Harworth

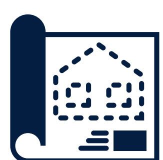
Transforming Regenerating Revitalising

Harworth Group plc
Annual Report and Financial Statements 2017

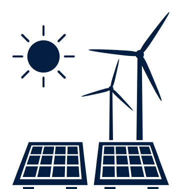
Harworth at a glance

Harworth is a leading land and property developer and investor which owns and manages a portfolio of c.21,000 acres of land on 136 sites located throughout the North of England and the Midlands. It specialises in the regeneration of former coalfield sites and other brownfield land into new residential developments and employment areas.

10,448
housing plots with planning consent
(2016: 9,529 plots)



12.1m sq. ft
of consented land for commercial space
(2016: c.10m sq. ft)



159.7MW
low carbon capacity
(2016: 144.5MW)

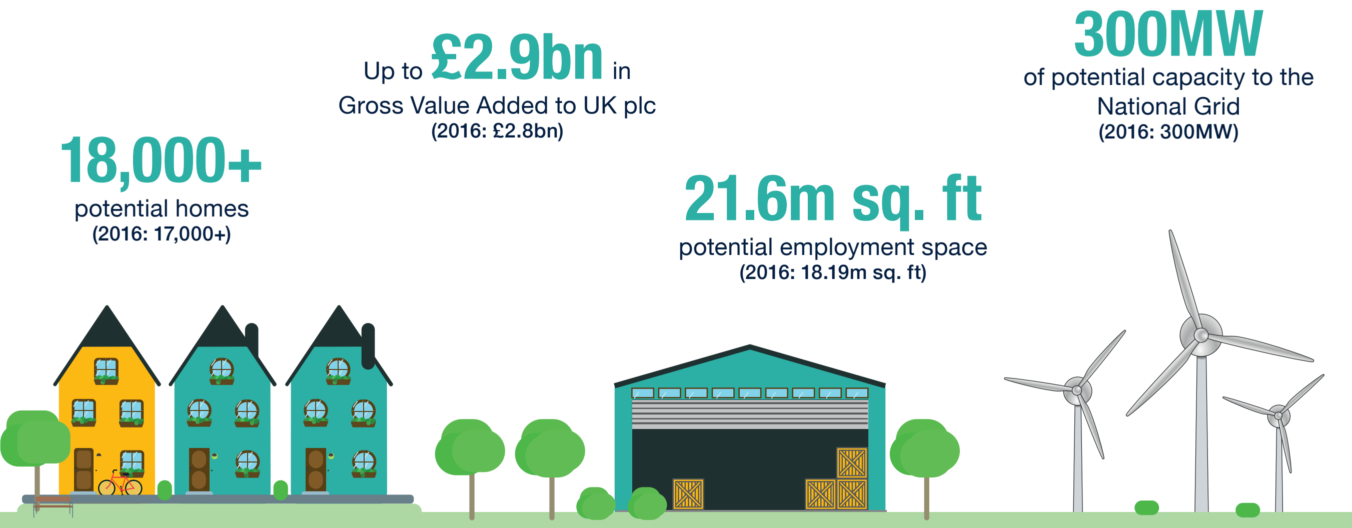
Once completed our developments could make a huge difference to the North of England and the Midlands. They have the potential to deliver:

Up to **£2.9bn** in Gross Value Added to UK plc
(2016: £2.8bn)

300MW
of potential capacity to the National Grid
(2016: 300MW)

18,000+
potential homes
(2016: 17,000+)

21.6m sq. ft
potential employment space
(2016: 18.19m sq. ft)



Harworth works safely and responsibly in making this difference

0 Riddor reports filed by Harworth in 2017
(2016: nil)

57 employees*
(2016: 52)

*As at date of report

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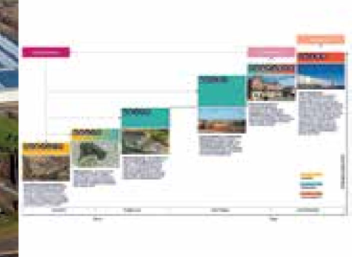

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More information can be found by going to our website:
www.harworthgroup.com

Our strategy

Vision and strategy remain clear and robust

Our vision is to be the UK's leading developer of brownfield land and regeneration partner of choice, delivering a total return to shareholders of over 10% per annum through the property cycle.

We have six strategic priorities in place to deliver this vision.

Strategic priority	KPIs (see page 7 for 2017 performance)	
Development Driving the capital growth of our portfolio through delivery of planning permissions, remediation and infrastructure, before crystallising sales value.	EPRA NNNAV growth and total return per share	Value Gains
Investment Ensuring sustainable income generation through asset management of existing rental sites and direct development of new space.	Profit excluding Value Gains	Interest cover
Sectors Concentrating on those property markets with strong, through-the-cycle returns (currently housebuilding and industrial & logistics).	Consented residential plots	Consented commercial space
Regions Leveraging our strong relationships in our core areas in the North of England and Midlands, whilst seeking to expand into adjacent areas.	Number of sites	Number of acres
Acquisitions Replenishing our landbank by utilising capital to buy new sites to maintain net asset value growth across the portfolio (including joint ventures).	Investment in acquisitions in the year	Disposals less development spend
Financing Maintaining the Group's low Balance sheet gearing to complement risk-appropriate high operational gearing.	Net loan to value	Net debt

Turn to page 36 to read about our Key Risks

Capital Growth

Income Generation

Acquisitions

Where we are	Where we want to be	Key risks
12.5% p.a. EPRA NNNAV per share growth and total return of 13.2% in 2016 and 2017	We continue to aim to grow NNNAV by at least 10% per annum as a consistent average through the property cycle	
We are covering our overheads and interest costs and have been increasing the resilience of our income streams	Our ambition remains to cover the overheads, interest, tax and dividends from ongoing rental and other operating income	
Our current focus is on the "beds and sheds" sectors which have strong fundamentals in the regions we operate in	Our sectoral focus will remain on residential and commercial in the medium-term as these suit our urban edge-of-settlement and regional locations	
Our portfolio remains focused on the North of England with an increasing emphasis on the Midlands and the North West	We want to expand the portfolio into other stable growth areas to diversify the portfolio, with adjacent areas targeted first	
We have been investing c.£25-£30m p.a. over the last three years to replenish and grow the portfolio in order to sustain future growth	We want to keep replenishing the portfolio and delivering EPRA NNNAV growth which will require the same, or higher, levels of acquisitions	
2017 year-end gearing (7.0%) was lower than target given better than expected sales and a delayed acquisition	Ideal target range gearing is of the order of 10%-15% net loan to value	

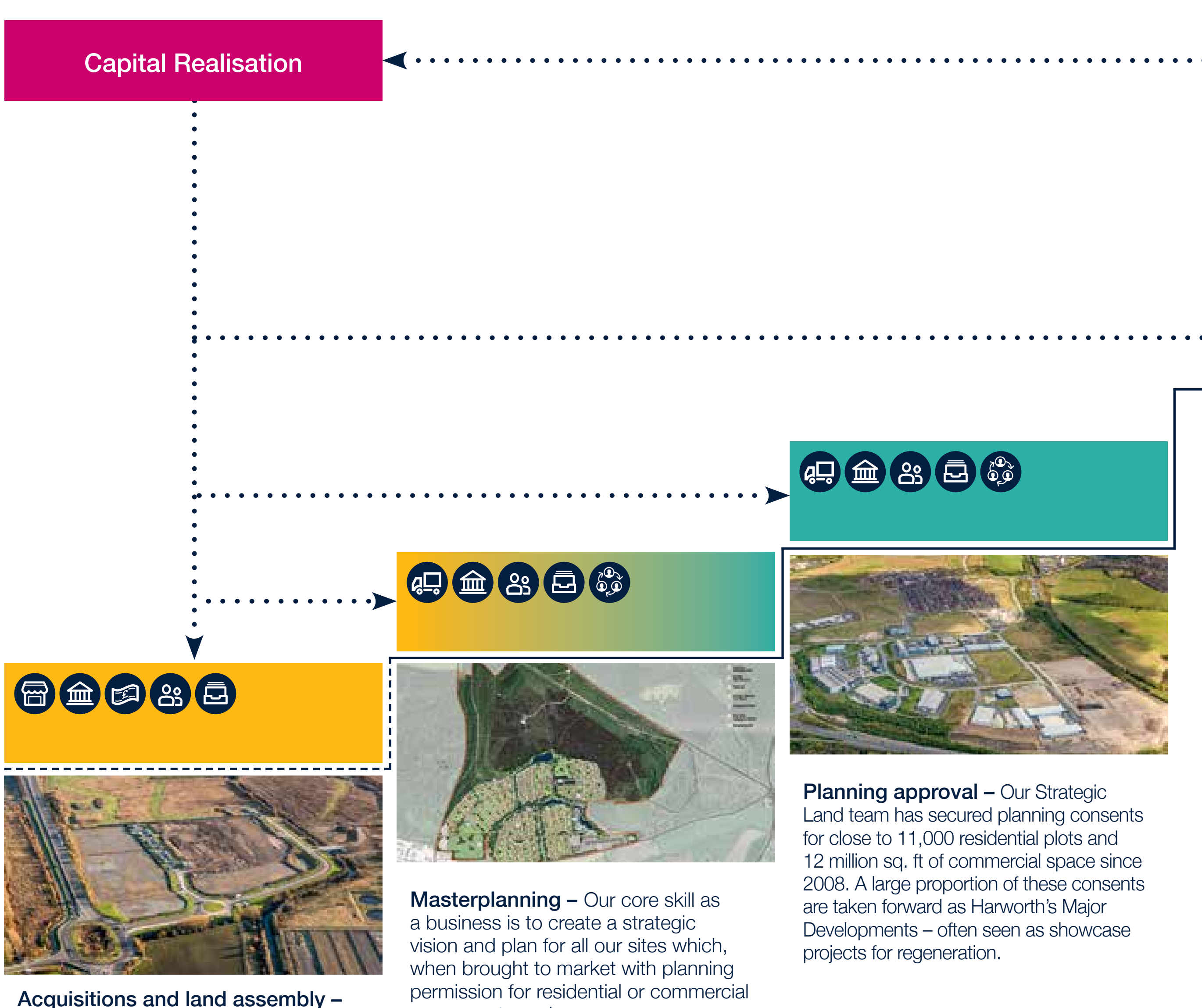
Risk icon key

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

How we add value

The Harworth effect

Harworth operates its business through two segments (Capital Growth and Income Generation) which are replenished through Acquisitions. **CAPITAL GROWTH** focuses on maximising value by developing the property portfolio and includes taking sites through the development cycle from masterplanning inception through to plot sale and build out. **INCOME GENERATION** focuses on retaining and effectively managing selected land and property assets to generate a long-term recurring income stream. **ACQUISITIONS** focuses on replenishing our land and property portfolio with new sites in order to assure the sustainable growth of the business.



Acquisitions and land assembly – We have a large landbank of brownfield land and former industrial assets across the North of England and the Midlands, owning c.21,000 acres of land on 136 sites. An important part of our strategy is to replenish our portfolio with acquisitions to ensure the growth of the business.

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

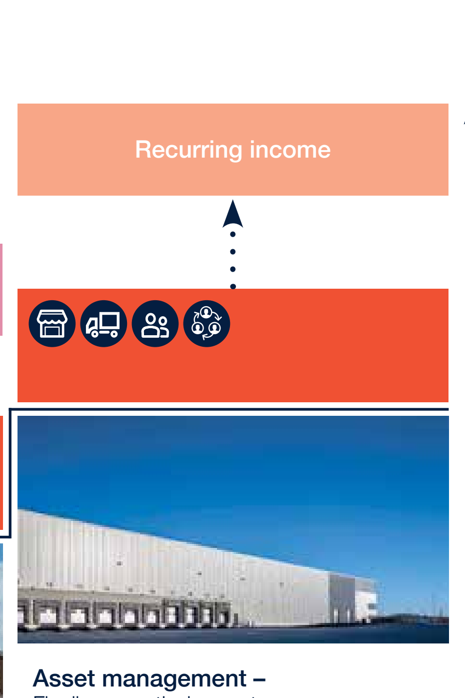
Planning approval – Our Strategic Land team has secured planning consents for close to 11,000 residential plots and 12 million sq. ft of commercial space since 2008. A large proportion of these consents are taken forward as Harworth's Major Developments – often seen as showcase projects for regeneration.

Time

Risk icon key

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

Recurring income



Capital Receipt

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

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

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

Turn to page 36 to read about our Key Risks

Acquisitions

Capital Growth

Income Generation

Indicative Value Add

Time

The markets we operate in

Our markets are supportive of growth

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

Waverley

Residential

- National housing under-supply is driving consistently strong demand for land from housebuilders.
- House price growth in our regions remains positive and is forecast to grow further.
- Government stimulus measures in place to underpin affordability of new homes, including Help to Buy and new funding announced in the Autumn Statement.

Logistics North

Commercial

- Strong demand for well-located industrial space across the regions driven by the growth of e-tailing.
- Supply continues to be squeezed across all regions, driving yield compression.
- Industrial sector is forecast to continue to outperform both the office and retail markets.
- Local support for sustainable new commercial development remains strong.

