

# Harworth

Transform   Regenerate   Revitalise



**Harworth Group plc**

Annual Report and Financial Statements 2019





New homes at Waverley



Construction of new units at Advanced Manufacturing Park

# Our Purpose

Harworth invests to transform  
land and property into sustainable places  
where people want to live and work



Harworth employees at the Advanced Manufacturing Park



Gedling Country Park





**11** strategic land acquisitions  
and **7** planning promotion agreements  
signed to deliver **8,847**  
residential plots and  
**1.6m** sq. ft of commercial space

**4** income acquisitions  
made for a total consideration  
of **£20.9m** at  
an **8.4%** yield

**17** major developments  
now live across the portfolio

## 2019 Highlights

Harworth delivered a total return of 7.8% to shareholders in 2019 by continuing to plan and create great places for people to live and work. Our pipeline of over 29,000 homes and 24m sq. ft of commercial space, alongside our low gearing and strong balance sheet, puts us in a solid position for further growth



**Residential land sales of  
£61.0m** projected to deliver  
**1,379** new homes

**Completed commercial land sales of  
£30.3m** (£15.2m Harworth share) at  
Gateway 45 Leeds joint venture

**21** new or renewed lettings, adding  
(together with acquisitions) **£1.9m**  
of recurring income per annum





# Transform Regenerate Revitalise

Portfolio has potential to create  
**£3.5bn**  
per annum in Gross Value Added to UK plc

Portfolio could deliver a total of over  
**29,000**  
new homes

Portfolio could deliver  
**24.4m sq.ft**  
of commercial space

Capacity to deliver  
**270MW**  
of low-carbon energy from portfolio

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





# Harworth

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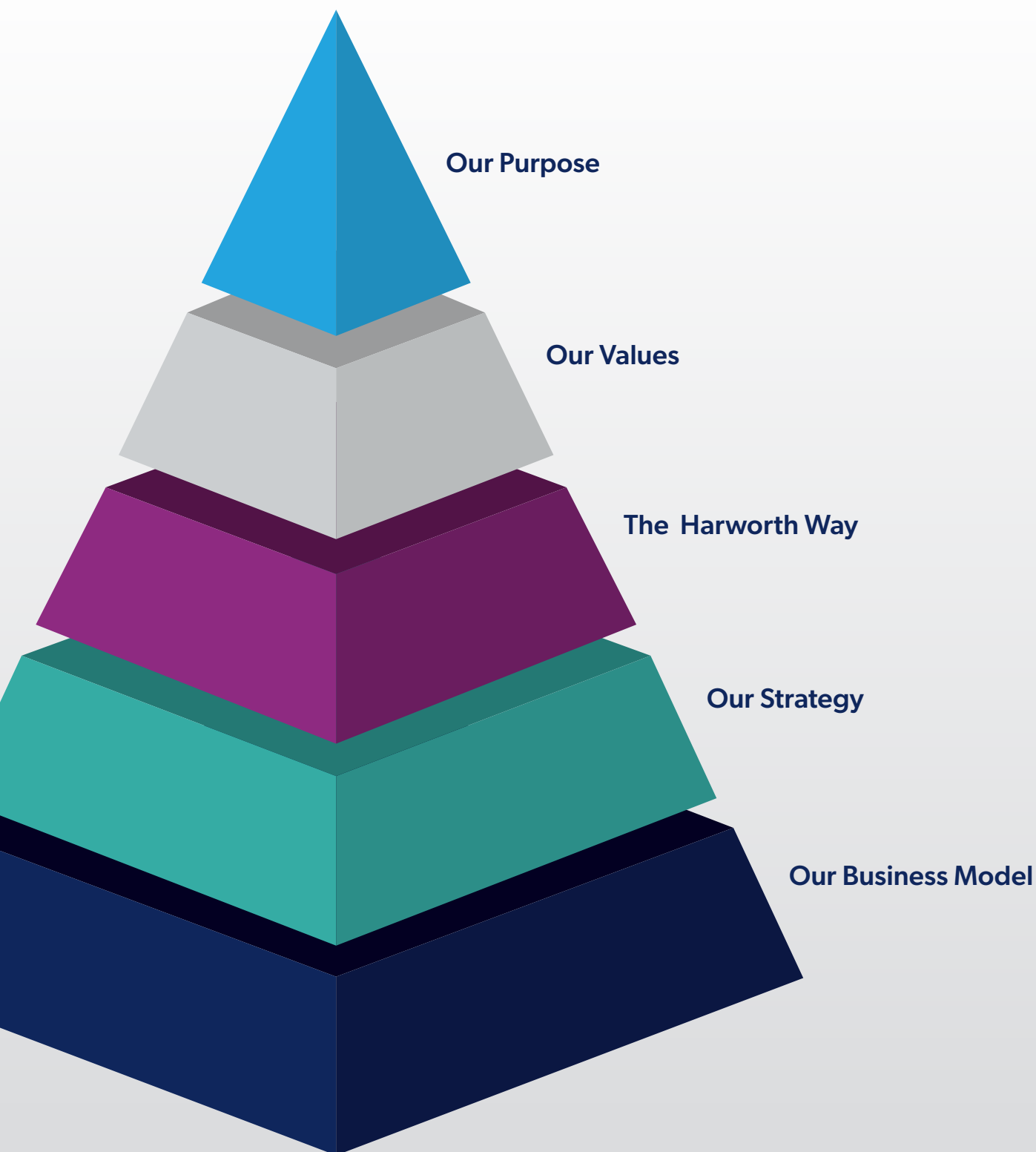
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# Delivering our purpose: how the business works

We balance the delivery of our purpose and market-leading shareholder returns through the application of the following model, reflecting that our people and the 'Harworth Way' are absolutely central to our success.



# Harworth invests to transform land and property into sustainable places where people want to live and work



**Communities**



**Planet**



**People**



**Partners**



**Governance**

\*See pages 42, 48, 54, 60 and 66 for more on "The Harworth Way"



## Development

Driving the capital growth of our land and property portfolio



## Sectors

Concentrating on those property markets with strong, through the cycle returns – currently residential, industrial & logistics



## Investment

Income and value generation through active asset management



## Regions

Leveraging relationships across our core areas in the North of England & Midlands



**Underpinned by a prudent financial approach with low financial gearing**

### Key business risks



Delivery



Social



Legal & Regulatory



Governance



People



Markets



Finance



Politics



Environment

### Measuring performance with our KPIs

Total return

Residential plots & employment space delivered

EPRA NNAV per share growth

Planning permissions submitted & approved

Value gains

Future pipeline of residential plots and employment space

Profit excluding value gains

Potential GVA that could be delivered from portfolio

Net debt & net loan to portfolio value

Sustainability & placemaking credentials

\*See pages 8 and 9 for more on Our Strategy

\*See pages 10 and 11: How we deliver value



# Doing business the Harworth Way

Harworth Group is committed to delivering shareholder returns in the right way by creating sustainable new places that support the social and economic development of the North of England and the Midlands.

Our stakeholders, including our shareholders, are also seeking increasing transparency on the actions that we take in delivering our Purpose whilst creating long term value.

We have selected five principal themes to address major social, economic and environmental trends whilst creating value for our stakeholders. These are set out below and represent how we do business in “the Harworth Way”.

## The Harworth way

### Communities



**We build, strengthen and support our communities now and for future generations**

We deliver some of the North of England and the Midlands’ largest new developments. This includes:

- delivering some of the largest commercial and residential sites in the Midlands and North, creating thousands of new jobs with the potential to contribute over £3.5bn GVA p.a.; and
- helping to meet the UK’s undersupply of housing, with developments including affordable housing and a range of tenures.

**Read more on pages 42 to 45**

### Planet



**We aim to create places in a sustainable way, efficiently using natural resources to minimise our own environmental impact**

In our role as master developer, we often regenerate sites with former industrial uses, safely managing any environmental liabilities while we do so.

This also includes supporting the future of energy. We are landlord for a number of low carbon energy schemes and several leading low-carbon firms are occupiers on our sites such as ITM, Xeros and the UK Atomic Energy Authority.

Our sustainability credentials also extend to how we develop ‘natural’ assets into our developments, including surface water attenuation schemes being installed across all of our major developments.

**Read more on pages 48 to 51**

### People



**We aim to build a business where people can flourish and placemake responsibly across our developments to create places and spaces that promote health & wellbeing – ultimately improving people’s lives**

Developing the skills of our people is crucial in delivering against our purpose and an essential part of our day-to-day work is ensuring that all of our employees live the “Harworth Values” to set an appropriate tone for our work.

Our responsible approach to development also directly influences our masterplanning, with hundreds of acres of new public open space being delivered each year to support more active lifestyles and improved mental wellbeing.

**Read more on pages 54 to 58**

**Our work actively contributes to the delivery of ten of the UN’s sustainable development goals. More can be read within each individual section:**







## Partners



**We develop strong partnerships based on shared goals - responsibly working towards a joint goal of long-term value creation for a range of stakeholders**

We focus on creating sustainable value through continuing partnerships with customers, local authorities, the Government and our suppliers to make best use of our sites for local people.

We engage regularly with our existing and potential shareholders and provide clear, timely information on our long-term strategy.

Harworth sites are often designated and developed as centres of excellence for industry and stimulate growth. This includes partnerships with 3 leading universities to promote new skills and innovation relating to advanced manufacturing, wellness and rail.

**Read more on pages 60 to 63**

## Governance



**High standards of corporate governance underpin the effective operation of our company**

Good governance has been built into the foundations of the Harworth approach from the start. We are now profiling better how governance supports the delivery of our long-term purpose and furtherance of our strategic priorities.

We aim to improve continually in these areas and align with industry best practice.

**Read more on pages 66 to 67**



New homes at Waverley, Autumn 2019





# Our Strategy

Our five strategic pillars to deliver our Purpose

## Development\*

Driving the capital growth of our portfolio through new strategic property acquisitions, delivery of planning permissions, site remediation and infrastructure, before crystallising land sales

### Where we are

7.2% p.a. EPRA NNAV per share growth and total return of 7.8% in 2019

### Where we want to be

To achieve a long-term market-leading return

### Key Business Risks



### Key Performance Indicators

- Total return
- EPRA NNAV per share growth
- Value gains
- Sustainability & placemaking credentials

## Regions

Leveraging our strong relationships in our core areas in the North of England and Midlands to expand our land and property portfolio

### Where we are

Our portfolio remains focused on the North of England with a growing emphasis on the Midlands and the North West

### Where we want to be

To expand our portfolio to the North West and Midlands to have similar weighting to our Yorkshire and Central heartland

### Key Business Risks



### Key Performance Indicators

- Potential GVA that could be delivered from portfolio

## Underpinned by a prudent financial approach

Expanding our use of alternative capital sources whilst maintaining our low balance sheet gearing to support the business and enhance returns.

### Where we are

Net debt of £70.9m and a net loan to portfolio value of 12.1%

### Where we want to be

To continue to target a loan to portfolio value ratio of between 10% and 15%

### Key Business Risks



### Key Performance Indicators

- Net debt
- Net loan to portfolio value



## Investment\*

Ensuring sustainable income generation through new income acquisitions, asset management of existing rental sites, direct development of new space and recycling of portfolio into higher value adding opportunities

### Where we are

We are covering our overheads and interest costs and have been increasing the resilience of our income streams

### Key Business Risks



### Where we want to be

**To cover our overheads, financing costs and taxation from operating activities with resilient income**

### Key Performance Indicators

- Profit excluding value gains
- Future pipeline of employment space
- Sustainability & placemaking credentials

## Sectors

Concentrating on those property markets with strong, through-the-cycle returns (currently residential, and industrial and logistics)

### Where we are

Our current focus is on the “beds and sheds” sectors which have strong fundamentals in the regions we operate in

### Key Business Risks



### Where we want to be

**We remain committed to delivering engineered land for the beds and sheds sectors, with a particular focus on increasing the range of residential tenures on our sites and supporting key regional industries such as manufacturing**

### Key Performance Indicators

- Residential plots & employment space delivered
- Planning permissions submitted & approved

Implemented through our Business Model across over 18,000 acres and 100 land and property sites

\*Development and Investment pillars now incorporate the elements of our Strategy previously presented under the Acquisitions pillar.



# How we deliver value

## Our Business Model

Our business model creates long-term value for our stakeholders. In the five years since re-listing we have generated an average total return of 13.3% p.a. for our investors, whilst delivering thousands of new homes and nearly 4m sq.ft of employment space in the regions we operate in.

What stands us apart is our approach to master development. Our experienced team take the most challenging sites and work collaboratively with stakeholders, reflecting on a site's location and assets, to undertake sustainable development.

We have seven specific phases, adding value at all stages of our model.



Capital reinvestment

1. Acquisitions & land assembly

2. Masterplanning

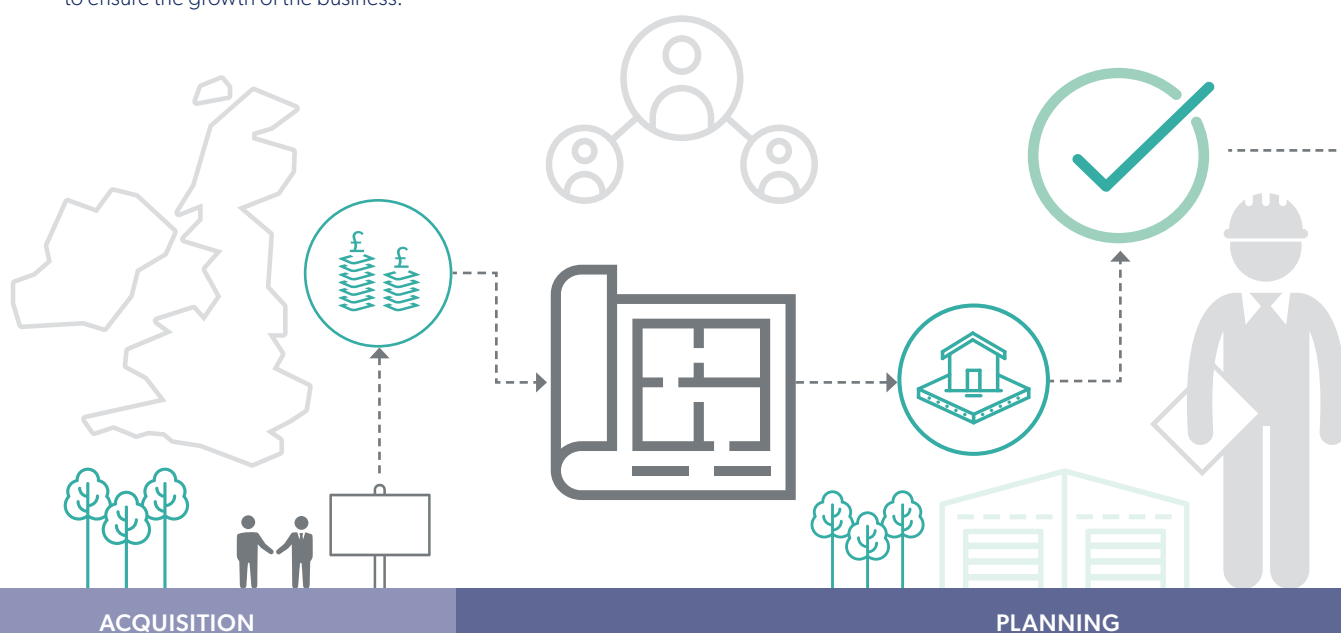
3. Planning approval

We have a large landbank of brownfield and greenfield land across the North of England and the Midlands, owning and managing c.18,000 acres of land on around 100 sites.

Key to our strategy is to replenish our portfolio with acquisitions to ensure the growth of the business.

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 sustainable residential or commercial uses, creates value.

We currently have planning consents for over 9,500 residential plots and over 9 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.





## 7. 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 to grow our income and managing our Business Space and Natural Resources sites to ensure overheads are minimised and tenants are satisfied.

Where appropriate, we will sell mature income generating sites, reinvesting the proceeds into higher yielding value adding opportunities.



Capital receipt

£££

## 4. Land remediation & infrastructure development

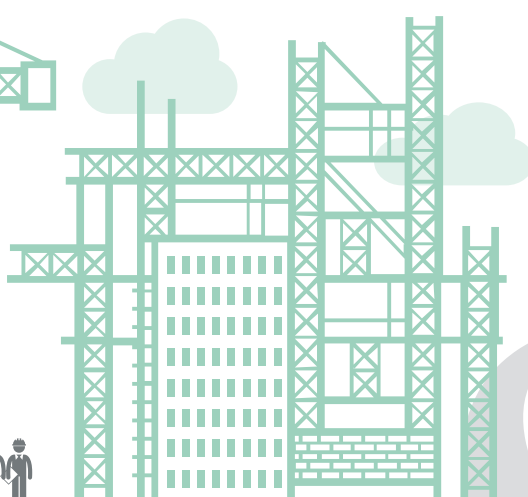
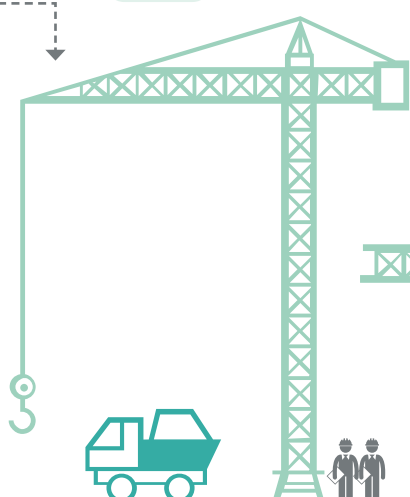
## 5. Plot sale and build out

## 6. Placemaking

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.

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.

We continue to invest in our sites alongside these sales. Whether it is providing schools and facilities alongside the new housing communities being created, or green spaces for exercise alongside logistics units where hundreds are newly employed, we aim to make great places where people want to live and work.



DEVELOPMENT



# Our sectors

We operate within the residential, industrial and logistics markets which have strong fundamentals in the North of England and Midlands and long-term opportunities for growth<sup>(1)</sup>

## Residential

### GOOD DEMAND FOR LAND

Continuing nationwide housing undersupply is driving consistently good demand for prepared land from housebuilders of all types in our regions. Fifteen separate housebuilders have now purchased land from Harworth, helping to tackle the UK's continued under-supply of around 100,000 homes per annum of all types in our regions, as shown by national completions data for 2018/19

### COMPARATIVE AFFORDABILITY OF NEW HOMES

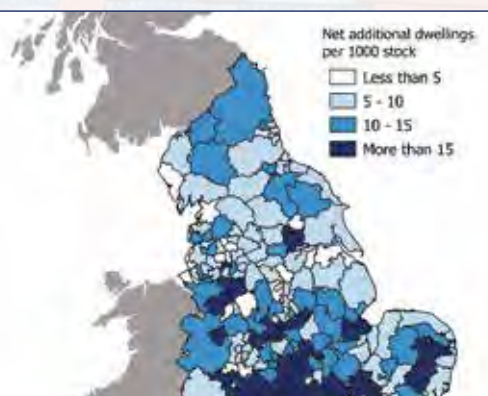
New houses on our sites in the North West, Midlands and Yorkshire & Central remain more affordable than in the South. Each of our regions has an affordability ratio<sup>(2)</sup> for first time buyers of less than 8, compared to over 11 in London and the South East

### GOVERNMENT SUPPORTS ACCELERATION OF BUILD-OUT

Housing remains the UK government's key domestic priority, supported by Help to Buy remaining in place until 2023 for first time buyers and maintenance of NPPF as UK's key planning document

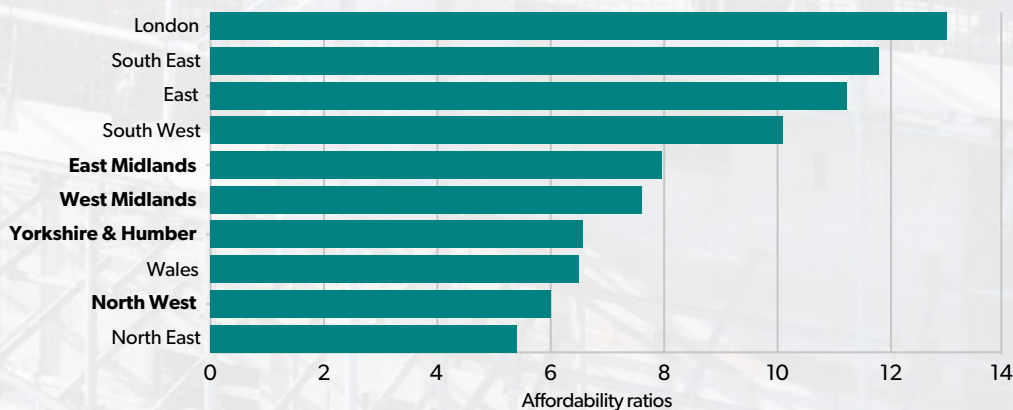
#### NET ADDITIONAL DWELLINGS DELIVERED PER 1000 STOCK IN 2018

Source: MHCLG, 2019



#### Prospective first-time buyer affordability ratios, by region

England and Wales, 2018



Source: ONS, 2019

(1) Whilst the markets in which we operate continue to have strong fundamentals notwithstanding the economic and social impact of the COVID-19 pandemic, it should be noted that the statements, and data referred to, in this section reflect the status of those markets before the onset of the pandemic.

(2) Calculated by dividing median house prices by median gross annual workplace-based earnings.

# Industrial & Logistics

## CONSISTENT DEMAND FOR NEW SPACE

Steady demand for well-located industrial space of all sizes remains in our regions. UK vacancy rate continues to stand at well below 10%. Reported demand from our agents in our regions for units of under 100,000 sq. ft is strong and has continued to improve into 2020

## LEADING PROPERTY SUB-SECTOR

Industrial sector is forecast to be one of the best performing property asset classes in the medium-term

## SUPPORTED BY STAKEHOLDERS

On the whole, local and national support for sustainable new commercial development remains, driven by the desire for economic regeneration and the need for business rate receipts

### Growth projected to continue in 2020



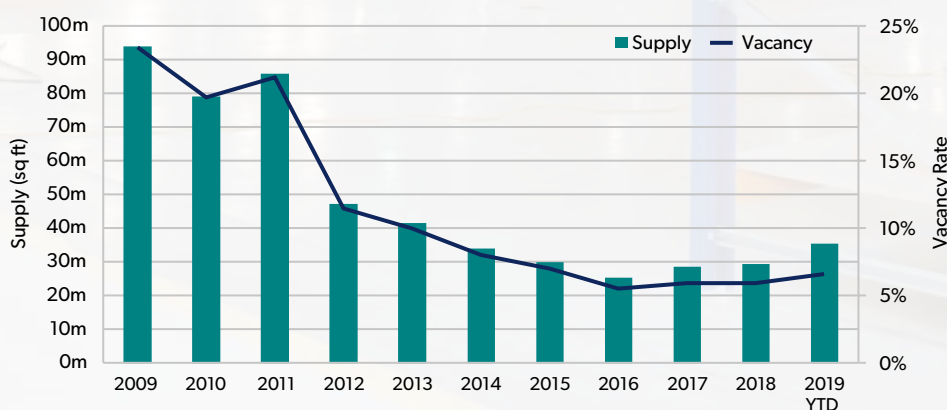
**Nationally, distribution rents** are forecast to grow by 0.8% in 2020.



The **investment market** remained resilient in 2019 with good levels of demand for logistics assets.

Source: JLL, UK Big Box Industrial and Logistics Market Report, January 2020

### Supply and vacancy broadly stable



Source: Savills, 2020



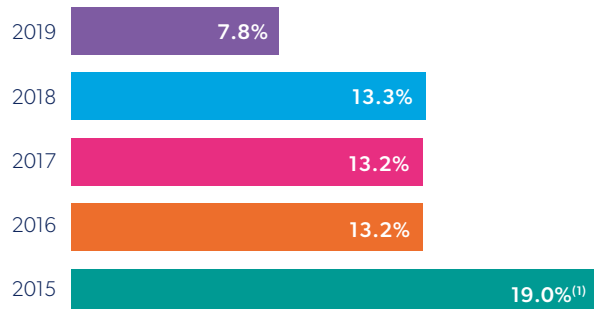
# A long-term track record of success

Since re-listing in March 2015, we have delivered market-leading returns whilst helping to regenerate the regions within which we work



## Financial Track Record

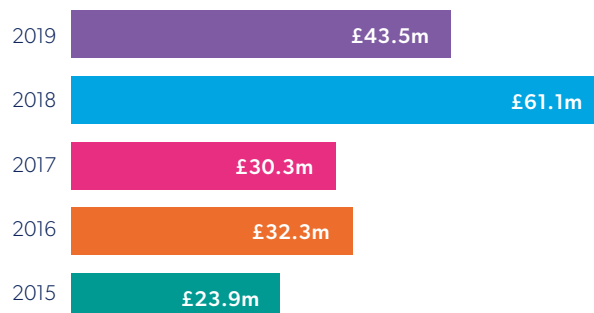
### Total Return



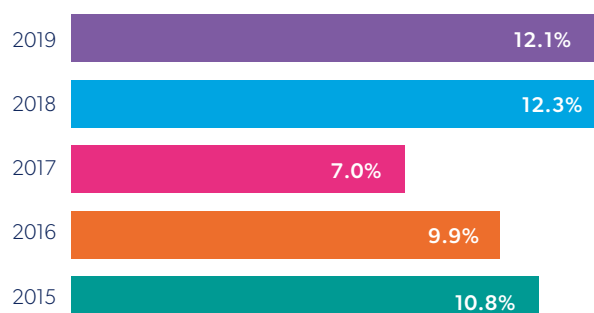
### Value Gains



### Acquisitions & JV investments made



### Net loan to portfolio value



## Delivering sites for homes and employment

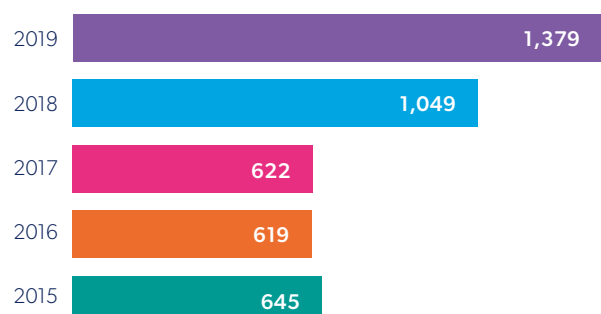
**4,314**  
residential plots and **3.89m** sq. ft  
of employment land sold in 2015  
to 2019

## Long-term market leading returns

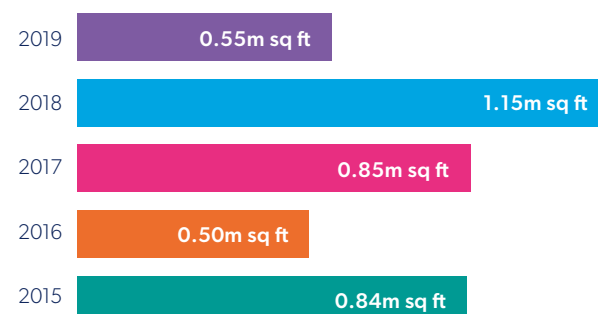
**13.3%**  
average total return p.a. delivered  
between 2015 and 2019<sup>1</sup>

## Economic and Social Track Record

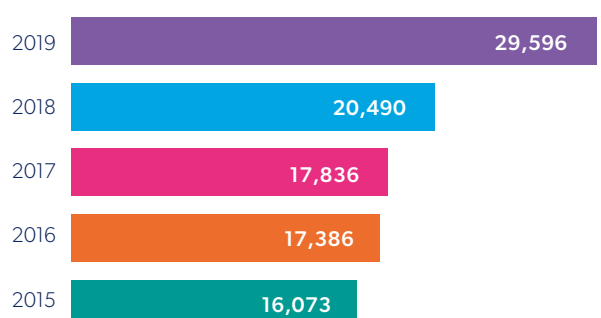
## Number of plots sold to housebuilders



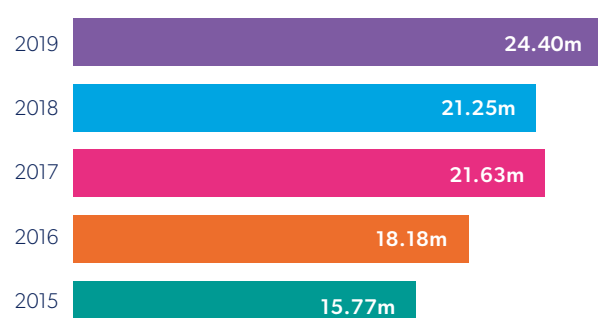
## Consented land sold for employment uses



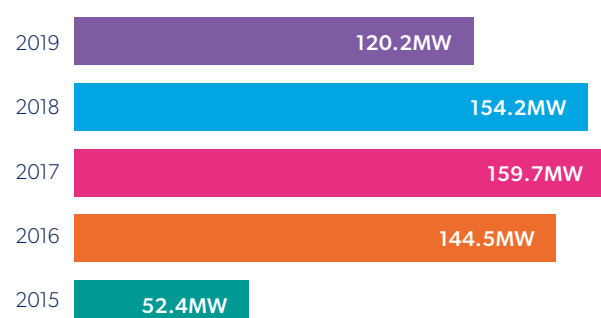
## Total identified pipeline: Residential plots



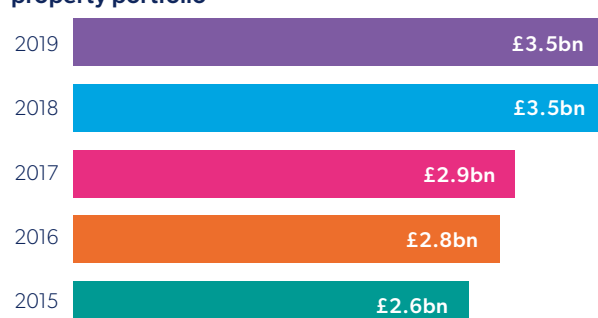
## Total identified pipeline: Commercial sq.ft



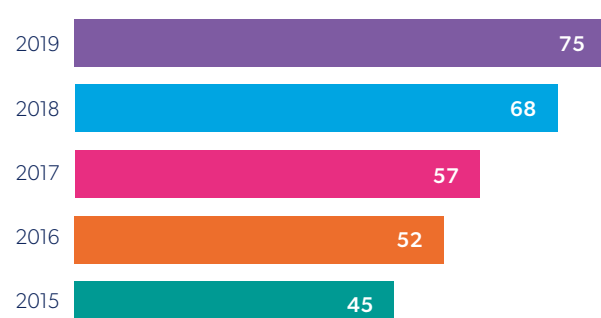
## MW of low-carbon energy capacity installed on our land



## Potential GVA that could be delivered from our land and property portfolio



## Number of employees



## Satisfaction of employees



<sup>1</sup> On re-listing the business in March 2015, additional capital of c.£15m was raised. Given the complicated nature of the transaction, it is not feasible to split this out of the 2015 total return.



# Delivering our purpose in practice

The best example of our place making abilities is Waverley – Yorkshire’s largest-ever brownfield redevelopment. Harworth and its predecessor businesses have worked with a range of stakeholders over the past thirty years to master develop the 740-acre former Orgreave Colliery & Coking Works into a major mixed use scheme that will eventually deliver up to 4,000 new homes and over 4,000 jobs to the Sheffield City Region



Orgreave in 1990



Waverley in 2009

## Waverley over time

Orgreave Colliery & Coking Works closes with the loss of 500 jobs

British Coal Opencast gained permission to restore the site’s tip and make the land fit for rebuilding

Outline planning consent for Advanced Manufacturing Park secured for 2.1m sq. ft of advanced manufacturing space; University of Sheffield’s AMRC with Boeing created as key industry-university partnership

First part of AMRC built at the AMP, with further units including Nuclear AMRC following in its wake

Opencast mining ends; four year restoration of site undertaken

Outline planning submitted for Waverley new community of 3,890 homes

1990

1995

2002

2004

2005

2008



**ADVANCED MANUFACTURING PARK:**  
1.5m sq. ft built; 2,000 high-value jobs on-site

**LOCAL CENTRE:** Area to act as heart of the development, including community and leisure facilities

**WAVERLEY NEW COMMUNITY:**  
Fifteen housing land parcels sold between 2012 and 2019, with over 900 homes now built; up to 3,890 homes to be built by 2040



Waverley in 2002

Outline planning approved for Waverley new community; land engineered for site's first phase

Harron Homes purchases first residential phase; first residents move in. Fourteen further phases prepared and sold in next seven years

Rolls-Royce buys land to build its 215,000 sq. ft blade casting facility

University of Sheffield AMRC Training Centre completes, training 200+ young people per year

McLaren Automotive takes a 20-year lease on a new carbon fibre tub manufacturing facility

UK Atomic Energy Authority becomes latest organisation to move onto AMP. Development now stands at over 900 homes, 1.5m sq. ft of employment space and over 300 acres of public open space

2011

2012

2013

2014

2017

NOW



# Chair of the Board's Message

Alastair Lyons



## OUR PURPOSE

A hallmark of investor thinking over recent years has been a view that the businesses in which they are invested should be about more than just the creation of shareholder value. This is obviously important, and the reason institutions and retail investors invest, but it should be what results from something more fundamental – the purpose of the business. This is the contribution it makes to its stakeholders, both those directly involved with it, such as its employees, customers, suppliers, and shareholders, but also those indirectly benefitting from its activities – communities where it is based or operates, and society more generally, through the impact it has on the environment and the contribution it makes to meeting wider society's goals and challenges.

Harworth's business lends itself to being very clear about our purpose: **"Harworth invests to transform land and property into sustainable places where people want to live and work"**. It is why people join our business, why we are given a fair hearing when we discuss development proposals with communities and their representatives, and increasingly why funds that specialise in ESG investing are actively investing in our business.

We have tried to make each word count! **Transformation** is our business. We are expert in taking brownfield sites that have outlived their industrial purpose and transforming them into sustainable new commercial and residential development. There is no better example than the Ironbridge power station, now being flattened and transformed into a residential development of up to 1,000 new homes with supporting uses including a retirement village, a school, allotments and sports pitches. Similarly, we have transformed a disused sewage works on the outskirts of Leeds next to the M1, Gateway 45 Leeds, into a site for commercial development that is delivering hundreds of new skilled jobs.

Elsewhere we recognise the desire of local authorities to ensure that, where they seek to meet the country's urgent need for more homes, this does not outstrip the capacity of communities to support the new residents with the local infrastructure they need, including schools, healthcare facilities and shops. Rather, therefore, than pepper-potting new houses within existing settlements, planners are looking to develop new **sustainable** edge-of-town schemes with this core supporting infrastructure and services. This is where Harworth's capacity to master plan comes into its own and why we talk of places where people **want** to live and work. We aim to meet not only people's needs but also their aspirations, this in turn being why our sites are attractive to our house-builder customers.

As I travel around our regions, in Yorkshire & Central where Harworth originated, and in our other core regions in the North West and Midlands, I meet people in Harworth who are passionately committed to our purpose and what they are themselves able to create, delivering against objectives that extend far beyond just an increase in the value of the business. When potential residential acquisitions are presented to the Board they talk of the new communities that will be built progressively on our sites, in many cases requiring us to look up to 10-15 years ahead to visualise its transformation – this is what we mean by "placemaking". In turn we have to think about what society will need and expect in that timeframe. What energy provision will it need? What transport arrangements will by then be the norm? This is what sustainability is all about.

## OUR STRATEGY

One of the roles of a chair is to understand the thinking and aspirations of the Group's major shareholders. There is a well-worn adage that a business should have shareholders that fit its strategy, not try to fit its strategy to its shareholders! From my interaction with shareholders, I believe Harworth is fortunate in having shareholders who support our strategic priorities, recognising that this is a business that plans and delivers across the long-term, albeit that in the short-term market conditions may be influenced by economic and political uncertainties and, as has been the case during the past year, planning decisions may be delayed by political change at either a local or national level. Whatever happens in the short-term, a good development will remain a good development because it will become a place where people want to live and work. What is important is not whether a decision is made this side or the other side of the end of the year, allowing a value gain to be realised in the accounts for the year in question, but whether the characteristics of the site and its local market are going to deliver a sustainable vision, with a required return, over the life of the project. If those returns are realised then value will be created.

As one significant shareholder said to me recently, "Big is not necessarily beautiful". What is important is to buy the right sites on the right terms and market conditions have been such that we have been selective in what we have bought over the past year, albeit recognising that the realisation of value in subsequent years is dependent upon what we buy today. That said, we have been pleased to identify both a number of new commercial and residential developments, where we can achieve medium-term capital growth and also new income-producing sites, bought on attractive yields and with asset management opportunities, in pursuit of our strategy of covering our overheads, financing costs and taxation from operating activities with resilient income. Having been selective we start the new financial year with appropriate financial firepower to take advantage of good opportunities both to create capital growth and to generate further income as sources such as our coal fines business erode with the closure of coal-fired power stations.

Our aim is to deliver long term market-leading returns across the cycle: where those will turn out in absolute terms will be determined by where we are in the cycle. That objective does, however, make us very discerning as to where we apply capital. Our UK Coal heritage means that much of our asset base was inherited rather than selected and we must, therefore, choose where we commit development capital and where we believe another owner may be better suited to the site given their own return profile. Hence our decision to divest of our industrial and agricultural portfolio in the North-East. We will continue to apply this strategy across all our sites aiming consistently to maximise the value-creating potential of our portfolio. During 2019 we sold 1,918 acres of non-core land for £10.4m.

## 2019 – THE YEAR

The results of any particular year are determined by where the portfolio is across its development life. As Harworth specialises in large, complex sites, development gains will tend to be lumpy and our scale does not afford us the averaging benefit inherent in a large portfolio. It is also only relatively recently that Harworth has had the means to acquire new sites beyond those it inherited from UK Coal. The realisation of value gains on many of those new sites will, therefore, lie in the future.

**Harworth's business lends itself to being very clear about our purpose:  
"Harworth invests to transform land and property into sustainable places where people want to live and work".**

**It is why people join our business, why we are given a fair hearing when we discuss development proposals with communities and their representatives, and increasingly why funds that specialise in ESG investing are actively investing in our business.**

As a result, our EPRA NNAV growth per share at 7.2% was lower than it has been in recent years which themselves benefitted from value gains created in the early stage development of major sites, such as Waverley, as they first gained planning consent and then realised uplifted site values as place-making was achieved progressively. As we commented at the half year, there are also a number of sites where changes in the make-up of councils following spring local elections led to changes in planning policy. In turn these changes delayed planning decisions that we would otherwise have expected to fall into 2019 and be reflected in the year-end valuation of those sites. As commented above, whilst to a degree frustrating, this does not change the appropriateness of our plans for these sites which reflect our commitment to sustainability and only come forward after close consultation with a range of local stakeholders.

We remain financially strong with year-end overall gearing at 12.1% and £24.0m of undrawn facilities, well-placed to take advantage of opportunities that may present themselves now last year's General Election is conclusively behind us.

## COVID-19

Whilst the impact of this falls into 2020 the scale of that impact necessitates mention here. Where able to do so safely, our contractors have continued to deliver essential infrastructure and seasonally sensitive earthworks, and we have sought to support our contracting and professional services supply chain through this most difficult period. Thanks to the work our team have undertaken on our IT infrastructure over the past 12 months or so we have been able to move entirely to home working across our offices. However, whilst our teams may be able to continue doing business remotely the nature of our business means that we face considerable uncertainty in most of what we do. When will local authorities consider/pass planning consents? How long will construction be able to continue on our sites? What commitments will our normal house-builder and industrial customers want to make this year? In the face of such uncertainty we have to be prudent and plan for the scenario that what we would otherwise have anticipated to happen won't. Key to this is ensuring the financial security of the business which we can do from a base of low financial gearing, minimising discretionary expenditure and only spending on development where and when we have high certainty of funds being received from either previously contracted deferred consideration or newly completed sales. We are grateful for the support that we have received from our banks, RBS and Santander, in increasing our credit facilities by £30m to £130m, allowing us to take advantage of suitable land and property opportunities when they arise. We do not know when business will start to return to normal but we commit to keeping our shareholders updated as our 2020 trading position becomes clearer.

## THE BOARD

Alongside publication of our preliminary results on 17 March 2020, we announced that our Chief Executive, Owen Michaelson, had advised the Board of his intention to retire at the end of 2020 after 10 years leading the business. In large part the Harworth Group owes its existence to Owen. Having originally taken over the management of UK Coal's real estate activities when these were restructured as Harworth Estates in 2010, he seized the regeneration potential of the former collieries, and in doing so created a business that is now a leader in its field, transforming former industrial sites and urban edge extensions

into new homes and employment areas across the breadth of the North of England and the Midlands. When the company took over the Harworth Estates business and relisted in 2015, he became Chief Executive. Throughout the last 10 years, under Owen's leadership, Harworth has remained true to its purpose, to invest to transform land and property into sustainable places where people want to live and work, and in doing so has created material value for our shareholders. He will take with him our every good wish for life after Harworth and we have now begun the process to appoint a successor.

Last year, we said goodbye in June to Andrew Kirkman who had been our Finance Director since the beginning of 2016 and in October welcomed Kitty Patmore to take the role of Chief Financial Officer on our Board. Kitty brings a wealth of real estate expertise and capital markets knowledge and even in the few short months she has been with us has already made a material contribution to the business. I would also like to recognise the excellent work of Jenny Cutler, now our Director of Finance, who took over the finance director's remit in the interim until Kitty joined us.

As I reported in my last statement as Chair, we also last year welcomed Ruth Cooke and Angela Bromfield to the Board and said goodbye to Tony Donnelly who retired after nine years as part of the Board team that steered the business from being the property arm of UK Coal to a self-determining premium listed specialist in large complex sites and regeneration. This year we will also be losing another member of that team. Lisa Clement, our Senior Independent Director and Chair of our Remuneration Committee, will also have served nine years and will retire in the autumn. Her role as Senior Independent Director will be assumed by Andrew Cunningham who chairs our Audit Committee, having been a member of our Board since April 2016, whilst Angela Bromfield will become Chair of the Remuneration Committee and has also replaced Lisa on our Nomination Committee. We are currently recruiting a further independent non-executive director whom I would expect to join the Board around the time of our AGM in June.

## THANK YOU

In my personal perspective on Harworth in last year's annual report, my first statement as Chair, I commented that Harworth, more than most companies, is all about its people. It is they who create value through their ability to identify the right sites, negotiate acquisitions and disposals, develop masterplans, project manage developments, deliver on asset management plans and steer us successfully through critical activities such as demolition and remediation. My greatest thanks are, therefore, to them for what they have achieved in 2019 which in turn lays the foundation for what the Group will achieve in coming years. My thanks also to our executive for their leadership of the business, to my colleagues on the Board for their wise counsel, to our shareholders for their support and commitment, to our customers who recognise the quality of the places we create, and to all our other stakeholders who provide input and guidance into our projects.



**Alastair Lyons,**  
Chair  
4 June 2020



# Chief Executive's Statement

Owen Michaelson



## A PERSONAL PERSPECTIVE

I am pleased to report that the Harworth team continues to deliver on the key activities and milestones which underpin the long-term performance of the business, delivering another solid set of results. The team has continued to do this despite the challenges presented by the COVID-19 pandemic. We focus on making money in the right way – blending the delivery of great places to live and work through the application of placemaking principles whilst also targeting long-term market-leading financial returns. I am fiercely proud of how our team thoughtfully plans the regeneration of land and property and sensitively delivers it within prudent financial controls.

The Group has delivered a total return in 2019 of 7.8% (2018: 13.3%) with EPRA NNNNAV of £500.5m at the year-end (2018: £466.5m). The in-year result is impressive when considered against the backdrop of the unprecedented political headwinds we faced in 2019 and I am pleased with the way the business adapted to the challenge. The primary impact was the change of political control of some local authorities following elections in May which delayed the determination of a handful of our live planning applications. I am confident that our swift work to amend planning strategies in these cases has prevented any long-term value erosion in each individual project. Ultimately the nature of our business means that we must always take a long-term view and our acquisitions, planning and delivery strategy reflects this discipline.

Despite these headwinds, we had a strong year of sales that demonstrated continued demand for our developments and we made significant progress in growing our portfolio, both in our pipeline of new strategic land sites and increased recurring income from investment property. We continue to drive value gains from our underlying land portfolio in the North of England and the Midlands through four principal management actions: preparing and securing planning consents on major schemes; preparing land for redevelopment; delivering sales for future residential and commercial end uses; and actively asset managing our underlying land and property portfolio.

## GROWING AND REFINING OUR LAND AND PROPERTY PORTFOLIO

The rollout of our regional operating model<sup>1</sup> in 2019 has been the primary driver of the increased number of acquisition opportunities that we are appraising and ultimately securing. We made eleven strategic land and four income acquisitions over the year across each of our regions for a total consideration of £43.5m alongside the signing of planning promotion agreements (PPAs) and land option agreements with third parties.

### Capital Growth

Freehold acquisitions and PPAs combined added a further 8,847 residential plots and 1.6m sq. ft of potential commercial space to our pipeline during the year. This activity meant that, as at 31 December

2019, we held 9,554 consented residential plots in the portfolio alongside 9.1m sq. ft of consented employment space. In addition, our identified planning pipeline now stands at 20,042 residential plots and 15.3m sq. ft of future commercial space, the highest quantum since re-listing in 2015. This helps to support the ongoing economic development of the North of England and the Midlands which underpins our business purpose.

### Income-producing property

We have continued to deliver our strategy of growing our recurring income base through selective acquisitions with asset management potential. Three Business Space properties were purchased in the year located at Etherow (Glossop), Brighthouse in West Yorkshire and Sherburn-in-Elmet in North Yorkshire for a combined consideration of £20.5m (including costs), reflecting a blended net initial yield of 8.4%. Further information on these transactions is provided within the 'Growing our Income Portfolio' section below.

### Disposal of non-core assets

In line with our stated intent to focus management attention on those of our Capital Growth and income producing sites with the highest value-adding potential in our three core regions, a total of 1,918 acres of non-core land, predominantly our agricultural landholdings and sites in the North East, were sold during the year for a combined consideration of £10.4m.

## PREPARING LAND TO CREATE NEW COMMUNITIES AS MASTER DEVELOPER

A significant proportion of our planning work in 2019 was spent working with stakeholders on developing and agreeing key development principles prior to the submission of major planning applications including for the former **Ironbridge** power station in Shropshire. Our approach to master development – working collaboratively with stakeholders and reflecting on a site's location and assets prior to creating and delivering sustainable development – puts us in good stead as we continue to manage local political risk. Planning applications for over 1.3m sq. ft of commercial space and 1,918 residential plots were submitted in the year, meaning that a total of over 4.1m sq. ft of employment space and over 3,000 residential plots were in the planning system awaiting determination at year-end.

Despite local planning headwinds, we were still able to achieve some planning success during the year. This included receiving outline consent for our 53-acre **Bardon Hill** development for 356k sq. ft of new commercial space. The site, within two miles of Junction 22 of the M1, now has a consent for an indicative layout of five industrial units and is already in an established commercial location, with nearby occupiers including Amazon, Eddie Stobart and DHL.

Further progress was made in preparing sites at the early stages of development ahead of future sale or build out. The most eye-catching of these milestones was the successful demolition of

<sup>1</sup> Within the Capital Growth segment

**When we transform former industrial sites such as collieries or power stations into places where new communities can flourish, we are actively supporting economic growth in our regions and helping to meet some of society's key challenges.**

Ironbridge power station's four former cooling towers as part of ongoing site works. Early infrastructure works have also been completed at our **Hugglescote Grange** (Coalville, Leicestershire) and **Moss Nook** (St Helens) residential sites ahead of the planned sale of their respective first phases over the next 18 months, ultimately unlocking the delivery of nearly 3,000 consented residential plots across both developments.

## DELIVERING SERVICED PLOTS FOR NEW HOMES AND COMMERCIAL SPACES

The disposal of serviced land remains a central part of our strategy, using our well-developed technical skills to de-risk our sites for our housebuilder customers as well as utilising our placemaking skills to enhance the attraction of our developments for new home owners to support eventual house sales. Over the course of 2019, we completed sales across six major development sites of 102 acres of serviced land to accommodate 1,379 residential plots for a total consideration of £61.0m. We have now worked with fifteen national and regional housebuilders across our sites.

On the commercial side, The Aire Valley Land LLP, our 50/50 joint venture with Evans Property Group, agreed three separate sales at **Gateway 45 Leeds** that generated a total consideration of £30.3m (£15.2m Harworth share). This included the sale of 10 acres of fully serviced commercial land to the University of Leeds to build out their Institute for High Speed Rail and Systems Integration, building on our existing links with major academic institutions, in turn supporting inward investment in the regions.

## GROWING OUR INCOME PORTFOLIO

Our investment portfolio continues to make a significant contribution to profits and value gains and provides the recurring income needed to cover our overhead costs. As we aim to drive value growth by the application of proven asset management techniques and local market knowledge, we remain committed to 'churning' the portfolio. This continued throughout 2019, with the purchase of high yielding investments with asset management potential alongside the sale of more mature income assets where our business plans developed at the time of acquisition have been executed.

### Business Space

In 2019, our Business Space team continued to improve the Group's existing income portfolio whilst also providing high quality and flexible accommodation for businesses of all sizes. 21 new and renewed lettings were agreed across our existing Business Space portfolio.

A notable pre-let was agreed with the UK Atomic Energy Authority for a new 20-year term at a local headline rent for a 22,300 sq. ft bespoke fusion technology research facility at the AMP, further cementing the AMP's position at the heart of high-added-value employment in the UK.

The Business Space team added to our annualised income by over

£1.7m through the acquisition of three commercial properties in 2019 with a total purchase price of £20.5m (including costs) providing active asset management opportunities to drive further value and income growth.

This combined activity meant that Business Space revenue in 2019 was £13.3m (2018: £11.9m). The WAULT across the portfolio stands at 13.5 years (2018: 14.1 years), whilst the vacancy rate at 31 December 2019 is 6.2% (2018: 14.4%).

