18	647	856
Gain on bargain purchase	3	–	44,244
<b>Profit before tax</b>		<b>43,467</b>	<b>77,552</b>
Tax charge	11	(3,566)	(3,508)
<b>Profit for the financial year</b>		<b>39,901</b>	<b>74,044</b>

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

Earnings per share from operations	Note	pence	pence
<b>Basic and diluted earnings per share</b>	14	<b>3.5</b>	<b>3.1</b>

The Notes on pages 103 to 132 are an integral part of the consolidated financial statements.

# Consolidated statement of comprehensive income

for the year ended 31 December 2016

		Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
	Note		
<b>Profit for the financial year</b>		<b>39,901</b>	<b>74,044</b>
<b>Other comprehensive (expense)/income – items that will not be reclassified to profit or loss:</b>			
Fair value of financial instruments	25	(366)	–
Net actuarial loss in Blenkinsopp Pension Scheme	27	(269)	(3)
Revaluation of Group occupied property	15	(17)	–
Deferred tax on actuarial loss	11	94	–
<b>Total other comprehensive expense</b>		<b>(558)</b>	<b>(3)</b>
<b>Total comprehensive income for the financial year</b>		<b>39,343</b>	<b>74,041</b>

# Balance sheets

as at 31 December 2016

	Note	Group		Company	
		As at 31 December 2016 £'000	As at 31 December 2015 £'000	As at 31 December 2016 £'000	As at 31 December 2015 £'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	15	789	–	–	–
Other receivables	16	1,397	650	–	–
Retirement asset	27	–	–	602	435
Investment properties	17	379,190	334,617	–	–
Investment in subsidiaries	18	–	–	207,896	207,896
Investment in associates	18	–	–	–	–
Investment in joint ventures	18	10,549	768	–	–
Deferred income tax asset		–	–	3,053	–
		391,925	336,035	211,551	208,331
<b>Current assets</b>					
Inventories	19	733	1,092	–	–
Trade and other receivables	20	24,444	19,906	9,151	7,670
Assets classified as held for sale	21	8,350	9,128	–	–
Cash and cash equivalents	22	13,007	27,564	2,171	6,887
		46,534	57,690	11,322	14,557
<b>Total assets</b>		<b>438,459</b>	<b>393,725</b>	<b>222,873</b>	<b>222,888</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Borrowings	23	(1,819)	(400)	–	–
Trade and other payables	24	(33,719)	(17,369)	(1,885)	(1,011)
		(35,538)	(17,769)	(1,885)	(1,011)
<b>Net current assets</b>		<b>10,996</b>	<b>39,921</b>	<b>9,437</b>	<b>13,546</b>
<b>Non-current liabilities</b>					
Borrowings	23	(50,659)	(64,119)	–	–
Trade and other payables	24	(1,520)	(2,280)	–	–
Derivative financial instruments	25	(366)	–	–	–
Deferred income tax liabilities	11	(14,851)	(11,379)	–	–
Retirement benefit obligations	27	(602)	(435)	(602)	(435)
		(67,998)	(78,213)	(602)	(435)
<b>Total liabilities</b>		<b>(103,536)</b>	<b>(95,982)</b>	<b>(2,487)</b>	<b>(1,446)</b>
<b>Net assets</b>		<b>334,923</b>	<b>297,743</b>	<b>220,386</b>	<b>221,442</b>
<b>SHAREHOLDERS' EQUITY</b>					
<b>Capital and reserves</b>					
Called up share capital	28	29,227	29,227	29,227	29,227
Share premium account	29	–	129,121	–	129,121
Fair value reserve		58,279	24,060	–	–
Capital redemption reserve		257	257	257	257
Merger reserve		45,667	45,667	45,667	45,667
Current year profit/(loss)		39,901	74,044	1,348	(1,661)
Retained earnings/(deficit)		161,592	(4,633)	143,887	18,831
<b>Total equity</b>		<b>334,923</b>	<b>297,743</b>	<b>220,386</b>	<b>221,442</b>

The financial statements on pages 97 to 132 were approved by the Board of Directors on 19 April 2017 and were signed on its behalf by:

**Owen Michaelson**      **Andrew Kirkman**  
Chief Executive      Finance Director

Company Registered Number 2649340

# Consolidated statement of changes in equity

for the year ended 31 December 2016

	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
<b>Balance at 1 January 2015</b>		<b>6,055</b>	<b>32,911</b>	<b>–</b>	<b>–</b>	<b>257</b>	<b>19,430</b>	<b>58,653</b>
Profit for the financial year to 31 December 2015		–	–	–	–	–	74,044	74,044
Transfer of fair value gain on revaluation of investment properties		–	–	–	24,060	–	(24,060)	–
<b>Other comprehensive expense:</b>								
Re-measurement of post-retirement benefits	27	–	–	–	–	–	(3)	(3)
<b>Total comprehensive income for the year ended 31 December 2015</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>24,060</b>	<b>–</b>	<b>49,981</b>	<b>74,041</b>
<b>Transactions with owners:</b>								
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
<b>Balance at 31 December 2015 and 1 January 2016</b>		<b>29,227</b>	<b>129,121</b>	<b>45,667</b>	<b>24,060</b>	<b>257</b>	<b>69,411</b>	<b>297,743</b>
Profit for the financial year to 31 December 2016		–	–	–	–	–	39,901	39,901
Transfer of fair value gain on revaluation of investment properties	17	–	–	–	33,713	–	(33,713)	–
Transfer of fair value decrease on assets classified as held for sale	21	–	–	–	(224)	–	224	–
Transfer of other gains	16	–	–	–	747	–	(747)	–
<b>Other comprehensive expense:</b>								
Actuarial loss in Blenkinsopp pension scheme	27	–	–	–	–	–	(269)	(269)
Revaluation of Group occupied property	15	–	–	–	(17)	–	–	(17)
Fair value of financial instruments	25	–	–	–	–	–	(366)	(366)
Deferred tax on actuarial loss on pension scheme	11	–	–	–	–	–	94	94
<b>Total comprehensive income for the year ended 31 December 2016</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>34,219</b>	<b>–</b>	<b>5,124</b>	<b>39,343</b>
<b>Transactions with owners:</b>								
Transfer of share premium to other distributable reserves	29	–	(129,121)	–	–	–	129,121	–
Dividends paid		–	–	–	–	–	(2,163)	(2,163)
<b>Balance at 31 December 2016</b>		<b>29,227</b>	<b>–</b>	<b>45,667</b>	<b>58,279</b>	<b>257</b>	<b>201,493</b>	<b>334,923</b>

\*The fair value reserve relates to unrealised gains and losses arising primarily from the revaluation of investment properties.



# Company statement of changes in equity

for the year ended 31 December 2016

	Note	Called up share capital £'000	Share premium account £'000	Merger reserve** £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2015</b>		<b>6,055</b>	<b>32,911</b>	<b>–</b>	<b>257</b>	<b>17,978</b>	<b>57,201</b>
Loss for the financial year to 31 December 2015		–	–	–	–	(1,661)	(1,661)
<b>Other comprehensive income/(expense):</b>							
Change in value of investment in associate*		–	–	–	–	856	856
Re-measurement of post-retirement benefits	27	–	–	–	–	(3)	(3)
<b>Transactions with owners:</b>							
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
<b>Balance at 31 December 2015 and 1 January 2016</b>		<b>29,227</b>	<b>129,121</b>	<b>45,667</b>	<b>257</b>	<b>17,170</b>	<b>221,442</b>
Profit for the financial year to 31 December 2016		–	–	–	–	1,348	1,348
Re-measurement of post-retirement benefits	27	–	–	–	–	(269)	(269)
Deferred tax on actuarial loss on pension scheme		–	–	–	–	28	28
<b>Total comprehensive income for the year ended 31 December 2016</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,107</b>	<b>1,107</b>
<b>Transactions with owners:</b>							
Transfer of share premium to other distributable reserves	29	–	(129,121)	–	–	129,121	–
Dividends paid		–	–	–	–	(2,163)	(2,163)
<b>Balance at 31 December 2016</b>		<b>29,227</b>	<b>–</b>	<b>45,667</b>	<b>257</b>	<b>145,235</b>	<b>220,386</b>

\*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).

