Harworth

Transform Regenerate Revitalise

Harworth Group plc

Annual Report and Financial Statements 2018

To create sustainable new communities for people to live, work and play

OUR PURPOSE

OUR VISION

To be the leading land and property regeneration specialist in the North of England and Midlands

Harworth

at a glance

Harworth is a leading regenerator of land and property for development and investment which owns, develops and manages a portfolio of c.21,500 acres of land on around 120 sites located throughout the North of England and the Midlands. The Group specialises in the regeneration of large, complex sites, in particular former industrial sites, into new residential developments and employment areas.

11,077
consented housing plots
(2017: 10,448 residential plot)

10.7m sq. ft
of consented land for commercial space
(2017: 12.1m sq. ft commercial space)

154.2MW
of low carbon capacity installed on our sites
(2017: 159.7MW of low carbon energy)

Our land and property portfolio in the North of England and the Midlands has potential to deliver:

Up to **£3.6bn** in Gross Value Added to UK plc
(2017: £2.9bn)

alongside a total of

20,490
potential homes
(2017: 18,000+ potential homes)

21.2m sq. ft
of commercial space
(2017: 21.6m sq. ft of commercial space)

294.5MW
to the National Grid
(2017: 300MW to the National Grid)

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Logistics North, Spring 2019

FINANCIAL STATEMENTS

COMPANY INFORMATION

More information can be found by going to our website **harworthgroup.com**

Our six strategic priorities to achieve our purpose and deliver our vision

DEVELOPMENT Driving the capital growth of our portfolio through delivery of planning permissions, site remediation and infrastructure, before crystallising land sales	**EPRA NNNAV growth and total return per share**	**Value Gains**
INVESTMENT Ensuring sustainable income generation through asset management of existing rental sites, direct development of new space and recycling of portfolio into higher value adding opportunities	**Profit Excluding Value Gains**	**Interest cover**
SECTORS Concentrating on those property markets with strong, through-the-cycle returns (residential, and industrial & logistics)	**Consented and potential residential plots**	**Consented and potential commercial space**
REGIONS Leveraging our strong relationships in our core areas in the North of England and Midlands to expand our land and property portfolio	**Number and geographic spread of sites**	**Number and geographic spread of acres**
ACQUISITIONS Growing our portfolio by utilising and recycling capital to buy new sites to maintain net asset value growth across the portfolio (including joint ventures)	**Investment in acquisitions and JVs in the year**	**Disposals less development spend**
FINANCING Maintaining the Group's low balance sheet gearing to complement risk-appropriate high operational gearing	**Net loan to value**	**Net debt**

Turn to page 36 to read about our Key Risks

Cadley Park, Swadlincote

R-evolution Phase 2, AMP

Simpson Park, Harworth

12.6% p.a. EPRA NNNAV per share growth and total return of 13.3% in 2018	We continue to aim to achieve total return of at least 10% per annum as a consistent average through the property cycle
We are covering our overheads and interest costs and have been increasing the resilience of our income streams	Our ambition remains to cover the overheads, interest, tax and dividends from ongoing rental and other operating income
Our current focus is on the "beds and sheds" sectors which have strong fundamentals in the regions we operate in	Our sectoral focus will remain on residential and commercial in the medium-term as these suit our urban edge-of-settlement and regional locations
Our portfolio remains focused on the North of England with an increasing emphasis on the Midlands and the North West	We want to expand our portfolio to the North West and Midlands to have similar strength to our Yorkshire and Central heartland
We invested c.£60m in 2018 (and c. £140m between 2014 and 2018) to replenish and grow the portfolio in order to sustain future growth	We want to keep replenishing the portfolio and delivering EPRA NNNAV growth which will require the same, or higher, levels of acquisitions
2018 year-end gearing of 12.3%	Ideal target range gearing remains 10%-15% net loan to value

Risk icon key

Markets	Delivery	Politics	Finance	People	Legal & Regulatory	Governance & internal controls	Communications & stakeholder management

HOW WE ADD VALUE

The Harworth effect

Competitive advantage comes from our ability to add value through active management rather than reliance on market movement, with 80% of value gains achieved in 2018 attributed to management actions

CAPITAL REINVESTMENT

RECEIPTS

PLANNING APPROVAL

We currently have planning consents for over 11,000 residential plots and nearly 11 million sq. ft of commercial space. A large proportion of these consents are taken forward as Major Developments – often seen as showcase projects for regeneration.

MASTERPLANNING

Our core skill as a business is to create a strategic vision and plan for all our sites which, when brought to market with planning permission for residential or commercial uses, creates value.

ACQUISITIONS AND LAND ASSEMBLY

We have a large landbank of brownfield and greenfield land across the North of England and the Midlands, owning and managing c.21,500 acres of land on around 120 sites. An important part of our strategy is to replenish our portfolio with acquisitions to ensure the growth of the business.

Turn to page 36
to read about
our Key Risks

RISK ICONS

MARKETS DELIVERY POLITICS FINANCE PEOPLE LEGAL & REGULATORY GOVERNANCE & INTERNAL CONTROLS COMMUNICATIONS & STAKEHOLDER MANAGEMENT

CAPITAL RECEIPT

RECURRING INCOME

LAND REMEDIATION AND INFRASTRUCTURE DEVELOPMENT

Once a use for a site has been identified, we apply value engineering principles through our in-house development team in remediating land and creating development platforms that match the proposed use.

PLOT SALE AND BUILD OUT

We either sell engineered land for residential or commercial purposes, or retain land to grow our income portfolio – either through leasing directly developed commercial units or renting out land.

ASSET MANAGEMENT

Finally, we actively asset manage our landholdings and built commercial space to deliver further value from the portfolio. Asset management also includes repurposing our built space, where appropriate, regearing leases in order to grow our income and managing our Business Space and Natural Resources sites to ensure overheads are minimised and tenants are satisfied.

We are now selling c.£20m p.a. of mature income generating sites, reinvesting the receipts in higher value adding opportunities.

TIME

MARKETS WE OPERATE IN

Our markets are supportive of growth

Our core markets across the North of England and the Midlands are well suited to our strategy and business model

Simpson Park, Harworth

AMP, Rotherham

RESIDENTIAL

GOOD DEMAND
Housing under-supply is driving consistently good demand for land from housebuilders of all types in our regions

COMPARATIVE AFFORDABILITY
New houses on our sites in the North of England and the Midlands have a more affordable price to earnings ratio than in many parts of the UK

BUILD ACCELERATION
Housing remains the UK government's key domestic priority, supported by continued incentives for new purchasers and new planning guidance through the NPPF designed to accelerate housebuilding

COMMERCIAL

STEADY DEMAND
Steady demand for well-located industrial space continues, with supply continuing to be squeezed across all regions. UK vacancy rate stands at <6%

LEADING MARKET
Industrial sector is forecast to continue to outperform both the office and retail markets in the medium-term

STRONG SUPPORT
Local support for sustainable new commercial development remains strong, driven by the desire for economic regeneration and the need for business rate receipts

Pheasant Hill Park, Doncaster

Logistics North, Bolton

121
SITES ACROSS THE UK

7
NORTH WEST

16
NORTH EAST

54
YORKSHIRE & CENTRAL

12
MIDLANDS

32
COMMERCIAL CLAWBACKS

OUR YEAR
KEY 2018 ACHIEVEMENTS

3 PLANNING APPROVAL

Outline planning consents granted for 778 residential plots, of which 560 were delivered from the Group's first three PPA[1] successes in Nottinghamshire, Derbyshire and Yorkshire

2 MASTERPLANNING

Applications submitted for over 3.3m sq. ft of commercial space and 993 residential plots with the majority due to be determined in 2019

1 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.

2 Includes freehold, joint venture, PPA and overage sites.

5 PLOT SALE AND BUILD OUT

1,049 residential plots sold across nine parcels at an average value of c.£30,000/plot (at book value). 1.15m sq. ft of consented commercial land sold across four parcels for a total consideration of £30.9m, delivering a profit on sale of £1.0m

4 LAND REMEDIATION & INFRASTRUCTURE DEVELOPMENT

15 Major Developments being delivered as at year-end. Portfolio[2] has consent for 11,077 residential plots and c.10.7m sq. ft of commercial space

6 ASSET MANAGEMENT

Over 300,000 sq. ft of long-term lettings secured on eight new commercial buildings, including new headline rents secured at the AMP and Logistics North. Less than 100,000 sq. ft of directly built space available across the portfolio. Installed energy capacity on our land of 154.2MW

DEVELOPMENT

NNNAV GROWTH % / TOTAL RETURN %

VALUE GAINS (£'m)

INVESTMENT

PROFIT EXCLUDING VALUE GAINS (£'000)

INTEREST COVER

SECTORS

RESIDENTIAL PLOTS - CONSENTED/ PIPELINE

COMMERCIAL SQ. FT - CONSENTED/PIPELINE (k)

REGIONS

ACRES

SITES

ACQUISITIONS

ACQUISITIONS AND JV INVESTMENT (£'m)

DISPOSALS LESS DEVELOPMENT SPEND (£'m)

FINANCING

NET LTV (%)

NET DEBT (£'000)

SAFETY

ACCIDENTS (All minor and includes figures for contractors)

RIDDOR REPORTS

EMPLOYEES

EMPLOYEE NUMBERS (*As at date of report)

Employee Satisfaction (%)

CHAIRMAN'S STATEMENT

Alastair Lyons

As this is my first statement since assuming the Chair at Harworth in March last year, I would like to start with some reflections on becoming involved with the business. However, may I first express my thanks to my predecessor, Jonson Cox, for everything he did to facilitate a smooth transition from him to me and also my recognition of the considerable contribution he made to the creation of Harworth in its current form as an established, listed development company with a differentiated, and proven, specialism in the regeneration of difficult former industrial sites.

A personal perspective

My principal previous property experience was serving as Deputy Chairman at Bovis Homes for approaching 10 years before my retirement last May. As a house builder, one is primarily concerned with the sale of a standard product with well-defined production costs and margins, such that progress can be tracked against a generic build process that permits measurement of uniform stages such as "slab" or "roofed-in". Sites may be acquired in different locations but what is produced on each site largely conforms to standard house types.

I have rapidly discovered that property at Harworth is very different – every site has its own very individual challenges and opportunities to create value. Of course, one starts off with a site assessment against required average returns but the course the development takes may differ radically from how it was first envisaged. As the team learns more about the site and as market conditions change, so the pace and shape of development may evolve. Parts of the site may be sold earlier or later than planned; parts may be developed by Harworth itself and held within our income generating portfolio rather than sold for others to develop; adjacent land may be added to the masterplan and change the balance of commercial and residential uses; and skilful remediation may bring forward additional areas that were not initially envisaged as suitable for development. Every site has to be understood in great detail by those responsible for its development. There is no such thing as a "cookie cutter" approach to Harworth's sites.

Successful development of large, complex and frequently challenging sites requires particular skills and experience, and it is Harworth's people that are at the heart of its differentiation. The well-used adage that an organisation is only as good as its people has never been truer than at Harworth. There may only be 68 people but our ability to create value derives from their ability to: identify land and property opportunities; create deliverable masterplans; negotiate acquisitions, disposals, and leases; develop relationships with local stakeholders; build partnerships with funders, developers, house builders, and commercial clients; devise innovative remediation solutions for complex heavy industrial legacies; identify the right point in the market to offer sites for sale; and manage complex projects requiring the organisation of, and interaction with, multiple professional advisers and contractors.

The other notable difference between Bovis and Harworth is time-scale. A house builder will typically look to be in and out of a site in a couple of years. The scale of some of Harworth's developments means that we may be continuing to extract value from a site for up to 20 years or more. A house builder will determine whether or not to buy a site on its assessment of the attractiveness to potential customers of the location and the community of which the site is a part. Harworth will create places and communities where none exist. It is Harworth's vision of the end game on a development that house builders and commercial clients buy into. When our management considers the potential of a development, they have to have a long-term vision of their ability to create value over many years into the future. Each year's results in isolation are an important guide to our commercial effectiveness but average return across the cycle is the most accurate measure of the quality, and sustainability, of our delivery. It is the very long-term, and through the cycle, characteristics of our business that persuaded us that the Restricted Share Plan outlined in the Directors' Remuneration Report is a better fit to the strategy of our business than the 3-year Long-Term Incentive Plan that we have adopted previously.

The structure of Harworth's shareholdings is also very different to the listed companies that I have previously chaired. With the Peel Group and the Pension Protection Fund holding slightly over 50% of Harworth, and represented at the Board table, as Chairman one receives directly and in real time shareholder perspectives on decisions and feedback on issues faced by the Group. This is invaluable. Importantly, by their support for our cashbox placing in early 2017 they demonstrated their alignment with our long-term objectives to grow our business. Equally, I am very grateful for the welcome I have received from our other material institutional shareholders and look forward to seeing institutional participation on our register grow over time as the potential inherent in Harworth becomes more broadly communicated and recognised.

Governance

Whilst Harworth is a constituent member of the FTSE Small-Cap index, it operates to all intents and purposes as if it were in the FTSE-250 index and aspires to be a member in due course. Its process of corporate governance is well-established and substantially met the Code requirements of a premium-listed company before we made the transition to the Premium List in August 2018. The smoothness of that process is itself a credit to our in-house company secretarial and finance teams and to the many advisers that worked with us on the exercise. When considering joining Harworth I was impressed by the content and clarity of our annual report and broader shareholder and media communications. We have a first-rate Board, as evidenced by our recent external Board Effectiveness Review, with a broad range of skills and relevant experience around the Board table. With such as our non-executive participation on the Group's People Steering Group we are clearly cognisant, and in the vanguard, of developments in corporate best practice. The recruitment of new non-executive directors now allows us to constitute our principal Board committees on a fully independent footing.

2018 – the year

The other aspect of Harworth that attracted me to the opportunity was its track-record of delivery and 2018 has been no exception. Once again, the Group has met its objective of over 10% through the cycle total return, this time delivering 13.3% in a year supported by a number of successes, not all of which were envisaged at the start of the year. Owen provides further commentary on this in his Chief Executive's statement. This bears out the capability of our teams to identify and then realise opportunities for value creation. In any one year there may be both upsides and downsides – what is much more important is what the business achieves over the medium-term. That medium-term delivery will be determined by our development pipeline. Hence as important as our in year result was what we did to support our future returns - the £14.2m that we invested in development acquisitions, themselves supported by £43.7m of income-generating acquisitions; our commitment of £33.0m further investment, predominantly infrastructure, in sites we own; the 993 residential plots and 3.3m commercial square feet for which we applied for planning consent; and the 778 residential plots and c.0.1m commercial sq. ft on which we realised outline planning consent during the year. Whilst 2018 was again characterised by substantial investment, this was balanced by significant disposals, realising £93.2m during the year. This enabled us to maintain our commitment to low financial gearing, ending the year with a 12.3% net loan to value ("LTV"), well within our target range.

Acquiring appropriate new sites is the life-blood of our future growth and a strong understanding of, and relationships with, local markets are, in our view, key to identifying, negotiating, and subsequently developing such sites. Hence our decision during 2018 to move to a regional structure with new regional teams in the Midlands, based out of Birmingham, and the North-West, out of Manchester, complementing our existing Yorkshire and Central area, based at our head office in Rotherham. We are delighted to have secured proven, experienced, regionally-based management to lead these new regions and they are in the process of building out their teams to match the intended growth of their regional portfolios. Our acquisition of 350 acres at the former Ironbridge power station in Shropshire exemplifies this regional expansion within Harworth's existing focus on transforming large, complex development sites.

The Board

We have added two new Non-Executive Directors over the last month. This addressed both the retirement in September this year of Tony Donnelly after nine years with Harworth, and the need, as a premium-listed company, for at least half the Board, excluding the chair, to comprise independent directors. It will also enable us to add a further independent non-executive to our Remuneration and Audit Committees from which Steven Underwood, the representative of the Peel Group on our Board and, therefore, not independent, will then stand down. In line with our establishing a Midlands region, Ruth Cooke brings us extensive experience in the Midlands real estate sector, having been Chief Executive of Midland Heart, a large regional housing association from 2012-2018, a founder member of the West Midlands Housing Association Partnership, and a Board member at Marketing Birmingham. She is a chartered accountant and a corporate treasurer. Angela Bromfield has extensive commercial strategy, marketing and communications executive experience, having held leadership roles in these areas at Premier Farnell, Anglo American, and Morgan Sindall. She is currently a non-executive director and Remuneration Committee Chair at Churchill China and Zotefoams.

We are disappointed that Andrew Kirkman, our Finance Director, will be leaving us on 30 June to become the Chief Financial Officer of CLS Holdings but understand this move as the next step in his career. I would like to thank Andrew for his contribution towards Harworth's success while he has been with us and wish him well for the future. The process of recruiting his successor is underway.

Thank you

May I finish by thanking everyone who has contributed so much to making 2018 another successful year for Harworth – our management team, our colleagues, our customers, our business partners, advisers and suppliers. As I said at the beginning of my statement, Harworth is all about its people.

Alastair Lyons
Chairman
16 April 2019

CHIEF EXECUTIVE'S STATEMENT
Owen Michaelson

Harworth Group has once again delivered another year of strong operational performance and a double-digit total return to shareholders, demonstrating the focus and technical skills of the team in creating sustainable, regeneration-led developments. Our focus on "beds and sheds" within the regional markets of the North of England and the Midlands underpins our decision to invest in a regional delivery model with new teams in areas of strong projected growth, to sustain the business moving forward.

In 2018, the Group delivered double-digit total return per share growth of 13.3% (2017: 13.2%), with EPRA NNNAV of £466.5m at the year-end (2017: £414.2m). This includes value gains of £51.3m (2017: £47.4m), ahead of our expectations, whilst Profit Excluding Value Gains ("PEVG") rose to £9.8m (2017: £2.2m), which includes £6.8m for the promote fee for the letting of M&G Real Estate's forward-funded LN175 unit at Logistics North.

Ongoing delivery of our strategy

Our performance is in line with the key strategic aim of the business - to be the leading land and property regeneration specialist in the North of England and the Midlands, delivering double digit total returns to shareholders by providing innovative and sustainable solutions on the land we bring forward for remediation and development. We also aim to be a good neighbour in the communities in which we operate and to provide customer-driven solutions to our end users in a market dominated by standard developments. In simple terms we listen to our customers and key stakeholders in the communities in which we operate, when masterplanning our developments.

Our operational focus remains consistent: extracting maximum value from our land and property portfolio in the North of England and the Midlands to grow EPRA NNNAV; building our recurring income base with the aim of covering all operating costs and dividends; acquiring brownfield, and urban edge, land in sustainable locations; whilst at the same time buying and developing income-producing property to underpin the sustainability of our long-term business model. This is underpinned by using our land assembly, masterplanning, technical, placemaking and asset management expertise to transform redundant land and sustainable urban edge locations into places where people want to live and work. We continue to focus on our core regions of Yorkshire & Central, the Midlands and the North West in which to invest our management time and capital whilst maintaining a watching brief on the strong markets immediately to the south of our existing Midlands region.

Our strategy and business model remain well-suited to the fundamentals of the "beds and sheds" markets across the North of England and the Midlands. Our ongoing land sales to house builders continue to be driven by steady demand for new homes, supported by their comparative affordability and the continued lack of delivery of the new homes the UK needs to keep pace with the rate of household formation. The rise of e-tailing and increasing demands of consumers supports demand for logistics, distribution and manufacturing space, with the industrial sector forecast to outperform both the office and retail markets in the medium-term.

Central and local government support for our business model remains stable, with an extension of Help to Buy confirmed until March 2023 (albeit in more restricted form from 2021) alongside fairly modest changes to the National Planning Policy Framework. With changes to local government funding driving the need for local authorities to work with trusted partners to deliver high-quality development, which can then contribute to Business Rates, Council Tax receipts and the New Homes Bonus, our products remain as economically and socially relevant as they have ever been.

Capital Growth

Four principal management actions continue to deliver capital growth from our existing land and property portfolio: securing planning consents on major schemes; remediating and providing infrastructure on consented land for redevelopment; placemaking followed by premium land sales to residential and commercial occupiers; and directly developing our own industrial units for either sale or letting. All have underpinned value gains during the year. To maintain the sustainability of our business and support our continued growth it is essential that we continue to replenish the portfolio as we work through our more mature sites. To that end, we aim to grow our strategic land portfolio by at least 10% each year.

Planning success and progress across the portfolio remained strong in 2018, with outline planning consent secured for 778 residential plots (2017: 825) and 76k sq. ft of commercial space (2017: over 3m sq. ft) across seven sites. This included three Planning Promotion Agreement ("PPA") successes, including securing outline permission for 400 plots at Market Warsop in Nottinghamshire in April 2018. As at 31 December 2018, total consented residential plots under direct ownership and PPAs/ options stood at 11,077 plots and consented commercial space on our land at c.10.7m sq. ft, providing a robust pipeline for sales and direct development opportunities over at least the next decade.

2019 will be a significant year for the business in securing new outline planning consents to increase this pipeline still further. In 2018 we submitted planning applications on our land for 993 new residential plots and over 3.3m sq. ft of commercial space. During 2019 a number of new applications are expected to be submitted for over 3,000 further residential plots.

Plot sales for both residential and commercial uses continue to be carefully planned, both to realise further value gains and to reinvest capital into the ongoing development of our wider portfolio and in new acquisitions. A total of 1,049 residential plots were sold across nine parcels for £33.6m to national and regional housebuilders during the year, with repeat customers including Taylor Wimpey, Barratt and Avant Homes showing the popularity of the de-risked engineered land parcels that we make available, and the relative affordability of their products to consumers. Profits on sale were also realised from the disposal of engineered development land for commercial uses totalling 1.15m sq. ft, including the sale in October of the 55-acre Lounge site in Leicestershire for £18.7m and the £10.9m sale of the 18-acre G2 plot at Logistics North in December to Lidl (UK), representing further repeat customers for the business.

One of our principal areas of focus is to sustain this momentum by making further land acquisitions and cultivating industry and stakeholder relationships as our operating geography grows. 2018 represented a record year for new acquisitions with eleven land and property purchases made for a consideration (inclusive of costs) of c.£60m in total, supported by the extension of our Revolving Credit Facility to £100m in April. Our acquisitions were a mix of strategic land and income-producing properties with development potential. The largest of these was the purchase in May of the 112-acre Nufarm site at Wyke, Bradford, for £32.45m plus acquisition costs. Less than a mile from Junction 26 of the M62, the site comprises an agrochemical works set over 32 acres alongside 80 acres of unoccupied land. It is let on a 50-year lease (expiring 2055) at a current passing rent of over £2.1m per annum, representing a net initial yield of 6.2% and a reversionary yield of 7.0% based on rental increases. The 80 acres of unoccupied land has long-term potential for commercial development. In the previous month, we also purchased a 22-acre site in Flaxby, North Yorkshire for £8.75m plus acquisition costs. Within half a mile of Junction 47 of the A1(M), the site comprises a c.276k sq. ft commercial unit occupied by Ilke Homes, the modular homes manufacturer. A 14-year lease has been agreed with Ilke at a stabilised rent of £1m per annum, representing a net initial yield of 10.9% and a reversionary yield of 12.1%. The site's very low density of 29% also provides a potential opportunity for further commercial development.

In support of our expanding regional presence, we acquired land at two strategic sites in the Midlands in May, totalling 165 acres, for a total consideration of £3.88m plus acquisition costs. At Cinderhill in Derbyshire, we acquired another 112 acres of strategic land across three parcels as part of site assembly to support the promotion through Amber Valley District Council's Local Plan. Cinderhill has the potential to be a substantial, residential-led development across 421 acres that could deliver up to 3,000 new homes and 450k sq. ft of commercial space. We also acquired 53 acres in Bardon, Leicestershire, adjacent to the Group's existing development at Coalville. Close to Junction 22 of the M1, we are already promoting the site through the planning process for a 350k sq. ft scheme of manufacturing, distribution and roadside uses.

Our strategic move into the Midlands was further evidenced in June with our acquisition of the 350-acre former Ironbridge coal-fired power station in Shropshire. Located adjacent to Ironbridge town centre, the site comprises around 240 acres of brownfield land and a neighbouring parcel of over 100 acres of agricultural land. We are already promoting the site through the planning process, with the first public consultation held in November. We are targeting a new mixed-use development of at least 1,000 homes alongside commercial development, leisure uses and a significant amount of public open space. Further consultation on our plans will take place in Spring 2019 prior to submission of an outline planning application.

The final acquisition of the year represented our first move into residential development in the North West. In November we purchased 56 acres at Moss Nook in St Helens, Merseyside. The site, which was under option for two years, is a brownfield site situated just over a mile away from St Helens town centre with an existing planning consent for 900 new homes. We are already applying our masterplanning, land remediation and infrastructure expertise to create a new vision for the site and to prepare part of the site for a first sale of engineered land.

Progress has also been made in securing further land options and new PPAs. As at 31 December 2018, 197 acres of third-party land was secured under option, with PPAs secured to promote 4,919 residential plots and 0.4m sq. ft of new commercial space through the planning system.

The evolution of the business and pace of its growth has made implementation of a regional structure the logical next step. As a result, we appointed three Regional Directors in the Autumn to take forward the acquisition, promotion and development of all sites in our core regions of Yorkshire & Central, Midlands and the North West. We believe that this will generate greater management cohesion between the acquisition and delivery functions and will create regional teams embedded in their respective local markets, further increasing the profile of the business and supporting us in securing more developable land and property to grow the business in a sustainable manner.

CHIEF EXECUTIVE'S STATEMENT
Continued

Income Generation

Excellent progress continues to be made by our Income Generation team, growing the size and strength of our recurring income base to cover, over time, all operating costs of the business and dividends. The team also makes a significant contribution to our achieved value gains through its work in directly developing new commercial space and asset managing our existing income portfolio.

The team's strategy evolved further in 2018, with the sales of mature assets with little further value-add potential, and of low-yielding agricultural land and property with little development potential, in turn supporting the purchase of higher-yielding assets, in many cases with development potential. The team has continued to undertake selective direct development in response to the ongoing undersupply of good quality commercial space in the regions, generating both value gains and new sources of long-term income.

The extension of our Revolving Credit Facility to £100m in April, coupled with the sale of Harworth Business Park in North Nottinghamshire in March, enabled the acquisitions of Nufarm and Flaxby referred to above. The additional income headroom these acquisitions provide allowed us to dispose of all five built commercial units, totalling 145k sq. ft, at Phase 1 of our Gateway 36 Business Park in Barnsley, South Yorkshire for £15.8m, reflecting a net initial yield of 4.76% and generating a profit on sale. This was a great result for the business, given the site did not have outline planning consent in place until 2014.

Lettings progress has been strong in 2018, with over 787k sq. ft of new and renewed letting activity to a variety of occupiers, at favourable rents. At the end of December, only two of our wholly owned speculative development units in the Business Space portfolio (c.31k sq. ft) remained vacant, reflecting the underlying strength of the industrial property market across the North of England. Strong growth in rental values was also recorded on the three sites where we have directly developed new commercial space.

At Logistics North in Bolton, five key lettings were agreed. In January, we agreed a 15-year lease with Vaclensa Limited for our C5 "R-evolution" unit, totalling 28k sq. ft, at a then new headline rent for Logistics North of £7.00psf, reflecting the continued strong demand for high quality industrial assets in the region. Four new leases were also agreed for the "Multiply Logistics North" units that we are developing in joint venture with the Lancashire County Pension Fund. In March, Hardscape, the UK's premier landscaping material supplier, became the scheme's first tenant on a 15-year lease for the 45k sq. ft Unit F2/A. This was followed in October by a 15-year pre-let to rijo42, the UK's leading supplier of commercial coffee machines, coffee beans and coffee ingredients, at a rent of £7.25psf for the 20k sq. ft Unit F2/E. A further six "Multiply" units, totalling 271k sq. ft, were practically completed in the Autumn. In November, UW Homes Services Ltd, a smart meter installation and maintenance business, took a 10-year lease of the 31k sq. ft Unit F2/C at a new headline rent for the North West of £7.75psf. Finally, kitchen supplier PJH Group Limited took 63k sq. ft of space at the "Multiply" F1/A unit on a ten-year lease. Five remaining units totalling c.275k sq. ft (Harworth's 20% share equating to c.56k sq. ft) remain available at "Multiply" to let in 2019.

At the Advanced Manufacturing Park ("AMP") in Rotherham, the 52k sq. ft "R-evolution Phase 2" is now fully let. With the market for new-build commercial space remaining strong, driven by a lack of good quality existing supply, we undertook construction of the third phase of "R-evolution" at the AMP, comprising 57k sq. ft of commercial space that practically completed at the end of August 2018. The first letting of that space, the c.25k sq. ft Unit 6A-D was completed in October, with Bodycote taking a 15-year lease, leaving two remaining units totalling 31k sq. ft available to let in 2019.

In addition to growing income from our own commercial development, the team let M&G Real Estate's LN175 unit, a 175k sq. ft industrial unit at the front of Logistics North, to an advanced manufacturer on a 20-year lease in December. Under the terms of our forward funding agreement with M&G, this triggered a one-off net "promote fee" of £6.8m, supporting the delivery of stronger than anticipated PEVG across the portfolio.

The team also continues to asset manage our 2.7m sq. ft Business Space portfolio to reduce voids and increase rental returns. All of this activity meant that Business Space revenue in 2018 increased to £11.9m (2017: £8.4m). The weighted average unexpired lease term ("WAULT") to expiry across the portfolio now stands at 14.1 years (2017: 7.5 years), whilst the vacancy rate has reduced to 14% (2017: 17%).

Gateway 36 Phase 1, Barnsley

Launch of R-evolution Phase 3, AMP

Our revenues for the period were bolstered by the work of our Natural Resources and Operations teams seeking out new opportunities. A total of 154.2MW (2017: 159.7MW) of energy capacity is now installed on our land, providing a long-term income stream from a combination of ground rents and royalties. The team's focus remains on growing future income from alternative technologies with better short-term prospects and from maintaining income from our tipping operations, which has the added benefit of supporting site remediation. As a by-product of our remediation, engineering and development activities, we continue to generate income from recycled aggregates and coal fines, albeit these will decline in the medium-term.

The outlook for the Income Generation business remains positive. Demand for new commercial space in our regions remains solid, with a national vacancy rate of less than 6%, continued growth of on-line retailing and the need for supply chain suppliers to be near original equipment manufacturers on our developments. As a result, the business will continue to undertake selective direct development on key sites to improve further the breadth and quality of our income base and to support NNNAV growth.

Our people are central to our success

The four successive years of double-digit total returns to shareholders, well in excess of industry averages, is principally due to the innovation, technical expertise, experience, determination and resilience of all our colleagues across the Harworth team. We now comprise a team of 68 people working across three regional offices and on sites. Our people remain committed to increasing the value of our land and property portfolio by creating great new places for people to live and work. My continued thanks go to the entire team, our delivery partners and external professional teams for their hard work in maintaining the Group's growth trajectory, whilst maintaining our values, culture and standards.

I have also developed a strong working relationship with our new Chairman, who has brought a fresh challenge and perspective to the business since his appointment in March last year. He shares my view that the core of our success is due to the range and quality of activities we undertake and oversee. I am delighted that we are growing the business, both in terms of size and coverage, in a sustainable manner, whilst retaining our core principles. Alastair has also brought a new perspective to organisational development and the mentoring needed for all senior members of our executive team to support the growth of the business, whilst maintaining our underlying culture.

Outlook

The quality and attraction of our engineered land and commercial property space, matched with favourable market conditions in our core regional markets, position the business strongly for continued EPRA NNNAV growth and further improvement in the quality and breadth of our recurring income base.

Over 50% of this year's budgeted sales have already been agreed, supporting the Group's performance for the year ahead, although we still expect performance to be second half weighted. So far in 2019 we have made two strategic land acquisitions, both in the North West, for residential development and have agreed terms on a number of other sites in all regions which are now moving through the legal process. We also anticipate the majority of our existing planning applications will be determined in 2019. With healthy demand for new lettings and enough strategic land and property opportunities for the business to pursue, the business remains well set up for ongoing growth.

We expect the solid economic growth in the North West, Yorkshire and the Midlands to continue into 2019. Whilst Brexit is causing short-term uncertainty at a macro-level and pulling the Government's attention and time away from other important economic and social challenges, the fundamental strengths of, and opportunities in, our core regional markets remain, and we expect them to endure in the medium to long-term.

Owen Michaelson
Chief Executive
16 April 2019

HOW WE CREATE NEW PLACES AND GENERATE RETURNS

Thoresby Colliery was the Midlands' last deep mine to shut, with its closure in July 2015 signalling the end of over nine decades of mining that once produced 100,000 tonnes of coal per week. Following Harworth taking on the site from UK Coal in October 2015, it has spent the past three years delivering a number of actions in acting as 'master developer' – undertaking site safety and security measures, demolishing vacant structures, developing a vision and masterplan for the site and importing and exporting materials to create development platforms and a new Country Park. It is therefore an excellent long-term case study in showcasing the Group's work.

Harworth has effectively exercised its skill in being able to drive NNNAV growth – with the site now Harworth's fifth most valuable site – whilst creating and delivering a vision for a high-quality sustainable development for local people in Edwinstowe, Ollerton and beyond to be proud of. These pages provide a snapshot of how it's been done.

Between the Colliery closing on 10th July 2015 and Harworth taking ownership and responsibility for the site from that October, staff from UK Coal and Harworth worked on a comprehensive handover plan. This saw staff work up appropriate technical and health & safety due diligence, including regular liaison with the Coal Authority, as the public body that works to resolve the impacts of mining, to provide the information required to proceed with development.

As on all major sites, Harworth's initial priority was on site safety and security works, including the establishment of a new security presence at the site's gatehouse, the treatment of the site's former coal lagoons and the demolition of now-vacant structures, as explained below.

A large number of structures on the site's 150-acre former pit yard were identified early in Harworth's ownership as being solely for mining use and not suitable for any form of redevelopment. As a result, Harworth and its contractors spent part of 2015, 2016 and most of 2017 safely bringing down a number of industrial structures – including the site's former pithead and rapid loader – in order to clear the site ready for redevelopment as per its emerging masterplan (see below).

Prior to receiving an outline planning consent for 800 new homes and 250,000 sq. ft of commercial space in October 2017, Harworth's Major Projects team spent the best part of two years working with local stakeholders to develop an agreed vision and masterplan for the site. This followed six principal steps:

- establishing the initial masterplan following early stakeholder engagement and assessment of technical data;
- running a series of initial stakeholder workshops, informed by the site's existing assets and technical data, to establish a broad consensus on site uses;
- testing these principles with statutory bodies;
- running a detailed public consultation, with over 400 attendees participating in a six-hour consultation including a tour to see the site's entire 450 acres;
- refining the masterplan and supporting documents following this consultation, in close liaison with both Newark & Sherwood District Council (as local planning authority) and Nottinghamshire County Council (as highways authority); and
- submitting an outline planning application in Spring 2017, which was determined that October.

A seventh step, being the establishment of a site-specific management company to manage public open space, will be undertaken ahead of the sale of Phase 1 of the site.

Thoresby's final masterplan includes the agreement of a design code with Newark & Sherwood District Council to ensure the built development fits within the character of the local area, including the adjacent Sherwood Forest.

SITE THEN - 2016

SITE NOW - 2019

From late 2017, Harworth has committed its capital to preparing land and infrastructure on a phased basis in order to accelerate development and secure ongoing interest in the scheme. The site's first phase of around 10 acres is close to Thoresby's existing estate road as part of the Group's commitment to reuse as much of a site's previous infrastructure as possible.

Harworth has also accelerated the development of the site's Country Park, totalling 350 acres, as part of making the site as attractive a place for all new residents to live as possible whilst also confirming Thoresby's 'good neighbour' use to residents in nearby Edwinstowe and the adjacent Sherwood Forest.

As on all of its Major Developments, Harworth has worked with a specialist residential agent to pull together a specific Phase 1 sales pack for housebuilders to scrutinise prior to bids being made. Final bids ultimately provide prima facie evidence for Harworth's year-end valuation process. Harworth will be adopting the same approach on all of its remaining residential and commercial development phases over the next ten years as the development is eventually built out.

CGI of completed Thoresby development

Logistics North

Harworth's flagship development in the North West went from strength to strength in 2018, with a series of income-producing deals at gradually increasing rents supporting the continual improvement of the quality of its income portfolio whilst acting as a source of value gains.

2018 saw the build out and practical completion of Phase 2 of "Multiply Logistics North" – Harworth's joint venture with the Lancashire County Pension Fund, advised by Knight Frank Investment Management. Five new warehouses ranging from 20k to 31k sq. ft in addition to a larger warehouse at 149k sq. ft were built, adding to the three units built by the joint venture in 2017.

Four new leases at "Multiply" were agreed for these units across the year. In March, Hardscape, the UK's premier landscaping material supplier, became the scheme's first tenant on a 15-year lease for the 45k sq. ft Unit F2/A. This was followed in October by a 15-year pre-let to rijo42, the UK's leading supplier of commercial coffee machines, coffee beans and coffee ingredients, at a rent of £7.25psf for the 20k sq. ft Unit F2/E. In November, UW Homes Services Ltd, a smart meter installation and maintenance business, took a 10-year lease of the 31k sq. ft Unit F2/C at a new headline rent for the North West of £7.75psf. Finally, kitchen supplier PJH Group Limited took 63k sq. ft of space at the "Multiply" F1/A unit on a ten-year lease. Five remaining units totalling c.275k sq. ft (Harworth's 20% share equating to c.56k sq. ft) remain available at "Multiply" to let in 2019.

This progress was supplemented by three other key deals in 2018. In January, a 15-year lease with Vaclensa Limited for Harworth's C5 "R-evolution" unit, totalling 28k sq. ft, at a then new headline rent for Logistics North of £7.00psf. There was also the £10.9m sale of the 18-acre G2 plot at Logistics North in December to Lidl (UK), representing a further repeat customer for the business at the development in order for the retailer to build its new regional distribution headquarters. Harworth also let M&G Real Estate's LN175 unit, a 175k sq. ft industrial unit at the entrance to the site, to an advanced manufacturer on a 20-year lease in December. Under the terms of our forward funding agreement with M&G, this triggered a one-off net "promote fee" of £6.8m, supporting the delivery of stronger than anticipated Profit Excluding Value Gains across the portfolio.

Nearly 5,500 people are now employed at Logistics North and once fully developed it is expected to create an additional 1,500 jobs and eventually add over £300m in Gross Value Added (GVA) to the local economy. The speed of delivery has exceeded all expectations, driven by the demand for new commercial space in the region. Harworth is also close to completing the 550-acre Country Park that bounds the site, with an increased number of residents from nearby villages in Bolton, Salford and Wigan using the site for activities including running, cycling and birdwatching.

With no units or land remaining to accommodate any requirements above 150,000 sq. ft at Logistics North and with a limited supply of new manufacturing or distribution units in Greater Manchester, Harworth's focus in 2019 will be on securing planning consent from Bolton Council for Phase 1 of its Wingates site adjacent to Junction 6 of the M61 for 1.1m sq. ft of commercial space, in addition to securing tenants for the remaining "Multiply" units and completing the site's Country Park.

LOGISTICS NORTH: RETURNS SINCE 2010

KEY FACTS: LOGISTICS NORTH

Location	Junction 4 of M61, Bolton, Greater Manchester
Site Acreage	800 acres: 250 acres for employment, 550 acres for Country Park
Former use	Cutacre surface mine
Progress made on site	Consent granted for 4m sq. ft of employment in 2013. Infrastructure and build out began in 2014 and has continued to present day, with full completion expected in 2020
Key occupiers on site	Amazon, Aldi, Lidl, Whistl, MBDA, Komatsu
Total jobs on-site as at March 2019	c. 5,500

FINANCIAL REVIEW

Andrew Kirkman, Finance Director

In 2018, Harworth continued to build its track record since re-listing, delivering the fourth consecutive year of over 13% total return; this is ahead of our long-term average ambition of over 10% annual total return. Total return (NNNAV growth plus dividends) per share over the last year was 13.3% (2017: 13.2%). The graph below shows the movement in net asset value, and total return, over the last year:

Summary

We use a number of Alternative Performance Measures ("APMs") alongside statutory amounts. We believe that these assist in providing stakeholders with additional useful information on the underlying trends, performance and position of the Group. Note 2 to the Financial Statements gives a full description and reconciliation of our APMs.

Operating profit before exceptional items contributing to growth in EPRA NNNAV, rose by 23.0% to £61.1m, 19.0p per share (2017: £49.6m, 15.4p per share). As set out in Note 2, this is operating profit before exceptionals (2018: £33.6m, 2017: £39.7m) plus profits from joint ventures (2018: £3.8m, 2017: £4.0m) and the revaluation gains on development property (2018: £22.9m, 2017: £5.8m) plus the revaluation gains on overages (2018: £3.5m, 2017: £nil) less value gains on development property released on sale (2018: £2.8m, 2017: £nil) which, because they are held as inventory, are not included in the balance sheet.

The operating profit before exceptional items which contributed to growth in EPRA NNNAV growth is best understood as being composed of two elements:

- Value gains (£51.3m, 2017: £47.4m) – unrealised revaluation gains on investment and development property plus overages and profits from joint ventures increased by 31.0% to £48.1m (2017: £36.7m) mainly as a result of the achievement of milestones in terms of planning, place-making and lettings together with seizing site-specific opportunities. Realised profits on disposals of investment, development and available for sale properties fell by 70.0% to £3.2m (2017: £10.7m) mainly as a result of previously recognising value gains on prospective property sales at the 2017 year-end and 2018 half-year; and
- PEVG (£9.8m, 2017: £2.2m) – this represents the ongoing profitability of the business which is not reliant on property value gains or profits from the sales of properties and is, therefore, less susceptible to movements in the property cycle. The significant increase over 2018 reflected the one-off fee from successfully letting the remaining M&G forward funded unit, Logistics 175, at Logistics North and the impact of income acquisitions.

Net finance costs rose to £4.0m (2017: £2.3m) as a result of higher levels of debt to fund the growth of the business and the write-off of fees associated with the increase in our Revolving Credit Facility. However, given higher PEVG, interest cover rose to 4.65x (2017: 3.41x). Our tax rate in 2018 remained below the statutory corporation tax rate as a result of ongoing progress with land remediation relief claims and the recognition of previously assumed lost tax losses. Cash tax payments continue to be minimised by the utilisation of historic tax losses.

The fall in earnings per share to 10.61p (2017: 15.76p) reflects the impact of the beneficial deferred tax movements in 2017 and the fact that the statutory measure, as opposed to the EPRA balance sheet movement, does not fully reflect the improved value gains since movements on development properties and overages are not included in the balance sheet. The total dividend per share for 2018 has been increased by 10% to 0.911p (2017: 0.828p) consistent with previous years and reflecting our long-run ambition to deliver double digit total return through the cycle.

Net debt at £64.4m or 12.3% net loan to value (2017: £32.3m and 7.0%) reflects our prudent gearing approach and is in-line with our stated 10.0% - 15.0% target range. In February 2018, the Group extended the term of its £75.0m Revolving Credit Facility ("RCF") with RBS to February 2023, on the same terms except with an increase in margin from 200 to 210 basis points, and in April 2018 the RCF was increased to £100.0m with Santander joining the facility on the same terms as RBS.

Property categorisation

Until sites receive planning permission, our view is that the land is held for a currently undetermined future use and should thus be held as investment property. We categorise all properties/land that have received planning permission as development properties. As at 31 December 2017, the balance sheet value of all development sites was £210.5m and the market value of all development was £216.3m reflecting the £5.8m uplift in value of these sites, which is appropriately not reflected in the balance sheet. More detail is set out in the 2017 Annual Report and Financial Statements.

Property categorisation is reviewed as at 30 June and 31 December each year. In 2018 no new properties were re-categorised from investment to development property as a result of planning permissions because: the planning permission granted at Swadlincote was an amendment to an existing planning permission; our part of the site at Athersley which received planning permission has been transferred to assets held for sale as it is now being actively marketed; and the remaining planning permissions received were for our first three PPA successes. There were some minor movements from investment to development properties, and vice-versa, as a result of sub-dividing some sites and the intentions for these smaller parcels.

As at 31 December 2018, the balance sheet value of all development sites was £204.2m and their market value was £230.2m reflecting the £26.0m uplift in value of these sites. In order to highlight the market value of development sites, and overages, and to be consistent with our investment properties, we are using EPRA NNNAV, which includes the market value of development properties and overages less notional deferred tax, as our primary net assets metric. We will, however, continue to report EPRA NAV which is EPRA NNNAV excluding deferred tax and the mark to market movement on financial instruments.

FINANCIAL REVIEW
Continued

The table below sets out our top ten sites by value, which represent 47% of the total value of all our properties, split by their categorisation and showing the total acres, currently consented residential plots and commercial space:

				Housing plots		Commercial space	
Site	**Type**	**Region**	**Acres**	**Consented**	**Sold/Built**	**Consented**	**Built**
Waverley	Development	Yorkshire	454	3,890	1,218/850	–	–
Coalville	Development	Midlands	346	2,016	0	–	–
Nufarm	Investment	Yorkshire	112	–	–	0.30m sq. ft	0.30m sq. ft
Waverley (AMP)	Investment	Yorkshire	113	–	–	2.10m sq. ft	1.50m sq. ft
Thoresby	Development	Midlands	460	800	0	0.25m sq. ft	0.00m sq. ft
Melton CP	Investment	Midlands	141	–	–	0.30m sq. ft	0.30m sq. ft
Rossington	Development	Yorkshire	307	1,200	522/170	0.10m sq. ft	0.05m sq. ft
Gateway 45	Joint Venture	Yorkshire	166	–	–	2.60m sq. ft	0.00m sq. ft
Four Oaks BP	Investment	North West	19	–	–	0.43m sq. ft	0.43m sq. ft
Chatterley	Development	North West	129	–	–	1.20m sq. ft	0.00m sq. ft
	TOTAL		**2,247**	**7,906**	**1,740/1,020**	**7.28m sq. ft**	**2.58m sq. ft**

Operating profit

Revenues in 2018 were £78.1m (2017: £53.7m), split between revenue from operations £33.2m (2017: £23.9m) and revenue from the disposal of development properties £44.8m (2017: £29.8m). Revenue from operations is split between: Income Generation £25.6m (2017: £18.2m), where revenue mainly comprises rental and royalty income together with some sales of coal fines and salvage; and Capital Growth £7.6m (2017: £5.7m). The increase in revenue from Income Generation reflected improved lettings and business space acquisitions made in 2017 and 2018. The revenue from Capital Growth reflected the recognition of promote fees for the lettings of the two units at Logistics North which were forward funded by M&G Real Estate. The two units, LN175 and LN225, were let in 2018 and 2017 respectively.

Cost of sales comprises the inventory cost of development property sales and the operating costs for business space, natural resources, agricultural land and coal fines activities. Cost of sales increased to £53.6m (2017: £37.7m) of which £43.1m related to the inventory cost of development property sales (2017: £27.9m). Other costs were primarily the costs associated with coal fines £5.0m (2017: £2.2m).

Revenue and cost of sales in 2017 include amounts relating to the M&G forward funding contract at Logistics North as Harworth acted as principal in this transaction. This principal relationship was as a result of Harworth having exposure to potential construction and credit risks as well as the potential rewards of managing the construction on time and to budget and letting the buildings favourably and early.