## Natural Resources and Operations

Our revenues for the year were also bolstered by the work of our Natural Resources team. A total of 120.2MW (2018: 154.2MW) of low carbon energy capacity remains installed on our land, providing a long-term income stream from a combination of ground rents and electricity royalties. The reduction in the year was due to the freehold sale of our Solar Portfolio in December for £5.0m, representing a net initial yield of 4.6%, as part of our ongoing income churn strategy. The team's focus continues to be on growing future income from environmental technologies including low carbon energy, recycling, and mineral processing.

At the same time, revenue from our coal fine sales reduced faster than expected during the year with the accelerated closure of all coal fired power stations across the UK (2019: £4.0m, 2018: £7.7m).

## Regeneration at our heart

When we transform former industrial sites such as collieries or power stations into places where new communities can flourish, we are actively supporting economic growth in our regions and helping to meet some of society's key challenges. As master developer, we have been shaping, creating and delivering sustainable developments for over a decade and I am very proud of the placemaking we have achieved at a local level. We are in the process of formalising our own sustainability framework which will reflect the way in which we approach our projects to continue to deliver economic, environmental and social value for the future, supporting 'good growth' across the North of England and the Midlands.

## Our people are the core of the business

I would like to thank our teams for their hard work and dedication over 2019. This was an important year in developing our staffing capacity as we completed our transition to a regional operating model and I am very pleased that all key regional appointments have now been made, ultimately supporting the long-term growth of the business. The appointment of Ian Ball as Chief Operating Officer on 1 May, alongside Kitty Patmore who joined the business as our new Chief Financial Officer on 1 October, further enhances the strength of our executive leadership team to plan and execute our strategy of sustained long-term profitable growth. We have recently added a new Head of Income to the management team to drive the active churn and investment strategy within this side of our business.



# Chief Executive Statement

continued

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## COVID-19

Our absolute priority in trading through the COVID-19 pandemic is the health and safety of our workforce and the contractors that work on our behalf. All directly employed staff are predominantly working from home, with our IT and support systems working well. Social distancing guidelines issued by Government are being rigorously applied across all our sites by our staff and all contractors, including those where either infrastructure or building works are continuing.

As for all other businesses, the pandemic has required us to stress test our financial assumptions and to review all planned activity in 2020. With a number of housebuilder customers announcing a pause on activity on live construction sites and new purchases at the end of March, we have prioritised capital expenditure on our major development sites that have agreed sales in place for later in the year. Infrastructure works have therefore continued on six active development sites across the portfolio, in keeping with our strategy of effectively managing cash flows to fund sustainable growth.

Crucially, the business is also extremely well positioned to mitigate any short-term market volatility and to take advantage of any land and property opportunities that arise as a result of present market conditions. As we announced in our trading update on 30 April 2020, we remain well capitalised and in support of the Company's long-term strategy, our lenders have agreed to increase our Revolving Credit Facility limit by £30 million to £130 million, providing both operational flexibility and the ability to take advantage of future suitable land and property opportunities. Further detail on this is provided within the Financial Review of this report.

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## OUTLOOK

Notwithstanding our current balance sheet strength and liquidity headroom, the macro economic environment is one of heightened uncertainty. Whilst it is too early to say with any certainty, it is likely that the disruption caused by the COVID-19 pandemic will have a material influence on the Company's results for the financial year to 31 December 2020. Whilst we will continue to target long-term market-leading returns, our priority this year is to manage the business through and out of the pandemic by prioritising development spend carefully, continuing to cover operating costs from our income portfolio, maintaining focus on achieving key planning milestones and deploying capital wisely on acquisitions that provide the best long-term total returns for the business.

We are firmly of the view that businesses like ours will be central to the UK's economic recovery post-pandemic. The underlying fundamentals of our "beds and sheds" markets in our regions remain healthy and our sites persist in their popularity, evidenced by the £13m sale in April 2020 of 19.5 acres of land at our Skelton Grange site in Leeds to Wheelabrator Technologies. The stability of the regional markets in which we operate remains underpinned by comparatively low house prices, a continuing lack of consented and engineered land for housing, and the need for new commercial space where good quality stock is scarce.

Government initiatives aimed at helping to rebalance the UK economy through additional investment in skills, infrastructure, rail connectivity and in sectors such as advanced manufacturing is now an essential part of the UK's economic landscape to support economic output and recovery. In creating new places to live and work we will play an important part in that recovery.

Shareholders can be assured that we will maintain strong financial discipline in the appraisal of projects and the deployment of capital in the remainder of 2020, whilst supporting the ongoing regeneration of our regions through the delivery of new homes and jobs. Our strong financial position, significant landbank and technical track record put the business in a strong position for long-term growth to capitalise on the opportunities created by the renewed political focus on the Midlands and the North of England.



**Owen Michaelson**  
Chief Executive  
4 June 2020

# Financial Review

Kitty Patmore



**In 2019, Harworth continued to deliver a solid financial performance across its core business segments generating a total return of 7.8% (2018: 13.3%). Over the year, net asset value rose to £463.8m (2018: £441.9m) with EPRA NNNAV rising to £500.5m (2018: £466.5m) representing an EPRA NNNAV per share growth of 7.2% to 155.6p (2018: 145.2p).**

## ALTERNATIVE PERFORMANCE MEASURES

We find that as our property portfolio includes development properties and joint venture arrangements, Alternative Performance Measures (APMs) can provide valuable insight into our business alongside the statutory amounts. In particular, revaluation gains on development properties are not recognised in the Statutory Income Statement and Balance Sheet. The APMs set out to show measures which include movements in development property revaluations, assets held for sale, overages and joint ventures, and also the profitability of the business excluding value gains. We believe that these APMs assist in providing stakeholders with additional useful disclosure on the underlying trends, performance and position of the Group.

Our key APMs are:

- **Total return** - The movement in EPRA NNNAV plus dividends per share paid in the year expressed as a percentage of opening EPRA NNNAV per share
- **EPRA NNNAV per share growth** - The movement in EPRA NNNAV per share expressed as a percentage of opening EPRA NNNAV per share
- **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, assets held for sale and overages
- **Profit excluding value gains** - Property net rental, royalty and fee income, net of running costs of the business which represents the underlying profitability of the business not reliant on property value gains or profits from the sales of development properties
- **Net loan to portfolio value** - Group debt net of cash held expressed as a percentage of portfolio value

A full description of all non-statutory measures and reconciliations between all the statutory and non-statutory measures are given in Note 2 to the Financial Statements.

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 real estate investors and analysts. In October 2019, EPRA announced changes to the Net Asset Value measurement to reflect the evolution of the listed real estate sector. These changes are applicable from accounting periods beginning on or after 1 January 2020 and will be reported in full in the 2020 Interim results.

## SUMMARY

In 2019, the Group achieved value gains of £44.0m (2018: £51.3m). This is the result of attaining milestones in remediating land, place-making, new lettings and site specific opportunities, albeit that progress across the portfolio was tempered by the impact of planning headwinds primarily resulting from the May 2019 local elections.

The Group's profit excluding value gains was £3.5m (2018: £9.8m). The reduction compared to the prior year is predominantly due to one significant promote fee in 2018 of £6.8m and a reduction in coal fine income in 2019 as a result of the accelerated wind down of coal fired power stations.

Basic earnings per share for the year were 7.9p (2018: 10.6p) reflecting lower promote fees, a reduction in income from coal fines and higher tax charges in the year. The total dividend per share for 2019 has been increased by 10% to 1.0p (2018: 0.9p) which is consistent with previous years reflecting our progressive dividend policy and our confidence in the long-term potential of the business.

The closing net loan to portfolio value was 12.1% (2018: 12.3%), at the lower end of our net LTV target range.



# Financial Review

continued

## 7.8%

Total return over the last year

EPRA NNNNAV per share growth plus dividends per share

## 7.2%

EPRA NNNNAV per share growth

## 12.1%

Net loan to portfolio value

	2019				2018			
	Capital Growth £m	Income Generation £m	Central Overheads £m	Total £m	Capital Growth £m	Income Generation £m	Central Overheads £m	Total £m
Revenue	62.0	23.5	-	85.5	52.5	25.6	-	78.1
Cost of sales	(50.5)	(7.1)	-	(57.5)	(45.0)	(8.6)	-	(53.6)
<b>Gross profit</b>	<b>11.5</b>	<b>16.4</b>	<b>-</b>	<b>27.9</b>	<b>7.4</b>	<b>17.0</b>	<b>-</b>	<b>24.4</b>
Administrative expenses	(2.7)	(2.2)	(8.0)	(12.9)	(2.5)	(2.2)	(8.2)	(12.9)
Other gains	-	9.3	-	9.3	8.7	13.4	-	22.1
Other operating expense	-	-	(0.1)	(0.1)	-	-	(0.1)	(0.1)
<b>Operating profit/(loss) before exceptional items</b>	<b>8.9</b>	<b>23.4</b>	<b>(8.1)</b>	<b>24.3</b>	<b>13.6</b>	<b>28.2</b>	<b>(8.3)</b>	<b>33.6</b>
Exceptional expense	-	-	-	-	-	-	(0.6)	(0.6)
<b>Operating profit/(loss)</b>	<b>8.9</b>	<b>23.4</b>	<b>(8.1)</b>	<b>24.3</b>	<b>13.6</b>	<b>28.2</b>	<b>(8.9)</b>	<b>33.0</b>
Share of profit of joint ventures	7.0	1.4	-	8.4	-	3.8	-	3.8
Interest income/(expense)	0.3	-	(2.7)	(2.4)	-	-	(4.0)	(4.0)
<b>Profit/(loss) before tax</b>	<b>16.3</b>	<b>24.9</b>	<b>(10.8)</b>	<b>30.3</b>	<b>13.6</b>	<b>32.0</b>	<b>(12.9)</b>	<b>32.8</b>
Tax (charge)/credit	-	-	(4.8)	(4.8)	-	-	1.3	1.3
<b>Profit/(loss) after tax</b>	<b>16.3</b>	<b>24.9</b>	<b>(15.6)</b>	<b>25.5</b>	<b>13.6</b>	<b>32.0</b>	<b>(11.6)</b>	<b>34.1</b>

There are some minor differences on some totals due to roundings.



Entrance sign to Simpson Park, North Nottinghamshire



Electric vehicle charging at Advantage House

Revenues in 2019 were £85.5m (2018: £78.1m), split between revenue from Income Generation of £23.5m (2018: £25.6m) and revenue from Capital Growth of £62.0m (2018: £52.5m). The disposal of development properties was 36% higher in 2019 reflecting sales across multiple residential and commercial sites including Swadlincote, Waverley, Riverdale Park and Thoresby.

Income Generation (Business Space, Natural Resources and Operations) revenue mainly comprises property rental and royalty income together with some sales of coal fines. Revenue in 2019 was £23.5m (2018: £25.6m) and is lower as a result of reduced sales of coal fines as the United Kingdom reduces its reliance on coal fired power leading to an accelerated wind down of the associated power stations and the recognition of a £6.8m promote fee for lettings at Logistics North in 2018. The core of our recurring income is from rental and royalty income from Business Space and Natural Resources which increased from £17.9m to £19.5m in the year.

Cost of sales comprises the inventory cost of development property sales and the operating costs of the Income Generation business. Cost of sales increased to £57.5m (2018: £53.6m) of which £49.5m related to the inventory cost of development property sales (2018: £43.1m).

## NON-STATUTORY VALUE GAINS<sup>(1)</sup>

Value gains are made up of profit on sales, revaluation gains on investment properties (including joint ventures), and revaluation gains on development properties, assets held for sale and overages:

	2019				2018		
	Categorisation	Profit on sales	Revaluation gains/(losses)	Total	Profit on sales	Revaluation gains/(losses)	Total
Capital Growth							
Major Developments	Development	5.1	27.9	33.0	0.8	24.2	25.0
Strategic Land	Investment	0.0	(0.3)	(0.3)	0.7	8.4	9.1
Income Generation							
Business Space	Investment	0.1	4.8	4.9	(0.0)	7.0	7.0
Natural Resources	Investment	3.3	3.9	7.2	1.8	8.7	10.5
Agricultural Land	Investment	0.0	(0.8)	(0.8)	(0.0)	(0.3)	(0.3)
Total		8.5	35.5	44.0	3.2	48.1	51.3

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.

Profit on sales of £8.5m (2018: £3.2m) reflect sales above book value particularly in Natural Resources (solar portfolio sale) and across major development sites.

Revaluation gains of £35.5m (2018: £48.1m) reflect our master-developer skills in planning new developments and the delivery of active asset management across our sites. Whilst Harworth has a significant pipeline of both consented and “in the planning pipeline” residential and commercial plots, timing and receipt of planning approvals is inherently uncertain. Hence, in 2019, the revaluation gains were tempered by planning headwinds across a small number of sites, as reflected earlier in the statement. The principal revaluation gains across the divisions reflected the following this year:

- Major Developments - profitable sales, and development progress, across the majority of our sites (notably Hugglescote Grange (Coalville), Bardon Hill, Prince of Wales, Pheasant Hill Park, Riverdale & Waverley) and a few small reductions on a couple of sites due to cost plan increases;
- Strategic Land - uplifts at Ironbridge, Rockingham and Wingates as land is prepared with some reductions on sites as a result of planning delays;
- Business Space - good letting progress achieved across our portfolio;
- Natural Resources - valuation uplifts from surface water management plus an increase from progress on an agreed sale for an Energy from Waste plant; and
- Agricultural Land - uplifts as a result of market sales and some minor reductions across some assets.

The net realisable value provision as at 31 December 2019 was £6.9m (2018: £7.6m) across nine development properties with provisions increased or decreased as a result of the latest business plan and market conditions.

Joint venture profits of £8.4m (2018: £3.8m) were largely a result of the sales from the Gateway 45 Leeds site. Value gains on a non-statutory basis are set out below.



# Financial Review

continued

## PROPERTY CATEGORISATION

Until sites receive planning permission, our view is that the land is held for a currently undetermined future use and should therefore be held as investment property. We categorise properties and land that have received planning permission as development properties. Property categorisation is reviewed as at 30 June and 31 December each year.

As at 31 December 2019, the balance sheet value of all development sites was £202.1m and the valuation (based on valuations by BNP Paribas and Savills plc) was £242.2m, reflecting the £40.1m cumulative uplift in the value since they were classified as development properties. In order to highlight the market value of development properties, and overages, and to be consistent with our investment properties, we are using EPRA NNNAV, which includes the market value of development properties, assets held for sale and overages less notional deferred tax, as our primary net assets metric.

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

Site	Categorisation	Region	Acres	Housing plots		Commercial space	
				Consented	Sold/Built	Consented	Sold or Built
Waverley	Development	Yorkshire & Central	432	3,890	1,570/ 900	-	-
Hugglescote Grange	Development	Midlands	346	2,016	-	-	-
Nufarm	Investment	Yorkshire & Central	112	-	-	0.3m	0.3m
Pheasant Hill Park	Development	Yorkshire & Central	307	1,200	522/170	0.1m	0.0m
Gateway 45	Joint Venture	Yorkshire & Central	110	-	-	1.3m	0.6m
Waverley AMP	Investment	Yorkshire & Central	113	-	-	2.1m	1.5m
Melton Commercial Park	Investment	Midlands	141	-	-	0.3m	0.3m
Thoresby Vale	Development	Yorkshire & Central	447	800	143/0	0.3m	-
Simpson Park	Development	Yorkshire & Central	416	996	316/170	-	-
Four Oaks Business Park	Investment	North West	19	-	-	0.4m	0.4m
<b>TOTAL</b>			<b>2,443</b>	<b>8,902</b>	<b>2,551/1,240</b>	<b>4.8m</b>	<b>3.1m</b>

## CASH AND SALES

The Group made property sales<sup>(1)</sup> of £79.9m in 2019 (2018: £93.2m) achieving profits on sales of £8.5m (2018: £3.2m). The sales were split between those of residential serviced plots at £58.1m (2018: £33.6m), commercial development at £4.4m (2018: £30.9m) and other, mainly mature, income-generating sites and agricultural land including those in the North East, at £17.4m (2018: £28.7m).

Cash proceeds from sales were £58.0m (2018: £78.9m) as shown in the table below:

	<b>31 December 2019 £m</b>	31 December 2018 £m
Total property sales <sup>(1)</sup>	<b>79.9</b>	93.2
Less deferred consideration on sales in the year	<b>(38.5)</b>	(22.7)
Add deferred consideration from sales in prior years	<b>16.6</b>	8.4
<b>Total cash proceeds</b>	<b>58.0</b>	78.9

Notes: <sup>(1)</sup> A full description and reconciliation of the alternative performance measures is included in note 2 to the financial statements.

As at 31 December 2019, gross deferred consideration carried forward was £41.1m (2018: £19.2m). This reflects the maturity and scale of sites now delivering higher sales of residential serviced plots to housebuilders over the course of the year.

## EXCEPTIONAL ITEMS

There were no exceptional items in 2019 (2018: £0.6m for the costs of the step up to premium listing).

## TAX

The income statement charge for taxation for the year was £4.8m (2018: £1.3m credit) which comprised a current year tax charge of £1.8m (2018: £0.9m credit) and a deferred tax charge of £3.0m (2018: £0.4m credit).

The current tax charge resulted from profits from the sale of development properties and assets held for sale as well as rental income in the year together with the resubmission of prior year tax computations and returns which, following a review, resulted in a £0.5m credit.

The movement in deferred tax comprised the following:

- the increase in valuation of investment properties (both currently held and disposed of in the year) giving rise to £5.7m of deferred tax charge;
- a £0.2m credit due to the recognition of tax losses following disposals in the year;
- the utilisation of tax losses against current year profits resulting in a deferred tax charge of £1.3m;
- recognition of tax losses as a result of increased certainty as to their availability resulted in a deferred tax credit of £2.2m;
- following the submission of the tax computations and returns for prior periods, a reduction in tax attributes utilised, resulting in a deferred tax credit of £0.8m; and
- a deferred tax credit of £0.8m in relation to other temporary differences.

At 31 December 2019, the Group had deferred tax liabilities of £15.6m (2018: £12.3m) which largely related to unrealised gains on investment properties and recognised deferred tax assets of £7.9m (2018: £7.3m). The net deferred tax liability was £7.8m (2018: £5.0m).

## BASIC EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share fell to 7.9p (2018: 10.6p) reflecting lower promote fees, a reduction in income from coal fines and higher tax charges in the year. An interim dividend of 0.3p per share (2018 interim: 0.3p) equivalent to £1.0m (2018 interim: £0.9m) for the 2019 financial year was paid on 18 October 2019. As announced on 30 April 2020, notwithstanding the Group's balance sheet strength and liquidity, given the uncertain backdrop of the COVID-19 pandemic, the Directors consider it prudent to not recommend the payment of a final dividend for the 2019 financial year.

As such, the total dividend for the year will therefore be 0.3p per share (2018: 0.9p) equivalent to £1.0m (2018: £2.9m). The Board recognises the importance of dividends to shareholders and, as such, intends to consider the appropriateness and timing of an additional interim dividend (equivalent to the 2019 final dividend) for the financial year ending 31 December 2020 when it has a clearer view of the effects of COVID-19 pandemic on the Group.

EPRA NNNAV is £500.5m which includes the mark to market on the value of the development properties, assets held for sale and overages. The total portfolio value as at 31 December 2019 was £585.3m, an increase of £59.6m over 31 December 2018 (£525.7m).

Three new joint ventures have been entered into over the year and this together with the increase in profits from the existing joint ventures has resulted in investments in joint ventures increasing to £33.1m (2018: £25.8m). With the property sales in the joint venture at Gateway 45 during 2019, the joint venture investment is now split £23.1m in Capital Growth and £9.9m in Income Generation (2018: £1.1m Capital Growth and £24.7m Income Generation).

## NET ASSET VALUE

	31 December 2019 £m	31 December 2018 £m
Properties <sup>(1)</sup>	541.0	496.1
Cash	11.8	8.6
Trade and other receivables	59.2	66.7
Other assets	4.3	2.9
Total assets	616.3	574.3
Gross borrowings	82.7	73.0
Deferred tax liability	7.8	5.0
Derivative financial instruments	0.6	0.1
Other liabilities	61.4	54.3
<b>Net assets</b>	<b>463.8</b>	<b>441.9</b>
Mark to market value of development properties, AHFS and overages less notional deferred tax <sup>(2)</sup>	36.7	24.6
<b>EPRA NNNAV<sup>(2)</sup></b>	<b>500.5</b>	<b>466.5</b>
Number of shares in issue less Employee Benefit Trust shares	321,777,367	321,314,989
<b>EPRA NNNAV per share<sup>(2)</sup></b>	<b>155.6p</b>	<b>145.2p</b>

<sup>(1)</sup> Properties include investment properties, development properties, assets held for sale, occupied properties and investment in joint ventures.

<sup>(2)</sup> A full description and reconciliation of the alternative performance measures in the above table is included in note 2 to the financial statements.



# Financial Review

continued

Trade and other receivables include deferred consideration on sales as set out above. At year end, there was £41.1m (2018: £19.2m) gross deferred consideration with £12.9m (2018: £nil) due after more than one year.

## FINANCING STRATEGY

As has been consistently stated, Harworth's financing strategy is to be prudently geared, with the Income Generation portfolio providing a recurring income source to service debt facilities. 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 continues to target a net loan-to-value of 10% to 15% and entails the Group seeking as a principle to maintain its cash flows in balance by funding infrastructure spend and investment in acquisitions through disposal proceeds.

## DEBT FACILITIES

As at 31 December 2019, the Group benefitted from a £100m Revolving Credit Facility (RCF) with RBS and Santander, expiring in February 2023. The Group also uses, as part of our funding, infrastructure financing, provided by public bodies to promote the development of major sites. In April 2020, RBS and Santander agreed to increase the RCF by £30m to £130m. The Group had borrowings and loans of £82.7m at 31 December 2019 (2018: £73.0m), being the RCF of £75.8m (2018: £58.7m) and infrastructure loans of £6.9m (2018: £14.3m). The Group's cash and cash equivalents at 31 December 2019 were £11.8m (2018: £8.6m). The resulting net debt was £70.9m (2018: £64.4m). The weighted average cost of debt, using 31 December 2019 balances and rates, was 3.1% with a 0.8% non-utilisation fee on undrawn RCF amounts (2018: 3.3% with a 0.8% non-utilisation fee on undrawn RCF amounts).

The Group's hedging strategy is to have roughly half its debt at a fixed rate and half exposed to floating rates. The Group currently has a £45m fixed rate interest swap at an all-in cost of 1.2% (including fees) on top of the existing margin paid under the RCF. The interest rate swap is hedge accounted with any unrealised movements going through reserves to the extent that the hedge is effective.

As at 31 December 2019, the Group's gross loan to portfolio value was 14.1% (2018: 13.9%) and net loan to portfolio value was 12.1% (2018: 12.3%). If gearing is just assessed against the value of the core income portfolio, this equates to a gross loan to core income portfolio value of 41.2% (2018: 38.9%) and a net loan to core income portfolio value of 35.3% (2018: 34.3%). Undrawn facilities under the RCF were £24.0m putting the Group in a good position entering 2020.

## 2020 AND OUR RESPONSE TO COVID-19

The Group entered this unprecedented period in a strong financial position, with cash and undrawn debt facilities of £36 million (at 31 December 2019). Whilst this year is not as we expected at its outset, we have adapted quickly to remote working and have continued to exercise a prudent and disciplined approach to our capital structure. It is important that we maintain maximum balance sheet flexibility at this time and, to that end, we have taken a number of actions in anticipation of a period of disruption.

As announced on 30 April 2020, with a number of housebuilder customers announcing a pause on activity on live construction sites and new purchases, we elected to prioritise capital expenditure on our major development sites that have agreed sales in place for later in the year. This is in line with our strategy of effectively managing cash flows to fund sustainable growth and will remain under review as we start to see housebuilders return to sites.

Sales and lettings continue to be completed and our income collection, derived from our portfolio of industrial, logistics and renewable energy assets with its diversified tenant base, remains robust and covers all business overheads and interest on our loan facilities, with rental payments received for the March quarter being broadly in line with previous quarters.

In support of the Group's long-term strategy, our lenders have agreed to increase our RCF by £30m to £130m. The pricing will increase marginally by 0.15%, taking the margin to 2.25% and the weighted average cost of debt to 3.2% (2019: 3.1%). This means that, at 30 April 2020, the Group's net loan to portfolio value was 12.4% (2019: 12.1%). There remains headroom in all banking covenants and the expiry dates of our facilities remain unchanged meaning that there are no significant debt maturities until 2023.

After due consideration of the ongoing economic uncertainty, the Board has taken a prudent decision to not recommend a final dividend of 0.7p per share for the financial year ended 31 December 2019, preserving a further £2.2m of cash.

As a result, as at 30 April 2020, the Group had substantial available liquidity of £64.0m (2019: £35.8m), comprising £34m of cash and £30m of undrawn facilities. We have run extensive scenario testing, including a severe but plausible downside on our revised forecast, to look at the potential impact of heightened risks on the Group, as set out in the Going Concern Statement on pages 122 and 123. In every scenario, the Group maintains a robust liquidity position and headroom within financial covenants throughout. These scenarios demonstrate the resilience of the business model and the flexibility it affords to manage cashflows. We believe the strength of our balance sheet, alongside our strong business fundamentals, will enable us to come through this period in a position to grow, thrive and take advantage of market opportunities.



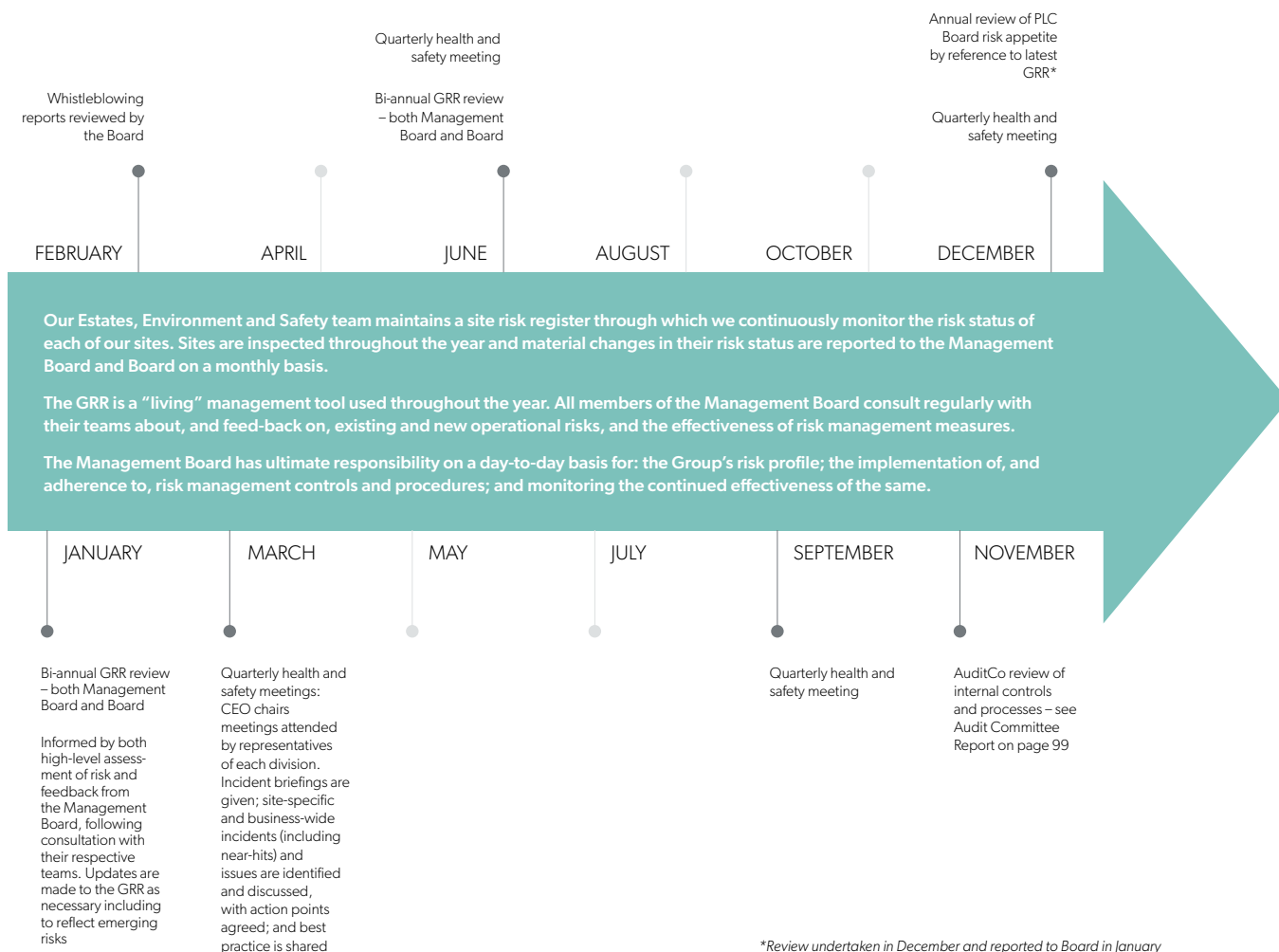
**Kitty Patmore**  
Chief Financial Officer  
4 June 2020

# Effectively managing our risks

The Board has ultimate responsibility for determining the risk appetite of the Group, for monitoring the risk profile of the business and ensuring that measures and controls are in place to manage risk effectively. 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 Harworth's business and the 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.

Harworth's framework for monitoring and managing risk continued to evolve and mature during 2019. The Group Risk Register (GRR) remains the principal tool used by the Board and Management Board to monitor the risk profile of the business and the measures in place at an operational level for mitigating and managing risk. It forms part of a wider framework pursuant to which risks are monitored and managed throughout the year, as captured below.

## RISK REVIEW FRAMEWORK: ANNUAL CYCLE



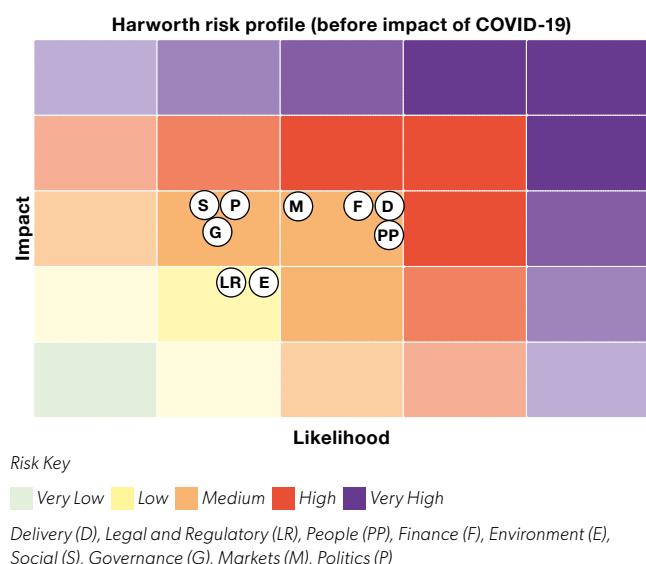
The GRR maps the risk profile of the business. It is a dynamic document and has continued to evolve during 2019, both to reflect emerging risks and to make it a more user-friendly document including the introduction of a dashboard to give a “live” snapshot of the risk profile of the business. This dashboard is replicated on page 31. The GRR currently identifies risks grouped into nine principal risk categories: **Delivery; Legal and Regulatory; People; Finance; Environment; Social; Governance; Markets and Politics**. 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. The GRR identifies an “owner” of each risk, being a member of the Management Board, who takes responsibility for the status and management of that risk. It also records mitigation measures implemented in the previous 12 months and those planned over the coming 12 months. Categories and risks remain subject to regular review. The Board's objective is to maintain, as far as possible, an alignment between its risk appetite and the risk profile of the business.



# Effectively managing our risks

continued

## PRINCIPAL RISKS AND UNCERTAINTIES



We are presenting Harworth's principal risks and uncertainties in this Report against the unprecedented backdrop of the COVID-19 global pandemic. Like all businesses, the pandemic has a severe, but temporary, adverse impact on the risk profile of our business. To give shareholders full but balanced disclosure we have presented Harworth's risk profile prior to the onset of the pandemic but with an overlay showing its temporary impact.

### "Business as usual" risk profile

During 2019, Harworth operated against a backdrop of heightened economic and political instability surrounding the UK's exit from the EU. That backdrop did not have a materially increased adverse effect on the housing, logistics and manufacturing markets in Harworth's core regions, due to their long-term fundamentals, but the Board was mindful that these macro conditions had the potential to lead to a downturn in the regional residential and/or commercial property markets in which Harworth operates. That being so, our residential and commercial property **Markets** risks retained a "high" status in the GRR throughout 2019. Those Markets risks have returned to a "medium" status following the latest review of the GRR, reflecting the decisive outcome of the General Election and the UK's departure from the EU at the end of January 2020. We believe this has generated increased political stability and resulted in improved sentiment across both the commercial and residential property markets in at least the short-term. The Board continues to monitor Markets risks closely given that commercial markets in some instances are considered to be operating late-cycle and macro-economic uncertainty remains and is likely to increase as we approach the end of the transition period agreed with the EU.

The macro-political backdrop did lead to turbulence at a local political level, manifested by changes in local government control at the May local elections and in local planning policy, creating planning headwinds for a handful of our projects. These headwinds persist and are reflected in the "high" risk status of our planning **Delivery** risk (rather than in our **Politics** category, as to which see

below). Evidence post-election suggests these headwinds may begin to subside and we will continue to monitor this closely throughout the year.

The UK also remains a highly competitive landscape for strategic site acquisitions and, despite our success in securing new sites and projects in 2019 and strong pipeline, this is reflected in a "high" acquisition **Delivery** risk status. Over the short term, we expect that more acquisition opportunities will come forwards on which we are well placed to capitalise. All other **Delivery** risks remain unchanged, with a "medium" risk status.

In terms of **Finance** risks, our capital and income risks continue to carry higher risk scores. This reflects that expanding our capital sources and increasing the breadth and resilience of our income portfolio, in both cases to support the growth of the business, remain strategic priorities. Over the course of 2019, we have seen lower income from coal fine sales, reflecting an accelerated reduction in reliance on coal fired power stations. Although the trend for coal fine sales is anticipated to continue, overall we expect these risks to reduce in the medium term as our strategy is implemented. There has also been an increase in our insurance risk, due to challenging market conditions, which has resulted in material increases in some insurance premiums, albeit a large proportion of these increases are passed onto tenants. We expect this risk to remain unchanged, if not increase, over the next 12 months and will be undertaking a robust renewal exercise for 2021.

Whilst the macro-political backdrop and local political climate are reflected in our **Markets** and **Delivery** risk categories, our **Politics** category risks are informed by changes in central Government policy. Overall, this category remains largely unchanged, with increases in certain risks offset by reductions in others.

Our **People** and **Legal and Regulatory** risks remain largely unchanged and no material movements are expected over the next 12 months. Most of our **Governance** risks retain a "medium" risk status, notwithstanding modest reductions in our internal controls and cyber security **Governance** risks, following measures implemented in 2019.

Our **Environment** and **Social** risk categories were new to the GRR in 2019, reflecting emerging risks identified by our bi-annual reviews, and our focus on business purpose, the sustainability and environmental impact of our projects, and the effectiveness of our engagement with local communities and other key stakeholders. These risks carry a mixture of "low" and "medium" scores. They are long-term risks, the status of which is not expected to change materially over the next 12 months.

### Impact of COVID-19

The COVID-19 pandemic has caused temporary increases across approximately half of our risks in the **Delivery**, **People**, **Finance**, **Governance**, **Markets** and **Politics** categories. In some cases those increases are severe, albeit temporary. In all cases we have acted quickly to implement measures to mitigate increase risks.

On pages 32 to 36 there is a detailed analysis of the Group's risks and uncertainties grouped into our nine principal risk categories. On pages 36 and 37 there is analysis of how the COVID-19 pandemic has affected the status of certain of those risks.

## Dashboard (reflecting position pre-COVID-19)

Risk			
<b>Delivery</b>			
1.Acquisitions	→	●	↓
2.Planning	↑	●	↓
3.Project delivery	→	●	→
4.Other operational shortfalls	→	●	→
5.Mining legacy	↑	●	↓
<b>Legal and Regulatory</b>			
6.Health and safety incident	→	●	→
7.Other regulatory breach	→	●	→
8.Legislative and regulatory changes	→	●	→
<b>People</b>			
9.Resourcing	→	●	→
10.Succession	→	●	→
11.Employee engagement	●	●	→
12.Communication and connectivity	→	●	→
13.Diversity	→	●	→
14.Culture	→	●	→
<b>Finance</b>			
15.Availability of capital	→	●	→
16.Income	→	●	→
17.Cashflow	→	●	→
18.Valuations	→	●	→
19.Insurance	↑	●	↑

Risk			
<b>Environment</b>			
20.Environmental incident	→	●	→
21.Harworth's environmental impact	●	●	→
22.Climate change	●	●	→
<b>Social</b>			
23.Purpose	●	●	→
24.Sustainability	●	●	→
25.Communities and stakeholders	●	●	→
<b>Governance</b>			
26.Investors	→	●	→
27.Internal controls and processes	↓	●	→
28.Joint ventures	●	●	↓
29.Cyber and information security	↓	●	→
30.Business Continuity	●	●	→
<b>Markets</b>			
31.Commercial property market	↓	●	→
32.Residential property market	↓	●	→
33.Energy market	→	●	→
34.Adaptation of strategy	→	●	→
<b>Politics</b>			
35.Planning policy changes	→	●	→
36.Other policy changes	→	●	→

D1. Inability to source new strategic sites
D2. Adverse planning decisions
D3. Increase in development costs due to market-wide cost increases
D4. Other operational shortfalls
D5. Legacy mining issues result in adverse remediation costs
LR6. A health and safety incident
LR7. Regulatory breach
LR8. Adverse legislative, regulatory and/or licensing changes
PP9. Insufficient people resourcing
PP10. Inadequate succession planning
PP11. Inadequate employee engagement
PP12. Deficiencies in internal communications
PP13. Failure to address diversity challenge
PP14. Failure to promote positive and consistent culture
F15. Capital constraints
F16. Shortfalls in income
F17. Failure to budget and/or manage cashflow
F18. Deficiencies in valuations process

F19. Gaps in or increased costs of insurance programme
E20. An adverse environmental incident
E21. Failure to manage effectively Harworth's environmental impact
E22. Failure to plan for and respond to climate change
S23. Failure to deliver on our purpose
S24. Failure to deliver sustainable projects
S25. Ineffective engagement with local communities and other stakeholders
G26. Failure to communicate and engage effectively with investors
G27. Inadequacies in or ineffective internal controls and processes
G28. Inadequate governance of joint ventures
G29. Failure to provide effectively for cyber and information security
G30. Failure to plan for significant adverse events
M31. Adverse movements in commercial property market
M32. Adverse movements in residential property market
M33. Adverse movements in energy market
M34. Failure to adapt strategy to reflect market changes
P35. Adverse changes to national planning framework
P36. Adverse changes to other national and/or regional policies

KEY	
Risk rating after mitigation	Link to strategy
● Very low	✂ Development
● Low	📈 Investment
● Medium	🌐 Regions
● High	🏠 Sectors
● Very high	⚙ Prudent financial approach

Change in rating during last year		Forecast change in rating during next year	
→	Risk has not changed	→	Risk forecast to remain unchanged
↓	Risk has decreased	↓	Risk forecast to decrease
↑	Risk has increased	↑	Risk forecast to increase
●	No previous score (new risk)		



# Effectively managing our risks

continued

## DETAILED REVIEW (REFLECTING RISK PROFILE PRE- COVID-19)

DELIVERY									
Acquisitions	→	●	↓	🔧🌐🏠📊	Project delivery	→	●	→	🔧🏠📊
Planning	↑	●	↓	🔧🏠📊	Other operational shortfalls	→	●	→	🔧📊
Mining legacy					↑	●	↓	🔧	

Risk profile	
<p>Our acquisitions risk continues to carry a high risk score, reflecting the competitive market for strategic land sites. We expect that, over the short-term, more acquisition opportunities will come to market and the competition for sites will ease somewhat. Planning risk has increased, but we expect headwinds to subside as the political climate settles down and are confident that the sustainability of our projects, and our intensive engagement and collaborative approach with local authorities and communities, will mitigate this risk over the medium to long-term. Our mining legacy risk has increased temporarily whilst we undertake planned filling works on certain legacy mine shafts over coming months. This will return to a low risk during the year once those works are completed and as more surplus legacy sites are sold.</p>	
Examples of mitigation measures taken during 2019	Examples of mitigation measures planned in 2020
<ul style="list-style-type: none"> <li>Acquisitions, planning and project managers have been appointed in each of the regions. Our Central Services team has also been established to support the regional teams and promote consistency on planning and engineering workstreams.</li> <li>We have established a "Harworth Common Platform" which promotes a consistent approach to key workstreams including acquisitions, planning promotion and project delivery.</li> </ul>	<ul style="list-style-type: none"> <li>Local political advisers will be appointed to assess planning risk on high-risk acquisition sites and advise on local political stakeholder engagement.</li> <li>Further work to be undertaken on standard financial model for acquisition and planning promotion agreement appraisals.</li> <li>Shaft filling works.</li> </ul>

LEGAL AND REGULATORY									
Health and safety incident	→	●	→	🔧🌐⚙️	Other regulatory breach	→	●	→	🔧🌐⚙️
Legislative and regulatory changes					→	●	→	🔧🌐🏠📊	

Risk profile	
There have been no material movements to the risks in this category.	
Examples of mitigation measures taken during 2019	Examples of mitigation measures planned in 2020
<ul style="list-style-type: none"> <li>Group-wide Health and Safety Day together with ongoing programme of online training.</li> <li>Advice taken on impact of IR35.</li> </ul>	<ul style="list-style-type: none"> <li>Appointment of wider panel of health and safety consultants.</li> <li>Implementation of IR35 measures.</li> <li>Compliance with payment practices reporting.</li> </ul>

PEOPLE									
Resourcing	→	●	→		Succession	→	●	→	
Employee engagement	●	●	→		Communications and connectivity	→	●	→	
Diversity	→	●	→		Culture	→	●	→	

#### Risk profile

Employee engagement is a new risk and, as such, has no previous risk score. Its low risk score reflects the extensive work undertaken on this during 2019. All other risks remain largely unchanged and no material changes in risk profile are expected over the coming year. This reflects that, whilst our people are critical to the success of the business and, as such, people risks carry significant residual risk, we maintain a focus on resourcing, succession planning, engagement and communication, to mitigate them. Our diversity risk score remains unchanged, acknowledging that, whilst progress has been made on gender diversity at a senior level, we are keen to improve diversity in its widest sense and at all levels of the business and this remains a long-term challenge.

Examples of mitigation measures taken during 2019	Examples of mitigation measures planned in 2020
<ul style="list-style-type: none"> <li>Recruitment into regional and central support teams.</li> <li>Comprehensive succession, talent and development management planning exercise undertaken.</li> <li>Significant work undertaken on employee engagement – see the Strategic Report at pages 56 and 57.</li> <li>Talent Development Programme established – see Strategic Report at page 94.</li> <li>“Harworth Values” established.</li> </ul>	<ul style="list-style-type: none"> <li>Further recruitment: Head of Income, Business Space resource, central support resources.</li> <li>Maintenance, review of effectiveness, and evolution of existing measures, particularly around engagement and internal communications.</li> <li>Harworth Intranet to be launched.</li> <li>More PLC Board and Management Board meetings to be held in regional offices.</li> <li>Integration of “Harworth Values” into recruitment, appraisals, remuneration and recognition and internal communications.</li> </ul>

FINANCE									
Availability of capital	→	●	→		Income	→	●	→	
Cashflow	→	●	→		Valuations	→	●	→	
Insurance				↑	●	↑			

#### Risk profile

A higher risk associated with capital availability reflects that, whilst we have low gearing and headroom in our Revolving Credit Facility, securing additional capital to support our growth remains a priority. We anticipate that public funding opportunities will increase through regional devolution and investment and that, overall, capital risk will reduce over the medium-term. Our income risk score remains high, acknowledging that the lifespan of our coal fines sales has shortened and that our strategy remains to increase the breadth and resilience of our income portfolio. We forecast a reduction in this risk over the medium-term, reflecting the ongoing implementation of our strategy. Our insurance risk has increased due to challenging market conditions resulting in material increases in insurance premiums, albeit a large proportion of these increases are passed onto tenants. This was mitigated at the 2020 renewal by a rate stability agreement with our incumbent insurer but will be a challenge for the 2021 renewal.

Examples of mitigation measures taken during 2019	Examples of mitigation measures planned in 2020
<ul style="list-style-type: none"> <li>Acquisition of investment properties in Brighouse, Glossop and Sherburn.</li> <li>External review of year-end valuations process (see Audit Committee report at page 99).</li> <li>Reorganisation of Finance team.</li> </ul>	<ul style="list-style-type: none"> <li>Appointment of Partnerships Manager to support public funding applications and, via new CFO, renewed engagement with Homes England.</li> <li>Appointment of Head of Income and additional Business Space resource.</li> <li>Additional business partner resource in the Finance team.</li> <li>Investment property acquisitions and direct development where appropriate.</li> <li>Review of insurance brokerage appointment and re-marketing of insurance programme.</li> </ul>



# Effectively managing our risks

continued

ENVIRONMENT									
Environmental incident	→	●	→		Climate change	●	●	→	
Haworth's environmental impact					●	●	→		

Risk profile	
<p>This is a new risk category. Our environmental incident risk, previously located in the Legal and Regulatory category, continues to carry a medium risk profile. Whilst the prospect is considered unlikely the impact of an incident could be material. As such, given the nature of the business, the profile of this risk is unlikely to reduce further. Environmental impact and climate change are two new risks and so have no previous risk scores. The current low risk scores reflect that, overall, Harworth's projects have a positive environmental impact, and we are rising to the challenge of "future-proofing" our projects in terms of energy usage and the move to zero carbon, and that the portfolio withstood the 2019 flooding in South Yorkshire without any material adverse impact.</p>	
Examples of mitigation measures taken during 2019	Examples of mitigation measures planned in 2020
<ul style="list-style-type: none"> <li>• Appointment of new environmental consultants.</li> <li>• ESOS audit undertaken.</li> <li>• See mitigation measures undertaken on bio-diversity in Politics section.</li> <li>• Existing future proofing measures employed across our sites.</li> </ul>	<ul style="list-style-type: none"> <li>• See mitigation measures planned on bio-diversity in Politics section.</li> <li>• Better articulation of "the Harworth Way" in investor materials including greater analysis of environmental impact and sustainability of our projects.</li> <li>• Promotion of rail freight sites to reduce HGV use.</li> <li>• We will continue to operate a "re-use and re-cycle" approach to site remediation to minimise off site waste and importation of virgin materials.</li> <li>• We will continue to factor climate change guidance into remediation and infrastructure design.</li> <li>• Progression of partnership with energy suppliers in connection with on-site energy generation for residential developments.</li> </ul>

SOCIAL									
Purpose	●	●	→		Sustainability	●	●	→	
Communities and stakeholders					●	●	→		

Risk profile	
<p>This is a new category of risks, reflecting emerging risks and the Board's and Management Board's focus on business purpose, the sustainability of our projects, and the effectiveness of our engagement with local communities and our other key stakeholders. A medium risk in relation to purpose reflects the refinement of our business purpose but recognizes the need to embed a formal consideration of purpose into our assessment of projects. A medium sustainability risk reflects the challenge we face in "future-proofing" our projects in terms of site infrastructure, community amenities and transport links. A medium risk score for communities and stakeholders acknowledges the work we have undertaken on stakeholder mapping but also the need for community and stakeholder impact to become a more fundamental part of project appraisals.</p>	
Examples of mitigation measures taken during 2019	Examples of mitigation measures planned in 2020
<ul style="list-style-type: none"> <li>• 2019 Strategy Day: detailed discussion about purpose resulting in agreed statement.</li> <li>• Initial viability reviews undertaken on energy production initiatives for commercial developments.</li> <li>• Stakeholder mapping.</li> </ul>	<ul style="list-style-type: none"> <li>• Embed consideration of purpose into assessment of projects.</li> <li>• Progress funding bids for innovative transport measures, health and wellbeing and 5G provision at new developments.</li> <li>• Better articulation of "the Harworth Way" in investor materials including greater analysis of societal impact and sustainability of our projects.</li> <li>• A pilot sustainable energy project at Kellingley.</li> <li>• Embed into Board project appraisals a consideration of community impact.</li> </ul>

GOVERNANCE									
Investors	→	●	→		Internal controls and process	↓	●	→	
Joint ventures	●	●	↓		Cyber and information security	↓	●	→	
Business Continuity				●	●	→			

Risk profile	
<p>This is an expanded risk category. Our Investors risk remains unchanged reflecting that, whilst diversification of our share register and liquidity in our shares has improved during 2019, the evolution of our investor communications and engagement is a long-term objective. Our internal controls and cyber and information security risks have reduced following extensive work on the “Harworth Common Platform”, data management and information security during 2019, albeit medium risk status remains for both given the potential impact of such risks. Our joint venture risk, previously located in the Delivery category, has been expanded from pure financial risk (insolvency of counterparties) to a wider governance risk. Business Continuity is a new risk with a medium risk profile, reflecting that Business Continuity and IT Incident Response Plans are now in place, have been tested but will remain subject to regular review and improvement.</p>	
Examples of mitigation measures taken during 2019	Examples of mitigation measures planned in 2020
<ul style="list-style-type: none"> <li>• New website launched, including improved investors section.</li> <li>• External review of year-end valuations process (see Audit Committee report at page 99).</li> <li>• Establishment of “Harworth Common Platform”.</li> <li>• Overhaul of data management.</li> <li>• Establishment of information security function and upgrades to IT network.</li> <li>• Desktop test of Business Continuity Plan and IT Incident Response Plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Management and audit of “Harworth Common Platform” and new data management platform.</li> <li>• Evolution of Management Board and Board reporting.</li> <li>• Consistent approach to joint venture governance.</li> </ul>

MARKETS									
Commercial property market	↓	●	→		Energy market	→	●	→	
Residential property market	↓	●	→		Adaptation of strategy	→	●	→	

Risk profile	
<p>We have seen a reduction in commercial and residential property market risks, reflecting the political certainty afforded by the General Election result, which has resulted in improved sentiment across both the commercial and residential property markets in the short-term. However, in the medium term, commercial markets are in some instances considered to be operating late-cycle and macro-economic uncertainty remains. The sale of our solar portfolio has removed our exposure to solar market fluctuations, but this is offset by the shorter lifespan of our coal fines market. Our strategy remains appropriate but is subject to regular review as macro-environment evolves and markets move.</p>	
Examples of mitigation measures taken during 2019	Examples of mitigation measures planned in 2020
<ul style="list-style-type: none"> <li>• Establishment of regional offices is already increasing opportunities and mitigating against market movements at a regional level.</li> <li>• Sale of solar portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to broaden geographical search for acquisitions and footprint of projects.</li> <li>• Exploration of alternative residential tenures including analysis and, if viable, implementation of alternative affordable housing delivery model.</li> </ul>



# Effectively managing our risks

continued

POLITICS									
Planning policy changes	→	●	→		Other policy changes	→	●	→	
Risk profile									
Overall, political risks remain largely unchanged with increases and decreases in certain risks balancing each other out. There now appears to be limited prospect of a Land Value Capture tax in the short-term, but there remains a risk of alternative measures having a similar effect, such as higher s106 contributions, increased affordable housing requirements and bio-diversity off-setting. Government support for Help to Buy remains in place (with modifications) until 2023. The outcome of the General Election and subsequent Government announcements has raised the prospect of more regional investment in the North and Midlands including on HS2, and of an extension of devolution powers and monies.									
Examples of mitigation measures taken during 2019					Examples of mitigation measures planned in 2020				
<ul style="list-style-type: none"> <li>We have engaged an external consultant to advise on the prospect of our establishing a bio-diversity "bank" and to undertake an appraisal of two pilot schemes.</li> <li>Pro-active engagement with HS2 Limited on our two safeguarded sites</li> </ul>					<ul style="list-style-type: none"> <li>Our Natural Resources division will examine the viability of the bio-diversity pilot schemes proposed by our external consultant.</li> <li>Negotiations with HS2 Limited on our compensation claims.</li> <li>Public funding applications to be made following announcement of Sheffield City Region devolution.</li> </ul>				

## IMPACT OF COVID-19

Risk	Before COVID-19	After COVID-19
<b>Delivery</b>		
1.Acquisitions	●	●
2.Planning	●	●
3.Project delivery	●	●
4.Other operational shortfalls	●	●
<b>People</b>		
9.Resourcing	●	●
12.Communication and connectivity	●	●
<b>Finance</b>		
15.Availability of capital	●	●
16.Income	●	●
17.Cashflow	●	●
18.Valuations	●	●
19.Insurance	●	●

Risk	Before COVID-19	After COVID-19
<b>Governance</b>		
26.Investors	●	●
27.Internal controls and processes	●	●
29.Cyber and information security	●	●
<b>Markets</b>		
31.Commercial property market	●	●
32.Residential property market	●	●
34.Adaptation of strategy	●	●
<b>Politics</b>		
36.Other policy changes	●	●

\*Where the table above appears to show no movement in risk status, there has been a small increase in risk score but within the same risk status banding.