136 SITES ACROSS THE UK (103 FREEHOLD AS BELOW AND 33 OVERAGES/COMMERCIAL CLAWBACKS)

NORTH EAST 19 sites

YORKSHIRE 45 sites

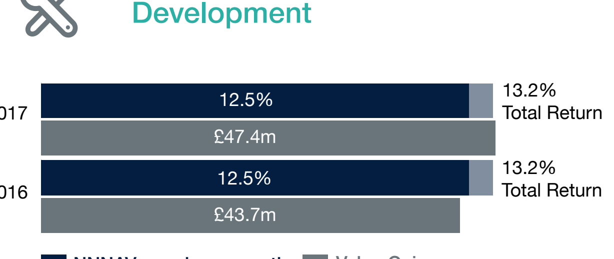
NORTH WEST 6 sites

EAST MIDLANDS 25 sites

WEST MIDLANDS 8 sites

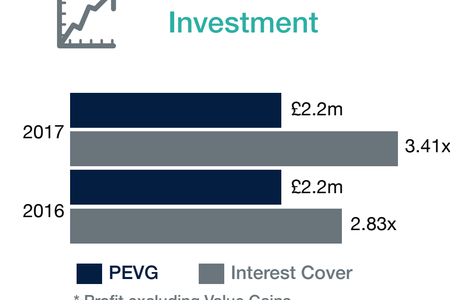
Performance vs. Key Financial Measures

Development



NNNAV per share growth | Value Gains

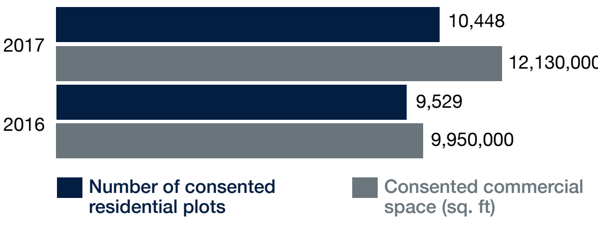
Investment



PEVG | Interest Cover

* Profit excluding Value Gains

Sectors

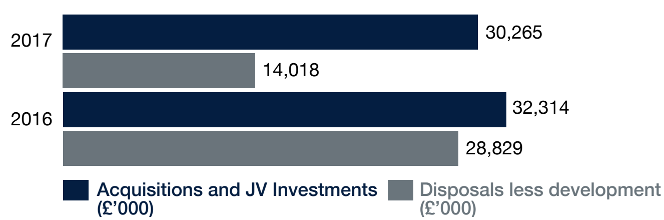


Number of consented residential plots | Consented commercial space (sq. ft)

Regions

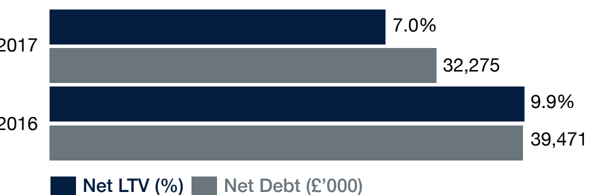
Number of sites | Acres

Acquisitions



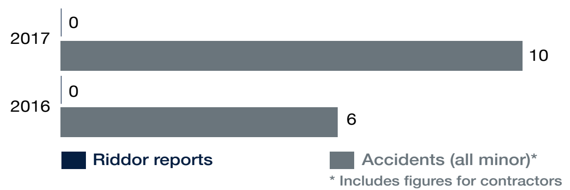
Acquisitions and JV Investments (£'000) | Disposals less development (£'000)

Financing



Net LTV (%) | Net Debt (£'000)

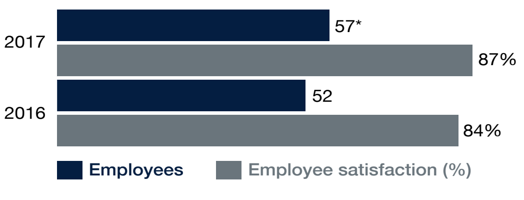
Safety



Riddor reports | Accidents (all minor)*

* Includes figures for contractors

Employees



Employees | Employee satisfaction (%)

* As at date of report

Turn to page 2 to read about our Strategic Priorities

Our year

Key 2017 Achievements

Harworth delivered excellent performance throughout 2017 across its business areas of CAPITAL GROWTH, INCOME GENERATION and ACQUISITIONS.

Set out below are the highlights of the year.

Acquisitions and land assembly

- Successful £27.1m equity raise in March for new acquisitions, all deployed in year
- Five strategic sites purchased in 2017 that could potentially deliver a further c.1,000 plots and over 5m sq. ft of additional commercial space
- Options signed on four sites and preferred bidder position on a further significant site.

Masterplanning

- 10,448 consented residential plots and 12.13m sq. ft of consented commercial space under ownership as at 31 December 2017[(1)]; vast majority utilised within the Major Developments division
- Land to be promoted in the planning system between 2018 and 2020 for a further 4,552 plots plus c.5.9m sq. ft of commercial space[(1)].

Planning approval

- Major outline planning consents secured in April at Kellingley (1.45m sq. ft of commercial space) and in October at Thoresby (800 residential plots and 0.25m sq. ft of commercial space)
- In total, planning secured for 825 residential plots and c.3m sq. ft of commercial space in 2017.

(1) Includes freehold and partnership sites.

Acquisitions

Capital Growth

Income Generation

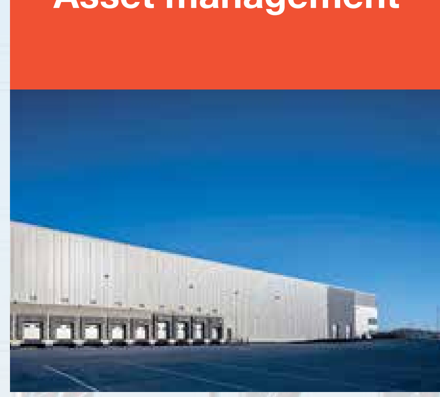
Land remediation & infrastructure development

- 14 sites classed as Major Developments; remediation and site infrastructure works ongoing on these sites to underpin our sales and direct development programmes
- Thoresby and Kellingley added to Major Developments following receipt of outline planning consent in 2017.

Plot sale and build out

- 622 consented residential plots and 0.85m sq. ft of commercial space sold at good profit margins throughout the year, including a number of sales with repeat customers
- Further direct development undertaken and completed at key sites, including innovative joint venture deals at Logistics North and Waverley. Total of over 270,000 sq. ft built in the year.

Asset management



- Over 50 new commercial lettings, renewals and reviews in 2017, including McLaren Automotive at the AMP
- Series of new lettings completed after year-end that justifies decision to build further direct commercial development
- 159.7MW of energy capacity now installed on our land.

Former Chairman's statement

Jonson Cox

I stood down as Non-Executive Chairman of the Board prior to publication of this Report. However, as Chairman during the period under review, I am pleased to be able to present the Group's results for the financial year ended 31 December 2017, which reflect another strong year of growth for the business. EPRA NNNAV is now the Group's principal financial measure following the evolution of our business model and the re-categorisation of properties from investment to development. EPRA NNNAV grew by 12.5% per share (2016: 12.5% per share) to 128.9p (£414.2m (includes £27.1m equity capital raised during 2017 which has been fully deployed)) from 114.6p per share in 2016 (2016: £334.9m).

Strategy and performance overview

Following this year's review of the strategy the Board has reaffirmed our vision: to be the UK's leading developer and brownfield land regeneration partner of choice. Alongside this, we have refined the way we articulate our strategic priorities which are now identified under six headings (development, investment, sectors, regions, acquisitions and financing). We have also highlighted the direct links to the business model, key performance indicators and risks. This will be reflected in future communications with investors and is included in this report.

Development

The Group continues to meet its target to grow EPRA NNNAV by at least 10% per annum as a consistent average. Growth is driven principally by the development activities of our Capital Growth team, including planning promotion, land remediation, engineering and infrastructure development, and, finally, profitable sales.

The Group achieved a number of significant planning successes during the year for the future delivery of 825 residential plots and over 3m sq. ft of commercial space across four sites, with the most notable achievements at our sites at Thoresby and Kellingley. Residential and commercial sales have remained strong, both in terms of volumes and pricing, underpinning and realising value gains. We continued to sell to both new and repeat housebuilders. The first sale of land for commercial use at Wheatley Hall Road to Arnold Clark Ltd illustrates our increasing points of sale across the portfolio. The sale to Exeter/First Industrial at Logistics North, generating a healthy profit on sale, shows the continuing demand for space at our most mature sites.

Investment

Our ambition remains to cover the Group's operating costs, interest, tax and dividends from ongoing rental and other operating income. We have continued to make good progress towards meeting that commitment, led by the investment returns delivered by our Income Generation team. In 2017, those investment returns have contributed 27% of value gains and yields of 7.0%.

During the year we secured over 360,000 sq. ft of major new commercial lettings, including to McLaren Automotive at the Advanced Manufacturing Park ("the AMP") and to Whistl at Logistics North, the latter on behalf of M&G Real Estate, our forward funding partner. We undertook direct development at the AMP and at Logistics North, both in joint venture with Lancashire County Pension Fund ("LCPF") and on our own account. Following further progress on lettings at the start of 2018, all of the wholly owned direct developments in our Business Space portfolio are now let.

Sectors and regions

We continue to see strong demand for our "oven-ready" residential and commercial sites, and direct developments in our core markets in the North of England and the Midlands. This has been affirmed by the sales and lettings we have completed during the year alongside the volume of interest in our sites and units.

Acquisitions

We recognise the importance of sustained momentum in the business. By the end of 2017 we had successfully deployed the £27.1m of equity raised in March 2017 through the acquisition of five new sites with residential and commercial development potential. Those acquisitions have already produced significant revaluation gains during the year, cementing our record of growth from the sites we have acquired since 2014, when the business began to replenish its portfolio.

We have a healthy pipeline, with six options now in place on circa 417 acres of potential development land and a number of acquisition opportunities being explored, including a substantial brownfield site on which we are preferred bidder.

Financing

In February 2018, we extended the availability of our debt funding by agreeing a two-year extension to our £75.0m revolving credit facility with RBS to February 2023 with only a 10 bps increase in margin to 210 bps. In 2017 we also secured a £5.0m increase in our bonding facility to £15.0m. We have continued to use public infrastructure loans to accelerate development. Our net loan to value remains low at 7.0% (2016: 9.9%) or 20.8% when calculated against the income portfolio (2016: 31.3%). We believe our policy of prudent gearing is well suited for land-focussed development businesses such as ourselves.

Dividend

The Company's policy is to grow the dividend in line with the growth of the business, and pay it from recurring income and realised value gains from disposals. The Board will not distribute unrealised gains recognised on the revaluation of property and will retain a proportion of its recurring income and realised gains for reinvestment in acquisitions. We declared and paid an interim dividend of 0.253p per share in October 2017. The Board is recommending a final dividend of 0.575p per share (2016 final dividend: 0.523p). This gives a total dividend of 0.828p per share (2016: 0.753p) being a 10% growth in dividend per share for the year. Subject to shareholder approval at the 2018 Annual General Meeting, the final dividend will be paid on 1 June 2018 to shareholders on the register as at close of business on 4 May 2018. The ex-dividend date will be 3 May 2018.

Succession

I have now been Chairman for more than seven years, during which time I am pleased that Harworth has grown into the respected regeneration business it is today. In the five years since Harworth became a standalone business, following our solvent restructuring of UK Coal, the Group's EPRA NNNAV, including capital raised, has grown by an average of c.14% per annum to £414.2m.

With strong foundations in place, now is the right time to hand the reins to my successor, for the next stage of Harworth's growth and development. As previously announced, I will not be standing for re-election at this year's Annual General Meeting and I welcome Alastair Lyons CBE as my successor. Alastair's appointment took effect on 7 March 2018, at which point I stepped down as Chairman, and retired from the Board at the end of March.

Our people and partners

I feel privileged to have worked with a talented and hardworking team at Harworth, supported also by our advisors and partners. The team continues to grow and mature with the business. Since publication of the 2016 Annual Report, we recruited for five new roles and made a number of promotions. Four of those recruits were women, confirming that promoting diversity across the business remains a priority.

I would like to take this opportunity to thank all of the Harworth team and my Board colleagues for their hard work and contribution throughout the time I have been Chairman. I would also like to extend my thanks to our investors and wider stakeholders for their support through the transformation of Harworth over the last seven years.

Outlook

Harworth is well positioned for the future. It has a robust strategy and business model, a proven track record and a pipeline of opportunities for replenishing its strategic land bank and property portfolio. Its core markets in the North of England and the Midlands continue to perform well. There continues to be a shortage of housing in the areas in which it operates and strong fundamentals underpinning growth in the logistics and advanced manufacturing sectors. Government policy remains largely supportive, with strong backing for brownfield development, prominent housing initiatives including the extension of Help to Buy, and a continued focus on regional investment and devolution.

Against this backdrop, the outlook for the business remains favourable. I wish the entire Harworth team the very best for the future.