\*\*The merger reserve reflects the premium on the shares issued to the PPF as part of the consideration for the purchase of 75.1% of the issued share capital of HEPGL as detailed in Note 3.

# Statements of cash flows

for the year ended 31 December 2016

	Note	Group		Company	
		Year ended	Year ended	Year ended	Year ended
		31 December	31 December	31 December	31 December
		2016	2015	2016	2015
		£'000	£'000	£'000	£'000
<b>Cash flows from operating activities</b>					
Profit/(loss) before tax for the financial year		43,467	77,552	(1,707)	(1,661)
Net interest payable/(receivable)	9	2,341	1,741	(183)	(109)
Profit on disposal of subsidiary	18	–	–	–	(1,426)
Share of post-tax profit from associate	18	–	(856)	–	–
Gain on bargain purchase	3	–	(44,244)	–	–
Fair value increase in investment properties	17	(33,713)	(24,060)	–	–
Fair value decrease on assets classified as held for sale	7	224	–	–	–
Profit on sale of investment properties	7	(9,166)	(8,180)	–	–
Loss on sale of assets classified as held for sale	7	375	–	–	–
Other gains	7	(747)	(3,208)	–	–
Share of (profit)/loss of joint venture	18	(647)	465	–	–
Depreciation of property, plant and equipment	15	2	–	–	–
Pension contributions in excess of charge		(102)	(132)	(102)	(3)
Operating cash inflows/(outflows) before movements in working capital		2,034	(922)	(1,992)	(3,199)
Decrease/(increase) in inventories		359	(781)	–	–
(Increase)/decrease in receivables		(634)	9,881	(1,584)	90
Increase/(decrease) in payables		3,715	(10,512)	1,014	654
Cash generated from/(used in) operations		5,474	(2,334)	(2,562)	(2,455)
Loan arrangement fees paid		(150)	(170)	–	–
Interest paid		(1,861)	(1,101)	–	–
Cash generated from discontinued operations	2	–	228	–	–
<b>Cash generated from/(used in) operating activities</b>		<b>3,463</b>	<b>(3,377)</b>	<b>(2,562)</b>	<b>(2,455)</b>
<b>Cash flows from investing activities</b>					
Interest received		247	62	9	32
Acquisition of joint venture		(9,134)	–	–	–
Acquisition of subsidiary, net of cash acquired	3	–	(87,823)	–	(97,026)
Proceeds from disposal of investment properties and option		53,201	42,302	–	–
Expenditure on investment properties		(47,528)	(41,215)	–	–
Expenditure on property, plant and equipment		(25)	–	–	–
Cash used by discontinued operations	2	–	(1,068)	–	–
<b>Cash (used in)/generated from investing activities</b>		<b>(3,239)</b>	<b>(87,742)</b>	<b>9</b>	<b>(96,994)</b>
<b>Cash flows from financing activities</b>					
Net proceeds from issue of Ordinary Shares		–	112,075	–	112,075
Proceeds from other loans		5,187	13,455	–	–
Repayment of bank loans		(12,000)	(400)	–	–
Repayment of other loans		(5,805)	(8,776)	–	–
Loan to subsidiary undertakings		–	–	–	(7,228)
Dividends paid		(2,163)	–	(2,163)	–
<b>Cash (used in)/generated from financing activities</b>		<b>(14,781)</b>	<b>116,354</b>	<b>(2,163)</b>	<b>104,847</b>
<b>(Decrease)/increase in cash</b>		<b>(14,557)</b>	<b>25,235</b>	<b>(4,716)</b>	<b>5,398</b>
At 1 January					
Cash		27,564	1,489	6,887	1,489
Cash and cash equivalents classified as held for sale		–	840	–	–
		27,564	2,329	6,887	1,489
(Decrease)/Increase in cash		(14,557)	26,075	(4,716)	5,398
Decrease in cash and cash equivalents classified as held for sale		–	(840)	–	–
		13,007	25,235	2,171	5,398
At 31 December					
Cash		13,007	27,564	2,171	6,887
Cash and cash equivalents classified as held for sale		–	–	–	–
<b>Cash and cash equivalents</b>	22	<b>13,007</b>	<b>27,564</b>	<b>2,171</b>	<b>6,887</b>

# Notes to the financial statements

for the year ended 31 December 2016

## 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 (the 'Company') is a limited Company incorporated and domiciled in the UK. The address of its registered office is Advantage House, Poplar Way, Catcliffe, Rotherham, South Yorkshire S60 5TR.

The Company is listed on the London Stock Exchange.

### Basis of preparation

The Group and Company 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 IC 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 126.

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

The Group has a £75m 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.

### 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 fines 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 Group 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 contracts, 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.

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.

# Notes to the financial statements

for the year ended 31 December 2016: continued

## 1. Accounting policies: continued

### *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 options, Planning Promotion Agreements (PPAs) and coal slurry that has been processed and is ready for sale.

Options to purchase land are agreements that the Group has entered into with the landowners whereby the Group has the option to purchase the land within a limited timeframe. The landowners are not generally permitted to sell to any other party during this period, unless agreed by the Group. Within this timeframe the Group promotes the land through the planning process at its expense in order to gain planning permission. Should the Group be successful in obtaining planning permission it would trigger the option to purchase and subsequently sell on the land.

PPAs are agreements that the Group has entered into with the landowners whereby the Group acts as an agent to the landowners in exchange for a fee as a set percentage of the proceeds or profit of the eventual sale. The Group promotes the land through the planning process at its own expense. If the land is sold the Group will receive a fee for its services.

The Group incurs various costs in promoting land held under PPAs. In some instances the agreements allow for the Group to be reimbursed for certain expenditure following the conclusion of a successful sale. These costs are held in inventory at the lower of cost and net realisable value. Upon reimbursement, inventory is reduced by the value of the reimbursed cost.

Coal fines that have been processed and are ready for sale are stated at the lower of cost and estimated net realisable value. Inventories comprise all the direct costs incurred in bringing the coal fines 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 improvements 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

### *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.

### *Financial liabilities*

Liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other liabilities, as appropriate.

A financial liability is de-recognised when the obligation under the liability is discharged, or cancelled or expires.

All loans and borrowings are classified as other liabilities. Initial recognition is at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

### *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.

### *Pension obligations*

The Group contributes to defined contribution schemes for its current employees. The cost of this is charged to the consolidated income statement as incurred.

### *Blenkinsopp pension*

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 UK Coal Operations Limited (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 within 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.

During the year to 31 December 2016 all contributions have been paid to the pension fund by the Company. The contribution for the year to 31 December 2015 were paid 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.

# Notes to the financial statements

for the year ended 31 December 2016: continued

## 1. Accounting policies: continued

### *Share-based payments*

Equity-settled share-based payments 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'.

The Group is 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 space 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.

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.

### *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.



## 1. Accounting policies: continued

### *Property, plant and equipment*

Group occupied properties are stated at their fair value, based on market values, less any subsequent accumulated depreciation or accumulated impairment loss. Surpluses on revaluations are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the Statement of Comprehensive Income.

Office equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives of 3 to 4 years, using the straight line method.