Risk rating after mitigation				
● Very low	● Low	● Medium	● High	● Very high

## Risk profile

- **Politics.** Government restrictions on movement are having a severe adverse effect across the business, reflected in the increased status of risks shown in the dashboard above and the narrative below.
- **Markets.** A downturn in commercial and residential property markets is anticipated, albeit industrial and logistics market expected to weather and bounce back more quickly than other sectors. Pipeline sales, direct development and valuations likely to be adversely affected.
- **Delivery.** Progression of pipeline acquisitions will be hampered by social distancing measures. However, as we emerge from COVID-19 restrictions, there are likely to be acquisition opportunities we can capitalise on, subject to the availability of capital. The progression of certain planning applications could be slowed given the practical challenges, and competing priorities, faced by planning authorities. Planning delays are likely to mean value gain deferrals. Progression of earthworks and infrastructure works, together with direct development, more difficult due to Government restrictions on movement, albeit infrastructure works on six major development sites have continued and activity is picking up as restrictions start to ease. This could affect the timing of completion of sales and receipts.
- **Finance.** The availability of capital will be constrained over the coming months and, as a result, cashflow will come under pressure, largely due to deferrals of sales and scheduled payments and reduction in Business Space and Natural Resources rent receipts. However, we have continued to complete some sales (including a material sale for £13m) and our senior lenders have agreed to extend our RCF by £30m to £130m, which mitigates this risk to a large extent. It is too early to know what the impact will be on valuations but they may include "material uncertainty" clauses. A small increase in our insurance risk reflects that insurer appetite may be adversely affected for our 2021 renewal.
- **People.** All employees have adapted to remote working, but capacity and productivity has been adversely affected by working from home policy and closure of schools. We have not yet seen widespread illness across the business but contingency plans are in place should this occur. Maintaining internal communication and connectivity is more challenging in a working from home environment.
- **Governance.** Increase in investors risk reflects share price volatility and the wider stock market sentiment. Certain internal controls and processes have required adaptation to reflect home working but these processes remain robust and are operating effectively. There is a small increase in cyber and information security risk because the volume of cyber-attacks has increased globally.

## Examples of mitigation measures implemented

- Planned Business Continuity measures implemented to facilitate home working and maintain connectivity with internal colleagues and external stakeholders.
- Cashflow is being monitored and managed very carefully including: reduction in purchase order approval levels; a temporary pause on uncommitted development expenditure; and close liaison between Finance team and all divisions on sales and expenditure, meaning real-time updates to cashflow forecasts.
- Early engagement with the Group's principal lenders has led to extension of our revolving credit facility by £30m to £130m.
- Proactive engagement with tenants, counterparties to completed, exchanged and pipeline sales, and contractors and consultants.
- The Board is not recommending a final dividend for FYE'19 but will consider an additional interim dividend for FYE'20.
- Changes implemented to certain finance processes (such as purchase order and invoice approvals) and to the process for executing legal documents to accommodate home working, albeit effective controls remain in place.
- Contractual reviews undertaken by legal panel firms to inform engagement with counterparties.
- Volume and frequency of inspections increased for sites that have been vacated, subject to compliance with Government restrictions.
- Internal connectivity and communication has been maintained. Most divisions are hosting regular (daily or twice weekly) meetings via Microsoft Teams. Increased frequency of senior management meetings. Regular communications to all employees via email and business-wide update calls.
- Workstreams prioritised and, where necessary, reallocated to accommodate staff childcare obligations. A plan has been worked up to ensure cover for members of the senior management team in the event of illness.
- Mental health first-aiders are speaking to every employee on a one-to-one basis.
- IT managed service provider and information security manager on high alert for cyber-attacks. Communications to employees to remain vigilant despite operational challenges.

# Long-term Viability Statement

## Viability period and rationale

The Directors have assessed the prospects of the Group and its principal risks over a longer period than the 12 months required by the Going Concern Statement (see the Statement of Directors' Responsibilities on pages 122 and 123).

In the first instance, the Board conducted a review for a period of five years ending 31 December 2024. 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.

The final two years of the period by their nature are less certain and are less detailed in their projections.

The initial strategic plan was put together and reviewed by the Board in both November 2019 and January 2020. Following the COVID-19 outbreak, the first 18 months of the strategic plan have been revisited and reviewed in detail by the Board. The plan has been updated to reflect the anticipated impact of COVID-19 resulting in a downturn in 2020, as well as actions taken by management to respond to COVID-19. These included an increase in the RCF to £130m and reduction of uncommitted development spend. These changes have an effect on the later years of the plan which have been updated to reflect a medium-term recovery of the economy. At this stage, it cannot be known how long the disruption will persist or the full future impact of COVID-19 and so the assumptions within the strategic plan will continue to be monitored closely going forwards.

## Resilience of business model

The Group's purpose is the long-term transformation of land and property into sustainable places where people want to live and work. The focus on both Development and Investment in our Strategy means that we have a diversified portfolio of income-producing properties within the industrial, logistics and natural resources sectors which provides a regular income stream to cover the operating costs of our business and interest due under our financing facilities. Major development sites could be active with phases of development combining to be fifteen years or more and plans for sites can be adapted to the market conditions at the time. Our business plan has been prepared in the context of the Strategy, and its principal income streams, which are:

- sales of residential and commercial serviced land, for which we have plans reaching out to 2024;
- rental income from income-producing industrial properties which, at 30 April 2020, had a vacancy rate of 4.8%, a weighted-average lease length of 13 years and a rent collection profile broadly in line with previous periods; and
- development and investment management, planning promotion and investment fees.

This balance in our portfolio means that regular income from our income-producing portfolio with low vacancy rates will help to provide regular cost cover. Our income-producing properties within the industrial and natural resources sectors have a diverse range of tenants. Our land and property portfolio is spread across all stages of our business model which gives us the opportunity to advance sites at an earlier stage (masterplanning and planning promotion) whilst we wait for the commercial and residential property markets to return. The regional residential market has a fundamental insufficient supply of housing and has seen robust demand prior to the onset of COVID-19. Our strategic shift over the last 2 years to expand our teams into the Midlands and North-West balances our exposure to any one region.

Our prudent approach to borrowing resulted in net debt at year end of £70.9m representing a 12.1% net loan to portfolio value. Our senior debt facility, being our Revolving Credit Facility, does not mature until 2023, just under 3 years' away. This facility has recently been increased by £30m to £130m providing cash and available debt headroom (subject to documentation) as at 30 April 2020 of £64m.

## Principal risks and uncertainties

Reporting on the Group's viability requires the Directors to consider those principal risks that could impair the solvency and liquidity of the Group. To determine those risks, the Directors assessed the principal risks and uncertainties. The principal risks and uncertainties that the Board considers could impair solvency and liquidity relate to economic assumptions, income generation variability and appropriate staffing levels. Principally, these fall within the Markets, Delivery, Finance, Politics and People categories of risk identified in the Effectively managing our risks section of the Report on pages 29 to 37.

## Assessment of long-term prospects and sensitivities applied

The five-year strategic plan review focuses on the expected growth of the business primarily in terms of EPRA NNNNAV including dividends. The strategic plan review also considers the Group's valuations, recurring income, cash flows, covenant compliance, financing headroom and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing the main assumptions underlying the forecast both individually and in unison.



We have set out the key risks and the scenarios considered as part of the sensitivity analysis below. Throughout the strategic plan, the Group continues to transform land and property into sustainable places where people want to live and work. Whilst under the sensitivity analysis, EPRA NNNNAV growth including dividend could be impacted temporarily, the long-term business model continues to deliver the Group's purpose in a sustainable manner.

Risk	Scenario	Mitigation and further analysis
<b>Markets</b>	<ul style="list-style-type: none"> <li>COVID-19 is expected to result in a temporary downturn in the residential and commercial property markets. At this stage, the time that it will take for markets to return to normal is unknown. The scenarios assume that a severe but temporary downturn would result in lower land sales and values.</li> <li>Notwithstanding strong rent collection to date in line with previous quarters, an economic downturn caused by COVID-19 could impact on some tenants' ability to pay rent and leads to loss of rent or restructuring of rental payments.</li> <li>We also stress test a restricted ability for new land and property acquisitions.</li> </ul>	<ul style="list-style-type: none"> <li>Harworth invests to deliver long-term growth and many of our sites have timeframes that extend beyond the strategic plan period.</li> <li>The portfolio provides a spread of sites across our three core regions and properties are diversified across the residential and industrial sectors, both of which have strong underlying demand fundamentals. This helps to mitigate the impact of market movements.</li> <li>We work closely with our tenants in our Income Generation portfolio on payment terms that support both parties to continue to actively manage rent collection.</li> <li>In the event of market turbulence, development spend can be reduced and rephased to match more closely market demand and conserve cash. To date, we have prioritised development activity on sites with committed sales in place and continue to manage our cash flow to invest sustainably in sites and grow the business.</li> <li>Strategic plans for sites can be revisited and funding sources expanded if recovery is delayed further. Rephasing the major development sites and revisiting cost plans will help to mitigate value movements.</li> <li>Based on the existing portfolio on which alone to continue activity, the pipeline is c.24m sq. ft commercial space and c.30,000 new homes. In addition, a market downturn could provide buying opportunities for the local teams in our core regions.</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>A market downturn reducing sales volumes would lower income.</li> <li>Short term downward valuation movement and lower income receipts could be experienced which would reduce headroom under the financial covenants in the RCF.</li> <li>There are no significant debt maturities in the first two years of the strategic plan but the RCF expires in 2023 and a refinance is assumed ahead of that.</li> </ul>	<ul style="list-style-type: none"> <li>Reduced activity on site as set out above would reduce development spend and conserve cash resources.</li> <li>The spread of sites in different regions, an industrial property income portfolio combined with tenants split in size and end sector, diversifies exposure. We will continue to implement our strategy to grow our Income Generation portfolio.</li> <li>At year end, the Group had low gearing, good liquidity with debt headroom and cash resources maintaining sufficient financial flexibility to continue to operate across our sites. Headroom is projected to remain in covenants throughout.</li> </ul>
<b>Other risks including Delivery, Politics and People</b>	<ul style="list-style-type: none"> <li>A future change in the political environment could lower support for infrastructure in our key regions.</li> <li>Delays or refusals in planning approvals impacts on progress on sites and EPRA NNNNAV Growth. Under COVID-19, although planning processes are continuing to progress on a remote basis, we have stress tested delays in planning approvals.</li> <li>People resources needed to deliver the Strategic Plan are not available.</li> </ul>	<ul style="list-style-type: none"> <li>We have a strong track record in working effectively with local planning authorities to secure planning and we continue to work on a Council-by-Council basis to reduce any potential delays in the consideration &amp; determination of applications.</li> <li>We have maintained activity across many of our sites within the period of COVID-19. This will continue to be monitored and further delays could push back timescales to development and sale completions. The Company and our contractors are adhering strictly to all government guidelines on social distancing and safe working practices during this period.</li> <li>There are high levels of employee satisfaction within the business as reported on page 15. Recruitment could be increased if required.</li> </ul>

## Viability assessment

Based on the results of this analysis, and having considered the established controls and available mitigation actions for our principal risks and uncertainties, 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.



# CASE STUDY 1: WAVERLEY

YORKSHIRE'S LARGEST EVER BROWNFIELD REDEVELOPMENT WENT FROM STRENGTH TO STRENGTH IN 2019, WITH A RANGE OF SALES AND LETTINGS COMPLETED THAT CEMENTED ITS PLACE AS ONE OF THE NORTH'S KEY ONGOING MIXED-USE DEVELOPMENTS.





The site, now unrecognisable from its history as the former Orgreave Colliery & Coking Works and its industrial unrest in the 1980s, is now home to over 900 homes, 2,000 workers at the internationally renowned Advanced Manufacturing Park (AMP) – four times that when the Colliery shut in 1990 – and over 300 acres of public open space. By the time the site is fully developed by 2040, its regeneration will have taken the best part of five decades by Harworth, its predecessor companies and public sector partners including Sheffield City Region LEP and Rotherham Council.

Three key deals were completed in 2019. Our Yorkshire & Central team completed infrastructure works on the site's eastern flank to enable the sale of 11 acres of engineered land to Taylor Wimpey for the construction of 175 new homes, alongside 12 acres to Barratt Homes for the construction of 177 new homes. Both of these phases will be built out over the next two years as the site continues to deliver in the region of 150 built homes to the market each year – one sixth of all new homes in Rotherham.

Another Original Equipment Manufacturer joined Boeing, Rolls-Royce and McLaren Automotive at the AMP in 2019 - the UK Atomic Energy Authority. The Government agency signed a 20-year lease for a 22,300 sq. ft bespoke fusion technology research facility, which we are in the process of constructing ahead of practical completion this September. The £22m facility will see UKAEA working with industrial partners, including the University of Sheffield's Nuclear Advanced Manufacturing Research Centre (NAMRC) to put the UK in a strong position to commercialise nuclear fusion as a major source of low-carbon electricity in the future.

As ever, the deals only tell part of the story of the site, with Harworth continuing to bring forward a range of supporting community infrastructure to ensure Waverley is a great place to live and work. Construction of the first of two primary schools has begun, with the roof completed in February ahead of a scheduled opening in September (subject to COVID-19). We have also begun work on a community garden and public space in front of the new school, due to be completed before the school opens in September. The community garden is one of the initiatives that has grown from a partnership between local residents, Harworth and Sheffield Hallam University's Centre for Sports Engineering Research to encourage active lifestyles. The garden will be managed by the local community and will comprise of a series of raised planters set within an edible hedge boundary with seating areas to promote community gardening and social interaction.

<b>Overall Development Timeline</b>	1990 - 2040
<b>Built development so far</b>	Over 900 homes across five housebuilders Over 1.5m sq. ft of advanced manufacturing space Over 300 acres of public open space
<b>Resident &amp; worker numbers</b>	Estimated c. 2,000 residents and 2,000 workers
<b>University partnerships in place</b>	University of Sheffield's Advanced Manufacturing Research Centre (link to OEMs including McLaren) University of Sheffield's Nuclear Advanced Manufacturing Research Centre (link to UK Atomic Energy Authority) Sheffield Hallam University's Centre for Sports Engineering Research (Active Towns programme to support healthier lifestyles)
<b>Community infrastructure already delivered</b>	Over 300 acres of public open space, including extensive network of public footpaths 2 major SUDS ponds for surface water attenuation and drainage Estate roads, drainage and services to unlock entirety of development Pocket parks within site Marston's Pub
<b>Next phase of development</b>	Further c.600 homes to be built on land already sold to housebuilders Completion of UKAEA facility Completion of first primary school & community garden in September
<b>Intended development on-completion</b>	Up to 3,890 new homes 2.1m sq. ft of commercial space, delivering over 4,000 jobs Completion of community facilities, including local centre (including medical centre) and two new primary schools Well developed public open space across 340 acres Rail halt, utilising existing Sheffield-Lincoln line





# The Harworth Way: Communities

We build, strengthen and support our communities now and for future generations

**We deliver some of the North of England and the Midlands' largest new developments.**

**These include some of the largest commercial and residential sites in the Midlands and North, creating thousands of new jobs with the potential to contribute over £3.5bn GVA p.a. We are also helping to meet the UK's undersupply of housing, with developments including affordable housing and a range of tenures.**

## THE ECONOMIC & SOCIAL EFFECT OF OUR DEVELOPMENT

Our committed approach to development has already yielded significant economic and social benefit to the UK, which will extend further as our sites gradually mature and evolve over time. Our c.100 sites are widely distributed across 41 Local Authority areas and 14 Local Enterprise Partnership (LEP) areas in the North and the Midlands to create schemes of lasting economic and social value.

Over the past five years, we have asked economic research consultancy Ekosgen to appraise both what we have already delivered and what we could potentially deliver through our developments – with a focus on jobs, homes and the Gross Value Added each of our sites generates or could deliver (defined as the economic output derived from the occupiers on our sites).

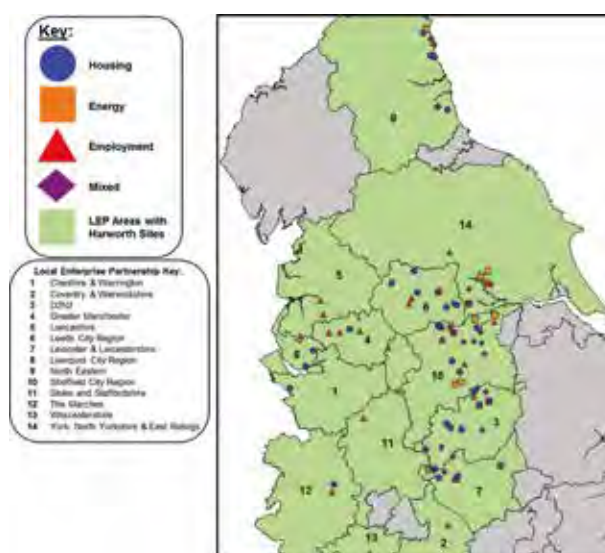
### What we've already delivered

In the eight years since Harworth has begun to master develop its sites:

- **21 employment sites across nine LEPs and 18 Local Authorities have been developed (in full or part), providing some 683,786m<sup>2</sup> of employment space.** This space already accommodates over **9,700 FTE jobs** generating an estimated **£558m** of Gross Value Added per annum.
- Two of our largest sites - Logistics North in Bolton and the Advanced Manufacturing Park in Rotherham – account for just over 60% of the employment space developed to date and both still have significant room for further expansion by each being just over 70% complete.
- **Housing has been delivered on 12 sites (in full or part), providing just over 2,340 new homes.** The new homes are estimated to generate **over £3.4m** of council tax receipts per annum.
- Our largest residential site – Waverley in Sheffield City Region – accounts for 40% of the of the new homes delivered to date, and with less than a quarter of its consented plots built to date, the site continues to offer significant development potential.

These are important contributions to the ongoing regeneration of the regions and the rebalancing of the UK economy, but are just the beginning as we develop our sites out over the longer-term.

### What could be delivered



When fully built out and occupied, our present land and property portfolio has the potential to accommodate:

- **61,000 jobs generating £3.5bn of GVA per annum**, as well as up to **£60.7m per annum** business rates income.\*
- In addition, close to 30,000 new homes could be built on our sites, supporting between **£22m and £44m per annum in council tax receipts**.\*\*

\* Post Enterprise Zone (EZ) business rate discount for businesses moving onto the Waverley site, which is part of the Sheffield City Region EZ.

\*\* Range reflects the current number of approved plots / total if all plots are approved.

### Supporting deprived communities

Crucially, unlocking the potential in our sites involves investment in and regeneration of some of the more deprived parts of the country where levels of development have typically been below national averages. Over half of our sites fall within the 50% most deprived areas in England. Specifically:

- some 45,400 jobs (65% of all potential employment space on our sites) could be located in the 50% most deprived areas, generating £2.1bn of GVA per annum;
- over 32% of these jobs (14,670) could be delivered on sites located in the 20% most deprived areas. This includes a mix of both full and part time jobs which have important roles to play in supporting local residents into employment and addressing deprivation; and
- significant commercial sites within the 20% most deprived areas include Gateway 45 Leeds, which itself could create over 6,500 jobs.
- Over 13,700 new homes (46% of the Group's total housing plots) could be built in the 50% most deprived areas, and half of these potential new homes (6,600) could be located in the 20% most deprived areas.

### Scale of potential Harworth development in deprived areas – Indices of Multiple Deprivation (IMD), 2019

IMD Decile	Commercial Floorspace (m <sup>2</sup> )		Total Jobs		New Homes	
	Percent	No.	Percent	No.	Percent	No.
10% most deprived	19%	612,670	19%	13,140	4%	1,310
20% most deprived	20%	673,810	21%	14,670	22%	6,600
30% most deprived	30%	999,150	30%	20,910	30%	8,850
40% most deprived	39%	1,292,860	40%	28,100	35%	10,490
50% most deprived	65%	2,155,800	65%	45,370	46%	13,730

All totals (except new homes) rounded.

### SOCIETAL BENEFIT THROUGH OUR MASTER DEVELOPER ROLE

Aside from our economic impact, one of our unique features is the sheer range of community groups and causes we work with as a master developer. Whilst we can't name all of them here, the following three examples give a good sense of how we deliver sustainable developments.

#### SUPPORTING ZERO-CARBON HOUSEBUILDING AT THORESBY

Increasing prominence is now being given to the energy efficiency of new homes as part of the UK's 2050 net zero housing target. We believe we have a responsibility to support those businesses leading the efforts to achieve this target – and we are doing this at our Thoresby Vale site in North Nottinghamshire.

Blossom Homes is a new entrant to the housing market, intending to deliver affordable, 'super-eco' prefabricated homes that will set new standards for the construction industry. Whilst it has previously constructed a small number of 'trial' units at its Yorkshire base, it has never delivered its units at scale nor has its product been tested on a live development site.

To support Blossom Homes with its plans to 'scale up' and try new production techniques, we have made available the former workshop building at the former Thoresby Colliery site on a short-term lease pro bono, from December 2019 to speed up effective production. In addition, we have also identified a small part of the site, close to the main estate road, on which Blossom Homes will locate its first show home. Further information on its innovative product can be found at [blossomhomesltd.co.uk](http://blossomhomesltd.co.uk).

# Communities

## continued

### DELIVERING ACTIVE & ENGAGED COMMUNITIES AT WAVERLEY

Within our 2018 Annual Report & Financial Statements, we documented our partnership with Sheffield Hallam University to create 'Active Towns' - using social research techniques and a detailed understanding of our landholding to exploit better our public open spaces for the benefit of local residents and workers. Our pilot programme at Waverley in 2018, also supported by Innovate UK, tested a number of new interventions including mapping out a series of routes to 'gamify' running & cycling, the introduction of an outdoor climbing wall on the proposed site for the local centre and working with local residents to set up the first shared community gardens around the site.

As Waverley's new community and Advanced Manufacturing Park matures, we continue to look for and test initiatives to engage and connect residents and workers. Three in particular from 2019 are worthy of documenting here.

#### A new Community Garden

Rotherham Council is currently building Waverley's first two-form entry primary school for planned opening in September (subject to COVID-19). To coincide with this opening, we have begun work on a community garden and public space in front of the new school which is due to be completed before the school opens. The community garden is one of the initiatives that grew from the original 'Active Towns' programme in 2018. It will be managed by the local community and will comprise of a series of raised planters set within an edible hedge boundary with seating areas to promote community gardening and social interaction.

There will also be a formal space in front of the school that will provide additional seating and public realm to promote social interaction – as a place for parents and children to meet before and after school. The design of this area takes inspiration from maths and geometry through a series of painted spirals based around the Fibonacci sequence and will be a key focal point for the site once complete.

#### Northern Star Project

Plans are also underway to welcome Professor Brian Cox to Waverley in December 2020 as part of an initiative led by Well Rotherham (part of leading social enterprise Well North) partnering with Harworth, the University of Sheffield's AMRC, Rotherham and Sheffield Councils, Gullivers and McLaren Automotive. Particle physicist, Professor Cox, is coming to Rotherham for a northern leg of his London-based Science Summer School, which was founded nine years ago through a partnership with social entrepreneur Lord Andrew Mawson. The event will include a series of workshops and speakers for secondary school children to inspire the next generation of scientists and engineers and to build on the success of the AMP.

#### A growing bird population

Waverley's two enormous man-made lakes – which act as the principal points of surface attenuation for the site - are a fantastic haven for wildlife. We spent 2019 restoring land adjacent to the lakes, in line with our biodiversity action plan, to encourage a wide range of species. The site is now home to hundreds of species of birds, including Water Rail and Great Crested Grebes. Our site custodian role will continue to include the protection of these species as we regenerate Waverley over the next fifteen years.

### CONNECTING PEOPLE TO JOB OPPORTUNITIES AT LOGISTICS NORTH

One of the biggest challenges that we face in delivering sustainable commercial development is ensuring local people can access the job opportunities on offer. This has been particularly relevant at our Logistics North development in Bolton, where over 5,500 people from across Greater Manchester and beyond are now employed on-site by companies including Amazon, Aldi, Lidl, Whistl, Komatsu and MBDA.

Following the receipt of outline planning consent for the scheme in December 2013, one of the first initiatives we worked on with Bolton Council and Transport for Greater Manchester was an effective travel plan for the development that included the provision of a 'local link' bus service (partly funded by Harworth) to connect local towns and villages to Logistics North – supporting the shift patterns of major employers working on 24/7 rotas.

Starting in 2016 when the first occupiers began working at the site and still running successfully in 2020, this local link service means that residents in parts of Bolton such as Westhoughton, Atherton, Farnworth, Little Lever and Breightmet can book a bus service at a specific time slot to pick them up from their home. For those travelling outside these areas, the service collects those workers from one of Bolton's bus or train stations. The results demonstrate how effective this service has been: over 15,000 individual trips were recorded in 2019, hugely reducing the volume of car traffic on the roads. Trip numbers year-on-year can be found here:

Year	2016 (Apr - Dec)	2017	2018	2019	2020 (Jan & Feb)	Total
Patronage	1,374	8,539	13,003	15,524	3,096	41,536

You can read more about the scheme here: <https://tfgm.com/public-transport/bus/local-link/area/logistics-north>



## WE CONTINUE TO SUPPORT A RANGE OF CHARITIES

A key part of our ethos remains supporting a range of community and charitable projects across the areas in which we work. Harworth gave over £30,000 in financial donations in 2019, whilst many of our employees committed time to sponsored and charitable activities as varied as half marathon running, organised cycle rides like the Tour de Yorkshire, the building of sheds for local community groups and even abseiling down Birmingham's tallest building.

We continued to partner with two national charities, Land Aid and The Wildlife Trusts to whom we provide both financial and in-kind support to help deliver their programmes.

### 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.

In 2019, we made an annual financial donation to Land Aid as a corporate partner of £12,500, 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. Our initial contribution has helped pay for the refurbishment of a house in Sheffield that now houses six young people that were previously homeless.

Our other contributions included:

- Ten members of our team completed the charity version of the Tour de Yorkshire – one of Britain's leading cycle races and a key part of Yorkshire's tourism drive. Team members took part in both the 78km and 123km routes, raising funds via a JustGiving page with the final amount subsequently matched by the company – raising an additional £4,500.
- Rather than send Christmas cards in 2019, we took the decision to donate money 'in kind' to LandAid instead, providing an additional £1,000 to the charity.

### 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.

In 2019, we made an annual financial donation to The Wildlife Trusts as a corporate partner of £12,500. A number of our employees gave up their time to help on some of their live projects. The Wildlife Trusts are also continuing to work 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 Waverley's 340 acres of public open space.

# Communities

continued



Harworth employees undertake the charity Tour de Yorkshire, Spring 2019



Harworth employees at a LandAid project in Sheffield, Summer 2019



Professor Brian Cox at a previous Science Summer School event



LandAid sponsored charity running event





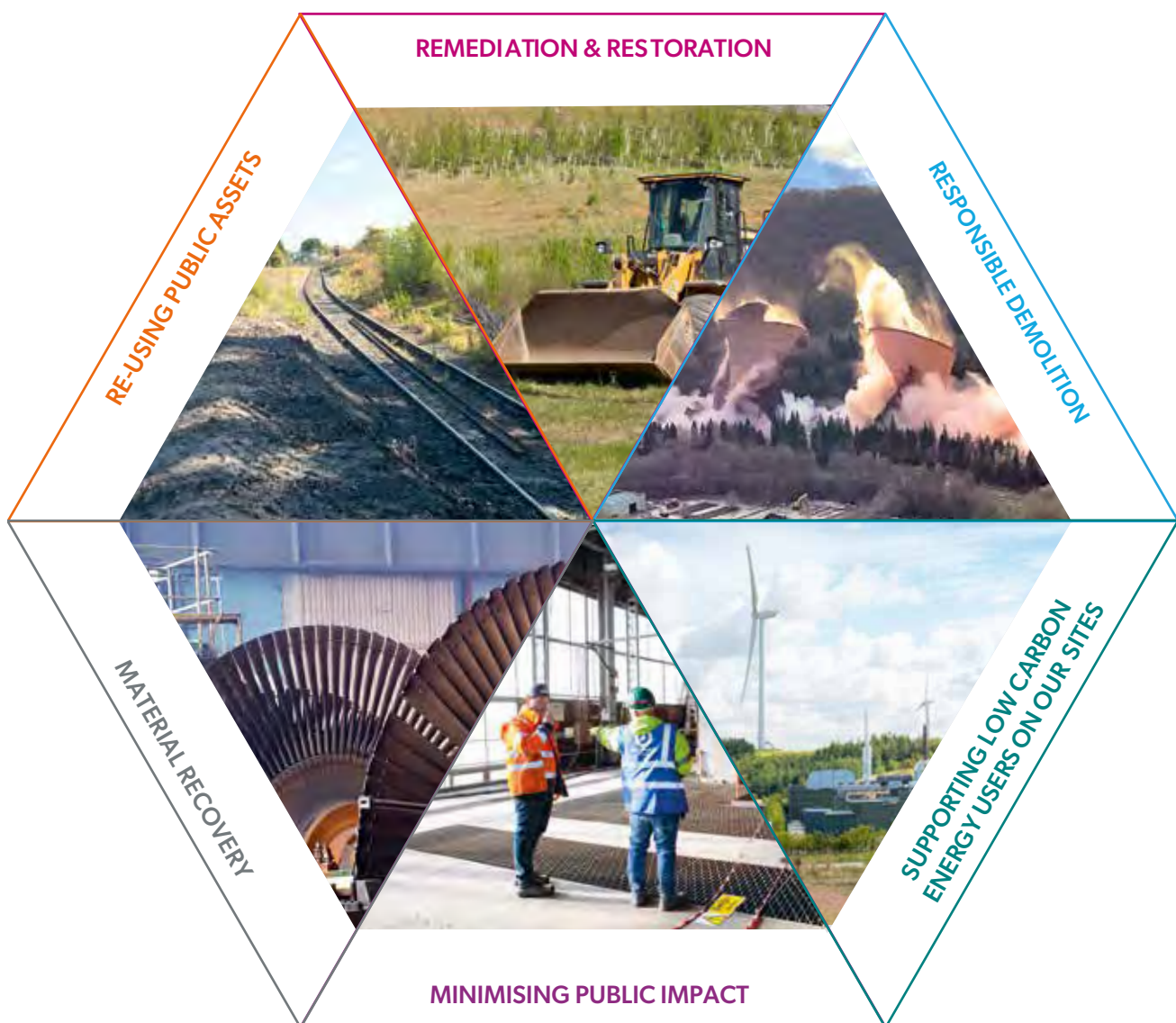


# The Harworth Way: Planet

We aim to create places in a sustainable way, future proofing our sites, minimising our environmental impact and supporting low carbon users.

Our extensive experience as a leading master developer has defined Harworth's approach to sustainability and the way we minimise the effect of our activities on the environment.

Our approach is based on six principles.



## REMEDIATION & RESTORATION



We work with trusted contractors to clean and remediate land and remove dangerous underground structures on our sites, as we prepare land for redevelopment. We now have extensive experience working on former colliery sites which underpins our capacity to work on 'big, dirty and complex' projects.

## RE-USING INDUSTRIAL ASSETS



We believe that, where practicable, former industrial assets should be retained to support and complement future development uses and have followed this principle on a number of our sites, including former collieries and power stations. 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, for example, we were able to export over 500,000 tonnes of former colliery discard via rail for re-use at the Port of Hull, whilst our plans for the former Ironbridge Power Station include the re-use of the site's former pumphouse for community uses (pictured). Another key workstream in 2019 was our feasibility studies looking at whether rail connections on a number of sites could be re-used, including at Waverley, Ironbridge and Kellingley.

## RESPONSIBLE 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. The 27-month demolition of the former Ironbridge power station also commenced in June 2019, with the safe demolition of the site's four iconic cooling towers – watched by hundreds of people beyond an enforced 300 metre exclusion zone – in December.

## MATERIAL RECOVERY



Whether it is coal slurry, metals, concrete or fill material, we have the capability to extract value from derelict land and property, generating revenue that can ultimately be re-deployed in preparing land for redevelopment whilst also being environmentally responsible. We have been able to extract and sell over 1m tonnes of coal slurry to power station operators to produce electricity between 2011 and 2019 – a material previously considered as waste.

## MINIMISING PUBLIC IMPACT



We have been able to achieve all of this whilst minimising disruption to resident and businesses living and operating 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 master developer. Management companies are in place across all of our major developments, ensuring they are managed in the long-term beyond completion of each development.

## SUPPORTING LOW CARBON ENERGY OPERATORS ON OUR SITES



Finally, we have a proud track record in supporting low-carbon operators on our sites (see page 15). 120MW of capacity remains installed on our land, incorporating solar farms, wind farms and coal mine methane extraction schemes on a number of former colliery sites.

An increasing number of companies that are involved in green or lower-carbon technologies are now occupiers or tenants on some of our sites. This includes commercial occupiers at the AMP including ITM Power (hydrogen fuel cells), Xeros (water-free cleaning technology) and the UK Atomic Energy Authority (nuclear fusion research). In addition, we are the landlord of the Ilke Homes' modular housing factory near Harrogate. Its end product is classified as 'zero carbon' – with a plan to deliver 5,000 green homes a year by 2025.

2019 was also the first year that we began to install Electric Vehicle (EV) charging points across our estate, beginning with our Advantage House headquarters in the autumn and extending to Ironbridge by the year-end. Further EV charging points are planned to be rolled out in 2020, in line with our commitment to further reduce emissions from our estate.

## WE CONTINUED TO REDUCE OUR EMISSIONS IN 2019

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.

We declared in our 2018 Annual Report that we were aiming to improve our environmental impact by implementing an improvement plan covering four discrete areas:

- examining the prospect of smart working to reduce staff fuel usage;
- the installation of EV chargers at our head office and remote sites, encouraging employees to switch to electric or hybrid vehicles and change the Harworth pool car to an all-electric vehicle;
- investing in energy efficient measures at our properties where these are cost effective, including the use of LED and passive lighting systems where appropriate; and
- analysing opportunities to manage plant journeys more efficiently on our major development sites.

We are pleased to report that our year-on-year emissions have continued to reduce following the implementation of measures such as the following:

- smarter working has been undertaken via staff better organising their diaries to reduce business miles, alongside the roll-out across the entire business of Microsoft Teams to support video conferencing. The latter has also successfully supported remote working during the Covid-19 pandemic, allowing us to continue to work at near-capacity.
- through the work of our managing agents and our EES team, we have isolated the electricity supply to buildings which are unoccupied to ensure lighting or heating can't be accidentally left on, thereby reducing emissions as well as consumption and electricity bills for the business.
- fuel oil usage has decreased due to coal recovery operations on a number of sites being scaled back, in line with the phasing out of coal fired power stations by 2025.

This statement outlines the greenhouse gas emissions arising from Harworth's activities in the 2019 financial year and it follows the Environmental Reporting Guidelines set by the Department for Environment, Food and Rural Affairs.

Emissions are reported in tonnes of CO<sub>2</sub> equivalents (CO<sub>2</sub>e) and refer to three areas:

- Scope 1** Fuel use in vehicles for staff in pursuance of their duties
- Scope 2** Gas oil used in plant at operational sites
- Scope 3** Electricity (non-rechargeable) usage on Harworth sites

	Emission source	Tonnes of CO <sub>2</sub> e (2018)	Tonnes of CO <sub>2</sub> e (2019)	% reduction
<b>Scope 1</b>	Fuel for staff vehicles	241	203	15.8%
<b>Scope 2</b>	Gas oil used in plant	3,371	1,707	49.4%
<b>Scope 3</b>	Electricity usage	404	443	(9.7%)
<b>Total Tonnes</b>		<b>4,016</b>	<b>2,353</b>	<b>41.4%</b>

## Additional work on our sites

Aside from this work, we have also successfully rolled out EV charging points on three of our sites during 2019 – the AMP (two units), Advantage House (four units) and Ironbridge Power Station (one unit). This initiative will be extended to include a number of our other commercial developments in 2020, including Logistics North and Kellingley. We also replaced the Harworth pool car during the year with an all-electric vehicle.

We also completed the Phase 2 Energy saving opportunity scheme (ESOS) in 2019 – a mandatory requirement for large UK companies every four years. Energy audits were carried out across our income-producing portfolio (including our Business Space sites), with an ESOS phase 2 report subsequently submitted to the Environment Agency. This has informed our approach to making further reductions in our emissions in the future.

## Supporting low-carbon uses on our sites

With Britain's net zero carbon target by 2050 rightly focusing minds on what the country needs to do to reduce its environmental impact, we are continuing to support low carbon energy uses on sites that benefit from close proximity to the National Grid. The scale of both delivered and potential energy generation on our sites is significant, making an important contribution to powering homes and generating a substantial GVA uplift in its own right.

We have involvement in solar, wind, coal mine methane, energy from waste, anaerobic digestion, gas, STOR and battery schemes, working with partners including Anesco, Energy Prospects, First Renewables, Alkane Energy, Peel Energy, Greenpark Energy, Wind Energy Direct and Arevon.

Low carbon energy is currently being generated on 16 of our sites across six LEP areas (D2N2, Leeds City Region, York and North Yorkshire, Sheffield City Region, Leicester & Leicestershire and the North East), with the potential to generate energy on several others. We asked Ekosgen to calculate the economic and social effect of this current and potential production, taking account of the load factor, i.e. the proportion of time for which the site is operating and producing energy. This is based on standard industry figures, with the average utilisation rate for each type of renewable energy site based on national data from the Digest of UK Energy Statistics (DUKES).



The work undertaken by Ekosgen calculated that current levels of energy output from our sites total over 233m kWh per annum, with the potential for this to rise to some 529m kWh per annum in the future if all energy sites are run at their optimum potential. This equates to the annual usage of some 75,270 households, with potential to power a further 95,600 homes - taking the total to 170,870 households. The current energy output is sufficient to power a town the size of Warrington.

This energy output is split as follows across our regions.

### Households capable of being powered by energy generation on Harworth sites

LEP	Current	Potential
D2N2	23,740	45,300
North Eastern	23,150	25,680
Leeds City Region	23,030	93,960
York, North Yorkshire & East Ridings	16,880	41,200
Sheffield City Region	11,430	35,300
Leicester & Leicestershire	3,760	3,760
<b>Total*</b>	<b>75,270</b>	<b>170,870</b>

All totals rounded

\*Totals do not sum due to double counting where local authorities are in multiple LEP areas.

### Energy generation on Harworth sites



### Developing high quality open spaces for public use

As part of our master developer role, we have already transformed over 1,000 acres of public open space across our major developments – including the 558-acre Cutacre Country Park adjacent to Logistics North, which benefit the 5,500 workers at Logistics North and local residents in Wigan, Salford and Bolton.

Over 100 acres of country park and similar space has also been established at Waverley, Thoresby Vale, Pheasant Hill Park, Cadley Park and Prince of Wales. These are integral parts of the masterplan for each site and are brought forward once local public demand is known. As a minimum, our public open spaces include a series of footpaths for walking, running and cycling, access to and from neighbouring developments and dedicated areas for ecological habitats. We often go beyond this. At Logistics North we planted over 40,000 trees in partnership with Greater Manchester's City of Trees programme. At Waverley, our space includes two huge lakes which whilst playing an important role in surface water attenuation are also a haven for wildlife. Ultimately each site's public open space is different, responding to specific local needs and the constraints of the original land.

At our Thoresby Vale in Nottinghamshire we have gradually restored the site's 350-acre former spoil heap into a new Country Park, working closely with the Nottinghamshire Wildlife Trust (NWT). Work commenced in 2016, with over half now restored to heathland consistent with the local landscape.

We are also proud of the site's links to the adjacent Sherwood Forest, from which trees have been sourced to help establish an oak plantation. This work has included collecting acorns from Sherwood Forest, and saplings from local nature reserves, to guarantee the provenance of the woodland. These acorns have been planted by local school children across the new Country Park. In addition, the top of the new park provides an uninterrupted 360 degree view of the surrounding area, including a unique uninterrupted view of Sherwood Forest. This will encourage local tourism whilst promoting Thoresby Vale as a great place to live as it matures over the next ten years.

Our partnership with NWT has also extended to our 550-acre Rufford site, where we have been working with NWT to transform a large proportion of the site into Rainworth Heath – one of the last remaining areas of heathland in the county. This particular site is notable as having areas of both dry and wet heath. Numerous bird species can be seen on site including green woodpecker, tree pipit and turtle dove.

We're proud of what we've created on these sites.



# CASE STUDY 2: IRONBRIDGE

THE WORLD'S EYES WERE FIXED ON IRONBRIDGE POWER STATION AS THE SITE'S FOUR COOLING TOWERS – AN INHERENT PART OF THE LOCAL LANDSCAPE SINCE THE 1960s – WERE BROUGHT DOWN BY CONTROLLED DEMOLITION. THIS HUGE MILESTONE FORMED JUST A SMALL PART OF A MUCH LARGER REGENERATION PROGRAMME THAT SIGNALS HARWORTH'S EXPANSION AS A LEADING MASTER DEVELOPER INTO THE WEST MIDLANDS.



CGI of proposed Ironbridge redevelopment



Demolition of Ironbridge cooling towers, December 2019





The 350-acre former Ironbridge Power Station is planned for regeneration into a mixed-use scheme, creating a new community at the heart of the region's industrial heritage. The site's outline planning application, submitted in December 2019, shows a mixed-use scheme for 1,000 new homes in addition to a range of commercial, leisure and community uses including a park and ride facility, a school, allotments and sports pitches. It followed eighteen months of close collaboration with both Shropshire and Telford & Wrekin Councils and two major public consultation events with residents (attracting nearly 1,000 people) in October 2018 and May 2019. It is hoped that the application will be determined this year.

This proposed redevelopment includes the re-use of the site's former rail connection, which Harworth is keen to use both to remove sand and gravel from the site (required in order to create a development platform for part of the site) and for the eventual introduction of an intermediate rail connection for passengers, which would link the site directly to Telford railway station via a number of adjacent villages that have not been served by a nearby railway since the 1960s. Feasibility work for this connection has already begun and Harworth remains in close contact with Network Rail on the work required to make it happen.

Demolition of the former power station began in May 2019, with Harworth appointing Demolition Services Ltd (DSL) – the principal contractor it used on its Kellingley and Thoresby Colliery demolition programmes – to lead the work. Demolition of the four iconic cooling towers in December followed six months of preparation, with steel and concrete separated post-demolition for the alloy to be sold and for the concrete to be crushed and stored for use during the eventual development phase. The wider site was split into six demolition zones with asbestos safely removed ahead of any demolition works. During 2019 DSL removed and sold over 640 tonnes of non-ferrous metals and over 7,800 tonnes of ferrous metals to support ongoing demolition works. 2020 will see the explosive demolition of the former boiler house amongst other structures.

#### Intended development timeframe

2020 – 2032

#### History of site

Power Station A opened in 1932, with Power Station B opening in 1969 – generating a combined 1200MW of capacity. It ceased operating on 20 November 2015

#### Full description of planning application

Outline application (access for consideration comprising formation of two vehicular accesses off A4169 road) for the development of (up to) 1,000 dwellings; retirement village; employment land comprising classes B1(A), B1(C), B2 and B8; retail and other uses comprising classes A1, A2, A3, A4, A5, D1 and D2; allotments, sports pitches, a railway link, leisure uses, primary/nursery school, a park and ride facility, walking and cycling routes, and associated landscaping, drainage and infrastructure works

#### Proposed rail connection

11km link between Ironbridge and Telford, re-using 9km of former railway not used for a number of decades



Internal demolition works, October 2019





# The Harworth Way: People

We aim to build a business where people can flourish and placemake to provide spaces that promote health and wellbeing, ultimately improving peoples lives.



Developing the skills of our people is crucial in delivering against our purpose and an essential part of our day-to-day work is ensuring that all of our employees live the “Harworth Values” to set an appropriate tone for our work.

Our responsible approach to development also directly influences our masterplanning, with hundreds of acres of new public open space being delivered each year to support more active lifestyles and improved mental wellbeing.



## PROMOTING A POSITIVE AND SUPPORTIVE CULTURE



The Board was confident that a positive and supportive culture was already well established at Harworth, demonstrated by the success of the business over its relatively short life and driven by its employees. However, the Board was keen for the values underpinning that culture to be well defined so that it can be promoted and preserved following the move to a regional operating structure and as the business continues to grow and evolve. To that end, during the first half of 2019 our Head of HR and Organisation Development worked collaboratively with all employees to identify the **Harworth Values** which underpin our **One Harworth** culture.

A series of workshops were held, each led by an external facilitator with up to 10 employees, in mixed groups, who were asked to consider and debate the following questions:-

### What is important at Harworth?

### What is unique about Harworth?

Ideas were captured and collated to identify themes from the group discussions. Every employee participated in one of these workshops.

Some common themes were identified in these workshops. These were subsequently discussed by our People Steering Group (on which see below) and distilled down into three **Harworth Values**. At Harworth, we:



all contributing to a collaborative One Harworth approach.

The Harworth Values were launched at the 2019 Staff Away Day. During 2020, they are being embedded into the business. We have incorporated them into appraisals and the setting and scoring of bonus objectives, our internal communications, such as the Harworth Newsletter and Harworth Intranet, and our programme of recognition throughout the year (see more on this below). We will monitor our progress on this via appraisals and the annual staff survey.

## ENSURING THE HEALTH, SAFETY AND WELLBEING OF OUR EMPLOYEES

Health and safety is paramount 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, liaising closely with our Chief Executive who has ultimate responsibility for 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. These ratings identify where action needs to be taken at each site and how quickly. They also inform the frequency of site inspections. 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 both the Management Board and Board monthly. Movements in this profile are fed into the quarterly reviews of the Group Risk Register (see the Effectively managing our risks section of this report on page 29).

Our EES team ensures that health and safety is embedded into all our activities. In 2019 mandatory health and safety training was delivered to all employees in the form of a Health and Safety Day, led by both internal and external facilitators, together with online tuition and testing.

Other proactive safety initiatives are undertaken including health and safety inspections and audits of our demolition and engineering projects. 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.

During 2019, we continued to engage JPW Consultancy Limited, an external health and safety consultant, to advise on health and safety issues across the business. In 2020 we are expanding this to a panel of three consultants, to meet the demands of our growing portfolio, reduce our dependence on a single supplier, and to apply "fresh pairs of eyes" to our approach. These consultants focus on health and safety at our Major Development sites, including management of consortium meetings between Harworth and its stakeholders, such as contractors and local authorities.

There were only five 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 the Construction Design and Management Regulations (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 our consultants 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 is given the attention and profile it deserves. Three of our c.75 employees now hold a mental health first aid qualification, alongside those with traditional first aid qualifications. Our mental health first aiders have played an important role during the COVID-19 pandemic, keeping in touch with all employees and offering support for those struggling with isolation. We have continued measures designed to promote mental and physical health and wellbeing amongst our staff. These include access to mental health professionals if needed, the construction of shower facilities at our Head Office for those who wish to exercise during the working day, lunchtime yoga sessions and monthly massage appointments, all at our Head Office.