Jonson Cox
Chairman (as at 31 December 2017)
24 April 2018

Harworth is well positioned for the future. It has a robust strategy and business model, a proven track record and a pipeline of opportunities for replenishing its strategic land bank and property portfolio.

JONSON COX – CHAIRMAN (AS AT 31 DECEMBER 2017)

Chief Executive's statement

Owen Michaelson

This is another excellent set of results reflecting a strong year of progress for the business. The Group once again delivered a year of double-digit EPRA NNNAV per share growth of 12.5% (2016: 12.5%), with EPRA NNNAV of £414.2m at the year-end (2016: £334.9m). This includes value gains of £47.4m[(1)] (2016: £43.7m), ahead of our expectations, and profit excluding value gains rose marginally to £2.24m[(2)] (2016: £2.21m).

Delivering our strategy

Against the backdrop of our strategic priorities, our operational focus also remains unchanged: extracting maximum value from our predominantly brownfield land portfolio in the North of England and the Midlands to grow EPRA NNNAV; building our recurring income base to cover operating costs; and acquiring brownfield and urban extension land and property to underpin the sustainability of our long-term business model. We do this by continuing to use our masterplanning, technical, placemaking and asset management expertise to transform redundant land into places where people want to live and work, whilst applying the same skills in targeting future areas in which to invest our management time and capital.

Our core markets across the North of England and the Midlands are well suited to our strategy and business model. Demand for new homes in our markets remains steady, reflected by both the rate of sales achieved by our housebuilding partners on our sites and a continued deficit in the number of new homes built versus the official national target of 300,000 new homes per year. The rise of e-tailing and the increasing demands of consumers also continues to support demand for logistics and distribution space, with the industrial sector forecast to outperform both the office and retail markets over the next few years. This is further augmented by a largely supportive legislative framework and a number of recent Government announcements, including the publication of the Industrial Strategy White Paper and further financial support made available within the Chancellor's Autumn Statement to accelerate housebuilding across the UK.

Capital Growth

Our Capital Growth team has continued to make good progress in maximising value from our portfolio through three principal management actions: securing planning consents on major schemes; preparing land for redevelopment; and delivering sales above book value for future residential and commercial development. All have underpinned value gains made during the year.

During the year we achieved planning successes on four sites for the delivery of 825 residential plots and over 3m sq. ft of commercial space. Two of these are worthy of particular highlight. In April, we secured consent for 1.45m sq. ft of new commercial space at Kellingley in Selby, North Yorkshire, less than eighteen months after the UK's last deep mine operations ended there. Further planning success was achieved in October, when we received consent at the former Thoresby Colliery site in Nottinghamshire for 800 new homes alongside 250,000 sq. ft of new commercial space, just over two years after mining ended there. Both sites now form part of our Major Developments segment. As at 31 December 2017, total consented residential plots under ownership stood at 10,448 plots and consented commercial space on our land at 12.13m sq. ft.

We also have live applications in the planning system for 1,308 new plots and 325,000 sq. ft of commercial space. These form part of a wider pipeline of planning applications for the next three years, comprising more than 4,500 residential plots (of which c.1,500 plots are for Planning Promotion Agreements ("PPAs") on third-party land) and 5.9m sq. ft of commercial space to underpin the Group's future disposals programme.

(1) Value gains (including development properties) comprises value gains (£41.6m) plus the increase in the fair market value of development properties (£5.8m).

(2) Profit excluding value gains is operating profit before exceptional items plus joint ventures (£43.8m) less value gains (£41.6m) and pension costs (£nil).

The team continues to plan carefully whether and when to dispose of sites to maximise the return from our portfolio. In 2017 we achieved receipts in excess of book value, realising cash which can be reinvested in bringing other sites and acquisitions forward. A total of 622 residential plots were sold across six parcels to national and regional housebuilders during the year. This included sales to longstanding partners including Taylor Wimpey and Avant Homes alongside new partners such as Keepmoat Homes and SkyHouse, demonstrating the popularity of our product.

We also sold land with planning consent for over 850,000 sq. ft of commercial space across five parcels, including three headline deals. In May, we entered into a joint venture with LCPF to develop the next phase of Logistics North in Bolton. Land totalling 31.2 acres was conditionally sold to Multiply Logistics North Holdings Limited, our joint venture, for the development of 564,000 sq. ft of commercial space over the next two years. Harworth retains a 20% stake in the joint venture and will also undertake development and asset management for separate management and promote fees. As at 31 December 2017, two of the three phases had been sold into the joint venture for the direct development of c.435,000 sq. ft of new commercial space.

The final quarter of 2017 included two further key commercial land transactions. We executed a land sale of 18.3 acres at Logistics North to Exeter/First Industrial for £10.1m, representing its second major investment in the site over the past two years and setting a new benchmark price per acre for the site. In addition, we sold a 6-acre plot at Riverdale Park, Doncaster to Arnold Clark Ltd for £2.5m, representing the first land sale at the 112-acre site since its purchase for £8.5m in December 2015.

Income Generation

During the year, our Income Generation team has maintained its push to grow resilient, recurring income. This has included increased direct development space which we intend to hold for long-term rents, in response to a continued undersupply of good quality new units in the regions. The team continues to asset manage our existing Business Space portfolio to reduce voids and increase rental returns, whilst also deriving rental returns and royalties from energy generation, environmental technologies and the agricultural portfolio. As a by-product of our remediation, engineering and development activities, we also seek to generate income from recycled aggregates.

Lettings progress was strong during the year, including the long-term lettings of over 360,000 sq. ft of directly developed industrial space with a number of new headline rents being set. The year began with Whistl taking a ten-year lease in January for a 225,000 sq. ft unit at Logistics North, just six weeks after we had overseen practical completion of the unit on behalf of M&G Real Estate, our forward funding partner. This was followed in May by the start of construction of five further commercial units at Logistics North: three as the first phase of the 'Multiply Logistics North' joint venture with LCPF totalling c.164,000 sq. ft; and two units (C4 and C5) totalling c.52,800 sq. ft using internal funds. All five units practically completed in the fourth quarter of 2017. Within two weeks of practical completion of units C4 and C5 at Logistics North, we agreed a ten-year lease for C4 at a new headline rent for Logistics North.

We have also undertaken direct development at the AMP to meet growing occupier interest. In April, we achieved practical completion on six new units totalling 51,750 sq. ft, with a leading advanced manufacturer becoming our first tenant for a c.11,000 sq. ft unit at a headline rent of £7.25psf on a 15-year lease. This was followed in December by Spendor Audio taking a 15-year lease on a c.26,000 sq. ft unit as part of their UK expansion. The strength of the AMP as a business location was further demonstrated in July, with McLaren Automotive taking a 20-year lease on a new 75,000 sq. ft unit that we will be constructing on its behalf. McLaren will take occupation in the spring following practical completion. The space will be used to house McLaren's new Composites Technology Centre, which will be used to build carbon-fibre chassis for sports cars from 2019.

During the year, our team also increased income from other underlying assets within our c.1.9m sq. ft Business Space portfolio, with a total of over 50 new, renewed and reviewed commercial lettings being completed in the year. This was further bolstered by the purchase in November of a DHL distribution unit in Droitwich, Worcestershire with an annualised rent roll of £450,000. Asset management opportunities have already been identified to grow the underlying value of this site in future, alongside longer-term development plans. All of this activity led to Business Space revenue in 2017 of £8.4m (2016: £6.2m). The weighted average unexpired lease term ("WAULT") across the portfolio stands at 7.5 years (2016: 7.5 years).

> "With clear momentum in place across all aspects of the business, alongside favourable market conditions and positive Government sentiment towards residential and commercial development on brownfield land, we remain confident in our ability to grow EPRA NNNAV across our portfolio and to increase our recurring income base to cover the operating costs of the business.
>
> **OWEN MICHAELSON – CHIEF EXECUTIVE**

Chief Executive's statement
Continued

Our revenues for the period were also bolstered by the work of our Natural Resources and Operations teams. A total of 159.7MW of energy capacity is now installed on our land, providing a long-term income stream from a combination of ground rents and royalties. The team's focus remains on growing future income from alternative technologies with better short-term prospects and from maintaining income from our tipping operations, which has the added benefit of supporting site remediation.

Acquisitions

The successful completion of our £27.1m equity raise in March to accelerate the continued expansion of our strategic landbank was a key milestone for funding our future growth prospects. Our Acquisitions team deployed the proceeds in 2017 through the acquisition of five sites which have supplemented our strategic landbank and will improve the quality of our recurring income base. These five transactions plus acquisition costs, allied with initial planning and infrastructure costs, account for the full £27.1m of new equity raised. All are forecast to support our ongoing delivery of a double digit internal rate of return, with the December 2017 valuation already reflecting significant value growth from these acquisitions during the year.

The two most notable acquisitions were identified at the time of the placing and were adjacent to our existing landholdings, thus realising significant marriage value as part of our year-end valuation process. The first, Coalville in Leicestershire, is a 145-acre site purchased for £11.8m plus costs. It neighbours our existing Coalville development and already benefits from an existing planning permission for 914 new homes. This acquisition has created a combined site with planning permission for the delivery of over 2,000 new residential plots and associated community facilities over a likely 15-year development pipeline.

The second, Chatterley Valley in Staffordshire, is an 88-acre site purchased for £2.6m plus costs that borders our existing 24-acre freehold site. The entire site benefits from Government Enterprise Zone status and an extant planning permission to deliver up to 1.2m sq. ft of new commercial development.

Replenishing and growing our strategic landbank is essential to maintain delivery of our target of double-digit EPRA NNNAV growth per annum through the property cycle. With this in mind, we have entered into six option agreements to acquire strategic land sites that extend to approximately 250 acres, comprising a mixture of potential residential and commercial sites located in, and adjacent to, our core regions. These sites have the potential to deliver a further 1,500 residential plots and 1.3m sq. ft of new commercial space should these options be taken up.

Strong business momentum

The continuing strong performance of the business, coupled with the robust nature of the markets we operate in, means that we already have significant momentum in 2018. We have agreed over 50% of the year's expected sales, underpinning the Group's performance for the year ahead, although we still expect performance to be second half weighted.

In the first two months of 2018, we have secured a number of long-term lettings which will bolster our income portfolio, at headline rents for each development, clearly reflecting industrial rental growth and supporting ongoing valuation uplifts. At Logistics North, a ten-year lease was agreed in January with Vaclensa Ltd for unit C5, achieving a new headline rent of £7psf. This was followed in February by two further lettings across the portfolio. The first was to British Steel Ltd who completed a 15-year lease on the remaining Phase 2 R-evolution unit, totalling c.15,000 sq. ft, at the AMP at a new headline rate of £7.50psf. The second letting in February saw leading motor retailer Motor Depot Ltd taking a 15-year lease on our Helix unit at Gateway 36 at a new headline rent at the development of £5psf.

This lettings progress has underpinned our decision to proceed on two further direct developments which will grow our recurring income base. Construction of Phase 3 of R-evolution at the AMP, c.56,000 sq. ft of new commercial space, has now begun alongside the second phase of the 'Multiply Logistics North' development that will deliver a further c.270,000 sq. ft of commercial space at Logistics North. Interest in our future commercial pipeline is already strong, driven by both the maturity of our developments such as Logistics North and the AMP, and a continued lack of supply of high-quality units in the regions in which we operate.

Flass Lane

Rail Sidings at Kellingley

Waverley

Gateway 36

Our reputation for being straightforward and acting swiftly in making new acquisitions also stands us in good stead in identifying an acquisitions pipeline, with no shortage of opportunities currently. Prior to the end of February, we signed a PPA for a key site in Derbyshire that unifies eight separate landowners in attempting to secure a major new residential consent. The Cinderhill site totals 421 acres and benefits from a draft housing allocation within the emerging Amber Valley Local Plan for up to 3,000 new homes, alongside 500,000 sq. ft of commercial space. This draft plan has now been submitted to the Government for further examination in the Spring.

With clear momentum in place across all aspects of the business, alongside favourable market conditions and positive Government sentiment towards residential and commercial development on brownfield land, we remain confident in our ability to grow EPRA NNNAV across our portfolio and to increase our recurring income base to cover the operating costs of the business.

People

Our continued strong performance has necessitated growing our team in line with the increasing workload of the business. Our people remain as committed, diligent and steadfast as ever in maximising the value of our portfolio and creating great new places for people to live and work. My thanks goes out to the team, our trusted delivery partners and professional teams for their hard work in making the Group what it is today.

Finally, on behalf of the Board and the Harworth team, I would like to express my thanks to Jonson Cox who has served as our Chairman since November 2010 and helped us navigate through many challenges in creating the business we have today. Successful businesses do not just happen. They require a combination of skill, leadership and good market judgements. I would like to express my sincere thanks for Jonson’s leadership and guidance over the past seven years. I would also like to welcome Alastair Lyons as our new Chairman.

Owen Michaelson
Chief Executive
24 April 2018

Solar farm at Oxcroft

R-evolution Phase 3 at AMP

Capital Growth in 2017

Phil Wilson, Managing Director, Capital Growth

The Capital Growth segment of the business continues to maximise the value of Harworth's portfolio by developing its land and property portfolio to its optimum extent, thereby growing NNNAV. Our active management of sites – principally securing beneficial planning consents, preparing land for redevelopment and delivering sales above book value – remains the principal driver of NNNAV, with 80% of revaluation gains in 2017 directly attributable to management actions.