### *Derivatives and hedging*

Derivative financial instruments such as interest rate swaps are occasionally entered into in order to manage interest rate risks arising from long-term debt. Such derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedge risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where such derivative transactions are executed, gains and losses on the fair value of such arrangements are taken either to reserves or to the Statement of Comprehensive Income dependent upon the nature of the instrument.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

When a derivative is held as an economic hedge for a period beyond twelve months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item. A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if: 1) a reliable allocation can be made; and 2) it is applied to all designated and effective hedging instruments.

## Tax

### *Current Tax*

The charge or credit for current tax is based on the results for the year adjusted for items that are either not subject to taxation or for expenditure which cannot be deducted in computing the tax charge or credit. The tax charge or credit is calculated using taxation rates that have been enacted or substantively enacted at the balance sheet date.

### *Deferred Tax*

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax is recognised in respect of all taxable temporary timing differences, with certain limited exceptions:

- Deferred tax is not provided on the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination; and
- Deferred tax assets are only recognised if it is probable that there will be sufficient profits from which the future reversal of the underlying timing differences can be deducted. In deciding whether future reversal is probable, the Directors review the Group's forecasts and make an estimate of the aggregate deferred tax asset that should be recognised. This aggregate deferred tax asset is then allocated into the different categories of deferred tax.

Deferred tax is calculated at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except where it applies to items credited or charged to equity, in which case the deferred tax is also dealt with in equity.

The carrying value of the Group's Investment property is assumed to be realised by sale at the end of use. The capital gains tax rate applied is that which would apply on a direct sale of the property recorded in the Balance Sheet regardless of whether the Group would structure the sale via the disposal of the subsidiary holding the asset, to which a different tax rate may apply. The deferred tax is then calculated based on the respective temporary differences and tax consequences arising from recovery through sale.

# Notes to the financial statements

## for the year ended 31 December 2016: continued

### 1. Accounting policies: continued

#### Changes in accounting policy and disclosures

##### (a) *New standards, amendments and interpretations*

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2016 have had a material impact on the Group.

##### (b) *New standards, amendments and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following, set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. 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 measurement categories for financial assets: amortised cost, fair value through the Statement of Comprehensive Income (SOCl) and fair value through the income statement. 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 SOCl. 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 uses for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The full impact of IFRS 9 has not yet been assessed, however, management do not believe it will have a significant 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. Implementation of IFRS 15 requires a thorough review of existing contractual arrangements. At present, the Directors anticipate there may be some changes in the recognition of royalty income, and income related to PPAs leading to earlier recognition of some income although the amounts involved are relatively immaterial.
- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 has not yet been assessed, however, management do not believe it will have a significant impact given the minimal operating lease expenditure incurred in the Group.

#### Critical accounting 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.



## 1. Accounting policies: continued

### Critical accounting estimates and judgements: continued

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.

### Revenue

Overdue rents and royalties from the mining businesses have been included in revenue for 2016. Prior to this management concluded that there was a less than remote possibility of recoverability of this income and therefore was not recognised. A clearer outcome of the winding up of the mining businesses has given greater visibility of the recoverability of this revenue.

### Taxation

The recognition of deferred tax assets has been reviewed and re-assessed during the year. This has resulted in the recognition of a deferred tax asset of £8.4m based upon the certainty of recoverability.

## 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 was 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, and the Group received a final settlement of £0.5m during 2016 which has been recognised in exceptional items (see Note 6).

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

Group	2016 £'000	2015 £'000
Operating cash flows	–	228
Investing cash flows	–	(1,068)
Financing cash flows	–	–
<b>Total cash flows</b>	<b>–</b>	<b>(840)</b>

## 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 which headed up a Group 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 (731m Ordinary Shares) <sup>(1)</sup>	52,974
<b>Total consideration transferred</b>	<b>150,000</b>
Fair value of associate interest	57,746
<b>Total consideration</b>	<b>207,746</b>

<sup>(1)</sup> This was before the 1 for 10 share consolidation.

# Notes to the financial statements

## for the year ended 31 December 2016: continued

### 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)
<b>Fair value of acquired interest in net assets of subsidiary</b>	<b>251,990</b>
Gain on bargain purchase	(44,244)
<b>Total consideration</b>	<b>207,746</b>

The purchase consideration disclosed above comprised cash and cash equivalents of £150.0m paid to acquire the previous majority Shareholder which was satisfied by the payment of £97.0m 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 PPF is held within the merger reserve shown in the consolidated balance sheet.

Acquisition related costs of £2.4m were recognised in the consolidated income statement as an exceptional item. The fair value of the 731m 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 were netted against the deemed proceeds.

During the period ended 31 December 2015 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 for the year to 31 December 2015 would have shown 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
<b>Fair value of acquired interest in net assets of subsidiary</b>	<b>251,990</b>
Fair value of associate interest already held	(57,746)
Gain on bargain purchase	(44,244)
<b>Total purchase consideration</b>	<b>150,000</b>
Less: cash and cash equivalents of subsidiary acquired	(9,203)
Less: equity instruments issued	(52,974)
<b>Net outflow of cash and cash equivalents on acquisition</b>	<b>87,823</b>

## 4. Segment information

31 December 2016

Group	Capital Growth £'000	Income Generation £'000	Unallocated costs £'000	Total £'000
<b>Revenue</b>	<b>16,307</b>	<b>17,386</b>	<b>–</b>	<b>33,693</b>
Gross (loss)/profit less administrative expenses	(1,425)	11,032	(7,276)	2,331
Exceptional items	–	(682)	689	7
Increase in fair value of investment properties	23,433	10,280	–	33,713
Decrease in fair value of assets classified as held for sale	–	(224)	–	(224)
Profit on sale of investment properties	7,473	1,693	–	9,166
Loss on sale of assets classified as held for sale	–	(375)	–	(375)
Other gains	747	–	–	747
Other operating expenses	–	(117)	(87)	(204)
<b>Operating profit/(loss)</b>	<b>30,228</b>	<b>21,607</b>	<b>(6,674)</b>	<b>45,161</b>
Finance income				247
Finance costs				(2,588)
Share of profit of joint venture				647
<b>Profit before tax</b>				<b>43,467</b>

**Other information**

Investment property additions:

Direct acquisitions	–	22,524	–	22,524
Subsequent expenditure	14,707	7,947	–	22,654

## Segmental assets

	Capital Growth £'000	Income Generation £'000	Unallocated £'000	Total £'000
Investment properties	232,886	146,304	–	379,190
Property, plant and equipment	–	–	789	789
Assets classified as held for sale	6,152	2,198	–	8,350
Inventories	454	279	–	733
Other receivables	1,397	–	–	1,397
Investments in joint ventures	868	9,681	–	10,549
	<b>241,757</b>	<b>158,462</b>	<b>789</b>	<b>401,008</b>
Unallocated assets:				
Trade and other receivables			24,444	24,444
Cash and cash equivalents			13,007	13,007
<b>Total assets</b>	<b>241,757</b>	<b>158,462</b>	<b>38,240</b>	<b>438,459</b>

Financial liabilities are not allocated to the reporting segments as they are managed and measured on a Group basis.

# Notes to the financial statements

for the year ended 31 December 2016: continued

## 4. Segment informed: continued

31 December 2015

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

\* Unallocated revenues relate to recharges to HEPGL prior to its acquisition by the Group.

### Other information

Investment property additions:

Direct acquisitions	14,578	8,255	–	<b>22,833</b>
Subsequent expenditure	17,603	6,360	–	<b>23,963</b>

### Segmental assets

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

Financial liabilities are not allocated to the reporting segments as they are managed and measured on a Group basis.