Total overheads, which include the overhead costs of the Capital Growth and Income Generation segments and central costs, amounted to £12.9m (2017: £12.0m) and were in line with expectations, reflecting increased costs due to the expansion of the business in the regions.

The table below shows the results of the business, on an alternative performance measure basis to tie to EPRA NNNAV, split between Capital Growth, Income Generation and Central Overheads:

	2018 Capital Growth £m	2018 Income Generation £m	2018 Central Overheads £m	2018 Total £m	2017 Capital Growth £m	2017 Income Generation £m	2017 Central Overheads £m	2017 Total £m
Revenue	**52.5**	**25.6**	**–**	**78.1**	35.4	18.3	–	53.7
Cost of sales	**(45.0)**	**(8.6)**	**–**	**(53.6)**	(32.3)	(5.4)	–	(37.7)
Overheads	**(2.5)**	**(2.2)**	**(8.2)**	**(12.9)**	(1.9)	(1.8)	(8.3)	(12.0)
Notional development property costs (2)	**(1.7)**	**–**	**–**	**(1.7)**	(1.9)	–	–	(1.9)
Other operating income	**–**	**–**	**–**	**–**	–	–	0.1	0.1
Profit/(loss) excluding value gains (1)	3.2	14.8	(8.2)	9.8	(0.7)	11.1	(8.2)	2.2
Revaluation gains (2)	**9.0**	**11.7**	**–**	**20.7**	20.6	6.3	–	26.9
Profit on disposals (2)	**1.5**	**1.7**	**–**	**3.2**	8.0	2.7	–	10.7
Pension charge	**–**	**–**	**(0.1)**	**(0.1)**	–	–	–	–
Operating profit/(loss) before exceptional items	13.7	28.2	(8.3)	33.6	27.9	20.0	(8.2)	39.7
Net exceptional items	**–**	**–**	**(0.6)**	**(0.6)**	–	–	0.3	0.3
Operating profit/(loss)	13.7	28.2	(8.9)	33.0	27.9	20.0	(7.9)	40.1
Joint ventures	**–**	**3.8**	**–**	**3.8**	–	4.0	–	4.0
Operating profit/(loss) before exceptional items plus JVs	*13.7*	*32.0*	*(8.3)*	*37.4*	*27.9*	*24.0*	*(8.2)*	*43.8*
Revaluation gains on development properties	***22.9***	**–**	**–**	***22.9***	*5.8*	–	–	*5.8*
Revaluation gains on overages	***3.5***	**–**	**–**	***3.5***	–	–	–	–
Development property value gains attributable to sales	***(2.8)***	**–**	**–**	***(2.8)***	–	–	–	–
Operating profit/(loss) before exceptional items which contributed to EPRA NNNAV	*37.3*	*32.0*	*(8.3)*	*61.1*	*33.7*	*24.0*	*(8.2)*	*49.6*
Value gains (including JVs and development properties)	*34.1*	*17.2*	–	*51.3*	*21.0*	*26.4*	–	*47.4*

Notes:

(1) A full description and reconciliation of the alternative performance measures in the above table is included in Note 2 to the Financial Statements

(2) The income statement has been re-presented to show the profit on development property sales (£3.5m; 2017: £7.7m) within profit on disposals and development property impairment (£1.7m; 2017: £5.8m) within revaluation gains. This notional cost is the reversal of these amounts

(3) There are minor differences on some totals due to rounding

Set out below are value gains for 2017 and 2018, which comprise profit on disposals, revaluation gains on investment properties (including joint ventures) and revaluation gains on development properties and overages:

£m	2018 Profit on disposals	2018 Revaluation gains Management	2018 Revaluation gains Market	2018 Total(1)	2017 Profit on disposals	2017 Revaluation gains Management	2017 Revaluation gains Market	2017 Total(1)
Development/Capital Growth								
Major Developments	**0.8**	**17.7**	**6.5**	**25.0**	8.0	8.7	4.3	21.0
Strategic Land	**0.7**	**5.8**	**2.6**	**9.1**	0.0	12.2	1.2	13.4
Investment/Income Generation								
Business Space	**(0.0)**	**7.0**	**0.1**	**7.0**	0.5	4.4	0.8	5.7
Natural Resources	**1.8**	**8.1**	**0.7**	**10.5**	2.2	1.4	0.1	3.7
Agricultural Land	**(0.0)**	**0.0**	**(0.3)**	**(0.3)**	0.0	2.6	1.0	3.6
Total	**3.2**	**38.5**	**9.6**	**51.3**	10.7	29.2	7.5	47.4

Notes:

(1) A full description and reconciliation of the alternative performance measures in the above table is included in Note 2 to the Financial Statements

The Group made property sales of £93.2m in 2018 (2017: £54.8m) achieving a profit on disposals of £3.2m (2017: £10.7m). The sales were split between those of residential serviced plots of £33.6m (2017: £23.0m), commercial development of £30.9m (2017: £22.7m) and other, mainly mature income-generating sites and agricultural land, of £28.7m (2017: £9.1m). In addition, Harworth undertook direct development on its sites with a land value of £1.0m (2017: £2.1m) and its share of property sales in its joint ventures was £1.1m (2017: £0.9m).

FINANCIAL REVIEW
Continued

Profits on disposals fell mainly as a result of previously appropriately recognising value gains on prospective property sales at the 2017 year-end and 2018 half-year. In addition, the introduction of IFRS 15 has resulted in the recognition of interest receivable on deferred consideration such that interest of £0.2m (2017: £0.0m) will be recognised in future years relating to sales.

Cash proceeds from sales were £78.9m (2017: £46.6m) reflecting the sales in the year of £93.2m (2017: £54.8m), less deferred consideration on sales in the period of £22.7m (2017: £14.3m), plus deferred consideration received from sales in the prior year of £8.4m (2017: £6.1m).

We have split the revaluation gains of £48.1m (2017: £36.7m) to reflect the contribution from active management through the achievement of milestones of £38.5m (2017: £29.2m) and market movements of £9.6m (2017: £7.5m). Whilst there is a degree of subjectivity in this split, it highlights that the majority of the value gains continue to come from active management. In 2018, the principal revaluation gains across the divisions reflected the following:

- Major Developments - Profitable sales, and evidence and progress, across most sites (notably Swadlincote, Lounge, Coalville & Waverley) and a few minor reductions;
- Strategic Land - Uplifts at Cinderhill and Wingates ahead of 2019 planning decisions plus increases in the value of our overages;
- Business Space - Good lettings secured across our portfolio, particularly our wholly owned and JV direct developments, plus strong sales enquiries at Gateway 45;
- Natural Resources - Value uplifts from surface water management and a water abstraction license plus a site increase from securing planning and interest for an Energy from Waste ("EfW") plant. This alongside a good profit achieved on sale of land for another EfW plant; and
- Agricultural Land – Minor reductions across a number of sites.

Exceptional items

Exceptional items in 2018 were a charge of £0.6m (2017: credit of £0.3m) and comprised the costs for the step-up from standard to premium listing (see below). Exceptional items in 2017 comprised three separate items which related to sundry receipts and costs from the Group's legacy activities.

Tax

The income statement credit for taxation for the year was £1.3m (2017: £7.8m credit) which comprised a deferred tax credit of £0.5m (2017: £9.3m credit) and a current year tax credit of £0.8m (2017: £1.5m charge). The movement in deferred tax comprised the following:

- the increase in valuation of investment properties has given a rise to £2.8m of deferred tax charge;
- a £3.1m credit due to the recognition of tax losses following both disposals in the period and the conclusion of a review regarding the availability of existing tax losses;
- following the submission of the tax computations and returns for prior periods, a reduction in the amount of tax attributes utilised in the prior period resulting in a deferred tax credit of £0.5m;
- deferred tax recognised in relation to share options resulting in a deferred tax credit of £0.1m; and
- the utilisation of tax losses against current year profits resulted in a deferred tax charge of £0.4m.

The current tax charge comprised the following:

- a current year tax charge of £0.9m (2017: £1.9m) resulting from profits from sale of development properties and rental income in the period; and
- the resubmission of the prior year tax computations and returns to reflect the land remediation relief and capital allowances claims following a review resulted in an adjustment in respect of prior years of £1.7m.

At 31 December 2018, the Group had deferred tax liabilities of £12.3m (2017: £13.0m) related to unrealised gains on investment properties and had recognised deferred tax assets of £7.3m (2017: £7.5m). The net deferred tax liability was £5.0m (2017: £5.5m).

Earnings per share and Dividends

Earnings per share fell to 10.61p (2017: 15.76p). This fall reflects the impact of the beneficial deferred tax movements in 2017 and the fact that the statutory measure, as opposed to the EPRA balance sheet movement, does not fully reflect the improved value gains with movements on development properties and overages not included in the balance sheet. Diluted earnings per share fell to 10.53p (2017: 15.68p) for the same reasons.

An interim dividend of 0.278p per share (2017 interim: 0.253p) equivalent to £893k (2017 interim: £813k) for the 2018 financial year was paid on 19 October 2018. A final dividend for the 2018 financial year of 0.633p per share (2017 final: 0.575p) is proposed. The total dividend for the year of 0.911p per share (2017: 0.828p) equivalent to £2.928m (2017: £2.66m) is in line with our progressive dividend policy and represents a 10% increase over the prior year, reflecting our long run ambition to deliver double digit total return through the cycle. The final dividend will be paid on 31 May 2019 to shareholders on the register at the close of business on 3 May 2019. The ex-dividend date will be 2 May 2019.

Net assets

As set out below, EPRA NNNAV increased to £466.5m as at 31 December 2018 from £414.2m as at 31 December 2017. This increase was as a result of movements in the year, being operating profit before exceptionals plus share of profits of joint ventures, overages and development property gains of £61.1m, less exceptional costs of £0.6m, interest costs of £4.0m, tax charges (including overages and development properties notional deferred tax) of £2.7m and dividends of £2.7m plus other movements of £1.2m.

	31 December 2018 £m	31 December 2017 £m
Investment and development properties (including investments in joint ventures, assets held for sale and occupied properties)	**496.1**	457.1
Cash	**8.6**	8.4
Other assets	**69.6**	31.5
Total assets	**574.3**	497.0
Gross borrowings	**73.0**	40.6
Deferred tax liability	**5.0**	5.5
Derivative financial instruments	**0.1**	0.1
Other liabilities	**54.3**	41.5
Net assets	**441.9**	**409.3**
Mark to market value of development properties and overages less notional deferred tax	***24.6***	*4.9*
EPRA NNNAV	***466.5***	***414.2***
Number of shares in issue less Employee Benefit Trust shares	**321,314,989**	321,250,750
NAV per share	**137.5p**	127.4p
EPRA NNNAV per share	***145.2p***	***128.9p***
EPRA NAV per share	***148.3p***	*131.0p*

(1) A full description and reconciliation of the alternative performance measures in the above table is included in Note 2 to the Financial Statements.

The increase in trade and other receivables to £66.7m (2017: £30.4m) was mainly as a result of £20.5m owing on deals which were agreed in December, which has now been paid, and a £12.0m increase related to higher levels of deferred consideration due from housebuilders reflecting greater sales volume. The increase in current trade and other payables to £52.6m (2017: £38.5m) was mainly as a result of greater levels of VAT payable (c.£7.5m increase) as a result of higher sales and an increase of £2.4m to £25.2m in development spend accruals again reflecting higher activity levels.

Financing strategy and funding

As has been consistently stated, Harworth's financing strategy is to be prudently geared, in particular not gearing our Capital Growth properties being our Strategic Land and Major Developments sites. We believe this prudence gives the Group a number of advantages:

- allows working capital swings to be managed appropriately given that infrastructure spend is usually in advance of sales and thus net debt can increase materially during the year;
- gives the Group the ability to complete acquisitions quickly, which is often a differentiating factor in a competitive situation; and
- ensures that we do not combine financial gearing with Harworth's existing operational gearing, being the company's exposure to planning, remediation/engineering, letting and sales risks.

Harworth's financing strategy also involves the Group seeking in principle to maintain its cash flows in balance by funding infrastructure spend and investment in acquisitions through disposal proceeds.

FINANCIAL REVIEW
Continued

The graph below shows the Group's management of net debt during the year:

To reduce refinancing risk, on 13 February 2018 Harworth extended the term of its existing £75m RCF with RBS by two years such that it now expires in February 2023. The extension was on substantially the same terms, the only notable change being a slight increase in margin to 210 basis points ("bps") over LIBOR (from 200bps). To increase financing flexibility, drive continued growth and maintain an efficient balance sheet, on 30 April 2018 Harworth increased the size of its RCF from £75m to £100m, with Santander joining the facility alongside RBS. RBS' commitment remains at £75m with Santander's initial commitment at £25m. There were no other material changes to the terms of the RCF. The Group also uses infrastructure funding, provided by public bodies to promote the development of major sites for employment and housing needs, as part of our funding. At 31 December 2018 the Group had four infrastructure facilities with all-in funding rates of between 3.2% and 4.0%.

The Group's hedging strategy is to have roughly half its debt at a fixed rate and half exposed to floating rates. On 20 July 2018, Harworth cancelled its existing £30m fixed rate interest swap which was due to expire on 30 June 2020 (incurring total break costs of £18.5k) and in its place entered into a 4-year, £45m fixed rate interest swap at an all-in cost of 1.235% (including fees) on top of the existing 210bps margin paid under the RCF. The new swap was put in place to reflect increased levels of borrowing and to increase its term commensurate with the extension in the term of the RCF. The interest rate swap is hedge accounted with any unrealised movements going through reserves.

As at 31 December 2018, Harworth's gross Loan To Value ("LTV") was 13.9% (2017: 8.8%) and net LTV was 12.3% (2017: 7.0%). This was in-line with our stated 10.0%-15.0% net LTV target range. However, as set out above, 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 a gross LTV of 38.9% (2017: 26.2%) and a net LTV of 34.3% (2017: 20.8%).

The Group had borrowings and loans of £73.0m at 31 December 2018 (2017: £40.6m), being the RBS RCF of £58.7m (2017: £23.4m) and infrastructure loans of £14.3m (2017: £17.2m). The Group's cash and cash equivalents at 31 December 2018 were £8.6m (2017: £8.4m). The resulting net debt was £64.4m (2017: £32.3m). The weighted average cost of debt, using 31 December 2018 balances and rates, was 3.3% with a 0.84% non-utilisation fee on undrawn RCF amounts (2017: 3.0% with a 0.8% non-utilisation fee on undrawn RCF amounts). For the twelve months to 31 December 2018 Harworth's interest cover, as calculated by the RBS/Santander RCF covenant calculation, was 4.65x (2017: 3.41x) against a covenant test of 1.5x.

As a result of the receipt of cash from December 2018 transactions, cash and undrawn facilities as at the end of February 2019 increased by £6.8m to £56.4m, with net debt falling to £56.5m.

The graph below shows the repayment profile of the £73.0m of borrowings and loans as at 31 December 2018:

Premium listing and FTSE index inclusion

On 1 August 2018 Harworth confirmed that it had received approval from the UK Listing Authority for the transfer of the listing category of all of its ordinary shares from a standard listing (shares) to a premium listing (commercial company). Harworth subsequently satisfied the conditions for UK FTSE indices inclusion and joined the indices on 24 September 2018.

Andrew Kirkman
Finance Director
16 April 2019

Harworth's Finance Team, March 2019

Riverdale Park

The 112-acre former McCormick Tractor Factory site in Doncaster, purchased by Harworth in December 2015, is the first of its non-legacy portfolio to yield sales receipts following three years of detailed planning, site investigation and remediation works and the completion of on-site infrastructure including new roads and drainage.

The site is adjacent to one of the principal gateways into Doncaster, less than two miles from its town centre and close to both established residential communities and commercial developments including retail and showroom uses. Harworth replanned the site's consent with Doncaster Council in 2017 to create a market-facing outline of 600 new homes and 250,000 sq. ft of commercial space including retail uses, a care home and retirement village.

Parcel C1, a plot totalling approximately six acres, was sold to Arnold Clark at the end of 2017 following its receipt of reserved matters planning consent and Harworth's preparation of an engineered development parcel ready for development. Arnold Clark is now constructing a car showroom which will complete in 2019.

Harworth built on this momentum in 2018 with the preparation of land for the first of four residential phases at the development. Barratt Homes acquired an 11.4 acre parcel in November, where it intends to construct 191 homes across a range of tenures from Spring 2019. Barratt is a repeat customer of Harworth, following previous land purchases at Waverley in Rotherham and Pheasant Hill Park, the former Rossington Colliery further east in Doncaster.

Further land parcels will be prepared by Harworth in 2019, including for the development's second residential phase and for other commercial uses. The development is expected to take around seven years to complete in line with its outline planning consent.

KEY FACTS: RIVERDALE PARK

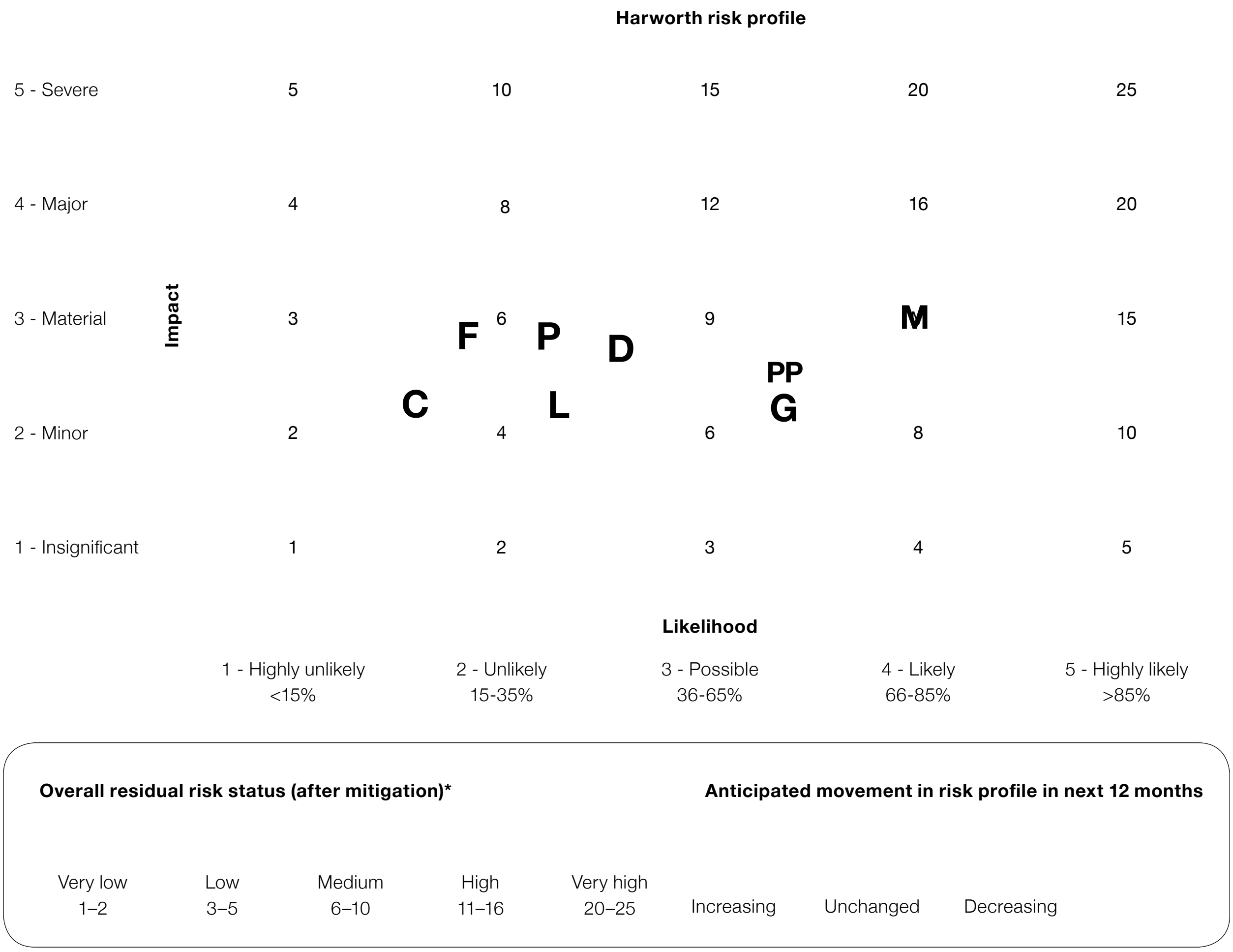
Site's previous use	Tractor factory between 1946 and 2007; site laid dormant from then until 2015
Total acreage	112
Nearby development	Doncaster College; range of car dealerships; Wheatley Hall Retail Park; long-established residential communities in Wheatley
Focus of Harworth work between 2016 and 2018	Demolition of vacant buildings; re-masterplanning of previous outline consent; cut and fill to create development platforms, alongside creation of new access; negotiation with housebuilders and commercial occupiers
Confirmed purchasers	Arnold Clark Barratt Homes

MANAGING RISK

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, or sufficiently mitigated 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 recognises that the Group's insurance programme plays an important part in reducing the impact of certain inherent risks which are neither acceptable nor capable of removal.

The Group Risk Register ("GRR") is the principal tool used by the Board and senior management team for monitoring the strategic risk profile of the business and the measures in place at an operational level for mitigating and managing risk. The GRR maps the risk profile of the business, with individual risks currently grouped into eight categories, being: markets (M); delivery (D); politics (P); finance (F); people (PP); legal and regulatory (L); governance and internal controls (G); and communications and stakeholder management (C). Those categories remain subject to regular review. Risks are scored on a "heat map", from "very low" to "very high", according to residual risk status (after accounting for mitigation measures already in place) and materiality. Emerging risks are also identified, together with steps that have been identified to mitigate them.

The GRR is now reviewed quarterly by both the senior management team and the full Board. Updates are made as necessary, both to the profile of certain risks and, in some cases, risk categories, and to the risk mitigation and management measures undertaken and planned, together with the anticipated impact of such measures to reduce risk exposure. Quarterly reviews also identify any emerging risks. Those quarterly reviews are informed by both the Board's high-level assessment of risk and more detailed operational feedback from senior management, following consultation with their respective teams. The risk profile of the business, as reflected in the GRR, is measured against the Board's risk appetite, which is reviewed annually. The Board's objective is to maintain, as far as possible, an alignment between its risk appetite and the risk profile of the business.



* Impact risk scoring determined by one or more of Balance sheet, P&L or reputational inputs

The executive team, supported by the senior management team, 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 monitoring the continued effectiveness of the same. Following regionalisation of the business the management of operational risks relies increasingly on a framework of internal controls and processes for: monitoring existing and emerging (but identified) risks; identifying new operational risks; and ensuring the effectiveness of risk mitigation measures. Work is ongoing to evolve those controls and processes in the context of the new regional structure. That said, the business continues to have a relatively small team and short reporting lines and members of the senior management team are, therefore, closely involved in day to day operations and often able themselves to identify new and changing risks.

The GRR identifies an "owner" of each risk, being a member of the executive team, who takes responsibility for the status and management of that risk, in some cases with support from other members of the senior management team. All members of the senior management team consult regularly with their teams about, and feed-back (to the Management Board) on, existing and new operational risks, and the effectiveness of risk management measures. This feed-back is reflected in the quarterly updates to the GRR.

Alongside maintenance of the GRR:

- our Estates, Environment and Safety ("EES") team maintains a site risk register through which we continuously monitor the risk status of each of our sites. Material changes in their risk status are reported to the Board on a monthly basis and changes to the profile of the site risk register are incorporated into the quarterly reviews of the GRR; and
- the Chief Executive chairs a quarterly health and safety meeting which is attended by representatives of each regional and centrally operated division, at which: incident briefings are given; site-specific and business-wide issues are identified and discussed, with action points agreed; and best practice is shared. Action points are recorded and monitored by the Associate Director of EES.

Operational Teams:
Real-time reporting and feedback to Regional Directors and Divisions Leaders on existing and new risks and on risk management measures

Board:
Ultimate responsibility for risk appetite and management. Annual review of risk appetite. Quarterly review of risk profile and management, in conjunction with Management Board

Management Board:
Responsible for day to day risk profie and ensuring implementation of, adherence to, and effectiveness of, risk mitigation and risk management measures. Quarterly review of risk profile and risk management ahead of Board review

Audit Committee:
Delegated authority for monitoring internal controls and processes, including overseeing annual, external audit of controls and the need for an internal audit function

EES:
Regular site visits and maintenance of site risk register, material changes to which are reported to the Board monthly and are incorporated in reviews of the GRR

MANAGING RISK
Continued

Principal risks and uncertainties

The Group is currently operating against a backdrop of heightened economic and political turbulence surrounding the UK's exit from the EU. The Board is mindful that these macro conditions could lead to a downturn in the regional residential and/or commercial property markets in which the Group operates. Alongside the 2019 budget and five-year strategic plan presented to the Board in the fourth quarter of 2018, the executive team modelled a severe market downturn lasting throughout 2019 and 2020. It forecast the potential impact on, and headroom in, the Group's property valuations and cashflow, and the measures available to the Group to mitigate against the same. That analysis has demonstrated that the Group, which is well-capitalised and has low financial gearing, is in a resilient position both to withstand adverse market movements and to capitalise on acquisition opportunities which may arise in a climate of continued economic and political uncertainty. Further detail is set out in the viability statement on page 45.

Notwithstanding the Group's downside forecasting, the housing, logistics and manufacturing markets in the Group's core regions remain supported by long-term fundamentals and both local and central government policy, and currently do not show signs of a material downturn. That said, there is some evidence of a slow-down in the rates of sales by housebuilders. This prompted a short delay to, and a change to the payment structure of, one prospective sale of residential land at the turn of the year, albeit contracts have now been exchanged for that sale. That example apart, we have not experienced any adverse impact on sales.

The increased likelihood of a downturn in the residential and/or commercial property markets, set against the current economic and political backdrop, has been reflected in the GRR by an increase in the risk status of the markets risk category, from "medium" to "high" risk (when compared to the 2017 Annual Report).

There has also been an increase in the risk status of the governance and internal controls category, from "low" to "medium" risk. This reflects that the Group's framework of internal controls and processes needs to evolve to respond to the regionalisation of the business. We expect this category to revert to a "low" risk status over the coming months as controls and processes are embedded into the regional structure, and certain other initiatives connected to cyber security and information security are implemented.

Whilst there have been some modest changes to the status of certain other individual risks across the business, there have been no material changes to the overall profile of other risk categories since publication of the 2017 Annual Report, with all other categories scored as either "medium" or "low" risks. We anticipate an increase in the risk status of the people category over the coming months, reflecting the recruitment and succession challenge as our regional structure continues to bed in. The status of all other categories is expected to remain unchanged.

Below is a detailed analysis of the Group's principal risks and uncertainties, similar to that in the 2017 Annual Report, reflecting the latest review of the GRR by the Board and the points referred to above. This analysis: (A) records the current profile of each risk category, after mitigation; (B) lists the mitigation measures already in place and those identified for implementation over the next 12 months; and (C) indicates how each risk category could impact our strategic priorities.

Key	Current risk profile				
	Very Low	Low	Medium	High	Very High
Our estimate of the current level of risk, taking account of controls and mitigation already in place. Risk is difficult to estimate with accuracy and so may be more or less than indicated	VL	L	M	H	VH

	Anticipated movement in risk profile		
	Increasing	Unchanged	Decreasing
Current assessment of anticipated movement in risk in the next 12 months			

	Link to Strategy					
Link to Strategic Priorities						
	Development	Investment	Sectors	Regions	Acquisitions	Gearing

Summary of the Group's Risk Profile

Risk categories	Markets (M)	Delivery (D)	Politics (P)	Finance (F)	People (PP)	Legal + Reg'tory (L)	Governance + Controls (G)	Communications + S'h M'mnt (C)
Risk appetite	M	M	M	M	M	VL	L	M
Risk profile	H	M	M	M	M	L	M	L
Expected change								

Note: based on the latest review of risk appetite and risk profile undertaken by the Board and referred to on page 34.

Turn to page 4 to read about Our strategy

R1. Markets **Determined by exposure to largely external factors**

Commentary:

A downturn in one or more of the property markets in which we operate, being the residential, logistics and manufacturing property sectors in the North of England and the Midlands, could: limit value gains across our portfolio or, in extreme cases, cause parts of our portfolio to drop in value; restrict the number of planned sales we make; and/or result in underperformance by our Income Generation assets.

Those adverse consequences could be exacerbated if our strategy does not evolve to respond to changes in our core markets.

Current risk profile:	Strategic priorities potentially impacted:	Anticipated movement in risk:
H		

The "high" risk rating of this category reflects that we appear to be late in the property cycle and potential concerns about a market downturn, together with the backdrop of heightened political and economic turbulence as negotiations continue for the UK's exit from the EU. Against that backdrop, we expect the risk rating will remain high during 2019.

Mitigation and controls already in place:

- The diversity of our portfolio (sectors and geography) mitigates against a downturn in one of our core markets. Our core regional markets are typically less volatile than the London and South East markets. The Income Generation portfolio includes a diversity of income streams which has a similarly mitigating effect.
- The move to a regional operating structure will increase our "footprint" in the Midlands and North West, which will mitigate against market movements at a regional level.
- Value gains are generally driven more by active management than market movements.
- We build headroom into our sales forecasts by identifying potential alternative sales in the event that planned sales do not proceed as quickly as anticipated.
- We made a substantial investment in our recurring income portfolio during 2018, both through acquisitions and direct development, to improve further the sustainability of the business during periods of market downturn.
- We can control our working capital movements by managing acquisitions and development spend to respond to market movements. Our cash flow forecasts also provide for a minimum £5m "buffer" throughout the year.
- The executive team monitors, and updates the Board at least monthly on, prevailing market conditions. Given current turbulence in the macro economic and political climate, the Group's plans remain subject to ongoing review and will evolve to respond to any material movements in the Group's core regional markets.

Further actions to be taken to mitigate and manage risk:

- We will continue to take steps to widen our geographical footprint, which will further mitigate against market movements at a regional level.
- Our development plans and projected sales will inform our strategy on acquisitions and masterplans, to ensure we maintain a balanced mix of commercial and residential sites across our portfolio.
- We will continue to grow and strengthen our recurring income portfolio.
- We will explore and, if viable, undertake delivery of Build to Rent schemes on our sites, thereby widening our access to the residential property market and increasing our potential points of sale.

MANAGING RISK
Continued

R2. Delivery	**Determined by exposure to both external and internal factors**

Commentary:

Our ability to generate EPRA NNNAV growth and/or grow our investment returns could be adversely affected by external factors, such as: a sparsity of and/or increased competition for attractive acquisition opportunities; adverse planning decisions; or market-driven increases in development costs, or by internal factors, such as poor operational delivery.

Current risk profile:	Strategic priorities potentially impacted:	Anticipated movement in risk:
M		

The "medium" risk rating of this category reflects the balance between: more competition for acquisition targets and some uncertainty around future labour and raw material costs once/if Brexit is implemented, which elevate risk; and our successful track record on planning promotion and continuous improvements to internal processes and controls, which mitigates the risk. We expect the profile of this risk category to remain largely unchanged over the coming 12 months.

Mitigation and controls already in place for external factors:

- The move to a regional operating structure means that the acquisitions and planning promotion functions are now embedded in the regions, with support from a very experienced central team in the case of planning promotion. This facilitates a more focussed and intensive approach to both acquisitions and planning promotion at a regional level. Alongside that refined approach we continue to: establish and strengthen our agency and local authority relationships in the regions; enhance Harworth's profile both regionally and nationally; and build our track record for delivery.
- We have introduced a standard acquisitions financial model to ensure consistency across the regions in appraising acquisition opportunities.
- We have refined the way we appraise prospective PPAs.
- The executive team regularly reviews strategic priorities and the availability of capital to ensure the team can focus its time and resources appropriately.
- Our planning promotion team has a proven track record for promoting schemes through the planning application process. Success is achieved through careful masterplanning and preparation of applications, alongside tireless stakeholder management at a local level.

Further actions to be taken to mitigate and manage risk:

- The Governance and Internal Controls section below identifies the steps we are taking to embed our framework of internal controls and internal reporting regime into the new regional structure, to ensure effective operational delivery and appropriate reporting of financial and commercial information to the executive team and Board.
- We will recruit additional resources into the regional acquisition teams.

R3. Politics		Determined by exposure to external factors
Commentary: Changes in national and/or local government policy, including planning, could impact the Group's activities.		
Current risk profile:	Strategic priorities potentially impacted:	Anticipated movement in risk:
M		

The "medium" risk rating of this category reflects: the relative stability of central Government planning policy (Help to Buy persists and there were only modest changes to the National Planning Policy Framework), and the broadly supportive backdrop of local planning policy; balanced against the challenges faced as a result of HS2 safeguarding, and the medium-term potential for a Land Value Capture initiative. We expect the profile of this risk category to remain largely unchanged over the coming 12 months.

Mitigation and controls already in place:

- The diversity of our portfolio affords a degree of mitigation to adverse political changes which could impact our markets.
- We make representations on our own, alongside partners and in conjunction with key industry bodies, to minimise the prospect of adverse policy changes being enacted.
- Our planning promotion team monitors closely the political landscape and climate both at a national level, particularly with regard to Land Value Capture and the National Planning Policy Framework, and at a local level, particularly where we have current or prospective planning promotions. This informs our masterplanning, promotion, development and sales strategies.
- We have played an active role in Government consultations on Land Value Capture.
- Our proactive engagement with HS2 Limited has facilitated plot sales at our Gateway 45 site, notwithstanding safeguarding of part of the site.
- During 2018 we effected a sale of the majority of our Lounge site, which is also subject to safeguarding by HS2 Limited.

Further actions to be taken to mitigate and manage risk:

- We will play an active role in the newly established BPF Regional Policy Committee, which is to be chaired by Owen Michaelson.
- We will continue to contribute to ongoing Government consultations on Land Value Capture and any proposed changes to the NPPF.
- We will continue to engage with HS2 Limited to accelerate payment of compensation for safeguarded land at Gateway 45 and the retained part of our Lounge site.

MANAGING RISK
Continued

R4. Finance	Determined by exposure to both external and internal factors

Commentary:

It remains our ambition to cover the Group's operating costs, interest, tax and dividends from ongoing rental and other operating income. A shortfall in income could impair our ability to maintain activity levels to deliver EPRA NNNAV growth and/or investment returns during periods of market downturn. It could also result in an interest cover covenant breach on our revolving credit facility.

We use debt capital, in the form of bank debt, infrastructure loans and a bonding facility, to help fund our activities. If that capital is temporarily unavailable, or only available at a materially increased cost, or our debt capacity is constrained, that could fetter our ability to grow EPRA NNNAV and/or investment returns.

Gaps in our insurance programme could lead to an irrecoverable financial loss.

Current risk profile:	Strategic priorities potentially impacted:	Anticipated movement in risk:
M		

The finance category has a "medium" risk profile reflecting a balance between: a material increase in recurring income from acquisitions, direct development and asset management, an increase in our revolving credit facility limit to £100m, implementation of a new fixed interest rate hedge, and continuous improvements to financial reporting and forecasting; set against an increase in overheads from regionalisation and growth, and further work needed to secure additional infrastructure loan funding. We expect the profile of this risk category to remain largely unchanged over the coming 12 months.

Mitigation and controls already in place:

- At the end of the financial year ended 31 December 2018, our Net Loan to Value was held at 12.3%.
- The significant level of sales completed during 2018 maintains strong cashflows which mean acquisitions and development spend can continue to be funded from internal cash reserves.
- During 2018 we secured a new infrastructure loan from Homes England for investment at our Harworth site. We also repaid four existing infrastructure loans during 2018, freeing up some debt capacity.
- During 2018 we extended the term of our revolving credit facility to February 2023, increased the facility from £75m to £100m with a margin increase of only 0.1%, and Santander joined RBS as lenders. We have entered into a new £45m fixed rate swap, in substitution for a swap put in place in 2017, at an all-in-rate of 3.335% (including fees) until June 2022.
- In 2018 we acquired two investment properties, Nufarm and Flaxby, which carry £3.1m of additional rental income. We have begun to recycle capital from mature investments into ones with a higher yield. In 2018 we sold our Gateway 36 site in Barnsley, a unit occupied by Costa Coffee at our Logistics North site in Bolton and Harworth Business Park, generating proceeds of sale of £20.5m.
- We have continued to undertake selective direct development on certain of our sites, both solely and in joint venture, to grow our recurring income. In 2018, this included a unit pre-let to McLaren and the next phase of our R-Evolution speculative development, both at the AMP, and the second phase of our "Multiply" speculative development, in joint venture with Lancashire County Council Pension Fund ("LCPF"), at Logistics North. There is already limited vacant space on these speculative developments.
- Our business model has evolved to include planning promotion, construction management, letting promotion and asset management for third parties. These generate income, although we recognise that they represent variable, rather than recurring income. In 2018 we were paid a £6.8m promote fee by M&G following the letting of unit LN175 at Logistics North.
- There has been investment in additional resource in the Finance team which creates greater capacity to monitor key performance indicators and cost plans.
- All covers were reviewed at the January 2019 insurance renewal, as a consequence of which a cyber security insurance policy was put in place and business interruption cover was increased.

Further actions to be taken to mitigate and manage risk:

- We intend to commence construction of a third phase of the "Multiply Logistics North" speculative development, alongside LCPF. Other direct development opportunities will be monitored.
- Development management opportunities are limited but continue to be explored.
- The proceeds of 2018 sales of mature investment property assets will be deployed on investment property acquisitions projected to bear a higher yield and the active recycling of capital by the Income Generation division will continue.
- We will continue to pursue infrastructure loans and grant funding for investment in our sites.

R5. People	Determined by exposure to largely internal factors

Commentary:

We recognise that, alongside our property portfolio, Harworth's people are its biggest asset. If we undertake inadequate resourcing and succession planning or fail to engage properly with, develop and/or retain, our people, this will have a severely adverse effect on the performance of the business and our ambitions for growth.

We also recognise the value of diversity at all levels of the business and aim to improve this progressively.

Current risk profile:	Strategic priorities potentially impacted:	Anticipated movement in risk:
M		

The "medium" risk rating of this category reflects the challenge of a modest increase in staff turnover following implementation of a regional structure, but also the opportunities it presents for career progression and the work undertaken (and ongoing) on succession planning and employee engagement.

Given the continued bedding in of the regional structure and the modest increase in staff turnover, it is anticipated that recruitment and succession will be more of a challenge over the coming months, reflected in an anticipated increase in risk rating for this category.

Mitigation and controls already in place:

- The introduction of a regional operating structure and a new senior management structure has created opportunities for career progression for existing employees. It has resulted in expansion of the overall team and greater resilience in capacity, with team structures mirrored across our three regions. Recruitment for regional roles is well advanced. The change in structure has inevitably prompted a modest increase in staff turnover, but successful recruitment campaigns have resulted in the appointment of high-quality successors.
- Notwithstanding regionalisation, Harworth still operates with a relatively small team. Whilst this can amplify capacity and "key-person" risks, it also means that the executive team can keep those risks under close and continuous review.
- During 2018 our Head of HR and Organisation Development improved our appraisal and personal development processes and undertook and presented to the Board a comprehensive succession planning review for roles throughout the business.
- The Our People section of this report on page 50 sets out the initiatives we have introduced (and more we intend to implement) to improve engagement with employees (including the establishment of our People Steering Group) and to ensure we recruit, retain and develop the right people for the business.
- There has been some modest progress in improving diversity across the business, albeit there remains a lot more work to do. There is an update on progress and initiatives on pages 51 to 53 of the Our People section of this report.

Further actions to be taken to mitigate and manage risk:

- We will recruit for the regional roles which have not yet been filled and for succession.
- We will implement the initiatives identified in the Our People section of this report which are aimed at improving engagement with employees and diversity across the business.
- Our Head of HR and Organisation Development will undertake a Group-wide review of Harworth values, with the objective of better defining those values and the Harworth culture. These in turn will be important in effective recruitment and the alignment of behaviours.

MANAGING RISK
Continued

R6. Legal and Regulatory	**Determined by exposure to both external and internal factors**

Commentary:

Given the nature of our operations and certain of our legacy and acquired sites, management of environmental and health and safety risks and regulatory compliance, are key components of our activities and are afforded very high priority. The Board has limited appetite for environmental risk and seeks to minimise health and safety risk as far as possible. Environmental and/or health and safety incidents and/or regulatory breaches (under the General Data Protection Regulation ("GDPR"), Bribery Act or Modern Slavery Act, for example) could result in costs, financial penalties, liabilities to third parties and/or reputational damage.

Current risk profile:	Strategic priorities potentially impacted:	Anticipated movement in risk:
L		

The Board has a "very low" risk appetite for legal and regulatory risks. Given the nature of the business, there is an inherent environmental and health and safety risk in the operations we undertake. This means that, whilst every effort is made to mitigate risk to the greatest extent possible, the risk scoring of this category remains "low" rather than "very low" as per our risk appetite.

Mitigation and controls already in place:

- Our Estates, Environment and Safety ("EES") team manage health and safety and environmental risks on a day-to-day basis. Page 64 of this report provides an explanation of how we manage and monitor health and safety.
- We continue to engage an external health and safety consultant, JPW Consulting Limited, to advise on health and safety matters, undertake site risk inspections, and manage health and safety on our consortium sites (i.e. where multiple contractors are undertaking work).
- Our Environmental Manager has completed his Waste Management Industry Training and Advisory Board ("WAMITAB") qualification and, as a result, manages our waste licences in-house, with assistance from external consultants and contractors where appropriate. We regularly review, amend, and surrender permits as sites mature or activities change. There were some further permit surrenders during 2018.
- Quarterly health and safety meetings are chaired by the Chief Executive and attended by heads of all regional and central teams at which incident de-briefings are undertaken, common issues are discussed (and actions agreed) and best practice is shared.
- We maintain an open dialogue with the Environment Agency ("EA") about all of our permitted sites. If issues arise, we take quick and proactive steps to address them, in collaboration with the EA.
- We also work closely with the Health and Safety Executive, particularly in relation to the sites we operate as quarries or are demolishing.
- We implemented a number of policies, controls and processes to ensure compliance with the GDPR ahead of its coming into force on 25 May 2018. All employees have been briefed on the importance of data protection compliance.
- Mandatory online training was delivered to all staff in the second half of 2018 on the avoidance of modern slavery, bribery and facilitation of tax evasion, and whistleblowing. This coincided with the introduction of a new and more robust whistleblowing policy and procedure.

Further actions to be taken to mitigate and manage risk:

- The structure and composition of the EES team will remain subject to review to ensure that it evolves, in terms of skillset and experience, with the estate management needs of our portfolio.
- Another Group-wide safety training day will take place in the summer, attendance at which will be mandatory.
- From this year, our Audit Committee will review annually the effectiveness of the measures in place to ensure compliance with the GDPR.

R7. Governance and Internal Controls	Determined by exposure to largely internal factors

Commentary:

Deficiencies in our governance measures and/or internal controls and processes (including cyber and information security measures) could lead to inefficiencies, financial underperformance, or even financial loss and/or liability.

Current risk profile:	Strategic priorities potentially impacted:	Anticipated movement in risk:
M		

The "medium" risk scoring for this category is higher than the Board's "low" risk appetite. This reflects that the Group has identified that its framework of internal controls and processes and internal reporting regime needs to evolve to respond to the regionalisation of the business. We expect this category to revert to a "low" risk status over the coming months as controls and processes are embedded into the regional structure, and certain other initiatives connected to cyber and information security are implemented.

Mitigation and controls already in place:

- We comply with the UK Corporate Governance Code on a comply or explain basis, with explanations for only limited instances of non-compliance in our Annual Report. Our high standards of governance were reflected in the Financial Position and Prospects Procedures ("FPPP") report prepared by PricewaterhouseCoopers LLP ("PwC") ahead of the Company's step up to the premium list, which identified that relatively few adjustments to the Company's existing governance framework were required for the step up.
- Our Delegated Authorities Policy was reviewed and updated in November to reflect the new regional and senior management structure. This was accompanied by new controls and processes for the execution of documents and approval of purchase orders.
- External reviews of certain of our internal controls and processes were undertaken by KPMG in November 2017 and PwC in the first quarter of 2018 (as to which see the Audit Committee report on pages 97 and 98). All recommendations from those reviews have been implemented. The Audit Committee undertakes annually a review of the effectiveness of internal controls and processes.
- External reviews of cyber and information security were undertaken in 2018. All technical recommendations have been implemented. Implementation of strategic recommendations, including the appointment of an information security manager, are being implemented. From this year, the Audit Committee will undertake an annual review of the effectiveness of controls and processes in place for cyber and information security.
- Business continuity and IT incident response plans are now in place.
- A new and more robust whistleblowing policy and procedure was implemented during 2018.

Further actions to be taken to mitigate and manage risk:

- Our internal controls and processes will remain subject to ongoing review, including external audits on an annual basis, to ensure they remain "fit for purpose" as the business grows and delivers via a regional structure and across a growing portfolio. This will continue to include an annual review by the Audit Committee as to whether the business should establish an internal audit function. Such a function does not currently exist because, to date, the executive and the Audit Committee has concluded that the business is neither large, nor complex, enough to warrant it.
- Work is ongoing to evolve our framework of internal controls and processes and internal reporting regime to respond to the new regional operating structure. This will progress, and the framework will be embedded into the regional structure, during 2019.
- Measures will be implemented during the year to improve cyber and information security, following the recommendations from external reviews undertaken in 2018. Implementation will be led by a newly appointed information security manager.
- Desktop tests will be undertaken of our business continuity and IT incident response plans.

MANAGING RISK
Continued

R8. Communications and stakeholder management	Determined by exposure to both internal and external factors

Commentary:

Working with a broad spectrum of stakeholders is fundamental to our business activities and performance. If we do not communicate properly with our investors and maintain strong relationships with all stakeholders this will lead to underperformance, both operationally and of our share price.

Current risk profile:	Strategic priorities potentially impacted:	Anticipated movement in risk:
L		

The “low” risk profile of this category reflects the extensive work undertaken: to improve our investor relations programme; and to review our engagement with stakeholders and formalise the way we consider stakeholder interests when making strategic and significant operational decisions. We expect the profile of this risk category to remain largely unchanged over the coming 12 months.

Mitigation and controls already in place:

- We continue to work to improve our communications with investors. A communications tracker is maintained fortnightly to ensure external communications remain timely and appropriate and subject to a planned programme. Increased investor relations activity in 2018 included a briefing and site visit for current and prospective institutional investors and analysts, which will be repeated in 2019.
- The responsibility for local authority relationships has now been placed directly with our regional and central planning promotion and development management teams, whilst our Head of Communications and Investor Relations, now based in London, remains our principal point of contact with Central Government.
- The Board undertook a detailed stakeholder mapping and engagement review exercise in October. This will be repeated annually. One output from this review was a change to the format of Board presentations on proposed transactions, which now include sections on stakeholder interests and engagement.
- We have actively engaged with shareholders about the proposed changes to our Remuneration Policy.
- We have increased our engagement with Homes England which will play an increasingly important role in the acceleration of delivery of certain of our sites.
- Please see the Our Partners section of this report on pages 56 to 63 for more detailed explanation of the means by which we identify, engage with, and consider the interests of our stakeholders. Measures have been implemented to improve engagement between the Board and employees. Please see the Our People section of this report on pages 50 to 53 for more details.