Strategic Land in 2017

Our focus on planning preparation and promotion in 2016 was rewarded in 2017 in the form of a number of outline planning consents being secured in the year. In April 2017, we secured consent from Selby District Council for 1.45m sq. ft of new commercial employment space at the 151-acre former Kellingley Colliery in North Yorkshire, the UK's last deep mine. Planning was secured less than eighteen months on from the site closing its doors as a mine, a reflection of the team's ability to recognise the inherent strengths of a site's assets and to unify stakeholders behind a compelling vision for regeneration. The site is now being promoted with rail companies to take advantage of its live rail connection to the Hull to Wakefield line.

The team's other major success in 2017 was securing outline consent in October 2017 on the 450-acre former Thoresby Colliery in Nottinghamshire. Newark & Sherwood District Council granted consent at the Midlands' last deep mine for 800 new homes and 250,000 sq. ft of employment space, just over two years after this site also closed. Demolition of the site's former industrial structures is almost complete, with the site's first residential parcel of 11-acres now being prepared in readiness for housebuilders to bid on it in the second half of 2018.

Planning was also secured on two other sites in the portfolio, with a further 25 residential plots and 1.3m sq. ft of commercial space added to our consented landbank. PPAs also continue to be signed with third-party landowners as a source of strategic land and to provide further income to the business should a planning consent be secured. We signed a further three PPAs in 2017 with the potential to deliver c.425 housing plots, bringing the total number of housing plots we are promoting through PPAs to c.1,800.

Delivering our Major Developments in 2017: engineering, plot sales and build out

Value growth through planning continues to be supplemented by the preparation of an increased number of sites for either the sale of engineered land for residential or commercial purposes or for retention for the construction of commercial space to increase our income portfolio – with 14 of our sites now classified as 'Major Developments'. With demand for residential and commercial land continuing to remain strong in our core markets, Major Developments disposals in 2017 achieved a healthy price over book value with the receipts subsequently reinvested in bringing forward further sites in our strategic landbank for development.

The team continues to plan carefully whether and when to dispose of sites to maximise the return from our portfolio. A total of 622 engineered residential plots were sold across six parcels to national and regional housebuilders during the year. In H1 2017, this included sales at Waverley to Taylor Wimpey (130 plots) and Avant Homes (61 plots), alongside a sale at Flass Lane, Castleford to Keepmoat (157 plots) and a sale at Village Farm, Durham to Bloc Group (10 plots). In H2 2017, two further residential sales were made at Waverley to Avant Homes (220 plots) and SkyHouse (44 plots). The latter, a 21st-century take on the Victorian back-to-back home, is the

first starter home product that will be delivered at Waverley, alongside the 800+ family-oriented homes that have already been delivered on-site since 2012.

We also sold land with planning consent for over 850,000 sq. ft of commercial space across five parcels across the year. In May, we entered into a joint venture with LCPF to develop the next phase of Logistics North in Bolton. Land totalling 31.2 acres was conditionally sold to Multiply Logistics North Holdings Limited, our joint venture, for the development of 564,000 sq. ft of commercial space over the next two years. Harworth retains a 20% stake in the joint venture and will also undertake development and asset management for separate management and promote fees. As at 31 December 2017, two of the three phases have been sold into the joint venture for the direct development of c.435,000 sq. ft of new commercial space, with c.164,000 sq. ft across three units already built.

The second half of 2017 included three further commercial land transactions. In August, we sold 3.4 acres of engineered land to Lidl (UK) for them to build a c.12,450 sq. ft new supermarket at Torne Park in Doncaster, adjacent to the first two phases of residential development being brought forward at the site by Taylor Wimpey and Harron Homes. This was supplemented by two significant deals in December. We executed a land sale of 18.3 acres at Logistics North to Exeter/First Industrial in December for £10.1m, representing its second major investment in the site over the past two years and setting a new benchmark price per acre for the site. In addition, we sold a 6-acre plot at Riverdale Park, Doncaster to Arnold Clark Ltd for £2.5m, representing the first land sale at the 112-acre site since its purchase for £8.5m in December 2015.

Following all of this activity, total consented residential plots under ownership or management (including sites where we are promoting third party interests through PPAs) stand at 10,448 plots (2016: 9,529 plots) and consented commercial space on our land at 12.13m sq. ft (2016: 9.95m sq. ft).

Looking forward to 2018

Our core markets continue to offer strong opportunities for growth. Demand for residential land remains strong, with the UK still delivering well below the 300,000 new homes per year required and both large and small housebuilders reporting good demand for new homes across the North of England and the Midlands. Demand for well-connected industrial, manufacturing and logistics space also remains good, with an under-supply of new units of all sizes being reported across the regions. With a number of our sites being located close to key motorway and principal road junctions, we are well-placed to take advantage of this trend.

The fundamentals for the ‘beds and sheds’ sectors in our regions continue to align with our in-house team’s experience in bringing forward residential and commercial land to the market in good locations whilst delivering new commercial space for a range of occupiers. Our focus therefore remains similar to that which we reported in 2016:

- We will continue with our stated strategy of exploiting portfolio opportunities by optimising land use and securing planning consents for both residential and commercial uses. We have live applications in the planning system for 1,308 new plots and 325,000 sq. ft of commercial space. These form part of a wider pipeline of planning applications for the next three years, comprising more than 4,500 residential plots (of which c.1,500 plots are for PPAs on third-party land) and 5.9m sq. ft of commercial space to underpin the Group’s future disposals programme.
- We will also continue to invest in the sites in our portfolio with the highest value enhancement potential, whilst increasing our points of sale to increase value creation and to diversify risk. Our 14 Major Developments sites, including our flagship schemes at Waverley and Logistics North, provide further outlets for us to build new commercial units that can be retained as income-producing assets.
- Lower value sites with little development potential will continue to be sold to free-up management time to devote to sites with the highest value enhancement potential.

CGI of SkyHouse at Waverley

Phil Wilson
Managing Director, Capital Growth
24 April 2018

> The fundamentals for the ‘beds and sheds’ sectors in our regions continue to align with our in-house team’s experience in bringing forward residential and commercial land to the market in good locations whilst delivering new commercial space for a range of occupiers.
>
> **PHIL WILSON – MANAGING DIRECTOR, CAPITAL GROWTH**

Capital Growth case study

Thoresby

One of Harworth's key successes in 2017 was the granting of planning consent for residential and commercial uses at the former Thoresby Colliery – the Midlands' last deep mine to close.

Newark & Sherwood Borough Council granted outline planning consent in October for 800 new homes, 250,000 sq. ft of commercial space, the repurposing of the site's former workshop as a local centre and a 300-acre Country Park across the site's 450 acres.

Harworth took control of the site in October 2015, following the closure of the colliery in July 2015. The Company has spent the last two years undertaking site safety and security works, including demolishing redundant industrial structures, whilst masterplanning the site for future uses and undertaking a range of consultation events on-site with local residents and key local groups. The scheme builds on Harworth's track record in transforming sites with former uses into thriving environments for people to live and work.

The site's masterplan provides for new housing, a retirement village, a primary school, a 25-acre business park, leisure facilities, and a 300-acre country park adjacent to the historic Sherwood Forest and is expected to help create up to 500 jobs. The site benefits from its position next to the A614/A1, connecting Doncaster and Nottingham.

The first phase of residential land, for approximately 150 homes, is expected to be ready for sale to housebuilders as serviced plots towards the end of 2018. It is anticipated that it will take around ten years to fully develop and the site is expected to contribute towards Harworth's continued delivery of at least 10% per annum NNNAV growth through the property cycle.

CGI of completed Thoresby Colliery redevelopment (2017)

Key facts

Location	Edwinstowe, North Nottinghamshire
Total site area	450 acres: 150 acres for residential and commercial development 300 acres for Country Park adjacent to Sherwood Forest
Outline consent granted in October 2017	800 new homes 250,000 sq. ft of new commercial space Adaptation of former workshop building for local centre uses
Size of first plot being prepared for housebuilders	c.10 acres for 150 homes

Income Generation in 2017

Ian Ball, Executive Director, Income Generation

The Income Generation segment of the business continues to make strong progress in creating, managing and retaining selected land and property assets to generate long-term recurring income and support capital growth in the form of NNNAV – particularly from the new commercial space that we are building and letting.

The total Income Generation segment contributed revenue of £18.2m (2016: £17.4m) and gross profit of £12.8m (2016: £12.5m). After the deduction of the overheads of the business, this delivered profit excluding value gains of £2.24m (2016: £2.21m). This reflects the ongoing profitability of the business which is not reliant on value gains or profits from the sale of properties and is, therefore, less susceptible to movements in the property cycle. As part of the Group's strategy, the income that we derive is focused on covering four key costs:

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

Business Space in 2017

At the end of December 2017, our Business Space portfolio consisted of a total of 17 business parks and development sites where we receive both rent and service charges. These sites comprise a total of c.1.9m sq. ft of built space and 436 acres of development land, with 94.4% of our portfolio classified as 'industrial' to cover a range of commercial uses.

Income from our Business Space portfolio continued to grow in 2017, with Business Space revenues rising in 2017 to £8.4m (2016: £6.2m). We now have 108 individual tenants across the portfolio and a portfolio WAULT of 7.5 years, with over 84% of our space now let. This was driven by three principal management actions – the swift letting of newly built space; letting success across the portfolio; and acquiring income-producing property.

We completed over 360,000 sq. ft of long-term lettings in the year on five new commercial buildings that we have built or are in-build at the AMP and Logistics North. Whilst this included Whistl taking a 10-year lease in January 2017 on M&G Real Estate's 'Logistics 225' unit at Logistics North that Harworth built on its behalf, we also completed four pre-lets or lettings on our directly built space during the year. This included McLaren Automotive taking a 20-year lease at the AMP in July 2017 for a 75,000 sq. ft unit that we are building on its behalf, for practical completion in April 2018.

Three other deals related to two developments that we practically completed during 2017. In April 2017, we practically completed 51,750 sq. ft of new commercial space across four units at the AMP known as 'R-evolution Phase 2', with two long-term lettings being secured in the year. An advanced manufacturer took a 15-year lease on a 11,044 sq. ft unit within eight weeks of practical completion, whilst Spendor Audio signed a 15-year lease for a 25,962 sq. ft unit at a new headline rent at the development of £7.50psf. In addition, we completed two new commercial units known as 'R-evolution' at Logistics North, totalling 52,871 sq. ft that practically completed in December 2017. Within 2 weeks, Northern Building Plastics took a 10-year lease on the 24,987 sq. ft unit.

This letting success formed part of the overall success across the wider Business Space business in the year, with the completion of over 50 new commercial lettings, renewals and reviews in 2017 generating a total of £1.1m of additional recurring rent per annum. This was further bolstered by the purchase of the 8.7-acre site at Berry Hill Industrial Estate in Droitwich, Worcestershire, from DHL, for £5.2m plus acquisition costs in November. This site currently comprises a 112,416 sq. ft commercial unit, that has immediately been leased back to DHL. The five-year term at a passing rent of £450,000 per annum, which represented a net initial yield of 8.15% and a reversionary yield of 8.65%, supports our strategy of developing better quality, more resilient income across the portfolio.

As referred to in 'Capital Growth', our year also included the completion of the first three units of 'Multiply Logistics North', our Joint Venture with the LCPF. These units, totalling c.164,000 sq. ft, practically completed in November 2017 and are now being promoted to commercial occupiers for long-term leasehold occupation.

Natural Resources in 2017

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

We grew income from renewables in 2017, with a further net 15MW of capacity installed on our land in the year. Core income from 159.7MW of low-carbon energy developments is now in place, alongside income from tipping operations on a number of sites in Yorkshire and the East Midlands.

A large part of 2017 involved the team developing proposals to tap into alternative technologies that have strong Governmental support, including the emerging battery storage market. We expect a number of these proposals to result in deals in 2018.

Operations in 2017

Income from the Operations business comprises revenue from the recycling and sale of coal fines, aggregates and scrap that are by-products from the development process. Whilst regulatory changes have signalled the end of coal-fired power stations by the end of 2025, coal fines remain a key source of fuel for power station operators in the short-term – meaning that it remains a source of income from five sites following its removal as part of the land restoration and remediation process.

Income continues to be generated from the supply to DRAX power station in North Yorkshire and Ratcliffe power station in Nottinghamshire, with a new customer, EDF Energy, taking coal fines to support the operation of Cottam and West Burton power stations in Nottinghamshire in 2017. Income also continued to be generated from the sale of aggregates that are by-products from the demolition and remediation of a number of our sites.

Looking forward to 2018

As with Capital Growth, our core markets remain robust and we are confident that we can further grow our recurring income base through our Business Space portfolio in 2018. Demand for well-connected industrial and logistics space remains good owing to an under-supply of new units of all sizes, which benefits both the AMP and Logistics North given their proximity to the UK motorway network. This confidence was underpinned by our start to the year, with three key lettings agreed by February. Vaclensa took a 10-year lease on the final 27,884 sq. ft 'R-evolution' unit at Logistics North at a headline rent at £7psf, whilst British Steel Limited took a 15-year lease on the c.15,500 sq. ft final 'R-evolution Phase 2' unit at the AMP at a headline rent of £7.50psf. Finally, we successfully leased the final vacant unit at Gateway 36 in Barnsley to Motor Depot Limited, with the company taking a 15-year lease at the 75,277 sq. ft "Helix" unit at a headline rent of £5psf.