## 5. Operating profit

		Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
	Note		
Operating profit before tax is stated after charging:			
Staff costs	8	5,806	3,520
Depreciation of property, plant and equipment	15	2	–

## 6. Exceptional items

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Settlement relating to Harworth Insurance Company Limited	500	–
Settlement relating to Ocanti Opco Limited	189	–
Under recovery relating to the cessation of coal fine activities at Rugeley and coal fines stock provision	(682)	–
Write down of investment in joint venture	–	(465)
Costs associated with acquisition of a subsidiary	–	(2,394)
<b>Total exceptional items</b>	<b>7</b>	<b>(2,859)</b>

Exceptional items for 2016 comprise four separate items, all of which largely relate to the Group's legacy activities. £0.5m relates to a settlement from the administrator of Harworth Insurance Company Limited and £0.2m from the administrator of Ocanti Opco Limited which related to the reimbursement of management expenses incurred by Coalfield Resources plc (the former name of Harworth Group plc). In respect of coal fines activity, an exceptional charge has been taken relating to the cessation of activity at Rugeley of £0.3m and a provision of £0.3m has been taken against the value of coal fines stocks reflecting reduced demand.

The exceptional items in 2015 related to the transaction costs incurred on the acquisition of HEPGL of £2.4m and the write down of a joint venture held by the Group of £0.5m.

## 7. Other operating (expense)/income

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Administrative expenses	(10,457)	(5,731)
Other operating (expense)/income	(204)	176
Other gains	747	3,208
Profit on sale of investment properties	9,166	8,180
Loss on sale of assets classified as held for sale	(375)	–
Increase in fair value of investment properties	33,713	24,060
Decrease in fair value of assets classified as held for sale	(224)	–
<b>Other operating income</b>	<b>32,366</b>	<b>29,893</b>

Other gains in 2015 represents a gain on the sale of an option. Other operating (expense)/income in 2016 and 2015 represents expenses relating to the Blenkinsopp Pension Scheme (see Note 27) and other smaller items.

## 8. Employee information

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

	Group		Company	
	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Administration	51	45	4	4
<b>Total</b>	<b>51</b>	<b>45</b>	<b>4</b>	<b>4</b>

Remuneration details of these persons was as follows:

	Group		Company	
	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Wages and salaries	5,102	2,985	1,264	822
Social security costs	448	333	139	84
Other pension costs	256	202	43	11
	<b>5,806</b>	<b>3,520</b>	<b>1,446</b>	<b>917</b>

# Notes to the financial statements

## for the year ended 31 December 2016: 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 2016 £'000	Year ended 31 December 2015 £'000
Wages and salaries	717	446
Social security costs	95	57
Other pension costs	51	42
	<b>863</b>	<b>545</b>

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

### 9. Finance income and costs

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest expense		
– Bank interest	(1,559)	(977)
– Facility fees	(545)	(485)
– Other interest	(484)	(341)
<b>Finance costs</b>	<b>(2,588)</b>	<b>(1,803)</b>
Interest received	247	62
<b>Net finance costs</b>	<b>(2,341)</b>	<b>(1,741)</b>

No interest has been capitalised.

### 10. Auditors' remuneration

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

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Audit services</b>		
Fees payable to the Company auditors and its associates for the audit of the Company and the consolidated financial statements	40	65
Fees payable to the Company auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	80	85
– Audit related assurance services	50	15
– The audit of the Group's joint ventures	10	–
– Tax advisory services	84	98
– Tax compliance services	38	33
– Fees in relation to transaction	–	529
	<b>302</b>	<b>825</b>

From time to time, the Group employs PwC 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 pre-approves all non-audit services above a predetermined trivial cost threshold.

## 11. Tax charge

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Analysis of tax charge in the year</b>		
Deferred tax		
Current year	2,510	3,508
Adjustment in respect of prior periods	1,652	–
Effect of changes in tax rates	(2,042)	–
Re-assessment of recognition of recoverability of deferred tax assets	1,446	–
<b>Tax charge</b>	<b>3,566</b>	<b>3,508</b>

The adjustments in respect of prior periods principally relate to a revision made to the calculation of tax relating to property disposals subsequent to the signing of the 2015 financial statements.

The effect of changes in tax rates arises firstly due to the decrease in the enacted corporation tax rate in future periods which impacts the rate at which deferred tax is recognised and secondly due to the difference between the current tax and deferred tax rate for the period.

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Other comprehensive income items</b>		
Deferred tax - current year	14	–
Deferred tax - prior year	80	–
<b>Total</b>	<b>94</b>	<b>–</b>

The tax for the year is different to the standard rate of corporation tax in the UK of 20.0% (2015: 20.25%). The differences are explained below:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit before tax	43,467	77,552
Profit before tax multiplied by rate of corporation tax in the UK of 20.0% (2015: 20.25%)	8,693	15,704
Effects of:		
Adjustment in respect of prior periods	1,652	–
Share of associated Company profit not taxable	–	(173)
Non-taxable income	(129)	(7,084)
Expenses not deducted for tax purposes	390	436
Gain on bargain purchase	–	(8,959)
Revaluation (gains)/losses	(4,683)	4,176
Changes in tax rates	(2,042)	(651)
Capital gains tax transferred out	(1,764)	–
Re-assessment of recognition of recoverability of deferred tax assets	1,446	–
Deferred tax not recognised	3	59
<b>Total tax charge</b>	<b>3,566</b>	<b>3,508</b>

## Deferred tax

The analysis of deferred tax liabilities is as follows:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
No more than twelve months after the reporting year	–	–
More than twelve months after the reporting year	14,851	11,379
	<b>14,851</b>	<b>11,379</b>

# Notes to the financial statements

## for the year ended 31 December 2016: continued

### 11. Tax charge: continued

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

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
At 1 January	11,379	–
Acquisition of subsidiary	–	7,871
Income statement charge for the year	1,914	3,508
Adjustment in respect of prior years	1,572	–
Statement of comprehensive expense for the year	(14)	–
<b>At 31 December</b>	<b>14,851</b>	<b>11,379</b>

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2015: 18%). Changes to the rate of UK corporation tax were substantively enacted in 2015 to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The budget of 16 March 2016 then proposed to reduce further the rate to 17% from 1 April 2020. This additional charge was substantively enacted on 6 September 2016. The deferred tax liabilities are shown at 17% (2015: 18%) being the rate expected to apply to the reversal of the liability.

The deferred tax charge of £3.6m (2015: £3.5m) for the year ended 31 December 2016 is in respect of property revaluation gains where tax is expected to arise when properties are 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 of £19.7m at 31 December 2016 have not been recognised owing to the uncertainty as to their recoverability, deferred tax assets of £27.9m were not recognised at 31 December 2015:

	As at 31 December 2016 Total amount recognised £'000	As at 31 December 2016 Total potential asset £'000	As at 31 December 2015 Total amount recognised £'000	As at 31 December 2015 Total potential asset £'000
Tax losses	8,427	28,149	–	27,850
<b>Net deferred tax asset</b>	<b>8,427</b>	<b>28,149</b>	<b>–</b>	<b>27,850</b>

The Company has recognised a deferred tax asset in 2016 of £3,055,000 (2015: £nil), but has a potential deferred tax asset of £nil (2015: £3,380,000) in respect of unused tax losses.

### 12. Profit/(loss) 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 profit for the financial year was £1,348,000 (2015: loss £1,661,000) and the total comprehensive income for the financial year was £1,107,000 (2015: expenditure £808,000).

### 13. Dividends

The Board recommended and Shareholders approved a full year dividend for financial year 2015 of £1.5m (0.51p per share) which was paid on 9 September 2016 and an interim dividend of £0.66m (0.23p per share) for the six months ended 30 June 2016 which was paid on 1 December 2016. The Company is proposing to recommend a final dividend of 0.523 pence per share (£1.53m in total) for the year ended 31 December 2016 at the Annual General Meeting in May.