Further actions to be taken to mitigate and manage risk:

- Significant planning promotion and consultation exercises will continue in relation to our Ironbridge and Wingates sites, amongst others.
- Our engagement with stakeholders will be subject to Board review annually. Internal communications will remain subject to regular review.

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; and
2. The Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet their 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 37 to 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 – this is reinforced by the work performed as part of the five-year strategic plan as set out in the viability statement below. At year end, the Group had cash and cash equivalents of £8.6m, net debt of £64.4m and a net loan to value of 12.3%. The Group has a £100m revolving credit facility with RBS and Santander, which contains typical financial covenants and runs until February 2023. At the year-end there was headroom of £41.0m in that facility. It also has infrastructure loans totalling £14.4m. The financial position of the Group, including information on cash flow, can be found in the Financial Statements on pages 126 to 175. 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 strategy (pages 4 and 5), How we add value (pages 6 and 7), The markets we operate in (pages 8 and 9) and the Group's principal risks and uncertainties (pages 36 to 44)).

Viability statement

Viability period and rationale

The Directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' statement. The Board conducted this review for a period of five years ending 31 December 2023, with three years of detailed assessment and two years in outline. This period was selected for the following reasons:

- the Group's strategic plan 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 property on and/or developing material 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.

Key assumptions and sensitivity analysis

The five-year strategic plan review focuses on the expected growth of the business primarily in terms of EPRA NNNAV including dividends. The strategic plan review also considers the Group's valuations, 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 the main assumptions underlying the forecast both individually and in unison. Further work was performed in this year's strategic plan to look at business resilience in 2019 and 2020 given heightened political and economic uncertainty.

The main assumptions relate to the forecast supply and demand dynamics for the residential and commercial property markets, and the availability of acquiring new sites. Where appropriate, analysis is carried out to evaluate the potential impact of the Group's principal risks 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.

Principal risks and uncertainties

The principal risks and uncertainties that are considered relate to economic assumptions, income generation variability and appropriate staffing levels. Principally, these fall within the Markets, Delivery, Politics and People categories of risk identified on pages 37 to 39 and 41. Sensitivity analysis has been applied in terms of value gains and valuations (particularly in the context of loan to value covenants and availability of our banking facility), income generation, cash flow and EPRA NNNAV impacts. These risks are fairly well balanced on the up and downside. If needed, more cash could be generated through increased sales and/or reduced development spend and acquisitions. Such cash could be targeted toward the acquisition of income generating properties, if needed to raise available income.

Viability assessment

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.

Acquisitions

2018 was a record year of acquisitions for Harworth, with eleven sites being purchased for a total consideration of £57.9million – more than double 2017's quantum. These acquisitions added £3.1m of long-term income to improve the quality of Harworth's income base alongside strategic land purchases that could deliver c. 2,000 plots and over 1.5m sq. ft of commercial space.

In total, 883 acres were acquired across the North of England and the Midlands, with five key strategic land purchases of note. Significant progress was made in the Midlands, with the purchase of the 350-acre Ironbridge power station in Shropshire from Uniper marking Harworth's second former power station purchase since 2014. Public consultation has already begun on a 1,000+ home residential and leisure development, with a planning application to be submitted before the end of the year. Two strategic land purchases were also made in Leicestershire to supplement Harworth's strategic landbank close to its major development at Coalville, with the first application – for c.365,000 sq. ft of commercial space across 53 acres – already submitted to North West Leicestershire District Council for determination in the first half of 2019.

Strong progress was also made in the North West, with the 56-acre purchase of the Moss Nook site in St Helens from Banks Property Group marking Harworth's entry into the region's residential development market. The site was the subject of a range of industrial uses for the best part of a century and with an outline consent already in place for 900 new homes, Harworth will begin preparing land in 2019 to sell the first phase to a housebuilder. As also referred to within the first case study, a further 97 acres of potential commercial land was purchased just off Junction 6 of the M61 in Bolton at Wingates as part of the assembly of land for a new commercial development of 1.1m sq. ft of new manufacturing and distribution space. This is now the subject of a planning application which is expected to be determined by Bolton Council in the first half of 2019.

Harworth now has an active churn strategy of selling mature income generating sites with limited potential for further value uplift. The sales proceeds are then reinvested into higher income yielding sites with future development potential. This strategy resulted in two significant income-producing sites being acquired in the year. The first, the 112-acre Nufarm site in Bradford, includes a 32-acre agrochemical works let to Nufarm UK Ltd on a lease that expires in 2055 at a current passing rent of £2.1m per annum, alongside 80 acres of unoccupied land with the long-term potential for a new commercial development. In addition, the 22-acre Flaxby site in Harrogate, less than 1 mile from the A1(M), was purchased for £8.75m prior to modular homes manufacturer, Ilke Homes, agreeing a new 14-year lease that represented a stabilised initial yield of 10.9%. In addition to generating an additional £3.1m of new income per annum combined, both purchases contributed to Harworth's improved WAULT position at the end of the year of 14.1 years and a reduced vacancy rate across its Business Space portfolio of 14%.

With a solid five-year track record of acquisitions now in place and over £50m cash/facility headroom in place at the end of 2018, Harworth's investment in its regional model in Yorkshire & Central, the Midlands and the North West provides a further source of competitive advantage in developing the relationships required to bid successfully on further strategic land and income-producing sites in the future.

Former Ironbridge power station

KEY FACTS: ACQUISITIONS

Quantum of purchases since 2014	Over £140m spent across c.30 sites
Split between acquired sites and former coal mining sites now in Harworth's portfolio	By value 31% acquired and 69% former coal mining
Geographic range of purchases since 2014	South: Droitwich, Worcestershire North: Former Alcan Smelter, Northumberland
Total consideration of purchases made in 2018	£57.9m across 11 sites plus up to a further £3.25m depending on planning
Additions to portfolio in 2018	£3.1m of additional income Over 2,000 potential residential plots and over 1.5m sq. ft of potential commercial space to be the subject of future planning applications
Acquisitions focus	100+ acre strategic land purchases, including former power stations and public sector owned land Income producing acquisitions with wider strategic land potential

CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Our long-term success as a business is underpinned by a commitment to Corporate, Social and Environmental responsibility. Our approach falls into five core areas which are explained in more detail over the following pages.

Our People

Long-term, sustainable performance must be underpinned by the development and retention of our people, together with the recruitment of individuals who buy into the Harworth culture, to support our growth ambitions. We can only achieve that if we: promote a strong and positive culture; engage meaningfully with our employees; take steps to improve diversity, in its widest sense and at all levels of the business; create an environment in which our employees can develop their skills and experience; and reward them appropriately for their hard work and contribution.

Our Partners

The Board recognises that effective stakeholder engagement is a key component of good corporate governance and will help to promote long-term, sustainable success and growth. The Board has always had regard to its obligations under section 172 of the Companies Act 2006 but, having regard to the 2018 Code and to guidance published by ICSA and the Investment Association, during 2018 the Board re-assessed its approach to stakeholder engagement. One of the principal outputs from that review was a stakeholder map which is summarised on pages 56 to 63. This identifies our key stakeholders, records how we engage with them, identifies the strengths in that engagement but also, importantly, the challenges we face and the improvements we can make.

Operating Responsibly

Harworth takes its responsibilities as a sustainable regeneration company extremely seriously. Working safely and with appropriate regard to our legal obligations forms a critical part of being socially responsible in our day-to-day delivery.

Social Responsibility

As one of the UK's leading regeneration companies, we recognise that we influence the design and delivery of future communities. It is a serious responsibility and one that we are proud to deliver on in the way we: design and deliver our projects; and work with local communities during their build-out.

Environmental Responsibility

With many years' experience in regenerating large and often complex development sites, Harworth has an established track record in managing the environmental impact of its operations. This includes: recycling materials from demolition and land remediation; tackling the environmental legacy of previous industrial site uses; and encouraging staff to take personal responsibility for reducing harmful emissions from our activities.

OUR PEOPLE

The development of large and complex sites and the intensive asset management of our investment properties is only possible with a team of skilled, experienced, innovative and dedicated professionals. There is no better demonstration of this than the extent to which value gains are driven by active management of the Group's assets. Whilst the Harworth team has grown during the year, with the introduction of a regional operating structure, it remains relatively small. Long-term, sustainable performance must be underpinned by the development and retention of our people, together with the recruitment of individuals who buy into the Harworth culture, to support our growth ambitions. We can only achieve that if we: promote a strong and positive culture; engage meaningfully with our employees; take steps to improve diversity, in its widest sense and at all levels of the business; create an environment in which our employees can develop their skills and experience; and reward them appropriately for their hard work and contribution.

Our culture

We believe we have a strong and positive working culture at Harworth, but we feel that it needs to be defined better so that we can preserve and promote it as we continue to grow and embed our regional operating structure. An exercise, led by our Head of HR and Organisation Development, to formalise Harworth's core values, with the ultimate objective of defining them and our culture, is well underway and will be completed during this year. Once completed, we will use it as a framework for recruitment, decision-making and behavioural training across every aspect of the business.

Employee engagement

The Board and executive team recognise the importance and benefits of engaging meaningfully with employees and considering how both strategic and operational decisions will impact the workforce. The Board is also mindful of the need to comply with 2018 Code in this regard.

Engagement by the Board

Encouraging higher levels of employee engagement is a priority and measures have been introduced to achieve that objective. Recognising that effective engagement requires multiple forums and means, the following initiatives are in place:

- our first Employee AGM will be held at the end of April 2019, with the intention that this be repeated annually;
- we have established a People Steering Group ("PSG") with whom our Non-Executive Directors meet quarterly by rotation (see further below);
- regular site visits by our Non-Executive Directors are hosted by our project teams;
- we are encouraging wider employee participation in presentations at Board meetings;
- at some Board dinners the Board will be joined by members of the wider senior management team; and
- when Board meetings are held at our head office, the Board now breaks for an extended lunch with groups of employees.

One of the most important aspects of our employee engagement strategy is our PSG, which we established in the first half of 2018. It meets quarterly and comprises twelve employees, selected by our Head of HR and Organisation Development, from different teams across the business, seeking an appropriate mix, based on (amongst other things) length of service, experience and diversity.

The purpose of the PSG is twofold. From an operational perspective, it takes a lead in identifying and developing a "people agenda" and in proposing and implementing initiatives to drive that agenda. The group is also a forum for engagement between the Board and employees. PSG meetings are scheduled to take place immediately after Board meetings. This means two or three of our Non-Executive Directors can attend part of the PSG meeting where the views and concerns of employees are identified and discussed. Those views and concerns are fed back to the wider Board at the next Board meeting.

Ahead of its coming into force, the Board considered at length how best to satisfy the Group's obligations on workforce engagement under Provision 5 of the 2018 Code. Having regard to the nature and scale of Harworth's business the Board considers that the combination of measures listed above will facilitate effective engagement with employees. In particular, it views the engagement with the PSG as being akin to there being a designated "workforce" Non-Executive Director on the Board. Indeed, rather than there being a single designation, all Non-Executive Directors undertake that role at some point during the year. The Board will review the ongoing effectiveness of all engagement measures annually.

Whilst engagement with the workforce is important, it would be of limited value if the Board does not then consider the interests of employees when making its decisions, particularly those of a strategic nature or having widespread operational implications. The Our Partners section of this Report on pages 56 and 63 explains how the Board has taken steps to formalise the way in which stakeholder interests, including those of employees, form part of the Board's discussions and decision-making process. By way of example, the Board was mindful, and took account of the fact, that the move to a regional operating structure would present both challenges and opportunities for the workforce.

Engagement by the executive team

Engagement with employees at an operational level is equally important, particularly as we grow and embed our new regional structure which, without effective communication between teams, carries the risk of a "silo effect". The executive team, with support from the wider senior management team, continues to work hard to ensure effective engagement is maintained. We have a framework of active engagement which includes:

- an annual staff survey, now in its fourth year and covering a range of themes including communication, development, morale, motivation and, this year, the impact of our regionalisation programme. Once again there was a high completion rate, with 94% of employees responding (positively in most respects) to the survey, reflecting the fact that the survey is considered a meaningful exercise with feedback driving tangible initiatives;
- an internal Harworth newsletter published quarterly, which comprises operational updates from the Chief Executive and all our regional and central teams, alongside news items of a non-operational nature;
- quarterly Staff Communication Breakfast Briefings which are hosted by our regional and central teams on a rolling basis so that regular operational updates can be given and thought leadership and case studies can be shared;
- an annual staff conference, the theme for which was creative thinking in 2018;
- employee "roadshows" following the preliminary and interim results; and
- CEO breakfasts giving every employee (in small groups) an opportunity to share their thoughts and questions on a range of topics with our Chief Executive.

Diversity and equal opportunities

The challenge we face

We recognise the benefit of a diverse (in its widest sense) workforce comprising individuals with different backgrounds, experience, perspectives and ideas. Like much of the real estate and construction sectors, we face a significant challenge to achieve that but we are fully committed to meeting it.

We are working hard to address that challenge but recognise that, with a small team and relatively low staff turnover (itself a positive), this will take time. To do so effectively we must first be transparent about the size of the challenge and the progress we are making along the way.

The analysis over the following pages demonstrates the gender imbalance across the Harworth team, particularly amongst the Board and senior management team. We are also mindful that there are still no individuals from an ethnic minority background working at Harworth. For transparency, whilst Harworth is not obliged to publish gender pay gap statistics, we have decided to undertake gender pay gap analysis. We reported on it voluntarily in the 2017 Annual Report and have done so again in this report.

Steps we have taken in 2018

Since publication of the 2017 Annual Report, we have applied more structure to our efforts in promoting and monitoring diversity. At a Board level, the Nomination Committee takes the lead on promoting and assessing the achievement of diversity across the business, in alignment with the 2018 Code. The Nomination Committee's annual timetable includes a review of diversity, particularly on the Board and at a senior management level, and the effectiveness of measures to improve it. Diversity is also an active and important consideration in the Committee's succession plans, reflected in the most recent appointments to the Board (see further below). The Nomination Committee reports and provides recommendations to the Board annually.

In September, the Board approved the adoption of a new Diversity and Equal Opportunities policy which addresses diversity more explicitly, gives it the prominence it merits, and reflects the proactivity with which the Board is looking to address the diversity challenge.

Whilst appointments will always be based on merit, Harworth is committed to giving women and people from ethnic minorities every opportunity to apply for, and be appointed to, the new and replacement roles for which we recruit and, as such, our desire to encourage diversity is a prominent consideration when we are recruiting at all levels of the business. We have implemented a policy by which candidate long-lists prepared by recruitment consultants will be rejected if they do not contain a diverse list of candidates.

These measures complement some other initiatives which were already (and remain) in place and are designed to ensure that opportunities for recruitment, development and promotion are available to everyone, regardless of circumstances or background:

- we have enhanced maternity, paternity and adoption pay policies; and
- eight of our employees (12%) work part-time, whether that be a reduced number of days or reduced hours every day, including two members of our senior management team, and employees can work flexibly.

Progress

The appointments of Ruth Cooke and Angela Bromfield to the Board represent positive progress on diversity. At an operational level, despite the work we undertook with our recruitment consultants to identify a diverse list of candidates, our most senior external appointments during 2018 were males. This means that all the members of our executive team continue to be male. The senior management team comprises three females and eleven males. That said, there has been more gender diversity across the candidates we have recruited for new roles in our regional structure. Overall, we have recruited for 11 new roles since publication of the 2017 Annual Report and 6 replacement roles. The gender balance of our recruitment is shown below:

OUR PEOPLE
Continued

	Females	Males
Recruitment into new roles	5	6
Recruitment into replacement roles	3	3

There were seven promotions during the year. Out of a workforce which was split 71% male : 29% female, five were promotions of male employees and two, including one to the senior management team, were of female employees.

It is important to stress that, whilst the Group's desire to improve diversity will be a consideration in decisions on recruitment and promotion, selections continue to be made based on merit and ability.

The results of our latest gender pay gap analysis (which reflects the position at April 2018) appear below, alongside the results from 2017. Overall, this analysis reflects some modest improvements in our gender pay gap statistics. Our mean and median gender pay gap has reduced. Our mean bonus pay gap remains broadly unchanged and our median bonus pay gap has increased slightly. This is attributable to our recruitment of females into more junior roles during the period, which reduces the median bonus figure for females across the business. We do not consider this to be a negative development, as these individuals should represent our future leaders. Positive movements in the lower and lower middle quartile analysis reflect the recruitment of females into junior and middle management roles in the regions. A positive shift in the upper middle quartile analysis is attributable to the promotion of our Head of HR and Organisation Development to the senior management team during the period.

The composition of Harworth's workforce (by gender)[1]

	BOARD		INVESTMENT COMMITTEE[2]		MANAGEMENT BOARD[3]	ALL EMPLOYEES	
♀	3	(1)	0	(0)	3	20	(15)
♂	7	(7)	8	(6)	11	48	(42)

Note – figures in brackets reflect 2017 position.

1 At the date of this Report

2 Investment Committee of 8 has replaced Executive Committee of 6

3 Management Board is a newly formed committee and so has no like for like comparator from 2017

Gender pay gap statistics

Proportion of men and women in each quartile band

	Lower		Lower middle		Upper middle		Upper	
	2018	2017	2018	2017	2018	2017	2018	2017
Males	**60%**	64%	**53%**	69%	**94%**	100%	**90%**	90%
Females	**40%**	36%	**47%**	31%	**6%**	0%	**10%**	10%

We believe that our gender pay gap is more a function of historic trends across the property and construction sectors than reflective of a "Harworth" approach. These figures reflect the fact that, historically, men have held the vast majority of the most senior jobs in the property and construction sectors and, as such, our gender imbalance is particularly stark at the executive team level. Whilst we recognise this balance will take time to address this is something we are committed to achieve.

Whilst Harworth has a long way to go in improving diversity across its business, we have long been committed (since Harworth's formation in 2012) to creating a working environment that is free from discrimination, harassment and victimisation, where everyone feels valued and respected. This includes:

- promoting equality and fairness for all in our employment;
- making reasonable adjustments for disabled employees and giving full and fair consideration to disabled applicants for roles in our business; and
- providing equal opportunities for continuing professional development ("CPD") and promotion within our business to any disabled employees,

which one would expect from all responsible businesses.

Career development

The Nomination Committee leads on succession planning and development for the Board and executive team.

In the second half of 2018 our Head of HR and Organisation Development undertook a detailed review of succession and development plans for each role in the business (outside of the executive team). The output from that review was analysed first by the executive team and then presented to, and scrutinised by, the Board. A similar exercise will be undertaken each year for the recently expanded executive team.

All our employees have undertaken an externally facilitated "Insights" personality profile exercise, which helps us to understand the dynamics of our teams and informs our recruitment of new employees and our plans for CPD of existing team members. It also assists in optimising the way members of our executive and senior management teams engage with each other.

During 2018 work was undertaken by our Head of HR and Organisation Development to improve the structure of our appraisal process. It now follows a more rigorous and consistent process and timetable which ensures that performance is managed and development needs are identified early.

Many of our employees regularly attend external training courses, often to satisfy ongoing CPD requirements for their professional qualifications. This is often complemented by workshops and webinars hosted internally, typically with input from our professional advisers. Six of our employees continue to work towards professional qualifications. We support all employees in the pursuit and renewal of professional qualifications: both financially, and by encouraging CPD and the transfer of knowledge from senior to junior employees.

External coaching continues to be available to our executive and senior management teams and we encourage them all to use this resource from time to time.

Recognition and reward

We offer a comprehensive employee benefits package for all employees, which includes a pension scheme with above-market employer contributions, private medical insurance, life insurance and income protection. The employer pension contributions and insurance cover for employees is consistent across the whole business.

Bonuses for those employees who are contractually entitled are awarded, in part, for performance against Group Financial Targets, which are aligned with the Group's strategy for long-term, sustainable growth and applied consistently across the Group. In 2018, these targets were based on NNNAV gains, sales volume, acquisitions and profit excluding value gains. The balance of all bonuses are awarded for performance against personal objectives.

Following a review of our Remuneration Policy we are proposing to adopt a Restricted Share Plan ("RSP") in place of the two long-term incentive schemes we currently operate. Our ability to cascade the RSP, the operation of which will be simple and transparent, is one of the key reasons we are advocating this change. Further details on our proposals for an RSP, and an explanation of the rationale for it, appear at pages 100 to 102 of this report.

We also operate an established Save-As-You-Earn ("SAYE") scheme, which gives employees an opportunity (annually) 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. To date, approximately half of our employees have chosen to participate in the scheme and we expect more to do so this year. Alongside the SAYE, we are proposing the introduction of a Share Incentive Plan ("SIP"). If this is approved by shareholders at the AGM it will afford a mechanism by which the Company can encourage share ownership amongst employees by awarding shares to employees, or encouraging them to purchase shares, both in a tax efficient manner. Together, our existing SAYE and a SIP are tangible ways in which we can encourage share ownership amongst our workforce and our employees can share in, as well as contribute to, the Group's success.

Whilst offering an appropriate remuneration package for our employees will always be of high priority, recognition is equally important. We, therefore, emphasise celebrating successes, such as at our staff conference, quarterly breakfast briefings and employee roadshows and in our newsletter.

Employee numbers and costs

The average number of persons, including Executive Directors, employed by the Group and our staff costs for the period under review are set out in Note 6 to the Financial Statements.

Masterplanning of Waverley, Spring 2019

OUR PARTNERS

The Board recognises that effective stakeholder engagement is a key component of good corporate governance and will help to promote long-term, sustainable success and growth. The Board has always had regard to its obligations under section 172 of the Companies Act 2006 but, having regard to the 2018 Code and to guidance published by ICSA and the Investment Association, during 2018 the Board re-assessed its approach to stakeholder engagement. This assessment was undertaken to: identify the Group's principal stakeholders; appraise the levels of engagement by the Board and wider business with those stakeholders; and review how the Board takes into account the interests of stakeholders when making decisions. There were two principal outputs from that review. First, we established a "stakeholder map", which is summarised over the next few pages.

STAKEHOLDER GROUP	ENGAGEMENT
SHAREHOLDERS	• There is Board representation for our two largest shareholders, Peel Group and the Pension Protection Fund • Formal financial results reporting and webinar presentation twice a year (followed by investor roadshows) alongside RNS and RNS Reach announcements throughout the year • We host an analyst and investor site visit annually • A Private Client Fund Manager programme is delivered during the year with support from Numis • There has been engagement by the Chairman with the largest shareholders following his appointment in March 2018 • There has been engagement with the largest investors and proxy advisory bodies on proposed revisions to our Remuneration Policy ahead of the 2019 AGM
CONTRACTORS AND SUPPLIERS	• All contractors, consultants and suppliers are subject to an initial "take-on" approvals process supervised by our Estates, Environment and Safety ("EES") team, which ensures a consistent vetting process. We assess all suppliers on merit, regardless of whether we have worked with them in the past • Whilst we operate a long list of approved suppliers (see Challenges and scope for improvement), typically we engage small groups of trusted consultants and contractors on a repeat basis across multiple sites at any one time • The frequency of engagement will depend on the identity and specialisms of the consultant, the type of works being undertaken, the stage works are at and the number of assignments being undertaken at any one time. For example, engagement with planning consultants will typically be dictated by planning promotion milestones, whereas there is routinely daily engagement with some of our direct development and engineering contractors and consultants • Where there is heavy use of certain suppliers, we have a regime of regular reporting and relationship management to enable performance monitoring and to highlight any issues early
FUNDERS	**Banks** • There is regular engagement with our principal banks, with the provision of management information (quarterly) and requests for transaction consent. This is supplemented by relationship meetings at least every 6 months **Infrastructure funders** • Quarterly returns are made to our infrastructure funders as part of servicing present infrastructure loans • Relationship development with funders is largely driven by our funding needs **Bond provider** • Liaison with our bond provider is via our insurance brokers, Marsh Risk Consulting ("Marsh"). Engagement is regular due to the frequency of new and renewal bond applications

This identifies our key stakeholders, records how we engage with them, identifies the strengths in that engagement but also, importantly, the challenges we face and the improvements we can make. Second, we decided that the consideration of stakeholder interests needed to be embedded into Board decision-making in a more systematic way. We concluded that the best way to achieve that was to amend our Board transaction approval template to include two new sections on stakeholder interests. Clearly it is not enough merely for Board papers to reference stakeholder interest. It is those references which prompt discussion and form part of the decision-making process. From this year, the Board will undertake an annual review of the "stakeholder map" and the effectiveness with which it considers stakeholder interests in decision-making.

STRENGTHS	CHALLENGES AND SCOPE FOR IMPROVEMENT
• Lines of communication with the Peel Group and the Pension Protection Fund are strong given Board representation • Improved profile amongst investors, with the largest shareholders remaining long-term holders and new institutions joining the share register in the past twelve months. We feel the latter in part reflects improvements in the content and volume of our Investor Relations programme • The step-up to premium list and admission to the FTSE index has improved the profile of the Company's shares	• There is scope to improve our profile further with generalist investors • We must continue to implement a detailed and rigorous investor relations programme in conjunction with our brokers and communication advisers • We will continuously improve the look and feel of our investor relations materials
• Relationships are managed by small groups of Harworth employees, which promotes strong personal relationships between Harworth personnel and their counterparts at our various suppliers • We use overarching framework agreements for many of our trusted suppliers, with work orders for specific engagements. This promotes consistencies between engagements • Payments are typically within 30 days of presentation of an invoice, provided a purchase order has been raised in a timely manner • Work has been undertaken with our legal advisors to produce "standard" consultant appointment documents which can be rolled out across the regions	• We are currently operating with a long "tail" of approved suppliers, whilst in practice we only use a small proportion of those on the approved list. We intend to rationalise our list of approved suppliers to reflect the smaller number of trusted parties with whom we work • We are looking to implement a more robust mechanism for regular review of the ongoing status/suitability of suppliers. Work is planned to update our finance system so that it triggers regular reviews of supplier status • Updates to our suite of precedent construction contracts are progressing • Our central functions (Planning, Engineering and Build) will need to ensure that, following regionalisation, a consistent approach is maintained to our engagement of consultants and contractors. This will be addressed as part of a wider initiative to evolve our internal controls and processes to reflect our new regional model
Banks • We have a strong and well-established relationship with RBS and are well on our way to a similar relationship with Santander following its entry into RCF in 2018. These positive relationships reflect the transparency of our communication and the regularity of our reporting, alongside consistent compliance with banking covenants **Infrastructure funders** • Our track record of effective delivery of schemes and repayment of loans means that we have a good reputation amongst public sector funders **Bond provider** • We have a strong track record with HCC as a result of our successfully delivering infrastructure works which are backed by HCC bonds	• Discussions will continue with incumbent and additional funders about site specific funding opportunities as and when these arise

OUR PARTNERS
Continued

STAKEHOLDER GROUP	ENGAGEMENT
REGULATORY BODIES	**Environment Agency ("EA")** • Our Environmental Manager is in regular telephone contact with regional EA officers to discuss permit compliance, monitoring results, variations and surrenders • We undertake regular site visits and inspections with EA representatives, hosted by our Environmental Manager • We report monitoring results to the EA in a timely fashion to comply with permit conditions for certain sites • When issues do arise (infrequently), our Environmental Manager is proactive in engaging with the EA **Health and Safety Executive ("HSE")** • There is regular, informal engagement between our Operations Director and local HSE officers to discuss quarry and demolition operations • Otherwise, engagement is reactive in the event of (infrequent) incidents **Forestry Commission** • Our engagement is largely proactive, with regional officers, where we are in any doubt about our entitlement to fell trees pursuant to planning permission conditions. Engagement is typically via our retained ecologist for the site in question
LOCAL COMMUNITIES	• We engage early with local communities on all planning applications and maintain that engagement throughout all our planning promotion exercises. Once development begins, we actively engage with community groups on all our Major Development sites. For example, we meet monthly with the Cutacre (Logistics North) and Waverley residents' groups. A more detail explanation of our seven-stage approach to local stakeholder engagement appears in the Social Responsibility section on pages 66 to 68 • We have appointed the Lands Trust to manage the public open space at Waverley, our most mature residential development site. The public open space at all other residential development sites is managed internally by our management company function and steps are being taken to align our systems and service levels with those of the Lands Trust. For example, we have introduced welcome packs for existing and new occupiers on all sites and have established a more structured approach to service charge budgeting, invoicing and collection
JOINT VENTURE PARTNERS	• We operate three principal joint venture arrangements on our sites at Waverley (Waverley Square Limited), Gateway 45 (The Aire Valley Land LLP) and Logistics North (Multiply Logistics North LP). The forward funding arrangement with M&G Investments for the development and letting of units LN175 and LN225 at Logistics North has also operated in a similar manner. We tailor engagement with each of our joint venture partners to suit the project and partner. In most cases engagement is very structured, with scheduled Board and/or project meetings. Often, and particularly during periods of heightened activity, engagement is intensive, but informal, with regular (often daily) telephone and face-to-face contact as projects evolve and progress quickly • At sites such as Cinderhill, we frequently work in collaboration (which can be formal or informal) with adjoining landowners who share a common purpose, typically the promotion of land for planning permission. In those circumstances, and in a similar way to our careful engagement with local communities, our planning managers work very closely with adjoining landowners and their agents every step of the way

STRENGTHS	CHALLENGES AND SCOPE FOR IMPROVEMENT
EA • Our Environmental Manager has established a strong relationship with local officers who, we believe, appreciate our openness and respect our professionalism and desire to "do the right thing" **HSE** • Similarly, we have had positive feedback from the HSE as to our expertise and openness	**EA** • The recent engagement by our environmental consultants with the EA has been sub-standard. We have recently appointed replacement consultants which should address this challenge
• We have a track record for effective engagement with local communities, particularly for significant planning applications. At Ironbridge and Thoresby, for example, we have hosted successful public consultation events on site which were very well attended and, feedback suggests, well received. At Thoresby, this has facilitated our securing planning permission for an 800-plot residential scheme. See the Social Responsibility section on pages 66 to 68 for more details • Liaison with local communities at our more mature developments sites, such as Waverley and Logistics North, is well established, which has led to improved communication, and collaboration, with residents	• We are working to establish a more structured approach to local community liaison on our less mature Major Development sites • The engagement by our management company function with residents on our residential development sites will continue to improve as we embed the initiatives and structure introduced in 2018 • The recruitment of planning managers into our regional teams will facilitate early engagement with the public ahead of more of our planning applications • The public sensitivity on some planning issues will continue to require careful management, emphasising the importance of our effective community engagement

• The success of all our joint venture arrangements is due, in large part, to effective engagement between us and our joint venture partners. We have seen evidence of that success including: the development and promotion of units LN175 and LN225, resulting in sizeable fees paid to Harworth; our collaborative approach with Evans Properties to engagement with HS2, facilitating sales at Gateway 45 notwithstanding HS2 safeguarding; and the speed at which the "Multiply" units have been built and let at Logistics North. Effective engagement stems from:
  • senior buy-in for, and visibility on, all joint ventures;
  • very regular contact, whether that be formal or, more often, informal;
  • openness, transparency and careful management in all dealings, particularly where there is potential for a misalignment of interests;
  • a collaborative approach; and
  • ultimately, delivery.
	• There are inevitably instances on some joint venture projects where aspirations diverge. We will continue to work transparently and collaboratively with our partners where this arises. Clearly there may be strong and divergent characters and approaches amongst joint venture partners. We will continue to manage carefully our interface with all joint venture partners

OUR PARTNERS
Continued

STAKEHOLDER GROUP	ENGAGEMENT
PROFESSIONAL ADVISERS	• Our business model relies heavily on professional advisers and, as such, involves intensive engagement with many of them on a consistent basis Corporate advisers • ***Auditors***. Engagement with the external auditors includes but is not limited to: a review of audit strategy by the Audit Committee with the auditor every six months, ahead of preparation of the preliminary and interim results; an annual audit planning meeting between the auditor and the Finance team ahead of the year end audit; extensive engagement during the external audit of the year-end results and review of interim results; and lighter engagement throughout the year for the subsidiary company audits • ***Brokers.*** We have overarching engagements in place with Peel Hunt and Liberum. Our engagement with brokers is ad-hoc as the need for advice arises but is usually monthly. However, it is clearly more intensive ahead of the announcements of preliminary and interim results and during periods of capital markets activity • ***Communication advisers.*** We have an overarching engagement agreement in place with FTI Consulting ("FTI"). Fortnightly calls are held with FTI to review the external communications tracker. There is more intensive engagement with FTI alongside stock market and media announcements • ***Remuneration consultants.*** We have recently appointed Deloitte LLP ("Deloitte") on a 3-year retainer. Our engagement with them has been intensive since appointment, as Deloitte is advising on the proposed revisions to the Remuneration Policy • ***Insurance brokers.*** We undertake annual relationship review meetings with Marsh. Engagement is more intensive ahead of the insurance renewal. Otherwise, engagement is ad hoc when claims and/or queries arise and/or acquisitions are completed • ***Tax advisers.*** Deloitte are the Company's retained tax advisers. There is intensive engagement ahead of the annual tax computations together with ad-hoc advisory instructions during the year. Deloitte also provides pension accounting advice Operational advisers • ***Legal panel.*** There are framework agreements in place with our six panel firms. The panel is reviewed every 2 years. The Business Space team meets monthly with Keebles LLP, which undertakes all asset management legal work on our Business Space portfolio. Otherwise, relationship reviews with legal panel firms are typically ad hoc and largely reactive to issues identified by the business or firms • ***Valuers.*** BNP Paribas and Savills are subject to annual appointments. There is extensive engagement ahead of publication of the year-end valuations. BNP Paribas and Savills are consulted on the half-year valuation review undertaken by management, but this is "lighter touch". There is also ad hoc engagement with BNP Paribas during the year when we consult it on planned acquisitions • ***Agents.*** Monthly operational review meetings are held with LSH and Savills, our retained managing agents. Our sales and letting agents are subject to overarching appointments by region. Typically, monthly operational meetings are held with all agents in each region

STRENGTHS	CHALLENGES AND SCOPE FOR IMPROVEMENT
• We have long-standing relationships with our managing agents, letting agents, our legal panel firms, valuers, external auditors, insurance brokers and tax advisers, all of whom have a very good understanding of the business, our sites and the way we work • Where relationships are less mature, such as with our current corporate brokers and remuneration advisers, we work hard to build relationships quickly, to help our advisers understand the business and to establish consistent working practices • Our advisers appreciate the “partnership” approach we adopt with all of them. We are demanding but collaborative and appreciative of the work our advisers undertake • We have narrowed the focus of our Head of Communications and Investor Relations who is now based in London. He has established effective working relationships with our brokers and communications advisers	• Our legal panel will be reviewed at the end of June. Following that review, we will be looking to establish a more structured programme of regular relationship reviews with all panel firms • We are building strong relationships with Liberum, who were appointed in February 2019 as joint brokers, and Deloitte, who were appointed as remuneration advisers in September 2018 • A review of the insurance brokerage role will be undertaken ahead of the 2020 renewal or, if the Rate Stability Agreement with our incumbent insurers is extended (see Audit Committee report), the 2021 renewal • A tender process for the external auditor’s appointment is planned for the second half of 2019 and we are already engaging with prospective replacements for PwC • We are conscious that certain of our engagements with professional advisers rely on the long-standing relationships of a small number of people and so will be making a conscious effort to broaden the interface between Harworth and each of our advisers

OUR PARTNERS
Continued

STAKEHOLDER GROUP	ENGAGEMENT

LOCAL AND CENTRAL GOVERNMENT	• We engage with Local Government and Local Enterprise Partnerships principally via three methods:
	  • submission of, and all work related to, planning applications and discharge of planning conditions;
	  • bids for loan and/or grant monies to facilitate and/or accelerate infrastructure delivery; and
	  • promotion of key strategic opportunities at certain of our sites
	• We engage with Central Government and MPs principally via three methods:
	  • bids for grant or loan monies, for example via Homes England;
	  • active participation in Central Government consultation exercises on key policy matters such as the National Planning Policy Framework (“NPPF”); and
	  • direct engagement and collaboration with MPs in connection with plans for, and initiatives at, certain of our sites

CUSTOMERS (SITE PURCHASERS AND TENANTS)	**Capital Growth** • Our principal customers remain housebuilders and commercial developers/occupiers. We maintain regular contact with housebuilders, both directly and via the residential agents, outside of the deal cycle • Our engagement with existing and prospective commercial occupiers is principally through direct deal-making and typically via our professional advisors, including commercial agents **Income Generation** • Our customers principally comprise Business Space, Natural Resources and agricultural tenants and power station operators • Day-to-day engagement with Business Space and Natural Resources tenants is largely via our managing agents. We hold monthly meetings with our managing agents to identify where direct involvement and engagement with tenants by our Business Space and/or Natural Resources teams is needed • Business Space site inspections (which often include some engagement with tenants) are undertaken by our site supervisor (fortnightly); our managing agents (monthly); and our asset managers (quarterly) • There is regular (typically daily) engagement with power station operators, principally by our Director of Operations, to manage sales volumes

STRENGTHS	CHALLENGES AND SCOPE FOR IMPROVEMENT
• Our representations to Central Government on matters such as HS2 alignment, the NPPF and Land Value Capture have been welcomed and accounted for, as evidenced by HS2 reducing land-take for its rolling stock depot at Gateway 45, Leeds • Harworth is represented on a number of key professional bodies, with Owen Michaelson chairing the BPF's Regional Policy Committee, Iain Thomson being a member of the BPF's Communications Committee and Tim Love being a member of the Royal Institution of Chartered Surveyors' Policy Panel	• Work is required to establish more regular engagement, and improve the knowledge of Harworth, with Central Government departments beyond the Department for Housing, Communities and Local Government • We will continue to work with industry organisations such as the British Property Federation and Royal Institution of Chartered Surveyors to participate in key Central Government consultations, such as on Land Value Capture
Capital Growth • We have strong relationships with a number of national and regional housebuilders, evidenced by the repeat buyers of our engineered land parcels (Strata, Barratt, Taylor Wimpey, Harron Homes, Avant Homes); the competition for our residential development sites; and the breadth of our customer base • We are now seeing direct approaches – sites brought to us with development opportunities – because of our profile and track record for delivering serviced land parcels for both housebuilders and commercial occupiers **Income Generation** • Our relationships with existing tenants is good, evidenced by the increased WAULT, reduced vacancy rate and comparatively little tenant churn across our Business Space and Natural Resources portfolios	• We plan to run tender processes for the Business Space managing agent role during 2019 and for the Natural Resources managing agent role in 2020

OPERATING RESPONSIBLY

Harworth takes its responsibilities as a sustainable regeneration company extremely seriously. Working safely and with appropriate regard to our legal obligations forms a critical part of being socially responsible in our day-to-day delivery.

Health and safety

Health and safety has an extremely high profile in our business. Day-to-day review and management rests with our Estates, Environment and Safety ("EES") team, led by our Associate Director of EES. The EES team reports to our Company Secretary, who has a wider responsibility for governance, risk and compliance. Our Chief Executive has ultimate responsibility for all health and safety matters.

Harworth's Safety, Health and Environment Management System ("SHEMS") is based on the "Plan, Do, Check and Act" model advocated by the 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. At the date of this report, there were no "high risk" sites in the site risk register. The overall risk profile of our sites is reported to Board monthly. Material movements in this profile are fed into the quarterly reviews of the Group Risk Register (see the Managing Risk section of this report on pages 34 to 44).

Our EES team ensures that health and safety is embedded into all our activities. In 2018 mandatory health and safety training was delivered to all employees in the form of online tuition and testing. There was also targeted training for certain employees, such as training on The Construction (Design and Management) Regulations 2015 ("CDM") and asbestos handling which was delivered to our Major Developments and Operations teams. The team is scheduled to host a mandatory safety training day for all employees in June. This follows the success of a similar training day hosted in 2017. 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 and monitored by the EES team. This process is key to identifying areas for improvement across the portfolio.

We continue to engage JPW Consultancy Limited ("JPW"), an external health and safety consultant, to advise on health and safety issues across the business. JPW focuses on health and safety at our Major Development sites, including management of consortium meetings between Harworth and stakeholders at these sites, such as contractors and local authorities.

There were only three minor accidents recorded at our sites during the year. For completeness, this statistic includes accidents involving contractors we have supervised. Where we have appointed a principal contractor under CDM they and their sub-contractors take responsibility for health and safety whilst works are ongoing, but we continue to monitor health and safety via JPW and/or our project managers.

There were no RIDDOR accidents or incidents or lost-time accidents reported by Harworth or any contractors working on Harworth sites during the year.

We are keen to ensure that the "health" in health and safety has equal prominence. Three of our employees now hold a mental health first aid qualification and those with traditional first aid qualifications have refreshed their training. Alongside this we have continued to promote ancillary measures designed to improve health and wellbeing amongst our staff, such as the construction of shower facilities at our Head Office for those who wish to exercise during the working day.

In terms of monitoring health and safety across our portfolio:

- meetings are held between our Company Secretary and the EES team monthly, following which our Associate Director of EES reports to both our Management Board and the Board. Those reports include incident briefings, where applicable, as well as an overview of activity on our sites and the overall risk profile of the portfolio;
- a report on health and safety forms part of the Chief Executive's monthly update to the Board;
- there are quarterly safety meetings chaired by our Chief Executive, attended by employees from a cross-section of the business; and
- our Associate Director of EES reports to the Board in January each year on key issues encountered and actions undertaken during the previous year and priorities for the coming year.

Tackling modern slavery, bribery and corruption, and facilitation of tax evasion

We are committed to having in place practices to safeguard respect for human rights, to combat slavery and human trafficking in our business and those of third party contractors, to ensure that no corruption or bribery takes place in our business or supply chain, and to ensure that our employees do not deliberately or inadvertently act in such a way as to facilitate tax evasion.

The Company has published Modern Slavery Statements in 2017 and 2018. A copy of the 2018 statement appears on the opening page of our website at www.harworthgroup.com. The Company will publish another statement before the end of June 2019, which will reflect the progress that has been made since publication of the 2018 statement. In that regard, we can report that: (A) online training on tackling modern slavery and human trafficking has been delivered to all of our employees; (B) all new suppliers who have been approved during the year have committed to complying with our Supplier Code of Conduct on anti-slavery and human trafficking; and (C) our suite of precedent consultancy agreements are now in place, which impose obligations on our consultants in relation to anti-slavery and human trafficking.

The following policies are also in place:

- Anti-Corruption and Bribery;
- Gifts, Donations, Sponsorship and Hospitality; and
- Anti-facilitation of tax evasion.

They are available on the Group's shared drive and reminders are sent to employees periodically. Our policies on anti-corruption and bribery and anti-facilitation of tax evasion are also published on our website. During 2018 online training was delivered to all employees on the prevention of bribery and corruption. We also engaged Grant Thornton to run a workshop on the management and mitigation of risks associated with facilitating tax evasion.

The Gifts, Donations, Sponsorship and Hospitality policy imposes a regime for the approval of business development activity at all levels of the business and a register of all activity. At the start of 2019 it was updated to reflect the changes to our senior management structure effected in 2018. The register of business development activity is monitored regularly by the Company Secretary and annually by the Audit Committee.

General Data Protection Regulations

We do not hold extensive amounts of personal data but recognise the importance of protecting the data that we do control. Workstreams were undertaken at the start of 2018 to ensure that the Group was, and remains, compliant with the GDPR, ahead of its coming into force on 25 May 2018. Those workstreams included:

- an internal audit and "mapping" exercise of personal data, resulting in the establishment of a "Personal Data Master Record" which will be a living document which remains subject to review;
- the implementation of a new data protection policy, with accompanying operational guidelines, such as for handling data subject rights;
- new fair-collection (privacy) notices; and
- the incorporation of data processing terms and conditions into our agreements with third parties with whom we share personal data.

Work is ongoing to embed a culture of GDPR compliance into the business. This will form part of a wider suite of initiatives designed to ensure appropriate information security across the business. These implement recommendations from a strategic review of information security undertaken by NCC Group ("NCC"). Further information on that review and NCC's recommendations can be found in the Audit Committee report on page 98. One of the recommendations was the appointment of an information security manager. That appointment has been made and he is leading the implementation of all other initiatives, which will include steps to embed the above-mentioned measures, monitor their effectiveness, and improve GDPR awareness amongst employees.

From 2019, the Audit Committee will undertake an annual review of the Group's ongoing compliance with GDPR.

SOCIAL RESPONSIBILITY

As one of the UK's leading regeneration companies, we recognise that we influence the design and delivery of future communities. It is a serious responsibility and one that we are proud to deliver on in the way we: design and deliver our projects; and work with local communities during their build-out.

Our developments have helped to bring new life to former industrial areas, whilst also supporting a number of key community initiatives that have an effect beyond our day-to-day work. We've done this whilst also acting responsibly and consistently in the way we interact with local communities.

The difference we make

In our work over the past decade, we have helped to deliver thousands of new jobs and homes on our land across the North of England and the Midlands. Our sites at Waverley and Logistics North are leading examples of regeneration in the North of England, replacing many times over the jobs that were lost when mining ended. Three times as many people are now employed at the Advanced Manufacturing Park than were employed at Orgreave Coking Works when it closed in 1990. Over 1,500 new homes and more than 7m sq. ft of commercial space have been built out on land owned or prepared by Harworth. Over 8,500 people are now employed across Harworth's Major Developments and Business Space sites.

Using our land and property experience to deliver future schemes in the same vein as Waverley and Logistics North is essential to the regeneration of former industrial areas and supports the growth of UK plc. The recently published Industrial Strategy White Paper sets out a long-term plan for rebalancing and growth of a highly-skilled UK economy. Together with strategies to deliver the "Northern Powerhouse" and the "Midlands Engine", these provide the foundation for a step change in investment and growth across the North of England and Midlands. The provision of new residential and commercial land and property to facilitate that investment remains an essential ingredient for sustainable growth.

Nowhere is this better shown than at the 150-acre Advanced Manufacturing Park in Rotherham, where just under 1.5m sq. ft of commercial space has delivered over 1,500 skilled jobs in key sectors such as aerospace, automotive and energy, including hydrogen fuel cells and battery storage. Key occupiers (and employers) include Rolls-Royce, Boeing, McLaren Automotive and the University of Sheffield's Advanced Manufacturing Research Centre, renowned as the UK's leading centre of manufacturing excellence.

Housebuilding remains the UK's number one domestic political priority, driven by a continued shortfall in supply (300,000 required homes versus c.225,000 home starts in 2018). The Chancellor's 2018 Budget reflected this priority by including measures to support economic growth, including improvements to national infrastructure and initiatives to stimulate the provision of affordable housing arrangements and support smaller house builders. With a portfolio benefitting from outline consent for over 11,000 homes and a pipeline of several thousand more, Harworth will continue to make a meaningful contribution to delivering this national priority in the long-term.

With sites extending across eleven LEP areas in the North of England and Midlands, economic consultancy firm, Ekosgen, has now estimated that our portfolio has the potential to accommodate over 66,000 jobs and generate £3.6bn of Gross Value Added (GVA) per annum, as well as significant levels of business rates income. More than 20,000 new homes could be built on Harworth sites, supporting up to £131.5m of income through the New Homes Bonus and up to £32.9m per annum in council tax receipts.