As a result of this activity, our wholly owned direct developments in the Business Space portfolio are fully let. This has underpinned our decision to speculatively develop the third phase of "R-evolution" at the AMP, comprising 55,750 sq. ft of additional commercial space that is due to practically complete in

R-evolution Phase 2 Unit at AMP, Rotherham

September 2018. Where appropriate, we will continue to progress selected direct developments to 'move up the value curve' and deliver long-term income on our highest value and best-connected sites.

Our Business Space team will also continue to explore joint venture transactions on our most valuable sites in order to capture development management, asset management and promotion fees from third parties. This includes the letting of all co-owned units in the portfolio, including the first three units of the 'Multiply Logistics North' development and the remaining M&G Real Estate-owned Logistics 175 unit, also at Logistics North. Effective asset management will remain in place to drive further value and income from our present portfolio, including further reducing our vacancy rate and regearing leases as appropriate, whilst also working with Acquisitions colleagues to grow our recurring income by identifying additional income producing acquisitions.

Elsewhere, positive interest remains for multi-energy schemes across a number of our sites, to address current system imbalances. Natural Resources management time will continue to focus on driving income from well-supported new technologies to address energy imbalances, including battery storage, whilst progressing planned existing schemes within our pipeline. We will aim to maintain coal fines sales in the medium-term, given the required blend of power sources needed to keep the lights on in the UK and to also support our site remediation process as we open up further sites for redevelopment. Where possible, this means that we will look to secure larger contracts from our existing coal fines customers – DRAX, Uniper (Ratcliffe) and EDF (Cottam and West Burton) – to build a more resilient Operations business in the short-term.

Ian Ball
Executive Director, Income Generation
24 April 2018

Where appropriate, we will continue to progress selected direct developments to 'move up the value curve' and deliver long-term income on our highest value and best-connected sites.

Income Generation case study

Logistics North

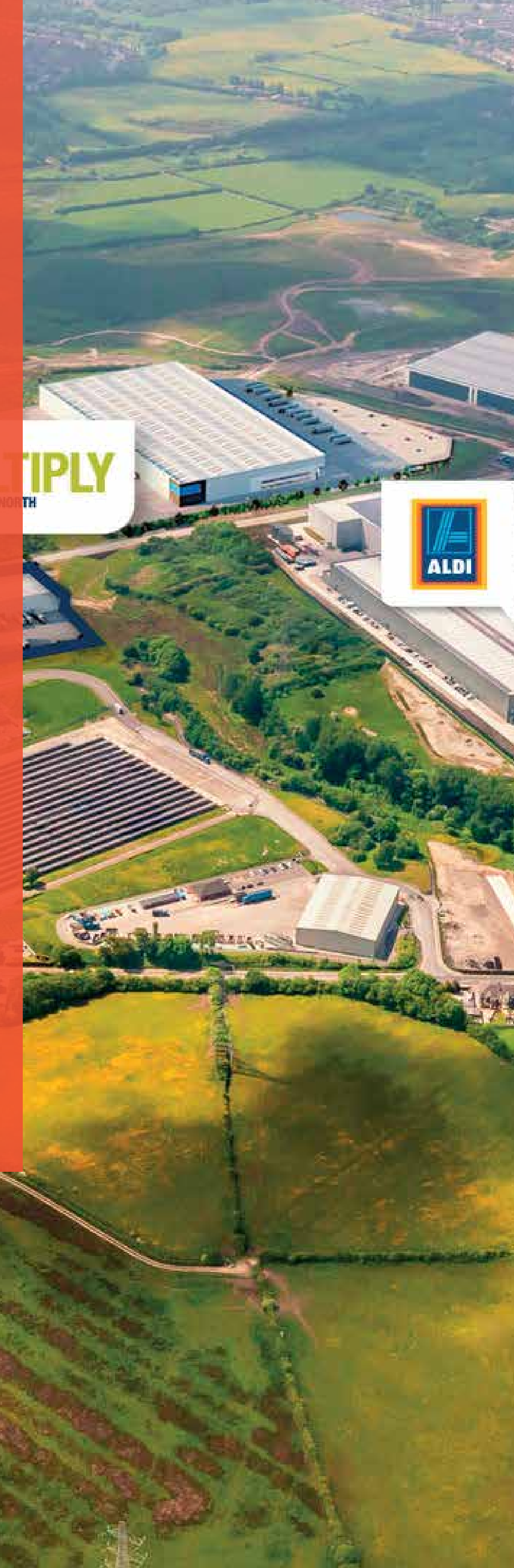
Significant progress was made at Logistics North in 2017 in building and letting a range of new commercial space for tenants, providing a long-term recurring income stream for the business whilst also being a source of value gains.

The year began with Whistl taking a ten-year lease on Logistics 225 – the c.225,000 sq. ft unit built by Harworth on behalf of M&G Real Estate. The unit now acts as Whistl's North West distribution headquarters, with a ten-year lease being signed at a North West industrial headline rent of £6psf.

With Whistl's deal highlighting the extent of demand at the site, Harworth then began the construction of three new units to hold for income purposes. These included two speculative development commercial units totalling c.52,900 sq. ft, aimed at small and medium-sized businesses, alongside a c.1,800 sq. ft drive-thru facility built on behalf of Costa, which took a 15-year lease from July 2017. Units C4 and C5 practically completed in December 2017 and within two weeks had been let to long-term tenants. Northern Building Plastics took a 10-year lease on the c.25,000 sq. ft Unit C4, whilst Vaclensa took a 15-year lease on the c.27,900 sq. ft Unit C5 at a headline rent for the development of £7psf.

Further evidence of Logistics North's success followed in May, with Harworth entering into a joint venture with LCPF to develop the next phase of commercial units at the site. Land totalling 31.2 acres was conditionally sold to Multiply Logistics North Holdings Limited, our joint venture, for the development of 564,000 sq. ft of commercial space over the next two years. Harworth retains a 20% stake in the joint venture and will also undertake development and asset management for separate management and promote fees. As at 31 December 2017, two of the three phases had been sold into the joint venture for the direct development of c.435,000 sq. ft of new commercial space, with the partnership's first three units – totalling 164,000 sq. ft – already practically complete. As at March 2018, two of these units were in legals.

2018 will see the second phase of Multiply Logistics North practically complete – six new units totalling c.270,000 sq. ft ready for occupation for manufacturing or distribution uses. Leasehold interest is also being sought on all remaining plots at Logistics North, which could deliver units of up to 250,000 sq. ft.



Aerial of Logistics North, February 2018

Key facts	
Location	Bolton, Greater Manchester
Full extent of Multiply Logistics North development	10 new units totalling 564,000 sq. ft, set over 31.2 acres
Phase 1 Multiply space built by December 2017	3 new units totalling c.164,000 sq. ft
Other commercial space built by Harworth for income purposes in 2017	Units C4 and C5, totalling c.52,900 sq. ft New drive through unit for Costa, totalling c.1,800 sq. ft
Tenants signed up between January 2017 and March 2018	Whistl (M&G Real Estate's Logistics 225) Vaclensa, Northern Building Plastics (Units C4 and C5) Costa (drive-through unit) 2 other units in legals
Phase 2 Multiply space now being built	6 new units totalling c.270,000 sq. ft that will be practically complete in Q4 2018

Acquisitions in 2017

Gary Owens, Director, Acquisitions

Replenishing our land and property portfolio to ensure the sustainable growth of the business remains one of our six strategic priorities. Utilising capital to purchase: new, significant, mainly brownfield development sites; edge of settlement, strategic land opportunities; or business parks with asset management and/or development opportunities form the backbone of our acquisitions strategy, with a dedicated team now in place to deliver it.

Following the successful £27.1m equity raise in March 2017 for new acquisitions, we deployed all of the proceeds on five strategic sites in the year that could potentially deliver a further c.1,000 plots and over 5m sq. ft of additional commercial space. Crucially, a number of these sites realised significant capital growth marriage value at year-end, owing to their proximity to landholdings within the existing portfolio, whilst also deriving income as we continue to improve the quality of the business' recurring income base. In addition, we signed options on another four sites and secured preferred bidder position on a further significant site, providing a strong land pipeline for further growth.

March 2017 equity raise

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

At the time of placing, we advised shareholders that there were no shortage of opportunities to deploy the proceeds in our core markets of the North of England and the Midlands. By November, we had successfully deployed all of this new equity on principally Capital Growth opportunities, with a projected rate of return in each case above our target rate.

Acquisitions made in 2017

Our first three acquisitions were made in August 2017 for a total consideration of £16.3m plus costs on sites identified as part of the equity placing.

Coalville, Leicestershire

The first, Coalville in Leicestershire, is a 145-acre site purchased for £11.8m plus costs. It neighbours our existing Coalville development and already benefits from an existing planning permission for 914 new homes. This creates a combined site with planning permission for over 2,000 new residential plots and provides a 15-year development pipeline, realising significant marriage value at year-end.

Chatterley Valley, Staffordshire

The second, Chatterley Valley in Staffordshire, is an 88-acre site purchased for £2.6m plus costs that borders our existing 24-acre freehold site. The entire site benefits from Government Enterprise Zone status and an extant planning permission to deliver up to 1.2m sq. ft of new commercial development. The combined site also benefits from a live rail connection and, similarly to Coalville, realised significant marriage value at year-end.

Wingates, Bolton

The final acquisition, Wingates in Bolton, involved the freehold purchase or option to purchase three land parcels totalling 73 acres. The land is adjacent to Junction 6 of the M61, two motorway junctions north of our existing Logistics North development, and borders 221 acres of land that we already own. When all of this land is combined, it could deliver a further 2.4m sq. ft of commercial employment space for both manufacturing and distribution businesses. This site now forms part of our strategic planning pipeline between now and 2020.

Our final two acquisitions in the year completed in December 2017.

Strategic land site, Doncaster

Our penultimate purchase of the year was a privately sourced 131-acre site in Doncaster, South Yorkshire, for £3.0m plus acquisition costs, with an option agreement for a further 131 neighbouring acres. Adjacent to Junction 5 of the M18 and in a borough where we already have significant landholdings, this site also forms part of our future strategic planning pipeline, as it has the potential to deliver 2.4m sq. ft of distribution, manufacturing and engineering space.

Berry Hill industrial estate, Worcestershire

Our final purchase of the year was an 8.7-acre site at Berry Hill industrial estate in Droitwich, Worcestershire, from DHL, for £5.2m plus acquisition costs. Three miles from Junction 5 of the M5, the site currently comprises a 112,416 sq. ft commercial unit, that has immediately been leased back to DHL. The five-year term at a passing rent of £450,000 per annum represents a net initial yield of 8.15% and a reversionary yield of 8.65%, supporting the Group's strategy of increasing and improving the quality of its recurring income base, whilst in the longer-term, the site's very low density of 30% provides attractive upside opportunity for a whole or partial site redevelopment.

With significant value gains being achieved on these acquisitions in 2017, given marriage value capture, this has supported an overall return rate on all acquisitions made since 2014 of over 15% per annum. Acquired sites now account for over a quarter of the value of the portfolio.

In addition to these acquisitions, we also have four further option agreements in place to acquire, in aggregate, approximately 250 acres of strategic land. These sites – two in the North West, one in Yorkshire and one in the East Midlands – could deliver in aggregate over 1,500 residential plots and 1,300,000 sq. ft of new commercial space if taken up.

Looking forward to 2018

The outlook for our principal markets in the North of England and Midlands remains strong, with a scarcity of good quality new commercial space continuing to drive the allocation of new sites and occupier demand for well-connected new space.

We have an annual target of acquiring land with the ability to deliver over 1,000 residential units and over 1m sq. ft of commercial space, translating to over 200 acres of net developable land. Whilst this target is a challenging one, our track record as a business, our ability to transact quickly, the fact that existing strong relationships with public bodies are in place and the four land options already available to the business provide a solid foundation to make further purchases that will deliver a double-digit rate of return.

Good opportunities remain available to Harworth across its core regions, specifically within our target growth areas of the Midlands and North West. Our aim is to secure new opportunities across the following three key areas:

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

Coalville

Chatterley Valley

Gary Owens
Director, Acquisitions
24 April 2018

Crucially, a number of these sites realised significant capital growth marriage value at year-end, owing to their proximity to landholdings within the existing portfolio.

GARY OWENS – DIRECTOR, ACQUISITIONS

Acquisitions case study

Purchase of site for future residential development at Coalville, Leicestershire

The purchase of 145 acres of land at Coalville, Leicestershire for £11.8m plus costs in August 2017 was our first major site purchase following the successful raising of £27.1m of new equity in March 2017.

This land already has an outline planning permission for housing, which could deliver 914 new homes across 76 net developable acres. Crucially, the site is also adjacent to our existing 200-acre Coalville site, which has planning consent for 1,102 new homes. This combined scheme is now Harworth's second largest residential development, behind Waverley, and provides a 15-year pipeline of land for residential sales.