### 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 and for 31 December 2016 the share consolidation which took place on 3 May 2016 (see Note 28).



**14. Earnings per share: continued**

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Profit from continuing operations attributable to owners of the parent	39,901	74,044
<b>Profit for the year</b>	<b>39,901</b>	<b>74,044</b>
Weighted average number of shares used for basic and diluted earnings per share calculation	1,133,144,333	2,395,763,516
<b>Basic and diluted profit per share (pence)</b>	<b>3.5</b>	<b>3.1</b>
<b>Underlying earnings per share (pence)</b>	<b>13.7</b>	<b>12.2</b>

Adjusted basic and diluted earnings per share for the year ended 31 December 2015 were 1.1 pence, being based on profit before tax adjusted for the exceptional gain on bargain purchase of £44.2m, acquisition fees of £2.4m and write down of investments of £0.5m. Underlying earnings per share have been calculated using underlying profit from continuing operations £39.9m (2015: £35.7m underlying) and shares in issue at the end of 2016.

**15. Property, plant and equipment**

Group	Land and Buildings £'000	Office equipment £'000	Total £'000
Fair value			
At 1 January 2016	–	–	–
Additions at cost	–	25	25
Transfer from investment properties (Note 17)	783	–	783
Decrease in fair value	(17)	–	(17)
<b>At 31 December 2016</b>	<b>766</b>	<b>25</b>	<b>791</b>
Accumulated depreciation			
At 1 January 2016	–	–	–
Charge for year	–	2	2
<b>At 31 December 2016</b>	<b>–</b>	<b>2</b>	<b>2</b>
<b>Carrying amount</b>			
At 31 December 2015	–	–	–
<b>At 31 December 2016</b>	<b>766</b>	<b>23</b>	<b>789</b>

At 31 December 2016, the Group had entered into contractual commitments for the acquisitions of property, plant and equipment amounting to £nil (2015: £nil).

Information about the valuation of land and buildings is provided in Note 17.

**16. Other receivables**

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

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
At 1 January	650	–
Acquired	–	650
Fair value gains	747	–
<b>At 31 December</b>	<b>1,397</b>	<b>650</b>

# Notes to the financial statements

for the year ended 31 December 2016: continued

## 17. Investment properties

Investment property at 31 December 2016 and 31 December 2015 has been measured at fair value. The Group holds five categories of investment property being agricultural land, natural resources, business parks, major developments and strategic land 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 1 January 2015	–	–	–	–	–	–
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)
<b>At 31 December 2015 and 1 January 2016</b>	<b>16,763</b>	<b>16,954</b>	<b>90,896</b>	<b>157,589</b>	<b>52,415</b>	<b>334,617</b>
Transfers	4,617	5,682	(25,424)	64,763	(49,638)	–
Direct acquisitions	1,390	–	21,134	–	–	22,524
Subsequent expenditure	286	1,663	5,998	11,223	3,484	22,654
(Decrease)/increase in fair value	(894)	5,203	5,971	12,103	11,330	33,713
Transfer to assets held for sale	(1,680)	–	(477)	(6,153)	–	(8,310)
Transfer to property, plant and equipment	–	–	(783)	–	–	(783)
Disposals	(376)	(13)	(606)	(23,875)	(355)	(25,225)
<b>At 31 December 2016</b>	<b>20,106</b>	<b>29,489</b>	<b>96,709</b>	<b>215,650</b>	<b>17,236</b>	<b>379,190</b>

### Valuation process

The properties were valued in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards (the “Red Book”), by BNP Paribas Real Estates and Savills. Both are 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.

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 levels in the year ended 31 December 2016 (2015: none).

**17. Investment properties: continued**

Valuation techniques underlying management's estimation of fair value are as follows:

***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.

***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.

***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.

		Agricultural land	Natural resources	Business parks	Major developments	Strategic land
<b>At 31 December 2016</b>						
Reversionary rental yield %	weighted average	–	–	9.65	–	–
	low	–	–	5.12	–	–
	high	–	–	15.03	–	–
Land value per acre £'000	weighted average	4	5	67	73	24
	low	1	1	2	22	1
	high	11	115	2,225	333	337
Cost report totals*	£'000	–	730	21,650	127,472	54,350
<b>At 31 December 2015</b>						
Reversionary rental yield %	weighted average	–	–	10.54	–	–
	low	–	–	5.12	–	–
	high	–	–	16.95	–	–
Land value per acre £'000	weighted average	3	6	41	71	18
	low	1	1	2	24	1
	high	11	89	250	330	500
Cost report totals*	£'000	–	–	19,630	99,430	56,368

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

# Notes to the financial statements

## for the year ended 31 December 2016: continued

### 17. Investment properties: continued

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

At 31 December 2016

Valuation metric	+/- change	+/- effect on valuation				
		Agricultural land	Natural resources	Business parks	Major developments	Strategic land
Value per acre	5%	1,275	1,498	4,835	10,783	868
Rental	5%	–	–	3,726	–	–
Yield (e.g. 11% to 10%)	1%	–	–	9,272	–	–
Cost report totals	5%	–	37	1,083	6,374	2,718

At 31 December 2015

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

The property rental income earned by the Group from its occupied investment property, all of which is leased out under operating leases amounted to £8,376,000 (2015: £4,601,100). Direct operating expenses arising on investment property generating rental income in the year amounted to £3,885,000 (2015: £2,603,200). Direct operating expenses arising on the investment property which did not generate rental income during the year amounted to £115,000 (2015: £86,700).

### 18. Investments

#### (a) Investment in subsidiaries

Company	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Cost:</b>		
At 1 January	207,896	3,374
Additions in the year	–	207,746
Disposals in the year	–	(3,224)
At 31 December	207,896	207,896
<b>Provision for impairment:</b>		
At 1 January	–	–
Additions in the year	–	–
Disposals in the year	–	–
At 31 December	–	–
<b>Net book amount:</b>		
At 31 December	207,896	207,896

The disposal in 2015 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.

**18. Investments: continued****(a) Investment in subsidiaries**

Particulars of the Group undertakings (including joint ventures) at 31 December 2016 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 <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth Guarantee Company Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth Trustees Limited <sup>(1)</sup>	Dormant	Ordinary	100
Harworth Secretariat Services Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth Estates Property Group Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Group Limited <sup>(1)</sup>	Non-Trading	Ordinary	100
Harworth No. 3 Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth Services Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth Estates Limited <sup>(1)</sup>	Trading	Ordinary	100
Bates Regeneration Limited <sup>(2)</sup>	Trading	Ordinary	50
Bilthorpe Waste Limited <sup>(1)</sup>	Dormant	Ordinary	50
EOS Inc Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates (Agricultural) Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates (Waverley Prince) Limited <sup>(1)</sup>	Trading	Ordinary	100
Waverley Community Management Company Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Curtilage Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Investments Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Mines Property Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates No 2 Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Overage Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Warwickshire Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth TRR Limited <sup>(1)</sup>	Dormant	Ordinary	100
Houghton Main Waste Limited <sup>(1)</sup>	Dormant	Ordinary	50
Kellingley Colliery Waste Limited <sup>(1)</sup>	Dormant	Ordinary	50
Logistics North MC Limited <sup>(1)</sup>	Trading	Ordinary	15.38
North Selby Mine Waste Limited <sup>(1)</sup>	Dormant	Ordinary	50
POW Management Company Limited <sup>(1)</sup>	Trading	Ordinary	100
Rossington Community Management Company Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Wardley Waste Limited <sup>(1)</sup>	Dormant	Ordinary	50
Harworth Regeneration Limited <sup>(1)</sup>	Dormant	Ordinary	100
Mapplewell Management Company Limited <sup>(1)</sup>	Non-trading	Ordinary	100
The Aire Valley Land LLP <sup>(1)</sup>	Trading	Ordinary	50
Flass Lane Management Company Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth Surface Water (North West) Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Waverley Square Limited <sup>(3)</sup>	Trading	Ordinary	50