Our approach to development

As referenced in the Our Partners section on pages 58 and 59, central to delivering this economic uplift through the regeneration of land is a mature approach to engaging with local stakeholders, including residents, statutory bodies and those with an interest in the intended end-use of our land.

We use a seven stage approach to stakeholder engagement to ensure the success of developments. The ultimate aim is for positive, meaningful and timely public engagement which encourages local stakeholders to take an active part in the process and add genuine value at all stages of the development lifecycle.

We are using this approach on our future Major Developments.

1. Establish Initial Masterplan

- Establish contact with, and encourage participation from, all key interest groups including local authorities, MPs, key activist groups and statutory bodies to establish their desires or concerns regarding development.
- Create the first high-level masterplan to use, with supporting information, as the basis of initial public engagement work.

2. Initial Stakeholder Workshops

- Run a series of workshops close to site to critique formally all aspects of the initial masterplan.
- Ensure representatives from the local authority and parish councils including local councillors, Highways England, Homes England, adjacent landowners and ecologists are invited and formally participate.

- Attendees to be split into groups to work through set questions on potential future land uses and to take part in a design workshop to explore specific uses.

This approach worked extremely well for the consultation at the former Thoresby colliery in 2015, where over 70 attendees attended both workshops to help guide a housing-led masterplan on a green belt site through the start of the planning process.

3. Test Initial Proposals with Statutory Bodies
- Working with the appointed professional team, work closely with all key statutory bodies to critique the masterplan and supporting documentation to get the plan in a suitable form for formal public consultation.

4. Formal Public Consultation
- Promote consultation events at key local centres close to the site to encourage wide-ranging public feedback on plans. All plans to include background to site, proposed uses and rationale, and planned development mitigation measures including highways and proposed developer contributions. Request feedback via forms on the day and use of bespoke consultation website in order to gauge public opinion and to establish key areas of support or concern.

This approach worked particularly well at Thoresby, with over 400 attendees participating in a six-hour consultation onsite, and at Ironbridge in October 2018, with over 500 attendees in attendance. At both consultations, attendees toured the site in order for our plans to be put in proper context. At both sites, two-thirds of attendees were in favour of our initial ideas for the respective sites.

5. Further Refinement of Masterplan & Supporting Documents
- Revise masterplan in consultation with local planning officers to account for all public feedback and to ensure all relevant documentation is in place to make an active planning application.
- Brief local councillors on nature and specifics of intended application prior to submission.

6. Outline Application Submission & Determination
- Submit outline planning application and all supporting documentation.
- Continue to work with key consultees to ensure concerns and advice are understood and addressed throughout the process.

7. Ongoing Delivery of Scheme & Establishment of Management Company for Development
- Continue to work closely with all local stakeholders when working up detailed planning applications for each phase of the development. Support this process with regular meetings with all relevant parties.
- Establish permanent digital presence – new website and social media – to communicate with the public on development plans and milestones.
- Create a site-specific management company upon commencement of development to manage public open space over the life of the development. The management company will be managed by Harworth through the initial stages of development before control is passed to residents or a dedicated third party, such as Lands Trust

We appraise the effectiveness of each engagement programme using four key indicators:

Early engagement	To what extent was there an opportunity to influence and shape development?
Meaningful	Was it a “real” consultation? How did the project change as a result of the comments received? What tools and techniques were used?
Inclusive	Was the wider community involved? What steps were taken to “reach out” to those who would not normally be involved in planning consultations?
Effective (map, gap and take note)	Was it effective? Were the views expressed balanced and representative of the local area? Taking account that monitoring should reflect the geography and demography of the local area – was it reviewed and what action took place to address gaps?

SOCIAL RESPONSIBILITY
Continued

Supporting community and charitable projects

A key part of our ethos is supporting a range of community and charitable projects across the areas in which we work. This includes support for a range of local causes, such as: sponsorship for local football teams in Rotherham and Pontefract; making available commercial space for charitable uses; and supporting local events that promote community cohesion.

One major change we initiated towards the end of 2018 was to partner with two national charities. Following consultation with employees, the People Steering Group chose to partner with Land Aid and The Wildlife Trusts.

Land Aid

Land Aid is the "property industry charity", bringing together the industry to support life-changing projects for young people facing homelessness nationwide. Every year, Land Aid uses the donations and skills of its charity partners to provide accommodation and support for young people (aged 16-25) who are homeless. Land Aid is already supported by many of our partners including the British Property Federation, Carter Jonas, Cushman & Wakefield, Jones Lang LaSalle, Knight Frank, The Royal Institution of Chartered Surveyors and Savills. In total, it currently has 81 partners.

We will be making an annual financial donation to Land Aid as a corporate partner, whilst also holding two "open call" days per year for Harworth employees to assist with building, managing and maintaining a number of housing projects throughout the UK.

The Wildlife Trusts

The Wildlife Trusts are a collection of 46 independent regional trusts that cover the whole of the UK. Each trust is formed to make a positive difference to local wildlife for future generations. Collectively, these trusts look after more than 2,300 nature reserves and operate over 100 visitor and education centres across the UK. Each trust relies heavily on financial donations, lottery contributions and volunteer support to continue their work.

We will be making an annual financial donation to The Wildlife Trusts as a corporate partner. We will nominate the regional projects we wish to support to tie in with our regional footprint. We have also offered two "open call" days per year for Harworth staff to donate their time to key Wildlife Trust projects, including tree planting and maintenance of nature reserves. In addition, the Wildlife Trusts will be working with us on a strategic basis to provide advice on wildlife projects on some of our sites, including the 558-acre Logistics North Country Park and the 200-acre public open space at Waverley

Logistics North Country Park, Spring 2019

ENVIRONMENTAL RESPONSIBILITY

With over twenty years' experience in regenerating large and often complex development sites, Harworth has an established track record in managing the environmental impact of its operations. This includes: recycling materials from demolition and land remediation; tackling the environmental legacy of previous industrial site uses; and encouraging staff to take personal responsibility for reducing harmful emissions from our activities.

Managing our environmental impact

We continue to apply five key principles in reducing our environmental impact across our estate.

REMEDIATION AND RESTORATION

We work with trusted contractors to clean and remediate land and remove dangerous underground structures at a range of brownfield sites, preparing that land for redevelopment.

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. At our Kellingley site in North Yorkshire, we were able to export over 500k tonnes of former colliery discard via rail for re-use at the Port of Hull.

DEMOLITION

We are experts in project managing complex demolition works in a safe and efficient manner. Over the past year we have successfully completed demolitions of the former Thoresby and Kellingley collieries in preparation for redevelopment, including the removal of pithead structures.

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 coal slurry to power station operators to produce electricity between 2011 and 2018 – 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 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 land and property regeneration company.

We continue to operate a Safety, Health and Environmental Management Policy ("SHEMS") to ensure the effective control of environmental risk and operate 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, in line with our vision of becoming the leading regeneration company in the North of England and Midlands.

Greater emphasis on smart working

A range of smart working initiatives were instigated by Harworth in 2018 principally to reduce the number of journeys our staff make. These have included:

- accommodating requests from staff to work from home or regional offices that are closer to their home;
- introducing new technology to reduce the need for face-to-face meetings, including video conferencing facilities at our head office; and
- improving the quality of our vehicle fleet, with our leased vans now more fuel efficient than their predecessors.

This has meant that even though we have had an increase in staff numbers, emissions from fuel use has decreased to 241 tonnes of CO_2e (2017: 254 tonnes of CO_2e).

Improved asset management

Active management of our Business Space assets has also improved in 2018, resulting in another reduction in emissions from electricity usage on those sites. Proactive management has included isolating the electricity supply to buildings which are unoccupied, to ensure lighting or heating cannot be left on accidentally, and working with tenants to minimise electricity usage out of working hours. Emissions from electricity use decreased to 404 tonnes of CO_2e (2017: 632 tonnes of CO_2e).

Managing fuel efficient working on-site

Our Operations staff continue to minimise the use of yellow plant and other fuel intensive machinery where possible. Emissions from the operation of yellow plant increased during the year, attributable in large part to Harworth taking back control of the remediation of, and extraction of coal fines from, the former Prince of Wales spoil heap (previously operated by Hargreaves under licence), with a large proportion of coal fines sold in year being generated from Prince of Wales operations. Emissions from gas oil from plant increased to 3,371 tonnes of CO_2e (2017: 1,848 tonnes of CO_2e). This will need additional focus from management in 2019.

Our greenhouse gas emission

This statement outlines the greenhouse gas emissions arising from Harworth's activities during the financial year ended 31 December 2018. It follows the Environmental Reporting Guidelines set by the Department for Environment, Food and Rural Affairs (DEFRA).

Emissions are reported in tonnes of carbon dioxide equivalents ("CO_2e") and refer to three areas:

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

Scope 2 Gas oil used in plant at operational sites

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

Scope	Emission Source	Tonnes of CO_2e (2017)	Ratio (2017)	Tonnes of CO_2e (2018)	Ratio (2018)
1	Fuel for staff vehicles	254	4.8:1[1]	241	4.2:1[1]
2	Gas oil used in plant	1,848	308:1[2]	3,371	561:1[2]
3	Electricity usage	632	37.2:1[3]	404	22.4:1[3]
TOTALS		**2,734**		**4,016**	

1 Average employee numbers (2018: 58, 2017: 53).
2 Number of sites where gas oil is used in plant (2018: 7, 2017: 6).
3 Number of business parks that we operate (2018: 18, 2017: 17).

Improving our performance in 2019

Whilst our business continues to grow, typified by an increased number of staff and Major Developments, we remain committed to improving our environmental performance on a per head and per site basis, taking forward the following principal actions across our portfolio.

Smart working to reduce staff energy consumption per head

We will continue to implement the smart working programme where staff plan efficiently to reduce their business miles. We will encourage employees to use the video conferencing facilities now installed at our head office and will maintain our commitment to flexible working across each of our regional offices.

Effective asset management

Our existing and future sites will continue to be managed actively to mitigate the environmental impact of our activities. In particular, we will continue (working with tenants) to seek to identify means of reducing electricity consumption on our business park sites.

Managing our own on-site operations effectively

We will continue to use well maintained yellow plant and periodically review operational techniques to reduce fuel consumption. In addition – and whilst out of the scope of our direct fuel usage – we will continue to promote the movement of discarded materials via any on-site rail connections rather than add vehicle movements to local road networks.

The Strategic Report was approved by the Board and signed on its behalf by:

Owen Michaelson
Chief Executive
16 April 2019

CORPORATE GOVERNANCE

BOARD OF DIRECTORS AND COMPANY SECRETARY

Alastair Lyons

Chairman

$\boxed{N}$ R

Term of office
Joined the Board on 7 March 2018. Elected in May 2018. Chair of the Nomination Committee

Length of service
1 year 1 month

Independent
Yes

Skills and experience
Alastair is Non-Executive Chairman of Welsh Water, Vitality Health and AECS, Admiral's European holding company. He was Non-Executive Chairman of the Admiral Group from 2000 to 2017, Deputy Chairman of Bovis Homes from 2008 to 2018, Chairman of Serco from 2010 to 2015 and of Towergate Insurance from 2011 to 2015. Previously in his executive career, Alastair was Chief Executive of the National Provident Institution and the National and Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc and Director of Corporate Projects at National Westminster Bank PLC. He has a broad base of business experience with a particular focus on mortgage lending and insurance industries. He was awarded the CBE in 2001 for services to social security having served as a Non-Executive director of the Department for Work and Pensions and the Department of Social Security

External appointments
Chairman of Welsh Water (Dwr Cymru), Vitality Health and the European subsidiary of the Admiral Group

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 May 2018

Length of service
4 years 1 month (8 years 8 months including appointment to HEPGL and Harworth Estates division of UK Coal)

Independent
No

Skills and experience
Owen has more than 27 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 former UK Coal 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. Owen is a Non-Executive Director of Covanta Holding Corporation, a global provider of waste management services in the USA. He is also a Board member for the Sheffield City Region Local Enterprise Partnership and Chair of the British Property Federation's Regional Policy Committee

External appointments
Non-Executive Director of Covanta Holding Corporation. Board member for Sheffield City Region Local Enterprise Partnership

Andrew Kirkman

Finance Director

Term of office
Joined the Board on 1 January 2016. Last re-elected in May 2018

Length of service
3 years 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

External appointments
None

* On 1 April 2019 the Company announced that Andrew had given notice of his resignation, which will take effect on 30 June 2019. Andrew will not, therefore, seek re-election at the 2019 Annual General Meeting.

Lisa Clement

Senior Independent Director

$\boxed{R}$ N

Term of office
Joined the Board on 15 December 2011. Last re-elected in May 2018.

Chair of the Remuneration Committee and Senior Independent Director

Length of service
7 years 4 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 May 2018

Length of service
4 years 1 month (8 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 and was subsequently appointed Chairman. He has overseen the workout and extraction of value from an extensive commercial and residential property 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

* If re-elected at the 2019 AGM Anthony will retire from the Board on 30 September 2019

KEY

A	=	Member of the Audit Committee
N	=	Member of the Nomination Committee
R	=	Member of the Remuneration Committee
$\boxed{A}$	=	Chair of the Audit Committee
$\boxed{N}$	=	Chair of the Nomination Committee
$\boxed{R}$	=	Chair of the Remuneration Committee

Andrew Cunningham	Ruth Cooke	Angela Bromfield	Steven Underwood	Martyn Bowes	Chris Birch
Non-Executive Director	Non-Executive Director	Non-Executive Director	Non-Executive Director	Non-Executive Director	Group General Counsel and Company Secretary
$\boxed{A}$ N	A	R A			
Term of office	**Term of office**	**Term of office**	**Term of office**	**Term of office**	**Term of office**
Joined the Board on 26 April 2016. Last re-elected in May 2018. Chair of the Audit Committee	Joined the Board on 19 March 2019	Joined the Board on 1 April 2019	Joined the Board on 2 August 2010. Last re-elected in May 2018	Joined the Board on 24 March 2015 having previously been a Non-Executive Director of HEPGL from 19 March 2013. Last re-elected in May 2018	Appointed on 6 June 2016
Length of service	**Length of service**	**Length of service**	**Length of service**	**Length of service**	
2 years 11 months	Less than 1 month	Less than 1 month	8 years 8 months	4 years 1 month (6 years 1 month including appointment to HEPGL)	
Independent	**Independent**	**Independent**	**Independent**	**Independent**	
Yes	Yes	Yes	No, representative of the Peel Group	No, representative of the PPF	
Skills and experience	**Skills and experience**	**Skills and experience**	**Skills and experience**	**Skills and experience**	**Skills and experience**
Andrew 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 plc at the end of 2015. Andrew is a Fellow of the Institute of Chartered Accountants and of the Royal Institution of Chartered Surveyors	Ruth was Finance Director (from 2008 to 2012) and then Chief Executive (from 2012 to 2018) of Midland Heart, the housing association group operating across Central England. Prior to that, she held senior finance and resourcing roles at Knightstone, a housing association based in the South West, and Anchor Trust, a provider of housing and care to those aged 55 years old and above. Ruth has held a number of voluntary and non-executive positions in the social housing and retirement community sector. She is an Associate of the Institute of Chartered Accountants and a Chartered Corporate Treasurer	Angela has extensive commercial strategy, marketing and communications executive experience. She was Strategic Marketing & Communications Director at Morgan Sindall plc until 2013 and prior to that held senior roles at the Tarmac Group, Premier Farnell plc and ICI plc. Angela is a Non-Executive Director at Churchill China plc, where she chairs the Remuneration Committee and is a member of the Audit Committee, and at Zotefoams plc, where she chairs the Remuneration Committee and is a member of the Audit and Nomination Committees	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	Martyn 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	Chris trained with 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	**External appointments**	**External appointments**	**External appointments**	**External appointments**	**External appointments**
Non-Executive Director of The Banks Group Limited, Cussins Limited, and Cussins (North East) Limited. Commissioner at The Port of Blyth	Chair of Connexus Housing and Member of West Midlands Housing Association Partnership	Non-Executive Director of Churchill China plc and Zotefoams plc	Alternate Director of Intu Properties plc. Director of multiple private limited companies, mostly connected to the Peel Group	Director of multiple private limited companies in the Welbeck Land Group. Non-Executive Director at Clouston Group and Conger Finance Limited	None

CHAIRMAN'S INTRODUCTION

"

The Company has a clear purpose: to create sustainable new communities for people to live, work and play. We are rightly proud of the positive impact the Company's activities have on the communities within, and alongside which, it operates.

ALASTAIR LYONS – CHAIRMAN

Dear Shareholder,

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

The Board is responsible, and accountable to all stakeholders, for the implementation and maintenance of good corporate governance. It recognises the importance of good governance as the foundation of long-term, sustainable growth and success and, as such, is committed to demonstrating high standards and continuous improvement.

The Company's Corporate Governance Report comprises the Statement of Corporate Governance, the Nomination Committee Report, the Audit Committee Report, the Directors' Remuneration Report (which, this year, includes proposed revisions to the Company's Remuneration Policy), the Directors' Report and the Statement of Directors' Responsibilities.

These reports explain the Company's governance framework and policies, which are subject to periodic review and refinement. They focus on the period under review but also reference work undertaken to ensure the Company's compliance with the revised UK Corporate Governance Code ("Code"), which was published in July 2018.

In August 2018, the Company's shares moved from a standard listing to a premium listing on the London Stock Exchange. As a premium-listed business, the Company is now obliged to comply with the Code on a "comply or explain" basis. However, this has not required a material change to the Company's corporate governance framework since, as a standard-listed business, it aimed to comply with the Code and has reported on compliance in its last three annual reports. I am, therefore, able to report that, save as explained in the Statement of Corporate Governance on page 79, the Company has complied with the 2016 Code for the period under review. The revised 2018 Code applies to the Company's current accounting period, which commenced on 1 January 2019. Where necessary, changes have been or are being made to the Company's policies and procedures to ensure compliance with the 2018 Code. Some of these changes are explained in this Corporate Governance Report. As an indication that the Board is already focussed on compliance with the 2018 Code, this introduction and the Statement of Corporate Governance adopt the headings it adopts.

Board Leadership and Company Purpose

The Company has a clear purpose: to create sustainable new communities for people to live, work and play, and aims to be the leading land and property regeneration specialist in the North of England and Midlands. The Board and the wider Harworth team are rightly proud of the positive impact the Company's activities have on the communities within, and alongside which, it operates. This includes the supply of much needed housing, the establishment of advanced manufacturing and logistics hubs and, in some cases, the creation of new communities, typically on redundant, former industrial land.

In pursuing this purpose, the Company aims to generate for its shareholders a 10% average total return per annum, through the property cycle. To achieve that we set ourselves stretching strategic and financial objectives but with the foundations of: a strong balance sheet; a resilient, recurring income stream; and a robust governance framework.

In September the Board and executive team undertook the annual review of the Group's strategy and in December the Board approved the latest five-year strategic plan for the business. The annual review re-affirmed the fundamentals of the Group's long-term strategy, which are reflected in the Strategic Report on pages 4 and 5. Clearly, the Company is not immune to the turbulent macro-economic and political climate which subsists currently and which may affect one or more of the markets in which the Company operates. Against that backdrop, the Company's strategic plan will remain subject to regular review by the executive team and the Board over the coming months. However, we believe the medium-term outlook for the business remains positive, given: the ongoing and forecast performance of the Company's core markets in the North of England and Midlands; the continued shortage of housing; the fundamentals underpinning the manufacturing and logistics markets; and the largely supportive backdrop of national and local Government policy and sentiment.

The Board recognises that a clear purpose and robust strategy must be supported by a strong, positive culture within the business. The Board is confident that this already exists but is keen for that culture to be well defined so that it can be preserved and promoted, as we grow and make changes to our operational design, such as the establishment of a regional structure in 2018. To this end, during 2019 our Head of HR and Organisation Development is working with representatives from across the business to formalise and define the Company's core values and culture.

A good deal of work has been undertaken over the last 12 months to: identify the Company's principal stakeholders; review how the Board and wider business engages with those stakeholders; and formalise the way in which stakeholder interests form part of the Board's discussions and decision-making process. This work is outlined in the Corporate, Social and Environmental Responsibility section of the Strategic Report on pages 48 to 71. I would particularly mention the steps we have taken to improve engagement with employees as detailed in the Our People section of the Strategic Report on pages 50 to 55.

Division of Responsibilities

The revised Code provides that at least half of the Board, excluding the chair, should be independent Non-Executive Directors and no longer includes an exception for smaller companies. When the Code was published in July 2018 we recognised that the composition of our Board would not be compliant with the revised Code because Steven Underwood and Martyn Bowes, who are representatives of our largest shareholders, the Peel Group and the Pension Protection Fund, respectively, are not independent. We have addressed that deficiency with the appointment of an additional independent Non-Executive Director, alongside a further appointment as part of our Board succession planning, as detailed below.

During 2018, as part of our preparatory work for the Company's step-up to the premium list, we established a Disclosure Committee comprising the Chief Executive, Finance Director and Group General Counsel and Company Secretary, which will liaise closely with myself as Chairman. This formalises what was already a robust review and decision-making process in respect of the Company's disclosure obligations. The terms of reference for our other Committees will also be reviewed and updated shortly to ensure alignment with the revised Code.

At an operational level, in conjunction with the regionalisation of the business, changes have been made to the structure and composition of the senior management team, with an Investment Committee and a Management Board replacing the Executive Committee. The new structure is set out on pages 80 and 85 of the Statement of Corporate Governance. The Company's Delegated Authorities Policy has been updated, both to reflect these changes to the senior management team and as part of our programme of continuous review and improvement.

Composition, Succession and Evaluation

Succession planning for the Board and Investment Committee remains a fundamental part of the Board's role on which the Nomination Committee takes the lead.

My appointment, as successor to Jonson Cox, took effect on 7 March 2018 immediately after the announcement of the Company's 2017 preliminary results. 2018 was another busy year for the Committee, culminating in the appointments announced, alongside the preliminary results, of two new Non-Executive Directors, Ruth Cooke and Angela Bromfield.

These appointments both ensure that the composition of the Board is compliant with the 2018 Code and provide succession for Tony Donnelly, whose tenure at Harworth is approaching nine years, reflecting the Company's practice of seeking to recruit for succession ahead of time. Whilst, therefore, Tony is seeking re-election at the 2019 AGM he will step down from the Board at the end of September after the announcement of the Company's interim results for the 2019 financial year. I would like to put on record my sincere thanks to Tony for the significant contribution he has made over his long tenure to the transformation of the business from the property division of a mining business into the well-established and respected listed property regeneration business it is today.

As regards our new appointments, Angela Bromfield will join both the Remuneration and Audit Committees whilst Ruth Cooke will join the Audit Committee. This enables Steven Underwood to step down from both Committees such that membership of those Committees will now comprise only independent Non-Executive Directors, in compliance with the Code. I thank Steven for his valuable contribution to the work of both Committees during his tenure. The Nomination Committee Report (pages 92 and 93) includes a detailed report on the process undertaken to recruit Angela and Ruth.

On 1 April 2019 the Company announced that Andrew Kirkman had notified the Board of his resignation, which will take effect on 30 June 2019. The Board has commenced a process to recruit Andrew's replacement. The Nomination Report (page 93) includes more information about that process.

Improving diversity at all levels of the business continues to be an important objective for the Board and executive team. With the appointment of Angela and Ruth, we have made good progress in improving diversity on the Board but we will not stop there and

CHAIRMAN'S INTRODUCTION

we are very conscious that hard work remains to improve diversity amongst the senior management team and throughout the business. The Our People section of the Strategic Report (pages 50 to 55) outlines the steps we are continuing to take in this regard.

In the fourth quarter of 2018 an external Board evaluation was undertaken by an experienced independent Board assessor, Ian White. Whilst it was pleasing to see the positive feedback from that evaluation and its conclusion that we have an effective Board there is always room for improvement and action points have been agreed to implement Ian White's recommendations. A summary of the evaluation process and the recommendations can be found on pages 88 to 90 of the Statement of Corporate Governance.

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

Audit, Risk and Internal Control

We have maintained a strong focus on risk management and internal controls during this past year. The Audit Committee has overseen: the implementation of all the recommendations from the external review of internal financial controls towards the end of 2017; the financial position and prospects procedures (FPPP) external review undertaken in support of the Company's step-up to the premium list and the implementation of all the resulting recommendations; an external review of the Group's cyber-security and an external, strategic review of our information security; and the Company's preparations for the implementation of the GDPR. The support of our advisers and consultants on all these workstreams has been invaluable. The Audit Committee Report on pages 94 to 98 contains further details on all of these reviews.

The Board is acutely aware that sustained growth and the introduction of a regional structure bear the risk of divergent and inconsistent practices across the business and reduced visibility for the executive team. Whilst Harworth is, and will remain, an entrepreneurial business at heart, the Board and executive team recognise the need for a framework of processes and controls, and a reporting regime, which ensures that the business operates in a controlled and, where appropriate, consistent manner across the regions, and that the executive team retains the necessary level of visibility on operations. This will mitigate risks and drive efficiencies, whilst enabling a consistent approach to the evaluation of new investment opportunities. To this end, our Group General Counsel and Company Secretary is leading an exercise to review all business workstreams to identify those that are already, and those that should be, standardised to ensure consistency, where appropriate, across the regions.

Remuneration

It has also been a busy period for our Remuneration Committee. In anticipation of the three-yearly review of our Remuneration Policy ("Policy"), the Committee undertook a tender process for the role of remuneration consultants. Four firms participated in that process, culminating in the appointment of Deloitte. With assistance from Deloitte, the Committee (and wider Board) has undertaken a detailed review of our Policy. A revised Policy will be tabled for approval at this year's AGM and appears at pages 103 to 111. Following extensive engagement with a number of our largest shareholders, ISS, Glass Lewis and IVIS, we are proposing the adoption of a Restricted Share Plan, which we feel better aligns with the very long-term and through the cycle nature of the business, in place of our existing Long-Term Incentive Scheme. A detailed explanation of the rationale for the proposed changes to the Remuneration Policy appears in Lisa Clement's introduction to the Directors' Remuneration Report (pages 100 to 103).

Annual General Meeting

Our Annual General Meeting will be held at 2.00 p.m. on Tuesday 21 May 2019 at The Bessemer Conference Room, AMP Technology Centre, Advanced Manufacturing Park, Brunel Way, Waverley, Rotherham, S60 5WG. I encourage all shareholders to attend and look forward to welcoming them there.

Alastair Lyons
Chairman
16 April 2019

STATEMENT OF CORPORATE GOVERNANCE

1. COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

During the period under review, the 2016 Code applied to all companies with a listing on the premium segment of the Official List. It is publicly available on the website of the Financial Reporting Council. The Company was listed on the standard segment of the Official List up to and including 31 July 2018 but still applied the main and supporting principles of the 2016 Code. The Company stepped up to the premium segment on 1 August 2018 from which point it became obliged to comply with the 2016 Code. The Company complied with the provisions of the 2016 Code throughout the year ended 31 December 2018, save in the following respects:

- The Audit Committee comprised two independent Non-Executive Directors (Andrew Cunningham and Anthony Donnelly) and one non-independent Non-Executive Director (Steven Underwood). The Remuneration Committee comprised two independent Non-Executive Directors (Lisa Clement and Anthony Donnelly), the Chairman (Jonson Cox until 6 March 2018 and then Alastair Lyons from 7 March 2018) and one non-independent Non-Executive Director (Steven Underwood). Following the appointment of Ruth Cooke, who has joined the Audit Committees, and Angela Bromfield, who has joined the Audit and Remuneration Committees, Steven Underwood has stepped down from both Committees and, as such, at the date of this Report, the composition of both Committees is compliant with the 2018 Code, which has superseded the 2016 Code.
- Given that Jonson Cox retired as Chairman, and was succeeded by Alastair Lyons, in March 2018, the Non-Executive Directors did not meet during 2018 to appraise the performance of the former or current Chairman, but an appraisal of the new Chairman's performance has been undertaken in the first quarter of 2019.

The 2018 Code applies to the Company from 1 January 2019.

2. BOARD LEADERSHIP AND COMPANY PURPOSE

The clarity of Harworth's purpose and vision is critical to its success. It informs our strategy and is the objective which motivates our team.

Strategy

The Board engages in a robust process annually to review and approve the Group's strategy. The Board and executive team undertook a detailed review of strategy in September. The strategy will continue to be subject to internal, annual reviews, with external input periodically when appropriate. A draft budget and strategic plan, to implement the strategy over the next five years, is prepared by the executive team and presented to the Board in November each year. The Board provides comment and challenge and, ultimately, approves the plan subject to whatever consequent amendments are considered appropriate. The performance of the business is then assessed by the Board throughout the year against the approved budget and strategic plan, the Board satisfying itself as to the adequacy of management response to variations in performance against plan. The Chief Executive gives an operational update at each Board meeting with periodic assessment of performance against strategic objectives. The strategic plan has been, and is expected to continue to be, subject to particularly close and regular scrutiny by the executive team and Board during the course of 2019, given the turbulent political and economic backdrop resulting from the UK's ongoing negotiations to exit the European Union.

STATEMENT OF CORPORATE GOVERNANCE
continued

Communication with Shareholders

The Board places great emphasis on open and regular communications with shareholders. The Company benefits from there being representatives of its two largest shareholders on the Board. They provide ongoing shareholder feedback and perspective on key strategic decisions. The Chief Executive and Finance Director meet and present to large new investors, existing institutional shareholders and analysts after the publication of the Company's preliminary and interim results. Following his appointment in March, the Chairman has had introductory meetings with the Company's two largest shareholders and a number of the Company's other institutional shareholders, and he will continue to have regular meetings with shareholders. The Chairman of the Remuneration Committee, who is also the Senior Independent Director, has held a series of meetings with, and spoken to, certain of the Company's largest shareholders as part of the Company's engagement on the proposed revisions to its Remuneration Policy. Both the Chairman and Senior Independent Director are available to meet with the shareholders to discuss governance and strategy. The Company Secretary is also available and deals with shareholder queries throughout the year.

In June 2018, the Company also hosted an update briefing and accompanying site visits for institutional shareholders and analysts and a similar event is planned for June this year.

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

The Company has a planned programme of announcements throughout the year, prepared by our Head of Communications and Investor Relations, with support from FTI Consultancy, and reviewed by the Board, to ensure that investors remain updated regularly on progress in the business. The annual and interim reports, together with the www.harworthgroup.com website, are the Company's 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 AGM.

The Board recognises the importance of engagement by the Company with its stakeholders. The Corporate, Social and Environmental Responsibility section of the Strategic Report, on pages 48 to 71, identifies the Company's principal stakeholders and explains how the Company engages with them and how the Board considers stakeholder interests when making decisions. During 2018 the Board has, in particular, reviewed how it can improve engagement with employees and the output from that review is referenced in the Our People section of the Strategic Report on pages 50 to 55.

3. DIVISION OF RESPONSIBILITIES

Role of the Board

The Company's governance structure is headed by a Board of Directors. Its key responsibilities are summarised in the table below. The Group's delegated authorities policy, including matters reserved for the Board, was subject to a detailed review and updated in November 2018. Examples of Board reserved matters are also set out in the table below.

Key responsibilities	Examples of reserved matters
• Establish the Company's purpose and strategy. • Stewardship of the Group's resources and overall responsibility for management of the Group to ensure long-term and sustainable viability, and growth, of the business. • Provide constructive challenge to management proposals and activity. • Measure management performance against strategy and targets. • Determine risk appetite and review risk profile and management. • Promote a culture aligned to the Company's purpose and strategy and measure how embedded it is in the business. • Ensure appropriate engagement with stakeholders and consideration of stakeholder interests in decision-making.	• Group strategy and budgets. • Constitution, and corporate and capital structure, of the Group. • Annual report and financial statements, and the declaration of dividends. • The Group's principal banking facilities and hedging arrangements. • Material sales, lettings, acquisitions and joint ventures. • Risk appetite and insurance programme. • Appointment of Non-Executive Directors, Executive Directors and Company Secretary. • Policies relating to whistleblowing, anti-bribery, data protection, anti-facilitation of tax evasion, prevention of modern slavery and business continuity.

The Board has delegated certain responsibilities to the Remuneration, Audit, Nomination and Disclosure Committees. The terms of reference of those committees can be found on the Group's website at www.harworthgroup.com/investors/governance. The terms of reference for the Nomination, Audit and Remuneration Committees will be updated during 2019 to align with the 2018 Code.

The Board adds value through constructive dialogue with, and challenge to, the Executive Directors and wider executive team to create accountability and drive performance. To that end, all Non-Executive Directors must have a good knowledge of Harworth's business and the markets in which it operates. The Board timetable includes site visits, which help to improve knowledge and understanding of key sites and, at the same time, are an opportunity for Non-Executive Directors to get to know better the operational teams driving growth from the portfolio. The Board also receives detailed updates from each of the regional teams and the Income Generation division on a bi-annual basis. These updates focus on progress towards strategic objectives, typically covering: markets; activity by competitors; relationships with stakeholders and business partners; development of capabilities and resources; and the portfolio of projects needed to achieve those objectives. Board papers include a monthly report from our EES division on all health, safety and environmental matters and compliance, together with an annual update, in person, from the head of EES.

STATEMENT OF CORPORATE GOVERNANCE
continued

Role/Committee	Key responsibilities
Chairman Alastair Lyons	• Leads the Board and is responsible for its overall effectiveness in directing the Company by facilitating a culture of openness and debate • Ensures that the company has a clear strategy and objectives, and that the Board receives regular transparent reporting as to the Company's progress in achieving its objectives • Facilitates a constructive relationship between the Non-Executive Directors and the executive team • Ensures that a fixed schedule of matters is maintained for the Board's review and approval • With support from the Company Secretary, sets the annual Board programme and Board meeting agendas, ensures that directors receive accurate, timely and clear information, and that there is adequate time available for discussion of agenda items and an effective decision-making process in place • Ensures there is ongoing and effective communication with shareholders • Ensures that the Board identifies the Group's key stakeholders, that there is appropriate engagement with them, and their interests are considered when decisions are made • With support from the Company Secretary, ensures that the effectiveness of the Board is subject to regular review including by an external evaluator on a periodic basis
Chief Executive Owen Michaelson	• Leads the establishment and maintenance of an appropriate culture for the Group • Responsible for the design of the Company's organisation and the appointment of appropriately skilled and experienced individuals to the resulting management structure • Leads on the formulation of strategy which, once agreed by the Board, falls to him to implement • Responsible for all operational matters within the parameters of the authorities delegated by the Board • Leads and chairs the Investment Committee and Management Board • Responsible for maintaining the Group's risk profile within the risk appetite determined by the Board, including health and safety and environmental policies, procedures and matters • Ensures that the Board is appraised of all material matters • Responsible for the Group's profile with shareholders and for engaging appropriately and effectively with the Group's key stakeholders • Responsible for formulation and implementation of the People Strategy and for effective internal communication
Finance Director Andrew Kirkman	• Supports the Chief Executive on strategy and risk • Leads on all financial matters, including tax and treasury • Responsible for leading the raising of any new equity and debt capital • Leads on investor relations and responsible for designing the communication of the Group's performance to investors and external stakeholders • Reviews the financial analysis of all major transactions including acquisitions, sales and capital investments • Leads on M&A and portfolio acquisitions • Responsible for ensuring clear, effective, and timely measurement and reporting of commercial and financial key performance indicators to support Board and management decision-making • Responsible for insurance, in conjunction with the Company Secretary, and pensions • Responsible for internal financial controls, systems and processes, in conjunction with the Company Secretary
Senior Independent Director Lisa Clement	• Provides a sounding board for the Chairman • Acts as an intermediary with the Chairman for other Non-Executive Directors • Available to shareholders if they have concerns where communication through the Chairman or Executive Directors is not successful or appropriate • Leads the process for appointing a new Chairman • Leads the annual appraisal of the Chairman's performance
Non-Executive Directors Lisa Clement Anthony Donnelly Andrew Cunningham Ruth Cooke Angela Bromfield Steven Underwood Martyn Bowes	• Help to formulate a strategy for the Group based on a proposal by the Chief Executive, agree strategic objectives and implementation plan • Provide constructive challenge to the Executive Directors on matters referred to the Board • Scrutinise the performance of the business against the strategy, agreed objectives and targets • Review and scrutinise commercial and financial key performance indicators and other information • Help to formulate the Group's risk appetite and monitor the Group's risk profile and risk management framework • Available for meetings if requested by major shareholders

Role/Committee	Key responsibilities
Remuneration Committee Lisa Clement (chair) Anthony Donnelly Alastair Lyons Steven Underwood (until 1 April 2019) Angela Bromfield (from 1 April 2019)	• Determines and agrees with the Board the Company's remuneration policy for the Executive Directors • Determines the salaries, bonuses, long-term incentive arrangements, pension arrangements, other benefits and contract terms of the Executive Directors and members of the Investment Committee • Reviews the remuneration approach adopted for all employees • Will approve grant of options for Save-As-You-Earn Scheme and Share Incentive Plan, if both are approved by shareholders at the AGM • Carries out an annual review of benefits available to all Group employees • Responsible for changes to certain Group-wide employment policies
Nomination Committee Alastair Lyons (chair) Lisa Clement Andrew Cunningham	• 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 • Carries out regular (at least annually) review of succession planning for the Board and members of the Investment Committee • Leads on promoting and assessing the achievement of diversity across the business, particularly on the Board and at a senior management level • Considers and makes recommendations to the Board on its composition, balance and membership and on the proposal of Directors for re-election at the AGM *Note: the Chairman will not chair the Committee when it deals with the appointment of a successor to the chair. This process will be led by the Senior Independent Director (as it was in 2017)
Audit Committee Andrew Cunningham (chair) Anthony Donnelly Steven Underwood (until 1 April 2019) Ruth Cooke (from 19 March 2019) Angela Bromfield (from 1 April 2019)	• Reviews the integrity of the Company's annual report, preliminary and interim results announcements and any other formal announcements relating to its financial performance • Reviews the effectiveness of the Group's system of internal controls and processes • Reviews the Group's insurance programme • Reviews the terms of appointment, independence, effectiveness and remuneration of the Company's external auditors and makes recommendations to the Board on the reappointment of the external auditors. Leads the tender process for the appointment of external auditors, if applicable • Reviews the Group's anti-bribery policy (including an annual review of the Group's hospitality register) and other policies relating to financial security, business ethics and compliance • Reviews the Group's ongoing compliance with the GDPR • Reviews the adequacy of the Group's cyber-security measures, information security and business continuity plans and procedures • Reviews the Group's whistleblowing procedures and the appropriate investigation of cases referred through the process
Disclosure Committee Andrew Kirkman (chair) Owen Michaelson Chris Birch	• Ensures a robust review and decision-making process in respect of the Company's disclosure obligations under the Market Abuse Regulation and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules • Liaises closely with the Chairman
Group General Counsel and Company Secretary Chris Birch	• Secretary to the Board and its committees and to the Investment Committee and Management Board • Ensures that all Board reserved matters are referred to the Board for review and approval and that all Board procedures are complied with • Advises on regulatory compliance (including GDPR, Bribery Act, Modern Slavery Act, Criminal Finances Act) and corporate governance • Prepares Board and committee agendas and collates and distributes papers • Available to advise the Directors on all legal and compliance matters • Assists the Chairman with Board evaluations and Director inductions and development • Responsible for governance, both at Board and operational levels, including internal controls, systems and processes • Responsible for insurance, in conjunction with the Finance Director, and risk • Responsible for GDPR compliance • Responsible for cyber-security, information security and business continuity planning and procedures • Manages the Estates Environment and Safety ("EES") team

STATEMENT OF CORPORATE GOVERNANCE
continued

Board activities in 2018

The activities of the Board during the year ended 31 December 2018 included (operational approvals not listed):

Month	Activities	Strategy	Delivery	Risk and governance	Finance	Stakeholders
January	Acquisitions operational update		✔			
	Annual update from Associate Director of EES			✔		
	FYE 2017 preliminary review of investor messages				✔	✔
	Share price and share register analysis					✔
February	FYE 2017 preliminary results and final dividend				✔	✔
	Application to step-up to premium list: preliminary approval			✔		✔
	Annual employee survey results					✔
March	Income Generation operational update		✔			
	Funding options: debt and equity	✔			✔	
	People Steering Group					✔
	FYE 2017 Annual Report and Accounts				✔	✔
	Share price and share register analysis					✔
April	Capital Growth operational update		✔			
	Land Value Capture	✔		✔		
	Extension of revolving credit facility	✔			✔	
	Investor feedback from preliminary results roadshow					✔
	Feedback from internal Board evaluation			✔		
	Application to step-up to premium list: update			✔		✔
	Infrastructure funding update				✔	
May	Annual General Meeting					✔
	Application to step-up to premium list: final approval			✔		✔
	Reforecast		✔		✔	
	Move to regional structure	✔		✔		✔
	GDPR update			✔		
June	Share price and share register analysis					✔
	Feedback from investor and analyst site visits					✔
	People Steering Group					✔
	Modern slavery statement			✔		
July	Acquisitions operational update		✔			
	FYE 2018 interim results: preliminary review				✔	✔
September	FYE 2018 interim results: final sign-off				✔	✔
	Strategy Day	✔				
	Infrastructure funding update				✔	
October	Annual stakeholders review					✔
	People Steering Group					✔
November	Budget and strategic plan: draft	✔			✔	
	Internal controls and processes, business continuity, cyber security and information security			✔		
	2019 investor relations timetable					✔
	Briefing on Letwin review	✔		✔		
December	Budget and strategic plan: approval	✔			✔	
	Talent management and succession planning	✔				✔
	People Steering Group					✔
	Feedback from external Board evaluation			✔		

Role of the Investment Committee and Management Board

The Chief Executive has responsibility for proposing and then implementing the Group's strategy and leading the day-to-day management of the Group's business, with the agreement of the Board on reserved matters. The Chief Executive appoints the Investment Committee and Management Board to support him in this regard. The Investment Committee assists in the development of the Group's strategy and implementation plans, and provides peer review and scrutiny of material capital deployments (such as acquisitions and investment in site infrastructure) and matters of strategic importance. The Management Board provides leadership of the distinct elements of the management structure and, so as not to overburden the Investment Committee, undertakes peer review and scrutiny of other material transactions, such as sales and significant lettings.

The composition of the Investment Committee and Management Board are as follows:

Investment Committee	Management Board
Chief Executive	All members of the Investment Committee
Finance Director	Regional Director – North East
Executive Director – Income Generation	Financial Controller
Executive Director – Central Functions	Associate Director, Estates Environment and Safety
Regional Director – Yorkshire and Central Region	Head of HR and Operational Development
Regional Director – North West	Associate Director, Business Space
Regional Director – Midlands	Associate Director, Natural Resources
Group General Counsel and Company Secretary (secretary to the Committee)	

References in this report to the executive team are to the Investment Committee. References to the senior management team are to the Management Board.

As well as ensuring that certain matters are reserved to the Board, the Group's delegated authorities policy ensures that operational decisions are made at the most appropriate level in the business.

External appointments, conflicts of interest and time commitment

Upon appointment, each Director is required to notify the Company of their 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 Board, with advice from the Company Secretary, considers the time commitment of such appointment and whether it 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 or Committee meeting. The Articles of Association provide that the Board can authorise actual and potential conflicts of interest of Directors. Where actual or potential conflicts of interest arise, the relevant Director does not receive Board papers and is excluded from discussions and voting on the subject matter that gives rise to the conflict.

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

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 an Executive Director of certain Peel Group companies, one or more of which may deal with Harworth at an operational level from time to time. During the period under review the Group completed two material transactions with Peel Environmental Limited. The Board deliberations on those transactions took place ahead of the 2017 AGM, at which they were approved by shareholders. Steven Underwood did not receive Board papers on, was not present for any Board discussions relating to, and did not vote on, those matters.

Andrew Cunningham has previously declared by way of general notice, and the Board has approved, a potential conflict of interest arising from his appointment as a Non-Executive Director of The Banks Group Limited and the fact that Harworth Estates Limited has a joint venture with Banks Property Limited for the remediation, promotion and sale of land at the former Bates Colliery in Blyth. During 2018 Harworth acquired a site at Moss Nook in St Helens from the Banks Group. This represented an actual conflict of interest for Andrew and, as such, he did not have sight of any Board papers, and was not party to any Board discussions or decision-making, on this matter.

Andrew 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.

Owen Michaelson is a member of the Board of the Sheffield City Region Local Enterprise Partnership. No conflicts arose as a result of this appointment during 2018.

During 2018, the Board approved Owen's appointment as a Non-Executive Director of Covanta Holding Corporation, a global operator of energy from waste and waste management facilities, headquartered in the United States. The Board was satisfied that such appointment would not compromise Owen's time commitment to Harworth and gives rise to no more than a low risk of a future conflict of interest.

Each Non-Executive Director is aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. This includes Board and Committee meetings, attendance at the AGM, site visits, CPD, participation in evaluations, participation in the recruitment of Directors to the Board, and meetings with employees, shareholders and other stakeholders, where appropriate.

STATEMENT OF CORPORATE GOVERNANCE
continued

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. Alastair Lyons undertook an extensive induction prior to his appointment in March 2018 and both Angela Bromfield and Ruth Cooke are undertaking a similar programme.

In terms of CPD: Board packs include external CPD briefings for Directors, with a short synopsis prepared by the Company Secretary; the Company Secretary provides written and verbal updates to the Board and its Committees, as appropriate, on governance and regulatory changes; and external advisers host CPD workshops for the Board, Remuneration Committee and Audit Committee annually. DLA Piper UK LLP ("DLA") hosted a full Board workshop in October, focussing on the changes introduced by the 2018 Code. Kepler Associates hosted a Remuneration Committee workshop in July on remuneration trends and developments in remuneration governance, ahead of the planned review of the Company's Remuneration Policy. PwC hosted an Audit Committee workshop in September on audit governance trends and recent changes to accounting standards. Detailed briefings were also given to the full Board by both DLA and Canaccord Genuity on the obligations of directors of a premium listed company, ahead of the Company's step-up to the premium list in August.

All Directors have access to the advice and services of the Company Secretary.

Attendance at board meetings

There were 11 regular Board meetings scheduled during 2018 and one additional meeting held by conference call in August (to consider specific operational items). Attendance by individual Directors at Board meetings is shown in the table opposite. There were also Board calls to sign-off the Company's 2017 preliminary results and 2018 interim results, site visits and a strategy review day offsite during the year.

	Number of meetings attended	Attendance
Jonson Cox	2/3	66%
Alastair Lyons	10/10	100%
Owen Michaelson	12/12	100%
Andrew Kirkman	12/12	100%
Lisa Clement	12/12	100%
Anthony Donnelly	12/12	100%
Steven Underwood	9/12	75%
Martyn Bowes	12/12	100%
Andrew Cunningham	11/12	92%

Jonson Cox stepped down as Chairman on 6 March 2018 but resigned as a director on 31 March 2018. He did not attend the March Board meeting.

Steven Underwood was unable to attend three Board meetings during 2018 because of prior commitments in his capacity as Chief Executive of the Peel Group.

Andrew Cunningham was unable to attend a specially convened Board meeting in August but attended all scheduled meetings.

In the lead up to submission of the Company's application to have its shares moved from the standard segment to the premium segment of the Official List, authority was delegated to a sub-committee to approve final submission of the application. The sub-committee comprised Alastair Lyons, Owen Michaelson, Andrew Kirkman and Andrew Cunningham and met once in May. All sub-committee members were present.