The purchase delivered immediate marriage value as recognised in the 2017 valuation, whilst our development appraisal forecasts a rate of return in excess of our required hurdle rate.

Our focus has now shifted to value engineering the first development platforms to sell to housebuilders. We plan to select the site's first housebuilder in 2018, with a further 15 years of sales and development across the full scheme to follow. Work will also take place to optimise the existing planning consent across both sites to maximise eventual returns.

Aerial of coalville site, September 2017

Key facts

Location	Coalville, Leicestershire
Total acreage	346 acres – 183 of which can be developed
Purchase price	£11.8m plus acquisition costs
Total number of homes that could be built on-site	914 homes
Total number of homes that could be built across our entire Coalville development	2,016 homes
Projected development timetable	15 years

Financial Review

Andrew Kirkman, Finance Director

Overview

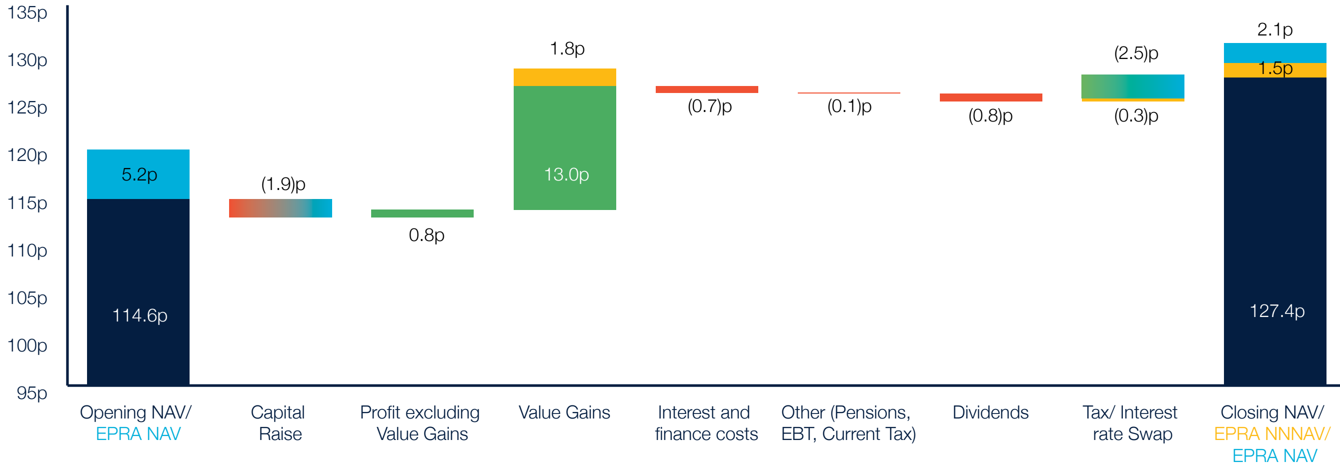
Further significant progress was made across the business in 2017, which resulted in another year of double digit growth in EPRA NNNAV. This growth was after including the impact of the March 2017 equity capital raise which had the impact of a c.2.0% dilution in net assets per share. EPRA NNNAV rose by 12.5% to 128.9p per share (£414.2m) compared to 114.6p per share as at 31 December 2016 (£334.9m). NAV per share increased to 127.4p (£409.3m) as at 31 December 2017, which is an 11.2% increase on the NAV per share as at 31 December 2016 of 114.6p (£334.9m).

Operating profit before exceptional items in 2017 was £39.7m (2016: £45.2m). However, the statutory measure does not now capture the growth and profitability of the business fully as we are conducting some of our activities through joint ventures (2017: £4.0m, 2016: £0.6m) and, as set out below, the revaluation gains on development properties post re-categorisation (2017: £5.8m, 2016: £nil) fall outside of this measure. Taking account of both of these additional sources of value creation, operating profits which contributed to EPRA NNNAV rose by 8.1% to £49.6m (2016: £45.8m) reflecting active management across our portfolio.

We consider that the operating profits which contributed to EPRA NNNAV growth of £49.6m (2016: £45.8m) can best be understood as being composed of two elements:

- Value gains (£47.4m; 2016: £43.7m) – profits on disposals of investment, development and available for sale properties £10.7m (2016: £8.8m) and revaluation gains on our property portfolio of £36.7m (2016: £34.9m). Revaluation gains comprise: revaluation movements on investment property of £32.1m (2016: £33.6m), profits from joint ventures of £4.0m (2016: £0.6m), gains on overages of £0.6m (2016: £0.7m) and revaluation movements on development properties of £5.8m (2016: £nil) less a net realisable value provision of development properties of £5.8m (2016: £nil). As development properties are held as inventory, the revaluation gain is not included in the Balance sheet. Instead the revaluation amount is verified by BNP Paribas and Savills, our external property surveyors. Profit from joint ventures are included within this measure as our joint ventures conduct similar operations to Harworth, albeit in different ownership structures, and the principal profits in the joint ventures to date have been from revaluation gains; and
- Profit excluding value gains (£2.2m; 2016: £2.2m) – this shows the ongoing profitability of the business which is not reliant on property value gains or profits from the sales of properties and is therefore less susceptible to movements in the property cycle. Profit excluding value gains rose by 1.2% in 2017.

The graph below shows the gain in net asset value, across the different measures, over 2017:



Earnings per share rose by 15.4% to 15.8p (2016: 13.7p[1]) reflecting the progress in profits as well as the recognition of previously unrecognised deferred tax assets following greater certainty of their recoverability. The total dividend per share for 2017 rose by 10% to 0.828p (2016: 0.753p) reflecting the long-run ambition to deliver through the cycle double-digit growth in EPRA NNNAV.

Net debt at £32.3m or 7.0% net loan to value (2016: £39.5m and 9.9%) reflects Harworth's continuing prudent gearing policy. In February 2018, the Group extended the term of its £75.0m revolving credit facility with RBS, such that it now ends in February 2023.

Note:

(1) The 2016 EPS has been restated following discussions with the Financial Reporting Council and their review of the 2016 Financial Statements, which did not correctly reflect the effect of the May 2016 1 for 10 share consolidation on EPS.

Business model and property categorisation

Harworth has become more firmly established in recent years, particularly as a result of the effective re-listing in March 2015 and the development of a successful track record. At the same time, our business model has matured and evolved, notably with moves into adjacent activities such as direct development and forward funding deals. As a consequence, following the capital raise in March 2017, which was to accelerate the acquisition of strategic land for development, we reviewed our most advanced and active sites and re-categorised certain properties to reflect the intentions for the sites. The majority of Waverley, Logistics North and Prince of Wales were re-categorised as development sites and as such are now disclosed within inventory. Development sites are held on the Balance sheet at cost rather than fair/market value, albeit at the point of re-categorisation the property is transferred at fair value. The Balance sheet value of these three development sites at the point of re-categorisation was £77.7m.

Following further evolution of Harworth's business model during 2017, we have refined our thinking in the light of site and market opportunities, and concluded that it is appropriate, on the whole, to re-categorise all properties which have received planning permission as development properties. For 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. The only site within Major Developments that has not been re-categorised as a development property is Lounge in Leicestershire for which its future use is undetermined as a result of the proposed HS2 Phase 2b route.

Property categorisation is reviewed as at 30 June and 31 December each year. Following the 2017 year-end review, a further £151.4m has been re-categorised from investment property. The Balance sheet value of all development sites as at 31 December 2017 was £210.5m (reflecting sales and development expenditure at the three sites re-categorised in the first half). The market value of all development sites as at 31 December 2017 was £216.3m reflecting the £5.8m uplift in value of these sites, which is appropriately not reflected in the Balance sheet. In order to highlight the market value of development sites and be consistent with our investment properties, we are using EPRA NNNAV, which includes the market value of development properties, less notional deferred tax, as our primary metric. We will continue to report EPRA NAV which is EPRA NNNAV excluding deferred tax and the mark to market movement on financial instruments.

> Further significant progress was made across the business in 2017, which resulted in another year of double digit growth in EPRA NNNAV.
>
> **ANDREW KIRKMAN – FINANCE DIRECTOR**

Financial Review

Continued

The table below sets out our top ten sites by value, split by their categorisation, and showing the total acres, residential plots and commercial space:

			Housing plots			Commercial space	
Site	**Type**	**Total Acres**	**Consented**	**Sold**	**Built**	**Consented**	**Built**
Waverley	Development	454	3,890	1,218	800	–	–
Coalville	Development	346	2,016	0	0	–	–
Rossington	Development	334	1,200	170	100	0.1m sq. ft	0 sq. ft
Lounge	Investment	103	–	–	–	0.8m sq. ft	0 sq. ft
Waverley (AMP)	Investment	115	–	–	–	2.1m sq. ft	1.2m sq. ft
Asfordby	Investment	141	–	–	–	0.3m sq. ft	0.3m sq. ft
Gateway 36	Investment	430	–	–	–	0.2m sq. ft	0.2m sq. ft
Harworth	Development	440	996	118	118	0.8m sq. ft	0 sq. ft
Walton Summit	Investment	19	–	–	–	0.3m sq. ft	0.3m sq. ft
Thoresby	Development	460	800	0	0	0.3m sq. ft	0 sq. ft
	TOTAL	**2,842**	**8,902**	**1,506**	**1,018**	**4.9m sq. ft**	**2.0m sq. ft**

March 2017 equity placing

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

During 2017, we have invested all of the proceeds from the equity placing in five acquisitions at: Chatterley Valley near Stoke; Coalville in Leicestershire; Wingates near Bolton; a strategic site near Doncaster; and a DHL depot in Droitwich. The first three sites were all adjacent to existing Harworth properties. The total consideration including costs was £26.0m with additional spend expected on these sites during 2018 for planning and initial development expenditure.

Operating profit

Revenues in 2017 were £53.7m (2016: £33.7m) split between revenue from operations £23.9m (2016: £33.7m) and revenue from the disposal of development properties £29.8m (2016: £nil). Revenue from operations is split between: Income Generation £18.2m (2016: £17.4m), where revenue mainly comprises rental and royalty income together with some sales of coal fines and salvage; and Capital Growth £5.7m (2016: £16.3m). The increase in revenue from Income Generation reflected improved lettings and business space acquisitions made in late 2016 and in 2017. The reduction in revenue from Capital Growth reflected the completion in December 2016 of the two units at Logistics North which were forward funded by M&G Real Estate. The revenue in 2017 reflected amounts received on completion of the work including a promote fee on the letting of the larger 225,000 sq. ft unit to Whistl in January 2017. The smaller 175,000 sq. ft unit continues to be actively marketed on behalf of M&G Real Estate.

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

Cost of sales now comprises three elements being: sales of development properties; operating costs for business space, natural resources, agricultural land and coal fines activities; and costs in relation to the M&G Real Estate contract for the construction and letting of units. Cost of sales increased to £37.7m (2016: £20.9m) including some large movements being the first-time recognition of sales of development property of £27.9m (2016: £nil) and a reduction in costs associated with the M&G Real Estate contract to £3.7m (2016: £15.6m).

Total overheads, which include the overhead costs of the Capital Growth and Income Generation segments and central costs, amounted to £12.0m (2016: £10.6m). The increase in costs reflected an increased accrual for the 2012 Harworth Estates Long Term Incentive Plan, which concluded at the end of 2017, as a result of EPRA NNNAV outperformance, as well as increased staffing and business costs reflecting greater, and more productive, operational activity. The table below, which is a non-statutory presentation, shows the results of the business split between Capital Growth, Income Generation and Central Overheads:

	2017				2016			
	Capital Growth £m	**Income Generation £m**	**Central Overheads £m**	**Total £m**	Capital Growth £m	Income Generation £m	Central Overheads £m	Total £m
Revenue	**35.4**	**18.3**	**–**	**53.7**	16.3	17.4	–	33.7
Cost of sales	**(32.3)**	**(5.4)**	–	**(37.7)**	(16.0)	(4.9)	–	(20.9)
Overheads	**(1.9)**	**(1.8)**	**(8.3)**	**(12.0)**	(1.8)	(1.5)	(7.3)	(10.6)
Notional development property costs [(1)]	**(1.9)**	–	–	**(1.9)**	–	–	–	–
Other operating income/(expense)	–	–	**0.1**	**0.1**	–	(0.1)	–	(0.1)
Profit excluding value gains [(2)]	**(0.7)**	**11.1**	**(8.2)**	**2.2**	(1.5)	10.9	(7.3)	2.2
Revaluation gains	**20.6**	**6.3**	–	**26.9**	24.2	10.0	–	34.2
Profit on disposals [(2)]	**8.0**	**2.7**	–	**10.7**	7.6	1.3	–	8.9
Pension charge	–	–	–	–	–	–	(0.1)	(0.1)
Operating profit before exceptional items	**27.9**	**20.0**	**(8.2)**	**39.7**	30.2	22.1	(7.2)	45.2
Net exceptional items	–	–	**0.3**	**0.3**	–	–	–	–
Operating profit/(loss)	**27.9**	**20.0**	**(7.9)**	**40.1**	30.2	22.1	(7.2)	45.2
Joint ventures	–	**4.0**	–	**4.0**	-	0.6	-	0.6
Operating profit before exceptional items plus JVs	***27.9***	***24.0***	***(8.2)***	***43.8***	*30.2*	*22.7*	*(7.2)*	*45.8*
Revaluation gains on development properties [(3)]	***5.8***	–	–	***5.8***	–	–	–	–
Value gains (including JVs and development properties)	***21.0***	***26.4***	–	***47.4***	*31.7*	*12.0*	–	*43.7*

Notes:

(1) The income statement has been re-presented to show development property sales (£7.7m) within profit on disposals and development property impairment (£5.8m) within revaluation gains. This notional cost is the net amount.