# People

## continued

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 and near hits, where applicable, examples of good practice, as well as 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 representatives of each division, at which incident and near hit briefings are given; site-specific and business-wide issues are identified and discussed, with action points agreed; and best practice is shared; 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.

### EFFECTIVE EMPLOYEE ENGAGEMENT

The Board and Executive team recognise the importance and benefits of engaging meaningfully with employees. The Board is also mindful of the need to comply with UK Corporate Governance Code (2018 Code) in this regard.

#### Engagement by the Board

During 2019, a significant amount of work was undertaken to build out an effective employee engagement programme. Recognising that effective engagement requires multiple forums and means, the following initiatives were introduced:

- we held our first Employee AGM in April 2019, which we used as a means of explaining to our employees the role of the Board and each of its Committees, before breaking into smaller groups for questions and more informal engagement. We were planning to hold our next Employee AGM last month but have postponed it until later in the year given the COVID-19 outbreak;
- we now have a well-established People Steering Group (PSG), with whom our Non-Executive Directors meet quarterly by rotation (see more on this below);
- extended lunch breaks are now scheduled into our Board meeting agendas each month for lunch with groups of employees. These have been particularly well received by our staff (see below);
- regular site visits by our Non-Executive Directors are hosted by our project teams; and
- at some Board dinners the Board are joined by members of the wider Senior Management Team.

One of the most important aspects of our employee engagement strategy is our PSG. It meets quarterly and comprises twelve employees from different teams across the business, seeking an appropriate mix, based on (amongst other things) length of service, experience and diversity. Having been first established in 2018, we have started, and will continue, to rotate and refresh its membership.

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 formally to the wider Board at the next Board meeting.

Having regard to the nature and scale of Harworth's business the Board considers that the combination of measures listed above facilitates effective engagement with employees. Collectively, we view these measures, and particularly the engagement by Non-Executive Directors with the PSG, as our way of ensuring workforce engagement is provided for in accordance with the 2018 Code. The Board reviews the ongoing effectiveness of all engagement measures annually. The latest employee survey results demonstrated that these measures have been well received. 83% of respondents (an increase of 37% on the previous year) consider that the Non-Executive Directors engage well with the business and 74% of respondents believe that they have enough visibility in the business, an increase of 29% on the 2018 score. Comments from the survey included:

**"There has been a massive improvement [in engagement] in the past twelve months, driven by the Chair who deserves a lot of credit."**

**"The employee lunches have improved things significantly."**

**"Much better engagement evidenced by higher quality discussions at Board itself."**

Whilst engagement with the workforce is important, it would be of limited value if the Board did not then consider the interests of employees when making its decisions, particularly those of a strategic nature or having widespread operational implications.

Below are examples of how the Board has had regard to the interests of employees during 2019.

- Resourcing formed a significant part of the Board's discussions ahead of the move to a regional operating structure, and has remained at the forefront of the Board's mind when monitoring its implementation, with all regional roles now filled.
- Health, safety and wellbeing of our employees and contractors forms an important part of the Board's monthly review of health and safety across our sites, and of the annual briefing to the Board from our Associate Director of EES.
- The Board undertakes an annual review of talent management and people development (see more on this on page 57). It also reviews the annual employee survey results and agrees with the Head of HR and Organisation Development the priorities for addressing the output from those results.
- Resourcing forms an important part of the Board's appraisal of new, particularly large, projects. It also formed part of the Board discussions at the Strategy Day when a decision was made to deploy more capital on the acquisition of income assets, leading to the appointment of a new Head of Income.



## EFFECTIVE EMPLOYEE ENGAGEMENT CONTINUED

### Engagement by the Executive team

Engagement with employees at an operational level is equally important. This is particularly so following implementation of our 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, 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 and motivation. 85% of employees responded to the latest survey (positively in most respects). This is slightly lower than in previous years, albeit our workforce has grown substantially during 2019 and this still represents a strong completion rate, reflecting the fact that the survey is considered a meaningful exercise with feedback driving tangible initiatives;
- our recently launched Harworth Intranet which will become the principal means of communication with our employees;
- 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 and a recognition section based around the Harworth Values;
- 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 and Placemaking” in 2019;
- 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.

During 2019 we have also rolled out our use of the Microsoft Teams video conferencing facility, which has been embraced by our regional teams and is supporting our collaborative One Harworth ethos across offices. It has also played a critical role in our response to the COVID-19 pandemic.

## DEVELOPING OUR TALENT

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

Each year our Head of HR and Organisation Development undertakes a detailed review of succession and development plans for each role in the business. The output from that review is analysed first by the Investment Committee and then presented to, and scrutinised by, the Nomination Committee (for Investment Committee roles) and the Board (for all other roles).

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 continuous professional development (CPD) of existing team members. A programme of externally facilitated “Insights” workshops are being rolled out, which are designed to optimise the effectiveness of our Senior Management Team and each of our divisions.

Our Head of HR and Organisation Development has established a rigorous and consistent appraisal process and timetable which ensures that performance is managed and development needs are identified early. During 2020, the Harworth Values are being embedded into this process.

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 c.75 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 Senior Management Team 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 (including the option of salary sacrifice with additional employer contributions), private medical insurance and life insurance. 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 2019, these targets were based on total return, sales volume, acquisitions and profit excluding value gains. The balance of all bonuses are awarded for performance against personal objectives. From 2020, these personal objectives will incorporate and reflect the Harworth Values.

In 2019 we revised our Remuneration Policy including the adoption of a Restricted Share Plan (RSP) in place of two long-term incentive schemes operated in the past. Our ability to cascade the RSP, the operation of which is simple and transparent, is one of the key reasons for its adoption. Further details on the rationale for and operation of the RSP appear in the Directors' Remuneration Report on pages 101, 104 and 107.

We also operate a Save-As-You-Earn scheme (SAYE) and, from 2019, a Share Incentive Plan (SIP). The SAYE 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, more than half of our employees have chosen to participate in the scheme and we expect more to do so this year. The SIP affords a tax efficient mechanism by which the Company can encourage share ownership amongst employees by awarding shares to employees, or encouraging them to purchase shares. Together, our 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 a 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 the Harworth Newsletter. The Harworth Values have become an integral part of the successes we celebrate.

## PROMOTING HEALTH, SAFETY AND WELLBEING ON OUR SITES

As emphasised within both the Communities and Planet sections of this Report, we are very keen for the public open space on our sites to be used wherever possible by both our staff and the wider public. This includes a number of employees forming a Harworth weekly running club, using Waverley's near-7km loop (the majority of which comprises shale path surrounding the site) to support wider health and wellbeing initiatives. Further information on wider uses of our open spaces to support public health and wellbeing can be found on pages 44 and 51.

This approach is actively supported by the work of our EES team which acts as site custodian across our sites, maintaining spaces that can be actively used by the public whilst also protecting them from areas that shouldn't be accessed. The public open space on all our residential development sites is managed by our Residential Management Company function, part of the EES team, which ensures that regular inspections are undertaken. In addition, our EES team also acts as first responder if anti-social behaviour is reported on any of our sites, enabling a responsible and proportionate response to be made.

Our approach can therefore be summed up as follows:

- we maximise the use of our open space for people to use where it is safe to do so as part of our commitment to create great new places for people to live and work;
- this approach is supported by the effective inspection and management of public open space on our sites; and
- measures such as site security, warning signs and regular liaison with the Police, Fire Service and local community groups are in place to stop the public accessing parts of our sites deemed to be a risk.



Waverley 10k event, held every July





# The Harworth Way: Partners

We develop strong partnerships based on a shared socially responsible approach, working towards a joint goal of long-term, sustainable value creation

**We focus on creating sustainable value through partnerships with customers, local authorities, the Government and our suppliers to make best use of our sites for local people.**

**We engage regularly with our existing and potential shareholders and provide clear, timely information on our long-term strategy.**

**Our sites are often designated and developed as centres of excellence for industry and stimulate growth. This includes partnerships with three leading Universities to promote new skills and innovation relating to advanced manufacturing, wellness and rail.**

Stakeholders	How we engage	How have we "had regard" to their interests?
<b>Our People</b>	<ul style="list-style-type: none"> <li>See the People section on pages 54 to 58 of the Strategic Report</li> </ul>	
<b>Investors</b>	<ul style="list-style-type: none"> <li>Martyn Bowes and Steven Underwood are conduits for engagement with two of our largest shareholders.</li> <li>The CEO, CFO and Head of IR meet regularly with existing and prospective investors. The Chair also meets regularly with our largest shareholders.</li> <li>During 2019, the SID engaged widely with our largest shareholders on proposed changes to our Remuneration Policy.</li> <li>The Board receives regular feedback from our brokers and the Executive Directors on the views of existing and prospective shareholders. It also reviews quarterly reports on the main changes to the composition of the Company's share register and copies of notes prepared by analysts.</li> <li>The Company has a planned programme of announcements throughout the year. The website is the principal means of communication with shareholders during the year.</li> </ul>	<ul style="list-style-type: none"> <li>Our aim to deliver market leading returns for investors is a fundamental underpin of all transactional appraisals by the Board, setting a target return rate for all new projects.</li> <li>The Board spent time at the outset of the 2019 Strategy Day discussing how to articulate Harworth's purpose to our investors and other stakeholders, recognizing that our contribution to society is one of the principal reasons our shareholders invest in the Company. To that same end, the Board is also formalising our own sustainability framework, which will reflect "The Harworth Way": how our projects continue to deliver economic, environmental and social value for the future, supporting 'good growth' across the North of England and the Midlands.</li> <li>Alignment of executive remuneration with the interests of shareholders, having regard to the long-term nature of the business and of our shareholders' investments, was a fundamental aspect of the Remuneration Committee's deliberation on the proposed changes to the Remuneration Policy.</li> </ul>
<b>Local communities</b>	<p>Over the following pages we explain our approach to consultation and collaborative working with the local communities where we are transforming sites. This includes:</p> <ul style="list-style-type: none"> <li>early engagement with the public on all planning applications through public consultation events and continued liaison through the planning process;</li> <li>liaison with key community groups on all Major Developments as they mature; and</li> <li>careful management of the public open space on our residential development sites including regular communication with residents either through our internal management company function or Lands Trust, our managing agents.</li> </ul>	<ul style="list-style-type: none"> <li>When the Board appraises new acquisition opportunities, the Senior Management team's presentation includes a briefing on our "placemaking" proposals for the site. This will reference an early-stage masterplan together with the site's connectivity to the transport network, and our planning promotion strategy, which will include extensive consultation with the local community. There was no better example of this than the Board's appraisal of the acquisition of the former Ironbridge power station where we are planning to deliver a new community which will include a school, allotments, sports pitches and rail connectivity, where thousands of people will want to live.</li> <li>The Board continues to have regard for community interests throughout the lifecycle of a project. The evolution of our plans for the Waverley District Centre are a good example of this in action.</li> </ul>
<b>Local &amp; Central Government</b>	<ul style="list-style-type: none"> <li>We engage with Local Government and Local Enterprise Partnerships (LEPs) by three principal means: working collaboratively with officers and members from local planning authorities ahead of planning application submissions and on the discharge of planning conditions; bidding for grant or loan monies from local authorities and LEPs for infrastructure investment; and promotion of long-term strategic land projects with local authorities.</li> <li>We engage with Central Government and MPs via two principal means: bidding for grant or loan monies, for example from Homes England; and active participation in consultation exercises on policy changes proposed by Central Government.</li> </ul>	<ul style="list-style-type: none"> <li>Addressing housing shortages and increasing business rates revenue for local authorities are tangible ways we can deliver a benefit to them and form part of the Board's appraisal of our planning promotion strategies for all new sites. Our more mature sites, such as Waverley and Logistics North, demonstrate best how Harworth delivers these benefits. Bolton Council has seen millions of pounds of business rates uplift from Logistics North over its life-cycle. Over recent years, one sixth of all new homes built within the Rotherham MBC area have been at Waverley.</li> </ul>



## s172 Companies Act 2006

On these pages we have identified our key stakeholders and explained how we engage with each of them. In this Report, we have chosen to focus on four stakeholder groups: Our People, Investors, Local communities, and Local and Central Government, giving examples of how the Board has had regard to the interests of those stakeholders when making strategic and significant operational decisions. It is our intention to focus on other stakeholder groups in future reports.

The Board continues to monitor the effectiveness of the Company's engagement with its key stakeholders, with a detailed review of our stakeholder "map" now an annual Board activity. Whilst the Board has regard to the interests of all stakeholders, reflected in presentations on and discussions about operational items, we have resolved to look particularly closely at the impact on all stakeholder groups of proposals for the transformation of sites that we acquire for development. Ultimately, we want to make sure that new projects align with our core purpose. This requires a detailed assessment of their likely impact (both positive and negative) on the surrounding community and the capacity of our workforce to manage and resource effectively each new project.



### How we engage with our other stakeholders

Contractors & Suppliers	Customers	Advisors	Funders	Joint venture partners	Regulatory bodies
<p>We apply a consistent "take-on" approval process for all suppliers.</p> <p>Whilst we operate a long list of approved suppliers typically we engage small groups of trusted consultants and contractors on a repeat basis, fostering strong relationships.</p> <p>Frequency of engagement will depend on type of works being undertaken, a project's status and number of assignments a supplier is undertaking at any one time. For example, engagement with planning consultants is typically dictated by planning milestones, whereas there is routinely daily engagement with our direct development and engineering contractors and consultants.</p> <p>Where there is heavy use of particular suppliers, we employ a regime of regular reporting and relationship management to monitor performance.</p>	<p>The principal customers of our Capital Growth segment remain <b>housebuilders and commercial developers/occupiers</b>.</p> <p>Engagement is principally transactional, although we maintain regular contact outside of deal cycles, both directly and via residential and commercial agents.</p> <p>The customers of our Income Generation segment are Business Space, Natural Resources, and agricultural <b>tenants</b>, and increasingly <b>end-users of secondary aggregates</b> recycled from our development sites.</p> <p>Day-to-day engagement with tenants is largely via managing agents. Monthly meetings with managing agents identify where direct involvement and engagement is needed. As such, there is direct engagement between Harworth and tenants where appropriate. We have engaged proactively with tenants who are facing challenges as a consequence of the COVID-19 pandemic.</p> <p>There is regular contact with prospective end-users of secondary aggregates, which can be daily where aggregates are being exported.</p>	<p><b>External auditors:</b> re-tender process under-taken during 2019. In the ordinary course, appointment reviewed annually and audit strategy reviewed every 6 months.</p> <p><b>Valuers:</b> appointments reviewed annually. Intensive engagement across the business for year-end revaluations, culminating in meeting with Senior Management Team.</p> <p><b>Legal panel:</b> panel reviewed every 2 years (last in July 2019). Relationship meetings held every 6 months.</p> <p><b>Corporate brokers:</b> monthly review meetings with Head of IR.</p> <p><b>Communications adviser:</b> bi-weekly review meetings with Head of IR.</p> <p><b>Remuneration consultants:</b> attendance at Remuneration Committee meetings, particularly ahead of share scheme awards and regular (albeit ad hoc) engagement throughout the year.</p> <p><b>Managing agents:</b> monthly operational review meetings with our Business Space division.</p> <p><b>Insurance brokers:</b> annual relationship meeting as part of renewal process.</p>	<p><b>Senior lenders (currently NatWest and Santander):</b> relationship meetings every 6 months together with regular engagement via the provision of management information (quarterly), utilisation requests, and requests for transaction consent. Our positive relationship with our senior lenders has been reflected in their willingness to extend our RCF facility, affording operational flexibility and additional capital for opportunistic acquisitions, against the COVID-19 backdrop.</p> <p><b>Infrastructure funders:</b> quarterly returns are made to Homes England and Sheffield City Region and regular dialogue is maintained with both (see below).</p> <p><b>Prospective funders:</b> expanding our capital sources is a strategic priority and, as such, we are actively engaging with a variety of prospective funders, both in the public (Homes England, for example) and private sector (including clearing banks and funds).</p>	<p>We have applied a consistent approach to governance across all our joint venture arrangements, having entered into three new joint ventures in 2019, which includes formal JV board meetings, agreed approval levels and processes, and secure and collaborative document sharing. Within this consistent governance framework, we tailor our engagement for each joint venture, informed by the approach of our partners on, and the status of, each project. Typically, on top of our formal governance structure, we overlay regular dialogue via telephone and face to face meetings, particularly during periods of heightened promotion, development or transactional activity.</p> <p>For our three most recent joint ventures, at the outset of each project, we have held an informal "meet the team" dinner, giving an opportunity for counterparts from each team to get to know each other and start to build the strong relationships needed to support a successful joint venture.</p>	<p>We are proactive in our engagement with the <b>Environment Agency (EA)</b> and <b>Health and Safety Executive (HSE)</b>, being the two regulatory bodies we interact with the most in the ordinary course of our business.</p> <p><b>Environment Agency:</b> our Environmental Manager takes the lead on our engagement with the EA. He hosts EA regional officers on regular site visits and inspections, supplemented by regular, informal telephone contact with them to discuss permit compliance, monitoring results and variations. Monitoring results are reported regularly for certain sites to comply with permit conditions. When issues do arise (infrequently) our engagement with the EA is proactive and collaborative.</p> <p><b>Health and Safety Executive:</b> there is regular, largely informal, engagement between our Operations Director and local HSE officers to discuss quarry operations and demolition projects. We have, for example, worked closely with the HSE on the demolition of the former Ironbridge power station.</p> <p>We also have infrequent, but proactive, engagement with the Forestry Commission, typically via our ecologists.</p>

# Partners

continued

## Our engagement with local communities

We deploy a mature approach to engagement with local communities, including residents, statutory bodies and those with an interest in the intended end-use of our land, utilising a seven stage approach to stakeholder engagement to ensure the success of our developments. Our 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.

Working effectively with local people in the communities in which we operate leads to higher quality development and better places. Throughout our seven stages of development, we check back our performance against four main engagement indicators:

### We use four indicators to appraise the effectiveness of our engagement

<b>Early Engagement</b>	To what extent was there an opportunity to influence and shape the scheme?
<b>Meaningful</b>	Was it 'real' consultation? How did the project change as a result of the comments received? What tools and techniques were used?
<b>Inclusive</b>	Was the wider community involved? What steps were taken to 'reach out' to those who would not normally be involved in planning consultations?
<b>Effective (map, gap and take note)</b>	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?

With our developments taking anywhere between 10 and 40 years to be completed, having a robust, ongoing engagement process with local stakeholders is essential. On sites recently masterplanned such as Thoresby Vale and the former Ironbridge power station, we have refined this approach into the seven stages shown below. Central to this is understanding the needs and aspirations of local people and effectively working with (rather than against) the assets already in-situ in order to generate the best outcome from that particular site.

## 1. ESTABLISH INITIAL MASTERPLAN

Before any initial masterplan is prepared:

- we proactively establish contact with, and encourage participation from, all key interest groups including local authorities, MPs, key activist groups and statutory bodies to establish their aspirations and concerns regarding development. This often brings out detailed local knowledge not necessarily collected in engineering reports, including ongoing development elsewhere that our proposed development needs to account for or tie into and views on previously proposed development (if applicable). This is essential in generating a proportionate masterplan;
- we appoint a core team of advisors, including land and highway planners, engineers and ecologists, to understand the site's assets and constraints prior to working up an initial proposal.

A first high level masterplan is then used, with supporting information, to form the basis of our first round of public engagement work.

## 2. RUN INITIAL STAKEHOLDER WORKSHOPS

The barometer for our initial masterplanning work is an initial stakeholder workshop – to be held either on-site if possible (as we successfully managed at Ironbridge) or at a key local centre. These workshops follow a consistent format as follows:

- we ensure representatives from the local authority and parish councils, including local councillors, Highways England, Homes England, adjacent landowners and ecologists are invited and participate; and
- attendees are split into groups to work through a set of questions on potential future land uses and take part in a design workshop to explore specific uses.

This approach worked extremely well for the consultation at the former Ironbridge power station, where over 70 stakeholders reviewed our initial masterplan to test its relevance and quality.

## 3. TEST INITIAL PROPOSALS WITH STATUTORY BODIES

Working with our professional team, we then work closely with all key statutory bodies to critique the masterplan and supporting documentation over a number of weeks to prepare the plan, and supporting evidence, for formal public consultation.



#### 4. RUN A FORMAL PUBLIC CONSULTATION

Our public consultation events are either held on-site if a suitable venue is available or at a key local centre close to the site to encourage wide-ranging public participation and feedback. All our plans at this stage reflect the history of the site, proposed uses and rationale, supporting infrastructure, and planned development mitigation measures. We request feedback from all participants both via forms handed out on the day and the use of a bespoke consultation website. This feedback gauges public opinion and establishes key areas of support or concern.

#### 5. FURTHER REFINE THE OUTLINE MASTERPLAN & SUPPORTING DOCUMENTS

Following detailed consideration of public feedback, we revise our masterplans in consultation with local planning officers. We also ensure all relevant documentation is in place to make an active planning application, including highways assessments, ecological assessments and statements of community involvement. All local councillors are briefed on the nature and specifics of our intended application prior to submission, to enable them to answer questions from constituents and to relay any further comments back to us.

#### 6. SUBMIT AN OUTLINE PLANNING APPLICATION AHEAD OF DETERMINATION

An outline planning application, alongside all supporting documentation, is submitted to the local planning authority, following which it is then subject to a further 21-day public consultation period. If any final concerns are raised, we often submit revised documents for further consultation, ahead of the formal determination of the application either by planning committee or delegation to a responsible officer.

#### 7. ONGOING DELIVERY OF SCHEME & ESTABLISHMENT OF MANAGEMENT COMPANY FOR DEVELOPMENT

Once an outline planning consent is given, infrastructure work can begin to prepare development plots. We act as master developer to ensure the project is delivered in line with the consent and to minimise any disruption to local neighbours and businesses. Where design codes have been agreed with the local authority to govern the overriding principles of development – as we have agreed at sites including Waverley, Thoresby Vale and Riverdale Park – these are rigorously adhered to.

Every phase of subsequent development – whether for residential, commercial or low-carbon uses, is subject to further detailed planning applications for each phase of the development. We work proactively with the end users of these phases to facilitate consultation and further meetings with local stakeholders. This is supported by the establishment of a permanent digital presence for each new development – including its own website and social media accounts – to communicate with the public on development plans and milestones.

As part of our ongoing master developer and site custodian role, we create a site-specific management company to look after the public open space on each site over the life of the development. The management company function is managed by Harworth through the various stages of development before control is passed to residents or a dedicated third party, such as Lands Trust.

Finally, the employees individually responsible for each development – our Development Managers for our 17 Major Development and our Business Space or Natural Resources teams for income producing sites – maintain regular liaison with key groups throughout the lifecycle of development to appraise them of progress and to seek feedback on how development is progressing. These groups include local planning officers, ward members from both the local authority and parish councils, the occupiers on our sites and key community groups with an interest in the redevelopment of the site.



# CASE STUDY 3: GROWING OUR INCOME PORTFOLIO

WE CONTINUE TO GROW OUR INCOME PORTFOLIO AND TO MAXIMISE RETURNS THROUGH AN ACTIVE CHURN STRATEGY BOTH TO COVER OUR OPERATING COSTS AND AS A SOURCE OF VALUE GAIN. WE SPECIALISE IN ACQUIRING ASSETS IN THE REGIONS THAT REQUIRE US TO PUT OUR ASSET MANAGEMENT SKILLS TO GOOD USE, WITH FOUR INCOME PROPERTIES PURCHASED IN THE YEAR FOR A COMBINED CONSIDERATION OF £20.9M (BLENDED NET INITIAL YIELD OF 8.4%).

Etherow Industrial Estate, Glossop



Brighthouse acquisition



Etherow acquisition



Brighthouse acquisition



Two Yorkshire acquisitions reflect our asset management capability best. In October we purchased a c.65,000 sq. ft unit off Russell Way in Brighouse, close to Junction 25 of the M62 for £3.6million. We subsequently undertook two months of refurbishment works to bring the property up to a modern, lettable standard, including refurbishment of the office accommodation and energy efficiency works such as roof repairs and the installation of new gas heaters to the warehouse. We worked in parallel to secure a tenant, upholsterer Mobus Fabrics, on a 10-year term, at a rent of £5.22 psf – representing a net initial yield on the purchase of 9.44%. Agreeing this lease involved our negotiating with Calderdale Council to extend the site's permitted use and to agree a noise management plan to support the Mobus' Fabrics operation, a further example of our track record in working effectively with local planning authorities.

In December, we purchased another Yorkshire asset - a 253,000 sq. ft industrial unit across 12.1 acres in Sherburn-in-Elmet, close to our existing Sherburn Rail Freight Terminal and Kellingley sites, for £9.2 million. An existing 10.5-year lease is in place with Esterform Packaging Limited, a leading independent converter of PET (Polyethylene Terephthalate), which provides a net initial yield of 7.1%. This will generate a future reversionary yield of 8.1% based on a fixed rental uplift in 2020. The property also has low site coverage (47%) which provides future asset management opportunities, including expansion should the tenant require it.

We continue to search for acquisition opportunities with a preference for units or parks in its core regions that are too difficult for owners without our experience to asset manage, but too small in lot size to tempt large institutional investors.

#### Total value & yield of income purchases in 2019

£20.9m, reflecting a blended net initial yield of 8.4%

#### Total income-producing business space purchased in 2019

c.520,000 sq. ft, split as follows:  
Etherow, Glossop: 202,000 sq. ft (NIY: 9.8%)  
Russell Way, Brighouse: 65,000 sq. ft (NIY: 9.0%)  
Esterform, Sherburn: 253,352 sq. ft (NIY: 7.1%)

#### Business Space portfolio at FY 2019

Valuation: £172.8m  
Annualised Rent: £11.8m  
Vacancy: 6.2%  
WAULT: 13.5 years

#### Income Portfolio at FY 2019 (including Natural Resources)

Valuation: £219.6m  
Annualised Rent: £15.0m

#### Source of future acquisitions

Local and national property agents  
Law of Property Act receivers  
Adjacent property owners  
Corporates within our core regions  
Government's One Public Estate programme





# The Harworth Way: Governance

High standards of corporate governance underpin the effective operation of the Group

The Code	What have we focussed on?
Board leadership and company purpose	<ul style="list-style-type: none"> <li>• <b>Clarity of purpose and strategy.</b> The Board and Executive team held the annual Strategy Day in October which began with a review of how we articulate Harworth's purpose. This resulted in a clear statement of purpose, with an emphasis on "sustainable transformation". The fundamentals of our existing strategy were reaffirmed, reflected earlier in this Strategic Report (pages 8 and 9), albeit a consensus was reached on the need to deploy additional capital on income acquisitions to assure the resilience of our income, and to remain patient and disciplined at this point in the cycle in the deployment of capital on strategic land projects.</li> <li>• <b>Culture: the Harworth Values.</b> During 2019, the Board oversaw the establishment of our "Harworth Values", following a collaborative initiative to which all employees contributed. These values define the positive and supportive culture at Harworth and will help us promote and preserve it across our regional operating structure.</li> <li>• <b>Resources: moving to a regional operating structure.</b> In 2018 we moved to a regional operating model and introduced a new senior management structure. The Board has monitored closely the recruitment into regional and central support teams, which is now complete. Alongside this, the Board continues to review succession, talent management and development plans for key roles throughout the business.</li> <li>• <b>Engagement with stakeholders.</b> During 2019 we made significant progress in implementing a programme of meaningful employee engagement. The Board has also continued to monitor the effectiveness of its and the Company's engagement with other key stakeholders, whilst recognizing the need to look particularly closely at the impact on all stakeholders of our plans to transform the sites we acquire. There is more on how the Board satisfies its section 172 obligations in the People (pages 56 and 57) and Partners (pages 60 and 61) sections of the Strategic Report.</li> </ul>
Division of responsibilities	<ul style="list-style-type: none"> <li>• <b>Independent Non-Executive Directors.</b> Two new independent Non-Executives Directors, Ruth Cooke and Angela Bromfield, were appointed to the Board in March and April respectively. These appointments ensured that the composition of the Board, in terms of the balance between independent and non-independent Directors, is compliant with the Code.</li> </ul>
Composition, succession and evaluation	<ul style="list-style-type: none"> <li>• <b>Executive Director succession.</b> In April, Andrew Kirkman notified the Board of his resignation, which took effect from 30 June. The Nomination Committee led a search and recruitment process (see the Nomination Committee on pages 91) which culminated in the appointment of Kitty Patmore as our new Chief Financial Officer. Kitty joined the business on 1 October and, ahead of that, Jenny Cutler, now our Director of Finance, took over the finance director's remit for an interim period.</li> <li>• <b>Non-Executive Director succession.</b> The appointments of Ruth Cook and Angela Bromfield represented the culmination of planning and recruitment in 2018 to, in part, appoint a successor for Tony Donnelly, who retired in September after serving for nine years on the Board. Lisa Clement will also cease to be independent under the Code at the end of 2020 and, as such, the Nomination Committee began planning for her succession towards the end of 2019, with a recruitment process now well progressed.</li> <li>• <b>Diversity.</b> The Nomination Committee has taken a lead in monitoring the effectiveness of the initiatives we have introduced to improve diversity across the business. We made some positive progress during 2019, the most high profile being changes to the Board's gender balance as a consequence of the appointments referred to above. We made more modest progress across the wider business and the Board recognizes that, with a small team and relatively low staff turnover, meaningful improvements will take time and that there is a need to address diversity in its widest sense. This remains a long-term challenge.</li> <li>• <b>Board evaluation.</b> All of the recommendations from the external Board evaluation undertaken by Ian White in 2018 have been implemented (see the Corporate Governance Statement on page 85) and, in the final quarter of 2019, the Chair conducted an internal evaluation, the findings from which were presented to the Board in February 2020, with actions agreed for implementation during the course of this year.</li> </ul>
Audit, risk and internal controls	<ul style="list-style-type: none"> <li>• <b>External audit.</b> The Audit Committee oversaw a tender process for the appointment of a new external auditor, culminating in the recommendation to appoint Ernst and Young LLP (see more on this in the Audit Committee Report on pages 98 and 99).</li> <li>• <b>Risk management.</b> Harworth's framework for monitoring and managing risk has continued to improve during 2019. The has included an evolution of the Group Risk Register, which remains the principal tool used by the Board and the Management Board to monitor the profile and management of risks, most notably with the incorporation of a new dashboard which gives a "live" snapshot of the risk profile of the business. For more on this see the Effectively managing our risks section on pages 31.</li> <li>• <b>Internal controls.</b> The Audit Committee oversaw the establishment of the "Harworth Common Platform", a toolkit of resources to ensure key workstreams continue to be undertaken in a consistent manner across all regions.</li> <li>• <b>Cyber and information security.</b> A significant amount of work was undertaken in 2019 on cyber and information security, to implement recommendations from technical and strategic reviews in 2018. This has included the establishment of an information security function, the implementation of an information security management system, an overhaul of the way our information and data is stored, and upgrades to servers and our fleet of laptops. This will require ongoing, close monitoring and continuous improvement to respond to an ever-changing risk environment.</li> </ul>
Remuneration	<ul style="list-style-type: none"> <li>• <b>Remuneration Policy changes.</b> Following a detailed review by the Remuneration Committee, the Board concluded that our Remuneration Policy could be simplified and aligned better with the Code principles and the very long-term nature of "sustainable transformation" of land and property. We engaged widely with, and secured strong support from, shareholders, with more than 99% of the votes being cast in favour of the revised policy at the AGM. Changes included the introduction of a Restricted Share Plan for the Senior Management Team, the implementation of a Share Incentive Plan for all employees and enhancements to our shareholding guidelines for Executive Directors. Further information can be found in the Directors' Remuneration Report (pages 101 to 117).</li> </ul>



\*See also Governance section on pages 70 to 121

Good governance has been built into the foundations of the Harworth approach from the start. We are now profiling better how governance supports the delivery of our long-term purpose and furtherance of our strategic priorities.

We aim to improve continually in these areas and align with industry best practice.

### How has it supported our strategy?

- Our strategy is set to deliver on Harworth's purpose. The Board is clear about our purpose and has ensured that it can be articulated succinctly to all of our stakeholders, not least our employees, on whose shoulders delivery of the strategy falls.
- The annual Strategy Day is the principal forum in which the Board and Executive team test that the strategy remains robust, albeit with regular review throughout the year.
- Harworth benefits from a well resourced business with a positive and engaged culture which supports the delivery of the strategy as the business continues to grow.
- Engagement with our employees, who are responsible for delivery on a day to basis, and the local communities for and alongside which we transform our sites, is an important aspect of the successful implementation of our strategy. This is borne out in one of our Harworth Values — **"Taking Pride in Our People and Partnerships"**.

- Maintaining a balance of independent and non-independent directors promotes constructive discussions when the Board is setting, and healthy challenge when it is monitoring implementation of, the strategy.

- The Board's effective planning for and implementation of Non-Executive Director succession, promotion of diversity on the Board, and our regular, meaningful Board evaluations all serve to enhance the Board's effectiveness in all aspects of its role such that it can set an appropriate strategy and support the business in delivering it.
- Our planning for, and execution of, Executive Director succession are critical to the successful implementation of the strategy and the sustainable, long-term success of the business.
- Promoting diversity, in its widest sense and across the wider business, helps the business to **"Deliver Creative Solutions"**, another Harworth Value which underpins the delivery of the strategy.

- The Board demonstrate to our investors that the business is successfully implementing an appropriate strategy via robust financial reporting. The external auditor plays a fundamental role in that regard and the Board is confident in its recommendation of the appointment of Ernst and Young LLP as the Group's new external auditor. The veracity of our financial reporting is just one aspect of our commitment to all stakeholders to **"Act with Integrity and Trust"**.
- Ineffective risk management and/or internal controls can undermine the best strategy and its successful implementation. The Board has ensured that the components of the Company's risk management and internal controls framework are effective.

- The changes made to our Remuneration Policy, being principally the introduction of a Restricted Share Plan, for senior management, and Share Incentive Plan, for all employees, align with and support the strategy by rewarding long-term value creation and aligning the interests of investors with those of our Executive Directors and senior management.

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



**Owen Michaelson**  
Chief Executive  
4 June 2020

# Corporate Governance

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Owen Michaelson speaking  
at annual employee away day

# Chair's introduction



## Dear Shareholder,

Investors will see from this year's Annual Report that the Board has worked on articulating clearly and succinctly Harworth's core purpose:

**"Harworth invests to transform land and property into sustainable places where people want to live and work."**

**"Sustainable transformation"** of land and property is a long-term endeavour – it takes years and for the largest sites over a decade! A business can only deliver on this purpose if it has a clear and robust strategy with strong foundations. Good governance, together with a supportive culture, must form the cornerstones of those foundations.

One of my earliest observations when I joined Harworth, reflected in my first statement as Chair for last year's Annual Report, was the relative maturity of its corporate governance. It was clear to me early on that the Board and senior management team recognised the fundamental importance of governance to long-term and sustainable success and growth. This was reflected in the focus it is afforded internally and a commitment amongst the senior team to its sustained evolution and improvement, an essential enabler of our growth ambitions. My early observations were endorsed by the transfer of the Company's shares from a standard listing to a premium listing on the London Stock Exchange in August 2018.

That said, whilst corporate governance has been given the highest profile internally, it has been somewhat "underplayed" in our external communications. So, alongside the work we've undertaken to articulate better Harworth's purpose and strategy, this year's Annual Report seeks to give greater prominence to the important role governance plays in Harworth's achieving its purpose. This is reflected in the Strategic Report, where we have explained: where the Board has focussed to ensure compliance with the main principles of the 2018 UK Corporate Governance Code (2018 Code) (page 66); where governance has supported us in the delivery of our strategy (page 67); and how the Board has met its obligations under section 172 of the Act (pages 60 and 61).

Against that backdrop, I am pleased to present this year's Corporate Governance Report. In this introduction I highlight where some of the Board's time and focus has been directed in the implementation and evolution of our governance framework during the period under review. These are taken up in more detail in the Strategic Report (pages 4 to 67) and in the balance of this Corporate Governance Report, which comprises: the Statement of Corporate Governance, the Nomination Committee Report, the Audit Committee Report, the Directors' Remuneration Report, the Directors' Report, and the Statement of Directors' Responsibilities.

## Purpose and strategy

In October the Board and Executive team undertook the annual review of the Company's strategy. We began by reviewing the way we articulate Harworth's core purpose, the output from which is referenced above and can be found elsewhere in this year's Report.

As one might expect, there followed a detailed discussion about the turbulent macro-economic and political backdrop against which the business seeks to implement its strategy and fulfil its purpose. There was agreement that our existing strategy affords a robust platform from which to withstand and identify opportunities that arise from that turbulence. The fundamentals of the existing strategy were re-affirmed but it was decided to: deploy additional capital on income acquisitions, to improve further the "through-the-cycle" resilience of the business; and to remain patient and disciplined in the deployment of capital on strategic land projects, there being an expectation that the current climate will create acquisition opportunities as much as operational challenges.

## Culture

Following on from the establishment of our regional operating structure in 2018, the Board was keen to ensure that Harworth's positive and supportive culture was well-defined, so that it could be promoted and preserved across all regions. To that end, during 2019 we have established our "Harworth Values". The Strategic Report (page 55) explains how the Harworth Values were established and the way we plan to embed them into the business. I am particularly pleased that they are the product of a collaborative initiative, led by our Head of HR and Organisation Development, to which every single one of our employees contributed. We believe this makes the Harworth Values an honest reflection of the Harworth culture such that they will endure the test of time.

## Succession and Board composition

Succession planning once again featured prominently on the Board's agenda in 2019, on which the Nomination Committee continued to take the lead.

Two new Non-Executive Directors were appointed to the Board: Ruth Cooke (in March) and Angela Bromfield (in April) following a combined recruitment process. The purpose of those appointments was two-fold: to provide succession for Tony Donnelly, who retired in September after 9 years on the Board, and to ensure the composition of the Board is compliant with the 2018 Code. These appointments also enabled Steven Underwood to step down from the Remuneration and Audit Committees such that those Committees now comprise only independent members, in compliance with the code. In August, the Board was delighted to announce the appointment of Kitty Patmore as Chief Financial Officer.

Whilst all appointments to the Board are based on merit, it was pleasing that these appointments improved markedly the gender diversity of our Board. We hope this will demonstrate to our existing and prospective employees the Board's commitment to diversity (in its widest form) at all levels of the business.

On 17 March 2020, alongside our preliminary results, we announced Owen Michaelson's intention to retire as Chief Executive at the end of December 2020. The Board has commenced a process to appoint a successor. The Nomination Report (page 91) includes more information about that process.

Lisa Clement is also due to retire at the end of September after 9 years on the Board. At the end of 2019, the Board, therefore, began to plan for Lisa's succession, reflecting the Company's practice of seeking a period of transition when there is Board or Executive succession. An update on those plans, which are well progressed, is given in the Nomination Committee report.

### Executive remuneration

Following a comprehensive review by the Remuneration Committee, the Board concluded that the Company's Remuneration Policy could be simplified and aligned better with the very long-term nature of "sustainable transformation" of land and property. Two fundamental changes were proposed: the introduction of a Restricted Share Plan in place of the then existing Executive Long-Term Incentive Plan, and the implementation of a Share Incentive Plan for all employees. Both initiatives were designed to encourage stewardship throughout the business and particularly amongst senior management.

We engaged widely with shareholders on the proposed changes, for which strong support was expressed, with more than 99% of the votes being cast in favour of the revised policy at the Annual General Meeting.

### Stakeholder engagement

Implementing a programme of meaningful employee engagement was a priority for the Board in 2019 and I am pleased with the progress we have made. We held our first Employee AGM in April and are planning for this to be an annual event, with another initially scheduled for last month but postponed to later in the year due to the COVID-19 outbreak. Our People Steering Group is now well established. So too is our practice of Non-Executive Directors meeting with that group quarterly on a rotation basis. We view this as our way of ensuring workforce engagement is provided for in accordance with the 2018 Code. A more detailed overview of our employee engagement programme appears in the Strategic Report (pages 56 and 57).

We recognise that engagement with the workforce would be of limited value if the Board does not listen to the opinions of employees expressed during that engagement and consider the interests of employees when making strategic and significant operational decisions. Workforce capacity and talent development continue to be important considerations for the Board, particularly given the accelerated growth of the business and implementation of the regional operating structure.

The Board continues to monitor the effectiveness of the Company's engagement with key stakeholders, with a detailed review of our stakeholder "map" now an annual Board activity. Whilst the Board has regard to the interests of all stakeholders, reflected in presentations on and discussions about operational items, we have

resolved to look particularly closely at the impact on all stakeholders groups of proposals for the transformation of sites that we acquire for development. Ultimately, we want to make sure that new projects align with our core purpose. This requires a detailed assessment of their likely impact (both positive and negative) on the surrounding community and the capacity of our workforce to manage and resource effectively the new project.

### Audit, risk and internal controls

2019 was also a busy year for the Audit Committee. Following a tender exercise led by the Committee, the Board unanimously approved the proposed appointment of Ernst and Young (EY) as external auditor in succession to PricewaterhouseCoopers LLP (PwC). The rationale for that appointment is explained in the Audit Committee's report on pages 98 and 99. Subject to endorsement by shareholders at the 2020 Annual General Meeting, EY will replace PwC for the audit of FYE '20 year-end results.

The Audit Committee has also overseen the adoption and implementation of a robust cyber and information security strategy, including the establishment of an information security management function and an overhaul of the way we store our electronic information. Whilst no business can claim to be immune from cyber or information security risks, the steps we have taken over the last 18 months have put our business on a firmer footing in this regard, both in terms of mitigating the risk of, and responding to, any breaches of security. Long-term deliverables remain and there is a commitment from the Board to maintain and evolve our security framework.

A significant amount of work has also been undertaken during the year to evolve our framework of internal controls, processes and reporting, principally to respond to the new regional operating structure. Another external review was undertaken in 2019, this time of our year-end re-valuations process by KPMG LLP. The feedback from that review was positive.

Reflecting the growing maturity of the business, a review of key operational workstreams was undertaken during 2019 to identify aspects of them which ought to be undertaken in a consistent manner across all regions, both to mitigate risk and drive efficiencies. This has led to the establishment of the "Harworth Common Platform". Ours is an innovative business and so, whilst this new platform summarises the "Harworth Way" of undertaking certain workstreams, a proportionate approach has been taken to standardisation. Steps have also been taken to automate certain of our processes, including purchase order approvals.

The output from the latest review of the Board's risk appetite and the risk profile of the business appears in the Strategic Report (pages 32 to 37). Our Delegated Authorities Policy was reviewed and updated in October, principally to account for the establishment of the new Chief Operating Officer role.

In accordance with the 2018 Code, responsibility for reviewing the Group's whistleblowing policy and procedures, and the appropriate investigation of whistleblowing reports, has passed from the Audit Committee to the full Board. There were no incidents of whistleblowing during 2019.



# Chair's introduction

continued

## Board evaluation

All recommendations made by Ian White, following his external evaluation of Board effectiveness in December 2018, have now been implemented. As is good practice, I led an internal evaluation in the fourth quarter of 2019. The key conclusions and action points from that evaluation exercise are summarised in the Statement of Corporate Governance on page 86.

## Annual General Meeting

This Report is being published against the unprecedented backdrop of the COVID-19 pandemic. At the date of going to press, there remain compulsory measures in place to respond to the pandemic (COVID-19 Measures). These COVID-19 Measures include restrictions on movement and public gatherings. To comply with the Companies Act 2006 and the Company's articles of association, our Annual General Meeting (AGM) will be held at 8:00am on Monday 29 June 2020 at Unit 5A on the Advanced Manufacturing Park, Brunel Way, Catcliffe, Rotherham S60 5WG. Shareholders are prohibited by the COVID-19 Measures from attending the AGM and must not do so. Shareholders can still vote on the resolutions to be considered at the AGM by completing and returning a proxy form appointing the Chair of the meeting as proxy and directing him or her how to vote on each resolution. Instructions on how to do this are included in the Notice of AGM which is being issued and posted alongside this Report.

Given the current circumstances I hope shareholders will understand and respect the steps we are implementing to ensure that our AGM complies with the COVID-19 Measures and does not put any of our employees, shareholders or stakeholders at risk. I very much look forward to our 2021 AGM when I hope we will be able to encourage shareholders to attend and welcome those that do.



**Alastair Lyons**

Chair

4 June 2020



Alastair Lyons (Chair) and  
David Cockroft (Regional Director, Midlands)  
at Hugglescote Grange, Coalville site

# Board of Directors and Company Secretary



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## 1. Alastair Lyons

Chairman

**N** R

### Term of office

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

### Length of service

2 years 2 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, the European subsidiary of the Admiral Group and the Eaton House private schools group

## 2. Owen Michaelson

Chief Executive

### Term of office

Joined the Board on 24 March 2015 having previously been Chief Executive of Harworth Estates Property Group Limited (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

5 years 2 month (9 years 9 months including appointment to HEPGL and Harworth Estates division of UK Coal)

### Independent

No

### Skills and experience

Owen has more than 30 years' experience in the remediation and development 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 the re-listing of the company in 2015

### External appointments

Owen is a Non-Executive Director of Covanta Holding Corporation, a global provider of waste treatment facilities in the USA, UK & China. 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

\*On 17 March 2020 the Company announced that Owen will retire on 31 December 2020. At the 2020 Annual General Meeting he will seek re-election until that date.

## 3. Katerina (Kitty) Patmore

Chief Financial Officer

### Term of office

Joined the Board on 1 October 2019

### Length of service

7 months

### Independent

No

### Skills and experience

Prior to joining Harworth, Kitty was Director with responsibility for Finance and Operations at Harwood Real Estate, which managed one of the largest private rented housing investment portfolios in the United Kingdom. She led the finance function with responsibility for investor relations and capital markets, including leading an LSE main market fundraising process

Kitty started her career in banking at Barclays specialising in structured real estate finance before moving into real estate mezzanine finance across the UK and Europe for a private debt fund, DRC Capital

### External appointments

Having been a Director of the Investment Property Forum (a property investment group with more than 2,000 members) for 6 years, she now chairs the IPF Finance Group



<b>4. Lisa Clement</b>	Senior Independent Director	<b>R</b>
<b>Term of office</b>		
Joined the Board on 15 December 2011. Last re-elected in May 2018. Chair of the Remuneration Committee and Senior Independent Director		
<b>Length of service</b>	<b>Independent</b>	
8 years 5 months	Yes	
<b>Skills and experience</b>		
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		
<b>External appointments</b>		
Director of Everything But The Cow Limited		
*If re-elected at the 2020 AGM, Lisa will retire from the Board on 30 September 2020. Given that one of the Nomination Committee's key activities in 2020 will be leading the identification and recruitment of Lisa's successor, Angela Bromfield has replaced Lisa on the Committee from 1 January 2020		
<b>5. Andrew Cunningham</b>	Non-Executive Director	<b>A</b> N
<b>Term of office</b>		
Joined the Board on 26 April 2016. Last re-elected in May 2018. Chair of the Audit Committee		
<b>Length of service</b>	<b>Independent</b>	
4 years	Yes	
<b>Skills and experience</b>		
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		
<b>External appointments</b>		
Non-Executive Director of multiple private companies in the Banks Group, Cussins Limited, and Cussins (North East) Limited. Commissioner at The Port of Blyth		
*Andrew will succeed Lisa Clement as Senior Independent Director when Lisa retires on 30 September 2020		
<b>6. Ruth Cooke</b>	Non-Executive Director	A
<b>Term of office</b>		
Joined the Board on 19 March 2019		
<b>Length of service</b>	<b>Independent</b>	
1 year 2 month	Yes	
<b>Skills and experience</b>		
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		
<b>External appointments</b>		
Chief Executive of Green Square Group, Chair of Connexus Housing and Member of West Midlands Housing Association Partnership		

**KEY**

- A** = Member of the Audit Committee
- N** = Member of the Nomination Committee
- R** = Member of the Remuneration Committee
- A** = Chair of the Audit Committee
- N** = Chair of the Nomination Committee
- R** = Chair of the Remuneration Committee

<b>7. Angela Bromfield</b>	Non-Executive Director	R A N
<b>Term of office</b>		
Joined the Board on 1 April 2019. Membership of Nomination Committee		
<b>Length of service</b>	<b>Independent</b>	
1 year 1 month	Yes	
<b>Skills and experience</b>		
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 Marshalls plc, where she is a member of the Nomination, Remuneration and Audit Committees, and at Churchill China plc, where she chairs the Remuneration Committee and is a member of the Audit Committee		
<b>External appointments</b>		
Non-Executive Director of Marshalls plc and Churchill China plc		
*Angela will succeed Lisa Clement as Chair of the Remuneration Committee when Lisa steps down on 30 September 2020. At the same time she will step down from the Audit Committee. Given that one of the Nomination Committee's key activities in 2020 will be leading the identification and recruitment of Lisa's successor, Angela has replaced Lisa on the Committee from 1 January 2020		
<b>8. Steven Underwood</b>	Non-Executive Director	
<b>Term of office</b>		
Joined the Board on 2 August 2010. Last re-elected in May 2018		
<b>Length of service</b>	<b>Independent</b>	
9 years 9 months	No, due to connection to Peel Group and length of service	
<b>Skills and experience</b>		
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		
<b>External appointments</b>		
Alternate Director of Intu Properties plc. Director of multiple private limited companies connected to the Peel Group. Member of the Board of Trustees of the Science Museum Group		
*Steven was formerly a representative Director of Peel Group. Following the reduction of Peel Group's shareholding to below 25%, Steven now sits on the Board in a personal, rather than representative, capacity. However, given his previous representative capacity Steven cannot be regarded as independent for the purposes of the UK Corporate Governance Code.		
<b>9. Martyn Bowes</b>	Non-Executive Director	
<b>Term of office</b>		
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		
<b>Length of service</b>	<b>Independent</b>	
5 years 2 month (7 years 2 month including appointment to HEPGL)	No, representative of the PPF	
<b>Skills and experience</b>		
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 real estate and healthcare		
<b>External appointments</b>		
Director of multiple private limited companies predominantly within the Welbeck Land Group		
<b>10. Chris Birch</b>	Group General Counsel and Company Secretary	
<b>Term of office</b>		
Appointed on 6 June 2016		
<b>Skills and experience</b>		
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		
<b>External appointments</b>		
None		

# Statement of Corporate Governance

## THE 2018 UK CORPORATE GOVERNANCE CODE

The financial year ended 31 December 2019 was the first year in which the Company was subject to the 2018 UK Corporate Governance Code (2018 Code), which was published in July 2018. Our 2018 Annual Report outlined the steps we took to effect early adoption. This year's Strategic Report explains where the Board has focussed to ensure compliance with the main principles contained within the 2018 Code (page 66) and how governance has supported delivery of the Company's purpose and strategic priorities (page 67).