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

**Notes**

<sup>(1)</sup> Registered office at Advantage House, Poplar Way, Rotherham, South Yorkshire, S60 5TR

<sup>(2)</sup> Registered office at Inkerman House, St. Johns Road, Meadowfield, Durham, County Durham, DH7 8XL

<sup>(3)</sup> Registered office at Dransfield House, 2 Fox Valley Way, Fox Valley, Sheffield, S36 2AB

# Notes to the financial statements

## for the year ended 31 December 2016: continued

### 18. Investments: continued

#### b) Investment in associates

Group	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
At 1 January	–	56,890
Share of profit	–	856
Purchase of share capital not held	–	(57,746)
At 31 December	–	–

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.

The Group's share of net assets of HEPGL was reduced by £5.0m to reflect the fact that, under the terms of the Shareholder Agreement prior to 24 March 2015, the first £5.0m of dividend income due to the Company would be paid to the 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.

#### (c) Investment in joint ventures

	£'000
At 1 January 2015	–
Arising on acquisition of subsidiaries	1,233
Impairment of investment in joint venture	(465)
<b>At 31 December 2015</b>	<b>768</b>
Acquisitions	9,134
Share in profit of joint venture	647
<b>At 31 December 2016</b>	<b>10,549</b>

As a result of the 2015 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. On 14 March 2016 the Group purchased a 50% share of Aire Valley Land LLP from Keyland Developments Limited for a consideration of £8.5m plus costs of £0.5m. Aire Valley Land LLP is a joint venture Company. It controls 165 acres of land in Leeds that abuts an existing landholding of the Group on the former Skelton Grange power station site. On 16 December 2016, the Group entered into a joint venture agreement with Dransfield Properties Limited to acquire a 50% share of Waverley Square Limited.

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

December 2016	Country of incorporation	Assets £'000	Liabilities £'000	Interest held %
Bates Regeneration Limited	England and Wales	1,213	(445)	50
Aire Valley Land LLP	England and Wales	12,001	(2,320)	50
Waverley Square Limited	England and Wales	100	–	50

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

The risks associated with these investments are as follows:

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

## 19. Inventories

	Group	
	As at 31 December 2016 £'000	As at 31 December 2015 £'000
Planning promotion agreements	454	–
Work in progress	–	114
Finished goods	279	978
<b>Total inventories</b>	<b>733</b>	<b>1,092</b>

Finished goods comprises coal fines that have been processed and are ready for sale. The cost of inventory is recognised as an expense within cost of sales in the year of £0.4m (2015: £1.1m). Inventories are stated after a provision of £0.3m (2015: £nil).

## 20. Trade and other receivables

	Group		Company	
	As at 31 December 2016 £'000	As at 31 December 2015 £'000	As at 31 December 2016 £'000	As at 31 December 2015 £'000
Trade receivables	4,179	1,564	–	–
Less: provision for impairment of trade receivables	(221)	(121)	–	–
Net trade receivables	3,958	1,443	–	–
Other receivables	19,111	16,723	291	153
Prepayments and accrued income	1,375	1,159	–	–
Amounts recoverable on construction contracts	–	581	–	–
Amounts owed by subsidiary undertakings (Note 32)	–	–	8,860	7,517
	<b>24,444</b>	<b>19,906</b>	<b>9,151</b>	<b>7,670</b>

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.

## Group

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

	Group	
	2016 £'000	2015 £'000
At the beginning of the year	(121)	–
Arising on acquisition of subsidiaries	–	(121)
Receivables written off during the year as uncollectable	–	–
Provided for in the year	(100)	–
<b>At the end of the year</b>	<b>(221)</b>	<b>(121)</b>

The other classes of assets within trade and other receivables for the Group contain impaired assets of £142,000 (2015: £1,055,000) against which a provision of £142,000 (2015: £262,000) is held.

As at 31 December 2016, trade receivables of £58,000 (2015: £1,120,000) 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 2017.

The ageing of these was as follows:

	Group	
	2016 £'000	2015 £'000
Up to 3 months	15	1,095
Over 3 months	43	25
<b>At the end of the year</b>	<b>58</b>	<b>1,120</b>

As at 31 December 2016, trade receivables of £221,000 (2015: £121,000) were impaired. The ageing analysis of the impaired trade receivables was as follows:

	Group	
	2016 £'000	2015 £'000
Up to 3 months	46	–
Over 3 months	175	121
<b>At the end of the year</b>	<b>221</b>	<b>121</b>

Provision for impairment charged to the income statement in the year was £242,000 (2015: £nil).

# Notes to the financial statements

for the year ended 31 December 2016: continued

## 20. Trade and other receivables: continued

### Company

The Company had no external receivables as at 31 December 2016 (2015: £nil). The other classes of assets within trade and other receivables do not contain impaired assets.

## 21. Assets classified as held for sale

	Group	
	2016 £'000	2015 £'000
<b>Investment properties</b>		
At 1 January	9,128	–
Transferred from investment properties	8,310	9,128
Subsequent expenditure	1,588	–
Decrease in fair value	(224)	–
Disposals	(10,452)	–
<b>At 31 December</b>	<b>8,350</b>	<b>9,128</b>

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

## 22. Cash and cash equivalents

	Group		Company	
	As at 31 December 2016 £'000	As at 31 December 2015 £'000	As at 31 December 2016 £'000	As at 31 December 2015 £'000
Cash	13,007	27,564	2,171	6,887
Cash and cash equivalents in the cash flow statement	13,007	27,564	2,171	6,887

## 23. Borrowings

	Group	
	As at 31 December 2016 £'000	As at 31 December 2015 £'000
<b>Current:</b>		
Secured – other loans	(1,819)	(400)
	<b>(1,819)</b>	<b>(400)</b>
<b>Non-current:</b>		
Secured – bank loans	(37,142)	(48,968)
Secured – other loans	(13,517)	(15,151)
	<b>(50,659)</b>	<b>(64,119)</b>

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

At 31 December 2016, the Group had bank borrowings of £38.0m, £37.0m net of unamortised borrowings costs (2015: £50.0m, £49.0m net of unamortised borrowing costs) and a further £15.6m, £15.5m net of unamortised borrowing costs (2015: £15.7m, £15.5m net of unamortised borrowing costs) of infrastructure loans, which resulted in total borrowings of £52.5m net of unamortised borrowing costs (2015: £64.5m net of unamortised borrowing costs). The bank borrowings are part of a £75.0m (2015: £65.0m) revolving credit facility from The Royal Bank of Scotland. The facility is repayable on 13 February 2021 (five year term) after being extended for a year on 1 August 2016. The facility is non-amortising basis and subject to financial and other covenants.

The infrastructure loans of £15.6m (2015: £15.7m) are provided by public bodies in order to promote the development of major sites. They comprise a £0.8m (2015: £1.2m) loan from Leeds LEP in respect of the Prince of Wales site, £11.7m (2015: £10.9m) from the Homes and Community Agency in respect of Waverley and £0.1m (2015: £nil) for Village Farm, £2.3m (2015: £3.6m) from Sheffield City Region JESSICA Fund for Rockingham and £0.7m (2015: £nil) for the Advanced Manufacturing Park at Waverley.

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.