(2) Profit excluding value gains comprises operating profit before exceptional items of £39.7m (2016: £45.2m) less pension costs of £nil (2016: £0.1m) and value gains of £37.6m (2016: £43.0m). Value gains comprise profit/(loss) on disposals (being profits on sale of investment properties of £2.9m (2016: £9.2m), assets held for sale of £0.1m (2016: loss of £0.4m) and development properties of £7.7m (2016: £nil) plus increase in fair value of investment properties of £26.9m (2016: £34.2m).

(3) This is the unrecognised mark to market gain since the properties were re-categorised into development properties.

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

Set out below are value gains for 2016 and 2017, which comprise profit on disposals, revaluation gains on investment properties (including joint ventures) and revaluation gains on development properties:

	2017				2016			
	Profit on	**Revaluation gains**			Profit on	Revaluation gains		
£m	**disposals**	**Management**	**Market**	**Total**	disposals	Management	Market	Total
Development/Capital Growth								
Major Developments	**8.0**	**8.7**	**4.3**	**21.0**	6.8	8.7	3.4	18.9
Strategic Land	**0.0**	**12.2**	**1.2**	**13.4**	0.7	10.8	1.3	12.8
Investment/Income Generation								
Business Space	**0.5**	**4.4**	**0.8**	**5.7**	0.1	5.7	0.9	6.7
Natural Resources	**2.2**	**1.4**	**0.1**	**3.7**	0.0	4.0	1.2	5.2
Agricultural Land	**0.0**	**2.6**	**1.0**	**3.6**	1.2	0.0	(1.1)	0.1
Total	**10.7**	**29.2**	**7.5**	**47.4**	8.8	29.2	5.7	43.7

The Group made sales of properties of £54.8m in 2017 (2016: £58.9m). The sales were split between residential serviced plots of £23.0m (2016: £20.5m), commercial development of £22.7m (2016: £26.8m) and other, essentially agricultural land, of £9.1m (2016: £11.6m). Harworth made profit on disposals of £10.7m (2016: £8.8m), with all segments of the business achieving a profit on disposals, with the two largest profits being from sales of land for residential and commercial occupiers at our flagship sites of Waverley and Logistics North respectively. In addition, Harworth undertook direct development on its sites with a land value of £2.1m and its share of property sales in its joint ventures was £0.9m.

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Cash proceeds from sales were £46.6m (2016: £53.4m) reflecting the sales in the year of £54.8m (2016: £58.9m) less deferred consideration on sales in the year of £14.3m (2016: £10.9m) plus deferred consideration received from sales in prior year of £6.1m (2016: £5.4m).

In 2017, the Group achieved revaluation gains of £36.7m (2016: £34.9m) comprising: revaluation gains from investment properties, including overages of £32.7m (2016: £34.3m), revaluation gains from joint ventures of £4.0m (2016: £0.6m), revaluation gains from development properties of £5.8m (2016: £nil) less impairment of development properties of £5.8m (2016: £nil). All of the revaluation gains for development properties relate to Major Developments sites.

We have split the revaluation gains of £36.7m (2016: £34.9m) to reflect the contribution from active management of £29.2m (2016: £29.2m) and market movements of £7.5m (2016: £5.7m). Whilst there is a degree of subjectivity in this split, it highlights that the majority of the value gains continue to come from active management. The principal 2017 revaluation gains across the divisions were as follows:

- Major Developments – Capture of marriage value from 2017 acquisitions which adjoined existing sites (Chatterley Valley and Coalville) together with movements at maturing developments;
- Strategic Land – Outline planning consent granted at Thoresby (800 residential plots) and Kellingley (1.45m sq. ft of commercial space);
- Business Space – Increases from direct development lettings and progress at recent acquisitions offset by some ageing assets;
- Natural Resources – Profitable sales for future energy schemes and gains from asset management offset by declines in fixed life assets; and
- Agricultural Land – Aftercare and restoration advances at former surface mines.

Exceptional items

Exceptional items in 2017 comprised three separate items which, as before, relate to sundry receipts and costs from the Group's legacy activities. The total amounts in 2017 were a credit of £0.3m (2016: £nil).

Taxation

The income statement credit for taxation in the year was £7.8m (2016: £3.6m charge) which comprised a deferred tax credit of £9.3m (2016: £3.6m charge) and a current year tax charge of £1.5m (2016: £nil). The movement in deferred tax comprised the following:

- a £5.9m credit due to the execution of a contract which resulted in increased certainty that the losses would not be lost;
- a number of chargeable gains and losses have crystallised in the period as a result of a number of disposals of investment property and the categorisation of properties from investment property to development property. These gains have been offset against tax losses that were previously not recognised from a deferred tax perspective. The losses crystallised have been recognised whereas inherent capital losses have not. As such, there has been a credit to deferred tax of £13.2m;
- the increase in valuation of the investment properties in the period together with the impact of indexation on the inherent gains in the investment property portfolio for the period, along with some other smaller movements in deferred tax items, have given rise to a £5.9m deferred tax charge in the period; and
- following the submission of the tax computations and returns for prior periods, the Group utilised tax attributes resulting in a deferred tax charge of £3.9m.

The current tax charge comprised the following:

- a current year tax charge of £1.9m (2016: £nil) resulting from profits on sales of development properties; and
- a land remediation relief tax credit of £0.3m (2016: £nil).

The Group is still utilising brought forward tax losses but as a result of categorising sites from investment to development, Harworth has started to pay tax on development property sales. In the current period, in terms of cash tax paid or received, Harworth received cash in respect of the land remediation relief claim and recovery of VAT on deal fees of £0.3m (2016: £nil).

At 31 December 2017, the Group had deferred tax liabilities of £13.0m (2016: £23.4m), related to unrealised gains on investment properties and had recognised deferred tax assets of £7.5m (2016: £8.5m). The net deferred tax liability was £5.5m (2016: £14.9m). Full details of the movements in tax are set out in note 9.

Due to recent changes in tax legislation, there is much greater flexibility in the utilisation of tax losses arising after 1 April 2017. However, these losses, and those losses accrued historically are subject to a 50% restriction. Whilst the Group has a significant level of accrued tax losses, these are in the form of capital losses which fall outside of these rules. As such, these rules are likely to have a limited impact on the group's tax profile going forward.

Recent legislation has aligned the computation of capital gains on disposals of properties between individuals and corporates by removing the benefit to corporates of indexation. This will have the impact of increasing the tax liabilities in future periods.

Earnings per share and dividends

Earnings per share increased to 15.76p (2016: 13.65p) and underlying earnings per share, excluding exceptional items, increased to 15.65p (2016: 13.65p). These increases reflect the positive progress made in the year with respect to profits and tax. The 2016 EPS has been restated following discussions with the Financial Reporting Council and their review of the 2016 Financial Statements, which did not correctly reflect the effect of the May 1 for 10 share consolidation on EPS.

An interim dividend of 0.253p per share (2016 interim: 0.230p) equivalent to £813k (2016 interim: £672k) for the 2017 financial year was paid on 13 October 2017. A final dividend for the 2017 financial year of 0.575p per share (2016 final: 0.523p) is proposed. The total dividend for the year of 0.828p per share (2016: 0.753p) is in line with our progressive dividend policy and represents a 10% increase over the prior year, reflecting ongoing growth and confidence in the business. The total dividend of £2.7m (2016: £2.2m) is due to the 10% growth in the dividend and the c.10% increase in the number of shares following the March 2017 equity capital raise. The final dividend will be paid on 1 June 2018 to shareholders on the register at the close of business on 4 May 2018. The ex-dividend date will be 3 May 2018.

Net assets

As set out below, NAV increased to £409.3m as at 31 December 2017 from £334.9m as at 31 December 2016. This increase was as a result of movements in the year, being operating profit before exceptionals plus joint ventures of £43.8m, the March 2017 equity capital raise of £27.1m, a tax credit of £7.8m, less interest costs of £2.3m and dividends of £2.7m plus other movements of £0.7m.

	31 December 2017 £m	31 December 2016 £m
Investment and development properties (including investments in joint ventures, assets held for sale, overages and occupied properties)	**457.1**	400.3
Cash	**8.4**	13.0
Other assets	**31.5**	25.2
Total assets	**497.0**	438.5
Gross borrowings	**40.6**	52.5
Deferred tax liability	**5.5**	14.9
Derivative financial instruments	**0.1**	0.4
Other liabilities	**41.5**	35.8
Net assets	**409.3**	334.9
Number of shares in issue	**321,250,750**	292,269,786
Net assets per share	**127.4p**	114.6p
EPRA NNNAV per share (1)	**128.9p**	114.6p
EPRA NAV per share (2)	**131.0p**	119.8p

Notes:

(1) NAV (£409.3m; 2016: £334.9m) plus market value of development properties (£5.8m; 2016: £nil) less notional deferred tax (£1.0m; 2016: £nil) divided by number of shares in issue

(2) EPRA NNNAV (£414.2m; 2016: £350.1m) excluding deferred tax liability (£5.5m; 2016: £14.9m), notional deferred tax on development properties (£1.0m; 2016: £nil) and mark to market movement on financial instruments (£0.1m; 2016: £0.4m) divided by number of shares in issue

Financing strategy and funding

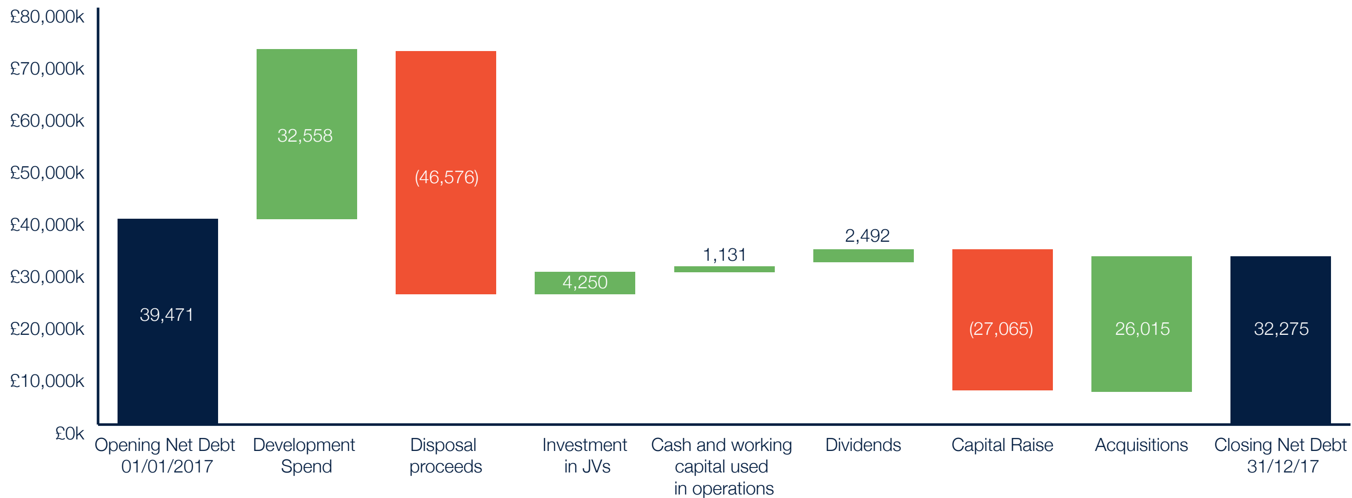
Harworth's financing strategy is to be prudently geared as we believe that this gives the Group a number of advantages:

- allows working capital swings to be managed appropriately given that infrastructure spend is usually in advance of sales and thus net debt can increase by over £30m during the year;
- gives the Group the ability to complete acquisitions quickly, which is often a differentiating factor in a competitive situation;
- ensures that we do not combine financial gearing with Harworth's existing operational gearing. Such operational gearing is the appropriate levels of exposure we take in terms of planning, remediation/engineering, letting and sales risks; and
- higher gearing levels are not easily supported by Harworth's existing activities – we do not gear our Capital Growth properties being our Strategic Land and Major Developments' sites.

Financial Review
Continued

Harworth's financing strategy also involves the Group trying to balance its cash flows by funding infrastructure spend and investment in acquisitions through disposal proceeds. In 2017, Harworth achieved sales which were slightly ahead of Group expectations and the expected partial acquisition of a site was delayed from before the year-end until 2018 resulting in a slight decrease in net debt.