A copy of the 2018 Code can be found on the Financial Reporting Council's website at <https://www.frc.org.uk>. Save as indicated below, the Company has complied with the principles and provisions of the 2018 Code throughout the year ended 31 December 2019. The Company's compliance is demonstrated both in the Strategic Report and in the balance of this Governance Report, as follows:

<b>Section 1: Board Leadership and Company Purpose</b>	Corporate Governance Statement Strategic Report
<b>Section 2: Division of Responsibilities</b>	Corporate Governance Statement Nomination Committee Report
<b>Section 3: Composition, Succession and Evaluation</b>	Nomination Committee Report
<b>Section 4: Audit, Risk and Internal Control</b>	Audit Committee Report
<b>Section 5: Remuneration</b>	Director's Remuneration Report

Prior to the appointment of Ruth Cooke and Angela Bromfield in March and April respectively, Steven Underwood, who is a non-independent Non-Executive Director, was a member of both the Audit and Remuneration Committees. Ruth Cooke joined the Audit Committee on her appointment and Angela Bromfield joined both the Audit and Remuneration Committees on her appointment, enabling Steven Underwood to step down from both Committees. As such, from April 2019, membership of our Committees has been compliant with the 2018 Code.

## PURPOSE AND STRATEGY

The Board and the executive Investment Committee engage in a robust process annually to review and approve the strategy. In 2019, our Strategy Day was held in October followed in November by the presentation to, and approval by, the Board of a draft budget (for 2020) and strategic plan (for the period 2021-2024).

Whilst the Board has always been clear about Harworth's purpose (and rightly proud of the positive impact of our projects), there was a productive discussion at the 2019 Strategy Day about how best to articulate that purpose. This culminated in a succinct expression of purpose: **"Harworth invests to transform land and property into sustainable places where people want to live and work"**, which is a central theme of this Annual Report.

The performance of the business is assessed by the Board throughout the year against the approved budget and strategic plan, with the Board satisfying itself as to the adequacy of management response to variations in performance against the plan. The Chief Executive gives an operational update at each Board meeting with periodic assessment of performance against strategic objectives.

## CULTURE

The Board recognises that a clear purpose and robust strategy must be supported by a strong, positive culture within the business. Whilst the Board was confident that this already existed it was keen for that culture to be well defined so that it can be promoted and preserved as the business grows and evolves. To that end, our Head of HR and Organisation Development has worked collaboratively with all employees during 2019 to identify the Harworth Values which underpin our One Harworth approach.



Our 2020 priority is to ensure these Harworth Values are fully embedded in the business, particularly having regard to the regional structure that we have recently established. We will use our annual staff survey and appraisals to monitor our progress on this.

## Typical engagement with investors during the year



\* Throughout the year:  
– Regular RNS announcements of operational progress  
– Meetings with current and prospective investors

There is more work for us to do in this regard and it remains a priority for the Board in 2020. In particular, the Board will ensure, when making strategic and significant operational decisions, particularly those relating to our development sites, that those decisions promote Harworth's purpose, considering the likely impact of Harworth's projects on our communities, workforce and other key stakeholders.

The Board recognises the importance of regular and open engagement with our investors. Martyn Bowes, the Pension Protection Fund's representative Director, will continue to provide ongoing shareholder feedback and perspective on key strategic decisions. Whilst Peel Group has reduced its shareholding in 2019 and is no longer entitled to appoint a representative Director (see Nomination Committee report at page 90), the Board has invited Steven Underwood to remain a Director of the Company and he will, therefore, continue to bring to Board considerations a thorough understanding of the views of a substantial shareholder.

At the end of each year, the Board reviews and approves an investor relations plan for the following year. The Chief Executive, Chief Financial Officer and Head of Communications and Investor Relations meet regularly with existing and prospective investors, and analysts, including after publication of the Company's preliminary and interim results. The Chair also meets regularly with our largest shareholders.

In January 2019, the Remuneration Committee Chair held a series of meetings with, and spoke to, certain of the Company's largest shareholders to consult on the proposed revisions to its Remuneration Policy, in particular the introduction of a Restricted Share Plan (see Remuneration Committee report at page 104 and 107), which received overwhelming support at the 2019 Annual General Meeting.

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 interim and annual 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, to ensure that investors remain updated regularly on progress in the business. The interim results and Annual Report, together with the [www.harworthgroup.com](http://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.

There have been no material votes against recommended resolutions at recent Annual General Meetings. The Board would, wherever practicable, seek to ensure that shareholder views were canvassed on any unusual or potentially controversial proposals. That said, if there were any significant vote against a proposal, the Board would take action to understand the reasons behind that vote and explain the same to shareholders, in line with the 2018 Code principles.

## STAKEHOLDERS

The Board has undertaken a significant amount of work during 2019 to identify its key stakeholders, understand how the business engages with them, and review the effectiveness of that engagement.

Our Strategic Report:

- explains how we work closely and collaboratively with the local communities surrounding our projects (pages 62 and 63);
- demonstrates the significant amount of work that has been undertaken in 2019 to implement an effective employee engagement programme (pages 56 and 57); and
- outlines how we engage with our other key stakeholders and how the Board complies with its obligations as set out in section 172 of the Companies Act (pages 60 and 61).



# Statement of Corporate Governance

continued

## DIVISION OF RESPONSIBILITIES

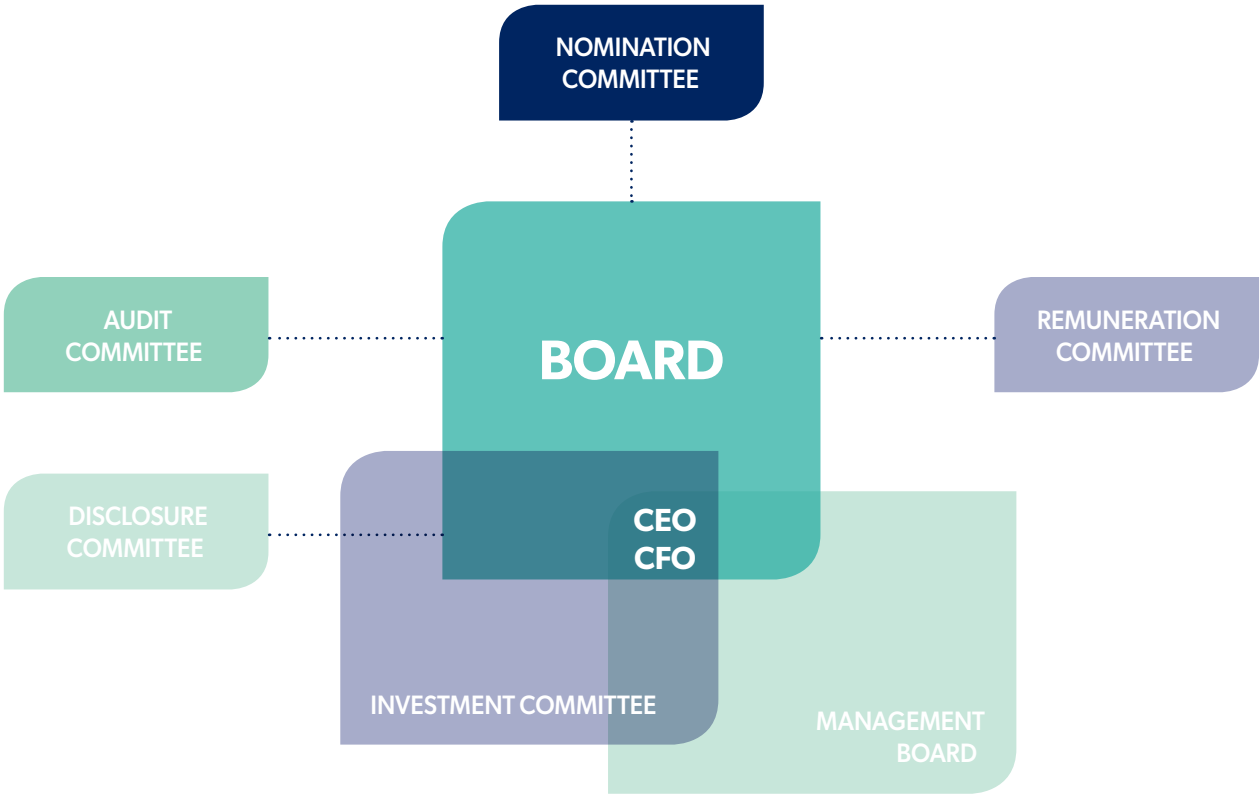
There is a clear division of responsibilities between the Board, its Committees and the Senior Management Team. The Delegated Authorities Policy reserves certain matters for the Board. It also ensures that operational decisions are made at the most appropriate level in the business. It is reviewed annually. The Board has delegated certain responsibilities to the Remuneration, Audit, Nomination and Disclosure Committees. The terms of reference of those Committees are reviewed annually and appear on the website: <https://harworthgroup.com/investors/governance/>.

The Chief Executive has responsibility for proposing and then implementing the Company’s strategy and leading the day-to-day management of the business, with the agreement of the Board on reserved matters. He appoints the Investment Committee and Management Board (together, the Senior Management Team) to support him in this regard.

## EXAMPLES OF BOARD RESERVED MATTERS\*

Approval of acquisitions, joint ventures and other major transactions	Setting strategy and approval of annual budget and strategic plan	Board appointments; external appointments of Directors
Changes to constitution or to capital or corporate structure	Approval of accounts, financial reporting and dividends	Changes to Group-wide benefits, employee terms and certain policies
Remuneration of Executive Directors and Investment Committee	Placement and renewal of insurance programme	Issue or settle significant legal proceedings

*\*Responsibility for some of these matters is delegated to the Committees, as outlined on pages 79*






The key responsibilities of the Board, Committees and roles are summarised in the table below.

<b>Board</b> <i>*See pages 74 and 75 for membership</i>	<ul style="list-style-type: none"> <li>• Establishes Harworth's purpose and helps to formulate a strategy for achieving it.</li> <li>• Stewardship of resources to ensure long-term and sustainable success.</li> <li>• Constructive challenge to the Executive Directors on matters referred to the Board.</li> <li>• Approval of significant transactions and other operational decisions.</li> <li>• Scrutinises the performance of the business against the strategy, agreed objectives and targets.</li> <li>• Determines risk appetite and monitors risk management and internal controls.</li> <li>• Ensures an appropriate governance framework operates to support implementation of the strategy.</li> <li>• Oversight of health and safety management and reporting.</li> <li>• Approval of interim and annual financial results.</li> <li>• Dividend policy.</li> <li>• Oversight of investor relations programme and messaging.</li> <li>• Promotes a culture that is aligned the Company's purpose and strategy.</li> <li>• Ensures appropriate engagement with employees, the communities around Harworth's projects and other key stakeholders.</li> <li>• Ensures there is appropriate regard for the impact of Harworth's projects and activities on the environment and key stakeholders.</li> <li>• Reviews the Group's whistleblowing procedures and the appropriate investigation of cases referred through the process.</li> </ul>
<b>Nomination Committee</b> <i>Alastair Lyons (chair)</i> Andrew Cunningham Angela Bromfield	<ul style="list-style-type: none"> <li>• Reviews the size, composition and balance of the Board and its Committees.</li> <li>• Oversight of succession planning for the Board and Investment Committee.</li> <li>• Leads the process for Board appointments.</li> <li>• Oversight of progress in improving diversity across the business.</li> <li>• Reviews proposals for external appointments of Directors.</li> </ul>
<b>Audit Committee</b> <i>Andrew Cunningham (chair)</i> Ruth Cooke Angela Bromfield	<ul style="list-style-type: none"> <li>• Reviews the integrity of the annual report, preliminary and interim results announcements and any other announcements relating to financial performance.</li> <li>• Reviews the effectiveness of internal controls and processes.</li> <li>• Reviews the insurance programme.</li> <li>• Reviews the terms of appointment, independence, effectiveness and remuneration of the external auditors and leads any tender process for the appointment of external auditors.</li> <li>• Reviews the effectiveness of and compliance with policies and procedures for promotion of financial security and business ethics and the prevention of bribery and modern slavery.</li> <li>• Reviews ongoing compliance with the GDPR.</li> <li>• Ensures effective policy and procedures are in place for the detection of fraud and the prevention of bribery.</li> <li>• Reviews the effectiveness of the cyber and information security strategy and measures, and of business continuity plans and procedures.</li> </ul>
<b>Remuneration Committee</b> <i>Lisa Clement (chair)</i> Alastair Lyons Angela Bromfield	<ul style="list-style-type: none"> <li>• Determines and agrees with the Board the remuneration policy for the Executive Directors.</li> <li>• Determines the salaries, bonuses, long-term incentive arrangements, pension arrangements, other benefits and contract terms of the Executive Directors and members of the Investment Committee.</li> <li>• Reviews the remuneration approach adopted for all employees.</li> <li>• Approves grant of options under the Save-As-You-Earn Scheme and Share Incentive Plan.</li> <li>• Undertakes an annual review of benefits available to all employees.</li> <li>• Responsible for changes to certain employment policies.</li> </ul>

# Statement of Corporate Governance

continued

<b>Disclosure Committee</b> <i>Kitty Patmore (chair)</i> Owen Michaelson Chris Birch	<ul style="list-style-type: none"> <li>Ensures compliance with disclosure obligations under the Market Abuse Regulation and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules.</li> </ul>
<b>Chair of the Board</b>  Alastair Lyons	<ul style="list-style-type: none"> <li>Leads the Board and is responsible for its overall effectiveness by facilitating a culture of openness and debate.</li> <li>Ensures that Harworth has a defined purpose and clear strategy and objectives.</li> <li>Ensures that a fixed schedule of matters is maintained for the Board's review and approval.</li> <li>Sets the annual programme and meeting agendas.</li> <li>Facilitates a constructive relationship between the Non-Executive Directors and the Investment Committee.</li> <li>Ensures that the Board receives regular reporting on performance.</li> <li>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.</li> <li>Ensures there is ongoing and effective communication with shareholders.</li> <li>Ensures that the Board identifies key stakeholders, that there is appropriate engagement with them, and their interests are considered when decisions are made.</li> <li>Ensures that the effectiveness of the Board is subject to annual evaluation including an external evaluation every three years.</li> </ul>
<b>Chief Executive Officer</b>  Owen Michaelson	<ul style="list-style-type: none"> <li>Leads on the formulation of strategy which, once agreed by the Board, falls to the CEO to implement.</li> <li>Leads the establishment and maintenance of Harworth's culture.</li> <li>Responsible for the design of Harworth's operational structure.</li> <li>Responsible for formulation and implementation of Harworth's People Strategy and for effective internal communications.</li> <li>Leads and chairs the Investment Committee and Management Board.</li> <li>Oversight of risk management, including health and safety.</li> <li>Ensures that the Board is appraised of all material matters and that Board decisions are implemented.</li> <li>Responsible for Harworth's relationships with shareholders and for effective engagement with key stakeholders.</li> <li>Leads on M&amp;A and portfolio acquisitions.</li> </ul>
<b>Chief Financial Officer</b>  Kitty Patmore	<ul style="list-style-type: none"> <li>Leads on all financial matters, including tax and treasury.</li> <li>Responsible for preparing the annual budget and strategic plan.</li> <li>Responsible for all statutory financial reporting, including the preparation of the interim and year-end financial statements.</li> <li>Responsible for raising new equity and debt capital.</li> <li>Leads on investor relations and for designing the communication of performance to investors.</li> <li>Responsible for the financial analysis of all major transactions including acquisitions, sales and capital investments.</li> <li>Responsible for ensuring clear, effective, and timely measurement and reporting of financial and non-financial key performance indicators to the Board.</li> <li>Responsible for internal financial controls, systems and processes.</li> </ul>



**Chief Operating Officer**

Ian Ball

- Responsible for all operational matters and the effectiveness of Harworth's regional structure.
- Ensures there are appropriate resources across the business to implement the strategy.
- Leads the year-end valuation process.

**Senior Independent Director**

Lisa Clement

- Provides a sounding board for the Chair.
- Acts, where appropriate, as an interlocutor between the Chair and other Non-Executive Directors.
- Available to shareholders as an alternative point of contact.
- Leads the process for appointing a new Chair.
- Leads the annual appraisal of the Chair's performance.

**Group General Counsel and Company Secretary**

Chris Birch

- Secretary to the Board and its Committees and to the Investment Committee.
- Ensures that all Board reserved matters are referred to the Board for review and approval.
- Advises on regulatory compliance and corporate governance.
- Leads on risk management.
- Prepares Board and committee agendas and collates and distributes papers.
- Available to advise the Directors on all legal and compliance matters.
- Leads on inductions and continuous professional development for Directors.
- Responsible for governance, both at Board and operational levels, including non-financial internal controls, systems and processes.
- Responsible for insurance, cyber and information security, business continuity planning and GDPR compliance.
- Provides legal support on operational matters and manages legal panel.
- Manages the Estates Environment and Safety team.

**Investment Committee**Owen Michaelson (*chair*)

Kitty Patmore

Ian Ball

Peter Henry (Regional Director)

Steven Knowles (Regional Director)

David Cockroft (Regional Director)

Richard Bousfield (Head of Income)

Tim Love (Director, Central Services)

Secretary: Chris Birch

Attendee: Jenny Cutler (Director of Finance)

- Supports the Chief Executive Officer on the formulation and implementation of the strategy.
- Responsible for capital allocation and deployment.
- Undertakes a review of all material transactions before they are presented to the Board for approval.
- Reviews the performance of the business against agreed key performance indicators.

**Management Board**

\*As for Investment Committee above plus:

Catherine Macdonald (Head of HR and Organisation Development)

John Hind (Associate Director, Estates Environment and Safety)

Chris Warren (Natural Resources)

Andrea Morley (Business Space)

Iain Thomson (Head of Communications and IR)

- Provides leadership of each operating division and function.
- Ensures effective communication and collaboration between all operating divisions and functions.

\*The table above reflects roles and membership of Committees as at the date of this Annual Report. Changes which were effected during 2019 or the early part of 2020, or which are planned in 2020, are identified in the Committee reports.

# Statement of Corporate Governance

continued

## BOARD ACTIVITIES IN 2019\*

\*The table below excludes the transactions reviewed by the Board during the year

### KEY

STRATEGY	OPERATIONS	GOVERNANCE	FINANCE	STAKEHOLDERS	RISK	BOARD	PEOPLE
<b>January</b>				Annual health and safety review			
				Annual review of risk appetite and review of risk profile and management			
				FYE'18 preliminary review of investor messages			
				Appointment of Ruth Cooke and Angela Bromfield			
				North West regional update			
FYE'18 preliminary results and final dividend				<b>February</b>			
Yorkshire and Central regional update							
Review of whistleblowing policy and reports							
<b>March</b>				FYE'18 Annual Report			
				Review of employee engagement and annual employee survey results			
				Share price and share register analysis			
				Business Space and Natural Resources divisional update			
				People Steering Group			
				CPD update			
Midlands regional update				<b>April</b>			
Project review: Waverley							
Investor feedback from preliminary results roadshow							
Employee AGM							
<b>May</b>				FYE'19 reforecast			
				Harworth Values			
				Talent Management and People Development			
				North East regional update			
Review of risk profile and management				<b>June</b>			
Project review: Riverdale Park							
North West regional update							
People Steering Group							
Modern slavery statement							
<b>July</b>				FYE'19 reforecast			
				FYE'19 interim results: preliminary review			
				Share price and share register analysis			
				Update on implementation of external Board evaluation recommendations			
FYE 2019 interim results: final sign-off				<b>September</b>			
Project review: Northern Gateway							
Business Space and Natural Resources divisional update							
Update on IT strategy							
Angela Bromfield – external appointment							

October	Strategy Day
	Annual stakeholders review
	Yorkshire and Central regional update
	Annual review of Delegated Authorities Policy
	Share price and share register analysis
	Alastair Lyons: external appointment
	Succession planning – Investment Committee
	People Steering Group
Budget and strategic plan	November
2020 investor relations plan	
Appointment of external auditor	

## Key areas of focus in 2020

Response to COVID-19	Succession for Owen Michaelson	Purpose and sustainability
Succession for Lisa Clement	Employee engagement	Stakeholders

## External appointments

Upon appointment, each Director is required to notify the Company Secretary 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, this is reviewed first by the Nomination Committee which, having considered the time commitment and potential conflicts of interest, makes a recommendation to the Board. The Board makes a final decision on all new external appointments.

## Conflicts of interest

Each Director can disclose actual or potential conflicts of interests, 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 relevant subject matter.

Martyn Bowes is a Board representative of the Pension Protection Fund. The Board has approved any actual or potential conflicts of interest that arise as a result.

Steven Underwood was, but is no longer, a Board representative of the Peel Group (see the Nomination Committee Report on page 90). However, he remains Chief Executive of the Peel Group and is an Executive Director of certain Peel Group companies which may deal with Harworth at an operational level from time to time. Steven Underwood has previously declared by way of general notice, and the Board has approved, a potential conflict of interest in that regard. During 2019 Harworth, via its joint venture with Evans Property Group, sold a parcel of land at the Gateway 45 site to PLP, a joint venture in which Peel Group holds a minority stake. This represented an actual conflict of interest for Steven 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 Cunningham has previously declared by way of general notice, and the Board has approved, potential conflicts of interest arising from his appointment as a Non-Executive Director of The Banks Group. Before Andrew joined the Board, Harworth entered into a small joint venture with The Banks Group. No decision on that joint venture has been referred to the Board since Andrew's appointment. During 2019 Harworth acquired one parcel of land from The Banks Group. These acquisitions 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 these matters.

Owen Michaelson has previously declared by way of general notice, and the Board has approved, potential conflicts of interest arising from his appointment as a member of the Board of the Sheffield City Region Local Enterprise Partnership. No conflicts arose as a result of this appointment during 2019.



# Statement of Corporate Governance

continued

## Induction and ongoing support

### Inductions

The Company Secretary oversees the delivery of a comprehensive and tailored induction programme for all new Directors. Inductions were delivered for Ruth Cooke, Angela Bromfield and Kitty Patmore when they joined the Board in March, April and October 2019 respectively. This included:

- provision of a detailed induction pack ahead of their appointments taking effect;
- briefings from the Chief Executive, Chief Financial Officer (the Director of Finance in Kitty's case), Chief Operating Officer and Company Secretary;
- a series of one-to-one meetings with members of the Senior Management Team;
- meetings with PricewaterhouseCoopers LLP, the incumbent external auditor;
- in Kitty's case, a programme of introductory meetings with our largest shareholders and meetings with our other external advisers, including BNP Paribas (valuers), Deloitte (tax and remuneration advisers) and DLA (corporate legal advisers);
- site visits; and
- in both Kitty's and Ruth's case, a briefing from DLA on the duties of directors of companies with a premium listing.

### Knowledge of business and markets

To give constructive challenge and support to the Investment Committee, all Non-Executive Directors must maintain a good knowledge and understanding of Harworth's business and the markets in which it operates. To that end, 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 our operational teams;
- regular updates from each of the regional teams and the Income Generation division, focusing on progress against strategic objectives.
- annual health and safety updates from the head of our Estates Environment and Safety division (supplemented by monthly updates included in each Board pack); and

### Ongoing support and CPD

All Directors have access to the advice and services of the Company Secretary who also facilitates the continuous professional development (CPD) of all Directors. To that end:

- Board packs include external CPD briefings for Directors, with a short synopsis prepared by the Company Secretary;
- external advisers host CPD workshops for the Board and Committees annually;
- the Company Secretary provides written and verbal updates to the Board and its Committees, as appropriate, on governance and regulatory changes; and
- Directors are made aware of, and have the opportunity to attend, external CPD updates.

## Board and Committee meetings

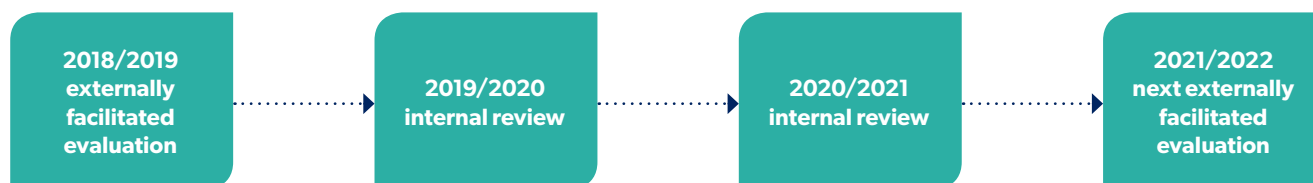
	Meetings attended			
	Board	RemCo	AuditCo	NomCo
Alastair Lyons	11/11	4/4		1/1
Owen Michaelson	11/11			
Kitty Patmore (joined 1 October 2019)	2/2			
Lisa Clement	10/11	4/4		1/1
Andrew Cunningham	11/11		4/4	1/1
Ruth Cooke (joined 16 March 2019)	6/8		3/3	
Angela Bromfield (joined 1 April 2019)	6/8	2/2	2/3	
Steven Underwood	10/11	2/2	1/1	
Martyn Bowes	11/11			
Andrew Kirkman (left 30 June 2019)	7/7			
Anthony Donnelly (left 30 Sep 2019)	8/9	3/3	3/3	

\*There were 10 regular Board meetings scheduled during 2019 and one additional meeting held by conference call in May. There were also Board calls to sign-off the 2018 preliminary results and 2019 interim results, site visits and a Strategy Day offsite during the year, which are not reflected in the table above.

Board and Committee papers are circulated not less than one full week prior to each meeting. The papers include monthly reports from the Chief Executive, Chief Financial Officer and Company Secretary.

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

## Board evaluation



The Board undertakes annual evaluations of its effectiveness and the contribution of individual Directors. The Company aspires to membership of the FTSE 250 and, as such, the Board considers it good practice to instruct an externally facilitated evaluation every three years, as prescribed by the 2018 Code for FTSE 350 companies.

In the final quarter of 2018 an external evaluation process was led by Ian White. Information about Ian and the evaluation process he led were included in the 2018 Annual Report. Below is a summary of the recommendations from the evaluation and the actions taken during 2019 to implement them:

Recommendation	Action taken during 2019
Keep diversity - defined in its widest term - under regular review and consider more innovative approaches to recruitment both at Board level and below.	Material progress made on the Board's gender balance during 2019. Diversity review now a standing agenda on the Committee's annual timetable.
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.	In Q1 of 2019, the Board and Investment Committee met to discuss their respective roles and expectations and identified means of improving engagement between the two functions. At least one Board dinner each year is set aside for the Board and Investment Committee to meet informally. A collaborative review of purpose and strategy was undertaken at the annual Strategy Day in October.
The Non-Executive Directors should make further efforts to get to know employees better, to enhance their visibility and knowledge of the business – this is especially important in respect of new Non-Executive Directors.	See the Strategic Report (pages 56 and 57).
The Non-Executive Directors should meet alone on a pre-planned basis where appropriate.	It has been agreed that Non-Executive Directors will advise the Chair when they consider there is a topic that merits NED-only consideration. Certain matters were considered in this manner during 2019. Non-Executive Directors meet once a year without the Executive Directors being present.
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 Chair's performance.
The Board should keep the number of Board Meetings held in the annual cycle, previously 11, under review.	Annual cycle reduced to 10 meetings.
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.	See Corporate Governance Statement (page 76).
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.	Succession successfully executed (appointments of Ruth Cooke, Angela Bromfield and Kitty Patmore) and planning initiated (ahead of Lisa Clement's retirement). Succession planning for the Board and Investment Committee reviewed by the Committee annually. Talent and development management of the wider business reviewed by the Board annually.

# Statement of Corporate Governance

continued

The Chair has conducted an internal evaluation of the Board, its Committees and individual Directors. This took the form of online questionnaires completed by all Directors, with responses collated to inform one-to-one meetings between the Chair and each Director. The findings were reported to the Board in February with actions agreed for implementation in 2020. Some examples of the agreed actions are listed below.

2019/2020 internal evaluation	
Theme	Actions agreed
<b>Transaction appraisals</b>	Transaction appraisals presented to the Board should include an assessment of strategic fit (including fit with the profile of the wider portfolio – see below), the sustainability of the project and its contribution to delivery against our purpose.
<b>Portfolio analysis</b>	A review of our portfolio, its characteristics and fit to strategy should be undertaken and considered by the Board every 6 months.
<b>Reserved matters</b>	The Board reserved matter levels should be reviewed for sales and lettings, with a view to their being increased.
<b>Finance reporting and KPIs</b>	The financial reporting to the Board should be updated, to make it more relevant to the Board's level of oversight. The financial and commercial KPIs reported to the Board should also be further developed, to track better both annual and medium-term progress against strategic objectives.
<b>Meetings</b>	The number of Board meetings should remain subject to review. Hosting more Board meetings in the regional offices should be explored. Meetings of the principal committees – Audit / Remuneration - should, as a general rule, take place on separate days to Board meetings, except where Committee agendas are particularly light.
<b>Resourcing</b>	An assessment of human resourcing and supporting IT systems should form part of the appraisal of the strategic plan each year.
<b>Business Unit updates</b>	Business unit updates should include both an assessment of the local market and a review of one Major Development project and/or one acquisition site as it moves through planning promotion and placemaking.
<b>Board interaction with stakeholders</b>	The prospect of inviting external stakeholders to Board site visits and dinners held in the regions should be explored.
<b>Corporate purpose and sustainability</b>	The management team should lead a discussion to identify and agree our desired sustainability outcomes, how performance will be measured and what data would best evidence delivery.

An evaluation of the Chair's performance is led annually by the Senior Independent Director. In addition to the feedback given on the Chair's leadership during the external Board evaluation, the Senior Independent Director and other Non-Executive Directors met in March 2019 to review his performance. Following that review, the Senior Independent Director considered and discussed with the Chair the comments and feedback that had been received from the Directors and was able to confirm that the performance of the Chair was considered effective and that he continued to demonstrate appropriate commitment to his role.

The Chair, taking into account the views of the other Directors, reviews the performance of the Chief Executive annually.

The Chief Executive appraises the performance of the members of the Investment Committee twice a year.



## Annual General Meeting

Typically, the Notice of Annual General Meeting (AGM) is sent to shareholders at least 20 working days before the meeting. This year we have not been able to meet that deadline due to the practical constraints caused by the COVID-19 pandemic but we have given shareholders 21 clear days' notice of the AGM in accordance with the Companies Act 2006.

Whilst shareholders must not attend the 2020 AGM due to the restrictions on movement and public gatherings currently in place to respond to the COVID-19 pandemic, the Board encourages shareholders to exercise their right to vote at the AGM by appointing the Chair of the meeting as their proxy and directing him or her how to vote on each resolution. The resolutions to be proposed at the 2020 Annual General Meeting, together with the explanatory notes, appear in the separate Notice of Annual General Meeting (Notice) accompanying this Annual Report. The Notice is also available on our website.

Separate resolutions are proposed on each substantially separate issue. 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, will be made available on our website. A vote withheld will not be counted in the calculation of the proportion of the votes for and against a resolution.

If any shareholder had intended to ask a question in person at the AGM, we encourage them to email their question to [investors@harworthgroup.com](mailto:investors@harworthgroup.com) to which we will respond in writing.



**Alastair Lyons**

Chair

4 June 2020

# Nomination Committee Report



## Committee members

### Alastair Lyons (Chair)

Andrew Cunningham

Angela Bromfield

The terms of reference of the Nomination Committee are on the Company's website: <https://harworthgroup.com/investors/governance/>

## Dear Shareholder,

I am pleased to report to shareholders on the work of the Nomination Committee during the year ended 31 December 2019.

## Introduction

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.

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

The Committee's terms of reference were updated during the year to take account of the 2018 UK Corporate Governance Code (2018 Code). Throughout 2019 the Committee has acted in accordance with the principles of, and fulfilled its obligations under, the 2018 Code.

## Membership and meetings

During 2019, the Committee comprised three independent Non-Executive members. I chaired the Committee and its other members were Lisa Clement and Andrew Cunningham. Given that the appointment of Lisa's successor is a priority for 2020 (see below), the Board decided that Angela Bromfield, who is also an independent Non-Executive Director, would replace Lisa on the Committee with effect from 1 January 2020.

During the year, there was a scheduled meeting in October at which the Committee considered: the composition of the Board and its Committees, succession planning for Lisa Clement, and diversity across the business. There were unscheduled meetings of the Committee held to find a successor for the role of Chief Financial Officer following Andrew Kirkman's resignation in April 2019, culminating in the appointment of Kitty Patmore, which was announced in August 2019.

Membership and attendance at meetings in 2019 are shown below:

		Independent	Committee tenure at 31 December 2019	Scheduled meetings attended/ eligible to attend
<b>Alastair Lyons</b>	Chair	Yes	1 year 10 months	1/1
<b>Lisa Clement*</b>	Member	Yes	8 years 1 month	1/1
<b>Andrew Cunningham</b>	Member	Yes	3 years 9 months	1/1

\*Lisa was replaced by Angela Bromfield on 1 January 2020 (see below)

The key activities of the Committee during 2019 and its priorities for 2020 are shown below:

### The Committee's key activities in 2019

	Recruitment	Board composition and succession	Diversity
January	Appointment of Ruth Cooke and Angela Bromfield to the Board as Non-Executive Directors and consequential changes to Committee membership.		
July	Recruitment of Kitty Patmore as Chief Financial Officer.		
October	Succession planning for Lisa Clement's retirement in September 2020.		
	Review of Board composition including Steven Underwood's re-election in his personal capacity following the material reduction in Peel Group's shareholding as a consequence of which their right to appoint a director ceased.		
	Review of succession plans for the Board and Investment Committee.		

### The Committee's priorities for 2020

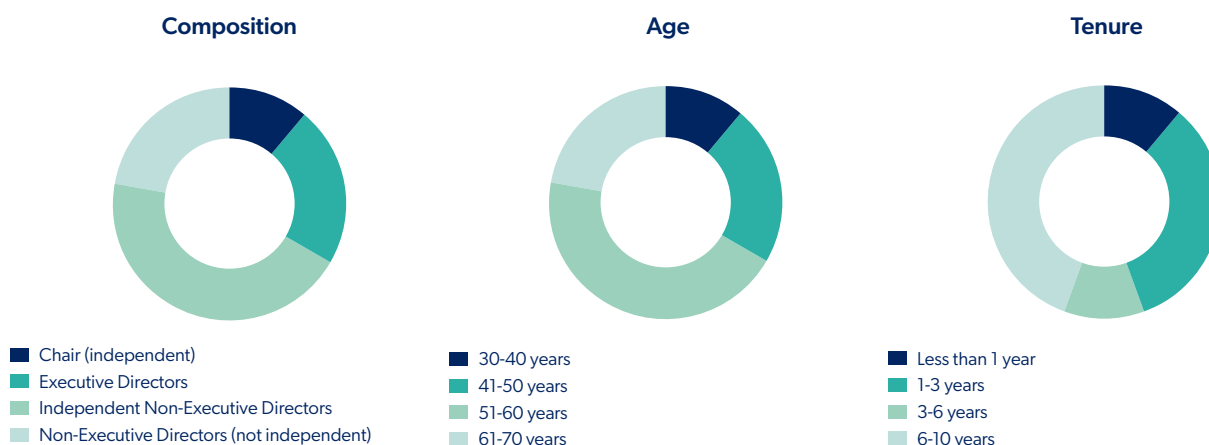
- Recruitment process, appointment and induction of a successor for Owen Michaelson.
- Recruitment process, appointment and induction of a successor for Lisa Clement, together with implementation of wider succession plans (appointment of new Senior Independent Director and changes to Committee membership).
- Ongoing review of Board composition and of succession planning for the Board and Investment Committee.
- Ongoing review of diversity.

### Board and Committee composition, succession planning and recruitment

The Board comprises the Chair, who is considered independent, the Chief Executive, the Chief Financial Officer and six Non-Executive Directors.

Analysis of the composition of the Board and Investment Committee (at 31 December 2019) is shown below. The Directors' biographies appear on pages 74 and 75.

#### Board





# Nomination Committee Report

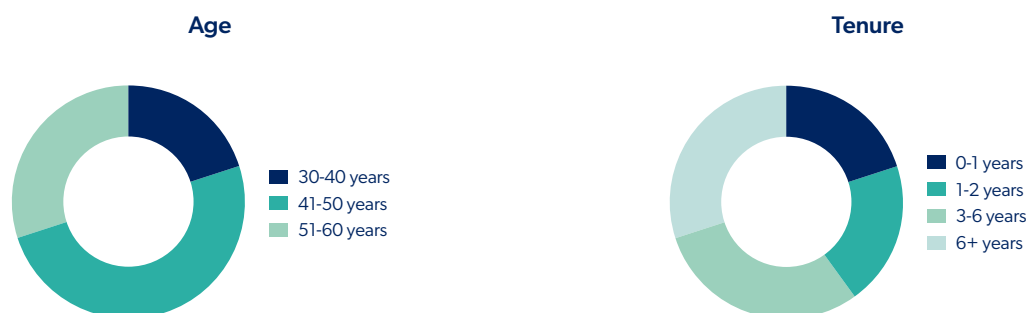
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## Individual tenures

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Alastair Lyons:</b>										
<b>Owen Michaelson:</b>										
<b>Kitty Patmore:</b>										
<b>Lisa Clement:</b>										
<b>Andrew Cunningham:</b>										
<b>Ruth Cook:</b>										
<b>Angela Bromfield:</b>										
<b>Steven Underwood:</b>										
<b>Martyn Bowes:</b>										

\*Martyn Bowes is the representative of the Pension Protection Fund, which holds 25% of the Company's shares, and is not, therefore, independent. Steven Underwood was, but is no longer, the representative of the Peel Group, which also has a material shareholding. Having previously been a representative Director and still being connected to a material shareholder, Steven is not considered independent. The Committee has recommended to the Board, and the Board supports, Steven's re-election at the 2020 Annual General Meeting. The rationale for that support is explained below.

## Investment Committee\*



\*Includes Executive Directors, Company Secretary (as secretary to the Investment Committee) and Director of Finance (permanent attendee)

The composition of the Board and its Committees is reviewed regularly by the Committee to ensure that, in each case, membership comprises an appropriate balance of skills, knowledge, and experience and includes the right number of independent Directors.

Board and Committee composition was reviewed by the Nomination Committee in October 2019, having regard to the appointment of Ruth Cooke and Angela Bromfield earlier in the year (see below) and the anticipated retirement of Lisa Clement at the end of September 2020 (see below).

That review included a thorough evaluation of Steven Underwood's ongoing membership of the Board. Whilst Peel Group held more than 25% of the Company's shares, Steven was its representative on the Board, pursuant to a relationship agreement dated 7 August 2013. During 2019, Peel Group sold a significant proportion of its shares in the Company with the result that the relationship agreement ceased to have effect and, accordingly, Peel Group is no longer entitled to appoint a representative Director to the Board. That notwithstanding, the Committee recognised Steven's extensive real estate sector experience and financial background, and the extremely valuable contribution he makes to the Board, such that it recommended to the Board, and the Board supports, Steven's re-election at the 2020 Annual General Meeting. With effect from 1 January 2020, Steven's appointment is subject to a new service agreement, on terms identical to those of our independent Non-Executive Directors, including a rolling annual tenure subject to annual re-election at the Annual General Meeting.

Having regard to all the above-mentioned matters, the Board considers that the composition of the Board is appropriately balanced. Membership of the Committees is also compliant with the 2018 Code (as to which see the Corporate Governance Statement, page 76). The Non-Executive Directors 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 116.

### Succession – Executive Directors

The Committee undertakes a regular (typically annual) review of the succession plans for the Executive Directors.

On 1 April 2019, Andrew Kirkman (then Chief Financial Officer) notified the Board of his resignation, which took effect on 30 June 2019. Following receipt of that notice, there followed a series of unscheduled meetings of the Committee to initiate a previously agreed succession plan for the role.

The Company appointed Spencer Stuart to conduct a search and recruitment process. The Company does not retain Spencer Stuart in any other capacity and it has no other connection with the Company. In conjunction with Spencer Stuart and the Chief Executive, the Nomination Committee prepared the selection criteria and specifications for the role.

Spencer Stuart identified a “long-list” of candidates. Following a review of that “long-list” by the Committee and the Chief Executive Officer and a meeting with Spencer Stuart, a “short-list” of candidates was identified. Spencer Stuart interviewed and provided feedback on all “short-list” candidates, resulting in a refined “short-list”. The Committee and Chief Executive interviewed all these candidates pursuant to which they identified a preferred candidate who then met with the other Non-Executive Directors and the Chief Operating Officer.

This process culminated in the Committee recommending, and the Board resolving to make an offer, to Kitty Patmore for the role. Upon Kitty accepting the offer and the Board taking up references, her appointment was announced on 6 August 2019. It took effect on 1 October 2019.

Between 30 June 2019, when Andrew left the business, and 1 October 2019, when Kitty joined, Jenny Cutler undertook the role of interim Chief Financial Officer. Jenny was previously our Group Financial Controller and, following Kitty’s appointment, has been promoted into a wider and more senior role, that of Director of Finance, which reflects a revised operational structure for the Finance team.

Kitty has participated in a comprehensive and tailored induction programme, details of which are set out in the Corporate Governance Statement on page 84.

On 17 March 2017, alongside our preliminary results, we announced that Owen Michaelson will be retiring as Chief Executive on 31 December 2020. The Committee has initiated a search and recruitment process for Owen’s successor for which it has engaged Thomas Cole Kinder. The Company does not retain Thomas Cole Kinder in any other capacity and it has no other connection with the Company. The Company will make an announcement as soon as Owen’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 2020.

### Succession – Non-Executive Directors

Ruth Cooke and Angela Bromfield were appointed as Non-Executive Directors in March and April 2019 respectively. These appointments represented the culmination of planning and recruitment undertaken by the Committee in 2018 to: appoint a successor for Tony Donnelly, who retired in September 2019 after serving on the Board for 9 years; and to ensure that the composition of the Board is compliant with changes introduced by the 2018 Code, which prescribes for all companies that at least half of the Board, excluding the Chair, be independent. Details of the process undertaken to recruit Ruth and Angela, including the appointment of Warren Partners to assist in the search, were given in the 2018 Annual Report. Following their appointments, Ruth and Angela have participated in comprehensive and tailored induction programmes, details of which are set out in the Corporate Governance Statement on page 84.

At the end of 2020, Lisa Clement will cease to be independent under the 2018 Code, having served for 9 years on the Board, and she will, therefore, retire at the end of September this year. That being so, in October the Committee began to plan for Lisa’s succession. Given that it would be inappropriate for Lisa to participate in the identification of her successor, and this would be a priority for the Committee in 2020, the Committee recommended to the Board, and the Board approved, the appointment of Angela Bromfield to the Committee in Lisa’s place, with effect from 1 January 2020. The Committee also recommended to the Board, and the Board approved: the appointments of Andrew Cunningham as Senior Independent Director and Angela Bromfield as Chair of the Remuneration Committee, in succession to Lisa and with effect from 1 October 2020. The Committee has also recommended that Lisa’s appointed successor as Non-Executive Director, be appointed both to the Remuneration and Audit Committees, subject to the successful candidate having the appropriate skills, knowledge and experience. The Board is supportive of this recommendation, which would also enable Angela Bromfield to step-down from the Audit Committee so that she can commit the appropriate time to her new roles as Chair of the Remuneration Committee and member of the Nomination Committee.

In January, the Company 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. That process is progressing well and we will announce the appointment of Lisa’s successor in due course, with the intention that the appointment be made in good time ahead of Lisa’s retirement to facilitate a transition. Full details of the process undertaken to recruit Lisa’s successor will be given in the 2020 Annual Report.

# Nomination Committee Report

continued

## Investment Committee

Succession plans are in place for each member of the Investment Committee and those plans are reviewed regularly (typically annually) by the Committee and the Board. Talent management and succession planning for the whole business is considered annually by the Investment Committee and then by the Board.

## External appointments

The Committee reviews all proposals for external appointments of Executive and Non-Executive Directors. Before making a recommendation to the Board, the Committee considers the time commitment required by the proposed appointment and its likely impact on the prospective appointee's commitment to his or her role at Harworth, together with the prospect of conflicts of interest arising. The Board makes a final decision on all new external appointments.

## Diversity and equal opportunities

The Board recognises the benefit of a diverse (in its widest sense) Board and workforce comprising individuals with different backgrounds, experience, perspectives and ideas. Like much of the real estate and construction sectors, achieving that objective is a significant challenge, but we are committed to it.

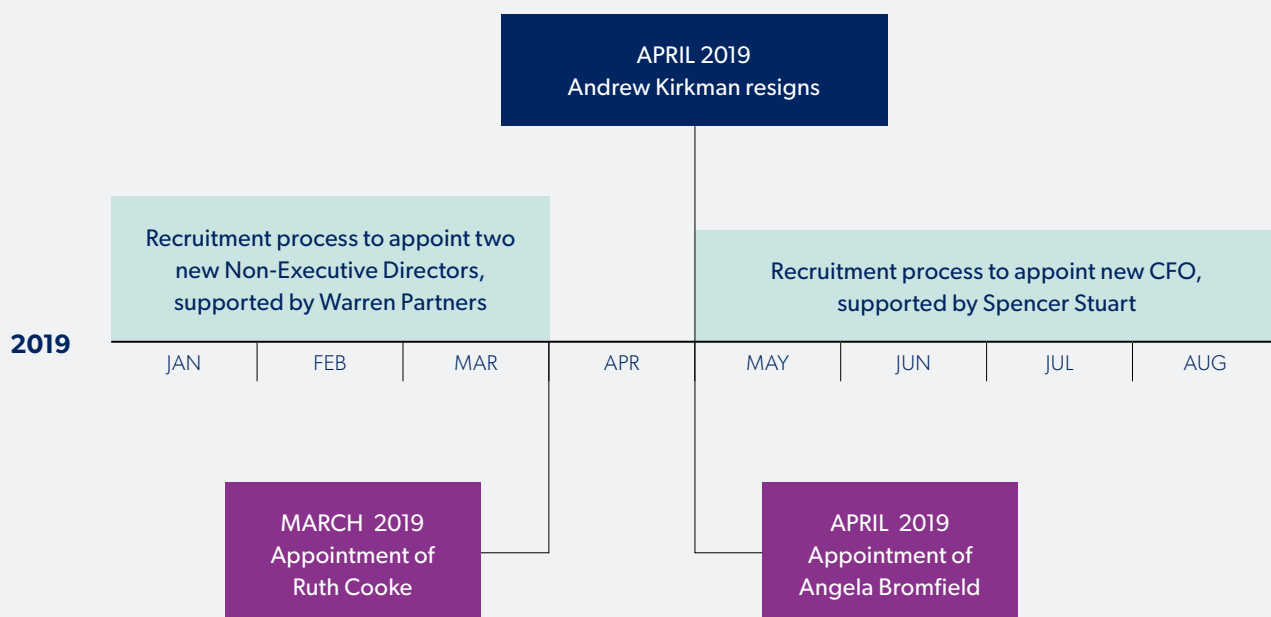
The Committee takes the lead in monitoring the effectiveness of the initiatives we have introduced to improve diversity, and the progress we are making. A review is undertaken annually, the results of which are reported to the Board.

We took our first steps on this in 2017 by undertaking and publishing our gender pay gap analysis, despite not being obliged to do so. Whilst this demonstrated the extent of the challenge we face, the Board felt that it was important to have a transparent benchmark against which to measure our progress. We have published the same analysis again below and over the page, alongside the comparative results for 2018.