Board and Committee papers are circulated not less than one full week prior to each meeting and are supplemented by reports and presentations, as appropriate. The papers include monthly reports from the Chief Executive, Finance Director (including monthly financial and operational management information to enable the Board to monitor performance against the approved budget and strategic plan) and Company Secretary.

The Company Secretary maintains "Action Schedules" for the Board and each Committee which records action points agreed at each meeting. That schedule, together with the minutes of each meeting are reviewed by the Chairman of the Board or the Chair of the relevant Committee (as appropriate) and then, at the following Board or Committee meeting, the wider Board or Committee (as appropriate).

4. COMPOSITION, SUCCESSION AND EVALUATION

The Board comprises the Chairman, Chief Executive, Finance Director and, at the date of this report, seven Non-Executive Directors although Anthony Donnelly will retire at the end of September (see further below). The Directors' biographies appear on pages 74 and 75.

Composition of the Board and succession

*Note, Tony Donnelly will retire at the end of September.

The Board considers that its Non-Executive Directors bring the requisite balance of skills, experience and knowledge 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 section of the Directors' Remuneration Report at page 119.

The composition of the Board is reviewed regularly by the Nomination Committee to ensure an effective balance. This is demonstrated by the work undertaken by the Committee in 2017, resulting in the appointment of Alastair Lyons as Chairman, in succession to Jonson Cox, and in 2018, culminating in the appointment of two new Non-Executive Directors, Angela Bromfield and Ruth Cooke. These appointments address Non-Executive Director succession and ensure that there are an appropriate number of independent directors on the Board. The process undertaken to make these latest appointments is explained in the Nomination Committee report on pages 93.

Following the Company's announcement on 1 April 2019 that Andrew Kirkman had notified the Board of his resignation, which will take effect on 30 June 2019, the Board has commenced a process to recruit his replacement. Further information on that process appears in the Nomination Committee Report on page 93.

Independence

The 2018 Code recommends that at least half of the Board, excluding the Chair, be independent.

During the year under review, the now former Chairman (Jonson Cox), who had previously held the role as an executive of the Company prior to the restructuring of the former UK Coal in 2012, was not considered independent. He stepped down as Chairman on 6 March 2018 and resigned as a Non-Executive Director on 31 March 2018. He was replaced as Chairman on 7 March 2018 by Alastair Lyons. The Board considers that Alastair Lyons is independent.

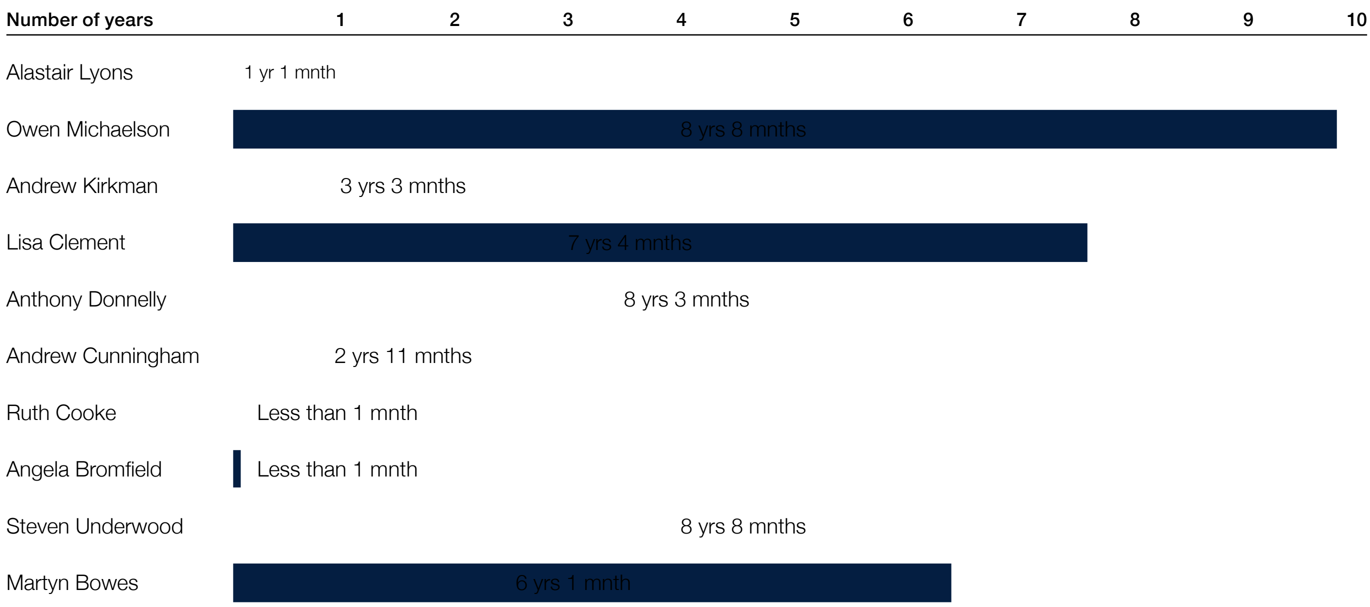
The Board also considers that Lisa Clement, Anthony Donnelly and Andrew Cunningham are independent. So too are Angela Bromfield and Ruth Cooke, who did not serve as directors during the period under review but were appointed prior to publication of this Report.

The Board recognises that Steven Underwood, who is a Director and representative of the Peel Group, which is a 26% 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.

Following the appointments of Angela Bromfield and Ruth Cooke and the anticipated retirement of Anthony Donnelly in September 2019, there will be four independent and four non-independent directors on the Board, together with the Chairman, who is also independent. The Board considers this balance to be appropriate and it is compliant with the 2018 Code.

STATEMENT OF CORPORATE GOVERNANCE
continued

Tenure



Board diversity

The Board recognises the benefit of having a diverse (in its widest sense) range of individuals on the Board and in senior executive and management positions. The appointments of two new female directors to the Board represent positive progress in this regard. However, the Board is also mindful that the two external appointments to the Investment Committee during 2018 were of white males, notwithstanding work undertaken with our recruitment consultants to promote diverse longlists for both roles. That said, there has been more gender diversity across the candidates we have recruited for new roles in our regional operating structure.

The Board has not, and will not, set numerical targets for diversity, and future appointments will continue to be made based on merit and objective criteria to ensure that the best candidates are appointed for all roles. However, diversity is an active and important consideration in all succession plans, not just at a senior level, and Harworth is committed to opening up opportunities to apply for, and be appointed to, the new and replacement roles for which we recruit. As the business continues to grow, Harworth will ensure that there are adequate measures in place to support everyone's progress and development within the organisation. Further information on the Group's diversity policy, which was updated during 2018, and initiatives, together with a summary of progress made on diversity during 2018, appears in the "Our People" section of this report on pages 51 to 53.

Evaluation

Since the Company's re-listing in 2015, two internal Board evaluations have been undertaken, led by the Chairman (then being Jonson Cox) and the Company Secretary. The Company aspires to membership of the FTSE 250 and, as such, the Board considers it good practice to carry out an externally facilitated Board evaluation at least every three years. In 2018 an external evaluation process was led by Ian White. Ian is an independent external consultant with experience of evaluating and making recommendations to improve Board effectiveness of listed companies. Other than doing some consultancy work for a small company within the Equiniti group, the Company's Registrars, Ian White has no other connection with the Group. The objectives of the evaluation were: to provide an assessment of the effectiveness of the Board; make recommendations to improve the Board process; and establish a clear set of actions and objectives for the Board to prioritise and focus on in 2019 and beyond.

Board Evaluation Cycle

A comprehensive questionnaire was circulated for completion by all Directors and members of the formerly constituted Executive Committee. The questionnaire considered:

- the composition of the Board, including the balance of skills, knowledge and experience on the Board;
- the role of the Board, including its engagement with the business and key stakeholders;
- the strategy of the business and the Board's role in setting the same;
- Board dynamics and culture (of the Board and wider business), including the relationship between Non-Executive Directors and the executive team;
- induction and personal development of Directors;
- the management of Board and Committee meetings, including papers and presentations;
- the Board's oversight of risk management; and
- leadership and succession planning, including the effectiveness of the new Chairman.

Ian then held interviews with each respondent to the questionnaire, and meetings with members of the People Steering Group (as to which see the "Our People" section of the Strategic Report on page 50) and the Company's auditors. He also attended two Board meetings, a Remuneration Committee meeting and an Audit Committee meeting.

The results of the review were presented by Ian to the Board in December 2018. Overall, the review found that the Company has an effective Board and one which is continuously improving. It highlighted the following characteristics:

- a talented group of competent individuals who have led Harworth through a very successful phase;
- a good range of skills around the Boardroom covering the main areas the Company needs in its leadership;
- generally effective Board dynamics where there are no cliques;
- openness and respect around the Boardroom where everyone has an opportunity to be heard;
- a forum where there is constructive challenge, debate on major issues and good decision making;
- a collegiate and values focused culture;
- Non-Executive Directors who make the appropriate commitment to the Board, its processes and success;
- Board and Committee information which is, in the main, of high quality and improving;
- good management of Board meetings and processes;
- a clear sense of delivering and communicating Harworth's strategy;
- a Board which recognises the value in the work Harworth does in regenerating industrial areas, improving the environment and creating work opportunities; and
- a group of Directors who want to do the best for the Group.

STATEMENT OF CORPORATE GOVERNANCE
continued

The following recommendations were identified as areas on which the Board might focus in 2019 and beyond in order to enhance the Board's effectiveness. Alongside each recommendation is an action point identified to implement the same:

Keep diversity - defined in its widest term - under regular review and consider more innovative approaches to recruitment both at Board level and below	An annual "diversity review" has been included as a standing agenda item for the Nomination Committee (October) and Board (November)
The Board should be absolutely clear on its purpose and what Non-Executive and Executive Directors are expecting from each other, their respective roles and how they can best support and work with each other	The Board and Investment Committee met to discuss their respective roles and expectations and identified means of improving engagement between the two functions
The Non-Executive Directors should make further efforts to get to know employees better, to enhance their visibility and enhance their knowledge of the business – this is especially important in respect of new Non-Executive Directors	Certain Board dinners will be joined by wider management
	Board to meet a wider group of employees informally over buffet lunch on Board days
	Non-Executive Directors will be invited to attend quarterly staff breakfast briefings
	Site visits will continue to be hosted by project teams
	An annual Employee AGM will be trialled
The Non-Executive Directors should meet alone on a pre-planned basis where appropriate	Non-Executive Directors will advise the Chairman when they consider there is a topic that merits NED-only consideration
Once a year the Senior Independent Director should meet with the Non-Executive Directors without the Chair	The Non-Executive Directors (excluding the Chair) met in March 2019 to appraise the Chairman's performance
The Board should keep the number of Board Meetings held in the annual cycle, previously 11, under review	The meeting scheduled for December has been removed from the 2019 Board cycle
The membership of the Audit and Remuneration Committees should be in accordance with the Code and restricted to independent Non-Executive Directors. This is something the Board intends to rectify.	Ruth Cooke has been appointed to Remuneration Committee and Angela Bromfield has been appointed to both the Remuneration and Audit Committees in place of Steven Underwood
Communication of the Committees should be enhanced to ensure all Board members are kept fully informed on their work	Committee minutes are now included in the Board supplementary pack
	The Board agenda now includes "Committee updates" as a standing agenda item
Succession planning should be a high priority on the Board and Nomination Committee's agenda	Talent management is now a standing agenda item in the Board cycle. Succession planning for the Board and Investment Committee will remain a Nomination Committee matter and be subject to annual review and reporting back to the Board

The Chief Executive appraises annually the performance of the members of the Investment Committee. The Chairman, taking into account the views of the other Directors, reviews the performance of the Chief Executive. The performance of the Chairman is reviewed by the Board led by the Senior Independent Director. In addition to the feedback given on the Chairman's leadership during the external Board evaluation, the Senior Independent Director and other Non-Executive Directors met in March 2019 to review the Chairman's performance. Following that review, the Senior Independent Director considered and discussed with the Chairman the comments and feedback that had been received from the Directors and was able to confirm that the performance of the Chairman is considered effective and that he continues to demonstrate appropriate commitment to his role.

Re-election and contractual terms and conditions

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 election or re-election at every AGM and, as such, all Directors will stand for election or re-election by shareholders at the 2019 AGM.

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.

5. AUDIT, RISK AND INTERNAL CONTROL

Risk

The Board acknowledges its responsibility for identifying business risks, determining risk appetite and, in the context of that appetite, ensuring that the business maintains an appropriate risk profile and a robust framework of controls and processes to monitor and manage risk. Pages 36 to 44 of the Strategic Report identify the principal risks and uncertainties facing the Group, the current risk profile of the business and the anticipated movements in that profile over the next 12 months. Page 34 of the Strategic Report explains how the Board reviews its own risk appetite on an annual basis, undertakes regular (not less than quarterly) reviews of the Group's risk profile and monitors the Company's risk management framework. Based on its latest review, the Board is satisfied that there are in place effective systems for managing, and mitigating, strategic and operational risks.

Audit and internal controls

The Company's delegated authorities policy determines matters reserved exclusively for the Board and also provides a framework for decision-making throughout the business. It was subject to a detailed review by the Board and updated in November 2018. It is supplemented by a framework of internal controls and processes which, alongside the delegated authorities policy, form the governance framework for the business. Responsibility for monitoring, and ensuring the ongoing effectiveness, of this framework, is delegated to the Audit Committee. This includes a review annually as to whether the Company should establish an internal audit function. To date, those reviews have concluded that the structure of, and processes within, the business are neither large, nor complex, enough to merit a separate internal audit function. The work undertaken by the Audit Committee on internal controls, processes and audit, as well as the external audit, is explained on pages 96 to 98 of the Audit Committee Report.

6. REMUNERATION

Responsibility for establishing and implementing an appropriate Remuneration Policy for Executive Directors, other members of the Investment Committee, and the Chairman falls in the first instance to the Remuneration Committee. Its work in implementing the existing policy during 2018, and the Board's proposals for revisions to the policy, are set out in the Directors' Remuneration Report on pages 100 to 103.

7. ANNUAL GENERAL MEETING

The Annual Report and Financial Statements, and Notice of AGM are sent to Shareholders at least 20 working days before the meeting. The Board encourages Shareholders to attend, participate and exercise their right to vote at the 2019 AGM.

The resolutions to be proposed at the AGM to be held on 21 May 2019, together with the explanatory notes, appear in the separate Notice of AGM accompanying this Annual Report. The Notice is also available on our website at www.harworthgroup.com/investors/reports-presentations.

Separate resolutions are proposed on each substantially separate issue. All Directors attend the AGM and are available to answer questions, both formally during the meeting and informally both before and after the meeting. The Board encourages questions from Shareholders.

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.

The Statement of Corporate Governance has been approved by the Board on its behalf by:

Alastair Lyons
Chairman
16 April 2019

NOMINATION COMMITTEE REPORT

Dear Shareholder,

I am pleased to present the Nomination Committee report for the year ended 31 December 2018.

During the period under review, the Committee comprised three Non-Executive Directors. Jonson Cox began the year as Chairman of the Committee until my appointment on 7 March 2018, at which point I succeeded him. The other members of the Committee have been Lisa Clement and Andrew Cunningham. At all times during the year, a majority of the Committee comprised independent Directors. The Company Secretary is secretary of the Committee. The minutes of meetings of the Committee are circulated to all Directors, where appropriate.

Typically, the Committee meets at least once a year to review succession and development planning for the Board and Investment Committee, which is informed by their existing balance of skills, knowledge and experience and diversity. All Non-Executive Directors are invited to attend meetings of the Committee, as is the Chief Executive where appropriate.

When necessary, the Committee leads the process for recruitment and appointment to the Board. Typically, this includes a series of formal and informal meetings of the Committee (in addition to those scheduled during the year) at which candidates are appraised before a recommendation is made to the Board.

During the year, there was a scheduled meeting in June at which the Committee considered: the composition of the Board and its Committees, in anticipation of the proposed changes to the Code on Board composition; succession planning for Tony Donnelly, who would cease to be independent under the Code at the end of 2019; and both initiatives and targets for improving diversity in the business.

Following that meeting, the Committee initiated and led a recruitment process for two new Non-Executive Directors: a successor to Tony Donnelly and an additional independent Non-Executive Director, culminating in the appointments of Angela Bromfield and Ruth Cooke in March this year. Angela's appointment to the Remuneration and Audit Committees is in replacement for Steven Underwood, resulting in those Committees being compliant with the Code, as they now comprise solely independent Non-Executive Directors.

The Committee's immediate focus has now turned to the process for recruiting a replacement for Andrew Kirkman, which is underway.

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

Alastair Lyons
Chairman of the Nomination Committee
16 April 2019

Members and attendance at meetings during the year ended 31 December 2018	
Jonson Cox* Chairman of the Committee and the Board (until 6 March 2018) (not independent)	0(0)
Alastair Lyons Chairman of the Committee and the Board (from 7 March 2018) (independent)	1(1)
Lisa Clement Independent Non-Executive Director	1(1)
Andrew Cunningham Independent Non-Executive Director	1(1)

*Jonson Cox retired as Chairman of the Board and the Committee on 6 March 2018 at which point he was succeeded into both roles by Alastair Lyons. The only scheduled meeting of the Committee took place in June 2018, after Jonson's retirement. The Committee met informally a number of times in the second half of the year in connection with the recruitment of new Non-Executive Directors

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
- Carries out a regular review (typically annually) of succession and development planning for the Board and members of the Investment Committee
- Leads on promoting and assessing the achievement of diversity across the business, particularly on the Board and at a senior management level
- Considers and makes recommendations to the Board on its composition, balance and membership and on the proposal of Directors for re-election at the AGM

The Committee's terms of reference, which were last reviewed and updated in December 2018 are set out on the Company's website and can be found at www.harworthgroup.com/investors/governance. During 2019 the Committee's terms of reference will be updated to reflect the 2018 Code.

The Board undertakes an annual evaluation of the Committee's performance to ensure its continued ability to discharge its key responsibilities. In 2018 this took the form of an external Board evaluation undertaken by Ian White (further details are in the Statement of Corporate Governance on pages 88 to 90).

Nomination Committee activities in 2018

The activities of the Nomination Committee during the year ended 31 December 2018 comprised:

Month	Activities	Composition	Succession	App'ments	Diversity
June	Succession planning for Non-Executive Directors		✔		
	Board and Committee composition ahead of proposed revisions to the Code	✔			
	Diversity initiatives and targets				✔
H2 2018	Recruitment of Non-Executive Directors			✔	

Board composition, succession and appointments

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

Non-Executive Directors

The 2016 Code provided that "smaller companies" (being those below the FTSE 350) should have at least two independent Non-Executive Directors. Whilst it was in force the Board included three independent Non-Executive Directors and so was compliant with the 2016 Code in this regard. The provisions in the 2018 Code have been aligned for companies inside and outside the FTSE 350 such that at least half of all boards, excluding the chair, should be directors whom the board considers to be independent.

Ahead of its coming into force on 1 January 2019, it became clear to the Committee that the composition of the Board would not be compliant with the 2018 Code because (at that time) the Board comprised the chair, three independent Directors and four Directors who are not independent. As such, an additional independent Non-Executive Director needed to be appointed to the Board to ensure compliance with the 2018 Code (as to which see further below).

It was noted in the 2017 Annual Report that, due to their lengths of service on the Board (factoring in Tony Donnelly's term of office as a director of the Harworth Estates division of UK Coal and then of HEPGL), Tony Donnelly will cease to be independent under the Code in January 2020 and Lisa Clement will cease to be independent in December 2020. That being so, the Committee's focus in the second half of 2018, following the appointment of Alastair Lyons as successor to Jonson Cox in March 2018, turned to identifying a successor for Tony (see further below).

At its scheduled meeting in June, bearing in mind the composition and succession points referred to above, the Committee resolved to commence a recruitment process with the objective of appointing two new Non-Executive Directors to the Board.

The Company subsequently appointed Warren Partners to conduct a search and recruitment process. The Company does not retain Warren Partners in any other capacity and it has no other connection with the Company. In conjunction with Warren Partners, the Non-Executive Directors prepared the selection criteria and specifications for the two roles.

Warren Partners identified a "long-list" of candidates. Following a review of that "long-list" by the Nomination Committee and a meeting with Warren Partners, a "short-list" of candidates was identified. Warren Partners interviewed and provided feedback on all "short-list" candidates, resulting in a refined "short-list". The Nomination Committee interviewed all these candidates pursuant to which they identified preferred candidates for each role. Those preferred candidates then met with the other Non-Executive Directors, the Executive Directors and the Group General Counsel and Company Secretary.

This process culminated in the Committee recommending, and the Board resolving to make an offer, subject to references, to Angela Bromfield and Ruth Cooke for the two roles. Upon Angela and Ruth accepting the roles and the Board taking up references, the appointments were announced on 5 March 2019.

Angela and Ruth are undergoing extensive induction programmes which include: meetings with the Executive Directors, members of both the Investment Committee and Management Board and the external auditor; site visits; and corporate governance briefings.

Executive Directors

The Committee undertakes a regular (typically annual) review of the succession plans for Executive Directors. Following the Company's announcement on 1 April 2019 that Andrew Kirkman had given notice of his resignation to join CLS Holdings plc as Chief Financial Officer, the Committee's focus has turned to the process of recruiting his replacement for which it has engaged Spencer Stuart. The Company does not retain Spencer Stuart in any other capacity and it has no other connection with the Company. The Company will make an announcement as soon as Andrew's successor has been selected and a full outline of the recruitment process will be set out in the Annual Report for the financial year ending 31 December 2019.

Investment Committee

Talent management and succession planning for the whole business was reviewed by the Board in December following implementation of a regional structure and a business-wide process undertaken by the Head of HR and Organisation Development, in conjunction with the executive team. Going forward, the Committee's remit will extend to succession planning for the Investment Committee. Talent management and succession planning for the rest of the business will be considered by the full Board each year.

Diversity

The Committee takes the lead in assessing the achievement of diversity (in its widest sense) in all parts of the business and in reviewing the effectiveness of initiatives for improving the same. Further information on the Group's diversity policy, which was updated during 2018; the Group's gender pay-gap at the end of 2018; the initiatives that have been introduced to improve diversity across the business; and the progress made in that regard since publication of the 2017 Annual Report, appears in the Our People section of the Strategic Report on pages 51 to 53.

The Nomination Committee Report has been approved by the Board and signed on its behalf by:

Alastair Lyons

Chair of the Nomination Committee

16 April 2019

AUDIT COMMITTEE REPORT

Dear Shareholder,

I am pleased to present the Audit Committee Report for the year ended 31 December 2018.

During the period under review, the Committee comprised three Non-Executive Directors. I chaired the Committee and its other members were Tony Donnelly and Steven Underwood. Following their appointments as Non-Executive Directors, Ruth Cooke and Angela Bromfield joined the Committee on 19 March 2019 and 1 April 2019, respectively. On 1 April 2019, Steven Underwood stood down from the Committee. As such, at the date of this report, the Committee now comprises four independent Non-Executive Directors. Tony Donnelly will retire from the Board at the end of September at which point the Committee will revert to three members. I would like to thank both Steven and, in anticipation of his retirement from the Board, Tony for their contributions to the Committee over the last few years.

The experience of each member of the Committee is summarised on pages 74 and 75. The Board is satisfied that I have recent and relevant financial experience. 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. I am a chartered accountant. So too are Tony Donnelly and Ruth Cooke. Angela Bromfield is not a chartered accountant but is a member of the Audit Committees of both Churchill China plc, an AIM listed company, and Zotefoams plc, a premium-listed FTSE SmallCap company. The Board is also satisfied that the Committee has competence relevant to the real estate sector, given that the majority of members (both during the period under review and going forward) hold (or have held) senior positions in businesses operating in that sector.

The Company Secretary is secretary of the Committee. The Chairman, Chief Executive, Finance Director and the external auditors are invited to attend meetings when appropriate. The minutes of meetings of the Committee are circulated to all Directors.

During the year, the Committee held four scheduled meetings. There were two further meetings connected to the Company's application to step-up to the premium list and calls between the Chairman, Finance Director, Company Secretary and me on the days preceding the announcement of the Company's preliminary and interim results, so that we could authorise their release, having been delegated the authority to do so by the Board.

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

Andrew Cunningham
Audit Committee Chairman
16 April 2019

Members and attendance at meetings during the year ended 31 December 2018

Andrew Cunningham Chair and Independent Non-Executive Director	6(6)
Anthony Donnelly Independent Non-Executive Director	6(6)
Steven Underwood* Non-Executive Director (not independent)	5(6)

*On 19 March 2019 and 1 April 2019, respectively, Ruth Cooke and Angela Bromfield, newly appointed Non-Executive Directors, joined the Committee. Steven Underwood stood down from the Committee with effect from 1 April 2019

Key responsibilities

- Reviews the integrity of the Company's annual report, preliminary and interim results announcements and any other formal announcements relating to its financial performance
- Reviews the effectiveness of the Group's system of internal controls and processes
- Reviews the Group's insurance programme
- Reviews the terms of appointment, independence, effectiveness and remuneration of the Company's external auditors and makes recommendations to the Board on the reappointment of the external auditors. Leads the tender process for the appointment of external auditors, if applicable
- Reviews the Group's anti-bribery policy (including annual reviews of the Group's hospitality register) and other policies relating to financial security, business ethics and compliance
- Reviews the Group's ongoing compliance with the GDPR
- Reviews the adequacy of the Group's cyber-security measures, information security and business continuity plans and procedures
- Reviews the Group's whistleblowing procedures and the appropriate investigation of cases referred through the process

The Committee's terms of reference, which were last reviewed and updated in December 2018 are set out on the Company's website and can be found at www.harworthgroup.com/investors/governance. During 2019 the Committee's terms of reference will be updated to reflect the 2018 Code.

The Board undertakes an annual evaluation of the Committee's performance to ensure its continued ability to discharge its key responsibilities. In 2018 this took the form of an external Board evaluation undertaken by Ian White (further details are in the Statement of Corporate Governance on pages 88 to 90).

Audit Committee activities in 2018

The activities of the Audit Committee during the year ended 31 December 2018 included:

Month	Activities	Financial reporting	Risk and internal controls	Compliance w'blowing	External audit
February	FYE 17 preliminary results and investor presentation	✔			✔
	Categorisation of properties: development vs. investment	✔			✔
	Risk register		✔		
	Whistleblowing reports			✔	
April	Application to step-up to premium list: PricewaterhouseCoopers LLP ("PwC") working capital and Financial Position and Prospects Procedures ("FPPP") reports – preliminary review		✔		
May	Application to step-up to premium list: PwC working capital and FPPP reports – final review and approval		✔		
June	Year-end audit de-brief				✔
	Internal controls and processes: update on implementation of recommendations from KPMG external review and PwC's FPPP review		✔		
	Cyber security: review of NCC Group's ("NCC") report and recommendations		✔		
	Annual review of hospitality register			✔	
September	FYE 18 interim results and investor presentation	✔			✔
	Risk register		✔		
	External auditors' feedback on audit and management (without management present)		✔		✔
	Internal controls and processes: update on implementation of recommendations from KPMG external review and PwC's FPPP review		✔		
November	Information security: review of NCC strategic report and recommendations		✔		
	Internal controls and processes: update on implementation of recommendations from KPMG external review and PwC's FPPP review, including review of need for internal audit function		✔		
	Business Continuity Plan and Incident Response Plan: review and approval		✔		
	Insurance programme renewal		✔		
	Interim results de-brief, year-end audit strategy and review of external auditors' appointment				✔

Financial reporting

The areas to which the Committee has given particular focus since publication of the 2017 Annual Report and Financial Statements are summarised below.

Significant financial statement reporting issues considered by the Audit Committee

Valuation of the property portfolio

As with previous years, the property portfolio, which is composed of both investment and development properties as well as assets held for sale, joint ventures, overages and owner-occupied properties, comprises the vast majority of the total assets of the business. Harworth continues to use the same independent external valuers, BNP Paribas and Savills, to value the portfolio. However, given the significance of the property values, together with the different accounting treatment for different property categories, there remain a number of key judgements. These key judgements are primarily regarding the future intention and plans for the site as well as value per acre, rental amounts, yields and costs to bring the sites forward and the applicability of comparable sales evidence, recognising 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 primarily include the costs to complete from external firms. Given the increasing number of Major Developments, further validation and reconciliation work has been performed on the cost reports. The methodology for, and adequacy of, the cost report totals are reviewed by the Committee alongside the valuations. With regard to the surface mine sites which have been handed back, there is a provision for potential restoration costs which is included with the cost report totals and disclosed separately.

Going concern

This is discussed on page 45 of the Strategic Report. The same methodology has been used as in previous years in terms of the 5-year forecast model which is produced and reviewed by the Committee and the Board. However, given heightened political and economic uncertainty, further downside sensitivity testing has been performed.

Categorisation of the property portfolio

Harworth has an established policy for determining the categorisation of properties. This is discussed further in the Financial Review and Accounting Policy in Note 1 to the Financial Statements. The Committee again reviewed the appropriateness and timing of the re-categorisation of properties and the policy. It was concluded that the categorisation of the property portfolio was appropriate.

AUDIT COMMITTEE REPORT
continued

Alternative Performance Measures ("APM"s)

Harworth believes that the use of APMs alongside statutory measures is essential in communicating the performance of Harworth to its stakeholders, particularly investors. In the Financial Statements, Note 2 gives a full reconciliation to statutory measures. The Committee reviewed the prominence and appropriateness of APMs and concurred with their use.

Analysis of fees paid to the external auditors and non-audit firms for the years ended 31 December 2017 and 31 December 2018

	2018 £'000	2017 £'000
Audit services		
Fees payable to the external auditors for:		
– the audit of the Company and the consolidated financial statements	50	40
– the audit of the Company's subsidiaries financial statements	121	111
– the audit of the Company's joint ventures	15	8
Total	**186**	**159**
Non-audit services		
Fees payable to the external auditors and its associates for non-audit services:		
– audit related assurance services	16	15
– tax advisory services	–	7
– tax compliance services	–	6
– fees in relation to transactions*	331	–
Total	**357**	**28**
Total fees payable to external auditors and associates for audit and non-audit services	**543**	**187**
Ratio of audit to non-audit fees paid to external auditor	**0.5:1**	**5.7:1**
Fees payable to non-audit firms for non-audit services		
– audit related assurance services	**16**	22
– tax advisory services	**148**	69
– tax compliance services	**51**	19
– fees in relation to transactions*	**5**	–
– pension accounting	**6**	5
– remuneration services	**20**	–
Total	**246**	**115**

*Note, in 2018 this included the work undertaken by PwC to support the Company's application to transfer its shares from the standard segment to the premium segment of the Official List

The Committee has reviewed the controls which are in place to ensure the completeness and accuracy of the Company's financial records. These were also subject to external review by PwC ahead of the Company's application to step-up to the premium segment of the Official List during 2018. The Committee has also noted (i) the reviews that are undertaken during this process by the various parties, including the external auditor and valuers, to ensure consistency and balance in the presentation of the Annual Report and Financial Statements and (ii) the internal verification exercise which is undertaken in respect of the financial metrics referred to in the Strategic Report and Directors' Report.

As a result, the Committee has concluded that the Annual Report and Financial Statements for the year ended 31 December 2018, when taken as a whole, is fair, balanced and understandable, and provides the information necessary for Shareholders to assess the Company's position, performance, business model and strategy. 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 on page 124.

External audit

The Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor. The year-end audit strategy and the external auditor's appointment are subject to review annually at the Committee's scheduled meeting in November each year. The effectiveness of the external audit is reviewed by the Committee in June.

Having reviewed:

- the independence and objectivity of the external auditor, PwC, including consideration of the non-audit work it has undertaken for the Company (see further analysis above);
- the effectiveness of PwC's audit of the Company's preliminary results and this Annual Report and Financial Statements for the financial year ended 31 December 2018; and
- the quantum of fees payable for the audit (see further analysis above),

the Committee has recommended the re-appointment of PwC at the forthcoming AGM for the external audit of the Company's financial statements for the financial year ending 31 December 2019.

PwC, then known as Coopers and Lybrand, was first appointed as the Company's auditors before 17 June 1994 and the Committee intends to undertake a tender ahead of the audit of the financial statements for the financial year ending 31 December 2020. This means that the audit of the financial statements for the financial year ending 31 December 2019 will be PwC's last as the Company's external auditor, coinciding with the expiry of Andy Ward's term as lead audit partner. The Company intends to commence the tender process in the second half of 2019 with the aim of appointing a new external auditor in the first quarter of 2020. There are no contractual obligations which restrict the Committee's choice of external 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 annually;
- the Group has a policy that, save for audit-related services (such as regulatory and statutory reporting, and work relating to circulars) and exceptional circumstances (but only with the Committee's prior approval), the external auditors will not provide non-audit services to the Group;
- the Group has appointed Deloitte LLP to provide advice and assistance on most tax matters and pension accounting going forward. KPMG has been appointed to advise on tax matters relating to some of our joint venture agreements;
- the Committee reviews on a regular basis all fees paid for both audit and non-audit activity, with a view to assessing the 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 is shown above; and
- the Committee reviews the external auditor's report to the Directors and the Committee confirming their independence in accordance with auditing standards.

During 2018, and following a tender, the Company instructed PwC to undertake reviews of the Group's working capital and FPPP to support the Company's application to transfer its shares to the premium segment of the Official List. PwC's engagement was reviewed and approved by the Chair of the Committee, Finance Director and Company Secretary, given PwC's previous work during the Company's standard listing process in 2015. PwC's appointment was also endorsed by Canaccord Genuity Limited, which acted as sponsor in connection with the step-up.

Resolutions to re-appoint PwC as the Company's external auditors and to authorise the Directors to determine its remuneration will be proposed at the forthcoming AGM.

Risk review and management

During the year, the Committee undertook reviews of the Group Risk Register in February and September, ahead of the announcements of the Company's preliminary and interim results. With effect from the start of 2019 it has been agreed that risk review and management will revert to the full Board which will undertake quarterly reviews of the same, together with an annual review of Board risk appetite. The outcome of the Board's latest risk review is explained in detail in the "Managing Risk" section of the Strategic Report on pages 34 to 44.

Internal controls and processes

In the 18 months prior to publication of this Report, the Group's internal controls and processes have been subject to the following external reviews:

- During the second half of 2017, the Group instructed KPMG to undertake an external review of its principal financial controls and processes. KPMG reported to the Committee on the outcome of that review at the Committee's scheduled meeting in November 2017. KPMG identified no major deficiencies in the controls it had reviewed but did identify some opportunities to improve efficiencies and risk mitigation.
- Ahead of its step-up to the premium segment of the Official List, the Company instructed PwC to undertake an FPPP review, which covered a range of internal controls and processes (not solely financial) including: governance framework; forecasting and budgeting; management reporting; significant transactions; strategic projects and initiatives; financial accounting and reporting; and IT environment. PwC's report concluded that the Company required relatively few adjustments to its existing FPPP environment to be ready for the move to the premium list. Nevertheless, it did make some recommendations for improvements to the Company's framework of internal controls and processes. These recommendations included: formalising the Company's policies and procedures in connection with its disclosure obligations under the Market Abuse Regulation (see further below); updates to the Group's whistleblowing policy and improvements to associated procedures (see further below); documentation of certain finance procedures in the form of a finance manual; establishment of an IT disaster recovery plan and wider business continuity plan (see further below); and the recruitment of additional resources into the finance team. Certain of these workstreams had already been planned for 2018.

All of the recommendations from both external reviews have been implemented.

The Group does not currently have an internal audit function but the Committee reviews, at least annually, whether such a function ought to be established, most recently at its scheduled meeting in November 2018. The Committee maintained its view that the structure of, and processes within, the business were neither sufficiently large, nor complex, to merit a separate internal audit function. The Committee did, however, conclude that the rolling programme of annual external reviews of controls ought to be maintained. During 2018 this extended to reviews of cyber and information security undertaken by NCC (see further below) and in 2019 this will include an external review of the Group's half-year and year-end valuation processes. The absence of an internal audit function was noted, but rated as low risk, by PwC during its FPPP review, due to the Group's ongoing programme of external reviews and scrutiny.

AUDIT COMMITTEE REPORT
continued

Compliance and whistleblowing

Ahead of the Company's step-up to the premium segment of the Official List and in accordance with recommendations in PwC's FPPP report, the Company implemented certain measures to formalise policies and procedures for compliance with its disclosure obligations under MAR. These included the establishment of an inside information policy and a Disclosure Committee, comprising the Chief Executive, Finance Director and Company Secretary (in close liaison with the Chairman) who had hitherto monitored and reviewed the Company's disclosure obligations on a regular but informal basis.

The Audit Committee remains responsible for monitoring the effectiveness of, and compliance with, the Group's policies and procedures for combating modern slavery, bribery and corruption, and preventing the facilitation of tax evasion. This includes an annual review of the Group's register of gifts, sponsorship and hospitality, undertaken at the Committee's scheduled meeting in June.

The Committee also took the lead in reviewing the policies, procedures and agreements implemented by the Group to ensure its compliance with the GDPR, ahead of its coming into force on 25 May 2018. From 2019, the Committee will undertake an annual review of the Company's ongoing compliance with the GDPR.

Further information on these policies, procedures and initiatives appear in the Strategic Report at pages 64 and 65.

A revised whistleblowing policy and process were approved by the Committee in May 2018 ahead of the Company's step-up to the premium list. There were no whistleblowing claims reported to the Committee during 2018.

Cyber and information security

As trailed in the 2017 Annual Report and Financial Statements, external reviews were undertaken in 2018 of the Group's cyber and information security resilience. Both reviews were undertaken by NCC, a global expert in cyber security. The cyber security review, which included a simulated penetration test, was undertaken in the second quarter of 2018. The results, including technical recommendations for improving the resilience of the Group's IT network, were presented at the Committee's scheduled meeting in June. All recommendations have been implemented or, in the case of certain low risk measures and following further consultation with NCC, marked as closed. The strategic review of the Group's information security and IT function was undertaken in the third quarter of 2018 and the results were presented at the Committee's meeting in November. NCC's report made a series of recommendations, including the appointment of an information security manager, initially on an interim basis. That appointment has now been made and the information security manager is taking the lead in implementing all other recommendations from NCC's report. Updates are given at each of the Committee's meetings on the Group's progress in implementing these recommendations. This will continue until all recommendations have been addressed.

Business continuity

During 2018 the Group instructed:

- Marsh to establish a Business Continuity Plan ("BCP"), designed to guide the Group's response to a physical incident, such as: loss or material damage to head office; severe weather incidents; extensive loss of personnel; and/or loss of IT equipment and systems; and
- NCC to establish an Incident Response Plan ("IRP"), designed to guide the Group's response to loss or corruption of data or our IT network, most likely due to a cyber-attack.

Those plans were presented to, and approved by, the Committee in November. Copies of the plans, and briefings, have been given to those with a role to play under each plan. A desktop test of the BCP will be undertaken during the first half of 2019. A desktop test of the IRP will be undertaken in the second half of 2019 once progress has been made in implementing the recommendations from NCC's strategic report.

Insurance programme

Following detailed reviews of the Group's insurance programme ahead of the 2017 and 2018 renewals, which led to a series of insurance cover extensions, the Group's insurance programme was renewed on 1 January 2019, with the following minor changes:

- business interruption insurance cover was increased, reflecting advice from Marsh; and
- cyber insurance cover was taken out, reflecting a recommendation from NCC.

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

Andrew Cunningham
Chair of the Audit Committee
16 April 2019

Nufarm, Bradford, June 2018

DIRECTORS' REMUNERATION REPORT

Members and attendance at meetings during the year ended 31 December 2018	
Lisa Clement Chair and Senior Independent Director	7(7)
Anthony Donnelly Independent Non-Executive Director	7(7)
Steven Underwood* Non-Executive Director (not independent)	5(7)
Alastair Lyons** Chairman (independent)	5(5)
Jonson Cox** Chairman (not independent)	2(2)

*On 1 April 2019 Angela Bromfield, a newly appointed Non-Executive Director, joined the Committee and Steven Underwood stood down from the Committee

**Jonson Cox retired as Chairman of the Board and stepped down from the Committee on 6 March 2018. On 7 March 2018 Alastair Lyons succeeded him as Chairman and joined the Committee

Key responsibilities

- Determines and agrees with the Board the Company's remuneration policy for the Executive Directors
- Determines the salaries, bonuses, long-term incentive arrangements, pension arrangements, other benefits and contract terms of the Executive Directors and members of the Investment Committee
- Reviews the remuneration approach adopted for all employees
- Approves grant of options for Group Save-As-You-Earn ("SAYE") plan
- Will approve grant of options for SAYE plan and Share Incentive Plan ("SIP") awards, if the SIP is approved by shareholders at the AGM
- Responsible for changes to certain Group-wide employment policies

The Committee's terms of reference, which were last reviewed and updated in December 2017, are set out on the Company's website and can be found at www.harworthgroup.com/investors/governance. During 2019 the Committee's terms of reference will be updated to reflect the 2018 Code. The Board undertakes an annual evaluation of the Committee's performance to ensure its continued ability to discharge its key responsibilities. In 2018 this took the form of an external Board evaluation undertaken by Ian White (further details are in the Statement of Corporate Governance on pages 88 to 90).

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 2018.

This report is divided into 3 sections: this Chair's introduction, the proposed Directors' Remuneration Policy ("Policy") for which we will be seeking shareholder approval at the 2019 AGM and the Annual Remuneration Report, which explains how the Policy was implemented in 2018 and how it will be implemented in 2019.

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 Report) (Amendment) Regulations 2013 (the "Regulations"). It also meets the requirements of the UK Listing Authority's Listing Rules, the Disclosure and Transparency Rules and the principles of the 2016 Code (which applied during the year under review) on a comply or explain basis.

In accordance with the Regulations, the following sections of the Annual Remuneration Report are subject to audit: the single total figure of remuneration for Directors and accompanying notes (pages 112 and 113); scheme interests awarded during the year (page 116); payments to past Directors (page 117); and the statement of Directors' shareholdings and share interests (page 119). The remaining sections of the report are not subject to audit.

Our New Remuneration Policy

The Company's current Policy, introduced in 2016, was designed to support the Group's strategy and help retain and incentivise a management team with the requisite skills, knowledge and experience to deliver strong, long-term, sustainable growth for shareholders.

Whilst the fundamental strategy of the Group has remained relatively unchanged over the last three years, the Committee believes that amendments to our Policy would better support our core reward principles (set out in the table below). Our business thrives on long-term decision making with strategies in place and decisions made today which will benefit Shareholders over a much longer timeframe than is reflected over a typical three-year performance period under a classic "LTIP". The setting of appropriate long-term performance targets is a challenge given the cyclical nature of Harworth's business. So too is finding an appropriate comparator group for TSR purposes given the unique nature of the business, even within the real estate sector. Whilst the Committee does not consider the existing Policy to be "broken" per se, it does consider that the classic LTIP structure is not the best approach for long-term incentivisation. With that in mind, the Committee undertook a detailed review of the existing Policy in the second half of 2018. A key objective was to identify an approach which can be cascaded throughout our senior management team, so that we may be consistent in the way we use share awards to incentivise our business leaders for the long-term. We concluded that a Restricted Share Plan is a far better mechanism to support our Group strategy, culture and core reward principles. As illustrated below, in-flight LTIP awards are expected to vest at a similar level and we are, therefore, not turning to a Restricted Share Plan because of poor vesting outcomes.

Remuneration Committee activities in 2018

The activities of the Remuneration Committee during the year ended 31 December 2018 included:

Month	Activities	Policy	Remuneration	All employees	Advisers
January	2018 bonus: financial targets and personal objectives		✔		
February	2017 bonus scoring		✔		
	LTIP: vesting and awards		✔		
	SAYE			✔	
July	Initiation of tender for appointment of recruitment consultants				✔
September	Appointment of recruitment consultants				✔
October	Remuneration Policy review	✔			
November	Remuneration Policy review	✔			
December	Annual salary review			✔	
	Annual review of Group-wide benefits			✔	

Core reward principles	
Rewarding long-term value creation in a cyclical business	Bringing into focus sustainable growth via our strategic priorities. Recognising the extended timeframes of our business model and long-term effects of our decision making, delivered in a way which reduces the impact of cyclical volatility on reward outcomes and, therefore, facilitates retention through the cycle
Supporting stewardship	Encouraging and enabling substantial long-term share ownership for all employees, supporting the long-term nature of our business and its returns
Supporting our culture	Focusing incentives on Group performance to create collective accountability and delivering a reward structure across all levels of management
Simplification	A simple and transparent framework which can be readily cascaded

Following a detailed review and a Shareholder consultation, the Committee is proposing the following changes to the Policy to support our core reward principles.

Changes to Policy	Rationale
Introduction of a Restricted Share Plan to replace the current Long Term Incentive Plan for future awards	To reflect our overarching reward principle of rewarding long-term value creation in a cyclical business and to support stewardship
Introduction of overarching Remuneration Committee discretion to Restricted Share Plan rules	To reduce vesting outcomes where the Committee considers that they would not otherwise be representative of the underlying business performance over the vesting period
Increase shareholding guidelines for Executive Directors from 100% to 200% of salary	To emphasise alignment with shareholders and the importance of long-term share ownership
Introduction of a post-employment shareholding requirement	To support stewardship and the quality of the long-term decision making of our executives
Flexibility to increase the normal annual bonus policy maximum from 100% to 150% of salary (and only with suitably stretching targets)	Annual bonus opportunity for 2019 will be equal to 100% of salary. Although the Committee has no intention of increasing maximum opportunity currently, flexibility has been provided in order to support succession planning and potential changes to business needs
Extension of malus and clawback provisions	To reflect current best practice and our adoption of the provisions of the 2018 Code with respect to the ability to recover variable remuneration
Introduction of a Group SIP	To encourage wider share ownership across all our employees and support stewardship

We engaged widely with Shareholders as part of this process and their feedback was substantially supportive with an understanding of our rationale for change and a recognition of how the new Policy is more suited to our business profile.

DIRECTORS' REMUNERATION REPORT
continued

Restricted Share Plan

The proposed Restricted Share Plan has the following design features:

- awards of 50% of salary. This compares to the current LTIP maximum opportunity of 100% of salary, representing a 50% reduction in face value at grant;
- the Committee has taken into account the expected vesting levels of in-flight LTIP awards when determining the reduction in face value at grant. The actual outcome for the 2016 LTIP which vested with respect to 31 December 2018 is 51.83% of maximum opportunity and for the following two grants the expected average vesting is c.55% of maximum opportunity. The Committee has been unable to consider historic vesting levels as the first LTIP awards were granted in 2016 following the Company's re-listing in 2015; and
- vesting will be phased over a five year period, with 33% vesting after three years, 33% after four years and 33% after five years. A holding period will apply such that no shares can be sold until after the end of the five-year period.

The Restricted Share awards will be subject to underpins which reflect performance over the vesting periods. Further details are provided on page 118. Furthermore, the Committee has discretion to reduce vesting outcomes where it considers that they would not otherwise be representative of the underlying business performance over the vesting period. The Committee will disclose how performance underpins and underlying business performance over the vesting period has been taken into account at the time of vesting.

Conventional best practice share plan provisions regarding leaver and change of control arrangements have been included in addition to the extension of malus and clawback provisions, as discussed above.