**23. Borrowings: continued**

Current loans are stated after deduction of unamortised borrowing cost of £nil (2015: £nil). Non-current bank and other loans are stated after deduction of unamortised borrowing costs of £1.1m (2015: £1.2m). 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 2016 £'000	As at 31 December 2015 £'000	As at 31 December 2016 £'000	As at 31 December 2015 £'000
<b>Current</b>				
Trade payables	1,555	875	443	19
Amounts owed to subsidiary undertakings (Note 32)	–	–	52	600
Taxation and social security	7,852	2,720	47	213
Other creditors	2,087	2,920	–	–
Accruals and deferred income	22,225	10,854	1,343	179
	<b>33,719</b>	<b>17,369</b>	<b>1,885</b>	<b>1,011</b>

Accruals and deferred income includes £15.4m (2015: £6.0m) of cost accruals.

**Non-current liabilities**

	Group		Company	
	As at 31 December 2016 £'000	As at 31 December 2015 £'000	As at 31 December 2016 £'000	As at 31 December 2015 £'000
<b>Non-current</b>				
Other creditors	1,520	2,280	–	–
	<b>1,520</b>	<b>2,280</b>	<b>–</b>	<b>–</b>

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

**25. Financial instruments and derivatives**

On 21 June 2016 HEPGL entered into a four-year swap to fix £30m of borrowings at an all-in rate of 2.955% including fees. The interest rate swap has been measured at fair value which is determined using forward interest rates extracted from observable yield curves. The fair value of the interest rate swap at 31 December 2016 was a loss of £0.4m (2015: £nil).

During the year the following loss was recognised in the other comprehensive income statement in relation to the interest rate swap:

	2016 £'000	2015 £'000
Loss on interest rate swap - cash flow hedge	366	–

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**

Group	31 December 2016		31 December 2015	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Assets</b>				
Cash and cash equivalents	13,007	13,007	27,564	27,564
Trade and other receivables	22,792	22,792	19,906	19,906
<b>Liabilities</b>				
Bank and other borrowings	52,478	52,478	64,519	64,519
Trade and other payables	28,221	28,221	17,369	17,369

# Notes to the financial statements

for the year ended 31 December 2016: continued

## 25. Financial instruments and derivatives: continued

Company	31 December 2016		31 December 2015	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Assets</b>				
Cash and cash equivalents	2,171	2,171	6,887	6,887
Trade and other receivables	9,151	9,151	7,670	7,670
<b>Liabilities</b>				
Bank and other borrowings	–	–	–	–
Trade and other payables	2,487	2,487	1,446	1,446

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 2016 and 2015 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.

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 HEPGL, 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%. On 21 June 2016 HEPGL entered into a four-year swap with RBS to fix £30m of borrowing at an all in rate of 2.955%, including fees. The swap is hedge accounted with any unrealised movements going through reserves.

The Group also has five infrastructure loans with all in funding rates of between 2.4% and 4.0%.

### 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 31 December 2016 of £39,471,000; (2015: £36,955,000). The Group generated cash from operating activities and investing activities for the year of £224,000 (2015: used £91,119,000).

## 26. Financial risk management: continued

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
<b>At 31 December 2016</b>			
Trade and other payables (including deferred income)	35,239	—	—
Interest payable on borrowings	—	34	694
Bank and other borrowings	1,819	8,626	41,305
<b>At December 2015</b>			
Trade and other payables (including deferred income)	19,645	—	—
Interest payable on borrowings	—	—	345
Bank and other borrowings	400	3,000	60,774

### 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 2016 this was £39.5m (2015: net debt £37.0m).

The Group has in place a £75.0m revolving credit facility from The Royal Bank of Scotland (RBS). The facility is a five-year term facility which ends in February 2021. 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, gearing, 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 £256,000 (2015: £202,000). 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 2016 £'000	As at 31 December 2015 £'000	As at 31 December 2016 £'000	As at 31 December 2015 £'000
<b>Relating to continuing activities</b>				
Blenkinsopp	602	435	602	435
	602	435	602	435

Contributions to the Blenkinsopp scheme of £189,300 were made by the Group during 2016. In 2015 Contributions of £189,300 were paid under an indemnity by UK Coal Production Limited. It is expected that contributions of a similar amount will be paid in 2017. At December 2016, no contributions remained unpaid (2015: £nil).

# Notes to the financial statements

## for the year ended 31 December 2016: continued

### 27. Retirement benefit obligations: continued

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 were:

	As at 31 December 2016	As at 31 December 2015
Discount rate	2.55% p.a.	3.8% p.a.
Rate of pension increases	2.30% p.a.	2.2% p.a.
Rate of price inflation (RPI)	3.25% p.a.	3.2% p.a.
Rate of price inflation (CPI)	2.25% p.a.	2.2% p.a.
Rate of cash commutation	20.00%	20.00%
	Year ended 31 December 2016	Year ended 31 December 2015
Longevity at age 60 for current pensioners (years)	18.6 – 22.0	18.6 – 21.9
Longevity at age 60 for future pensioners (years)	20.3 – 24.0	20.2 – 23.9

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:

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Fair value of plan assets	2,117	1,727	1,740	1,393	1,282
Present value of funding obligations	(2,719)	(2,162)	(2,304)	(2,076)	(2,002)
<b>Net liability recognised in the Balance Sheet</b>	<b>(602)</b>	<b>(435)</b>	<b>(564)</b>	<b>(683)</b>	<b>(720)</b>

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

The amounts recognised in the consolidated income statement are:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Expenses	(74)	(36)
Interest cost	(13)	(21)
	<b>(87)</b>	<b>(57)</b>

A further cost of £269,000 (2015: loss of £3,000) 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 2016 £'000	Year ended 31 December 2015 £'000
<b>Change in assets</b>		
Fair value of plan assets at the start of the year	1,727	1,740
Interest income	68	59
Actual return on scheme assets excluding interest income	289	(72)
Employer contributions	189	189
Expenses	(74)	(36)
Benefits paid	(82)	(153)
<b>Fair value of plan assets at the end of the year</b>	<b>2,117</b>	<b>1,727</b>

**27. Retirement benefit obligations: continued**

Plan assets are comprised as follows:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Gilts	1,610	1,282
Corporate bonds	511	435
Other	(4)	10
<b>Total</b>	<b>2,117</b>	<b>1,727</b>

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Change in defined benefit obligations</b>		
Present value of defined benefit obligation at the start of the year	(2,162)	(2,304)
Interest cost	(81)	(80)
<b>Remeasurements:</b>		
– Gain arising from changes in demographic assumptions	–	56
– (Loss)/gain arising from changes in financial assumptions	(558)	13
Benefits paid	82	153
<b>Present value of defined benefit obligation at the end of the year</b>	<b>(2,719)</b>	<b>(2,162)</b>

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Analysis of the movement of the balance sheet liability</b>		
At the start of the year	(435)	(564)
Total amounts recognised in the income statement	(87)	(57)
Contributions		
Employer contributions	189	189
Net actuarial loss recognised in the year	(269)	(3)
<b>At the end of the year</b>	<b>(602)</b>	<b>(435)</b>

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Cumulative actuarial gains and losses recognised in equity</b>		
At the start of the year	212	215
Net actuarial loss in the year	(269)	(3)
<b>At the end of the year</b>	<b>(57)</b>	<b>212</b>

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<b>Experience gains and losses</b>		
Actual return on scheme assets excluding interest income	289	(72)
<b>Remeasurements:</b>		
– Gain arising from changes in demographic assumptions	–	56
– (Loss)/gain arising from changes in financial assumptions	(558)	13
<b>Net actuarial loss</b>	<b>(269)</b>	<b>(3)</b>

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 2012, which were agreed in December 2015. This showed an estimated past service deficit of £2,674,000. The next valuation has yet to be agreed and signed.