## Proportion of men & women in each quartile band

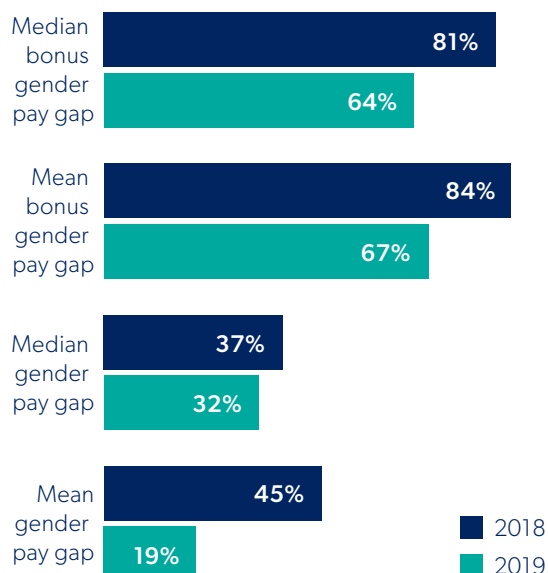
	Lower		Lower middle		Upper middle		Upper quartiles	
	2019	2018	2019	2018	2019	2018	2019	2018
Males	64%	60%	53%	53%	83%	94%	88%	90%
Females	36%	40%	47%	47%	17%	6%	12%	10%

## Board succession in 2019 and H1 2020





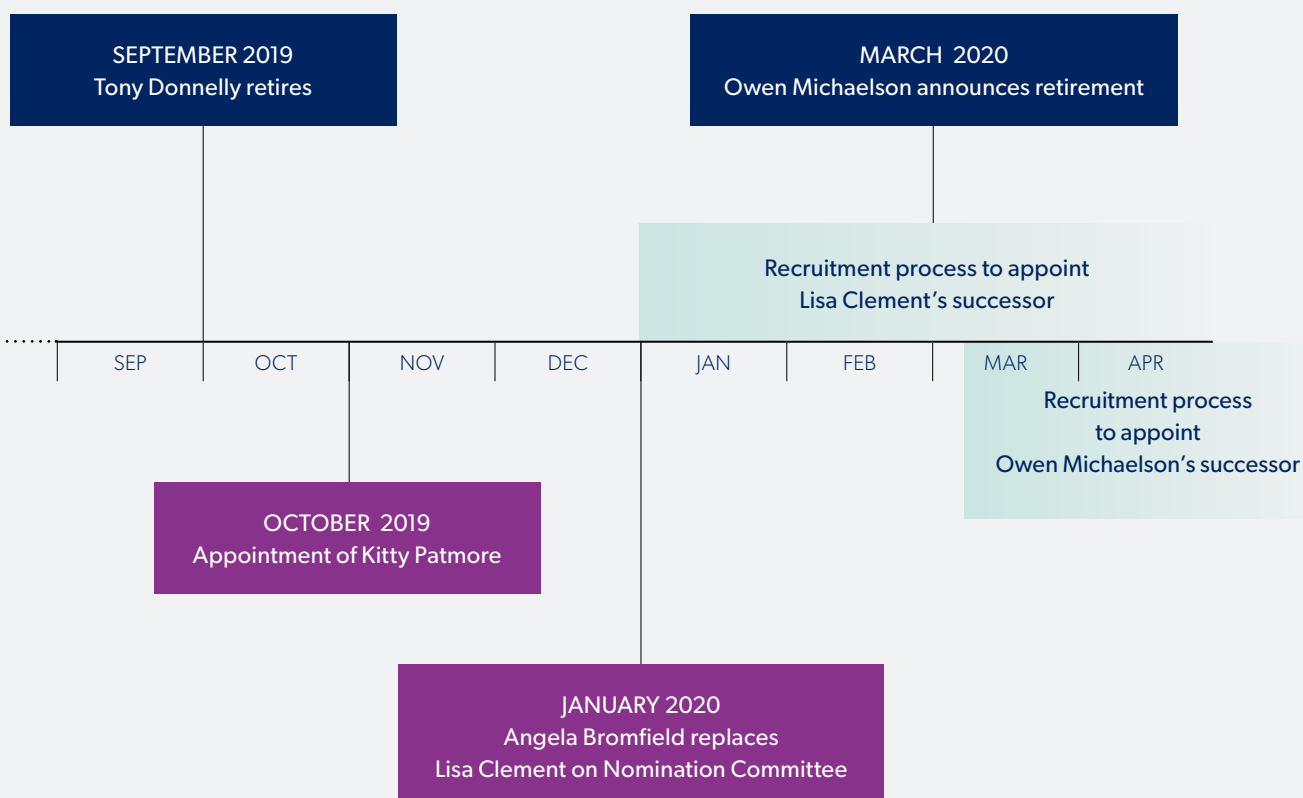
## Gender pay gap analysis



There have been material reductions in our gender pay gap during 2019 across all measures. There have also been promotions of female colleagues into more senior positions in the business. This is encouraging, but we recognise that there is much more to do to improve female representation at a senior level.

Since 2017 we have applied more rigour to our efforts in promoting and monitoring diversity, including the following:

- in 2018 we adopted 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;
- diversity is an active and important consideration in the Committee's succession plans for the Board and Investment Committee: this is evident from recent appointments to the Board;
- whilst appointments will always be based on merit, Harworth is committed to giving everyone, regardless of gender, ethnicity, sexuality or background, every opportunity to apply for, and be appointed to, roles across the business and, as such, the desire to encourage diversity is a prominent consideration when we are recruiting for all roles. To that end, the requirement for diversity is a pre-condition of candidate long-lists prepared by recruitment consultants for all roles;
- during 2019, we upgraded our IT servers, fleet of laptops and office IT infrastructure and introduced a video conferencing facility on all laptops, to promote "hot-desking" and remote, flexible working; and



# Nomination Committee Report

continued

- we have introduced a Talent Development Programme which we hope will be instrumental in encouraging a diverse mix of candidates.

These measures complement some other initiatives which have been in place for some time 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, which are scheduled for a detailed review in 2020; and

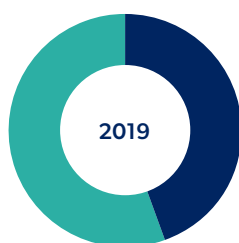
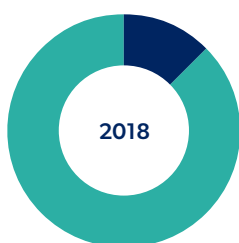
- 6 of our employees (8%) work part-time, whether that be a reduced number of days or reduced hours every day, including 1 member of our Management Board.

We took some positive steps forward in 2019 which are summarised below. The highest profile changes were to the Board's gender balance, but we also made progress on gender diversity across the wider business. We recognise that with a small team and relatively low staff turnover (itself a positive), meaningful improvements will take time, but are pleased with the direction in which we are headed.

## Progress in 2019

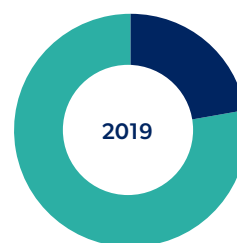
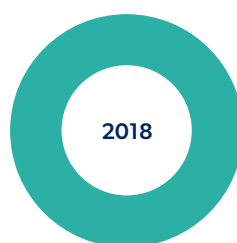
### Board gender balance

■ Female ■ Male



### Investment Committee

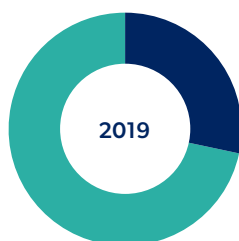
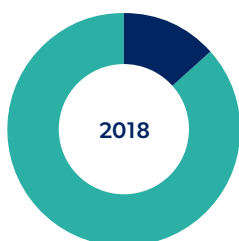
■ Female ■ Male



\*Includes Executive Directors, Company Secretary and Director of Finance (attendee)

### Management Board

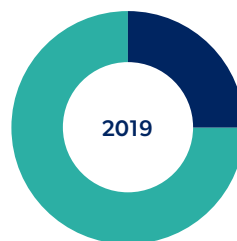
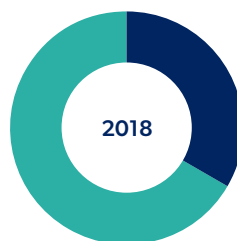
■ Female ■ Male



\* Includes Investment Committee

### Wider workforce

■ Female ■ Male



\* Excludes Management Board

\*For consistency, where comparisons are given between 2019 and 2018, in each case the position reflected is at 31 December.

### Recruitment into new roles



### Promotions



### Recruitment into replacement roles



It is important to stress that, whilst our desire to improve diversity will be a consideration in decisions on recruitment and promotion, selection continues to be based on merit and ability.

### Equal opportunities for all

Since Harworth's formation in 2012 we have been committed 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 and promotion within our business.

### Annual General Meeting

All Directors are subject to annual re-election by shareholders. The Directors' biographies appear on pages 74 and 75. The Nomination Committee has concluded that all Directors seeking election or re-election continue to be effective and to demonstrate commitment to their role. They have the requisite skills, knowledge and experience to continue to discharge their duties effectively. The Board considers that each Director provides valuable input to the operation of the Board and that their contribution is important to the Company's long-term sustainable success, bringing a diverse range of skills from different sectors and experience. As such, on the recommendation of the Committee, the Board considers it appropriate to propose and support the election and re-election of those Directors seeking election or re-election at the 2020 Annual General Meeting.

**Alastair Lyons**

Chair of the Nomination Committee

4 June 2020



# Audit Committee Report



## Committee members

### Andrew Cunningham (Chair)

Ruth Cooke

Angela Bromfield

The terms of reference of the Audit Committee are on the Company's website: <https://harworthgroup.com/investors/governance/>

## Dear Shareholder,

I am pleased to present the Audit Committee's report for the year ended 31 December 2019. It sets out the Committee's responsibilities, which extend to financial reporting, the external audit and internal controls, and highlights the Committee's activities during 2019 and priorities for 2020.

The Committee's terms of reference were updated during the year to take account of the 2018 UK Corporate Governance Code (2018 Code). Throughout 2019 the Committee has acted in accordance with the principles of, and fulfilled its obligations under, the 2018 Code and had regard to the FRC's Guidance on Audit Committees.

## Membership and meetings

There were some changes to the Committee's membership during 2019. Ruth Cooke and Angela Bromfield joined the Committee when they were appointed to the Board in March and April 2019, respectively, enabling Steven Underwood, who is not independent, to step down. Tony Donnelly continued as a member of the Committee until his retirement from the Board at the end of September 2019. As such, at the date of this report, the Committee comprised three independent Non-Executive members. As explained in the Nomination Committee report (page 91) it is anticipated that

Angela Bromfield will be replaced on the Committee by Lisa Clement's successor as Non-Executive Director, when appointed, subject to their having the appropriate skills, knowledge and experience.

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 is 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 Marshalls plc, a premium-listed FTSE company. The Board is also satisfied that the Committee has competence relevant to the real estate sector, given that two members hold (or have held) senior positions in businesses operating in that sector. The experience of each member of the Committee is summarised on page 75.

During the year, the Committee held four scheduled meetings. The Committee also undertook reviews of the draft Annual Report in March and of external audit tender proposals in October. The Chair of the Board, Chief Executive Officer, Chief Financial Officer and external auditors are invited to attend meetings when appropriate.

Membership and attendance at meetings in 2019 are shown below:

		Independent	Committee tenure at 31 December 2019	Scheduled meetings attended/ eligible to attend
<b>Andrew Cunningham</b>	Chair	Yes	3 years 9 months	4/4
<b>Steven Underwood*</b>	Member	No	8 years 8 months	2/2
<b>Tony Donnelly*</b>	Member	Yes	8 years 9 months	3/3
<b>Ruth Cooke*</b>	Member	Yes	10 months	3/3
<b>Angela Bromfield*</b>	Member	Yes	9 months	2/3

\*Steven Underwood stepped down in March 2019. Ruth Cooke and Angela Bromfield joined in March and April 2019. Tony Donnelly retired in September 2019. The key activities of the Committee during 2019 and its priorities for 2020 are shown below:

### The Committee's key activities in 2019

Committee membership	Financial reporting	External audit	Risk and internal controls
<b>February</b>	FYE'18 preliminary results and investor presentation Categorisation of properties: development vs. investment Update on cyber and information security initiatives		
<b>March/April</b>	FYE'18 Annual Report Change of Committee members		
<b>June</b>	FYE'18 external audit de-brief FYE'19 external audit planning Report on desktop test of Business Continuity Plan Briefing on proposals for upgrade to financial accounting platform Update on cyber and information security initiatives		
<b>September</b>	FYE'19 interim results and investor presentation External auditors' feedback on audit and management (without management present)		
<b>October</b>	External audit tender proposals		
<b>November</b>	External audit appointment tender presentations and decision on appointment Proposed fee for FYE'19 external audit Internal controls and processes including KPMG report on external review of valuation process and review of the need for internal audit function 2020 renewal of insurance programme Update on cyber and information security initiatives Annual review of GDPR compliance Annual review of hospitality register		

### The Committee's priorities for 2020

- Oversee the transition of the external audit
- Oversee the 2021 insurance programme renewal
- Monitor the maturity of the Group's cyber and information security systems, including ongoing compliance with GDPR
- Oversee implementation of the Group's new finance system
- Oversee the next phase of external reviews of internal financial controls
- Review the appointment of the Group's valuers
- Review financial reporting including oversight of significant financial judgements by management

# Audit Committee Report

continued

## Financial reporting

Ahead of the interim and preliminary results announcements, the Committee receives reports from management and the external auditor to satisfy itself of the integrity of the statements and disclosures in those announcements and to ensure that all financial reporting is a fair, balanced and understandable assessment of the Company's position and prospects. The Committee Chair also attends the year-end valuations review meeting with the Company's valuers, external auditors and management team, to understand better the market conditions and the assumptions underlying the valuations. The Committee reviews the long-term viability, going concern and directors' responsibilities statements (including the assumptions underpinning them) and recommend to the Board their adoption.

The Committee has reviewed the controls which are in place to ensure the completeness and accuracy of the Company's financial records. The Committee has also noted (i) the reviews that are undertaken during preparation of the Annual Report and Financial Statements by various parties, including the external auditor and valuers, to ensure consistency and balance and (ii) the internal verification exercise which is undertaken in respect of the financial metrics referred to in the Strategic Report and Directors' Report. The Committee meets the external auditor annually and independently of management, giving the opportunity to ensure that it has full visibility of matters that have been the subject of particular discussions.

The Committee has considered whether, in its opinion, the 2019 Annual Report and Financial Statements is, taken as a whole, fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Committee has concluded, and recommended to the Board, that the disclosures, and the process and controls underlying their production, are appropriate to enable it to determine that the 2019 Annual Report and Financial Statements is fair, balanced and understandable. The Board's conclusions in this regard are set out in the Statement of Directors' Responsibilities on page 122.

## Significant financial statement reporting issues considered by the Committee for FYE'19 financial statements

### Valuation of the property portfolio

The property portfolio accounts for the vast majority of the Group's total assets. This portfolio includes investment property, development property, assets held for sale, overages, owner-occupied properties and joint ventures. We acknowledge that although the portfolio continues to be valued by independent external valuers, BNP Paribas and Savills in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards, our valuations include a significant degree of judgement. The key judgements within the external valuations are as follows:

- the future intention and plans for the properties/site;
- value per acre;
- rental amounts and financial stability of tenants;
- rental yields;
- applicability of comparable sales evidence that is readily available;
- anticipated risk of delivery of a masterplan of a site; and
- costs to bring sites forward.

The valuation methodology, assumptions and judgements are appropriate, made in conjunction with our external valuers and cost consultants, and are consistent with previous years. The potential restoration costs for the former surface mine sites have been assessed independently and are disclosed separately.

## Viability and Going Concern

This is discussed in the Long-Term Viability Statement (pages 38 and 39) and the Statement of Directors' Responsibilities (pages 122 and 123). Given the heightened economic uncertainty in the light of COVID-19 significant downside sensitivity testing has been performed on these forecasts. The outputs from this testing have been reviewed in detail and discussed by the Board. This sensitivity testing has shown that the Group can continue to operate with available liquidity and banking facilities throughout the stress scenarios. The Long-term Viability Statement (pages 38 and 39) and the Statements of Directors' Responsibilities (pages 122 and 123) have also been reviewed in detail and approved by the Audit Committee and wider Board.

## Alternative Performance Measures (APMs)

Harworth continues to believe that the use of APMs alongside statutory measures is essential in communicating the performance and position of the Group to its stakeholders. Note 2 to the Financial Statements gives a full reconciliation to statutory measures. The Committee has reviewed the appropriateness, prominence and consistency of the APMs and has concurred with their use but has challenged the Executive team to reduce the quantity and prominence of APMs in the Company's financial reporting to shareholders.

## 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 June each year. The Committee bases its recommendation on a review of:

- the calibre of the external auditor, including its reputation, sector experience and overall capacity;
- the independence and objectivity of the external auditor, including consideration of potential conflicts of interest and the non-audit work it has undertaken for the Company (for 2019 see analysis over the page);
- the effectiveness of the last external audit;
- the quality control processes that the external auditor has in place, including any regulator's public comments on the same;
- the quality of the audit team, including the experience of the audit partner and team and its capacity;
- the proposed scope of the audit; and
- the quantum of fees payable for the audit (see further comment and analysis over the page).



The Company has no contractual commitment obliging it to select any particular firm as external auditor. PricewaterhouseCoopers LLP (PwC), then known as Coopers and Lybrand, was first appointed as the Company's auditors before 17 June 1994. PwC's audit of the financial statements for the year-ended 31 December 2019 is its last as the Company's external auditor. We indicated in the 2018 Annual Report that we intended to undertake a tender ahead of the audit of the financial statements for the financial year ending 31 December 2020. That tender process was undertaken in the second half of 2019. Four firms were invited to tender for the appointment as successor to PwC with two firms submitting proposals following a due diligence process which included site visits and meetings with the Chair of the Committee and members of the Executive team. Detailed proposals were made in October and the firms made presentations to the Committee in November. The Committee applied the same selection criteria to that which it applies ahead of its annual recommendation to the Board on the external auditor's appointment (see above).

The process culminated in a recommendation by the Committee to the Board to appoint Ernst & Young LLP (EY) as the Company's new external auditors. As such, the Board recommends the appointment of EY for the external audit of the Company's financial statements for the financial year ending 31 December 2020. Resolutions to appoint EY as the Company's external auditors and to authorise the Directors to determine its remuneration have been proposed ahead of the forthcoming Annual General Meeting.

Heavy scrutiny on, and anticipated regulatory changes for, the audit sector has led to reductions in capacity and significant increases in fees across the sector. Against that backdrop, there has been a marked increase in PwC's fee for the audit of the financial statements for the year-ended 31 December 2019, notwithstanding negotiations on price between the Company and PwC. Fees payable to EY for future external audits will also be materially higher than those paid in previous years, albeit the Company has negotiated what it considers to be a competitive price given current audit market conditions.

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

- the Committee reviews the audit appointment annually;
- the Company 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 LLP (KPMG) has been appointed to advise on tax matters relating to some of our joint venture agreements and during 2019 undertook an external review of our year-end valuations process;
- 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 below; and
- the Committee reviews the external auditor's report to the Directors and the Committee confirming their independence in accordance with auditing standards.

## ANALYSIS OF AUDIT AND NON-AUDIT FEES

	Audited year ended 31 December 2019 £000	Audited year ended 31 December 2018 £000
Fees payable to the Company auditors and its associates for the audit of the Company and the consolidated financial statements	125	50
Fees payable to the Company auditors and its associates for other services:		
- The audit of the Company's subsidiaries pursuant to legislation	120	121
- Audit related assurance services	25	16
- The audit of the Group's joint ventures	10	15
- Fees relating to transaction*	-	331
	280	533

\*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

## Risk management and internal controls

### Risk and internal controls framework

Responsibility for monitoring the risk profile of the business and the management of risk falls to the Board which undertakes bi-annual reviews of the Group's risk profile, together with an annual review of the Board's risk appetite. The processes undertaken to monitor and manage risk, and the outcome of the Board's latest risk review, are explained in detail in the "Effectively managing our risks" section of the Strategic Report on pages 29 to 37.

The Audit Committee ensures that there are procedures in place for the detection of fraud. The external auditor addresses the risk of fraud in its reports to the Committee on the interim and preliminary results.

The Audit Committee is responsible for monitoring the Group's internal controls and processes, including its financial, operational and compliance controls, and reports to the Board on these matters. The Committee is satisfied that the internal controls in place across the business are fit for purpose.

The Committee oversees a rolling programme of external reviews of internal financial controls. Each year an external review is undertaken of a specific aspect of the financial controls framework. In 2019, KPMG undertook a detailed review of the valuations process. It concluded and reported to the Committee in November that the valuation process was a well-managed process with effective controls in place but recommended the formalisation of certain controls. Those recommendations 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. The Committee undertook such a review in November 2019, in conjunction with its appraisal of KPMG's report. 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.

# Audit Committee Report

continued

During the year, other improvements have been made to operational controls and processes across the business, including:

- revisions to the Delegated Authorities Policy and transaction approvals process, to reflect the new Chief Operating Officer role and formalise the triggers and process for referring Board approved transactions back to the Investment Committee and Board when there are material changes to deal parameters;
- the establishment of a “Harworth Common Platform”, a toolkit of resources that employees can use to guide and support them through key workstreams undertaken across the business. It has been created to ensure that, as the business continues to grow and particularly following our move to a regional operating structure, key workstreams and tasks continue to be undertaken in a consistent manner across the business; and
- an overhaul of our information management systems, which has both driven efficiencies and improved information security (as to which see below).

## Cyber and information security

Improving the Group’s cyber and information security was a priority for the Committee throughout 2018 and 2019. Following technical and strategic reviews undertaken in 2018, 2019 was a year of implementation. This has included:

- the establishment of an information security function;
- the implementation of an information security management system;
- registration with the National Cyber Security Centre Cyber Information Sharing Partnership;
- a rolling awareness programme;
- appointments of “Information Champions” for each division within the business leading to an overhaul of the way information and data is stored;
- implementation of information security policies and procedures, including for information classification and mobile device use; and
- upgrades to the Group’s server network and fleet of laptops.

The Committee recognises that cyber and information security requires ongoing, close monitoring and continuous improvement. The information security function will maintain and improve the existing systems, with a particular focus during 2020 on: supporting the upgrade of our finance systems and the implementation of improved systems for mobile procurement and management, an ongoing awareness programme, audits and project risk assessments, maturity of the policy set and vulnerability scanning.

The new information security function has taken responsibility for our General Data Protection Regulation (GDPR) and Data Protection Act 2018 compliance and the Committee continues to review that on an annual basis. The Committee is satisfied that the measures in place, including the overhaul in 2019 of our information and data management, represent a proportionate response to our data protection obligations but work will continue to embed a culture of GDPR awareness and compliance into the business and to mature our policies and processes in this regard.

The COVID-19 pandemic has unfortunately triggered an increase in cyber attacks across the globe, but our cyber and information security framework has responded well.

## Business continuity

Having established in 2018 a Business Continuity Plan and an IT Incident Response Plan, both plans were subject to desktop resilience tests during 2019, facilitated by external consultants. The results from those tests were very positive. That said, recommendations for improvement were presented to, and approved by the Committee, and will be implemented in the first half of 2020.

The resilience of our Business Continuity Plan was demonstrated in the efficient and effective manner in which the business adapted to the restrictions on movement imposed by the Government due to the COVID-19 pandemic. Our IT infrastructure has played a critical role in our response.

## Insurance

The Committee oversaw the renewal of Harworth’s insurance programme on 1 January 2020 with no material changes in the scope or levels of cover. However, due to a tightening of the insurance market, renewal of the Company’s professional indemnity and directors’ and officers’ insurance policies proved more challenging and expensive than in previous years. This dynamic is market driven and, in terms of professional indemnity insurance, sector specific. We have also been notified by Harworth’s incumbent property owner’s insurer, Tokio Marine Kiln (TMK), that it is withdrawing from the UK insurance market. Whilst a 2020 renewal of the property owner’s insurance programme had been pre-agreed with TMK, this insurance will need to be placed with another insurer for the 2021 renewal. Given these market dynamics, the Company will be initiating an early and comprehensive renewal exercise during 2020.

## Compliance

The Committee is 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.

The Company’s 2019 Modern Slavery Statement can be found on our website at <https://harworthgroup.com/investors/governance/>, together with our policies on anti-corruption and bribery and anti-facilitation of tax evasion. The Company operates a regime for the approval of business development activity at all levels of the business and maintains a register of all activity. That register is monitored regularly by the Company Secretary and annually by the Committee.



**Andrew Cunningham**  
Chair of the Audit Committee

4 June 2020

# Directors' Remuneration Report



## Committee members

### Lisa Clement (Chair)

Alastair Lyons

Angela Bromfield

The terms of reference of the Remuneration Committee are on the Company's website: <https://harworthgroup.com/investors/governance/>

## Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019.

This report is divided into 3 sections: this Chair's introduction, extracts from the Directors' Remuneration Policy (Policy) that was approved at the Annual General Meeting (AGM) in 2019, and the Annual Remuneration Report, which explains how the Policy was implemented in 2019 and how it will be implemented in 2020.

This report has been prepared in accordance with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 (as amended) (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 2018 UK Corporate Governance Code (2018 Code) 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 (page 110); scheme interests awarded during the year (pages 112 and 113); payments to past Directors (page 114); and the statement of Directors' shareholdings and share interests (page 116). The remaining sections of the report are not subject to audit.

Alignment with the key factors set out in the 2018 Code is set out below:

### Alignment to strategy and culture

The Committee is focused on ensuring a healthy culture exists across the entire Group and believes that the Executive Directors and wider Management Board set the standards for behaviour and conduct across the Group. Focusing incentives on Group performance creates collective accountability and delivers a consistent reward structure across all levels of management. The Group financial performance measures applied to the annual bonus ensure that the extent to which bonuses are earned reflects the delivery of our strategy for the benefit of shareholders. The application of personal objectives enables us to incentivise and reward the behaviours needed to lay the foundations for longer-term success. The introduction and operation of our RSP reflects a core principle of rewarding long-term value creation in a cyclical business. Recognising the extended timeframes of our business model and long-term effects of our decision making, RSP awards reduce the impact of cyclical volatility on reward outcomes and facilitate retention through the cycle.

### Clarity and simplicity

A core reward principle of our Policy is to operate a simple and transparent framework which can be readily cascaded. The remuneration framework is made up of three key elements: fixed pay (including base salary, pension and benefits); annual bonus; and the RSP. The structure is simple to understand for both participants and shareholders and promotes long-term stewardship.

The Committee is mindful of external developments linked to COVID-19. None of us are currently certain what the impact will be, or how long it will be felt. As set out below, we will proceed with great care in determining the operation of our Policy in 2020 including the assessment of performance under our annual bonus plan to ensure that awards are appropriate in the context of all relevant factors. At year-end, when we determine the performance outcomes for the year, we will be thoughtful in our assessment of results, balanced with the shareholder and workforce experience.

## Our Policy and core reward principles

The Policy was approved at the AGM in 2019 with over 99% of votes cast in favour of it, and we were delighted to see a similar level of support for the 2018 Annual Remuneration Report and our new share plans. Our Policy 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.



# Directors' Remuneration Report

continued

<b>Risk</b>	Annual bonus opportunities are set at levels which reward high performance, but which do not encourage inappropriate business risk. The Committee has discretion to reduce vesting outcomes under the annual bonus and RSP where it considers that they would not otherwise be representative of the underlying business performance over the vesting period. All Executive Director annual bonus and RSP awards are also subject to both malus and clawback provisions.
<b>Proportionality and fairness</b>	A significant proportion of an Executive Director's reward is linked to performance through the incentive framework, with a clear line of sight between performance and the delivery of long-term shareholder value. Performance measures and the underlying targets for the annual bonus are reviewed by the Committee each year to ensure that they are directly aligned to the Group's strategic priorities, and targets are calibrated to reward Executive Directors for strong performance. Vesting under the RSP is phased over a five-year period, with one-third vesting after three years, one-third after four years and one-third after five years. The holding period means that participants cannot acquire shares until the end of a five-year period, aligning their interests with those of shareholders for the longer term. Executive Directors are also required to build material shareholdings in the Group (200% of base salary). A post cessation shareholding requirement also applies which ensures that they are aligned to the Group's performance for two years post cessation of employment. We encourage and enable substantial long-term share ownership for all employees, supporting the long-term nature of our business and its returns through the Share Incentive Plan (SIP) introduced in 2019 and the Save As You Earn scheme (SAYE).
<b>Predictability</b>	The range of possible rewards to individual Executive Directors are set out in the scenario charts on page 108 of the 2018 Annual Report.

## Committee membership and attendance

Membership and attendance at meetings in 2019 are shown below:

		<b>Independent</b>	<b>Committee tenure at 31 December 2019</b>	<b>Scheduled meetings attended/ eligible to attend</b>
<b>Lisa Clement</b>	Chair	Yes	8 years 1 month	4/4
<b>Alastair Lyons</b>	Member	Yes	1 year 10 months	4/4
<b>Steven Underwood*</b>	Member	No	8 years 8 months	2/2
<b>Tony Donnelly*</b>	Member	Yes	8 years 9 months	3/3
<b>Angela Bromfield*</b>	Member	Yes	9 months	2/2

\*Steven Underwood stepped down in April 2019. Angela Bromfield joined in April 2019. Tony Donnelly retired in September 2019.

During the year, the Committee held four scheduled meetings. The Chair of the Committee also met or spoke with the Company's largest shareholders during December 2018 and January 2019 to obtain their feedback on proposed amendments to the Policy. The key activities of the Committee during 2019 and its priorities for 2020 are shown below:

## The Committee's key activities in 2019

	<b>Policy design</b>	<b>Policy implementation</b>	<b>All employees</b>
<b>January</b>	Engagement with shareholders on revisions to Policy Approval of revised Policy for presentation to shareholders at 2019 AGM 2019 bonus: Group financial targets and Investment Committee personal objectives		
<b>February</b>	2018 bonus scoring Long-term incentive plan vesting SAYE		
<b>July</b>	Review market benchmarks Approve remuneration for new Chief Financial Officer Formal adoption of RSP and 2019 awards thereunder Formal adoption of SIP and 2019 awards thereunder		
<b>November</b>	Annual salary review Annual review of Group-wide benefits and policies		

### The Committee's priorities for 2020

- Set the 2020 Group financial targets for all employees and the overall remuneration for Executive Directors and members of the Investment Committee
- Make 2020 RSP awards to senior management
- Determine the type and quantum of 2020 SIP awards to all eligible employees
- Grant SAYE options to participating employees
- Oversee reviews of Group-wide salaries and benefits
- Oversee the review of, and if appropriate updates to, the Group's maternity, paternity and shared parental leave and pay policies
- Manage the transition of the role of Committee Chair from Lisa Clement to Angela Bromfield and the induction of a new Committee member upon Lisa's retirement

### Performance outcomes for the year ended 31 December 2019

We delivered another solid financial performance in 2019, albeit Total Return, our principal performance measure, was lower (7.8%) than in previous years (2018: 13.3%). This was largely due to the fact that value gains were adversely affected by planning decisions and delays primarily resulting from the local elections in May 2019. Without these adverse external factors, value gains would have been broadly in line with prior years.

#### Annual bonus

Owen Michaelson's bonus opportunity for the year ending 31 December 2019 was 100% of salary, with 80% of the opportunity based on financial measures and 20% of the opportunity based on the achievement of personal objectives.

The Committee has approved a bonus of 44.2% of salary for the Chief Executive for the year ended 31 December 2019. The Committee believes that the level of pay-out is reflective of the overall performance of the Group in the year, and appropriate in the context of the shareholder experience. Further details are set out on pages 110 and 111.

Neither Andrew Kirkman nor Katerina (Kitty) Patmore was eligible to earn a bonus in respect of the 2019 financial year.

#### LTIP vesting in year

Owen Michaelson was granted an award in 2017 under the Harworth Group plc Long-Term Incentive Plan (**LTIP**) which vested by reference to performance over the three years ending 31 December 2019, subject to performance measures based on Total Shareholder Return and Absolute Total Return. Based on performance over the period, the awards vested at 51.52%. Further information is set out on page 112.

#### Executive Director changes

Andrew Kirkman retired from the Board and left the business on 30 June 2019. The treatment of Andrew's remuneration in respect of his leaving the Group was set out in the 2018 Directors' Remuneration Report. The only variable remuneration entitlement he retained was his 2016 LTIP award, the vesting of which was reported in the 2018 Report.

Kitty Patmore joined the business as Chief Financial Officer on 1 October 2019. Her remuneration arrangements were determined in accordance with the Directors' Remuneration Policy approved at the 2019 AGM as follows:

<b>Salary:</b>	£200,000
<b>Pension:</b>	10% of salary (in line with the rate available for the wider workforce)
<b>Annual Bonus:</b>	Up to 75% of salary. No bonus opportunity was awarded for 2019
<b>Long term incentives:</b>	RSP award in line with the Directors' Remuneration Policy. No award was made in respect of 2019
<b>Notice period:</b>	6 months

As announced alongside the preliminary results on 17 March 2020, Owen Michaelson has advised the Board of his intention to retire as Chief Executive of Harworth at the end of 2020 after 10 years leading the business.

Notwithstanding that his service contract requires six months' notice of termination on either side, Owen has agreed to work an extended notice period to facilitate the transition to a new Chief Executive and he intends to retire at the end of 2020. Owen will continue to receive his current salary, benefits and pension allowance during this period. As he is not retiring until the end of 2020, he will continue to participate in the annual bonus and RSP grant for 2020 as detailed below. The treatment of Owen's annual bonus and long term

incentive (including RSP) awards will be determined by the Committee in line with the Policy and the rules of the relevant plans, and details will be disclosed in due course as well as in the 2020 Directors' Remuneration Report.

#### Salary increases for 2020

The Chief Executive's salary has been increased by 2.8% to £325,000, a rate of increase which is broadly in line with the median salary increases applied across the wider workforce. Given that Kitty Patmore joined the business on 1 October 2019, no salary increase has been awarded to her for 2020.

# Directors' Remuneration Report

continued

## Bonus

The annual bonus will continue to operate with a combination of financial performance measures (currently proposed to include total return, sales volume, acquisitions and profit excluding value gains) and personal objectives. As noted above, the Committee is mindful of external developments linked to COVID-19 and the associated uncertainty. We recognise that the performance conditions, weightings and targets we have set for the year may need to be adjusted to the circumstances as they unfold. We will monitor business conditions and exercise judgement in applying discretion relating to 2020 remuneration in the context of all relevant factors. At year-end, when we determined the performance outcomes for the year, we will be thoughtful in our assessment of results, balanced with the shareholder and workforce experience. Details of the final financial performance targets and personal objectives for the 2020 bonus will be reported in the 2020 Annual Report.

The bonus opportunity for the Chief Executive will be 125% of salary, with the opportunity in respect of at least 95% of salary based on financial measures and the opportunity in respect of the balance based on personal objectives. This increase in the Chief Executive's opportunity reflects the introduction of measures based on specific personal objectives linked to the successful transition to a new Chief Executive. The bonus opportunity for the Chief Financial Officer will be 75% of salary with at least 75% of the opportunity based on financial measures and the balance based on personal objectives.

## Restricted Share Plan (RSP)

RSP awards will be granted to our Executive Directors and other members of the Senior Management Team in 2020. Awards of 50% of salary will be granted to the Executive Directors. Vesting will be phased over a five-year period, with one-third vesting after three years, one-third after four years and one-third 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 awards will be subject to underpins which reflect performance over the vesting periods. Details are set out on pages 107, 112 and 113.

## Chairman and Non-Executive Directors

The Chairman's and Non-Executive Directors' fees will not be increased for 2020.

## Gender pay gap reporting

The Company has voluntarily reported its gender pay gap since 2017, highlighting the mean and median gender pay gap in both salary and bonus pay-outs and its commitment to transparency in this regard. The Company's gender pay gap analysis for 2019, and details on the initiatives it has introduced to promote diversity across the business, in all its forms, can be found in the Nomination Committee Report on pages 92 to 95.

## Employee remuneration and engagement

The Committee ensures it is aware of the remuneration and benefits of the wider workforce when setting the remuneration of Executive Directors and Investment Committee members. Group-wide reviews of salary and benefits, undertaken annually, are overseen by the Committee.

Over half of our employees currently participate in the Group's all-employee SAYE plan. In 2019, we awarded free shares under the SIP for the first time to 56 employees, giving them a stake in the business. All members of the Senior Management Team below Board level now participate in the RSP on the same basis as the Executive Directors, aligning their interests with those of shareholders and reflecting our ethos of applying a consistent approach to reward.

The Board recognises the importance of engaging with, and considering the interests of, the Group's employees in its decisions. To that end, during 2019 we implemented a series of measures to encourage and improve engagement, further details of which can be found in the Strategic Report on pages 56 and 57.

## Conclusion

We remain committed to a responsible approach to executive pay. Given the Group's performance over the one and three-year periods ended 31 December 2019, we believe that the remuneration of the Executive Directors and wider workforce in respect of 2019 continues to reflect our success in the delivery of our strategy and our aim to deliver long-term market leading returns.



**Lisa Clement**

Chair of the Remuneration Committee

4 June 2020



## DIRECTORS' REMUNERATION POLICY

Our Directors' Remuneration Policy was approved by shareholders at the 2019 AGM, and is set out in full on pages 103 – 111 of the 2018 Annual Report and Accounts which are available on the Company's website at <https://harworthgroup.com/investors/reports-presentations/>. We have set out below those parts of the Policy which we think shareholders will find most useful.

### Executive Director remuneration

#### Policy table

Function	Operation	Opportunity	Performance metrics
<b>Base salary</b> 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; 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
<b>Pension</b> 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
<b>Benefits</b> 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
<b>Annual bonus</b> 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.	<p>Performance measures, targets and weightings are set at the start of the year.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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).</p>	<p>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.</p> <p>For FYE '19, the maximum annual bonus opportunity will be 100% of salary for each Executive Director.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Overall payout under the annual bonus may be subject to additional underpins, determined by the Committee at the start of the financial year.</p> <p>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.</p>

Function	Operation	Opportunity	Performance metrics
<b>Restricted Share Plan (RSP)</b> To encourage and enable substantial long-term share ownership and to reflect our ethos of long term stewardship.	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>	<p>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.</p> <p>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.</p>



# Directors' Remuneration Report

continued

Function	Operation	Opportunity	Performance metrics
<b>Share Incentive Plan (SIP) and Save-As-You-Earn plan (SAYE)</b> 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.	<p>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.</p> <p>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.</p> <p>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).</p> <p>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.</p>	N/A

## Shareholding guidelines

The Committee continues to recognise the importance of aligning Executive Directors' interests with those of 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 on page 116.

Reflecting best practice, the Committee adopted, with effect from 1 January 2019, a post-cessation shareholding requirement. This requires that for the first 12 months following cessation of employment, 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 AGM. 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
<b>Fees and benefits</b> 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 2020 are set out in the Annual Remuneration Report. Fee levels will next be reviewed during 2020, with any increase effective from 1 January 2021. 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.

## 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:

- Chief Executive;
- Head of HR and Organisation Development; and
- representatives of Deloitte LLP (Deloitte) (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. 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. The Committee has satisfied itself that Deloitte provided objective and independent advice during 2019.

Deloitte's fees in relation to remuneration advice provided to the Committee during 2019 were £35,850 plus VAT, charged on a time and expenses basis. Deloitte also provided advice to the Group during 2019 in relation to corporate tax, pensions and share plans. The Committee did not consider that these engagements impaired Deloitte's independence.

### 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. Owen Michaelson is also a member of the Board of the Sheffield City Region Local Enterprise Partnership. He receives no fee for this appointment. Both appointments were approved by the Board at the time.

# Directors' Remuneration Report

continued

## Single total figure of remuneration for Executive Directors

The table below sets out the remuneration received by each Executive Director of the Company for the year ended 31 December 2019 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 <sup>(1)</sup>		Katerina Patmore <sup>(2)</sup>	
	2019 £	2018 £	2019 £	2018	2019 £	2018 £
Salary	316,250	308,525	120,440	235,000	50,000	–
Taxable benefits <sup>(3)</sup>	16,438	15,339	9,020	13,070	2,500	–
Single-year variable	139,783	330,122	–	198,600	–	–
Multiple-year variable <sup>(4)</sup>	199,852	216,422	–	147,450	–	–
Pension benefit <sup>(5)</sup>	31,625	30,853	12,044	23,500	5,000	–
<b>Total</b>	<b>703,948</b>	<b>901,261</b>	<b>141,504</b>	<b>617,620</b>	<b>57,500</b>	<b>–</b>

(1) Andrew Kirkman resigned from the Board and left the business on 30 June 2019.

(2) Katerina Patmore was appointed as a Director with effect from 1 October 2019 and the table above reflects her remuneration from that date until the end of 2019.

(3) Taxable benefits consist primarily of car and fuel allowance. For 2019 these were £14,268 for Owen Michaelson (£13,959 for 2018), £5,958 for Andrew Kirkman (£12,002 for 2018), and £2,500 for Katerina Patmore (Nil for 2018). Other benefits included life assurance and health insurance.

(4) The 2017 LTIP awards (in which Owen Michaelson participates) vested based on performance to 31 December 2019, as described below under the heading "LTIP awards vesting in respect of the year ended 31 December 2019". In the 2018 Directors' Remuneration Report the values of the 2016 LTIP awards (which vested by reference to performance to 31 December 2018) were calculated by reference to a share price of 118.69 pence, being the average share price over the three month period ended 31 December 2018. In line with the applicable regulations, the values have been restated to reflect the share price on the date of vesting (133.00 pence and 25 May 2019 respectively). As detailed in the 2018 Directors' Remuneration Report, Andrew Kirkman's 2017 and 2018 LTIP awards lapsed on 30 June 2019.

(5) Owen Michaelson, Katerina Patmore 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 2019 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	
	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £
A. Lyons CBE <sup>(1)</sup>	160,000	131,077	–	–	–	–	160,000	131,077
L. Clement	45,000	42,500	7,500	7,500	7,500	7,500	60,000	57,500
A. Cunningham	45,000	42,500	7,500	7,500	–	–	52,500	50,000
R. Cooke <sup>(2)</sup>	35,308	–	–	–	–	–	35,308	–
A. Bromfield <sup>(3)</sup>	33,750	–	–	–	–	–	33,750	–
S. Underwood <sup>(4)</sup>	45,000	42,500	–	–	–	–	45,000	42,500
M. Bowes	45,000	42,500	–	–	–	–	45,000	42,500
A. Donnelly <sup>(5)</sup>	33,750	42,500	–	–	–	–	33,750	42,500
J. Cox <sup>(6)</sup>	–	40,000	–	–	–	–	–	40,000

(1) Appointed as Chair, with effect from 7 March 2018

(2) Appointed as Independent Non-Executive Director, with effect from 19 March 2019.

(3) Appointed as Independent Non-Executive Director, with effect from 1 April 2019.

(4) Up to and including 31 December 2019 the fees for Steven Underwood were paid to Peel Management Limited. With effect from 1 January 2020 those fees are paid directly to Steven Underwood.

(5) Retired from the Board on 30 September 2019.

(6) Retired from the Board on 31 March 2018.

## Incentive outcomes for year ended 31 December 2019

### Annual bonus

Owen Michaelson's bonus opportunity for 2019 was up to 100% of salary based on a combination of financial performance (as regards 80% of the opportunity) and personal objectives (as regards 20% of the opportunity). Performance against targets and subsequent vesting of 2019 annual bonuses are set out in the tables below.

Neither Andrew Kirkman nor Kitty Patmore were eligible to earn a bonus in respect of 2019.



## 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		Performance targets (£'000s)			Vesting outcome
Measure	Weight (% of financial performance)	'Target'	'Stretch'	Actual performance	
NNNAV gains plus dividends (Total return)	50%	43,500	52,300	37,094	0%
Sales volume <sup>(1)</sup>	15%	100,000	125,000	105,052 <sup>(2)</sup>	60%
Acquisitions (strategic development of the business) <sup>(3)</sup>	25%	10% increase in strategic land pipeline	15% increase in strategic land pipeline	34% increase in strategic land pipeline	100%
Profit excluding value gains	10%	5,000	6,000	3,480	0%
Total vesting on financial performance outcomes	80% weighting				34%

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

(2) Performance targets based on unconditional sales completed during the year. In determining the bonus outturn for this element, the Committee: took account of non-cash consideration for sales, being infrastructure works undertaken by certain purchasers resulting in a corresponding cost plan reduction benefitting the Company; and exercised discretion to include a £3.05m sale of the Group's Wardley site, which management deferred into 2020 for commercially beneficial reasons and which exchanged and completed during the first quarter of 2020.

(3) The figures cited for acquisitions are measured by reference to the Group's pipeline of residential land (plots) and commercial space (square feet).

## Personal performance outcomes

Executive Director	Objectives during the year	Performance against objectives during the year	Vesting of component
O. Michaelson (20% weighting)	<ul style="list-style-type: none"> <li>To complete the transition from a centralised to a regional operating structure, including: <ul style="list-style-type: none"> <li>recruitment for all regional roles;</li> <li>implementation of common management structures, reporting, and consistent approach to key workstreams;</li> <li>establishment of planning and engineering "centres of excellence" to support regional teams and promote consistencies;</li> <li>establishment of Management Board and Investment Committee functions.</li> </ul> </li> <li>To facilitate the Board's evaluation of the Company's strategic options.</li> </ul>	<ul style="list-style-type: none"> <li>Recruitment into all regional teams completed.</li> <li>Establishment of Central Services function providing support to and promoting consistencies across the regional teams.</li> <li>Establishment of the Harworth Common Platform, which promotes a consistent approach to key workstreams.</li> <li>Management Board operating effectively.</li> <li>Some further work required to optimise value added by Investment Committee.</li> <li>Evaluation of strategic options completed.</li> </ul>	85%

## Overall bonus outcomes

Executive	Financial		Personal vesting		Overall bonus outcome Sum product of weighting and vest%	
	Weighting	Vesting	Weighting	Vesting	% of bonus	% of salary
O. Michaelson	80%	34%	20%	85%	44.2%	44.2%

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, following which it concluded the overall bonus outcomes to be appropriate.

# Directors' Remuneration Report

continued

## LTIP awards vesting in respect of the year ended 31 December 2019

Awards granted on 5 April 2017 were subject to the following performance conditions over the three-year period ended on 31 December 2019:

- 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.

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

Performance condition	Weighting % award	Threshold <sup>(1)</sup>	Target <sup>(2)</sup>	Maximum	Actual performance	Vesting (% of maximum)
ATR	50%	8%	10%	12%	11.4%	77.51%
TSR vs peer group	35%	Median	n/a	Median +	Below median	0%
TSR vs Index	15%	Index median	n/a	Index median +	Median + 7.2%	85.1%
				9% growth p.a.		

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 51.52% of maximum to be appropriate. Awards vested on 5 April 2020. 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 <sup>(1)</sup>
O. Michaelson	310,256	51.52%	159,843	£199,852

(1) The number of shares expected to vest multiplied by the average share price over the three-month period ending 31 December 2019 (125.03p). The LTIP awards did not accrue dividend equivalents over the vesting period.

The following table sets out the amount of the face value attributable to the share price at the grant of the awards (97p based on the average share price on the three trading days immediately preceding the date of grant) and the amount that is attributable to the growth in the share price to 125.03p.

Director	Total value	Value attributable to share price at grant of 97p	Value attributable to growth in share price to 125.03p
O. Michaelson	£199,852	£155,048	£44,804

## Deferred share bonus award granted in 2019

As detailed in the Directors' Remuneration Report last year, 18.69% of the overall bonus awarded to the Chief Executive in respect of the year ended 31 December 2018 was deferred into shares for 12 months and subject to clawback if the business materially underperformed against the 2019 budget. On 12 April 2019 the Company granted an award (structured as a nil-cost option) over 49,364 shares to Owen Michaelson under the rules of its Deferred Bonus Plan in respect of this element of the bonus earned for the financial year ended 31 December 2018.

Taking into account the underlying performance of the business during 2019 the Committee determined that the business had not materially underperformed against the stretching targets set in the 2019 budget. No clawback has therefore been applied to this deferred bonus award and it vested on 26 February 2020.

## Restricted Share Plan awards granted in 2019

A Restricted Share Plan award was granted to the Chief Executive at 50% of salary in 2019. No award was granted to Andrew Kirkman or Kitty Patmore.

Executive Director	Type of award	Date of award	Number of shares granted	Face value <sup>(1)</sup>
O. Michaelson	2019 RSP Award Nil-Cost Option	17 September 2019	123,535	£158,026

(1) Face value based on the average share price on the three trading days immediately preceding the date of grant on 17 September 2019 (127.92p)

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.

The RSP award is 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 <sup>(1)</sup>
Financial health	Financial stability of the business	A breach of financial covenants in the Group's principal banking facilities
Underlying performance	Sustainability of the Group's underlying performance in the cyclical real estate sector	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 NNNNAV
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 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 at the time of vesting how performance underpins and underlying business performance over the vesting period has been taken into account.

### Percentage change in CEO remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2018 and 2019 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 <sup>(1)</sup> £'000		Percentage change	Bonus £'000		Percentage change
	2019	2018		2019	2018		2019	2018	
CEO Pay	316	309	2.5%	12.5	12.5	0%	140	330	-58%
Average per employee			2.5%			0%			-56%

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

### Chief Executive pay ratio

The Group has fewer than 250 UK employees and is therefore not required to publish a pay ratio. However, in line with best practice and the 2018 Code, the Committee takes account of both internal and external relativities when determining the remuneration packages of the Chief Executive, Chief Financial Officer, and Investment Committee members. The Committee considers that the average or median salary and total pay for the wider workforce compared to the pay and total remuneration of the Chief Executive reflects appropriately the relative roles and responsibilities of the individuals. This is also consistent with the pay, reward and progression policies for the Group's UK employees taken as a whole. The Chief Executive's package is weighted towards variable pay (including annual bonus and RSP awards) due to the nature of the role, and this means the actual pay ratio is likely to fluctuate depending on the outcomes of the annual bonus in each year.

### Relative importance of spend on pay

Total employee pay expenditure			Distributions to Shareholders		
2019	2018	% change	2019	2018	% change
£7.523m	£7.846m	-4.1%	£1.0m	£2.9m	-66%

Underlying staff costs increased between 2018 and 2019 but this was more than offset by lower bonus payments and a credit to the share based payments charge arising on Andrew Kirkman's resignation.

Total dividends for the year ended 31 December 2018 were 0.911p per share, resulting in total dividends of £2.928m. Total dividends for the year ended 31 December 2019 were 0.304p per share, resulting in total dividends of £0.977m. This reduction reflects the Board's decision to not recommend a final dividends for the year 31 December 2019 given the uncertainty created by the COVID-19 pandemic. The percentage change is shown above on a per share basis.