Executive Director changes

As announced on 1 April 2019, Andrew Kirkman will leave the business on 30 June 2019. Andrew's remuneration arrangements in respect of his cessation of employment are as follows:

Salary pension and benefits	Andrew will continue to receive his salary, benefits and pension provision until 30 June 2019
2019 bonus	Andrew will not be eligible to earn a bonus for the period of his service in 2019
Unvested LTIP awards	Andrew was employed for the entirety of the three-year performance period in respect of his 2016 LTIP award and he will leave the business after 25 May 2019, being the vesting date. Therefore, the vesting outcome of his 2016 LTIP awards will be determined as normal based on achievement against the relevant performance metrics (see pages 115 and 116). Andrew's 2017 and 2018 LTIP awards will lapse in full on 30 June 2019
2019 share awards	Andrew will not be eligible to be granted an award in 2019 under either the Restricted Share Plan or the Share Incentive Plan

Salary increases for 2019

The salaries of the Chief Executive and the Finance Director have been increased by 2.5% to £316,250 and £240,880 respectively, in line with the median salary increases applied across the wider workforce.

Bonus

The annual bonus will continue to operate on the basis of a combination of financial performance (including NNNAV growth, sales volume, acquisitions and profit excluding value gains) and personal objectives. The financial performance targets and personal objectives for the 2019 bonus will be reported in the 2020 Annual Report. The bonus entitlement for the Chief Executive was exceptionally set at 125% last year. The bonus entitlement for the Chief Executive will be 100% in 2019. As noted above, the Finance Director will not be eligible to earn a bonus for the period of his service in 2019.

Restricted Share Plan

As explained above, subject to approval of the new Policy and the Restricted Share Plan Rules at our 2019 AGM, awards under the Restricted Share Plan will be made to our Chief Executive and other members of the senior management team. As noted above, the Finance Director will not be granted an award under the Restricted Share Plan. Details are set out on pages 118 and 119.

Chairman and Non-Executive Directors

The fees for the Chairman (£160,000) have remained unchanged. The basic fees for Non-Executive Directors have increased from £42,500 to £45,000 from the start of 2019, having not been reviewed since 2015. Andrew Cunningham received an additional fee of £7,500 for chairing the Audit Committee, and I received additional fees of £7,500 for chairing the Remuneration Committee and £7,500 as Senior Independent Director. The Committee considers that NED fees appropriately reflect the work and responsibilities associated with each role.

Gender pay gap reporting

Although not obliged to publish a gender pay gap report, the Company acknowledges the challenge it faces to improve gender and ethnic diversity at all levels of the business and wants to be transparent about the extent of that challenge and the progress it is making in meeting it. As such, we have again decided to report voluntarily on the Company's gender pay gap within the Our People section of this Report at pages 52 and 53.

Employee remuneration and engagement

The Committee ensures it is aware of the remuneration and benefits of the wider workforce when setting remuneration packages of Executive Directors and Investment Committee members.

Over half of our employees currently participant in the Group's all-employee SAYE plan. We are also seeking shareholder approval at the AGM to implement an all-employee SIP to encourage more employee share ownership.

The Committee currently operates a deferred share bonus plan for the senior management team outside of the Investment Committee. If approved at the AGM, those individuals will instead participate in the Restricted Share Plan.

The Board recognises the importance of engaging with, and considering the interests of, the Group's employees in its decisions. To that end, we have been implementing a series of measures to encourage and improve engagement, such as the establishment of the People Steering Group. Further details on employee engagement can be found in the Our People section of this report on pages 50 and 51.

I hope that Shareholders are supportive of our new Policy, which takes into account the 2018 Code provisions, and particularly the adoption of our Restricted Share Plan and SIP. I will be available at the AGM to respond to questions and discuss any aspect of the new Policy, Annual Remuneration Report or the Committee's activities.

Lisa Clement
Chair of Remuneration Committee
16 April 2019

Directors' Remuneration Policy

This section of the report sets out the Policy for Executive Directors which will be put to a binding shareholder vote at the 2019 AGM. Subject to shareholder approval, the Policy will come into effect from the close of the 2019 AGM.

Policy table

Function	Operation	Opportunity	Performance metrics
Base salary To recognise the individual's skills and experience and to provide a competitive base reward.	Base salaries are ordinarily reviewed annually, with reference to: salary levels for similar roles at comparable companies; to individual contribution to performance; and the experience of the Executive. Any adjustments will typically be effective 1 January in the year following review.	Any base salary increases are applied in line with the outcome of the review as part of which the Committee also considers average increases across the Group. Salary increases will generally be in line with the range of increases awarded to salaried employees (in percentage terms). In exceptional circumstances (including, but not limited to, a material increase in job size or complexity) the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain market competitive.	None
Pension To provide an opportunity for executives to build up income on retirement.	All executives are either members of the Group pension scheme or receive a cash pension allowance. Salary is the only element of remuneration that is pensionable. Executives may be permitted to sacrifice other elements of remuneration and receive an equivalent contribution to a pension scheme. Should any Executive elect to do so, any employer social security saving for the Group may also be contributed to a pension arrangement on behalf of the Executive.	10% of salary, plus the amount of any employer social security saving if an Executive sacrifices any other element of remuneration as referred to in the "Operation" column.	None
Benefits To provide benefits which are competitive in the market in which the Executive is employed.	Executives receive benefits which consist primarily of the provision of a car allowance and fuel, although can include any such benefits that the Committee deems appropriate, and the Company may make a payment in respect of any associated tax liability where the Committee considers this to be appropriate.	Benefits vary by role and individual circumstances: eligibility and cost is reviewed periodically. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially (e.g. increases in insurance premiums).	None.

DIRECTORS' REMUNERATION REPORT
continued

Function	Operation	Opportunity	Performance metrics
Annual bonus To incentivise and reward strong performance against financial and personal annual targets, thus delivering value to shareholders and being consistent with the delivery of the strategic plan.	Performance measures, targets and weightings are set at the start of the year. The scheme is based on a combination of financial performance and personal objectives. At the end of the year, the Remuneration Committee determines the extent to which targets have been achieved. Bonus payments are ordinarily delivered in cash. However, if a bonus in excess of 100% of salary is earned, the Remuneration Committee has the discretion to defer any bonus above 100% of salary into shares in the Company for up to three years, subject to malus provisions. The Remuneration Committee also has discretion to require (or to permit) the deferral into shares of any other part of a bonus. Malus (of deferred shares) and clawback (of any bonus paid) may be applied during employment or for two years post-termination in the event of misconduct, material financial misstatement, error in calculation of outcomes, a significant health and safety event or environmental incident, material corporate failure or in any other circumstance that the Committee considers appropriate. If a deferred bonus award is granted on the basis the Executive is not entitled to acquire the shares until the end of the deferral period, an additional payment (in cash or shares) may be made in respect of dividends that would have been paid on the shares subject to the award during the period beginning with the date of grant and ending with the date on which the shares can first be acquired (this payment may assume that dividends had been reinvested in Harworth shares on such basis as the Committee determines).	For Executive Directors, the normal maximum annual bonus opportunity is 100% of base salary, although the Committee has discretion to award a bonus opportunity of up to 150% of salary. For FY2019, the maximum annual bonus opportunity will be 100% of salary for each Executive Director. 50% of maximum annual bonus opportunity will be paid at Target and 100% at Maximum, with straight-line vesting between each. The Committee may set a Threshold level of performance for which no more than 10% of maximum would be paid.	Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year. The measures will include financial measures and may also include personal and/or strategic performance objectives. Financial measures will be weighted appropriately each year according to business priorities. Measures may include, but are not limited to, growth in net assets, acquisitions, sales and profit excluding value gains. No less than 75% of the annual bonus will be based on financial measures. Strategic and personal objectives are set annually to reflect the Group's annual strategic plan and individual contribution to that plan, developed in line with shareholder expectations. No more than 25% of the annual bonus will be based on strategic and/or personal objectives. Any strategic and/or personal element shall not pay out unless there is a payout under the financial element. Overall payout under the annual bonus may be subject to additional underpins, determined by the Committee at the start of the financial year. The Committee has discretion to adjust the formulaic bonus outcomes in exceptional circumstances to ensure alignment of pay with performance. Any such adjustments would be fully explained in future Remuneration Reports.

Function	Operation	Opportunity	Performance metrics
Restricted Share Plan ("RSP") To encourage and enable substantial long-term share ownership and to reflect our ethos of long term stewardship.	Annual share awards will be made in the form of conditional share awards or nil-cost options. The awards will be subject to a performance underpin explained further in the column headed "Performance metrics". An award will vest in three equal tranches following the assessment of the relevant performance underpin, which will be assessed following the end of a period of no less than three years as regards the first tranche, no less than four years as regards the second tranche and no less than five years as regards the third tranche. The first and second tranches of an award will be subject to a holding period which begins on the relevant vesting date and lasts until the vesting date of the third tranche, with the award not "released" until the end of the holding period; no holding period will apply to the third tranche of an award. The holding period will be structured as either (1) the participant not being able to acquire the shares until the end of the holding period; or (2) the participant being able to acquire shares following vesting but that, other than as regards the sale of shares to cover tax liabilities associated with the vesting or acquisition, the participant not being able to dispose of or otherwise deal with the shares acquired until the end of the holding period. If a holding period is structured on the basis that the participant is unable to acquire shares until its end, dividend equivalents (in cash or shares) may be paid on vested shares in respect of dividends that would have been paid on those shares between vesting and the date on which the shares can first be acquired. The dividend equivalents may assume the reinvestment of dividends into shares on such basis as the Committee determines. A tranche of an award under the RSP may be cancelled (if shares have not been delivered to satisfy it) or recovered from a participant (if shares have been delivered) up to the second anniversary of vesting in the event of misconduct, material financial misstatement, error in calculation of outcomes, a significant health and safety event or environmental incident, material corporate failure or in any other circumstance that the Committee considers appropriate.	The RSP provides for a normal annual award of up to 50% of salary for Executive Directors. In exceptional circumstances, such as on recruitment, awards of up to 100% of salary may be made.	Although no formal performance measures apply to any awards under the RSP, the extent to which a tranche of an award vests may be reduced by the Committee if a performance underpin assessed to the end of the financial year preceding the date of vesting is not achieved. In addition, the Committee may reduce the extent to which a tranche vests if it believes this better reflects the underlying performance of the group or participant over the relevant period, or if the Committee considers that the vesting level is not appropriate in the context of circumstances that were unexpected or unforeseen at the grant date or other relevant circumstances.

DIRECTORS' REMUNERATION REPORT
continued

Function	Operation	Opportunity	Performance metrics
Share Incentive Plan ("SIP") and Save-As-You-Earn plan ("SAYE") To motivate and to facilitate share ownership on an all-employee basis.	These plans are reviewed annually and if offered are offered to all eligible employees in accordance with their terms and applicable legislation.	An Executive Director may contribute up to £500 per month (or such other limit as may be permitted under the relevant legislation) (SAYE) and £1,800 per annum (or such other limit as may be permitted under the relevant legislation) (SIP) into these tax advantaged all-employee schemes. Under the SAYE, the per share option exercise price is set at a discount of up to 20% (or such other amount as may be permitted under the relevant legislation) to the share price when participation is offered. Under the SIP the Company may match the shares up to a 2 for 1 basis (or on such other basis as may be permitted under the relevant legislation). Under the SIP the Company may also make an award to an Executive Director of up to £3,600 of free shares in any year.	N/A

Notes to the policy table

Performance measure selection and approach to target setting

Annual bonus

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

RSP

The terms of the underpins will be determined on an annual basis taking into account the Committee's assessment of the metrics which will best reflect overall business health over the applicable vesting periods. Underpins will ordinarily be qualitative, and the Committee will use its judgement to assess "in the round" whether the level of vesting is appropriate having regard to the underpins and business performance. The underpins applying for the RSP awards to be granted in respect of the Company's FY2019 are set out on pages 118 and 119.

SAYE and SIP

SAYE options and awards under the SIP are not subject to performance conditions in line with the treatment of such awards for all employees and in accordance with the applicable tax legislation.

Variations

The Committee may vary or substitute any performance measure or RSP underpin if an event occurs which causes it to determine that it would be appropriate to do so, provided that any such variation is fair and reasonable and (in the opinion of the Committee) the change would not make the measure or underpin less demanding. If the Committee were to make such a variation, an explanation would be given in the next Remuneration Report.

Operation of share plans

The Committee will operate its current and legacy share plans in accordance with their rules. Share awards may be made in the form of conditional share awards, options (including nil cost options) or forfeitable share awards. Awards granted over shares may be settled in cash. The Company does not intend to settle awards, or dividend equivalents on awards, granted to Executive Directors in cash and would do so only where the particular circumstances make that appropriate, for example where there is a regulatory restriction on the delivery of shares. In the event of a variation of the Company's share capital or a demerger, special dividend or other event which, on the Committee's opinion may affect the price of shares, the Committee may alter the terms of awards under its share plans and the number of shares subject to those awards in accordance with the terms of the relevant plan.

Remuneration policy for other employees

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

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

Subject to its approval by shareholders, senior managers will be eligible to participate in the RSP. The terms on which they will participate, including award sizes, may vary from the terms on which Executive Directors participate, including having regard to organisational level, but will be consistent with the terms of the RSP approved by shareholders.

Shareholding guidelines

The Committee continues to recognise the importance of aligning Executive Directors' interests with shareholders' through building up a significant shareholding in the Company. Shareholding guidelines are in place that require Executive Directors to acquire a holding equivalent to 200% of base salary. Until the relevant shareholding levels are acquired, 50% of any shares vesting to the relevant Director under the RSP (post-payment of tax) are required to be held. Shares subject to LTIP or RSP awards which have vested but which remain subject to a holding period and shares subject to any deferred bonus award count towards the guidelines on a net of assumed tax basis. Details of the Executive Directors' current personal shareholdings are provided in the Annual Report on Remuneration.

Reflecting best practice, the Committee has adopted, with effect from 1 January 2019, a post-cessation shareholding requirement. This requires that for the first 12 months following cessation, an Executive Director must retain such number of his or her "relevant shares" as have a value (as at cessation) equal to half of the shareholding guideline that applies during service (currently 100% of base salary, based on a guideline during service of 200% of salary), with that requirement tapering down to 0% over the following 12 months. If the Executive Director holds less than the required number of "relevant shares" at any time, he or she must retain the "relevant shares" he or she holds. Shares which the Executive Director has purchased or which have been acquired pursuant to awards granted before 1 January 2019 are not "relevant shares" for these purposes. Shares subject to RSP awards which have vested but not been released, shares subject to released RSP awards which have not been exercised, and shares subject to deferred bonus awards count towards the post-cessation guideline on a net of assumed tax basis. Unless the Committee determines otherwise, when considering the extent to which this requirement is satisfied, an Executive Director or former Executive Director shall be deemed to have disposed of shares which are not "relevant shares" before any "relevant shares" that person holds.

Non-Executive Director remuneration

Non-Executive Directors are appointed for an initial term of three years which rolls forward on an annual basis, subject to the Non-Executive Directors' re-election at each Annual General Meeting. The appointment and re-appointment and the remuneration of Non-Executive Directors are matters reserved for the full Board.

Details of the Non-Executive Directors' appointments are set out on pages 74 and 75.

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

Full terms and conditions for each of the Non-Executive Directors are available at the Company's registered office during normal business hours and will be available at the AGM for 15 minutes prior to the meeting and during the meeting.

Function	Operation	Opportunity	Performance metrics
Fees and benefits To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company.	Fee levels are ordinarily reviewed annually, with any adjustments typically effective 1 January in the year following review. The fees of the Chairman are determined by the Committee, whilst the fees of the other Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's Committees. Fee levels are benchmarked against similar roles at comparable companies. Time commitment and responsibility are taken into account when reviewing fee levels. The Non-Executive Directors may be eligible to receive benefits linked to the performance of their duties, including but not limited to travel and other expenses, and the Company may make a payment in respect of any associated tax liability where the Committee considers this to be appropriate.	Non-Executive Director fee increases are applied in line with the outcome of the annual fee review. Fees for the year commencing 1 January 2019 are set out in the Annual Remuneration Report. Fee levels will next be reviewed during 2019, with any increase effective from 1 January 2020. It is expected that increases to Non-Executive Director fee levels will be in line with salaried employees over the life of the policy. However, in the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level. Where benefits are provided to Non-Executive Directors they will be provided at a level considered to be appropriate taking into account the individual circumstances.	None.

DIRECTORS' REMUNERATION REPORT
continued

Pay for performance scenarios

The chart below provides an illustration of the potential future reward opportunities for Owen Michaelson, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum', along with an illustration assuming a 50% increase in the share price for the purposes of the RSP award.

Potential reward opportunities are based on Harworth's remuneration policy, applied to Mr Michaelson's base salary effective 1 January 2019. The annual bonus and RSP are based on the level of maximum opportunities applied in 2019. RSP values are based on the face value at award rather than vesting (other than as regards that element of the charts assuming a 50% increase in the share price for the purposes of the RSP award).

No chart has been included in respect of Andrew Kirkman, recognising that he will leave the business on 30 June 2019 and will not stand for re-election at the 2019 Annual General Meeting.

The "minimum" scenario reflects base salary, pension and benefits (i.e. fixed remuneration) which are the only elements of Mr Michaelson's remuneration package not linked to performance. Base salary and pension (10% of salary) as at 1 January 2019 as set out on page 118, benefits are based on the value of such benefits in FY2018 which are taken from the single total figure remuneration table on page 112.

The "on-target" scenario reflects fixed remuneration as above, plus bonus payout of 50% of maximum annual bonus opportunity (50% of salary for FY2019) and RSP vesting in full (50% of salary for FY2019).

The "maximum" scenario reflects fixed remuneration as above, plus full payout of all incentives (annual bonus of 100% of salary and RSP vesting in full 50% of salary for FY2019).

The final scenario is based on the same assumptions as the "maximum" scenario, but also assumes, for the purposes of the RSP element of the chart, that the share price increases by 50%.

Approach to recruitment remuneration

External appointment

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

Component	Approach	Maximum annual grant value
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases subject to the individual's development in the role	
Pension	New appointees will receive pension contributions or an equivalent cash supplement in line with the existing policy	
Benefits	New appointees will be eligible to receive benefits which may include (but are not limited to) the provision of a company car or cash alternative and fuel allowance and any necessary relocation expenses	
Annual bonus	The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal element will be tailored to each executive	150% of salary in the first year following recruitment
RSP	New appointees will be eligible to participate in the RSP, as described in the policy table	100% of salary in the first year following recruitment

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

Other elements of remuneration may be included in appropriate circumstances, such as:

- an interim appointment being made to fill an Executive Director role on a short term basis (including if exceptional circumstances require that the Chairman or other Non-Executive Director takes on an executive function); or
- if an Executive Director is recruited at a time in the year when it would be inappropriate to provide an annual bonus or long term incentive award for that year. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.

However, this discretion will not be used to offer non-performance related incentive payments (for example a "guaranteed sign-on bonus") and the maximum level of variable remuneration which may be granted (excluding any "buy-out" award) is 250% of salary.

Internal promotion

In cases of appointing a new Executive Director by way of internal promotion, the Remuneration Committee and Board will be consistent with the policy for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements. The Remuneration policy for other employees is set out on page 107. Incentive opportunities for below Board employees are typically no higher than Executive Directors, but measures may vary.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Remuneration Committee will utilise the policy as set out in the table on page 107. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director and /or as Chair of a Board Committee.

Service contracts and treatment for leavers and change of control

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee. Each of the current Executive Directors has a rolling service contract requiring six months' notice of termination on either side. Such contracts contain no specific provision for compensation for loss of office, other than an obligation to pay for any notice period waived by the Company, where pay is defined as salary plus benefits only. Executive Director service contracts are available to view at the Company's registered office. The Remuneration Committee may offer a notice period of up to 12 months (on either side) for any incumbent Executive Director or any Executive Director appointed after the date on which this Policy becomes effective.

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

DIRECTORS' REMUNERATION REPORT
continued

Reason for leaving	Calculation of vesting/payment
Annual Bonus	
Leaving other than as a "Good Leaver"[1]	Bonus for year of departure: No annual bonus payable Deferred bonuses: Lapse
"Good Leaver"[1]	Bonus for year of departure: Cash bonuses will typically be paid to the extent that financial and individual objectives set at the beginning of the plan year have been met. Any resulting bonus will typically be pro-rated for time served during the year. The Committee retains discretion to waive time pro-rating in appropriate circumstances. Deferred bonuses: Typically vest on the normal vesting date subject, if the Committee so determines, to a reduction to reflect the proportion of the deferral period that has elapsed at cessation. The Committee has discretion to vest the awards earlier.
Change of Control	Bonus for year of relevant event: Cash bonuses will typically be paid to the extent that financial and individual objectives set at the beginning of the plan year have been met. Any resulting bonus will typically be pro-rated for time to the relevant event. The Committee retains discretion to waive time pro-rating in appropriate circumstances. Deferred bonuses: Vest on occurrence of the relevant event.
RSP	
Leaving before vesting other than as a "Good Leaver"[1]	If a participant holding an unvested tranche of an RSP award resigns or leaves for another reason which is not a "good leaver" reason, it will ordinarily lapse
"Good Leaver"[1] before vesting	If a participant ceases employment as a "good leaver" while holding an unvested tranche of an RSP award, that tranche will continue and vest following the end of the ordinary vesting period, subject to the application of the underpin in the ordinary way and, unless the Committee determines otherwise, a reduction to reflect the proportion of the first three years of the underpin assessment period that has elapsed at the date of cessation. The unvested tranche will ordinarily be released following the end of the holding period. The Committee has discretion to vest and release any unvested tranche at cessation or to release any unvested tranche as soon as it vests.
Cessation after vesting	If a participant ceases employment while holding a tranche of an RSP award which is subject to a holding period, it will ordinarily continue and be released following the end of the holding period. The Committee has discretion to release the tranche at cessation. However, if a participant ceases employment due to dismissal for misconduct during the holding period applying to a tranche, that tranche will lapse.
Change of control	In the event of a change of control of the Company or other relevant corporate event, unvested share awards under the RSP will usually vest. In the case of any unvested tranche of an RSP award, the number of shares in respect of which the tranche vests shall be determined by the Committee taking into account whether it is appropriate to reduce vesting to reflect the extent to which the underpin is not satisfied at the date of the relevant event, or the extent to which the Committee determines it would have been satisfied at the end of the ordinary assessment period, and, unless the Committee determines otherwise, the proportion of the first three years of the underpin assessment period that has elapsed at the date of the relevant event. Any tranche of an RSP award which has vested but which remains subject to a holding period will be released in full.

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

Options under the SAYE plan and awards under the SIP may vest and, where relevant, be exercised in the event of a cessation of employment or change of control in accordance with the rules of the relevant plan. The plans do not permit the exercise of discretion and, accordingly, the treatment for Executive Directors will be the same as for all other participants.

The terms applying to any "buy-out" award on cessation of employment would be determined when the award was granted.

The Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees in connection with his cessation of office or employment.

External appointments

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

Legacy arrangements

The Committee reserves the right to make remuneration payments and payments for loss of office, and to exercise any discretion available to in relation to any such payment, notwithstanding that they are not in line with the Policy set out above:

- where the terms of the payment were agreed before the Policy came into effect; and
- where the terms of the payment were agreed at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a director of the Company.

For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted.

Any such payment shall include the satisfaction of any awards granted under the Company's LTIP.

Consideration of conditions elsewhere in the Company

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

Consideration of shareholder views

The Remuneration Committee maintains a regular dialogue with its major shareholders. In late 2018 and early 2019, we conducted a shareholder consultation regarding this Policy. Shareholders have been substantially supportive of the proposals for executive directors' remuneration and the introduction of a new RSP in place of the existing LTIP. The Committee will continue to monitor trends and developments in corporate governance, market practice and shareholder views to ensure the structure of the executive remuneration remains appropriate.

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;
- Head of HR and Organisation Development; and
- Representatives of Deloitte LLP and Kepler Associates (see further below).

No individuals are involved in decisions relating to their own remuneration. The minutes of Committee meetings are circulated to all Directors, where appropriate.

During the year under review, the Committee received advice on executive remuneration matters from Deloitte LLP ("Deloitte") and Kepler Associates. Deloitte was appointed by the Committee on 18 October 2018 as its independent adviser following a competitive selection process. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under its Code of Conduct in relation to executive remuneration matters in the UK. Prior to Deloitte's appointment, the Committee retained the services of Kepler Associates, a brand of Mercer and part of the MMC Group of companies, which is a signatory to the Code of Conduct. The Committee has satisfied itself that both Deloitte and Kepler Associates provided objective and independent advice during 2018.

Deloitte's fees in relation to remuneration advice provided to the Committee during 2018 were £20,000 plus VAT, charged on a time and expenses basis. Deloitte also provided advice to the Group during 2018 in relation to corporate tax, pensions, accounting and share plans. The Committee did not consider that these engagements impaired Deloitte's independence.

The fees of Kepler Associates in relation to remuneration advice provided to the Committee during 2018 were £18,570 plus VAT, charged on a time and expenses basis. Kepler Associates provided no other services to the Group during 2018. However, the Company does retain Marsh, which is also a member of the MMC Group of companies, as its insurance brokers. The Committee considered that appointment and concluded that it did not impair the independence of Kepler Associates during their tenure.

External appointments

On 26 September 2018, Owen Michaelson was appointed as a Non-Executive Director of Covanta Holding Corporation, which is listed on the New York Stock Exchange. He is entitled to retain his fees for this Directorship. The Board was satisfied that such appointment would not compromise his time commitment to Harworth. Owen Michaelson is also a member of the Board of the Sheffield City Region Local Enterprise Partnership. He receives no fee for this appointment, it requires a limited time commitment, and it helps to promote both the profile and relationships of the Group. Both appointments were approved by the Board at the time.

Single total figure of remuneration for Executive Directors

The table below sets out remuneration received by each Executive Director of the Company for the year ended 31 December 2018 with a comparison to the previous year, representing payments received in respect of the period during which each individual was a Director of the Company.

	Owen Michaelson		Andrew Kirkman	
	2018 £	2017 £	**2018 £**	2017 £
Salary	**308,525**	301,000	**235,000**	205,000
Taxable benefits(1)	**15,339**	12,810	**13,070**	13,669
Single-year variable(2)	**330,122**	242,681	**198,600**	128,600
Multiple-year variable(3)(4)	**193,136**	805,475	**131,586**	175,740
Pension benefit(5)	**30,853**	30,100	**23,500**	20,500
Total	**877,975**	1,392,066	**601,756**	543,509

(1) Taxable benefits consist primarily of car and fuel allowance. For 2018 these were £13,959 for Owen Michaelson (£11,826 for 2017) and £12,002 for Andrew Kirkman (£12,879 for 2017). Other benefits included life assurance and health insurance.

(2) Annual bonus payments for performance during 2018 were received by Owen Michaelson and Andrew Kirkman, details of which are included below in "Incentive outcomes for year ended 31 December 2018". The annual bonus for 2018 was paid in March 2019.

(3) The Harworth Estates 2012 LTIP, which was a cash-based LTIP scheme implemented in 2013 with a five year performance period, vested on the approval of the financial statements for the year ended 31 December 2017. Payments were made in March 2018. This was a one-off scheme and no previous or future payments have been or will be made under the scheme.

(4) The 2016 LTIP awards will vest based on performance periods ending during 2018, details of which are included below in "LTIP awards vesting in respect of the year ended 31 December 2018". Awards will vest on 25 May 2019.

(5) Owen Michaelson and Andrew Kirkman participated in the Company's defined contribution scheme, in relation to which the Company contributed 10% of salary.

Single total figure of remuneration for Non-Executive Directors

The table below sets out remuneration received by each Non-Executive Director of the Company for the year ended 31 December 2018 with a comparison to the previous year, representing payments received in respect of the period during which each individual was a Director of the Company.

	Base fee		Committee chair fees		SID fee		Total	
	2018 £	2017 £	**2018 £**	2017 £	**2018 £**	2017	**2018 £**	2017 £
A. Lyons CBE(1)	**131,077**	–	**–**	–	**–**	–	**131,077**	–
J. Cox(2)	**40,000**	160,000	**–**	–	**–**	–	**40,000**	160,000
L. Clement	**42,500**	42,500	**7,500**	7,500	**7,500**	3,000	**57,500**	53,000
S. Underwood(3)	**42,500**	42,500	**–**	–	**–**	–	**42,500**	42,500
A. Donnelly	**42,500**	42,500	**–**	–	**–**	–	**42,500**	42,500
M. Bowes	**42,500**	42,500	**–**	–	**–**	–	**42,500**	42,500
A. Cunningham	**42,500**	42,500	**7,500**	7,500	**–**	–	**50,000**	50,000

(1) Appointed as Chairman of the Board, with effect from 7 March 2018.

(2) Stepped down from the Board, with effect from 31 March 2018.

(3) The fees for Steven Underwood are paid to Peel Management Limited.

Incentive outcomes for year ended 31 December 2018

Annual bonus

Annual bonuses for 2018 were paid to both Executive Directors based on a combination of financial performance and personal objectives. Maximum annual bonus opportunities were 125% of salary for Owen Michaelson and 100% of salary for Andrew Kirkman. Performance was measured based 76% on financial and 24% on personal performance for Owen Michaelson, and 75% on financial and 25% on personal performance for Andrew Kirkman. Performance against targets and subsequent vesting of 2018 annual bonuses are set out in the tables below.

As was reported in last year's Remuneration Report, Owen Michaelson's bonus opportunity was increased to 125% of salary for 2018 only to reflect the additional stretch in the targets. Andrew Kirkman's bonus opportunity was increased to 100% of salary in recognition of his additional responsibilities for M&A and large-scale (portfolio) acquisitions.

DIRECTORS' REMUNERATION REPORT
continued

Annual Remuneration Report (continued)

Financial performance outcomes

No bonus was paid for achieving below Target, 50% of bonus was paid for achieving Target, increasing on a straight-line basis to 100% of bonus paid for achieving Stretch performance.

O. Michaelson

Measure	Weight (% of financial performance)	Performance targets (£'000s) 'Target'	Performance targets (£'000s) 'Stretch'	Actual performance	Vesting outcome
NNNAV gains	47%	42,500	57,950	58,100[(1)]	100%
Sales volume	12%	63,900	70,290	95,300[(2)]	100%
Acquisitions (strategic development of the business)	12%	HY – 30,000 FY – 60,000	Target plus 5-year strategic plan demonstrating stretch in forecast returns[(3)]	HY – 52,588[(4)] FY – 61,150[(4)]	73%
Profit excluding value gains	8%	2,200	3,000	3,050[(5)]	100%
Acquisitions – super-stretch performance	21%		HY – 35,000 FY – 70,000	HY – 52,588[(4)] FY – 61,150[(4)]	50%[(6)]
Total vesting on financial performance outcomes	76% weighting				86.3%

A. Kirkman

Measure	Weight (% of financial performance)	Performance targets (£'000s) 'Target'	Performance targets (£'000s) 'Stretch'	Actual performance	Vesting outcome
NNNAV gains	60%	42,500	57,950	58,100[(1)]	100%
Sales volume	15%	63,900	70,290	95,300[(2)]	100%
Acquisition (strategic development of the business)	15%	60,000	Target plus 5-year strategic plan demonstrating stretch in forecast returns[(3)]	HY – 52,588[(4)] FY – 61,150[(4)]	73%
Profit excluding value gains	10%	2,200	3,000	3,050[(5)]	100%
Total vesting on financial performance outcomes	75% weighting				96%

(1) This NNNAV figure includes the promote fee of £6.8m paid by M&G to Harworth upon the letting of LN175 at Logistics North. Whilst accounting treatment of this fee recognised it within PEVG, the deal structure was put in place to secure additional profit share by the delivery of a direct development with M&G and, as such, it is more appropriate to treat it as a value gain for the purpose of bonus performance outcomes

(2) This sales figure includes internal sales for direct development and sales by joint ventures

(3) This stretch in this objective was designed to incentivise the executive and wider senior management team to identify initiatives for elevating forecast returns over the strategic plan period. The forecasts in the strategic plan approved by the Board are commercially sensitive and so not disclosed here. The Committee exercised its judgement to award 73% for this bonus performance outcome

(4) The figures cited for acquisitions include deferred consideration payable for certain sites subject to delivery of residential plot numbers

(5) This PEVG figure excludes the promote fee of £6.8m paid by M&G to Harworth upon the letting of LN175 at Logistics North – see note (1) above for further explanation

(6) Given the importance of site acquisitions to the overall business strategy, the Committee considered it appropriate to include an additional element within Owen Michaelson's annual bonus subject to the delivery of exceptional acquisition performance. Targets were set on a half-year and full-year basis to recognise that acquiring sites earlier in the year creates scope for a more positive impact on NNNAV performance during the year. Taking into account half-year and full-year performance against targets, the Committee considered that a vesting outturn of 50% against this element was appropriate

Personal performance outcomes

Executive Director	Objectives during the year	Performance against objectives during the year	Vesting of component
O. Michaelson (24% weighting)	• Operational structure: establishment of a regional operating structure • 2019 budget: identification of initiatives to stretch forecast returns(1)	• Regional operating structure implemented effectively. Effective internal communication and engagement with staff on the operational restructuring. Good progress made on recruitment for new regional roles • Forecast returns in the 2019 budget increased when compared to strategic plan approved by the Board in December 2017(1)	83%
A. Kirkman (25% weighting)	• Strategic portfolios: identify and secure a game changing site, strategic portfolio or corporate target • Funding strategy: optimise gearing and secure necessary covenant changes to facilitate an increase in overall gearing • Fundraising: work with advisors to be transaction ready for an equity raise which also increases liquidity • Premium listing: work with advisors to secure premium listing and index inclusion • Capital allocation and appraisal: present a standard form of appraisal including sensitivity analysis with an emphasis on acquisitions	• No portfolio or corporate target secured • RCF increased to £100m with bank appetite for further lending demonstrated • Transaction ready but no equity fundraise required • Premium listing and index inclusion achieved • Plan was presented but did not meet H1 timescale and further embedding needed in the business	50%

(1) This objective was designed to incentivise the Chief Executive to identify initiatives for stretching forecast returns in 2019. The forecasts in the 2019 budget approved by the Board are commercially sensitive and so not disclosed here. The Committee exercised its judgement based on the forecast returns in the 2019 budget when compared to those in the strategic plan approved by the Board in December 2017

Overall bonus outcomes

	Financial		Personal vesting		Overall bonus outcome Sum product of weighting and vest%	
Executive	Weighting	Vesting	Weighting	Vesting	% of bonus	% of salary
O. Michaelson	76%	86.3%	24%	83%	85.6%	107.0%
A. Kirkman	75%	96.0%	25%	50%	84.5%	84.5%

The overall bonus payments were also subject to additional underpins based on the Company's health and safety record, no deficiencies or material adverse issues which materially damage the reputation or performance of the business and no covenant breach or financial irregularity. The Committee reviewed performance against these underpins and considered the underlying performance of the Group during the performance period and concluded the overall bonus outcomes to be appropriate.

Payment for that element of the Chief Executive's bonus that is attributable to 2019 forecast returns, which represents 18.69% of the overall bonus awarded to the Chief Executive, has been deferred into shares for 12 months. This will be subject to clawback if the business materially underperforms against the 2019 budget. In addition, in accordance with the Policy, the regular clawback provisions will apply to the deferred and cash elements of the annual bonus for two years following the determination of the bonus outcome.

LTIP awards vesting in respect of the year ended 31 December 2018

Awards granted on 25 May 2016 were subject to the following performance conditions over the three year period ended on 31 December 2018:

- 50% of the award was subject to the Company's absolute total return ("ATR") performance.
- 35% of the award was subject to the Company's total shareholder return ("TSR") performance relative to a peer group consisting of: Henry Boot, Inland Homes, St. Modwen, U+I, Urban and Civic.
- 15% of the award was subject to the Company's TSR performance relative to the FTSE All Share Real Estate Investment Services Index.

DIRECTORS' REMUNERATION REPORT
continued

A summary of the LTIP targets and actual performance is summarised below.

Performance condition	Weighting % award	Threshold[1]	Target[2]	Maximum	Actual performance	Vesting (% of maximum)
ATR	50%	8%	10%	14%	13.2%	85%
TSR vs peer group	35%	Median	n/a	Median + 9% growth p.a.	Below median	0%
TSR vs Index	15%	Index median	n/a	Index median + 9% growth p.a.	Median + 4.46%	62.17%

Straight-line vesting occurs between defined levels of performance

(1) 10% of maximum opportunity vests in relation to the proportion of the awards subject to ATR performance. 25% of maximum opportunity vests in relation to the proportion of the award subject to TSR performance

(2) 25% of maximum opportunity vests in relation to the proportion of the award subject to ATR performance

Vesting was also subject to the additional underpins that 30% of value created comes from disposal proceeds and that dividends are sustainable. The Committee reviewed performance against these underpins, considered the underlying performance of the Group during the performance period and concluded the proposed vesting outcome of 51.83% of maximum to be appropriate. Awards will vest on 25 May 2019. 50% of vested shares (post tax) will be subject to a two-year post-vesting holding period.

Director	Number of shares granted	Overall vesting	Number of shares vesting	Face value[1]
O. Michaelson	313,957	51.83%	162,723	£193,136
A. Kirkman	213,903	51.83%	110,865	£131,586

(1) The number of shares expected to vest multiplied by the average share price over the three-month period ending 31 December 2018 (118.69p). The LTIP awards did not accrue dividend equivalents over the vesting period

Scheme interests awarded during 2018

2018 LTIP awards

LTIP awards of 100% of salary were made in 2018 to Owen Michaelson and Andrew Kirkman under the LTIP.

Executive Director	Type of award	Date of award	Number of shares granted	Face value[1]	% receivable at threshold[2]	End of performance period
O. Michaelson	2018 LTIP	5 April 2018	280,477	£308,525	17.5%	31 December 2020
A. Kirkman	2018 LTIP	5 April 2018	213,636	£235,000	17.5%	31 December 2020

(1) Face value based on the average share price on the three trading days immediately preceding the date of grant (110p)

(2) 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.

	50% weighting		35% weighting		15% weighting	
Vesting schedule	ATR	% element vesting	TSR vs peer group[1]	% element vesting	TSR vs Index[2]	% element vesting
Threshold	8%	10%	Median	25%	Index	25%
Target	10%	25%				
Maximum	12%	100%	Median + 9% growth p.a.	100%	Index + 9% growth p.a.	100%

(1) The peer group consists of: Henry Boot, Inland Homes, St. Modwen, U+I, Urban and Civic

(2) The FTSE All Share Real Estate Investment Services Index

For Executive Directors, 50% of any vested shares (post-tax) 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.

Percentage change in CEO remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2017 and 2018 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[1] £'000		Percentage change	Bonus £'000		Percentage change
	2018	2017		2018	2017		2018	2017	
CEO Pay	309	301	2.5%	12.5	10	25%	330	243	36%
Average per employee			2.5%			0%			25%

(1) Car allowance only, as fuel and insurance benefits fluctuate according to personal circumstances

Relative importance of spend on pay

Total employee pay expenditure			Distributions to Shareholders		
2018	2017	% change	2018	2017	% change
£7.846m	£7.849m	0%	£2.9m 0.911p per share	£2.7m 0.828p per share	10%

Staff costs slightly decreased between 2017 and 2018 due to a reduction from the cash-based Harworth Estates LTIP which was a one-off scheme with a five-year performance period ending on 31 December 2017 offset by an increase in the size of the workforce.

Total dividends for the year ended 31 December 2017 were 0.828p per share, resulting in total dividends of £2.7m. Total dividends for the year ended 31 December 2018 were 0.911p per share, resulting in total dividends of £2.9m. This increase reflects the Company's progressive dividend policy. The percentage change is shown above on a per share basis.

Review of past performance

The following chart shows the TSR of the Company and the FTSE Small Cap Index over the period from the Company's relisting on 24 March 2015 to 31 December 2018. 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 (including re-investment of dividends) over the period from re-listing on 24 March 2015 to 31 December 2018:

Historical CEO remuneration

	2015 £	2016 £	2017 £	**2018** **£**
CEO single figure remuneration (£'000)	480	599	1,392	**878**
Short term incentive award as a % of maximum opportunity	**85.6%**	**90%**	**80.6%**	**85.6%**
Long term incentive award as a % of maximum opportunity	n/a	n/a	n/a[1]	**51.8%**

(1) Excludes vesting of Harworth Estates LTIP as this was a one-off scheme put in place by HEPGL in 2013.

Payment paid to past directors

During the year, no payments were made to past Directors.

Exit payments made in the year

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

DIRECTORS' REMUNERATION REPORT
continued

Annual Remuneration Report (continued)

Implementation of Executive Directors' remuneration policy for 2019

Base salary

The Committee approved the following base salary increases for 2019:

Executive Director	Annual base salary at 1 January 2018	Annual base salary at 1 January 2019	Percentage increase
O. Michaelson	£308,525	£316,250	2.5%
A. Kirkman	£235,000	£240,880	2.5%

A typical salary increase of 2.5% was awarded across the Group at the annual pay review, effective 1 January 2019.

Pension

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

Performance related annual bonus

For 2019 the Committee has approved annual bonus opportunities equal to 100% of salary for the Chief Executive, based 75% on financial measures and 25% on personal objectives. As noted on page 102, the Finance Director will not be eligible to earn a bonus for the period of his service 2019.

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 2019 will be measured against the following financial performance measures:

Executive	Weight (% of financial bonus opportunity)
NNNAV gains	50%
Acquisitions (strategic development of business)	25%
Sales volume	15%
Profit excluding value gains	10%

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

Performance targets are considered to be commercially sensitive at this time but the Committee intends that they will be disclosed in the 2019 Annual Remuneration Report.

Restricted Share Award

Subject to shareholder approval at the 2019 AGM it is proposed that Restricted Share awards will be granted to the Chief Executive at 50% of salary in 2019. Vesting will be phased over a five-year period, with 33% vesting after three years, 33% after four years and 33% after five years, although all vested shares must be held to the end of year five. As noted on page 102, the Finance Director will not be granted a Restricted Share award.

The Restricted Share awards will be subject to performance underpins which take into account the Group's financial health, the underlying performance of the business relative to the real estate market and the quality of corporate governance over the vesting periods.

Performance underpin	Description	Detail[1]
Financial health	Financial stability of the business	A breach of financial covenants in the Group's principal banking facilities
Underlying performance	Sustainability in the Group's underlying performance in a cyclical market	A material deterioration in the Group's underlying performance which departs significantly from any deterioration across the real estate sector including, but not limited to, by reference to share price, dividend and/or EPRA NNNAV
Corporate governance	Avoidance of governance and health and safety failures	A material failure in governance or an act resulting in significant reputational damage and/or material financial loss to the Group. This includes giving consideration to any successful prosecutions in relation to health and safety

(1) The Committee has discretion to make a downward adjustment to awards if any of these events occur during the vesting periods

Furthermore, the Committee has discretion to reduce the vesting outcome if it is not deemed to reflect appropriately underlying business performance over the vesting period.

The Committee will disclose how performance underpins and underlying business performance over the vesting period have been taken into account at the time of vesting.

Implementation of Non-Executive Director remuneration policy for 2019

- The Chairman of the Board receives a fee of £160,000 per annum, unchanged from 2018.
- Non-Executive Directors receive a base fee of £45,000 per annum, an increase of £2,500 (5.8%) from 2018.
- 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, unchanged from 2018. No additional fee is paid to the Chairman for chairing the Nomination Committee.
- A further additional fee of £7,500 is paid to Lisa Clement as Senior Independent Director, unchanged from 2018.

Directors' interests

A table setting out the beneficial interests of the Directors and their connected persons in the share capital of the Company as at 31 December 2018 (or earlier, if the Director has resigned) 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 as a percentage of salary is based on the middle market closing price for the shares on 31 December 2018 of 114p.

	Shares held		Options held				
	Beneficially owned	Vested but subject to holding period	Vested but not exercised	Unvested and subject to perf. conditions	Shareholding requirement[3] % salary/fee	Current shareholding % salary/fee	Requirement met?
O. Michaelson	399,768	–	–	904,690	100%	148%	Y
A. Kirkman	200,000	–	–	638,843	100%	97%	N
J. Cox[1]	716,504	–	–	–	n/a	n/a	n/a
L. Clement	–	–	–	–	n/a	n/a	n/a
A. Donnelly	–	–	–	–	n/a	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	n/a
A. Lyons[2]	90,000	–	–	–	n/a	n/a	n/a

(1) Jonson Cox resigned on 31 March 2018. The holding cited is at the date of resignation

(2) Alastair Lyons was appointed on 7 March 2018

(3) From 1 January 2019 subject to approval of the Policy at the 2019 AGM, the shareholding guidelines for the Executive Directors will be increased to 200% of salary

There have been no changes in the Directors' interests between 31 December 2018 and the date of signing of these financial statements.

Summary of Shareholder voting at the 2018 AGM

The table below shows the results of votes at the Harworth Group plc Annual General Meeting on 29 May 2018 on the resolution relating to the approval of the Annual Remuneration Report:

	Votes				
	For and discretion	For and discretion as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
Resolution 11: Approval of Annual Remuneration report	184,146,824	99.78%	405,369	0.22%	34,123

The table below shows the results of votes at the Harworth Group plc Annual General Meeting on 26 April 2016 on the resolution relating to the approval of the Remuneration Policy:

	Votes				
	For and discretion	For and discretion as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
Resolution 6: Approval of Remuneration Policy	1,575,091,080	99.96%	633,272	0.04%	267,524

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

Lisa Clement
Chair of the Remuneration Committee

16 April 2019

DIRECTORS' REPORT

Statements for the year ended 31 December 2018

Introduction

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2018.

In accordance with legislation, some of the matters required to be included in this Directors' Report have been included instead in the Strategic Report, on pages 4 to 71, because the Board considers them to be of strategic importance, such as the Group's strategic priorities, business model, markets and principal risks. Others are included in the wider Statement of Corporate Governance on pages 79 to 91.

As such, the Directors' Report should be read in conjunction with the Strategic Report (pages 4 to 71) and the wider Statement of Corporate Governance (pages 79 to 91) which are incorporated by reference into this Directors' Report.

The information required to be disclosed in the Directors' Report can be found in this Annual Report on the pages listed below.

The liabilities of the Directors in connection with this Report are subject to the limitations and restrictions provided by English Company law.

The Company

Legal form
Harworth Group plc is a Company incorporated in England with Company number 02649340. All subsidiaries and associated undertakings are listed in Note 16 to the Financial Statements.

Financial results
The Group's consolidated income statement set out on page 132 shows Group profit before taxation of £32.8m (2017: £41.8m). The net assets attributable to shareholders of the Group increased to £441.9m (2017: £409.3m) over the financial year to 31 December 2018. The Group's NAV per share and EPRA NNNAV per share rose by 7.9% and 12.6% respectively 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 132 to 175 which accompany this report.

Share capital and authority to allot shares
The Company's issued share capital as at 31 December 2017 was 321,496,760 Ordinary Shares of 10 pence each. There were no changes to the Company's issued share capital during the financial year ended 31 December 2018 and, as such, as at 31 December 2018, the Company's issued share capital was 321,496,760 Ordinary Shares of 10 pence each.