# Notes to the financial statements

## for the year ended 31 December 2016: continued

### 27. Retirement benefit obligations: continued

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

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Change in discount rate by 0.1%	52	37
Change in price inflation (and associated assumptions) by 0.1%	27	10
Increase in life expectancy by 1 year	64	40

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

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. On 26 April 2016, 3 Ordinary Shares were issued at 1 pence each and all shares in issue were consolidated from 1 pence shares into 10 pence shares.

Group and Company	2016		2015	
	Number of shares	£'000	Number of shares	£'000
<b>Issued and fully paid</b>				
At 1 January	2,922,697,857	29,227	605,456,480	6,055
Shares issued	3	–	2,317,241,377	23,172
Share consolidation (1 for 10)	(2,630,428,074)	–	–	–
<b>31 December</b>	<b>292,269,786</b>	<b>29,227</b>	<b>2,922,697,857</b>	<b>29,227</b>

### Long Term Incentive Plan

A Long Term Incentive Plan was introduced in 2016 for Executive Directors and Senior Executives. There were no shares outstanding at 31 December 2016 (2015: 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	2016 £'000	2015 £'000
<b>At 1 January</b>	<b>129,121</b>	32,911
Transferred to other distributable reserves	(129,121)	–
Premium on shares issued	–	99,160
Costs relating to rights issue	–	(2,950)
<b>At 31 December</b>	<b>–</b>	<b>129,121</b>

On 18 May 2016, approval was granted from the High Court to cancel the £129m share premium account of the Company and for it to be re-designated as distributable reserves.

**30. Capital and other financial commitments**

Capital expenditure contracted for at 31 December 2016 is £4,216,000 (2015: £1,465,000).

**31. Operating lease commitments**

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

**Future minimum lease payments**

At 31 December 2016, the future minimum lease payments under non-cancellable leases were payable as follows:

	Group		Company	
	As at 31 December 2016 £'000	As at 31 December 2015 £'000	As at 31 December 2016 £'000	As at 31 December 2015 £'000
Less than one year	35	33	–	–
Between one and five years	10	30	–	–
More than five years	–	–	–	–
	45	63	–	–
Amounts recognised in the income statement				
Lease cost	60	25	–	–

**32. Related party transactions****Group****Directors and key management compensation**

The remuneration of the Directors is disclosed in the Directors' remuneration report. The remuneration of key management is given in Note 8.

**Peel Group**

The Peel Group charged £42,500 (2015: £41,875) in respect of fees for Steven Underwood and £nil (2015: £8,202) for the rental of office space.

In 2015 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 resulted in a gain of £3.2m shown in the consolidated income statement.

**Harworth Estates Group**

Revenue included £320,000 for the period up to 24 March 2015 in respect of recharges to the Harworth Estates Group for ongoing costs of the Company in 2015 prior to its acquisition into the Group.

**Scratching Cat**

Geoff Mason, our former Company Secretary, supplied 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 £73,000 (2015: £115,000).

**Company**

The Company carried out the following transactions with subsidiary undertakings.

**Management charges**

During the year the Company raised management charges of £nil on subsidiary undertakings (2015: £48,011).

Details of the Company's intercompany balances and interest at 31 December 2016 are set out below:

	As at 31 December 2016 £'000		As at 31 December 2015 £'000	
	Net Interest receivable/ (payable) in the year £'000	Net amounts due from/(to) £'000	Net Interest receivable/ (payable) in the year £'000	Net amounts due from/(to) £'000
EOS Inc Limited	162	7,465	75	7,303
Harworth Estates Limited	14	1,127	3	(281)
Harworth Guarantee Co. Limited	(1)	(52)	(1)	(50)
Harworth Estates Property Group Limited	–	49	–	(269)
Coalfield Estates Limited	5	219	5	214
	180	8,808	82	6,917

**Dividends received**

During the year the Company received dividends of £nil (2015: £nil) from subsidiary undertakings.

**Interest**

During the year the Company received net interest of £180,000 (2015: £82,000) from subsidiary companies that form part of the continuing operations.

All transactions occurred whilst the related parties were subsidiary undertakings.

# Notes to the financial statements

for the year ended 31 December 2016: continued

## 32. Related party transactions: continued

### *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 2016 £'000	As at 31 December 2015 £'000
<b>Owed to:</b>		
Scratching Cat Limited	–	(9)
Harworth Guarantee Co. Limited	(52)	(50)
Harworth Estates Limited	–	(281)
Harworth Estates Property Group Limited	–	(269)
	<b>(52)</b>	<b>(609)</b>
	As at 31 December 2016 £'000	As at 31 December 2015 £'000
<b>Owed by:</b>		
Harworth Estates Limited	<b>1,127</b>	–
Coalfield Estates Limited	<b>219</b>	214
EOS Inc Limited	<b>7,465</b>	7,303
Harworth Estates Property Group Limited	<b>49</b>	–
	<b>8,860</b>	<b>7,517</b>

## 33. Post Balance Sheet Events

On 17 March 2017 the Group announced a share placing for 29,226,974 new Ordinary Shares at 95.0 pence per share which were issued raising £27.1m (net of expenses).



# Company information and advisers

## Chairman

Jonson Cox

## Chief Executive

Owen Michaelson

## Finance Director

Andrew Kirkman

## Non-Executive Directors

Lisa Clement  
Anthony Donnelly  
Andrew Cunningham  
Martyn Bowes  
Steven Underwood

## Company Secretary and Registered Office

Chris Birch  
Advantage House  
Poplar Way  
Catcliffe  
Rotherham  
South Yorkshire  
S60 5TR

## Independent auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
St Paul's Place  
121 Norfolk Street  
Sheffield  
S1 2LE

## Solicitors

DLA Piper UK LLP  
1 St. Paul's Place  
Sheffield  
South Yorkshire  
S1 2JX

## Brokers

Investec Bank PLC  
2 Gresham Street  
London  
EC2V 7QP  
Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR

## Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

## Principal bankers

Royal Bank of Scotland PLC  
3rd Floor  
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Leeds  
LS1 4HR  
Lloyds Banking Group PLC  
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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**

AMP	Advanced Manufacturing Park, Rotherham
ATR	Absolute Total Return
CA06	Companies Act 2006
Code	UK Corporate Governance Code 2014
Company	Harworth Group plc
CPD	Continuing Professional Development
EBT	Employee Benefit Trust
EES	Estates, Environment and Safety team
FCA	Financial Conduct Authority
FRSs	Financial Reporting Standards
Harworth Estates	Harworth Estates Property Group Limited and its subsidiaries
Harworth or Group	Harworth Group plc and its subsidiaries
HEMPL	Harworth Estates Mines Property Limited
HEPGL	Harworth Estates Property Group Limited
HICL	Harworth Insurance Company Limited
IFRSs	International Financial Reporting Standards
Kepler	Kepler Associates
LTIP	Long Term Incentive Plan
LTV	Loan To Value
NAV	Net Asset Value
PEG Principles	The Pre-emption Group Principles
PPAs	Planning Promotion Agreements
PPF	The Pension Protection Fund
PRA	Prudential Regulatory Authority
PwC	PricewaterhouseCoopers LLP
RBS	The Royal Bank of Scotland plc
RCF	Revolving Credit Facility
Regulations	Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013
SHEMS	Safety, Health and Environment Management System
SOCI	Statement of Comprehensive Income
STOR	Short Term Operating Reserve
TSR	Total Shareholder Return
UKCMHL	UK Coal Mine Holdings Limited
WAULT	Weighted Average Unexpired Lease Term