# Directors' Remuneration Report

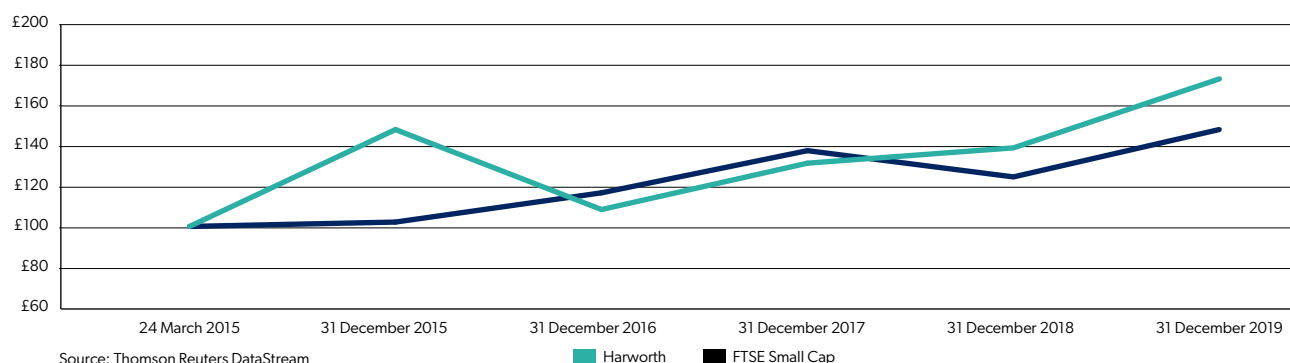
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## Review of past performance

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 2019. 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 2019:



### Historical CEO remuneration

	2015 £	2016 £	2017 £	2018 £	2019 £
CEO single figure remuneration (£'000)	480	599	1,392	901	<b>704</b>
Short term incentive award as a % of maximum opportunity	85.6%	90%	80.6%	85.6%	<b>44.2%</b>
Long term incentive award as a % of maximum opportunity	n/a	n/a	n/a <sup>(1)</sup>	51.8%	<b>51.5%</b>

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

## Payments 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.

## Implementation of Policy for 2020

### Base salary

The Committee approved the following base salary increases for 2020:

Executive Director	Annual base salary at 1 January 2019 (or if later date of appointment to the Board)	Annual base salary at 1 January 2020	Percentage increase
O. Michaelson	£316,250	£325,000	2.8%
K. Patmore	£200,000	£200,000	n/a

The increase was broadly in line with the typical salary increase awarded across the Group at the annual pay review, effective 1 January 2020.

### Pension

Executive Directors will continue to receive a pension contribution of 10% of salary or an equivalent cash allowance. This is in line with the rate available to the majority of the wider workforce.

### Performance related annual bonus

For 2020 the Committee has approved an increase in the annual bonus opportunity for the Chief Executive from 100% of salary to 125% of salary. This increase in the Chief Executive's opportunity reflects the introduction of measures based on specific personal objectives linked to the successful transition to a new Chief Executive. The bonus opportunity in respect of at least 95% of salary may be earned based on financial measures, with the balance based on personal objectives.

The annual bonus opportunity for the Chief Financial Officer will be 75% of salary. At least 75% of the maximum annual bonus will be based on financial measures and the balance on personal objectives.

The Committee has reviewed the financial performance measures to ensure they are appropriately aligned with the Company's strategic plan for the coming year. It is currently proposed that performance for 2020 will be measured against the following financial performance measures.

Measure	Weight (% of financial bonus opportunity)
Total return	40%
Acquisitions	25%
Sales volume	20%
Profit excluding value gains	15%

As noted in the Committee Chair's statement on page 101, as the position regarding COVID-19 develops further consideration to the measures, weightings and targets will be given to ensure that they are appropriate in the context of all relevant factors.

In line with the Policy approved by shareholders at the 2019 AGM, the Committee is introducing a Threshold level of performance for the 2020 bonus. No bonus will be paid for achieving below Threshold, up to 10% of the bonus may be paid for achieving Threshold, increasing to 50% of the bonus for Target performance and 100% of bonus paid for achieving Stretch performance. Performance targets are considered to be commercially sensitive at this time but the Committee intends that they will be disclosed in the 2020 Annual Remuneration Report.

Payment of the personal element is subject to the Committee's discretion in the event of material under-performance against the financial element and, in any event, the personal element will not pay out unless there is a threshold level of payout under one or more of the financial elements. 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.

### Restricted Share Award

Restricted Share awards will be granted to the Chief Executive and Chief Financial Officer at 50% of salary in 2020. 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.

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 <sup>(1)</sup>
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 the cyclical real estate sector	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 NNNNAV
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.

# Directors' Remuneration Report

continued

## Implementation of Non-Executive Director remuneration policy for 2020

The Chair's and Non-Executive Directors' fees will not be increased for 2020 and, accordingly, the following fee levels will apply, as for 2019.

Chair	£160,000
Non-Executive Director Fee	£45,000
Additional Fee for holding the office of Senior Independent Director	£7,500
Additional Fee for Chairing the Remuneration Committee	£7,500
Additional Fee for Chairing the Audit Committee	£7,500

The Committee considers that the fees paid to Non-Executive Directors appropriately reflect the work and responsibilities associated with each role.

## Directors' interests

The following table sets out the beneficial interests of the Directors and their connected persons in the share capital of the Company as at 31 December 2019 (or earlier, if the Director has resigned). None of the Directors have 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 2019 of 141p.

	Shares held		Options held		Unvested and not subject to perf. conditions	Shareholding requirement % salary/fee	Current shareholding % salary/fee	Requirement met?
	Beneficially owned	Vested but subject to holding period	Vested but not exercised	Unvested and subject to perf. conditions				
O. Michaelson	421,342	43,957 <sup>(3)</sup>	-	714,268	49,364	200%	204%	Y
A. Kirkman <sup>(1)</sup>	200,000	-	110,865	-	-	200%	120%	N
K. Patmore <sup>(2)</sup>	-	-	-	-	-	200%	0%	N
A. Lyons	90,000	-	-	-	-	n/a		n/a
L. Clement	-	-	-	-	-	n/a		n/a
A. Cunningham	17,333	-	-	-	-	n/a		n/a
R. Cooke <sup>(4)</sup>	-	-	-	-	-	n/a		n/a
A. Bromfield <sup>(5)</sup>	-	-	-	-	-	n/a		n/a
S. Underwood	38,385	-	-	-	-	n/a		n/a
M. Bowes	-	-	-	-	-	n/a		n/a

(1) Andrew Kirkman stepped down from the Board on 30 June 2019. The holding cited is at the date of resignation.

(2) Kitty Patmore was appointed on 1 October 2019.

(3) Includes 42,987 shares vested on 25 May 2019 from the 2016 LTIP and subject to a holding period, and 970 shares awarded on 17 October 2019 from the 2019 SIP

(4) Ruth Cooke was appointed on 19 March 2019.

(5) Angela Bromfield was appointed on 1 April 2019.

Between 31 December 2019 and the date of signing of these financial statements, the following changes have occurred:

- On 26 February 2020, the nil-cost option over 49,364 granted to Owen Michaelson in 2019 under the Company's Deferred Bonus Plan, representing a deferral of part of his bonus for the financial year ended 31 December 2018, vested. Owen exercised his option on 8 April 2020.
- On 5 April 2020, the nil cost option granted to Owen Michaelson in 2017 under the Harworth Group plc Long Term Incentive Plan vested in respect of 159,843 shares and lapsed in respect of 150,413 shares. Owen exercised his option on 14 April 2020.



### Summary of Shareholder voting at the 2019 AGM

The table below shows the results of votes at the Harworth Group plc Annual General Meeting on 21 May 2019 on the resolutions relating to the approval of the Annual Remuneration Report, Remuneration Policy and new share plans:

	Votes				
	For and discretion	For and discretion as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
Approval of Annual Remuneration Report	263,888,099	99.93	183,964	0.07	33,744
Approval of Remuneration Policy	258,180,271	99.93	191,584	0.07	5,733,952
Approval of Restricted Share Plan	258,329,037	99.99	24,790	0.01	5,751,980
Approval of Share Incentive Plan	264,003,366	99.98	51,299	0.02	51,142



**Lisa Clement**

Chair of the Remuneration Committee

4 June 2020

# Directors' Report

## Introduction

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2019.

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 67, 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 76 to 87.

As such, the Directors' Report should be read in conjunction with the Strategic Report (pages 4 to 67) and the wider Statement of Corporate Governance (pages 76 to 87) 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.

	Reference
Agreements with Shareholders	Nomination Committee Report, p90
Annual General Meeting	Chairman's introduction, p72 Statement of Corporate Governance, p87
Auditors	Audit Committee Report, pp98-99
Composition and operation of administrative, management and supervisory bodies and committees	Statement of Corporate Governance, pp78-81
Directors' interests in shares	Directors' Remuneration Report, p116
Directors' remuneration	Directors' Remuneration Report, pp101-117
Disclosure of information to auditors	Statement of Directors' Responsibilities, p123
Diversity	Nomination Committee Report, pp92-95
Employee numbers	Strategic Report, p15
Employee engagement	Strategic Report, pp56-57
Employees with disabilities	Nomination Committee Report, p95
Employee share scheme	Strategic Report, p58 Directors' Remuneration Report, pp104,108
Future developments of the business	Strategic Report, pp4-13
Going concern	Statement of Directors' Responsibilities, p122
Greenhouse gas emissions	Strategic Report, p50
Post-balance sheet events	Chair of the Board's Message, p19 Strategic Report: Chief Executive's Statement, p22 Financial Review, p28 Financial Statements, Note 32, p170
Risk management and internal controls	Strategic Report, pp29-37 Audit Committee Report, p99
Significant related party agreements	Financial statements, Note 31, pp169-170
Stakeholders	Strategic Report, pp56-57 and pp60-63
Viability statement	Strategic Report, pp38-39
UK Corporate Governance Code	Strategic Report, pp66-67 Statement of Corporate Governance, p76

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

## Company status

Harworth Group plc is a company incorporated in England with company number 02649340. Its head office is in Rotherham. It is listed on the London Stock Exchange Main Market. All subsidiaries and associated undertakings are listed in Note 16 to the Financial Statements.

## Financial results and dividends

The Group's profit before taxation for the financial year ended 31 December 2019 was £30.3m (2018: £32.8m). The net assets attributable to shareholders of the Group increased to £463.8m (2018: £441.9m) over the financial year. The Group's NAV per share and EPRA NNNNAV per share rose by 4.8% (2018: 7.9%) and 7.2% (2018: 12.6%) respectively during the year.

The Board is not recommending a final dividend due to the uncertainty created by the COVID-19 outbreak. An interim dividend of 0.304 pence per share was paid in October 2019.

The dividend paid in the year to 31 December 2019 was 0.937 pence (2018: 0.853 pence) per share, comprising the 2018 final dividend of 0.633 pence per share and the interim dividend of 0.304 pence per share for 2019.

## Share capital and allotment of shares

Details of the Company's issued share capital are shown in Note 27 to the Financial Statements on page 167. There is only one class of share in issue: ordinary shares of 10 pence each.

There are no restrictions on the transfer of shares 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 those specified by law or regulation (for example, insider trading laws) and pursuant to the Listing Rules of the Financial Conduct Authority whereby certain employees of the Group require the approval of the Company to deal in the shares.

All shares carry equal rights to dividends, 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.

On a show of hands at a general meeting of the Company, every holder of shares present in person and entitled to vote shall have one vote and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the 2020 AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting. There are no restrictions on any voting rights or deadlines, other than those prescribed by law or the Articles of Association.

The Company is not aware of any 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 Employee Benefit Trust – see below).

The Directors were granted authority at the 2019 AGM to allot shares up to a nominal amount of one-third of the Company's issued nominal share capital, as well as additional authority to allot a further one-third on a rights issue. This authority expires at the conclusion of the 2020 AGM and a resolution will be proposed for its renewal.

The Company's issued share capital as at 31 December 2018 was 321,496,760 ordinary shares of 10 pence each. During 2019 the issued share capital was increased as follows:

Date	Description	Number of shares issued	Price
7 February 2019	Exercise of SAYE options	11,786	80.6p
23 September 2019	Vesting of LTIP awards	346,516	Nil consideration
21 October 2019	Grant of SIP awards	54,320	Nil consideration

As such, as at 31 December 2019, the Company's issued share capital was 321,909,382 ordinary shares of 10 pence each. On 7 April 2020 the Company's issued share capital was increased by 266,050 ordinary shares of 10 pence each, to satisfy the vesting of certain LTIP awards. As such, at the date of this Report the Company's issued share capital is 322,175,432 ordinary shares of 10 pence each.

Under Section 561 of the Companies Act 2006 (Companies Act), 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 2019 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 issue to existing shareholders, provided that the aggregate nominal value of such shares does not exceed 5% of the Company's total issued equity capital. The Directors have not made use of this authority since the 2019 AGM. The Directors propose to renew this authority at the 2020 AGM.

## Purchase of the Company's own shares

The Company has authority under a shareholders' resolution passed at the 2019 AGM to purchase up to 32,150,853 of the Company's Ordinary Shares, representing approximately 10% of the Company's total issued share capital in the market during the period expiring at the 2020 AGM. No shares have been purchased by the Company under that authority. A special resolution will be proposed at the 2020 AGM to renew this authority. 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.

# Directors' Report

continued

## Directors

The Directors who held office during the financial year ended 31 December 2019 and up to the date of this Report are:

### Chair

Alastair Lyons

Chair

### Executive Directors

Owen Michaelson

Chief Executive

Katerina Patmore

Chief Financial Officer, appointed 1 October 2019

### Independent Non-Executive Directors

Lisa Clement

Senior Independent Director

Andrew Cunningham

Ruth Cooke

Appointed 19 March 2019

Angela Bromfield

Appointed 1 April 2019

### Non-Executive Directors (not independent)

Steven Underwood

Martyn Bowes

### Former Directors

Andrew Kirkman (formerly Finance Director)

Resigned 30 June 2019

Anthony Donnelly (formerly independent

Retired 30 September 2019

Non-Executive Director)

Biographical details of the Directors are contained on pages 74 and 75.

The Directors' Remuneration Report, which includes details of Directors' service agreements and their interests in the shares of the Company, is set out on pages 101 to 117. Copies of the service agreements of the Executive Directors and letters of appointment for the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's 2020 AGM.

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. Katerina Patmore will, therefore, be standing for election at the 2020 AGM. In accordance with the UK Corporate Governance Code, all other Directors will offer themselves for election or re-election at the 2020 AGM.

Save as set out on page 83 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.

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.

## Directors' indemnities, insurance and independent advice

The Company maintains Directors' and Officers' liability insurance. To the extent permitted by UK law, the Company indemnifies its Directors against claims brought against them as a consequence of the execution of their duties as Directors of the Company. 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 2019.

## Charitable and political donations

The Group made charitable donations during 2019 in the aggregate sum of £34,433 (2018: £4,350). The Group supported two principal charities during the year: Land Aid and The Wildlife Trusts.

No political donations were made during the year (2018: £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 Companies Act 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 Companies Act, the Directors obtained authority from shareholders at the 2019 AGM for certain political donations and expenditure, subject to financial limits, and will seek to renew this authority at the 2020 AGM.



## Employee Benefit Trust

The Harworth Group plc Employee Benefit Trust (EBT) holds shares in the Company for the purposes of satisfying awards that may vest under the Company's employee share plans. It also holds shares which have been issued following the vesting of awards under the Company's share-based incentive schemes but which are subject to holding periods in accordance with the terms of those schemes. At 31 December 2019, the EBT held 132,015 (2018: 181,771) ordinary shares of 10 pence each in the Company representing 0.04% of the Company's issued share capital.

The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards that have not vested. The trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

## Amendment of Articles of Association

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

## 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 2019 AGM. The Directors are proposing to seek renewal of that authority at the 2020 AGM.

## Substantial shareholdings and agreements with shareholders

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:

Name of holder	Number of Ordinary Shares	Percentage of total voting rights
Pension Protection Fund	80,374,189	24.97%
London and Amsterdam Trust Company	49,224,625	15.29%
Goodweather Holdings Limited*	48,447,362	15.05%
Invesco Perpetual	28,488,728	8.85%
Pelham Capital Management	27,480,851	8.54%
Citigroup Global Markets Limited	14,483,477	4.50%

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

The Company's relationship with the Pension Protection Fund (PPF) is governed by a relationship agreement pursuant to which, amongst other things, the PPF is entitled to appoint a representative Director to the Board. The Company's relationship agreement with Goodweather Holdings Limited (Goodweather) ceased to have effect during 2019 when Goodweather reduced its shareholding to below 25% of the Company's issued share capital.

## Change of control provisions

Under the terms of the revolving credit facility agreement entered between RBS and Harworth Estates Property Group Limited (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.

## Agreements with related parties

Agreements entered into with related parties during 2019 are disclosed in Note 31 to the Financial Statements and referenced in the Statement of Corporate Governance at pages 169 and 170.

The Directors' Report was approved by the Board of Directors and signed by order of the Board:



**Chris Birch**

Group General Counsel and Company Secretary

4 June 2020

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared 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 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 comply with Companies Act 2006 and Article 4 of the IAS Regulation.

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](http://www.harworthgroup.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statements

Each of the Directors who were in office during the year ended 31 December 2019 and up to the date of this Report (see the list of names and roles on page 120) confirms that, to the best of their knowledge:

- 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 and loss of the Company and Group; and
- the Strategic 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 they face; and
- the 2019 Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's and Company's position, performance, business model and strategy.

## Going concern

In assessing going concern and 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.

A review of the Group's cashflows, solvency, liquidity positions and borrowing facilities has taken place alongside a review of progress against the five-year strategic plan projections. A key focus of the assessment of going concern is the management of liquidity and compliance with borrowing facilities for a minimum of the next 12 months.

In light of the current COVID-19 pandemic, which has had a significant impact on the Group and the wider economy, the first 18 months of the strategic plan have been revised, reflecting management actions implemented in response and to reflect the effect and estimated impact of COVID-19. At this stage, although we are starting to see a phased easing of restrictions on movement, it cannot be known with any certainty how long and to what extent restrictions will remain in place, or the time it will take for the macro-economic climate and our markets to recover.

The Group continues to remain in a strong position to withstand the potential impact, with cash and bank headroom of £64m (as at 30 April 2020). The spread of sites across its three core regions, and at all stages of their lifecycle, has enabled the close management of non-committed expenditure to preserve liquidity. The Group benefits from diversification across its Capital Growth and Income Generation businesses including an industrial and renewable energy property portfolio. The Income Generation portfolio has continued to generate income that covers the overheads of the business and interest from loan facilities, with rent collections for the March quarter being broadly in line with previous quarters.

COVID-19 has created heightened risks with the potential to severely but, to a large extent, temporarily impact the Group's liquidity. The key risks to short-term viability in the context of COVID-19 are:

- Finance – availability of capital, alongside shortfalls in income and valuation processes;
- Markets – a severe but temporary downturn in the residential and commercial markets could reduce potential sales of serviced land and have an adverse impact on valuations;
- Delivery – social distancing creating delays in project works on sites and in determining live planning applications; and
- People – capacity and productivity are affected.

Since the onset of COVID-19, a number of management actions have been taken to adapt the Group. Capital has been prioritised on sites where committed sales are in place resulting in infrastructure spend continuing on six major development sites. Sales of strategic and non-core land have continued as expected and new lettings have been secured on properties. Discretionary overhead expenditure has been reduced where possible. This aligns with our existing strategy to manage cashflows to fund our development spend and acquisition activity.

In April 2020, RBS and Santander agreed to increase the limit of the Revolving Credit Facility to £130m and provide greater flexibility in covenants for the next 12 months. After due consideration of the ongoing economic uncertainty, the Board has taken a prudent decision to not recommend a final dividend of 0.7p per share for the financial year ended 31 December 2019, preserving a further £2.2m of cash.

These actions have strengthened further what was an already robust liquidity position as we look ahead over the next 12 months. Whilst the immediate focus is on the short-term liquidity, the longer-term impact of COVID-19 is also being considered.

#### *Balance sheet and cashflow remain resilient throughout downside scenario analysis*

A revised forecast was prepared to reflect the impact of COVID-19 and actions taken as set out above with a persisting downturn in activity during 2020 and a medium-term recovery of the economy thereafter. Furthermore, a sensitised forecast was produced that had a number of severe but plausible downsides reflected. These downsides included:

- a severe reduction in sales to the housebuilding sector with the associated development spend being reduced to that which is only committed at this point
- Minimal level of acquisitions spend
- Reduced overhead and discretionary expenditure
- Notwithstanding strong rent collection to date in line with previous quarters, a material reduction in rents collected over the majority of the going concern assessment period
- A decline in land values and widening of industrial yields

Even allowing for these downsides, for at least 12 months from the signing of these financial statements, the Group continues to have sufficient cash reserves, continues to operate with headroom on lending facilities and associated covenants and has additional mitigation measures that could be deployed to create further cash and covenant headroom.

Based on these considerations, together with available market information and the Directors' knowledge and experience of the Group's property portfolio and markets, the Directors considered it appropriate to adopt a going concern basis of accounting in the preparation of the Company's and Group's financial statements.

### Disclosure of information to the auditor

Each of the Directors who were in office at the date of approval of this Report also confirms that:

- so far as they are aware, there is no relevant audit information of which the auditors are unaware; and
- each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant 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 Companies Act.

This Statement of Directors' Responsibilities was approved by the Board and signed by order of the Board:



**Chris Birch**

Group General Counsel and Company Secretary

4 June 2020

# 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 2019 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 2019 (the "Annual Report"), which comprise: the Balance sheets as at 31 December 2019; 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 2019 to 31 December 2019.

### Our audit approach

#### Overview



- Overall group materiality: £6.2 million (2018: £5.7 million), based on 1% of total assets.
- Specific group materiality: £1.2 million (2018: £0.6million), which represents 5% of profit before tax excluding investment property valuation gains. This is applied to the consolidated income statement excluding investment property valuation gains.
- Overall company materiality: £2.4 million (2018: £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 31 reporting units within these two business lines and the Group's centralised functions.
- Of the Group's 31 reporting units, we identified 7 which, in our view, had the most significant effect on the Balance Sheet and 7 on the Consolidated income statement due to their size or their risk characteristics. We performed a full scope audit on the Balance Sheet and/or the Consolidated income statement as appropriate. The reporting units subject to full scope audit work on the Balance Sheet and/or the Consolidated income statement accounted for 98% of total assets and 88% of profit before tax. We also identified 1 additional reporting unit that had large Balance sheet balances and 1 further reporting unit that had large income statement balances. A full scope audit was performed over the large balances for these reporting units.
- This, together with additional procedures performed on the Group's centralised functions, gave us the evidence we needed for our opinion on the Group and company's financial statements as a whole.
- Valuation of investment property (£293.8m) (Refer to note 15 of the financial statements) (Group)
- Carrying value of development property (£202.1m) (Refer to note 17 of the financial statements) (Group)
- Going concern consideration in relation to COVID-19 (Refer to the Statement of Directors' Responsibilities and note 1 of the financial statements) (Group)
- Carrying value of investments and intercompany receivables (£208.5m and £29.0m) (Refer to notes 16 and 18 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. 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
<p><b>Valuation of investment property (£293.8m) (Refer to note 15 of the financial statements) (Group)</b></p> <p>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.</p> <p>The Group's portfolio includes properties at varying stages of completion, across various sectors, including mixed-use, industrial and retail. Property valuations are subject to a high degree of judgement as they are calculated from a number of different assumptions specific to each individual property. These include actual and estimated rental values, yields, costs to complete and expected land values per acre.</p> <p>The Group engaged independent external valuers to value its investment properties in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards. For some properties, the residual appraisal method was used, by estimating the fair value of the completed project using a capitalisation method based on expected land values per acre less estimated costs to completion and a risk premium. Completed properties were valued on an income approach basis, taking into consideration assumptions for yields and estimated market rent.</p> <p>A relatively small percentage change in the valuations of individual properties, in aggregate, could result in a material impact on the financial statements.</p>	<p>We read the third party property valuation reports obtained by the Directors and considered if the overall approach and methodology adopted was appropriate given the nature of the properties being valued and whether they were in line with market practice.</p> <p>We also considered the extent to which the approach and methodology were consistent with prior years. For a sample of properties representing 79% of the value of the property portfolio, we discussed the valuation approach on a property by property basis directly with the third party valuer.</p> <p>We evaluated 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.</p> <p>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.</p> <p>We found the methodologies used by the third party valuers to be consistent across the portfolio of properties and with prior years. We also found that the assumptions used were within the ranges typically used for similar valuations.</p>

# Independent auditors' report

to the members of Harworth Group plc

## Key audit matter

### **Carrying value of development property (£202.1m) (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 £202.1m as at 31 December 2019. 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.

### **Going concern consideration in relation to COVID-19 (Refer to the Statement of Directors' Responsibilities and note 1 of the financial statements) (Group and Company)**

Since the balance sheet date, the global COVID-19 pandemic has impacted all businesses and continues to do so. Management and the board have considered the potential impact of the COVID-19 pandemic on the current and future operations of the Group and company. In doing so, management has made assumptions that are critical to the outcomes of these considerations with a particular focus on the Group, and hence company's, liquidity and its ability to pass the covenant tests within its external financing agreement.

Management renegotiated the facility in April 2020 to increase the available facility to £130m on more flexible terms.

Management prepared a revised budget and forecast and also a sensitised forecast that has severe but plausible downsides incorporated and modelled this against the headroom on the revised facilities and associated covenants.

Due to the uncertainties created by the pandemic, there is a risk that the pandemic may adversely impact on the performance and operations of the Group, including the valuation of the property portfolio, may be adversely impacted along with the Group's and Company's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements.

In discussing, challenging and evaluating the assumptions made by management and the board, we noted the following factors that were considered to be significant in their consideration of the potential impact of COVID-19 on the current and future operations of the Group and which support the statement of going concern and viability respectively:

- The ongoing collectability of rental income from tenants;
- The recoverability of individually significant receivables balances relating to previous property sales, specifically the deferred consideration within Trade receivables from the sale of investment and development property (see note 18); and
- The ability of the property portfolio valuation to withstand the impact of COVID-19 on the wider economy and hence comply with the financial covenants.

## How our audit addressed the key audit matter

Management received internal and external third party valuations on each individual site. We read the third party property valuation reports obtained by management for a sample of properties 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.

In assessing management's consideration of the potential impact of COVID-19 on the Group and Company's ability to continue as a going concern, we undertook the following audit procedures:

- We obtained and read the renegotiated facility agreement and confirmed the amendments made had been reflected by management;
- We obtained from management their latest assessments that support the board's evaluation and conclusions with respect to the statements of going concern and viability respectively;
- We discussed with management and the board the critical assumptions applied in their latest assessments so we could understand and challenge the rationale behind underlying factors incorporated, and the sensitivities applied as a result of COVID-19;
- We discussed with management and their external valuation expert the potential impact of COVID-19 on the valuation of the property portfolio and related covenant compliance. Together with our own valuation experts, we challenged management and their experts as to potential reductions in valuations and the plausibility of extreme reductions in the valuations that would result in covenant breaches;
- We agreed deferred consideration included in the forecasts to the underlying signed sales agreements;
- We agreed the cash receipts from the sale of development property in April 2020 to the bank statements;
- We agreed proposed acquisitions to minutes from the Board meetings;
- We agreed rental income receipts in the first quarter of the year to 31 December 2020 to bank statements;
- We evaluated the stress testing and downsized sensitivities applied by management, including the mitigating actions management could take, to confirm that both management and the board have considered plausible downside circumstances in their assessment of the potential impact of COVID-19 on the Group and to confirm that the mitigating actions are within management's control and could be taken on a timely basis;
- We assessed what changes in management's forecasts were needed to 'break' the model of forecast headroom and covenant compliance.

Our findings in respect of going concern are set out in the "Going concern" section below.

**Key audit matter****Carrying value of investments and intercompany receivables (£208.5m and £29.0m) (Refer to notes 16 and 18 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.

**How our audit addressed the key audit matter**

We compared the carrying value of the investments and the intercompany receivables as at 31 December 2019 to the subsidiary's net assets and assessed the future cash flows of the subsidiaries.

We have evaluated management's IFRS 9 assessment for impairment of intercompany receivables.

We also assessed the market capitalisation of the Company as at 31 December 2019.

Based on this work we are satisfied that the carrying value of the investments and intercompany receivables are supported.

**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: £6.2 million (2018: £5.7 million), based on 1% of total assets.

Specific group materiality: £1.2 million (2018: £0.6million), which represents 5% of profit before tax excluding investment property valuation gains. This is applied to the consolidated income statement excluding investment property valuation gains.

Overall company materiality: £2.4 million (2018: £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:

	<b>Group financial statements</b>	<b>Company financial statements</b>
<b>Overall materiality</b>	£6.2 million (2018: £5.7 million).	£2.4 million (2018: £2.4 million).
<b>How we determined it</b>	1% of total assets.	1% of total assets.
<b>Rationale for benchmark applied</b>	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.

International Standards on Auditing (UK) also allow the auditor to set a lower materiality for particular classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality of £1.2 million (2018: £0.6 million), representing 5% of the Group's profit before tax excluding investment property valuation gains. This is applied to the consolidated income statement excluding investment property valuation gains.

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 £362,000 and £5.9 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 £310,000 (Group audit) (2018: £289,000) and £120,000 (Company audit) (2018: £120,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

# Independent auditors' report

## to the members of Harworth Group plc

### 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.
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 2019 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 38 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 38 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.

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 122, 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 98 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 122, 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](http://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 28 years, covering the years ended 31 December 1992 to 31 December 2019.

**Andy Ward (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Leeds**  
 4 June 2020

# Consolidated income statement

for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Revenue	3	85,455	78,055
Cost of sales	3	(57,512)	(53,612)
Gross profit		27,943	24,443
Administrative expenses	3	(12,926)	(12,870)
Other gains	3	9,313	22,066
Other operating expense	3	(69)	(70)
<b>Operating profit before exceptional items</b>		<b>24,261</b>	33,569
Exceptional expense	5	–	(590)
<b>Operating profit</b>		<b>24,261</b>	32,979
Share of profit of joint ventures	16	8,449	3,791
Finance income	7	368	51
Finance costs	7	(2,775)	(4,013)
<b>Profit before tax</b>		<b>30,303</b>	32,808
Tax (charge)/credit	9	(4,823)	1,294
<b>Profit for the financial year</b>		<b>25,480</b>	34,102

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
<b>Basic earnings per share</b>	12	<b>7.9</b>	10.6
<b>Diluted earnings per share</b>	12	<b>7.9</b>	10.5

The Notes on pages 136 to 170 are an integral part of the consolidated financial statements.

# Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Profit for the financial year</b>		<b>25,480</b>	34,102
<b>Other comprehensive (expense)/income</b> – items that will not be reclassified to profit or loss:			
Actuarial loss in Blenkinsopp Pension Scheme	25	(430)	(18)
Deferred tax on other comprehensive (expense)/income items	9	149	(1)
<b>Other comprehensive (expense)/income</b> – items that may be reclassified subsequently to profit or loss:			
Fair value of financial instruments	23	(449)	13
<b>Total other comprehensive expense</b>		<b>(730)</b>	(6)
<b>Total comprehensive income for the financial year</b>		<b>24,750</b>	34,096

# Balance sheets

as at 31 December 2019

		Group		Company	
		As at 31 December 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
	Note				
ASSETS					
Non-current assets					
Property, plant and equipment	13	1,050	794	–	–
Right of use assets	14	122	–	–	–
Trade and other receivables	18	12,754	–	–	–
Investment properties	15	293,840	254,409	–	–
Investment in subsidiaries	16	–	–	208,473	208,400
Investment in joint ventures	16	33,072	25,830	–	–
Retirement asset	25	–	–	771	462
Deferred income tax asset	9	–	–	1,970	1,926
		340,838	281,033	211,214	210,788
Current assets					
Inventories	17	205,900	207,009	–	–
Trade and other receivables	18	46,455	66,699	29,167	30,219
Assets classified as held for sale	19	11,252	10,956	–	–
Cash	20	11,833	8,595	1,506	1,116
		275,440	293,259	30,673	31,335
Total assets		616,278	574,292	241,887	242,123
LIABILITIES					
Current liabilities					
Borrowings	21	(2,842)	(5,291)	–	–
Trade and other payables	22	(56,608)	(52,555)	(10,155)	(5,502)
Lease liability	14	(58)	–	–	–
Current tax liabilities	9	(2,725)	(928)	–	–
		(62,233)	(58,774)	(10,155)	(5,502)
Net current assets		213,207	234,485	20,518	25,833
Non-current liabilities					
Borrowings	21	(79,902)	(67,747)	–	–
Trade and other payables	22	(1,200)	(300)	–	–
Lease liability	14	(70)	–	–	–
Derivative financial instruments	23	(558)	(109)	–	–
Deferred income tax liabilities	9	(7,765)	(4,964)	–	–
Retirement benefit obligations	25	(771)	(462)	(771)	(462)
		(90,266)	(73,582)	(771)	(462)
Total liabilities		(152,499)	(132,356)	(10,926)	(5,964)
Net assets		463,779	441,936	230,961	236,159
SHAREHOLDERS' EQUITY					
Capital and reserves					
Called up share capital	27	32,191	32,150	32,191	32,150
Share premium account	28	24,359	24,351	24,359	24,351
Investment in own shares	27	(67)	(194)	(67)	(194)
Fair value reserve*		116,121	118,563	–	–
Capital redemption reserve		257	257	257	257
Merger reserve		45,667	45,667	45,667	45,667
Current year profit/(loss)		25,480	34,102	(1,914)	(1,396)
Retained earnings*		219,771	187,040	130,468	135,324
Total equity		463,779	441,936	230,961	236,159

\*The Group fair value reserve and retained earnings reserves have been restated to reallocate fair value gains and losses between these reserves. See note 1 for further detail.

The financial statements on pages 130 to 170 were approved by the Board of Directors on 4 June 2020 and were signed on its behalf by:



**Owen Michaelson**

Chief Executive

Company Registered Number 02649340



**Katerina Patmore**

Chief Financial Officer



# Consolidated statement of changes in equity

for the year ended 31 December 2019

	Note	Called up share capital £'000	Share premium account £'000	Investment in own shares £'000	Fair value reserve (restated)* £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings (restated)* £'000	Total equity £'000
<b>Balance at 1 January 2018</b>		<b>32,150</b>	<b>24,351</b>	<b>(263)</b>	<b>105,064</b>	<b>257</b>	<b>45,667</b>	<b>202,085</b>	<b>409,311</b>
Profit for the financial year		–	–	–	–	–	–	34,102	34,102
Fair value gains		–	–	–	23,238	–	–	(23,238)	–
Transfer of unrealised gains on disposal of properties		–	–	–	(9,739)	–	–	9,739	–
<b>Other comprehensive (expense)/income:</b>									
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)
<b>Total comprehensive income for the year ended 31 December 2018</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>13,499</b>	<b>–</b>	<b>–</b>	<b>20,597</b>	<b>34,096</b>
<b>Transactions with owners:</b>									
Share based payments	26	–	–	69	–	–	–	1,200	1,269
Dividends paid	11	–	–	–	–	–	–	(2,740)	(2,740)
		–	–	69	–	–	–	(1,540)	(1,471)
<b>Balance at 31 December 2018 and 1 January 2019</b>		<b>32,150</b>	<b>24,351</b>	<b>(194)</b>	<b>118,563</b>	<b>257</b>	<b>45,667</b>	<b>221,142</b>	<b>441,936</b>
Profit for the financial year		–	–	–	–	–	–	25,480	25,480
Fair value gains		–	–	–	10,090	–	–	(10,090)	–
Transfer of unrealised gains on disposal of properties		–	–	–	(12,532)	–	–	12,532	–
<b>Other comprehensive (expense)/income:</b>									
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	–	(430)	(430)
Fair value of financial instruments	23	–	–	–	–	–	–	(449)	(449)
Deferred tax on other comprehensive (expense)/income items	9	–	–	–	–	–	–	149	149
<b>Total comprehensive income for the year ended 31 December 2019</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,442)</b>	<b>–</b>	<b>–</b>	<b>27,192</b>	<b>24,750</b>
<b>Transactions with owners:</b>									
Share based payments	26	–	–	127	–	–	–	(71)	56
Dividends paid	11	–	–	–	–	–	–	(3,012)	(3,012)
Share issue		41	8	–	–	–	–	–	49
		41	8	127	–	–	–	(3,083)	(2,907)
<b>Balance at 31 December 2019</b>		<b>32,191</b>	<b>24,359</b>	<b>(67)</b>	<b>116,121</b>	<b>257</b>	<b>45,667</b>	<b>245,251</b>	<b>463,779</b>

\*The fair value reserve and retained earnings reserves have been restated to reallocate fair value gains and losses between these reserves. See note 1 for further detail.

# Company statement of changes in equity

for the year ended 31 December 2019

	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
<b>Balance at 1 January 2018</b>		<b>32,150</b>	<b>24,351</b>	<b>(263)</b>	<b>257</b>	<b>45,667</b>	<b>136,983</b>	<b>239,145</b>
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
<b>Total comprehensive expense for the year ended 31 December 2018</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,411)</b>	<b>(1,411)</b>
<b>Transactions with owners:</b>								
Share based payments		–	–	69	–	–	1,096	1,165
Dividends paid	11	–	–	–	–	–	(2,740)	(2,740)
		–	–	69	–	–	(1,644)	(1,575)
<b>Balance at 31 December 2018 and 1 January 2019</b>		<b>32,150</b>	<b>24,351</b>	<b>(194)</b>	<b>257</b>	<b>45,667</b>	<b>133,928</b>	<b>236,159</b>
Loss for the financial year		–	–	–	–	–	(1,914)	(1,914)
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	(430)	(430)
Deferred tax on actuarial loss on pension scheme		–	–	–	–	–	73	73
<b>Total comprehensive expense for the year ended 31 December 2019</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,271)</b>	<b>(2,271)</b>
<b>Transactions with owners:</b>								
Share based payments		–	–	127	–	–	(91)	36
Dividends paid	11	–	–	–	–	–	(3,012)	(3,012)
Share issue		41	8	–	–	–	–	49
		41	8	127	–	–	(3,103)	(2,927)
<b>Balance at 31 December 2019</b>		<b>32,191</b>	<b>24,359</b>	<b>(67)</b>	<b>257</b>	<b>45,667</b>	<b>128,554</b>	<b>230,961</b>

# Statements of cash flows

for the year ended 31 December 2019

	Note	Group	Company		
		Year ended	Year ended	Year ended	Year ended
		31 December	31 December	31 December	31 December
		2019	2018	2019	2018
		£'000	£'000	£'000	£'000
<b>Cash flows from operating activities</b>					
Profit/(loss) before tax for the financial year		30,303	32,808	(1,859)	(2,995)
Net interest payable/(receivable)	7	2,407	3,962	(452)	(581)
Other gains	3	(9,313)	(22,066)	–	–
Share of profit of joint ventures	16	(8,449)	(3,791)	–	–
Depreciation of property, plant and equipment	13	96	9	–	–
Depreciation of right of use assets	14	43	–	–	–
Pension contributions in excess of charge		(120)	(120)	(120)	(120)
Operating cash inflows/(outflows) before movements in working capital		14,967	10,802	(2,431)	(3,696)
Decrease in inventories		2,161	4,609	–	–
Decrease/(increase) in receivables		7,490	(36,284)	1,052	3,049
Increase in payables		4,953	13,598	4,344	3,235
Cash generated/(used in) from operations		29,571	(7,275)	2,965	2,588
Interest paid		(2,337)	(1,581)	(196)	–
Corporation tax (paid)/received		(1)	99	–	–
<b>Cash generated/(used in) from operating activities</b>		<b>27,233</b>	<b>(8,757)</b>	<b>2,769</b>	<b>2,588</b>
<b>Cash flows from investing activities</b>					
Interest received		368	4	648	1
Investment in joint ventures		(2,592)	(2,843)	–	–
Distributions from joint ventures		3,799	–	–	–
Net proceeds from disposal of investment properties, assets held for sale and overages		18,108	47,801	–	–
Expenditure on properties		(49,574)	(64,124)	–	–
Expenditure on property, plant and equipment		(352)	(1)	–	–
<b>Cash (used in)/generated from investing activities</b>		<b>(30,243)</b>	<b>(19,163)</b>	<b>648</b>	<b>1</b>
<b>Cash flows from financing activities</b>					
Net proceeds from issue of ordinary shares		49	–	49	–
Proceeds from other loans		–	8,650	–	–
Repayment of bank loans		(15,000)	(46,730)	–	–
Proceeds from bank loans		32,000	81,739	–	–
Repayment of other loans		(7,669)	(12,209)	–	–
Loan arrangement fees paid		(62)	(566)	–	–
Share based transactions		(19)	–	(64)	–
Payment in respect of leases		(39)	–	–	–
Dividends paid	11	(3,012)	(2,740)	(3,012)	(2,740)
<b>Cash generated from/(used in) financing activities</b>		<b>6,248</b>	<b>28,144</b>	<b>(3,027)</b>	<b>(2,740)</b>
<b>Increase/(decrease) in cash</b>		<b>3,238</b>	<b>224</b>	<b>390</b>	<b>(151)</b>
At 1 January					
Cash		8,595	8,371	1,116	1,267
Increase/(decrease) in cash		3,238	224	390	(151)
At 31 December					
Cash		11,833	8,595	1,506	1,116

# Notes to the financial statements

for the year ended 31 December 2019

## 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 for the Group, as well as taking into account available borrowing facilities.

In light of the current COVID-19 pandemic, which has had a significant impact on the Group and the wider economy, the first 18 months of the strategic plan have been revised, reflecting management actions implemented in response and to reflect the effect and estimated impact of COVID-19. At this stage, although we are starting to see a phased easing of restrictions on movement, it cannot be known with any certainty how long and to what extent restrictions will remain in place, or the time it will take for the macro-economic climate and our markets to recover.

The Group continues to remain in a strong position to withstand the potential impact, with cash and bank headroom of £64m (as at 30 April 2020). The spread of sites across its three core regions, and at all stages of their lifecycle, has enabled the close management of non-committed expenditure to preserve liquidity. The Group benefits from diversification across its Capital Growth and Income Generation businesses including an industrial and renewable energy property portfolio. The Income Generation portfolio has continued to generate income that covers the overheads of the business and interest from loan facilities, with rent collections for the March quarter being broadly in line with previous quarters.

COVID-19 has created heightened risks with the potential to severely but, to a large extent, temporarily impact the Group's liquidity. The key risks to short-term viability in the context of COVID-19 are:

- Finance – availability of capital, alongside shortfalls in income and valuation processes;
- Markets – a severe but temporary downturn in the residential and commercial markets could reduce potential sales of serviced land and have an adverse impact on valuations;
- Delivery – social distancing creating delays in project works on sites and in determining live planning applications; and
- People – capacity and productivity are affected.

Since the onset of COVID-19, a number of management actions have been taken to adapt the Group. Capital has been prioritised on sites where committed sales are in place resulting in infrastructure spend continuing on six major development sites. Sales of strategic and non-core land have continued as expected and new lettings have been secured on properties. Discretionary overhead expenditure has been reduced where possible. This aligns with our existing strategy to manage cashflows to fund our development spend and acquisition activity.

In April 2020, RBS and Santander agreed to increase the limit of the Revolving Credit Facility to £130m and provide greater flexibility in covenants for the next 12 months. After due consideration of the ongoing economic uncertainty, the Board has taken a prudent decision to not recommend a final dividend of 0.7p per share for the financial year ended 31 December 2019, preserving a further £2.2m of cash.

These actions have strengthened further what was an already robust liquidity position as we look ahead over the next 12 months. Whilst the immediate focus is on the short-term liquidity, the longer-term impact of COVID-19 is also being considered.

### Balance sheet and cashflow remain resilient throughout downside scenario analysis

A revised forecast was prepared to reflect the impact of COVID-19 and actions taken as set out above with a persisting downturn in activity during 2020 and a medium-term recovery of the economy thereafter. Furthermore, a sensitised forecast was produced that had a number of severe but plausible downsides reflected. These downsides included:

- a severe reduction in sales to the housebuilding sector with the associated development spend being reduced to that which is only committed at this point
- Minimal level of acquisitions spend
- Reduced overhead and discretionary expenditure
- Notwithstanding strong rent collection to date in line with previous quarters, a material reduction in rents collected over the majority of the going concern assessment period
- A decline in land values and widening of industrial yields

Even allowing for these downsides, for at least 12 months from the signing of these financial statements, the Group continues to have sufficient cash reserves, continues to operate with headroom on lending facilities and associated covenants and has additional mitigation measures that could be deployed to create further cash and covenant headroom.

Based on these considerations, together with available market information and the Directors' knowledge and experience of the Group's property portfolio and markets, the Directors considered it appropriate to adopt a going concern basis of accounting in the preparation of the Company's and Group's financial statements.



## 1. Accounting policies: continued

### Prior year adjustment

The fair value and retained earnings reserves have been restated at 1 January 2018 and 31 December 2018 to correctly reallocate fair value gains and losses between these reserves. This restatement has reallocated negative fair values from the fair value reserve to retained earnings and removed fair value gains on properties disposed of from the fair value reserve to retained earnings.

This restatement has no impact on the net assets of the Group at 1 January 2018 and 31 December 2018 or on the profit for the year to 31 December 2018. The impact of the restatement at 31 December 2018 is to increase the fair value reserve from £99.8m to £118.6m, and 1 January 2018 increase fair value reserve from £85.1m to £105.1m and reduce the retained earnings reserve at 31 December 2018 from £239.9m to £221.1m, and 1 January 2018 reduce the retained earnings reserve from £222.0m to £202.1m.

This restatement has no effect on dividends paid or on the ability of the Group to pay future dividends.

### 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.

#### 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 2019 are:

- 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. On transition to IFRS 16 on 1 January 2019 the Group has recognised right to use assets of £0.1m and a corresponding lease liability of £0.1m.

##### (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 2020 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

### Revenue recognition

Under IFRS 15, 'Revenue from Contracts with Customers' revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

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.

Rental and other land related income is recognised on a straight line basis over the term of the lease. Lease incentives, including rent free periods and payments to tenants, are allocated to the consolidated income statement on a straight line basis over the lease term as a deduction from rental and other land related income.

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 planning promotion agreements, promote fees 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.

The sale of development properties, including land parcels sold to housebuilders for residential development, usually have performance obligations such as transferring legal title that are satisfied at a point in time. Revenue is recognised when control of the property has passed to the buyer on completion of contracts. Any variable consideration including overages is estimated at the point of sale taking into consideration the time to recover overage amounts as well as other factors which may give rise to variability. It is only recognised to the extent that it is highly probable that there will not be a significant reversal in the future. Any deferred consideration is discounted to present value with the discount being unwound to the consolidated income statement as finance income.

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. Revenue on construction contracts is recognised in line with when performance obligations are deemed to be satisfied. 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.

### Interest income and expense

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

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

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 1. Accounting policies: continued

### 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 in subsidiaries

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, independent valuation firms having appropriate, recognised professional qualifications and recent experience in the location and category of property being valued are used. A transfer to the fair value reserve is made for all fair value gains in the year from retained earnings. Where there have been previous fair value gains transferred to the fair value reserve and fair value losses have been incurred in the year then a transfer is made to retained earnings to offset as much of the fair value losses as possible.

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) 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.

## 1. Accounting policies: continued

### 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 assessed for their recoverability under the Expected Credit Loss model on a periodic basis with a provision being made if required under this model. 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.

### 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 2019 and 31 December 2018 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.

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 1. Accounting policies: continued

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 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



## 1. Accounting policies: continued

the subsidiary holding the asset, to which a different tax rate may apply. The deferred tax is then calculated based on the respective temporary differences and tax consequences arising from recovery through sale.

### 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 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.

#### Estimation of 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.

#### Taxation

The recognition of tax losses and deferred tax assets is a judgement and continues to be reviewed and re-assessed during the year. This has resulted in the recognition of £1.9m (2018: £2.4m) of previously unrecognised tax losses due to increased certainty of their availability to the Group.

## 2. Alternative Performance Measures ("APMs")

### Introduction

The Group has applied the December 2019 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
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:

- 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;
- EPRA NNNAV growth – The movement in EPRA NNNAV per share expressed as a percentage of opening NNNAV per share;
- 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, assets held for sale and overages;
- Profit excluding value gains – Property net rental, royalty and fee income, net of running costs of the business which represents the underlying profitability of the business not reliant on property value gains or profits from the sales of development properties; and
- Net loan to portfolio value - Group debt net of cash held expressed as a percentage of portfolio value.