On 7 February 2019 11,786 shares were issued to satisfy an option exercised by one of the Company's former employees pursuant to the Company's Save-As-You-Earn scheme. Those shares were issued at a price of 80.6 pence, representing a discount of approximately 31.7% to the closing mid-market price of the Company's shares on the day before the issue of shares. There have been no further changes to the issued share capital of the Company. As such, the issued share capital of the Company at 15 April 2019 (being the latest date prior to publication of this Report) was 321,508,546 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.

As at 15 April 2019 (being the latest date prior to publication of this Report), there were no 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 were no restrictions on any voting rights or deadlines, other than those prescribed by law, nor was 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, members of the Investment Committee and Management Board and certain other senior employees, subject to the achievement of performance targets and/or underpins under the Company's incentive schemes. At 31 December 2018, the EBT held 181,771 Ordinary Shares of 10 pence each in the Company in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards to the Executive Directors are set out in the Directors' Remuneration Report on page 119. 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 Companies Act 2006 ("CA06") provides that the Directors may not allot shares (subject to certain exceptions, including allotments pursuant to an approved employee share scheme) 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 2018 AGM 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 has not utilised that authority in the period since the 2018 AGM. At the 2019 AGM, the Directors propose to renew the authorities granted to them at the 2018 AGM.

Allotment of shares for cash
Under Section 561 of the CA06, if the Directors wish to allot unissued shares for cash (subject to certain exceptions, including allotments pursuant to an approved 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 2018 AGM, 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 have not made use of this authority since the 2018 AGM. The Directors propose to renew this authority at the 2019 AGM. The Directors have no current plans to make use of the renewed authority should it be granted, although they consider its renewal appropriate in order to retain maximum flexibility to take advantage of business opportunities as they may 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 exceeding 7.5% of the Company's issued share capital without prior consultation with shareholders. The Directors intend to comply with that guidance.

Purchase of own shares
The Company has authority under a shareholders' resolution passed at the 2018 AGM to purchase up to 32,149,675 of the Company's Ordinary Shares, representing approximately 10% of the Company's total issued share capital (at the date of the 2018 AGM), in the market during the period expiring at the 2019 AGM. No shares have been purchased by the Company under that authority.

DIRECTORS' REPORT
Continued

A special resolution will be proposed at the 2019 AGM 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 and were so amended by a special resolution passed at the 2018 AGM.

Dividends

The Board is recommending a final dividend of 0.633 pence per share which, together with the interim dividend of 0.278 pence per share paid in October 2018, makes a combined dividend of 0.911 pence (2017: 0.828 pence) per share. Payment of the final dividend, if approved at the 2019 AGM, will be made on 31 May 2019 to shareholders on the register at the close of business on 3 May 2019. The ex-dividend date will be 2 May 2019.

The dividend paid in the year to 31 December 2018 and disclosed in the Statement of Changes in Equity is 0.853 pence (2017: 0.776 pence) per share, comprising the final dividend of 0.575 pence per share for the year ending 31 December 2017 and the interim dividend of 0.278 pence per share for the year ending 31 December 2018. These were paid on 1 June 2018 and 19 October 2018 respectively.

Directors and Directors' interests

A list of the Company's Directors who were in office during the year ended 31 December 2018 and up to the date of signing the Financial Statements, along with their biographies, appears on pages 74 and 75.

Details of the Directors' remuneration are set out in the Directors' Remuneration Report at page 112 (Executive Directors) and page 113 (Non-Executive Directors). Details of the Directors' beneficial interests in, and options to acquire, Ordinary Shares in the Company as at 31 December 2018 and as at 15 April 2019 (being the latest practical date prior to publication of this Report) are set out in the Directors' Remuneration Report on page 119. The Directors do not have any interest in any other Group Company, other than as Directors.

Save as set out on page 85 of the Statement of Corporate Governance 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 AGM may only hold office until the date of the following AGM, at which time that Director must stand for election by shareholders. Angela Bromfield and Ruth Cooke will, therefore, be standing for election at the 2019 AGM.

The Articles of Association also require one-third of the Directors to retire by rotation at each AGM. Any Director who has not retired by rotation must retire at the third AGM after his or her last election or re-election. However, the Board has again decided that all other Directors will also be subject to re-election at the 2019 AGM, save for Andrew Kirkman who is leaving the business on 30 June 2019.

The Directors may exercise all 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, insurance and independent advice

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' liability insurance in respect of legal actions against the Directors. Neither the qualifying third-party indemnities nor the insurance provide cover where a Director has acted fraudulently or dishonestly.

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 2018.

Political donations
No political donations were made during the year (2017: £nil). It remains the Company's policy not to 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 CA06 remain very broad, which may have the effect of covering some 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 CA06, the Directors obtained authority from shareholders at the 2018 AGM for certain political donations and expenditure, subject to financial limits. The Directors will seek to renew this authority at the 2019 AGM.

Charitable donations
The Group made charitable donations during 2018 in the aggregate sum of £4,350 (2017: £22,735).

Financial instruments and risk management
The Group's exposure to, and management of capital, liquidity, credit and interest rate risk, are set out within Note 24 of the Financial Statements.

General meetings
An AGM must be called on at least 21 days' clear notice, although the Company gives not less than 20 working days' notice of its AGM following the latest edition of the Guidance on Board Effectiveness.

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 AGMs) to not less than 14 days was passed at the 2018 AGM. The Directors are proposing to seek renewal of that authority at the 2019 AGM. 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*	83,582,667	25.997%
Pension Protection Fund	80,374,189	24.999%
Invesco Perpetual	31,993,428	9.951%
Pelham Capital Management	27,480,851	8.547%
London and Amsterdam Trust Company	19,902,272	6.190%

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

Change of control provisions
Under the terms of the revolving credit facility agreement entered between RBS and HEPGL in February 2015 and amended in August 2016, December 2016, August 2017, February 2018 and April 2018 (to which Santander is also now a party), if any person or Group of persons acting in concert gains direct or indirect control of HEPGL the facility is capable of being cancelled in which event 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 AGM, a copy of which is available on the Company's website at www.harworthgroup.com/investors.

Agreements with related parties
Peel Group is a related party by virtue of its shareholding in the Company and Steven Underwood being Chief Executive of the Group. Certain joint venture agreements with the Peel Group were varied during 2017, with the approval of shareholders at the 2017 AGM. By virtue of those variations, options were granted by the Group to Peel Environmental Limited ("PEL") in respect of three sites and the terms of a surrender of an existing option over one site were agreed. During 2018: one of those options was exercised (the other two having been exercised in 2017), resulting in a sale of land to PEL; and the surrender was completed, resulting in payment of a surrender premium by the Group to PEL.

Banks Group is a related party by virtue of Andrew Cunningham's appointment as a Non-Executive Director. During 2018 Harworth acquired a site at Moss Nook in St Helens from two Banks Group companies, Banks Property Limited and HJ Banks and Company Limited.

Approval
The Directors' Report was approved by the Board of Directors and signed on its behalf by:

Chris Birch
Group General Counsel and Company Secretary
16 April 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in respect of the financial statements

The Directors are responsible for preparing the Annual Report and 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 both the Group and the Company Financial Statements in accordance with International Financial Reporting Standards ("IFRS") 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 of the Company for that period.

In preparing the Financial Statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's 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 CA06 and Article 4 of the IAS Regulation. They are responsible for such internal controls as they determine are necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

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

Directors' confirmations

Each of the Directors who were in office during the year ended 31 December 2018 and up to the date of this Report considers that the 2018 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors who were in office during the year ended 31 December 2018 and up to the date of this Report confirms, to the best of their knowledge, that:

- the Group and Company Financial Statements, which have been prepared in accordance with applicable 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 includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

Each of the Directors who were in office during the year ended 31 December 2018 and up to the date of this Report also confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 CA06.

The Directors' Report, prepared in accordance with the requirements of CA06, the FCA's Listing and Disclosure and Transparency Rules and the Code, was approved by the Board and signed on its behalf by:

Chris Birch
Group General Counsel and Company Secretary
16 April 2019

Build out of Multiply Phase 2, Logistics North, Summer 2018

INDEPENDENT AUDITORS' REPORT

to the members of Harworth Group plc

Report on the audit of the financial statements

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 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Financial Statements 2018 (the "Annual Report"), which comprise: the Balance sheets as at 31 December 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Statements of cash flows, and the Consolidated statement of changes in equity and Company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall group materiality: £5.7 million (2017: £5.0 million), based on 1% of total assets.
- Overall company materiality: £2.4 million (2017: £2.4 million), based on 1% of total assets.
- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

- The Group is structured along two business lines being Capital Growth and Income Generation. The Group financial statements are a consolidation of the 30 reporting units within these two business lines and the Group's centralised functions.
- Of the Group's 30 reporting units, we identified 4 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 85% of total assets and 84% 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.

- Valuation of investment property (£254.4m) (Refer to note 15 of the financial statements) (Group).
- Carrying value of development property (£204.2m) (Refer to note 17 of the financial statements) (Group).
- Carrying value of investments and intercompany receivables (£208.4m) (Refer to note 16 of the financial statements) (Parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of investment property and carrying value of development property (see related key audit matters below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property (£254.4m) (Refer to note 15 of the financial statements) (Group) We focused on this area because the Group's investment property assets represent a significant proportion of the assets in the group balance sheet and the level of judgement involved in the valuation of such assets. 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.	We read the third party property valuation reports obtained by the Directors and considered if the overall approach and methodology adopted was 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 65% 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 and for a sample of costs agreed to supporting documentation, such as tenders or agreements, to check the accuracy of the forecast costs. 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.

INDEPENDENT AUDITORS' REPORT
to the members of Harworth Group plc

Key audit matter	How our audit addressed the key audit matter
Carrying value of development property (£204.2m) (Refer to note 17 of the financial statements) (Group) We focused on this area because the Group's development property assets represent a significant proportion of the assets in the group balance sheet and the level of judgement involved in the valuation of such assets. The Group's development properties were valued at £204.2m as at 31 December 2018. These properties are held at the lower of cost and net realisable value, in accordance with IAS 2 – Inventory. As qualifying costs are incurred on existing developments, these are added to the asset balance. The Group's portfolio consists of a variety of assets at varying stages of completion, across various sectors, located throughout the UK. While during the year there was several disposals recorded, the portfolio includes certain assets transferred during the previous year from investment properties where they were held at fair value which could indicate a higher risk that the carrying value is higher than the net realisable value. In addition, there are assets subject to significant judgements as a result of costs to complete the development site ahead of a future sale. The UK property market has varying capital values and Estimated Rental Values ("ERVs") across many sectors and geographic locations, increasing the risk of impairment across the portfolio due to market conditions. A change in conditions for specific assets or a relatively small percentage change in either the property or construction markets could result in a material impact to the financial statements.	Management received internal and external third party valuations on each individual site. We read the third party property valuation reports obtained by management and considered if the overall approach and methodology adopted was appropriate given the nature of the properties being valued and whether they were in line with market practice. Where applicable due to the advanced stage of the development, we also agreed to third party documentation supporting the book value through a review of pre-letting agreements, forward sales, quantity surveyor cost to complete estimates, board minutes and planning consent forms. Additionally, we performed a look-back test, comparing historic book values of assets to disposal proceeds following their sale. There have been no significant losses made on disposals in recent years, including assets previously subject to write-downs. We also found that the assumptions used were within the ranges typically used for similar valuations. Using the third party valuations, management performed an assessment of the net realisable value for each individual asset, including producing and reviewing development appraisals. We assessed the competence and capabilities of management and were satisfied that the individuals are sufficiently qualified. We met with management to understand the status and future plans for each asset and challenge key assumptions inherent in the appraisals. We also visited a sample of assets with management. Based on this work we are satisfied with the evidence that development and trading properties are held at the lower of cost and net realisable value.
Carrying value of investments and intercompany receivables (£208.4m) (Refer to note 16 of the financial statements) (Parent) We focused upon this area because the underlying value in the Company is represented by balances due from the wider group and the investment held by the Company in its subsidiaries. The key judgement is the underlying cash generation and profitability of the wider group which can be affected by market conditions and unexpected events.	We compared the carrying value of the investments to the subsidiary's net assets and assessed the future cash flows of the subsidiaries. We noted no concerns with the carrying value.

How we tailored the audit scope

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

Overall group materiality: £5.7 million (2017: £5.0 million), based on 1% of total assets.

Overall company materiality: £2.4 million (2017: £2.4 million), based on 1% of total assets.

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£5.7 million (2017: £5.0 million).	£2.4 million (2017: £2.4 million).
How we determined it	1% of total assets.	1% of total assets.
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct and indirect property investments. Due to this, the key area of focus in the audit is the valuation of investment properties and carrying value of development properties. On this basis, we set an overall Group materiality level based on total assets, which is a generally accepted auditing benchmark.	The principal activity of the company is a holding company of the subsidiaries in the group. Due to this, the key area of focus in the audit is the carrying value of the investments in subsidiaries. On this basis, we set an overall materiality level based on total assets, which is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1.4 million and £4.6 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £289,000 (Group audit) (2017: £196,000) and £240,000 (Company audit) (2017: £236,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (*CA06*)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 34 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 45 of the Annual Report 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.

INDEPENDENT AUDITORS' REPORT

to the members of Harworth Group plc

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (*Listing Rules*)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 124, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the 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 obtained in the course of performing our audit.
- The section of the Annual Report on page 94 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (*CA06*)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 124, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 22 February 1992 to audit the financial statements for the year ended 31 December 1992 and subsequent financial periods. The period of total uninterrupted engagement is 27 years, covering the years ended 31 December 1992 to 31 December 2018.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
16 April 2019

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Revenue	3	**78,055**	53,673
Cost of sales	3	**(53,612)**	(37,678)
Gross profit		**24,443**	15,995
Administrative expenses	3	**(12,870)**	(12,020)
Other gains	3	**22,066**	35,658
Other operating (expense)/income	3	**(70)**	98
Operating profit before exceptional items		**33,569**	39,731
Exceptional income	5	**–**	414
Exceptional expense	5	**(590)**	(83)
Operating profit		**32,979**	40,062
Share of profit of joint ventures	16	**3,791**	4,039
Net finance costs	7	**(3,962)**	(2,261)
Profit before tax		**32,808**	41,840
Tax credit	9	**1,294**	7,843
Profit for the financial year		**34,102**	49,683

All activities in the year are derived from continuing operations.

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

	Note	pence	pence
Basic earnings per share	12	**10.6**	15.8
Diluted earnings per share	12	**10.5**	15.7

The Notes on pages 138 to 175 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit for the financial year		**34,102**	49,683
Other comprehensive (expense)/income – *items that will not be reclassified to profit or loss:*			
Actuarial loss in Blenkinsopp Pension Scheme	25	**(18)**	(105)
Revaluation of Group occupied property	13	**–**	12
Deferred tax on other comprehensive (expense)/income items	9	**(1)**	(51)
Other comprehensive income – *items that may be reclassified subsequently to profit or loss:*			
Fair value of financial instruments	23	**13**	244
Total other comprehensive (expense)/income		**(6)**	100
Total comprehensive income for the financial year		**34,096**	49,783

BALANCE SHEETS
as at 31 December 2018

		Group		Company	
	Note	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	13	**794**	802	**–**	–
Other receivables	14	**–**	2,666	**–**	–
Investment properties	15	**254,409**	216,560	**–**	–
Investment in subsidiaries	16	**–**	–	**208,400**	207,896
Investment in joint ventures	16	**25,830**	18,838	**–**	–
Retirement asset	25	**–**	–	**462**	563
Trade receivables	18	**–**	5,250	**–**	–
Deferred income tax asset	9	**–**	–	**1,926**	250
		281,033	244,116	**210,788**	208,709
Current assets					
Inventories	17	**207,009**	211,618	**–**	–
Trade and other receivables	18	**66,699**	25,165	**30,219**	33,268
Assets classified as held for sale	19	**10,956**	7,688	**–**	–
Cash	20	**8,595**	8,371	**1,116**	1,267
		293,259	252,842	**31,335**	34,535
Total assets		**574,292**	496,958	**242,123**	243,244
LIABILITIES					
Current liabilities					
Borrowings	21	**(5,291)**	(6,145)	**–**	–
Trade and other payables	22	**(52,555)**	(38,497)	**(5,502)**	(3,536)
Current tax liabilities	9	**(928)**	(1,538)	**–**	–
		(58,774)	(46,180)	**(5,502)**	(3,536)
Net current assets		**234,485**	206,662	**25,833**	30,999
Non-current liabilities					
Borrowings	21	**(67,747)**	(34,501)	**–**	–
Trade and other payables	22	**(300)**	(760)	**–**	–
Derivative financial instruments	23	**(109)**	(122)	**–**	–
Deferred income tax liabilities	9	**(4,964)**	(5,521)	**–**	–
Retirement benefit obligations	25	**(462)**	(563)	**(462)**	(563)
		(73,582)	(41,467)	**(462)**	(563)
Total liabilities		**(132,356)**	(87,647)	**(5,964)**	(4,099)
Net assets		**441,936**	409,311	**236,159**	239,145
SHAREHOLDERS' EQUITY					
Capital and reserves					
Called up share capital	27	**32,150**	32,150	**32,150**	32,150
Share premium account	28	**24,351**	24,351	**24,351**	24,351
Investment in own shares	27	**(194)**	(263)	**(194)**	(263)
Fair value reserve		**99,825**	85,109	**–**	–
Capital redemption reserve		**257**	257	**257**	257
Merger reserve		**45,667**	45,667	**45,667**	45,667
Current year profit/(loss)		**34,102**	49,683	**(1,396)**	(5,759)
Retained earnings		**205,778**	172,357	**135,324**	142,742
Total equity		**441,936**	409,311	**236,159**	239,145

The financial statements on pages 132 to 175 were approved by the Board of Directors on 16 April 2019 and were signed on its behalf by:

Owen Michaelson
Chief Executive

Andrew Kirkman
Finance Director

Company Registered Number 02649340

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Note	Called up share capital £'000	Share premium account £'000	Investment in own shares £'000	Fair value reserve* £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017		**29,227**	**–**	**–**	**58,279**	**257**	**45,667**	**201,493**	**334,923**
Profit for the financial year		–	–	–	–	–	–	49,683	49,683
Net fair value gains		–	–	–	32,636	–	–	(32,636)	–
Transfer of unrealised loss	17	–	–	–	(5,818)	–	–	5,818	–
Other comprehensive (expense)/income:									
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	–	(105)	(105)
Revaluation of Group occupied property	13	–	–	–	12	–	–	–	12
Fair value of financial instruments	23	–	–	–	–	–	–	244	244
Deferred tax on other comprehensive (expense)/income items	9	–	–	–	–	–	–	(51)	(51)
Total comprehensive income for the year ended 31 December 2017		**–**	**–**	**–**	**26,830**	**–**	**–**	**22,953**	**49,783**
Transactions with owners:									
Share issue less costs	27	2,923	24,142	–	–	–	–	–	27,065
Other transaction costs	28	–	209	–	–	–	–	–	209
Purchase of own shares	27	–	–	(263)	–	–	–	86	(177)
Dividends paid	11	–	–	–	–	–	–	(2,492)	(2,492)
Balance at 31 December 2017		**32,150**	**24,351**	**(263)**	**85,109**	**257**	**45,667**	**222,040**	**409,311**
Profit for the financial year		–	–	–	–	–	–	34,102	34,102
Net fair value gains		–	–	–	19,483	–	–	(19,483)	–
Transfer of unrealised loss	17	–	–	–	(4,767)	–	–	4,767	–
Other comprehensive (expense)/income:									
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	–	(18)	(18)
Fair value of financial instruments	23	–	–	–	–	–	–	13	13
Deferred tax on other comprehensive (expense)/income items	9	–	–	–	–	–	–	(1)	(1)
Total comprehensive income for the year ended 31 December 2018		**–**	**–**	**–**	**14,716**	**–**	**–**	**19,380**	**34,096**
Transactions with owners:									
Share based payments	26	–	–	69	–	–	–	1,200	1,269
Dividends paid	11	–	–	–	–	–	–	(2,740)	(2,740)
Balance at 31 December 2018		**32,150**	**24,351**	**(194)**	**99,825**	**257**	**45,667**	**239,880**	**441,936**

*The fair value reserve relates to unrealised gains and losses arising primarily from the revaluation of investment properties and historical gains/losses from investment property that has now been transferred to development property.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Note	Called up share capital £'000	Share premium account £'000	Investment in own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017		**29,227**	**–**	**–**	**257**	**45,667**	**145,235**	**220,386**
Loss for the financial year		–	–	–	–	–	(5,759)	(5,759)
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	(105)	(105)
Deferred tax on actuarial loss on pension scheme		–	–	–	–	–	18	18
Total comprehensive expense for the year ended 31 December 2017		**–**	**–**	**–**	**–**	**–**	**(5,846)**	**(5,846)**
Transactions with owners:								
Share issue less costs	27	2,923	24,142	–	–	–	–	27,065
Other transaction costs	28	–	209	–	–	–	–	209
Purchase of own shares	27	–	–	(263)	–	–	86	(177)
Dividends paid	11	–	–	–	–	–	(2,492)	(2,492)
Balance at 31 December 2017		**32,150**	**24,351**	**(263)**	**257**	**45,667**	**136,983**	**239,145**
Loss for the financial year		–	–	–	–	–	(1,396)	(1,396)
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	(18)	(18)
Deferred tax on actuarial loss on pension scheme		–	–	–	–	–	3	3
Total comprehensive expense for the year ended 31 December 2018		**–**	**–**	**–**	**–**	**–**	**(1,411)**	**(1,411)**
Transactions with owners:								
Share based payments		–	–	69	–	–	1,096	1,165
Dividends paid	11	–	–	–	–	–	(2,740)	(2,740)
Balance at 31 December 2018		**32,150**	**24,351**	**(194)**	**257**	**45,667**	**133,928**	**236,159**

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2018

		Group		Company	
	Note	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Cash flows from operating activities					
Profit/(loss) before tax for the financial year		**32,808**	41,840	**(2,995)**	(2,937)
Net interest payable/(receivable)	7	**3,962**	2,261	**(581)**	(501)
Other gains	3	**(22,066)**	(35,658)	**–**	–
Share of profit of joint ventures	16	**(3,791)**	(4,039)	**–**	–
Depreciation of property, plant and equipment	13	**9**	8	**–**	–
Pension contributions in excess of charge		**(120)**	(144)	**(120)**	(144)
Operating cash inflows/(outflows) before movements in working capital		**10,802**	4,268	**(3,696)**	(3,582)
Decrease in inventories		**4,609**	18,232	**–**	–
(Increase)/decrease in receivables		**(36,284)**	(5,970)	**3,049**	(23,714)
Increase in payables		**13,598**	8,394	**3,235**	1,787
Cash (used in)/generated from operations		**(7,275)**	24,924	**2,588**	(25,509)
Interest paid		**(1,581)**	(1,277)	**–**	–
Corporation tax received		**99**	175	**–**	–
Cash (used in)/generated from operating activities		**(8,757)**	23,822	**2,588**	(25,509)
Cash flows from investing activities					
Interest received		**4**	16	**1**	–
Investment in/acquisition of joint ventures		**(2,843)**	(4,250)	**–**	–
Net proceeds from disposal of investment properties, assets held for sale and overages		**47,801**	24,434	**–**	–
Loan arrangement fees paid		**(566)**	(214)	**–**	–
Expenditure on properties		**(64,124)**	(60,431)	**–**	–
Expenditure on property, plant and equipment		**(1)**	(9)	**–**	–
Cash (used in)/generated from investing activities		**(19,729)**	(40,454)	**1**	–
Cash flows from financing activities					
Net proceeds from issue of ordinary shares		**–**	27,065	**–**	27,065
Proceeds from other loans		**8,650**	6,502	**–**	–
Repayment of bank loans		**(46,730)**	(57,000)	**–**	–
Proceeds from bank loans		**81,739**	43,000	**–**	–
Repayment of other loans		**(12,209)**	(5,111)	**–**	–
Investment in own shares		**–**	(177)	**–**	(177)
Other transaction costs	28	**–**	209	**–**	209
Dividends paid	11	**(2,740)**	(2,492)	**(2,740)**	(2,492)
Cash generated from/(used in) financing activities		**28,710**	11,996	**(2,740)**	24,605
Increase/(decrease) in cash		**224**	(4,636)	**(151)**	(904)
At 1 January					
Cash		**8,371**	13,007	**1,267**	2,171
Increase/(decrease) in cash		**224**	(4,636)	**(151)**	(904)
At 31 December					
Cash		**8,595**	8,371	**1,116**	1,267

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 company limited by shares, incorporated and domiciled in the United Kingdom. The address of its registered office is Advantage House, Poplar Way, Catcliffe, Rotherham, South Yorkshire, S60 5TR.

The Company is a listed public company 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 the 'Managing Risk' section of this annual report, as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed on pages 167 and 168.

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

The Group has a £100m revolving credit facility with National Westminster Bank PLC and Santander UK plc, 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, income from construction contracts and promote fees on the letting of forward funded units, the sale of coal fines and the sale of development properties.

Rentals are accounted for on a straight-line basis over the lease term.

Income from construction contracts is recognised in line with the accounting policy for construction contracts. Revenue is recognised when the Group is acting as a principal under a contract with primary responsibility for the contract.

Revenue from PPAs and overages are recognised when it is highly probable that all performance obligations have been completed.

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

Following the adoption of IFRS 15 'Revenue from 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 goods of service. In respect of the sale of development property, control is typically passed to a customer at the point of legal completion and when title has passed.

Revenue is recognised to the extent that it is probable that the economic benefit 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. 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.

1. Accounting policies: continued

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.

Other receivables
Other receivables 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 recognised when they are highly probable to be received and are recorded as revenue if related to previous development sales and profit on sale if related to previous investment property sales.

Inventories
Inventories comprise development properties, land held for development, options to purchase land, planning promotion agreements and coal slurry that has been processed and is ready for sale.

Development properties are included in the consolidated balance sheet at the lower of cost and net realisable value. Net realisable value is the expected net sales proceeds of the developed property in the ordinary course of business less estimated costs to complete and anticipated selling costs. Properties re-categorised to development properties from investment properties are transferred at deemed cost, being the fair value at the date of re-categorisation. Properties are re-categorised as development properties once planning is secured and the intention to bring those properties forward for development and sale has been agreed.

Land held for development is land that has planning permission and is being developed for onward 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. All costs, including the cost of entering the option, are capitalised. At each reporting date, the recoverability of the costs are considered by management and where required provisions are made such that the agreements are held at the lower of cost and net realisable value.

Planning promotion agreements 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 of 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 promotion planning agreements, in some instances the agreements allow for the Group to be reimbursed 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 of the direct costs incurred in bringing the coal fines to their present state.

Investment in subsidiaries
Investment held by the Company in subsidiary undertakings are carried at cost less impairments to write them down to their recoverable amount.

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 by the Group. 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,

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

1. Accounting policies: continued

independent valuation firms having appropriate, recognised professional qualifications and recent experience in the location and category of property being valued are used.

Investment properties are re-categorised as development properties and moved to inventory once planning is secured and the intention to bring those properties forward for development and sale has been agreed.

A transfer from the fair value reserve to retained earnings is made if any net realisable value provision is required on any development property where gains had previously been recorded as an investment property.

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'.

Profit or loss on disposal of investment properties
Disposals are accounted for when control of the investment property has been passed to a customer, typically at the point of legal completion and when title has passed. Profits or losses on disposal arise from deducting the asset's net carrying value, selling costs 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.

Investment properties in the course of construction
Directly attributable costs incurred in the course of constructing a property, not including interest, are capitalised as part of the cost of the property. Any resultant change in value is therefore recognised through the next revaluation.

Financial assets
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 include cash received from the sale of certain development properties but held in separate bank accounts over which third party infrastructure loan providers have a charge.

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 are presented in the income statement within 'other gains' in the year in which they arise.

Interest income is recognised on financial assets by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial liabilities
Liabilities within the scope of IFRS 9 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.

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.

1. Accounting policies: continued

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.

During the years to 31 December 2018 and 31 December 2017 all contributions have been paid to the pension fund by the Company.

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 an indemnity from Harworth Estates Mines Property Limited for this liability if required.

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 basis 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 Investment Committee that are used to assess both performance and strategic decisions. Management has identified that the Investment Committee 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 Investment Committee 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 investment and development property portfolios, and includes planning and development activity, value engineering, proactive asset management and strategic land acquisitions.

All operations are carried out in the United Kingdom.

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 value 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 the acquiree's identifiable net assets.

Acquisition-related costs are capitalised 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.

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

Exceptional items

Exceptional items are significant 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.

Property, plant and equipment

Land and buildings relate to group occupied properties. These properties are stated at their fair value, based on market values, less any subsequent accumulated depreciation or accumulated impairment loss. Depreciation is provided where it is considered

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

1. Accounting policies: continued

significant having regard to the estimated remaining useful lives and residual values of individual properties. 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 on these assets 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 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.

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.

1. Accounting policies: continued

The deferred tax is then calculated based on the respective temporary differences and tax consequences arising from recovery through sale.

Changes in accounting policy and disclosures

a) New standards, amendments and interpretations

The new standards, amendments or interpretations effective for the first time for the financial year beginning on or after 1 January 2018 are:

- 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 OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling through profit or loss. 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. The impact of IFRS 9 has been assessed on the financial instruments of the Group and no adjustments have been required.
- 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. The Group performed a detailed assessment of the impact of IFRS 15 on revenue streams and policies for 2017. This highlighted that revenues relating to the sales of development properties, particularly where revenue involves a deferred element or conditions subsequent exist, were specifically affected by the standard as were certain promote agreements. The impact of implementing this standard on revenue would have amounted to £2.1m for 2017. However, the Directors assessed that this impact was not significant enough for restatement. The impact of IFRS 15 on revenue for 2018 has amounted to £2.2m for 2018. There was no impact of IFRS 15 on profit for 2018 or 2017.

(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 on or after 1 January 2019 and have not been applied in preparing this preliminary financial information. None of these are expected to have a significant effect on the financial statements of the Group including the following:

- 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, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 continues to be assessed, however, the Group does not believe it will have a significant impact.

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 former mining tenants on investment property owned by the Group would perform their obligations to remediate land at the conclusion of mining activity and therefore the impact of any restoration obligations which may revert to the Group. The potential shortfall has been estimated at £3.2m (2017: £3.2m) and has been treated as a reduction in the valuation of the properties which these former tenants occupied.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

1. Accounting policies: 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 15.

Valuation of development properties
For the purposes of calculating net realisable value for both EPRA reporting and ensuring that development properties are stated at the lower of cost and net realisable value, the Group obtains an independent valuation of these properties, prepared in accordance with the current edition of the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

If the net realisable value of the property is lower than cost, a provision is made, to reduce the value of the property.

Categorisation of the property portfolio
During 2017, £229.1m of property was re-categorised from investment to development property. This re-categorisation was triggered by the evolution of Harworth's business model, including the March 2017 capital raise, as well as the consideration of site and market opportunities. In 2018 no new properties were re-categorised from investment to development property as a result of planning permissions. There were some minor movements from investment to development properties, and vice-versa, as a result of sub-dividing some sites and the intentions for these smaller parcels.

Taxation
The recognition of tax losses and deferred tax assets has continued to be reviewed and re-assessed during the year. This has resulted in the recognition of £2.4m (2017: £nil) of previously unrecognised tax losses due to increased certainty of their availability to the Group. In 2017, deferred tax assets of £19.1m were recognised based upon the certainty of recoverability. In addition, during 2017, £5.9m was recognised due to the execution of a contract which resulted in increased certainty that the losses would not be lost and £13.2m was due to the crystallisation of chargeable gains and losses as a result of a number of investment property disposals and the re-categorisation of properties from investment to development properties. These gains were offset against tax losses that were previously not recognised from a deferred tax perspective.

2. Alternative Performance Measures ("APMs")

Introduction
The Group has applied the June 2015 European Securities and Markets Authority ("ESMA") guidance on APMs and the November 2017 Financial Reporting Council ("FRC") corporate thematic review of APMs in these results. An APM is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Overview of our use of APMs
The Directors believe that APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. APMs assist our stakeholder users of the accounts, particularly equity and debt investors, through the comparability of information. APMs are used by the Directors and management, both internally and externally, for performance analysis, strategic planning, reporting and incentive-setting purposes.

APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including peers in the real estate industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

The derivations of our APMs and their purpose
The primary differences between IFRS statutory amounts and the APMs that we use are as follows:

1. Capturing all sources of value creation – Under IFRS, the revaluation movement in development properties, which are held in inventory, is not included in the balance sheet. Also, overages are not recognised in the balance sheet until they are highly probable. These movements, which are verified by BNP Paribas and Savills (independent external property surveyors), are included within our APMs;
2. Recategorising income statement amounts – Under IFRS, the grouping of amounts, particularly within gross profit and other gains, do not clearly allow Harworth to demonstrate the value creation through its business model. In particular, the statutory grouping does not distinguish value gains (being realised profits from the sales of properties and unrealised profits from property value movements) from the ongoing profitability of the business which is less susceptible to movements in the property cycle. In addition, following the introduction of IFRS 15, profit on disposal also includes the interest received on deferred consideration on residential sales (this was previously recognised as revenue). Finally, the Group includes profits from joint ventures within our APMs as our joint ventures conduct similar operations to Harworth, albeit in different ownership structures; and

2. Alternative Performance Measures ("APMs"): continued

3. Comparability with industry peers – Harworth discloses some APMs which are European Public Real Estate Association ("EPRA") measures as these are a set of standard disclosures for the property industry and thus aid comparability for our stakeholder users.

Our key APMs

The key APMs that the Group focuses on are as follows:

- Value gains – This is the realised profits from the sales of properties and unrealised profits from property value movements including joint ventures and the mark to market movement on development properties and overages;
- Profit excluding value gains – This profit measure represents the ongoing profitability of the business principally in terms of rents and royalties. It is calculated as operating profit before exceptional items, less other gains, gross profit on development properties and pension charges;
- EPRA NNNAV growth – The movement in EPRA NNNAV per share expressed as a percentage of opening NNNAV per share; and
- Total return – The movement in EPRA NNNAV per share plus dividends paid in the year per share expressed as a percentage of opening NNNAV per share.

Changes to APMs

There have been no changes to the Group's APMs in the year with the same APMs being defined, calculated and used on a consistent basis.

Reconciliation of APMs

Set out below is a reconciliation of the APMs used in these results to the statutory measures.

1) Reconciliation to statutory measures

a. Revaluations gains	Note	**Year ended 31 December 2018 £000**	Year ended 31 December 2017 £000
Increase in fair value of investment properties	3	**21,483**	32,133
(Decrease)/increase in fair value of other receivables	3	**(2,000)**	586
Decrease in fair value of assets classified as held for sale	3	**–**	(83)
Other gains	3	**45**	–
Share of profit of joint ventures	3	**3,791**	4,039
Net realisable value provision of development properties	3	**(4,767)**	(5,818)
Reversal of previous net realisable value provision of development properties	3	**3,031**	–
Amounts derived from statutory reporting		**21,583**	30,857
Unrealised gains on development properties		**22,945**	5,846
Unrealised gains on overages		**3,541**	–
Revaluation gains		**48,069**	36,703

b. Profit on sale			
Profit on sale of investment properties	3	**2,374**	2,919
Profit on sale of assets classified as held for sale	3	**164**	103
Profit on sale of development properties	3	**3,469**	7,690
Amounts derived from statutory reporting		**6,007**	10,712
Unrealised gains on development properties released on sale in the year		**(2,794)**	–
Profit on sale		**3,213**	10,712

c. Value gains			
Statutory reporting revaluation gains		**21,583**	30,857
Statutory reporting profit on sale		**6,007**	10,712
Amounts derived from statutory reporting		**27,590**	41,569
Unrealised gains on development properties		**22,945**	5,846
Unrealised gains on overages		**3,541**	–
Gains on development properties released on sale in the year		**(2,794)**	–
Value gains (including development properties and overages)		**51,282**	47,415

d. Profit excluding value gains (PEVG)			
Operating profit before exceptional items	3	**33,569**	39,731
Add pension charge		**70**	39
Less other gains	3	**(22,066)**	(35,658)
Less gross profit from development properties	3	**(1,733)**	(1,872)
PEVG		**9,840**	2,240

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

2. Alternative Performance Measures ("APMs"): continued

e. Total property sales	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Revenue from development properties	3	**44,825**	29,765
Revenue from other property activities	3	**7,629**	5,671
Revenue from income generation activities	3	**25,601**	18,237
Amounts derived from statutory reporting		**78,055**	53,673
Less revenue from other property activities	3	**(7,629)**	(5,671)
Less revenue from income generation activities	3	**(25,601)**	(18,237)
Add proceeds from sales of investment properties, assets held for sale and overages		**48,338**	25,008
Total property sales		**93,163**	54,773

f. Operating profit before exceptional items contributing to growth in EPRA NNNAV	Note	2018 £000	2017 £000
Operating profit before exceptional items	3	**33,569**	39,731
Share of profit of joint ventures	3	**3,791**	4,039
Unrealised gains on development properties		**22,945**	5,846
Unrealised gains on overages		**3,541**	–
Less gains on development properties released on sale in the year		**(2,794)**	–
Operating profit before exceptional items contributing to growth in EPRA NNNAV		**61,052**	49,616

g. Portfolio value	Note	2018 £000	2017 £000
Land and buildings	13	**787**	787
Other receivables	14	**–**	2,666
Investment properties	15	**254,409**	216,560
Investments in joint ventures	16	**25,830**	18,838
Assets classified as held for sale	19	**10,956**	7,688
Development properties	17	**204,157**	210,471
Amounts derived from statutory reporting		**496,139**	457,010
Cumulative unrealised gains on development properties as at year end		**25,997**	5,846
Cumulative unrealised gains on overages as at year end		**3,541**	–
Portfolio value		**525,677**	462,856

h. Net debt	Note	2018 £000	2017 £000
Gross borrowings	21	**(73,038)**	(40,646)
Cash	20	**8,595**	8,371
Net debt		**(64,443)**	(32,275)

i. Net loan to portfolio value	Note	2018	2017
Net debt		**(64,443)**	(32,275)
Portfolio value		**525,677**	462,856
Net loan to portfolio value (%)		**12.3%**	7.0%

j. Net loan to income portfolio value	Note	2018	2017
Net debt		**(64,443)**	(32,275)
Income portfolio value (business space and natural resources)		**187,648**	154,877
Net loan to income portfolio value (%)		**34.3%**	20.8%

2. Alternative Performance Measures ("APMs"): continued

k. Gross loan to portfolio value	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Gross borrowings	21	**(73,038)**	(40,646)
Portfolio value		**525,677**	462,856
Gross loan to portfolio value (%)		**13.9%**	8.8%

l. Gross loan to income portfolio value			
Gross borrowings	21	**(73,038)**	(40,646)
Income portfolio value		**187,648**	154,877
Gross loan to income portfolio value (%)		**38.9%**	26.2%

m. Per share			
Number of shares in issue at 31 December	27	**321,496,760**	321,496,760
Employee Benefit Trust Shares (own shares) at 31 December	27	**(181,771)**	(246,010)
Number of shares used for per share calculations	27	**321,314,989**	321,250,750

n. NAV per share			
NAV £'000		**441,936**	409,311
Number of shares used for per share calculations		**321,314,989**	321,250,750
NAV per share (p)		**137.5**	127.4

2) Reconciliation to EPRA measures

a. EPRA NNNAV	Note	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Net assets		**441,936**	409,311
Cumulative unrealised gains on development properties		**25,997**	5,846
Cumulative unrealised gains on overages		**3,541**	–
Notional deferred tax on unrealised gains		**(5,021)**	(994)
EPRA NNNAV		**466,453**	414,163

b. EPRA NAV			
EPRA NNNAV		**466,453**	414,163
Notional deferred tax on unrealised gains		**5,021**	994
Deferred tax liability	9	**4,964**	5,521
Mark to market valuation of financial instruments		**109**	122
EPRA NAV		**476,547**	420,800

c. EPRA NNNAV per share			
EPRA NNNAV £'000		**466,453**	414,163
Number of shares used for per share calculations	27	**321,314,989**	321,250,750
EPRA NNNAV per share (p)		**145.2**	128.9

d. EPRA NAV per share			
EPRA NAV £'000		**476,547**	420,800
Number of shares used for per share calculations	27	**321,314,989**	321,250,750
EPRA NAV per share (p)		**148.3**	131.0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

2. Alternative Performance Measures ("APMs"): continued

e. EPRA NNNAV growth and total return	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Opening EPRA NNNAV / share (p)	**128.9**	114.6
Closing EPRA NNNAV / share (p)	**145.2**	128.9
Movement in the year	**16.3**	14.3
EPRA NNNAV growth	**12.6%**	12.5%
Dividends paid per share (p)	**0.9**	0.8
Total return per share	**17.2**	15.1
Total return as a percentage of opening NNNAV	**13.3%**	13.2%

f. Net loan to EPRA NNNAV		
Net debt £'000	**(64,443)**	(32,275)
EPRA NNNAV £'000	**466,453**	414,163
Net loan to EPRA NNNAV	**13.8%**	7.8%

3. Segment Information

31 December 2018

	Note	Capital Growth: Sale of Development Properties £'000	Capital Growth: Other Property Activities £'000	Income Generation £'000	Central overheads £'000	Total £'000
Revenue		**44,825**	**7,629**	**25,601**	**–**	**78,055**
Cost of sales		(43,092)	(1,922)	(8,598)	**–**	**(53,612)**
Gross profit[1]		**1,733**	**5,707**	**17,003**	**–**	**24,443**
Administrative expenses		–	(2,473)	(2,171)	(8,226)	**(12,870)**
Other gains[2]		–	8,658	13,408	–	**22,066**
Other operating expense		–	–	–	(70)	**(70)**
Operating profit/(loss) before exceptional items		**1,733**	**11,892**	**28,240**	**(8,296)**	**33,569**
Exceptional expense	5	–	–	–	(590)	**(590)**
Operating profit/(loss)		**1,733**	**11,892**	**28,240**	**(8,886)**	**32,979**
Share of profit of joint ventures	16	–	(5)	3,796	–	**3,791**
Net finance costs	7	–	–	–	(3,962)	**(3,962)**
Profit/(loss) before tax		**1,733**	**11,887**	**32,036**	**(12,848)**	**32,808**

	Sale of Development Properties £'000	Other Property Activities £'000	Income Generation £'000	Central overheads £'000	Total £'000
(1) Gross profit					
Gross profit is analysed as follows:					
Gross profit excluding sales of development properties	–	5,707	17,003	–	22,710
Gross profit on sale of development properties	3,469	–	–	–	3,469
Net realisable value provision on development properties	(4,767)	–	–	–	(4,767)
Reversal of previous net realisable value provision on development properties	3,031	–	–	–	3,031
	1,733	**5,707**	**17,003**	**–**	**24,443**
(2) Other gains					
Other gains are analysed as follows:					
Increase in fair value of investment properties	–	9,859	11,624	–	21,483
Decrease in the fair value of other receivables	–	(2,000)	-	–	(2,000)
Profit on sale of investment properties	–	799	1,575	–	2,374
Profit on sale of assets classified as held for sale	–	–	164	–	164
Other gains	–	–	45	–	45
	–	**8,658**	**13,408**	**–**	**22,066**

	Note	Capital Growth £'000	Income Generation £'000	Central overheads £'000	Total £'000
Non-current assets					
Property, plant and equipment	13	–	–	794	**794**
Investment properties	15	55,019	199,390	–	**254,409**
Investments in joint ventures	16	1,087	24,743	–	**25,830**
		56,106	**224,133**	**794**	**281,033**
Current assets					
Inventories	17	206,635	374	–	**207,009**
Trade and other receivables	18	42,976	22,076	1,647	**66,699**
Assets classified as held for sale	19	2,775	8,181	–	**10,956**
Cash	20	–	–	8,595	**8,595**
		252,386	**30,631**	**10,242**	**293,259**
Total assets		**308,492**	**254,764**	**11,036**	**574,292**

Financial liabilities and derivative financial instruments 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 2018: continued

3. Segment Information: continued

31 December 2017

Group	Note	Capital Growth: Sale of Development Properties £'000	Capital Growth: Other Property Activities £'000	Income Generation £'000	Central Overheads £'000	Total £'000
Revenue		**29,765**	**5,671**	**18,237**	**–**	**53,673**
Cost of sales		(27,893)	(4,396)	(5,389)	–	**(37,678)**
Gross profit[1]		**1,872**	**1,275**	**12,848**	**–**	**15,995**
Administrative expenses		–	(1,927)	(1,752)	(8,341)	**(12,020)**
Other gains[2]		–	26,924	8,734	–	**35,658**
Other operating income		–	–	17	81	**98**
Operating profit/(loss) before exceptional items		**1,872**	**26,272**	**19,847**	**(8,260)**	**39,731**
Net exceptional items	5	–	–	–	331	**331**
Operating profit/(loss)		**1,872**	**26,272**	**19,847**	**(7,929)**	**40,062**
Share of profit of joint ventures	16	–	26	4,013	–	**4,039**
Net finance costs	7	–	–	–	(2,261)	**(2,261)**
Profit/(loss) before tax		**1,872**	**26,298**	**23,860**	**(10,190)**	**41,840**

(1) Gross profit					
Gross profit is analysed as follows:					
Gross profit excluding sales of development properties	–	1,275	12,848	–	**14,123**
Gross profit on sale of development properties	7,690	–	–	–	**7,690**
Net realisable value provision on development properties	(5,818)	–	–	–	**(5,818)**
	1,872	**1,275**	**12,848**	**–**	**15,995**
(2) Other gains					
Other gains are analysed as follows:					
Increase in fair value of investment properties	–	26,139	5,994	–	**32,133**
(Decrease)/increase in fair value of assets classified as held for sale	–	(113)	30	–	**(83)**
Increase in fair value of overages	–	586	–	–	**586**
Profit on sale of investment properties	–	216	2,703	–	**2,919**
Profit on sale of assets classified as held for sale	–	96	7	–	**103**
	–	**26,924**	**8,734**	**–**	**35,658**

3. Segment information: continued

31 December 2017 continued

Segmental assets

	Note	Capital Growth £'000	Income Generation £'000	Central Overheads £'000	Total £'000
Non-current assets					
Property, plant and equipment	13	–	–	802	**802**
Investment properties	15	43,132	173,428	–	**216,560**
Investments in joint ventures	16	1,042	17,796	–	**18,838**
Trade receivables	18	5,250	–	–	**5,250**
Other receivables	14	2,666	–	–	**2,666**
		52,090	**191,224**	**802**	**244,116**
Current assets					
Inventories	17	211,535	83	–	**211,618**
Trade and other receivables	18	16,516	6,762	1,887	**25,165**
Assets classified as held for sale	19	2,782	4,906	–	**7,688**
Cash		–	–	8,371	**8,371**
		230,833	11,751	10,258	**252,842**
Total assets		**282,923**	**202,975**	**11,060**	**496,958**

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

4. Operating profit

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Operating profit before tax is stated after charging:			
Net realisable value provision on development properties	17	**1,736**	5,818
Staff costs	6	**7,846**	7,849
Depreciation of property, plant and equipment	13	**9**	8

5. Exceptional items

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Exceptional income:		
Settlements from the administration of legacy companies	**–**	414
Total exceptional income	**–**	414
Exceptional expense:		
Sundry costs relating to legacy activities	**–**	(83)
Costs associated with the step-up from standard to premium listing	**(590)**	–
Total exceptional expense	**(590)**	(83)
Net exceptional items	**(590)**	331

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

6. 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 2018 Number	Year ended 31 December 2017 Number	**Year ended 31 December 2018 Number**	Year ended 31 December 2017 Number
Administration	**58**	53	**3**	4
Total	**58**	53	**3**	4

Remuneration details of these persons was as follows:

	Group		Company	
	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Wages and salaries	**6,934**	6,650	**2,198**	2,749
Social security costs	**544**	884	**143**	379
Other pension costs	**368**	315	**53**	61
	7,846	7,849	**2,394**	3,189

Key management remuneration

Key management are Statutory Directors of the Company and its subsidiaries. Remuneration details for key management of the Group (including Directors' remuneration) is detailed below:

	Group	
	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Short term employee benefits	**5,086**	4,361
Post employment benefits	**–**	120
	5,086	4,481

Detailed information relating to Directors' remuneration is disclosed in the Directors' remuneration report on pages 100 to 119 and forms part of these financial statements.