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 2. Alternative Performance Measures ("APMs"): continued

### 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

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
<b>a. Revaluations gains</b>			
Increase in fair value of investment properties	3	5,841	21,483
Decrease in fair value of other receivables	3	–	(2,000)
Decrease in fair value of assets classified as held for sale	3	(229)	–
Other gains	3	–	45
Share of profit of joint ventures	3	8,449	3,791
Net realisable value provision of development properties	3	(3,574)	(4,767)
Reversal of previous net realisable value provision of development properties	3	3,061	3,031
<b>Amounts derived from statutory reporting</b>		<b>13,548</b>	<b>21,583</b>
Unrealised gains on development properties		21,385	22,945
Unrealised gains on assets held for sale		584	–
Unrealised gains on overages		25	3,541
<b>Revaluation gains</b>		<b>35,542</b>	<b>48,069</b>
<b>b. Profit on sale</b>			
Profit on sale of investment properties	3	545	2,374
Profit on sale of assets classified as held for sale	3	3,156	164
Profit on sale of development properties	3	10,882	3,469
Release of net realisable value provision on disposal of development properties	3	1,168	–
<b>Amounts derived from statutory reporting</b>		<b>15,751</b>	<b>6,007</b>
Unrealised gains on development properties released on sale in the year		(7,247)	(2,794)
<b>Profit on sale</b>		<b>8,504</b>	<b>3,213</b>
<b>c. Value gains</b>			
Revaluation gains		35,542	48,069
Profit on sale		8,504	3,213
<b>Value gains</b>		<b>44,046</b>	<b>51,282</b>
<b>d. Profit excluding value gains (PEVG)</b>			
Operating profit before exceptional items	3	24,261	33,569
Add pension charge		69	70
Less other gains	3	(9,313)	(22,066)
Less gross profit from development properties	3	(11,537)	(1,733)
<b>PEVG</b>		<b>3,480</b>	<b>9,840</b>
<b>e. Total property sales</b>			
<b>Revenue</b>	3	<b>85,455</b>	<b>78,055</b>
Less revenue from other property activities	3	(964)	(7,629)
Less revenue from income generation activities	3	(23,468)	(25,601)
Add gross proceeds from sales of investment properties, assets held for sale and overages		18,836	48,338
<b>Total property sales</b>		<b>79,859</b>	<b>93,163</b>
<b>f. Operating profit before exceptional items contributing to growth in EPRA NNNNAV</b>			
Operating profit before exceptional items	3	24,261	33,569
Share of profit of joint ventures	3	8,449	3,791
Unrealised gains on development properties		21,385	22,945
Unrealised gains on assets held for sale		584	–
Unrealised gains on overages		25	3,541
Less unrealised gains on development properties released on sale in the year		(7,247)	(2,794)
<b>Operating profit before exceptional items contributing to growth in EPRA NNNNAV</b>		<b>47,457</b>	<b>61,052</b>

## 2. Alternative Performance Measures ("APMs"): continued

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
<b>g. Portfolio value</b>			
Land and buildings	13	787	787
Investment properties	15	293,840	254,409
Investments in joint ventures	16	33,072	25,830
Assets classified as held for sale	19	11,252	10,956
Development properties	17	202,092	204,157
<b>Amounts derived from statutory reporting</b>		<b>541,043</b>	496,139
Cumulative unrealised gains on development properties as at year end		40,135	25,997
Cumulative unrealised gains on assets held for sale as at year end		584	–
Cumulative unrealised gains on overages as at year end		3,566	3,541
<b>Portfolio value</b>		<b>585,328</b>	525,677
<b>h. Net debt</b>			
Gross borrowings	21	(82,744)	(73,038)
Cash	20	11,833	8,595
<b>Net debt</b>		<b>(70,911)</b>	(64,443)
<b>i. Net loan to portfolio value</b>			
Net debt		(70,911)	(64,443)
Portfolio value		585,328	525,677
<b>Net loan to portfolio value (%)</b>		<b>12.1%</b>	12.3%
<b>j. Net loan to core income portfolio value</b>			
Net debt		(70,911)	(64,443)
Income portfolio value (business space and natural resources)		200,984	187,648
<b>Net loan to core income portfolio value (%)</b>		<b>35.3%</b>	34.3%
<b>k. Gross loan to portfolio value</b>			
Gross borrowings	21	(82,744)	(73,038)
Portfolio value		585,328	525,677
<b>Gross loan to portfolio value (%)</b>		<b>14.1%</b>	13.9%
<b>l. Gross loan to core income portfolio value</b>			
Gross borrowings	21	(82,744)	(73,038)
Income portfolio value		200,984	187,648
<b>Gross loan to core income portfolio value (%)</b>		<b>41.2%</b>	38.9%
<b>m. Per share</b>			
Number of shares in issue at 31 December	27	321,909,382	321,496,760
Employee Benefit Trust Shares (own shares) at 31 December	27	(132,015)	(181,771)
<b>Number of shares used for per share calculations</b>	27	<b>321,777,367</b>	321,314,989
<b>n. NAV per share</b>			
NAV £'000		463,779	441,936
Number of shares used for per share calculations		321,777,367	321,314,989
<b>NAV per share (p)</b>		<b>144.1</b>	137.5

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 2. Alternative Performance Measures ("APMs"): continued

### 2) Reconciliation to EPRA measures

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
<b>a. EPRA NNNAV</b>			
Net assets		463,779	441,936
Cumulative unrealised gains on development properties		40,135	25,997
Cumulative unrealised gains on assets held for sale		584	–
Cumulative unrealised gains on overages		3,566	3,541
Notional deferred tax on unrealised gains		(7,529)	(5,021)
<b>EPRA NNNAV</b>		<b>500,535</b>	<b>466,453</b>
<b>b. EPRA NAV</b>			
EPRA NNNAV		500,535	466,453
Notional deferred tax on unrealised gains		7,529	5,021
Deferred tax liability	9	7,765	4,964
Mark to market valuation of financial instruments		558	109
<b>EPRA NAV</b>		<b>516,387</b>	<b>476,547</b>
<b>c. EPRA NNNAV per share</b>			
EPRA NNNAV £'000		500,535	466,453
Number of shares used for per share calculations	27	321,777,367	321,314,989
<b>EPRA NNNAV per share (p)</b>		<b>155.6</b>	<b>145.2</b>
<b>d. EPRA NAV per share</b>			
EPRA NAV £'000		516,387	476,547
Number of shares used for per share calculations	27	321,777,367	321,314,989
<b>EPRA NAV per share (p)</b>		<b>160.5</b>	<b>148.3</b>
<b>e. EPRA NNNAV growth and total return</b>			
Opening EPRA NNNAV / share (p)		145.2	128.9
Closing EPRA NNNAV / share (p)		155.6	145.2
Movement in the year		10.4	16.3
<b>EPRA NNNAV growth</b>		<b>7.2%</b>	<b>12.6%</b>
Dividends paid per share (p)		0.9	0.9
Total return per share		11.3	17.2
<b>Total return as a percentage of opening EPRA NNNAV</b>		<b>7.8%</b>	<b>13.3%</b>
<b>f. Net loan to EPRA NNNAV</b>			
Net debt £'000		(70,911)	(64,443)
EPRA NNNAV £'000		500,535	466,453
<b>Net loan to EPRA NNNAV</b>		<b>14.2%</b>	<b>13.8%</b>



### 3. Segment Information

31 December 2019

		Capital Growth				
	Note	Sale of Development Properties £'000	Other Property Activities £'000	Income Generation £'000	Central overheads £'000	Total £'000
Revenue		61,023	964	23,468	–	85,455
Cost of sales		(49,486)	(960)	(7,066)	–	(57,512)
Gross profit <sup>(1)</sup>		11,537	4	16,402	–	27,943
Administrative expenses		–	(2,650)	(2,248)	(8,028)	(12,926)
Other gains <sup>(2)</sup>		–	24	9,289	–	9,313
Other operating expense		–	–	–	(69)	(69)
Operating profit/(loss)		11,537	(2,622)	23,443	(8,097)	24,261
Share of profit of joint ventures	16	–	7,026	1,423	–	8,449
Finance income	7	–	317	–	51	368
Finance costs	7	–	–	–	(2,775)	(2,775)
Profit/(loss) before tax		11,537	4,721	24,866	(10,821)	30,303

(1) Gross profit

Gross profit is analysed as follows:

Gross profit excluding sales of development properties	–	4	16,402	–	16,406
Gross profit on sale of development properties	10,882	–	–	–	10,882
Net realisable value provision on development properties	(3,574)	–	–	–	(3,574)
Reversal of previous net realisable value provision on development properties	3,061	–	–	–	3,061
Release of net realisable value provision on disposal of development properties	1,168	–	–	–	1,168
	11,537	4	16,402	–	27,943

(2) Other gains

Other gains are analysed as follows:

(Decrease)/increase in fair value of investment properties	–	(311)	6,152	–	5,841
Decrease in the fair value of assets classified as held for sale	–	–	(229)	–	(229)
Profit on sale of investment properties	–	–	545	–	545
Profit on sale of assets classified as held for sale	–	335	2,821	–	3,156
	–	24	9,289	–	9,313

	Note	Capital Growth £'000	Income Generation £'000	Central overheads £'000	Total £'000
Non-current assets					
Property, plant and equipment	13	–	–	1,050	1,050
Right of use assets	14	–	–	122	122
Other receivables	18	12,754	–	–	12,754
Investment properties	15	84,737	209,103	–	293,840
Investments in joint ventures	16	23,149	9,923	–	33,072
		120,640	219,026	1,172	340,838
Current assets					
Inventories	17	205,217	683	–	205,900
Trade and other receivables	18	39,668	4,825	1,962	46,455
Assets classified as held for sale	19	600	10,652	–	11,252
Cash	20	–	–	11,833	11,833
		245,485	16,160	13,795	275,440
Total assets		366,125	235,186	14,967	616,278

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 2019: continued

## 3. Segment Information: continued

31 December 2018

Group	Note	Capital Growth		Income Generation £'000	Central Overheads £'000	Total £'000
		Sale of Development Properties £'000	Other Property Activities £'000			
<b>Revenue</b>		<b>44,825</b>	<b>7,629</b>	<b>25,601</b>	<b>–</b>	<b>78,055</b>
Cost of sales		(43,092)	(1,922)	(8,598)	–	(53,612)
<b>Gross profit<sup>(1)</sup></b>		<b>1,733</b>	<b>5,707</b>	<b>17,003</b>	<b>–</b>	<b>24,443</b>
Administrative expenses		–	(2,473)	(2,171)	(8,226)	(12,870)
Other gains <sup>(2)</sup>		–	8,658	13,408	–	22,066
Other operating expense		–	–	–	(70)	(70)
<b>Operating profit/(loss) before exceptional items</b>		<b>1,733</b>	<b>11,892</b>	<b>28,240</b>	<b>(8,296)</b>	<b>33,569</b>
Exceptional expense	5	–	–	–	(590)	(590)
<b>Operating profit/(loss)</b>		<b>1,733</b>	<b>11,892</b>	<b>28,240</b>	<b>(8,886)</b>	<b>32,979</b>
Share of profit of joint ventures	16	–	(5)	3,796	–	3,791
Finance income	7	–	–	–	51	51
Finance costs	7	–	–	–	(4,013)	(4,013)
<b>Profit/(loss) before tax</b>		<b>1,733</b>	<b>11,887</b>	<b>32,036</b>	<b>(12,848)</b>	<b>32,808</b>

<i>(1) Gross profit</i>						
<i>Gross profit is analysed as follows:</i>						
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
		<b>1,733</b>	<b>5,707</b>	<b>17,003</b>	<b>–</b>	<b>24,443</b>

<i>(2) Other gains</i>						
<i>Other gains are analysed as follows:</i>						
Increase in fair value of investment properties		–	9,859	11,624	–	21,483
Decrease in 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
		<b>–</b>	<b>8,658</b>	<b>13,408</b>	<b>–</b>	<b>22,066</b>

## Segmental assets

	Note	Capital Growth £'000	Income Generation £'000	Central Overheads £'000	Total £'000
<b>Non-current assets</b>					
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
		<b>56,106</b>	<b>224,133</b>	<b>794</b>	<b>281,033</b>
<b>Current assets</b>					
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		–	–	8,595	8,595
		<b>252,386</b>	<b>30,631</b>	<b>10,242</b>	<b>293,259</b>
<b>Total assets</b>		<b>308,492</b>	<b>254,764</b>	<b>11,036</b>	<b>574,292</b>

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 2019 £'000	Year ended 31 December 2018 £'000
Operating profit before tax is stated after (crediting)/charging:			
Net movement in net realisable value provision on development properties	17	(655)	1,736
Staff costs	6	7,523	7,846
Depreciation of property, plant and equipment	13	96	9

#### 5. Exceptional expense

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Costs associated with the step-up from standard to premium listing	–	(590)
<b>Total exceptional expense</b>	<b>–</b>	<b>(590)</b>

#### 6. Employee information

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

	Group		Company	
	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Administration	70	58	3	3
<b>Total</b>	<b>70</b>	<b>58</b>	<b>3</b>	<b>3</b>

Remuneration details of these persons was as follows:

	Group		Company	
	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Wages and salaries	6,469	6,934	1,192	2,198
Social security costs	603	544	89	143
Other pension costs	451	368	55	53
	<b>7,523</b>	<b>7,846</b>	<b>1,336</b>	<b>2,394</b>

#### 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 2019 £'000	Year ended 31 December 2018 £'000
Short term employee benefits	2,567	4,038
Post employment benefits	138	120
Share-based payments	121	929
	<b>2,826</b>	<b>5,086</b>

Detailed information relating to Directors' remuneration is disclosed in the Directors' remuneration report on pages 101 to 117 and forms part of these financial statements.

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 7. Net finance costs

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Total finance income</b>	<b>368</b>	51
Finance costs		
– Bank interest	(2,026)	(1,888)
– Facility fees	(455)	(1,507)
– Other interest	(294)	(618)
<b>Total finance costs</b>	<b>(2,775)</b>	(4,013)
<b>Net finance costs</b>	<b>(2,407)</b>	(3,962)

During the year no interest has been capitalised in investment or development properties (2018: £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 2019 £'000	Year ended 31 December 2018 £'000
<b>Audit services</b>		
Fees payable to the Company auditors and its associates for the audit of the Company and the consolidated financial statements	125	50
Fees payable to the Company auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	120	121
– Audit related assurance services	25	16
– The audit of the Group's joint ventures	10	15
– Fees relating to transaction*	–	331
	<b>280</b>	533

\* 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.

## 9. Tax (charge)/credit

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Analysis of tax (charge)/credit in the year</b>		
<b>Current tax</b>		
Current year	(2,346)	(922)
Adjustment in respect of prior periods	549	1,804
<b>Total current tax (charge)/credit</b>	<b>(1,797)</b>	882
<b>Deferred tax</b>		
Current year	(4,331)	49
Adjustment in respect of prior periods	849	366
Difference between current tax rate and rate of deferred tax	456	(3)
<b>Total deferred tax (charge)/credit</b>	<b>(3,026)</b>	412
<b>Tax (charge)/credit</b>	<b>(4,823)</b>	1,294
	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Other comprehensive income items</b>		
Deferred tax – current year	149	(1)
<b>Total</b>	<b>149</b>	(1)



## 9. Tax (charge)/credit: continued

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
The tax for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:		
Profit before tax	30,303	32,808
Profit before tax multiplied by rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(5,758)	(6,234)
Effects of:		
Adjustment in respect of prior periods – deferred taxation	849	366
Adjustment in respect of prior periods – current taxation	549	1,804
Non-taxable income	6	828
Expenses not deducted for tax purposes	(526)	(471)
Revaluation (losses)/gains	(4,287)	2,404
Share of profit of joint ventures	1,605	–
Land remediation relief	341	–
Difference between current tax rate and rate of deferred tax	456	(3)
Deferred tax not previously recognised	–	(80)
Losses not previously recognised	1,921	2,432
Share options	21	248
<b>Total tax (charge)/credit</b>	<b>(4,823)</b>	<b>1,294</b>

The revaluation losses in the tax reconciliation of £4.3m (2018: gains of £2.4m) relate to deferred tax recognised on chargeable losses and gains of investment property.

The tax losses, not previously recognised of £1.9m (2018: £2.4m), have been recognised during the year, as a result of increased certainty regarding their availability to the Group.

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 £0.5m (2018: £1.8m) and a deferred tax credit of £0.8m (2018: £0.4m) compared to the original tax provision prepared for inclusion within the prior year financial statements.

At 31 December 2019, the Group had a current tax liability of £2.7m (2018: £0.9m).

### Deferred tax

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated balance sheet:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Deferred tax liabilities	(15,637)	(12,312)
Deferred tax assets	7,872	7,348
	<b>(7,765)</b>	<b>(4,964)</b>

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 2018	(13,067)	5,905	1,641	<b>(5,521)</b>
Recognised in consolidated income statement	1,276	52	(916)	<b>412</b>
Recognised in consolidated statement of comprehensive income	–	–	(1)	<b>(1)</b>
Recognised in consolidated statement of equity	–	–	146	<b>146</b>
At 31 December 2018 and 1 January 2019	(11,791)	5,957	870	<b>(4,964)</b>
Recognised in consolidated income statement	(3,846)	231	589	<b>(3,026)</b>
Recognised in consolidated statement of comprehensive income	–	–	149	<b>149</b>
Recognised in consolidated statement of equity	–	–	76	<b>76</b>
At 31 December 2019	(15,637)	6,188	1,684	<b>(7,765)</b>

There are UK corporation tax losses carried forward of £6.2m (2018: £6.0m); these may be carried forward indefinitely as there is no time limit in respect of using these deferred tax assets.

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 9. Tax (charge)/credit: continued

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2018: 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% (2018: 17%) being the rate expected to apply to the reversal of the liability. The Chancellor delivered in the March 2020 Budget that the proposed reduction in the UK corporation tax rate to 17% on 1 April 2020 had been postponed. As this postponement had not been substantively enacted at 31 December 2019 this is considered to be a non-adjusting post balance sheet event and no adjustment has been made to deferred tax as at this date.

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 £3.7m at 31 December 2019 have not been recognised owing to the uncertainty as to their recoverability. Deferred tax assets of £5.5m were not recognised at 31 December 2018.

The Company has recognised a deferred tax asset in 2019 of £2.0m (2018: £1.9m) and has a potential deferred tax asset of £nil (2018: £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 £1.9m (2018: £1.4m) and the total comprehensive expense for the financial year was £2.3m (2018: £1.4m).

## 11. Dividends

	2019		2018	
	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 2018	0.63	2,035	–	–
Interim dividend for the six months ended 30 June 2019	0.30	977	–	–
		<b>3,012</b>		<b>2,740</b>

The Board is not recommending a final dividend for the year ended 31 December 2019 whilst the uncertainty in the macro economic environment persists. The total dividend for the year ended 31 December 2019 was 0.30 pence per share (2018: 0.91 pence per share).

## 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 2019 includes the adjustments necessary to reflect the new shares issued on 25 January 2019, 23 September 2019 and 21 October 2019 (see note 27).

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit from continuing operations attributable to owners of the parent	<b>25,480</b>	34,102
Weighted average number of shares used for basic earnings per share calculation	<b>321,502,838</b>	321,284,013
<b>Basic earnings per share (pence)</b>	<b>7.9</b>	10.6
Weighted average number of shares used for diluted earnings per share calculation	<b>322,943,178</b>	323,754,853
<b>Diluted earnings per share (pence)</b>	<b>7.9</b>	10.5

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 1,440,340 (2018: 2,470,840).

### 13. Property, plant and equipment

Group	Land and Buildings £'000	Office equipment £'000	Total £'000
Net book value at 1 January 2018	787	15	802
Additions at cost	–	1	1
Depreciation charge	–	(9)	(9)
Net book value at 31 December 2018 and 1 January 2019	787	7	794
Additions at cost	–	352	352
Depreciation charge	–	(96)	(96)
<b>Net book value at 31 December 2019</b>	<b>787</b>	<b>263</b>	<b>1,050</b>
At 31 December 2019			
Cost or fair value	787	378	1,165
Accumulated depreciation	–	(115)	(115)
<b>Net book value</b>	<b>787</b>	<b>263</b>	<b>1,050</b>
At 31 December 2018			
Cost or fair value	787	26	813
Accumulated depreciation	–	(19)	(19)
Net book value	787	7	794

### 14. Right of use assets

Group	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Right of use assets</b>		
Buildings	53	–
Vehicles	69	–
	<b>122</b>	–
<b>Lease liabilities</b>		
Current	58	–
Non-current	70	–
	<b>128</b>	–

In the previous year the Group did not have any leases that were classified as 'finance leases' under IAS 17 Leases. For adjustments recognised on adoption of IFRS 16 on 1 January 2019 refer to note 30.

Additions to right of use assets during 2019 was £0.1m.

Group	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Depreciation charge of right of use assets</b>		
Buildings	12	–
Vehicles	31	–
	<b>43</b>	–

The total cash outflow for leases in 2019 was £0.0m.

The Group leases a number of offices and vehicles. Rental contracts are typically made for fixed periods of 3 years but may have extension options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the end of the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases, see note 30 for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 15. Investment properties

Investment property at 31 December 2019 and 31 December 2018 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		Total £'000
	Agricultural land £'000	Natural resources £'000	Business space £'000	Major developments £'000	Strategic land £'000	
<b>At 1 January 2018</b>	<b>22,327</b>	<b>31,300</b>	<b>119,801</b>	<b>20,000</b>	<b>23,132</b>	<b>216,560</b>
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
Transfers between divisions	(1,401)	5,533	(12,528)	6,159	2,237	–
Re-categorisation as development property in inventories	220	182	(1,384)	(8)	–	(990)
Net transfer (to)/from assets classified as held for sale	(9,096)	(834)	(15,955)	–	8	(25,877)
<b>At 31 December 2018 and 1 January 2019</b>	<b>11,742</b>	<b>45,479</b>	<b>142,169</b>	<b>9,889</b>	<b>45,130</b>	<b>254,409</b>
Direct acquisitions	–	454	20,507	5,337	11,973	38,271
Subsequent expenditure	56	946	811	498	8,651	10,962
Disposals	–	(463)	(120)	–	(40)	(623)
(Decrease)/increase in fair value	(584)	3,306	3,430	(835)	524	5,841
Transfers between divisions	(514)	1,183	(6,000)	–	5,331	–
Re-categorisation as development properties in inventories	–	–	–	–	(1,052)	(1,052)
Net transfer to assets classified as held for sale	(2,581)	(10,718)	–	–	(669)	(13,968)
<b>At 31 December 2019</b>	<b>8,119</b>	<b>40,187</b>	<b>160,797</b>	<b>14,889</b>	<b>69,848</b>	<b>293,840</b>

Included within investment properties (agricultural land) is a provision of £3.2m (2018: £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 £1.1m (2018: £1.0m) 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.

### 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 2019 (2018: none).



## 15. Investment properties: continued

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

### Agricultural land

Most of the agricultural land is valued using the market comparison basis, with an adjustment made for the length of 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.

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.

		Agricultural land	Natural resources	Business space	Major developments	Strategic land
<b>At 31 December 2019</b>						
Reversionary rental yield %	weighted average	–	–	9.37	–	–
	low	–	–	4.84	–	–
	high	–	–	14.16	–	–
Land value per acre £'000	weighted average	3	25	412	232	55
	low	1	5	140	213	12
	high	21	235	2,840	246	294
Cost report totals*	£'000	4,020	14,400	–	8,448	181,409
<b>At 31 December 2018</b>						
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

\* Cost report totals represent the estimated cost to bring investment properties to their highest and best use. There is £201.0m (2018: £205.5m) of cost report totals that now relate to development properties (shown in inventories at deemed cost) and therefore are not disclosed in this note.

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 15. Investment properties: continued

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

### At 31 December 2019

Valuation metric	+/- change	+/- effect on valuation				
		Agricultural land	Natural resources	Business space	Major developments	Strategic land
Value per acre	5%	406	2,009	8,040	744	3,492
Rental	5%	–	–	7,773	–	–
Yield (e.g. 11% to 10%)	1%	–	–	20,907	–	–
Cost report totals	5%	201	720	–	422	9,070

### 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

The property rental income earned by the Group from its occupied investment property, all of which is leased out under operating leases amounted to £13.6m (2018: £12.2m). Direct operating expenses arising on investment property generating rental income in the year amounted to £5.1m (2018: £4.9m).

The bank and other loans are secured by way of fixed equitable charges over investment and development properties.

## 16. Investments

### Investment in subsidiaries

Company	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Cost and net book amount:</b>		
At 1 January	208,400	207,896
Grant of equity instruments to employees of subsidiaries	73	504
At 31 December	208,473	208,400

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

Group	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>At 1 January</b>	<b>25,830</b>	18,838
Net (distribution from)/investment in joint ventures	(1,207)	3,201
Share of profit of joint ventures	8,449	3,791
<b>At 31 December</b>	<b>33,072</b>	25,830

## 16. Investments: continued

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
- Ansty Development Vehicle LLP
- Crimea Land Mansfield LLP
- Northern Gateway Development Vehicle LLP

The details of ownership of these joint ventures is disclosed on page 156.

The Group received £nil (2018: £nil) of dividends from these joint ventures during the year.

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 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Investment property	10,009	16,000	11,028	9,992
Current assets	11,511	1,124	304	174
Total assets	21,520	17,124	11,332	10,166
Current liabilities	(1,372)	(1,857)	(153)	(70)
Non-current liabilities	–	–	–	(620)
Net investment	20,148	15,267	11,179	9,476

	The Aire Valley Land LLP		Multiply Logistics North LP	
	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Revenue	–	–	251	60
Cost of sales	(39)	(29)	(87)	(51)
Gross (loss)/profit	(39)	(29)	164	9
Administrative expenses	(15)	(26)	(24)	(65)
Other gains	8,416	2,015	578	1,973
Finance costs	(23)	(81)	–	–
Share of profits	8,339	1,879	718	1,917

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 2019 £'000	As at 31 December 2018 £'000
Investment property	1,875	252
Current assets	122	846
Total assets	1,997	1,098
Current liabilities	(252)	(11)
Net investment	1,745	1,087
Share of losses	(608)	(5)

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 2019: continued

## 16. Investments: continued

### Investment in subsidiaries

Particulars of the Group undertakings (including joint ventures) at 31 December 2019 are as follows:

Company name	Activity	Description of shares held	Proportion of nominal value of issued share capital held by the Company %
Coalfield Estates Limited <sup>(1)*</sup>	Non-trading	Ordinary	100
Harworth Guarantee Co. Limited <sup>(1)*</sup>	Non-trading	Limited by guarantee	100
Harworth Trustees Limited <sup>(1)*</sup>	Dormant	Ordinary	100
Harworth Secretariat Services Limited <sup>(1)*</sup>	Non-trading	Ordinary	100
Harworth Estates Property Group Limited <sup>(1)*</sup>	Trading	Ordinary	100
Harworth Estates Group Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth No. 3 Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth Services Limited <sup>(1)</sup>	Non-trading	Ordinary	100
Harworth Estates Limited <sup>(1)</sup>	Trading	Ordinary	100
Bates Regeneration Limited <sup>(2)</sup>	Trading	Ordinary	50
EOS Inc Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates (Agricultural Land) Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates (Waverley Prince) Limited <sup>(1)</sup>	Trading	Ordinary	100
Waverley Community Management Company Limited <sup>(1)</sup>	Trading	Limited by guarantee	100
Harworth Estates Curtilage Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Investments Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Mines Property Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates No 2 Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Overage Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth Estates Warwickshire Limited <sup>(1)</sup>	Trading	Ordinary	100
Harworth TRR Limited <sup>(1)</sup>	Trading	Ordinary	100
Logistics North MC Limited <sup>(1)</sup>	Trading	Ordinary	10.86
POW Management Company Limited <sup>(1)</sup>	Trading	Limited by guarantee	100
Rossington Community Management Company Limited <sup>(1)</sup>	Trading	Limited by guarantee	100
Harworth Regeneration Limited <sup>(1)</sup>	Dormant	Ordinary	100
Mapplewell Management Company Limited <sup>(1)</sup>	Trading	Limited by guarantee	100
Gateway 45 No.1 Limited <sup>(1)</sup>	Dormant	Ordinary	50
The Aire Valley Land LLP <sup>(1)</sup>	Trading	Partnership	50
Flass Lane Management Company Limited <sup>(1)</sup>	Trading	Limited by guarantee	100
Harworth Surface Water Management (North West) Limited <sup>(1)</sup>	Trading	Ordinary	100
Multiply Logistics North Holdings Limited <sup>(1)</sup>	Trading	Ordinary	20
Multiply Logistics North LP <sup>(1)</sup>	Trading	Partnership	20
Waverley Square Limited <sup>(3)</sup>	Trading	Ordinary	50
Simpson Park Management Company Limited <sup>(1)</sup>	Trading	Limited by guarantee	100
Thoresby Vale Management Company Limited <sup>(1)</sup>	Trading	Ordinary	100
Cutacre Country Park Management Company Limited <sup>(1)</sup>	Trading	Ordinary	100
Cadley Park Management Company Limited <sup>(1)</sup>	Trading	Ordinary	100
Riverdale Park Management Company Limited <sup>(1)</sup>	Dormant	Limited by guarantee	100
Ansty Development Vehicle LLP <sup>(1)</sup>	Trading	Partnership	50
Crimea Land Mansfield LLP <sup>(1)</sup>	Trading	Partnership	50
Northern Gateway Development Vehicle LLP <sup>(1)</sup>	Dormant	Partnership	50

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

\*These companies are directly held by Harworth Group Plc.

#### 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 entity was incorporated post year end:

- South East Coalville Management Company Limited



## 17. Inventories

	Group	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Development properties	202,092	204,157
Planning promotion agreements	2,051	1,773
Option agreements	1,074	705
Finished goods	683	374
<b>Total inventories</b>	<b>205,900</b>	<b>207,009</b>

The total cost of inventory recognised as an expense within cost of sales in the year is £49.2m (2018: £42.6m) and comprised of: £50.1m (2018: £41.4m) relating to the sale of development properties; a credit of £0.6m (2018: £1.7m charge) net realisable value provision against development properties; and a credit of £0.3m (2018: £0.3m) relating to finished goods stocks. Finished goods are stated after a provision of £0.3m (2018: £0.3m).

The movement in the development properties is as follows:

	Group	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000
At 1 January	204,157	210,471
Acquisitions	3,158	3,451
Subsequent expenditure	23,235	23,320
Disposals	(30,165)	(32,339)
Net realisable value provision	655	(1,736)
Re-categorisation from investment properties	15	990
<b>At 31 December</b>	<b>202,092</b>	<b>204,157</b>

The movement in the net realisable value provision on development properties is as follows:

	Group	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000
At 1 January	7,554	5,818
Net realisable value provision for the year	3,574	4,767
Released on disposals	(1,168)	(124)
Reversal of previous net realisable provision	(3,061)	(2,907)
<b>At 31 December</b>	<b>6,899</b>	<b>7,554</b>

The bank and other loans are secured by fixed equitable charges over development and investment properties.

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 18. Trade and other receivables

	Group		Company	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>Current</b>				
Trade receivables	29,008	43,004	–	–
Less: provision for impairment of trade receivables	(109)	(142)	–	–
Net trade receivables	28,899	42,862	–	–
Other receivables	14,682	21,492	–	62
Prepayments and accrued income	2,874	2,345	191	93
Amounts owed by subsidiary undertakings (note 31)	–	–	28,976	30,064
	46,455	66,699	29,167	30,219
<b>Non-current</b>				
Trade receivables	12,754	–	–	–

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

Included within trade receivables are £27.9m (2018: £19.2m) of deferred consideration on the sale of investment and development property.

The non-current trade receivable of £12.8m (2018: £nil) relates to deferred consideration on the sale of development properties due in more than one year.

Included within other receivables are £5.4m (2018: £12.7m) 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 24. 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	
	2019 £'000	2018 £'000
At the beginning of the year	(142)	(207)
Receivables written off during the year as uncollectable	–	39
Released in the year	33	26
<b>At the end of the year</b>	<b>(109)</b>	<b>(142)</b>

Trade receivables can be analysed as follows:

	Group	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Amounts receivable not past due	41,453	42,492
Amounts receivable past due but not impaired	200	370
Amounts receivable impaired (gross)	109	142
Less impairment	(109)	(142)
	41,653	42,862

Ageing of past due but not impaired trade receivables:

	Group	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000
31 – 60 days	58	79
61 – 90 days	84	117
91 – 120 days	15	43
120+ days	43	131
	200	370

## 18. Trade and other receivables: continued

Ageing of impaired trade receivables:

	Group	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000
31 – 60 days	–	–
61 – 90 days	–	–
91 – 120 days	109	142
	<b>109</b>	<b>142</b>

## 19. Assets classified as held for sale

		Group	
	Note	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>Investment properties</b>			
At 1 January		10,956	7,688
Net transfer from investment properties	15	13,968	25,877
Subsequent expenditure		341	6
Decrease in fair value		(229)	–
Disposals		(13,784)	(22,615)
<b>At 31 December</b>		<b>11,252</b>	<b>10,956</b>

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 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Cash	11,833	8,595	1,506	1,116

## 21. Borrowings

	Group	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Current:		
Secured – other loans	2,842	5,291
	<b>2,842</b>	<b>5,291</b>
Non-current:		
Secured – bank loans	75,785	58,745
Secured – other loans	4,117	9,002
	<b>79,902</b>	<b>67,747</b>
<b>Total borrowings</b>	<b>82,744</b>	<b>73,038</b>

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 21. Borrowings: continued

		Group	
		As at 31 December 2019 Net loan £'000	As at 31 December 2018 Net loan £'000
<b>Infrastructure loans</b>			
Homes and Communities Agency	Waverley	–	4,875
Sheffield City Region JESSICA Fund	Advanced Manufacturing Park, Waverley	2,842	2,766
North West Evergreen Limited Partnership	Units C4 and C5 R-evolution at Logistics North	–	2,691
Homes and Communities Agency	Simpson Park	4,117	3,961
		<b>6,959</b>	14,293
<b>Bank borrowings</b>			
Revolving credit facility		<b>75,785</b>	58,745
		<b>82,744</b>	73,038

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 (2018 : £100.0m) 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 bank borrowings are secured by fixed equitable charges over development and investment properties. In April 2020 RBS and Santander agreed to increase the limit of the Revolving Credit Facility by £30m to £130m.

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 £0.3m (2018: £0.4m).

## 22. Trade and other payables

### Current liabilities

	Group		Company	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Trade payables	11,670	2,318	222	100
Amounts owed to subsidiary undertakings (note 31)	–	–	9,272	4,737
Taxation and social security	267	9,740	75	–
Other creditors	3,670	4,160	4	3
Accruals and deferred income	41,001	36,337	582	662
	<b>56,608</b>	52,555	<b>10,155</b>	5,502

	Group		Company	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Amounts in accruals include amounts relating to parcels of land that have been sold but where infrastructure costs are yet to be incurred	28,286	15,753	–	–

### Non-current liabilities

	Group		Company	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Other liabilities	1,200	300	–	–

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. Management use an external party to assess the effectiveness of the hedge on an ongoing basis and review the inputs and outputs as part of this review.

The fair value of the interest rate swap at 31 December 2019 was a liability of £0.6m (2018: £0.1m).

During the year the following (loss)/gain was recognised in the consolidated statement of comprehensive income in relation to the interest rate swap:

	2019 £'000	2018 £'000
(Loss)/gain on interest rate swap - cash flow hedge	(449)	13

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

Group	31 December 2019		31 December 2018	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Assets</b>				
Cash	11,833	11,833	8,595	8,595
Trade and other receivables	54,451	54,451	64,354	64,354
<b>Liabilities</b>				
Bank and other borrowings	82,744	82,744	73,038	73,038
Trade and other payables	57,541	57,541	43,115	43,115

Company	31 December 2019		31 December 2018	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Assets</b>				
Cash	1,506	1,506	1,116	1,116
Trade and other receivables	28,976	28,976	30,219	30,219
<b>Liabilities</b>				
Trade and other payables	10,080	10,080	5,502	5,502

In accordance with IFRS 9, the Group classifies the assets and liabilities in the analysis above as 'financial assets at amortised cost' and 'other financial liabilities', respectively.

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.

### Interest rate risk

The Group's interest rate risk arises from external borrowings. These are charged at ICE 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 (2018: £45m) of borrowing at an all in rate of 1.235% on top of the existing 210bps margin paid under the RCF (2018: 1.235% plus 210bps margin), including fees. The swap is hedge accounted with any unrealised movements going through reserves.

The Group also has two (2018: four) infrastructure loans with all in funding rates of between 3.2% and 4.0% (2018: 3.2% and 4.0%).

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 24. Financial risk management: continued

### 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 2019 of £70.9m; (2018: £64.4m). The Group utilised cash from operating activities and investing activities for the year of £3.0m (2018: £28.5m).

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

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
<b>At 31 December 2019</b>			
Trade and other payables	56,608	1,100	100
Lease liability	58	51	19
Bank and other borrowings (including interest payable)	2,842	–	79,902
<b>At 31 December 2018</b>			
Trade and other payables	52,555	100	200
Bank and other borrowings (including interest payable)	5,291	5,041	62,706

### 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 2019 this was £70.9m (2018: £64.4m).

The Group has in place a £100m (2018: £100.0m) 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 on 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 (2018: £0.4m). 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 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>Relating to continuing activities</b>				
Blenkinsopp	771	462	771	462

Contributions to the Blenkinsopp scheme of £0.2m were made by the Group during 2019 (2018: £0.2m). It is expected that contributions of a similar amount will be paid in 2020. At December 2019, no contributions remained unpaid (2018: £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 2019	As at 31 December 2018
Discount rate	2.05% p.a.	2.80% p.a.
Rate of pension increases	2.20% p.a.	2.25% p.a.
Rate of price inflation (RPI)	2.95% p.a.	3.20% p.a.
Rate of price inflation (CPI)	2.15% p.a.	2.20% 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
	As at 31 December 2019	As at 31 December 2018
Life expectancy at age 65 for current pensioners (years)		
Male	19.2	19.5
Female	22.4	22.8
Life expectancy at age 65 for future pensioners currently aged 45 (years)		
Male	20.6	21.0
Female	23.9	24.1

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

#### Defined benefit obligations

The amounts recognised in the Balance Sheet:

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Fair value of plan assets	2,313	2,249	2,228	2,117	1,727
Present value of funding obligations	(3,084)	(2,711)	(2,791)	(2,719)	(2,162)
<b>Net liability recognised in the Balance Sheet</b>	<b>(771)</b>	<b>(462)</b>	<b>(563)</b>	<b>(602)</b>	<b>(435)</b>

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

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 25. Retirement benefit obligations: continued

The amounts recognised in the Consolidated Income Statement are:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Expenses	(57)	(43)
Past service cost	–	(15)
Interest cost	(11)	(13)
	<b>(68)</b>	<b>(71)</b>

A further cost of £0.4m (2018: £0.0m) has been reflected in the Statement of Comprehensive Income in the year. This represents the net effect of experience and actuarial gains and losses on the scheme in the year.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Change in assets</b>		
Fair value of plan assets at the start of the year	2,249	2,228
Interest income	62	57
Actual return on scheme assets excluding interest income	79	(99)
Employer contributions	189	189
Expenses	(57)	(43)
Benefits paid	(209)	(83)
<b>Fair value of plan assets at the end of the year</b>	<b>2,313</b>	<b>2,249</b>

Plan assets, which are all quoted investments, are comprised as follows:

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Gilts	1,141	1,301
Diversified and multi-asset growth funds	177	183
Sterling liquidity fund	382	379
Other	613	386
<b>Total</b>	<b>2,313</b>	<b>2,249</b>

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Change in defined benefit obligations</b>		
Present value of defined benefit obligations at the start of the year	(2,711)	(2,791)
Past service cost	–	(15)
Interest cost	(73)	(69)
<b>Remeasurements:</b>		
– Gain arising from changes in demographic assumptions	57	20
– Loss arising from changes in experience	(248)	(7)
– (Loss)/gain arising from changes in financial assumptions	(318)	68
Benefits paid	209	83
<b>Present value of defined benefit obligation at the end of the year</b>	<b>(3,084)</b>	<b>(2,711)</b>



## 25. Retirement benefit obligations: continued

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Analysis of the movement of the Balance Sheet liability</b>		
At the start of the year	(462)	(563)
Total amounts recognised in the Income Statement	(68)	(70)
Employer contributions	189	189
Net actuarial loss recognised in the year	(430)	(18)
<b>At the end of the year</b>	<b>(771)</b>	<b>(462)</b>

The maturity of the defined benefit obligation is c.18 years (2018: c.18 years).

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Cumulative actuarial gains and losses recognised in equity</b>		
At the start of the year	(180)	(162)
Net actuarial loss in the year	(430)	(18)
<b>At the end of the year</b>	<b>(610)</b>	<b>(180)</b>

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Experience gains and losses</b>		
Actual return on scheme assets excluding interest income	79	(99)
<b>Remeasurements:</b>		
– Loss arising from changes in experience	(248)	(7)
– (Loss)/gain arising from changes in financial and demographic assumptions	(261)	88
<b>Net actuarial loss</b>	<b>(430)</b>	<b>(18)</b>

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 2018, which was agreed in March 2020. This showed an estimated past service deficit of £1.2m. The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Change in discount rate by 0.1%	49	40
Change in price inflation (and associated assumptions) by 0.1%	44	35
Increase in life expectancy by 1 year	128	100

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 2019: continued

## 26. Share based payments

At 31 December 2019 there were four 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.
- **Restricted Share Plan (RSP).** Under this scheme share options with a nil-cost exercise price are granted to eligible employees. Vesting of the share options is subject to continued employment and the satisfaction of underpin conditions relating to Financial Health, Underlying performance and Corporate Governance.
- **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, LTIP and RSP 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	
	2019	2018	2019	2018
<b>DSBP</b>				
Outstanding at beginning of the year	362,327	241,283	£0.00	£0.00
Granted during the year	–	185,283	n/a	£0.00
Forfeited during the year	(15,484)	–	£0.00	n/a
Exercised during the year	(177,044)	(64,239)	£1.30	£1.25
Outstanding at end of the year	169,799	362,327	£0.00	£0.00
Exercisable at end of the year	–	–	n/a	n/a
<b>Weighted average remaining contractual life</b>	<b>8.26 years</b>	8.78 years		
	Number of shares		Weighted average exercise price	
	2019	2018	2019	2018
<b>LTIP</b>				
Outstanding at beginning of the year	2,066,015	1,698,754	£0.00	£0.00
Granted during the year	–	826,691	n/a	£0.00
Forfeited during the year	(424,940)	(459,430)	£0.00	£0.00
Exercised during the year	(668,568)	–	£1.29	n/a
Outstanding at end of the year	972,507	2,066,015	£0.00	£0.00
Exercisable at end of the year	–	–	n/a	n/a
<b>Weighted average remaining contractual life</b>	<b>7.73 years</b>	8.31 years		
	Number of shares		Weighted average exercise price	
	2019	2018	2019	2018
<b>RSP</b>				
Outstanding at beginning of the year	–	–	n/a	n/a
Granted during the year	379,230	–	£0.00	n/a
Outstanding at end of the year	379,230	–	£0.00	n/a
Exercisable at end of the year	–	–	n/a	n/a
<b>Weighted average remaining contractual life</b>	<b>9.71 years</b>	n/a		
	Number of shares		Weighted average exercise price	
	2019	2018	2019	2018
<b>SAYE</b>				
Outstanding at beginning of the year	452,708	383,881	£0.82	£0.81
Granted during the year	163,931	68,827	£1.04	£0.88
Forfeited during the year	(44,663)	–	£0.81	n/a
Outstanding at end of the year	571,976	452,708	£0.88	£0.82
Exercisable at end of the year	–	–	n/a	n/a
<b>Weighted average remaining contractual life</b>	<b>1.71 years</b>	2.11 years		

## 26. Share based payments: continued

The fair values of the share options granted under the RSP and SAYE during the year were determined using Black-Scholes valuation methodology.

The significant inputs to the valuation models were as follows:

	RSP	SAYE
Share price at date of grant	£1.300	£1.335
Exercise price	£0.00	£1.043
Dividend yield	0.72%	0.68 %
Expected volatility	22.0%	21.0%
Risk free interest rate	n/a	0.93%
Expected term	4.5 years	3.33 years
Weighted average fair value	£1.17	£0.348

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Awards under the 2017 DSBP Scheme were exercised in the year with a weighted average share price on exercise of £1.30 (2018: £1.25).

Awards under the 2016 LTIP Scheme were exercised in the year with a weighted average share price on exercise of £1.29 (2018: £nil).

The total charge for the year relating to employee share based payment plans was £0.1m, all of which related to equity-settled share based payment transactions.

## 27. Called up share capital

On 25 January 2019, the Group issued 11,786 new ordinary shares at 81 pence each, with a nominal value of 10p each. On 23 September 2019, the Group issued 346,516 new ordinary shares at 10 pence each, with a nominal value of 10p each. On 21 October 2019, the Group issued 54,320 new ordinary shares at 10 pence each, with a nominal value of 10p each.

Group and Company	2019		2018	
	Number of shares	£'000	Number of shares	£'000
<b>Issued and fully paid</b>				
At 1 January	321,496,760	32,150	321,496,760	32,150
Shares issued	412,622	41	–	–
At 31 December	321,909,382	32,191	321,496,760	32,150
Own shares held	(132,015)	(67)	(181,771)	(194)
<b>At 31 December</b>	<b>321,777,367</b>	<b>32,124</b>	<b>321,314,989</b>	<b>31,956</b>

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 and Share Investment Plan awards to employees.

### 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 2019 £'000	Year ended 31 December 2018 £'000
At 1 January	24,351	24,351
Premium on shares issued	8	–
<b>At 31 December</b>	<b>24,359</b>	<b>24,351</b>

## 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. At 31 December 2019 the Group had capital commitments due under construction contracts of £0.4m (2018: £nil).

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 30. Leases

### a) Transition to IFRS 16

As noted in note 1, the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions of the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate applied as of 1 January 2019.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases;
- excluding initial direct costs for the measurement of the right to use assets at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The reconciliation between the operating lease commitments under IAS 17 as at 31 December 2018 and the opening IFRS 16 lease liability at 1 January 2019 is shown below.

	Year ended 31 December 2019 £'000
<b>Group</b>	
Operating lease commitments disclosed as at 31 December 2018	55
Less low value leases not recognised as a liability	(1)
Less contracts not recognised as lease contracts	(33)
<b>Lease liability recognised as at 1 January 2019</b>	<b>21</b>
Of which are:	
Current lease liabilities	13
Non-current lease liabilities	8
	<b>21</b>

### b) Future minimum lease receipts

As set out in note 15 property rental income earned during the year was £13.6m (2018: £12.2m).

At 31 December 2019 the Group had contracted with tenants for the following future minimum lease payments:

	<b>Group</b>		<b>Company</b>	
	As at 31 December 2019 £'000	As at 31 December 2018 £'000	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Less than one year	12,820	11,587	–	–
Between one and five years	33,642	31,505	–	–
More than five years	96,677	98,899	–	–
	<b>143,139</b>	<b>141,991</b>	<b>–</b>	<b>–</b>



### 31. Related parties

#### GROUP

The Group carried out the following transactions with related parties. All related party transactions are clearly justified and beneficial to the Group, are undertaken on an arm's-length basis on fully commercial terms and in the normal course of business.

The remuneration of Directors and key management is given in note 6.

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>PEEL GROUP</b>		
<b>Revenue</b>		
Sale of land	–	1,600
Resultant profit on sale from above land sales	–	1,078
<b>Cost of sales/administrative expenses</b>		
Recharges in respect of fees for Steven Underwood, a non-executive director	(45)	(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)
Payment for the surrender of option to facilitate grant of new lease to third party	–	(934)
<b>Receivables</b>		
Trade receivables	–	1,920
Cash received during the year	1,920	–

During the year ended 31 December 2019 The Aire Valley Land LLP, of which the Group is a 50% partner of, sold a parcel of land at the Gateway 45 site to PLP, a joint venture in which the Peel Group holds a minority stake.

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>MULTIPLY LOGISTICS NORTH HOLDINGS LIMITED &amp; MULTIPLY LOGISTICS NORTH LP</b>		
<b>Revenue</b>		
Sale of land	2,175	–
Recharges of costs	2	256
Development management fee	–	37
Asset management fee	121	348
Water charges	92	48
<b>Receivables</b>		
Trade receivables	10	–
<b>Partner loan made during the year</b>	<b>407</b>	<b>2,793</b>

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>BANKS GROUP</b>		
<b>Revenue</b>		
Annual option sums	15	15
<b>Acquisition of land</b>		
Acquisition of land at Moss Nook	–	3,000
Acquisition of land at Cinderhill	2,412	–
<b>Payables</b>		
Trade payables	(1,200)	–
Deferred payment in respect of the acquisition of land at Moss Nook	–	(1,000)
Cash paid in the year in respect of the acquisition of land at Moss Nook	1,000	–
Cash paid in the year in respect of the acquisition of land at Cinderhill	2,412	–

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>WAVERLEY SQUARE LIMITED</b>		
<b>Shareholder loan made during the year</b>	<b>25</b>	<b>50</b>

# Notes to the financial statements

for the year ended 31 December 2019: continued

## 31. Related parties: continued

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<b>THE AIRE VALLEY LAND LLP</b>		
Partner loan made during the year	250	–
Partner loan repayment received during the year	(3,000)	–
<b>BATES REGENERATION LIMITED</b>		
Shareholder loan repayment received during the year	(799)	–
<b>ANSTY DEVELOPMENT VEHICLE LLP</b>		
Partner loan made during the year	1,496	–
<b>CRIMEA LAND MANSFIELD LLP</b>		
Partner loan made during the year	495	–
<b>NORTHERN GATEWAY DEVELOPMENT VEHICLE LLP</b>		
Partner loan made during the year	22	–

## COMPANY

The Company carried out the following transactions with subsidiary undertakings.

Details of the Company's intercompany balances and interest at 31 December 2019 are set out below:

	As at 31 December 2019		As at 31 December 2018	
	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	586	20,611	585	21,008
Harworth Estates Limited	(41)	(1,659)	(20)	(1,004)
Harworth Estates (Agricultural Land) Limited	(12)	(1,512)	–	–
Harworth Estates Investments Limited	(53)	(2,313)	(9)	(1,559)
Harworth Guarantee Co. Limited	–	(49)	4	(49)
Harworth Estates Mines Property Limited	–	6,250	–	7,000
Harworth Estates Curtilage Limited	59	2,115	56	2,056
Harworth Estates Waverley Prince Limited	(7)	(261)	(4)	(254)
Harworth Estates Property Group Limited	(83)	(3,399)	(32)	(1,842)
Harworth Surface Water Management (North West) Limited	–	(50)	–	–
Coalfield Estates Limited	–	(29)	–	(29)
	<b>449</b>	<b>19,704</b>	<b>580</b>	<b>25,327</b>

## Dividends received

During the year the Company received dividends of £nil (2018: £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 other than in April 2020 RBS and Santander agreed to increase the limit of the Revolving Credit Facility by £30m to £130m.

# Company information and investor timetable

**Chair**

Alastair Lyons

**Chief Executive**

Owen Michaelson

**Chief Financial Officer**

Kitty Patmore

**Non-Executive Directors**

Lisa Clement

Andrew Cunningham

Ruth Cooke

Angela Bromfield

Steven Underwood

Martyn Bowes

**Company Secretary and Registered Office**

Christopher Birch

Advantage House

Poplar Way

Rotherham, S60 5TR

**External 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 lenders**

National Westminster Bank PLC  
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 ticker HWG.L

Bloomberg ticker HWG:LN

**LEI Code**

213800R8JSSGK2KPFG21

**Financial Calendar**

Annual General Meeting Unit 5A, Advanced Manufacturing Park, Brunel Way, Catcliffe, Rotherham, S60 5WG	Announced	29 June 2020
Proposed date for Interim Results Announcement 2020 Interim Results to be published at <a href="http://www.harworthgroup.com/investors">www.harworthgroup.com/investors</a>		15 September 2020

**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](http://www.harworthgroup.com)) that gives further information on the Group.

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