7. Finance income and costs

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Total finance income	**51**	16
Finance costs		
– Bank interest	**(1,888)**	(994)
– Facility fees	**(1,507)**	(807)
– Other interest	**(618)**	(476)
Total finance costs	**(4,013)**	(2,277)
Net finance costs	**(3,962)**	(2,261)

During the year no interest has been capitalised in investment or development properties (2017: £nil).

8. Auditors' remuneration

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

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Audit services		
Fees payable to the Company auditors and its associates for the audit of the Company and the consolidated financial statements	**50**	40
Fees payable to the Company auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**121**	111
– Audit related assurance services	**16**	15
– The audit of the Group's joint ventures	**15**	8
– Tax advisory services	**–**	7
– Tax compliance services	**–**	6
– Fees relating to transaction*	**331**	–
	533	187

* This includes the work undertaken by PwC to support the Company's application to transfer its shares from the standard segment to the premium segment of the Official List.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

9. Tax credit

Analysis of tax credit in the year	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Current tax		
Current year	**(922)**	(1,874)
Adjustment in respect of prior periods	**1,804**	336
Total current tax credit/(charge)	**882**	(1,538)
Deferred tax		
Current year	**49**	15,036
Adjustment in respect of prior periods	**366**	(3,898)
Effect of changes in tax rates	**(3)**	(1,757)
Total deferred tax credit	**412**	9,381
Tax credit	**1,294**	7,843

Other comprehensive income items	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Deferred tax – current year	**(1)**	(51)
Total	**(1)**	(51)

The tax for the year is lower than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit before tax	**32,808**	41,840
Profit before tax multiplied by rate of corporation tax in the UK of 19.00% (2017: 19.25%)	**(6,234)**	(8,054)
Effects of:		
Adjustment in respect of prior periods – deferred taxation	**366**	(3,898)
Adjustment in respect of prior periods – current taxation	**1,804**	336
Non-taxable income	**828**	841
Expenses not deducted for tax purposes	**(471)**	(1,395)
Revaluation gains	**2,404**	–
Changes in tax rates	**(3)**	(1,757)
Re-assessment of recognition of recoverability of deferred tax assets	**–**	6,600
Deferred tax not recognised	**(80)**	–
Utilisation of unrecognised deferred tax	**–**	15,170
Losses not previously recognised	**2,432**	–
Share options	**248**	–
Total tax credit	**1,294**	7,843

The revaluation gains in the tax reconciliation of £2.4m (2017: £nil) relate to deferred tax recognised on chargeable gains of investment property.

The tax losses, not previously recognised of £2.4m (2017: £nil), have been recognised during the year, as a result of increased certainty regarding their availability to the Group.

The movement within the tax reconciliation of £nil (2017: £15.2m) relating to the utilisation of unrecognised deferred tax was a result of the crystallisation of a number of gains in respect of investment property due to the disposal or transfer of these properties to development property (held in inventory). The gains on which deferred tax liabilities were recognised and were crystallised in 2017 were offset against previously unrecognised tax losses.

The tax losses remaining at the end of 2017 have largely been recognised as a result of the execution of a contract that related to increased certainty that the losses would not be lost. As such these losses have been recognised in the year to reflect an increased deferred tax asset carried forward. This gave rise to the £6.6m disclosed in the tax reconciliation in 2017.

9. Tax credit: continued

As part of the filing of the prior year tax computations and returns, tax attributes were utilised to shelter chargeable gains arising on the disposal of properties and the transfer of properties held for sale. This gave rise to a current tax credit of £1.8m (2017: £0.3m) and a deferred tax credit of £0.4m (2017: deferred tax charge of £3.9m) compared to the original tax provision prepared for inclusion within the prior year financial statements.

Deferred tax

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated Balance Sheet:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Deferred tax liabilities	**(12,312)**	(13,067)
Deferred tax assets	**7,348**	7,546
	(4,964)	(5,521)

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

	Investment properties £'000	Tax losses £'000	Other temporary differences £'000	**Total £'000**
At 1 January 2017	(23,352)	8,427	74	**(14,851)**
Recognised in consolidated income statement	10,353	(2,522)	1,550	**9,381**
Recognised in consolidated statement of comprehensive income	(68)	–	17	**(51)**
At 31 December 2017 and 1 January 2018	(13,067)	5,905	1,641	**(5,521)**
Recognised in consolidated income statement	1,276	52	(916)	**412**
Recognised in consolidated statement of comprehensive income	–	–	(1)	**(1)**
Recognised in consolidated statement of equity	–	–	146	**146**
At 31 December 2018	(11,791)	5,957	870	**(4,964)**

There are UK corporation tax losses carried forward of £6.0m (2017: £5.9m); these may be carried forward indefinitely as there is no time limit in respect of using these deferred tax assets.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2017: 17%). A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020), was enacted as part of the Finance Act 2015. The deferred tax liabilities are shown at 17% (2017: 17%) being the rate expected to apply to the reversal of the liability.

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 £5.5m at 31 December 2018 have not been recognised owing to the uncertainty as to their recoverability. Deferred tax assets of £6.1m were not recognised at 31 December 2017.

The Company has recognised a deferred tax asset in 2018 of £1.9m (2017: £0.3m) and has a potential deferred tax asset of £nil (2017: £nil) in respect of unused tax losses.

10. 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 loss for the financial year was £1.4m (2017: £5.8m) and the total comprehensive expense for the financial year was £1.4m (2017: £5.8m).

11. Dividends

	2018		2017	
	Per share pence	**Total £'000**	Per share pence	Total £'000
Full year dividend for financial year ended 31 December 2017	**0.58**	**1,847**	–	–
Interim dividend for the six months ended 30 June 2018	**0.28**	**893**	–	–
Full year dividend for financial year ended 31 December 2016	**–**	**–**	0.52	1,680
Interim dividend for the six months ended 30 June 2017	**–**	**–**	0.25	812
		2,740		2,492

The proposed final dividend for the year ended 31 December 2018 of 0.63 pence per share makes a total dividend for the year of 0.91 pence (2017: 0.83 pence).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

12. 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 2017 includes the adjustments necessary to reflect the new shares issued on 17 March 2017 (see note 27).

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit from continuing operations attributable to owners of the parent	**34,102**	49,683
Weighted average number of shares used for basic earnings per share calculation	**321,284,013**	315,296,192
Basic earnings per share (pence)	**10.6**	15.8
Weighed average number of shares used for diluted earnings per share calculation	**323,754,853**	316,918,340
Diluted earnings per share (pence)	**10.5**	15.7

The difference between the weighted average number of shares used for the basic and diluted earnings per share calculation is the effect of share options of 2,470,840 (2017: 1,622,148).

13. Property, plant and equipment

Group	**Land and Buildings £'000**	**Office equipment £'000**	**Total £'000**
Net book value at 1 January 2017	766	23	789
Additions at cost	9	–	9
Increase in fair value	12	–	12
Depreciation charge	–	(8)	(8)
Net book value at 31 December 2017 and 1 January 2018	787	15	802
Additions at cost	–	1	1
Depreciation charge	–	(9)	(9)
Net book value at 31 December 2018	**787**	**7**	**794**
At 31 December 2018			
Cost or fair value	787	26	813
Accumulated depreciation	–	(19)	(19)
Net book value	**787**	**7**	**794**
At 31 December 2017			
Cost or fair value	787	25	812
Accumulated depreciation	–	(10)	(10)
Net book value	787	15	802

At 31 December 2018, the Group had entered into contractual commitments for the acquisitions of property, plant and equipment amounting to £0.1m (2017: £nil).

Information about the valuation of land and buildings is provided in note 15.

14. Other receivables

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Other receivables	**–**	2,666

15. Investment properties

Investment property at 31 December 2018 and 31 December 2017 has been measured at fair value. The Group holds five categories of investment property being agricultural land, natural resources, business space, major developments and strategic land in the UK, which sit within the operating segments of Income Generation and Capital Growth.

	Income Generation			Capital Growth		
	Agricultural land £'000	Natural resources £'000	Business space £'000	Major developments £'000	Strategic land £'000	Total £'000
At 1 January 2017	**20,106**	**29,489**	**96,709**	**215,650**	**17,236**	**379,190**
Transfers between divisions	–	277	11,686	4,137	(16,100)	–
Direct acquisitions	–	–	5,536	15,281	5,198	26,015
Subsequent expenditure	1,684	1,154	8,960	13,100	4,261	29,159
Increase in fair value	3,660	1,438	896	13,072	13,067	32,133
Net transfer to assets classified as held for sale	(1,160)	(276)	(3,500)	(8,492)	(350)	(13,778)
Re-categorisation as other receivables	–	–	–	(666)	–	(666)
Re-categorisation as development property in inventories	–	–	–	(229,118)	–	(229,118)
Disposals	(1,963)	(782)	(486)	(2,964)	(180)	(6,375)
At 31 December 2017	**22,327**	**31,300**	**119,801**	**20,000**	**23,132**	**216,560**
Direct acquisitions	–	–	43,651	–	10,771	54,422
Subsequent expenditure	–	2,014	5,365	73	2,244	9,696
Disposals	–	(1,429)	–	(19,336)	(120)	(20,885)
(Decrease)/increase in fair value	(308)	8,713	3,219	3,001	6,858	21,483
Net transfers between divisions	(1,401)	5,533	(12,528)	6,159	2,237	–
Re-categorisation as development properties	220	182	(1,384)	(8)	–	(990)
Net transfer (to)/from assets classified as held for sale	(9,096)	(834)	(15,955)	–	8	(25,877)
At 31 December 2018	**11,742**	**45,479**	**142,169**	**9,889**	**45,130**	**254,409**

Included within investment properties (agricultural land) is a provision of £3.2m (2017: £3.2m) relating to the restoration liability on sites formerly rented to mining tenants. This provision is treated as a reduction of the individual property valuations.

During the year £1.0m net (2017: £229.1m) of investment property was re-categorised to development properties. Properties that have obtained planning permission and are being taken forward for development are now held in inventory. Until sites receive planning permission, our view is that the land is held for a currently undetermined future use and should thus be held as investment property.

Investment property is transferred between divisions to reflect a change in the activity arising from the asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

15. Investment properties: continued

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 Estate and Savills. Both are independent firms acting in the capacity of external valuers with relevant experience of valuations of this nature. The valuations are on the basis of Market Value as defined by the Red Book, which RICS considers meets the criteria for assessing Fair Value under International Financial 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 2018 (2017: none).

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 the 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 space

The business parks and individual business space properties 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.

15. Investment properties: continued

The discounted cash flows across the different property categories utilise Value per acre, which takes account of the future expectations of sales over time discounted back to a current value, and Cost report totals, which take account of the cost, as at today's value, to complete remediation and provide the necessary site infrastructure to bring the site forward.

At 31 December 2018		Agricultural land	Natural resources	Business space	Major developments	Strategic land
Reversionary rental yield %	weighted average	–	–	9.76	–	–
	low	–	–	4.84	–	–
	high	–	–	14.16	–	–
Land value per acre £'000	weighted average	3	25	346	218	33
	low	1	4	117	213	2
	high	155	239	2,811	220	326
Cost report totals*	£'000	–	15,000	–	8,282	167,637

At 31 December 2017		Agricultural land	Natural resources	Business space	Major developments	Strategic land
Reversionary rental yield %	weighted average	–	–	9.66	–	–
	low	–	–	4.86	–	–
	high	–	–	16.86	–	–
Land value per acre £'000	weighted average	4	6	95	196	10
	low	1	1	26	196	1
	high	32	115	2,360	196	449
Cost report totals*	£'000	–	–	11,948	8,478	3,150

* Cost report totals represent the estimated cost to bring investment properties to their highest and best use. There is £205.5m (2017: £184.3m) of cost report totals that now relate to development properties (shown in inventories at deemed cost) and therefore are not disclosed in this note.

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

At 31 December 2018

Valuation metric	+/– change	+/– effect on valuation				
		Agricultural land	Natural resources	Business space	Major developments	Strategic land
Value per acre	5%	587	2,274	7,108	494	2,257
Rental	5%	–	–	6,540	–	–
Yield (e.g. 11% to 10%)	1%	–	–	17,099	–	–
Cost report totals	5%	–	750	–	414	8,382

At 31 December 2017

Valuation metric	+/– change	+/– effect on valuation				
		Agricultural land	Natural resources	Business space	Major developments	Strategic land
Value per acre	5%	1,116	1,565	5,990	1,000	1,156
Rental	5%	–	–	4,872	–	–
Yield (e.g. 11% to 10%)	1%	–	–	12,564	–	–
Cost report totals	5%	–	–	597	424	158

The property rental income earned by the Group from its occupied investment property, all of which is leased out under operating leases amounted to £12.2m (2017: £9.1m). Direct operating expenses arising on investment property generating rental income in the year amounted to £4.9m (2017: £3.5m).

The bank and other loans are secured by way of fixed equitable charges over investment and development properties.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018: continued

16. Investments
Investment in subsidiaries

Company	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cost and net book amount:		
At 1 January	**207,896**	207,896
Grant of equity instruments to employees of subsidiaries	**504**	–
At 31 December	**208,400**	207,896

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.

Investment in joint ventures

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
At 1 January	**18,838**	10,549
Investment in joint ventures	**3,201**	4,250
Share of profit of joint ventures	**3,791**	4,039
At 31 December	**25,830**	18,838

The Group holds investments in the following joint ventures:

- Multiply Logistics North LP
- Multiply Logistics North Holdings Limited
- Waverley Square Limited
- The Aire Valley Land LLP
- Bates Regeneration Limited

The details of ownership of these joint ventures is disclosed on page 162.

The Group received £nil (2017: £nil) of dividends from these joint ventures during the year.

16. Investments: continued

Summarised financial information in respect of each of the Group's material joint ventures is set out below:

	The Aire Valley Land LLP		Multiply Logistics North LP	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Investment property	**16,000**	14,500	**9,992**	4,047
Current assets	**1,124**	685	**174**	419
Total assets	**17,124**	15,185	**10,166**	4,466
Current liabilities	**(1,857)**	(1,796)	**(70)**	(59)
Non-current liabilities	**–**	–	**(620)**	–
Net investment	**15,267**	13,389	**9,476**	4,407
Share of profits after tax	**1,879**	3,708	**1,917**	305

Aggregate information of the Group's share of assets, liabilities and results of joint ventures, that are not individually material are:

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Investment property	**252**	193
Current assets	**846**	1,492
Total assets	**1,098**	1,685
Current liabilities	**(11)**	(643)
Net investment	**1,087**	1,042
Share of (losses)/profits after tax	**(5)**	26

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018: continued

16. Investments: continued

Investment in subsidiaries

Particulars of the Group undertakings (including joint ventures) at 31 December 2018 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 (1)	Non-trading	Ordinary	100
Harworth Guarantee Co. Limited (1)	Non-trading	Limited by guarantee	100
Harworth Trustees Limited (1)	Dormant	Ordinary	100
Harworth Secretariat Services Limited (1)	Non-trading	Ordinary	100
Harworth Estates Property Group Limited (1)	Trading	Ordinary	100
Harworth Estates Group Limited (1)	Non-trading	Ordinary	100
Harworth No. 3 Limited (1)	Non-trading	Ordinary	100
Harworth Services Limited (1)	Non-trading	Ordinary	100
Harworth Estates Limited (1)	Trading	Ordinary	100
Bates Regeneration Limited (2)	Trading	Ordinary	50
EOS Inc Limited (1)	Trading	Ordinary	100
Harworth Estates (Agricultural Land) Limited (1)	Trading	Ordinary	100
Harworth Estates (Waverley Prince) Limited (1)	Trading	Ordinary	100
Waverley Community Management Company Limited (1)	Trading	Limited by guarantee	100
Harworth Estates Curtilage Limited (1)	Trading	Ordinary	100
Harworth Estates Investments Limited (1)	Trading	Ordinary	100
Harworth Estates Mines Property Limited (1)	Trading	Ordinary	100
Harworth Estates No 2 Limited (1)	Trading	Ordinary	100
Harworth Estates Overage Limited (1)	Trading	Ordinary	100
Harworth Estates Warwickshire Limited (1)	Trading	Ordinary	100
Harworth TRR Limited (1)	Trading	Ordinary	100
Logistics North MC Limited (1)	Trading	Ordinary	12.18
POW Management Company Limited (1)	Trading	Limited by guarantee	100
Rossington Community Management Company Limited (1)	Trading	Limited by guarantee	100
Harworth Regeneration Limited (1)	Dormant	Ordinary	100
Mapplewell Management Company Limited (1)	Trading	Limited by guarantee	100
Gateway 45 No.1 Limited (1)	Dormant	Ordinary	50
The Aire Valley Land LLP (1)	Trading	Partnership	50
Flass Lane Management Company Limited (1)	Trading	Limited by guarantee	100
Harworth Surface Water Management (North West) Limited (1)	Trading	Ordinary	100
Multiply Logistics North Holdings Limited (1)	Trading	Ordinary	20
Multiply Logistics North LP (1)	Trading	Partnership	20
Waverley Square Limited (3)	Trading	Ordinary	50
Simpson Park Management Company Limited (1)	Dormant	Limited by guarantee	100

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

Notes

(1) Registered office at Advantage House, Poplar Way, Rotherham, South Yorkshire, S60 5TR.

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

(3) Registered office at Dransfield House, 2 Fox Valley Way, Fox Valley, Sheffield, S36 2AB.

The following entities were incorporated post year end:

- Thoresby Vale Management Company Limited
- Cadley Park Management Company Limited
- Cutacre Country Park Management Company Limited

17. Inventories

	Group	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Development properties	**204,157**	210,471
Planning promotion agreements	**1,773**	1,064
Option agreements	**705**	–
Finished goods	**374**	83
Total inventories	**207,009**	211,618

The total cost of inventory recognised as an expense within cost of sales in the year is £42.6m (2017: £28.1m) comprised of: £41.4m (2017: £22.1m) relating to the sale of development properties; £1.7m (2017: £5.8m) net realisable value provision against development properties; and a credit of £0.3m (2017: £0.2m charge) relating to finished goods stocks. Finished goods are stated after a provision of £0.3m (2017: £0.3m).

The movement in the development properties is as follows:

	Note	Group	
		As at 31 December 2018 £'000	As at 31 December 2017 £'000
At 1 January		**210,471**	–
Acquisitions		**3,451**	–
Subsequent expenditure		**23,320**	2,424
Disposals		**(32,339)**	(15,253)
Net realisable value provision		**(1,736)**	(5,818)
Re-categorisation from investment properties	15	**990**	229,118
At 31 December		**204,157**	210,471

The movement in the net realisable value provision on development properties is as follows:

	Group	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000
At 1 January	**5,818**	–
Net realisable value provision for the year	**4,767**	5,818
Released on disposals	**(124)**	–
Reversal of previous net realisable provision	**(2,907)**	–
At 31 December	**7,554**	5,818

The bank and other loans are secured by fixed equitable charges over development and investment properties. A transfer from the fair value reserve to retained earnings of £4.7m (2017: £5.8m) was undertaken as the development property requiring the net realisable provision stated above had, when previously classified as investment property, a revaluation gain in excess of this balance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

18. Trade and other receivables

	Group		Company	
Current	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Trade receivables	**43,004**	7,941	**–**	–
Less: provision for impairment of trade receivables	**(142)**	(207)	**–**	–
Net trade receivables	**42,862**	7,734	**–**	–
Other receivables	**21,492**	16,030	**62**	284
Prepayments and accrued income	**2,345**	1,401	**93**	–
Amounts owed by subsidiary undertakings (note 31)	**–**	–	**30,064**	32,984
	66,699	25,165	**30,219**	33,268

Non-current				
Trade receivables	**–**	5,250	**–**	–

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.

Included within trade receivables are £19.2m (2017: £12.2m) of deferred consideration on the sale of investment and development property.

The non-current trade receivable of £5.3m in 2017 related to deferred consideration on the sale of a development property due in more than one year.

Included within other receivables are £12.7m (2017: £9.6m) of cash held in accounts over which third party infrastructure loan providers have a charge.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables as disclosed in note 23. The Group and Company do not hold any collateral as security.

The amounts owed to the Company by subsidiary undertakings are repayable on demand. Interest is payable at LIBOR +2%.

Group

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

	Group	
	2018 £'000	2017 £'000
At the beginning of the year	**(207)**	(221)
Receivables written off during the year as uncollectable	**39**	10
Released in the year	**26**	4
At the end of the year	**(142)**	(207)

Trade receivables can be analysed as follows:

	Group	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Amounts receivable not past due	**42,492**	11,943
Amounts receivable past due but not impaired	**370**	1,041
Amounts receivable impaired (gross)	**142**	207
Less impairment	**(142)**	(207)
	42,862	12,984

18. Trade and other receivables: continued

Ageing of past due but not impaired trade receivables:

	Group	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000
31 – 60 days	**79**	824
61 – 90 days	**117**	193
91 – 120 days	**43**	24
120+ days	**131**	–
	370	1,041

Ageing of impaired trade receivables:

	Group	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000
31 – 60 days	**–**	–
61 – 90 days	**–**	7
91 – 120 days	**142**	200
	142	207

19. Assets classified as held for sale

		Group	
	Note	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Investment properties			
At 1 January		**7,688**	8,350
Net transfer from investment properties	15	**25,877**	13,778
Subsequent expenditure		**6**	159
Decrease in fair value		**–**	(83)
Disposals		**(22,615)**	(14,516)
At 31 December		**10,956**	7,688

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

20. Cash

	Group		Company	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Cash	**8,595**	8,371	**1,116**	1,267

21. Borrowings

	Group	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Current:		
Secured – other loans	**(5,291)**	(6,145)
	(5,291)	(6,145)
Non-current:		
Secured – bank loans	**(58,745)**	(23,437)
Secured – other loans	**(9,002)**	(11,064)
	(67,747)	(34,501)
Total borrowings	**(73,038)**	(40,646)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

21. Borrowings: continued

		Group	
		As at 31 December 2018 Net loan £'000	As at 31 December 2017 Net loan £'000
Infrastructure loans			
Sheffield City Region JESSICA Fund	Gateway 36/Rockingham	**–**	(2,353)
Homes and Communities Agency	Village Farm	**–**	(141)
Leeds LEP	Prince of Wales	**–**	(396)
Homes and Communities Agency	Waverley	**(4,875)**	(7,205)
Sheffield City Region JESSICA Fund	Advanced Manufacturing Park, Waverley	**(2,766)**	(5,108)
North West Evergreen Limited Partnership	Units C4 and C5 R-evolution at Logistics North	**(2,691)**	(2,006)
Homes and Communities Agency	Simpson Park	**(3,961)**	–
		(14,293)	(17,209)
Bank borrowings			
Revolving credit facility		**(58,745)**	(23,437)
		(73,038)	(40,646)

The infrastructure loans are provided by public bodies in order to promote the development of major sites. These loans are secured by way of fixed equitable charges over certain assets of the Group. These loans have all-in funding rates of between 3.2% and 4.0%. The bank borrowings are part of a £100m (2017: £75.0m) revolving credit facility from National Westminster Bank PLC and Santander. The term of the facility was extended for two years on 13 February 2018 and is now repayable on 13 February 2023 (five year term). The facility was also increased from £75m to £100m on 30 April 2018, when Santander joined the facility.

The facility is non-amortising and subject to financial and other covenants. The interest rate on the RCF is ICE Libor Rate plus 2.1%

These loans are stated after the deduction of unamortised borrowing costs of £0.4m (2017: £0.8m).

22. Trade and other payables

Current liabilities

	Group		Company	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Trade payables	**2,318**	2,668	**100**	6
Amounts owed to subsidiary undertakings (note 31)	**–**	–	**4,737**	53
Taxation and social security	**9,740**	2,294	**–**	45
Other creditors	**4,160**	3,196	**3**	18
Accruals and deferred income	**36,337**	30,339	**662**	3,414
	52,555	38,497	**5,502**	3,536

	Group		Company	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Amounts in accruals include amounts relating to parcels of land that have been sold but where infrastructure costs are yet to be incurred	**15,753**	17,200	**–**	–

Non-current liabilities

	Group		Company	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Other liabilities	**300**	760	**–**	**–**
	300	760	**–**	**–**

Non-current liabilities relate to deferred payments due on land purchases.

23. Financial instruments and derivatives

On 20 July 2018, Harworth cancelled its existing £30m fixed rate interest swap with National Westminster Bank PLC which was due to expire on 30 June 2020 (incurring total break costs of £18.5k) and in its place entered into a 4-year, £45m fixed rate interest swap with Santander at an all-in cost of 1.235% (including fees) on top of the existing 210bps margin paid under the RCF. The interest rate swap is hedge accounted with any unrealised movements going through reserves.

The fair value of the interest rate swap at 31 December 2018 was a loss of £0.1m (2017: £0.1m).

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

	2018 £'000	2017 £'000
Gain on interest rate swap - cash flow hedge	**13**	244

The Group's principal financial instruments include trade and other receivables, cash, interest bearing borrowings and trade and other payables.

Other financial assets and liabilities

	31 December 2018		31 December 2017	
Group	**Book value £'000**	**Fair value £'000**	Book value £'000	Fair value £'000
Assets				
Cash	**8,595**	**8,595**	8,371	8,371
Trade and other receivables	**64,354**	**64,354**	28,741	28,741
Liabilities				
Bank and other borrowings	**73,038**	**73,038**	40,646	40,646
Trade and other payables	**43,115**	**43,115**	34,612	34,612

	31 December 2018		31 December 2017	
Company	**Book value £'000**	**Fair value £'000**	Book value £'000	Fair value £'000
Assets				
Cash	**1,116**	**1,116**	1,267	1,267
Trade and other receivables	**30,219**	**30,219**	32,994	32,994
Liabilities				
Trade and other payables	**5,502**	**5,502**	3,491	3,491

In accordance with IFRS 9, the Group classifies the assets and liabilities in the analysis above as 'loans and receivables' and 'other financial liabilities', respectively. At the 2018 and 2017 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.

24. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

24. Financial risk management: continued

Interest rate risk

The Group's interest rate risk arises from external borrowings. These are charged at LIBOR plus 2.1%. From 13 February 2018 the rate increased from 2.0% to 2.1%, following the two year extension to the facility. On 20 July 2018 the Group entered into a four-year swap with Santander to fix £45m (2017: £30m) of borrowing at an all in rate of 1.235% on top of the existing 210bps margin paid under the RCF (2017: 0.955% plus 200bps margin), including fees. The swap is hedge accounted with any unrealised movements going through reserves.

The Group also has four (2017: six) infrastructure loans with all in funding rates of between 3.2% and 4.0% (2017: 2.5% and 4.7%).

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 2018 of £64.4m; (2017: £32.3m). The Group utilised cash from operating activities and investing activities for the year of £28.5m (2017: utilised £16.6m).

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

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
At 31 December 2018			
Trade and other payables	52,555	100	200
Bank and other borrowings (including interest payable)	5,291	5,041	62,706
At 31 December 2017			
Trade and other payables	33,852	760	–
Bank and other borrowings (including interest payable)	6,145	5,158	29,343

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 in note 20.

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 at 31 December 2018 this was £64.4m (2017: £32.3m).

The Group has in place a £100m (2017: £75.0m) revolving credit facility from National Westminster Bank PLC and Santander. The facility is a five-year term facility which ends in February 2023 (after being extended for two years from 13 February 2018). It is on a non-amortising basis and is subject to financial and other covenants.

The facility provided by the banks is subject to covenants over loan to market value of investment and development properties, gearing, and minimum consolidated net worth.

The Group comfortably operated within these requirements throughout the year.

25. Retirement benefit obligations

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 £0.4m (2017: £0.3m). 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 2018 £'000	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Relating to continuing activities				
Blenkinsopp	**462**	563	**462**	563

Contributions to the Blenkinsopp scheme of £0.2m were made by the Group during 2018 (2017: £0.2m). It is expected that contributions of a similar amount will be paid in 2019. At December 2018, no contributions remained unpaid (2017: £nil).

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

	As at 31 December 2018	As at 31 December 2017
Discount rate	**2.80% p.a.**	2.50% p.a.
Rate of pension increases	**2.25% p.a.**	2.15% p.a.
Rate of price inflation (RPI)	**3.20% p.a.**	3.10% p.a.
Rate of price inflation (CPI)	**2.20% p.a.**	2.10% p.a.
Rate of cash commutation	**25.00% of pension at a rate of £9:£1**	25.00% of pension at a rate of £9:£1

	Year ended 31 December 2018	Year ended 31 December 2017
Life expectancy at age 65 for current pensioners (years)		
Male	**19.5**	19.6
Female	**22.8**	22.8
Life expectancy at age 65 for future pensioners currently aged 45 (years)		
Male	**21.0**	21.1
Female	**24.1**	24.4

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:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Fair value of plan assets	**2,249**	2,228	2,117	1,727	1,740
Present value of funding obligations	**(2,711)**	(2,791)	(2,719)	(2,162)	(2,304)
Net liability recognised in the Balance Sheet	**(462)**	(563)	(602)	(435)	(564)

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

25. Retirement benefit obligations: continued

The amounts recognised in the Consolidated Income Statement are:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Expenses	**(43)**	(32)
Past service cost	**(15)**	–
Interest cost	**(13)**	(13)
	(71)	(45)

The past service cost of £15k relates to GMP Equalisation.

A further cost of £0.0m (2017: £0.1m) 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.

Change in assets	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Fair value of plan assets at the start of the year	**2,228**	2,117
Interest income	**57**	55
Actual return on scheme assets excluding interest income	**(99)**	(19)
Employer contributions	**189**	189
Expenses	**(43)**	(32)
Benefits paid	**(83)**	(82)
Fair value of plan assets at the end of the year	**2,249**	2,228

Plan assets are comprised as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Gilts	**1,301**	1,352
Corporate bonds	**–**	1
Diversified and multi-asset growth funds	**183**	543
Sterling liquidity fund	**379**	327
Other	**386**	5
Total	**2,249**	2,228

Change in defined benefit obligations	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Present value of defined benefit obligations at the start of the year	**(2,791)**	(2,719)
Past service cost	**(15)**	–
Interest cost	**(69)**	(68)
Remeasurements:		
– Gain/(loss) arising from changes in demographic assumptions	**20**	(117)
– Loss arising from changes in experience	**(7)**	(10)
– Gain arising from changes in financial assumptions	**68**	41
Benefits paid	**83**	82
Present value of defined benefit obligation at the end of the year	**(2,711)**	(2,791)

25. Retirement benefit obligations: continued

Analysis of the movement of the Balance Sheet liability	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
At the start of the year	(563)	(602)
Total amounts recognised in the Income Statement	(70)	(45)
Employer contributions	189	189
Net actuarial loss recognised in the year	(18)	(105)
At the end of the year	(462)	(563)

The maturity of the defined benefit obligation is c.18 years (2017: c.19 years).

Cumulative actuarial gains and losses recognised in equity	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
At the start of the year	(162)	(57)
Net actuarial loss in the year	(18)	(105)
At the end of the year	(180)	(162)

Experience gains and losses	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Actual return on scheme assets excluding interest income	(99)	(19)
Remeasurements:		
– Loss arising from changes in experience	(7)	(10)
– Gain/(loss) arising from changes in financial and demographic assumptions	88	(76)
Net actuarial loss	(18)	(105)

Contributions are determined by a qualified actuary on the basis of a triennial valuation, using the projected credit unit method. The most recent valuation for the purpose of determining contributions was at 31 December 2015, which was agreed in September 2017. This showed an estimated past service deficit of £1.2m. The next valuation has yet to be finalised.

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

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Change in discount rate by 0.1%	40	45
Change in price inflation (and associated assumptions) by 0.1%	35	40
Increase in life expectancy by 1 year	100	110

The above sensitivity analysis 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.

The Scheme exposes the Group to actuarial risks such as: investment risk, interest rate risk and longevity risk.

- Investment risk: the present value of the defined benefit obligation is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on Scheme assets is below this rate, it will create a deficit. The majority of the Scheme investments are held within index-linked government bonds or cash/liquidity funds.
- Interest rate risk: a decrease in the corporate bond interest rate will increase the liability but this would likely be partially offset by an increase in the return on the Scheme's debt investments.
- Longevity risk: the present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of Scheme participants both during and after their employment. An increase in the life expectancy of the participants will increase the Scheme's liability.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

26. Share based payments

At 31 December 2018 there were three classes of equity-settled share incentive plans outstanding:

- Deferred Share Bonus Plan (DSBP). Under this scheme share options with a nil-cost exercise price are granted to eligible employees. Vesting of the share options is subject to the achievement of a performance condition relating to Total Return and continued employment.
- Long Term Incentive Plan (LTIP). Under this scheme share options with a nil-cost exercise price are granted to eligible employees. Vesting of the share options is subject to the achievement of performance conditions relating to Total Return and Relative Total Shareholder Return and continued employment. Details of the performance conditions are disclosed in the Directors' Remuneration Report.
- Save As You Earn (SAYE). Under this scheme eligible employees enter into a savings contract for a period of three years. Share options are granted on commencement of the savings contract and are exercisable using the amount saved under the contract at the time it terminates. Share options are granted at a discount of up to 20% of the market value of the shares at the time of invitation. The exercise of the share options is subject to continued employment only.

Share options granted under the DSBP and LTIP are exercisable no later than the tenth anniversary of the grant date. Share options granted under the SAYE are exercisable for a six month period after the end of the three year savings period.

The movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	Number of shares		Weighted average exercise price	
DSBP	**2018**	2017	**2018**	2017
Outstanding at beginning of the year	**241,283**	–	**£0.00**	£0.00
Granted during the year	**185,283**	241,283	**£0.00**	£0.00
Forfeited during the year	**–**	–	**n/a**	n/a
Exercised during the year	**(64,239)**	–	**£1.25**	n/a
Outstanding at end of the year	**362,327**	241,283	**£0.00**	£0.00
Exercisable at end of the year	**–**	–	**n/a**	n/a
Weighted average remaining contractual life	**8.78 years**	8.79 years		

	Number of shares		Weighted average exercise price	
LTIP	**2018**	2017	**2018**	2017
Outstanding at beginning of the year	**1,698,754**	812,953	**£0.00**	n/a
Granted during the year	**826,691**	885,801	**£0.00**	£0.00
Forfeited during the year	**(459,430)**	–	**n/a**	n/a
Exercised during the year	**–**	–	**n/a**	n/a
Outstanding at end of the year	**2,066,015**	1,698,754	**£0.00**	£0.00
Exercisable at end of the year	**–**	–	**n/a**	n/a
Weighted average remaining contractual life	**8.31 years**	8.85 years		

	Number of shares		Weighted average exercise price	
SAYE	**2018**	2017	**2018**	2017
Outstanding at beginning of the year	**383,881**	–	**£0.00**	n/a
Granted during the year	**68,827**	383,881	**£0.00**	£0.00
Forfeited during the year	**–**	–	**n/a**	n/a
Exercised during the year	**–**	–	**n/a**	n/a
Outstanding at end of the year	**452,708**	383,881	**£0.00**	£0.00
Exercisable at end of the year	**–**	–	**n/a**	n/a
Weighted average remaining contractual life	**2.11**	3.09		

The fair values of the share options granted under the DSBP, LTIP (subject to the Total Return performance condition) and SAYE during the year were determined using Black-Scholes valuation methodology.

The fair values of the share options granted under the LTIP (subject to the Total Shareholder Return performance conditions) were determined using Monte Carlo valuation methodology, as this incorporates the probability of achieving the Total Shareholder Return performance conditions within the fair values at the grant date.

26. Share based payments: continued

The significant inputs to the valuation models were as follows:

	DSBP	LTIP	SAYE
Share price at date of grant	£1.090	£1.090	£1.105
Exercise price	£0.00	£0.00	£0.876
Dividend yield	0.76%	0.76%	0.75%
Expected volatility	23.4%	23.4%	23.6%
Risk free interest rate	0.90%	0.90%	0.88%
Expected term	3 years	3 years	3.35 years
Weighted average fair value	£1.07	£0.78	£0.28

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

One of the DSBP Schemes vested in the year with a weighted average share price on exercise of £1.25 (2017: £nil).

The total charge for the year relating to employee share based payment plans was £1.2m, all of which related to equity-settled share based payment transactions.

27. Called up share capital

On 17 March 2017, the Company issued 29,226,974 ordinary shares at 95 pence each, with a nominal value of 10 pence each.

	2018		2017	
Group and Company	**Number of shares**	**£'000**	Number of shares	£'000
Issued and fully paid				
At 1 January	**321,496,760**	**32,150**	292,269,786	29,227
Shares issued	**–**	**–**	29,226,974	2,923
At 31 December	**321,496,760**	**32,150**	321,496,760	32,150
Own shares held	**(181,771)**	**(194)**	(246,010)	(263)
At 31 December 2017	**321,314,989**	**31,956**	321,250,750	31,887

The own shares represent the number and cost of shares purchased in the market and held by the Harworth Group plc Employee Benefit Trust to satisfy Long Term Incentive Plan awards for Executive Directors and Senior Executives.

Long Term Incentive Plans

The Directors' remuneration report which forms part of these financial statements provides details of all incentive plans.

28. Share premium account

Group and Company	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
At 1 January	**24,351**	–
Premium on shares issued	**–**	24,842
Costs relating to share issue	**–**	(700)
Other transaction costs	**–**	209
At 31 December	**24,351**	24,351

29. Capital and other financial commitments

Future spend required to bring our investment and development properties to their highest and best use is disclosed in note 15, and includes section 106 obligations. Capital commitments for the acquisition of property, plant and equipment are disclosed in note 13.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

30. 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.

a) Future minimum lease payments

At 31 December 2018, the future minimum lease payments under non-cancellable leases were payable as follows:

	Group		Company	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Less than one year	**49**	34	**–**	–
Between one and five years	**6**	17	**–**	–
	55	51	**–**	–
Amounts recognised in the Income Statement				
Lease cost	**77**	64	**–**	–

b) Future minimum lease receipts

As set out in note 15 property rental income earned during the year was £12.2m (2017: £9.1m).

At 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	Group		Company	
	As at 31 December 2018 £'000	As at 31 December 2017 £'000	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Less than one year	**11,587**	8,342	**–**	–
Between one and five years	**31,505**	25,001	**–**	–
More than five years	**98,899**	34,814	**–**	–
	141,991	68,157	**–**	–

31. Related parties

GROUP

The Group carried out the following transactions with related parties.

The remuneration of Directors and key management is given in note 6.

Details of the Company's intercompany balances and interest at 31 December 2018 are set out below:

PEEL GROUP	**As at 31 December 2018 £'000**	As at 31 December 2017 £'000
Revenue		
Sale of land	**1,600**	3,100
Resultant profit on sale from above land sales	**1,078**	1,200
Cost of sales/administrative expenses		
Recharges in respect of fees for Steven Underwood, a non-executive director	**(43)**	(43)
Recharges in respect of expenses for Steven Underwood, a non-executive director	**(1)**	–
Recharges of shared costs	**(27)**	–
Payment in respect of a deed of release at Logistics North	**(148)**	(800)
Payment for the surrender of option to facilitate grant of new lease to third party	**(934)**	–
Receivables		
Trade receivables	**1,920**	–

31. Related parties: continued

MULTIPLY LOGISTICS NORTH HOLDINGS LIMITED & MULTIPLY LOGISTICS NORTH LP	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Revenue		
Sale of land	–	8,100
Recharges of costs	**256**	600
Development management fee	**37**	200
Asset management fee	**348**	–
Water charges	**48**	–
Payables		
Trade payables	**(5)**	–
Shareholder loan made during the year	**2,793**	3,793

BANKS GROUP	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Acquisition of land		
Acquisition of land at Moss Nook	**3,000**	–
Trade payables		
Deferred payment for the acquisition of land at Moss Nook	**(1,000)**	–

WAVERLEY SQUARE LIMITED	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Shareholder loan made during the year	**50**	225

COMPANY

The Company carried out the following transactions with subsidiary undertakings.

Details of the Company's intercompany balances and interest at 31 December 2018 are set out below:

	As at 31 December 2018 £'000		As at 31 December 2017 £'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	**585**	**21,008**	308	22,774
Harworth Estates Limited	**(20)**	**(1,004)**	17	709
Harworth Estates Investments Limited	**(9)**	**(1,559)**	–	–
Harworth Guarantee Co. Limited	**4**	**(49)**	(1)	(53)
Harworth Estates Mines Property Limited	**–**	**7,000**	–	7,000
Harworth Estates Curtilage Limited	**56**	**2,056**	–	2,000
Harworth Estates Waverley Prince Limited	**(4)**	**(254)**	–	–
Harworth Estates Property Group Limited	**(32)**	**(1,842)**	172	277
Coalfield Estates Limited	**–**	**(29)**	5	224
	580	**25,327**	501	32,931

Dividends received

During the year the Company received dividends of £nil (2017: £nil) from subsidiary undertakings.

32. Post balance sheet events

There are no post balance sheet events to disclose that have not been disclosed publicly by a regulatory news announcement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018: continued

COMPANY INFORMATION AND INVESTOR TIMETABLE

Chairman
Alastair Lyons

Chief Executive
Owen Michaelson

Finance Director
Andrew Kirkman

Non-Executive Directors
Lisa Clement
Anthony Donnelly
Andrew Cunningham
Angela Bromfield
Ruth Cooke
Steven Underwood
Martyn Bowes

Company Secretary and Registered Office
Christopher Birch
Advantage House
Poplar Way
Rotherham, S60 5TR

Independent Auditors
PricewaterhouseCoopers LLP
Central Square, 29 Wellington St,
Leeds, LS1 4DL

Solicitors
DLA Piper UK LLP
1 St Paul's Place
Sheffield, S1 2JX

Brokers
Peel Hunt LLP
Moor House
120 London Wall
London, EC2Y 7QR

Liberum Group Limited
Ropemaker Place
25 Ropemaker Street
London, EC2Y 9LY

Registrars
Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex, BN99 6DA

Principal bankers
National Westminster Bank PLC (RBS)
3rd Floor
2 Whitehall Quay
Leeds, LS1 4HR

Santander UK plc
44 Merrion Street
Leeds, LS2 8JQ

Company Registered Number
02649340

Share price information
The Company's Ordinary Shares are traded on the London Stock Exchange.
SEDOL number BYZJ7G4
ISIN number GB00BYZJ7G42
Reuters ticket HWG.L
Bloomberg ticker HWG:LN

LEI Code
213800R8JSSGK2KPFG21

Financial Calendar

Ex-Dividend Date	Announced	2 May 2019
Record Date for Dividend	Announced	3 May 2019
Annual General Meeting Bessemer Room, AMP Technology Centre, Waverley, Rotherham, S60 5WG	Announced	21 May 2019
Dividend Payment Date	Announced	31 May 2019
Proposed date for Interim Results Announcement 2019 Interim Results to be published at www.harworthgroup.com/investors		10 September 2019
Proposed Record date for Interim Dividend		20 September 2019
Proposed date for payment of Interim Dividend		18 October 2019

Registrars

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA (telephone: 0371 384 2301) and should clearly state the registered Shareholder's name and address.

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society should contact the Registrars for a dividend mandate form. Dividends paid in this way will be paid through the Bankers' Automated Clearing System (BACS).

Website

The Group has a website (www.harworthgroup.com) that gives further information on the Group.

Definitions and abbreviations used

2012 Restructuring	The restructuring of the former UK Coal in December 2012
2016 Code	the 2016 edition of the Code
2018 Code	the 2018 edition of the Code
AGM	Annual General Meeting
AMP	Advanced Manufacturing Park, Rotherham
APM	Alternative Performance Measure
ATR	Absolute Total Return
BCP	Business Continuity Plan
bps	basis points
CA06	Companies Act 2006
CDM	The Construction (Design and Management) Regulations 2015
Code	UK Corporate Governance Code
Company	Harworth Group plc
CO_2e	Carbon dioxide equivalents
CPD	continuing professional development
Deloitte	Deloitte LLP
DLA	DLA Piper UK LLP
EA	Environment Agency
EBT	The Harworth Group Plc Employee Benefit Trust
EES	Estates, Environment and Safety team
EfW	Energy from Waste
EPRA	European Public Real Estate Association
EPRA NAV	EPRA NNNAV excluding deferred tax, notional deferred tax on the mark to market value of development properties and the mark to market movement on financial instruments
EPRA NNNAV or NNNAV	NAV plus the mark to market value of development properties less notional deferred tax on this mark to market
EPS	Earnings Per Share
ESMA	European Securities and Markets Authority
FCA	Financial Conduct Authority
FPPP	Financial Position and Prospects Procedures
FRC	Financial Reporting Council
FTI	FTI Consulting
FYE	Financial year ending
GDPR	General Data Protection Regulation
GRR	Group Risk Register
Harworth Estates	Harworth Estates Property Group Limited and its subsidiaries
Harworth or Group	Harworth Group plc and its subsidiaries
HEPGL	Harworth Estates Property Group Limited
HSE	Health and Safety Executive
IFRSs	International Financial Reporting Standards
IRP	Incident Response Plan
JPW	JPW Consulting Limited
KPI	Key Performance Indicator
KPMG	KPMG LLP
LCPF	Lancashire County Pension Fund
LEP	Local Enterprise Partnership
LTIP	Harworth Group Plc Long Term Incentive Plan
LTV	Loan To Value
Marsh	Marsh Risk Consulting
NAV	Net Asset Value
NBV	Net Book Value
NCC	NCC Group
NPPF	National Planning Policy Framework
parent entity	Harworth Group Plc
PEG Principles	The Pre-emption Group Principles
Peel Group	The Peel group of companies
PEL	Peel Environmental Limited
PEVG	Profit excluding Value Gains
Policy	Remuneration Policy
PPAs	Planning Promotion Agreements
PPF	The Pension Protection Fund
psf	Per square foot
PSG	People Steering Group
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
RSP	Restricted Share Plan
RNS	Regulatory News Service
Santander	Santander UK plc
SAYE	Save As You Earn scheme
SHEMS	Safety, Health and Environment Management System
TSR	Total Shareholder Return
WAMITAB	Waste Management Industry Training and Advisory Board (UK)
WAULT	Weighted Average Unexpired Lease Term

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