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



As at 31 December 2017 Harworth's gross Loan To Value ("LTV") was 8.8% (2016: 13.1%) and net LTV was 7.0% (2016: 9.9%). However, as set out above Capital Growth sites are deliberately not geared, so if gearing is just assessed against the value of Business Space and Natural Resources properties this equates to a gross LTV of 26.3% (2016: 41.6%) and a net LTV of 20.8% (2016: 31.3%).

On 13 February 2018, Harworth extended the term of its existing £75m Revolving Credit Facility ("RCF") with RBS by two years such that it now expires in February 2023. The extension was on substantially the same terms with the only notable change being a slight increase in margin to 210bps over LIBOR (from 200bps). The Group's hedging strategy is to have roughly half of its debt at a fixed rate and half of its debt exposed to floating rates. As a consequence, Harworth has a £30m fixed rate swap at an all-in rate of 2.955% (including fees) until June 2020. The interest rate swap is hedge accounted with any unrealised movements going through reserves.

The Group also uses infrastructure funding, provided by public bodies to promote the development of major sites for employment and housing needs, as part of our funding. At 31 December 2017 the Group had six infrastructure facilities with all-in funding rates of between 2.5% and 4.7%. During the year, to assist with funding requirements associated with greater activities and continued growth, we secured an increase in our bonding line from £10.0m to £15.0m.

The Group had borrowings and loans of £40.6m at 31 December 2017 (2016: £52.5m), being the RBS RCF of £23.3m (2016: £37.0m) and infrastructure loans of £17.3m (FY 2016: £15.5m). The Group's cash and cash equivalents at 31 December 2017 were £8.4m (2016: £13.0m). The resulting net debt was £32.3m (2016: £39.5m). The weighted average cost of debt, using 31 December 2017 balances and rates, was 3.0% with a 0.8% non-utilisation fee on undrawn RCF amounts (2016: 2.9% with a 0.8% non-utilisation fee on undrawn RCF amounts). For the twelve months to 31 December 2017 Harworth's interest cover, as calculated by the RBS RCF covenant calculation, was 3.4x against a covenant test of 1.5x.

Premium listing

Reflecting Harworth's continuing development since its relisting in 2015, the Board has engaged advisers on the workstreams to be completed to move the Company's shares from the Standard segment to the Premium segment of the Official List. This work is expected to be completed over the coming months with the move taking place in the second half of the year, subject to the approval of the UK Listing Authority. The Board believes that this will position the Company for potential future admission to the UK FTSE indices.

Andrew Kirkman
Finance Director
24 April 2018

Harworth's Finance Team, March 2018

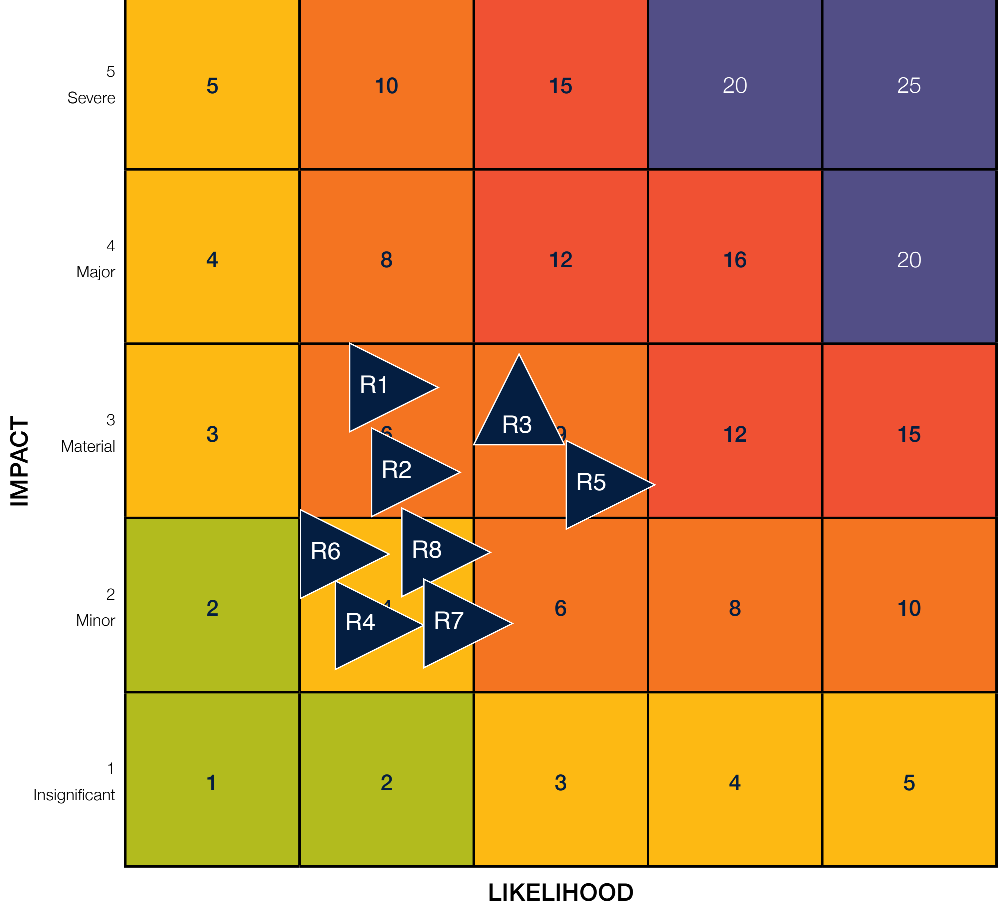
Managing Risk

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

Following the Company's acquisition of Harworth Estates in March 2015, the Group undertook a review of its principal risks and uncertainties which led to the development of a Group Risk Register.

During 2017, as part of its ongoing continual improvement programme, the Group undertook another detailed review of its principal risks and uncertainties, including those that would threaten its strategic priorities, business model, future performance, solvency or liquidity. This review was led by our Company Secretary in conjunction with the Board, the Audit Committee, the Executive Committee and the Senior Management Team.

The Group's current risk profile was mapped, with individual risks grouped into eight new categories, being: (R1) markets; (R2) delivery; (R3) politics; (R4) finance; (R5) people; (R6) legal and regulatory; (R7) governance and internal controls; and (R8) communications and stakeholder management. Risks were scored on a "heat map", from "very low" to "very high", according to residual risk status (after accounting for mitigation measures already in place), materiality and anticipated movement in risk over the next 12 months. This has led to further refinement of the Group's Risk Register. This detailed review has confirmed that there has been no material change in the Group's overall risk profile since publication of the 2016 Annual Report and the profile remains in line with the Board's risk appetite, with all categories scored as either medium or low risk at the date of this report.



Overall residual risk status (after mitigation)*	
Very low	1-2
Low	3-5
Medium	6-10
High	11-16
Very high	20-25

Anticipated movement in risk profile in next 12 months	
▲	Increasing
▶	Unchanged
▼	Decreasing

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

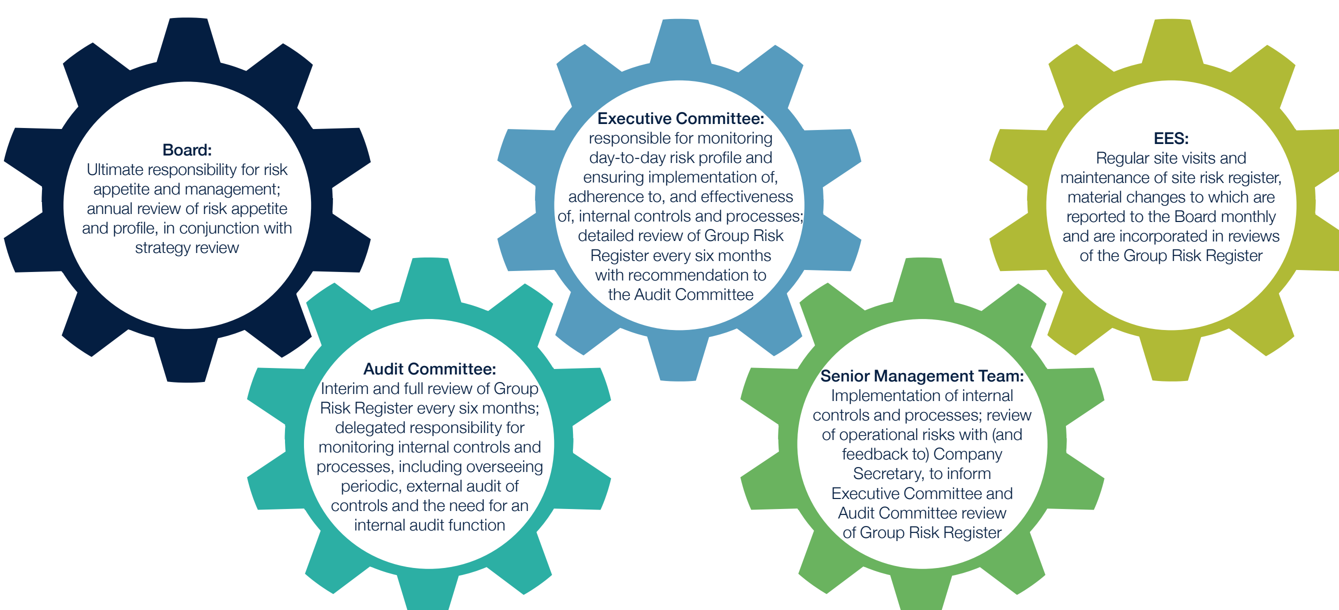
Going forward, the Board will review its risk appetite and the overall risk profile of the business annually, in conjunction with its review of strategy, to ensure that appetite and profile continue to align.

The Board has delegated to the Audit Committee responsibility for periodic, detailed review of the Group Risk Register and the Group's internal control systems and procedures. The Audit Committee carries out an interim review of the Group Risk Register in June and a full review in November each year.

The Executive Committee has ultimate responsibility on a day-to-day basis for the Group's risk profile, the implementation of, and adherence to, risk management controls and procedures, and for monitoring the continued effectiveness of the same. This includes a six-monthly formal review following which recommendations are made to inform the Audit Committee's interim and full-year reviews.

The Group operates predominantly from a single office in Rotherham, with a relatively small team and short reporting lines. As such, members of the Executive Committee are closely involved in day-to-day operations and so are often able to identify new and changing risks and respond in a timely manner. The Executive Committee is also informed by regular feedback from its experienced Senior Management Team on existing and new operational risks, and the effectiveness of our internal controls and procedures. Our Company Secretary facilitates the process by which feedback is taken from the Senior Management Team, shared with the Executive Committee and acted upon.

Finally, alongside the Group Risk Register, our Estates, Environment and Safety ("EES") team maintains a site risk register, which continuously monitors the risk status of each of our sites. Material changes in the risk status of our sites are reported to the Board on a monthly basis and incorporated into the periodic reviews of the Group Risk Register.



Key risk management initiatives since the publication of the 2016 Annual Report

- A further, detailed review of the Board's risk appetite and the Group's risk profile leading to refinements to the Group Risk Register.
- A further review of the Group's insurance programme for the 2018 renewal, leading to a change of property and liability insurer, cover enhancements and material premium savings.
- An external review engagement was performed by KPMG LLP ("KPMG") of selected internal financial controls and of the need for an internal audit function.
- Implementation of: Anti-corruption and Bribery policy, a new business development approvals process and register; and an Anti-facilitation of tax evasion policy.

Key risk management initiatives identified for implementation and/or progress in 2018

- An external audit of cyber-security resilience and business continuity plan and procedures (second half of 2018).
- Completion of active workstreams to ensure the Group is GDPR compliant before 25 May 2018 (first half of 2018).
- External review and refinement of our whistleblowing policy and procedures (first half of 2018).
- Mandatory training for employees on management of the following issues: modern slavery, bribery and corruption; facilitation of tax evasion and GDPR (first half of 2018).
- Notification to our existing suppliers of our Supplier Code of Conduct on modern slavery and human trafficking (ongoing).

Managing Risk
Continued

Principal risks and uncertainties

The tables below set out the Group's principal risks and uncertainties, reflecting the detailed review and evolution of the Group Risk Register referred to on page 36. Each risk category has a current risk status, reflecting residual risk after accounting for mitigation measures already in place. Some of those measures are listed, together with (where applicable) any further measures we have identified for implementation over the next 12 months.

The Group is subject to both external and internal risk factors which could have a material effect, both positive and negative, on the operation and performance of the business. External factors, which are largely outside of the Group's control, include macro-economic and political factors. As negotiations continue for the UK's withdrawal from the EU, the Board expects that the Group will continue to operate in an uncertain economic and political climate in the short to medium term. Whilst the Group is not immune to that uncertainty, it is mitigated by the positive economic and consumer trends in our core markets, with the residential, logistics and manufacturing sectors in the North of England and the Midlands continuing to have solid fundamentals and favourable performance.

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

	Anticipated movement in risk profile in next 12 months		
	Increasing	Unchanged	Decreasing
Current assessment of anticipated movement in risk	▲	▶	▼

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

Summary of the Group's Risk Profile

Risk categories	Markets (R1)	Delivery (R2)	Politics (R3)	Finance (R4)	People (R5)	Legal + Reg'tory (R6)	Governance + Controls (R7)	Communications + S'h M'mnt (R8)
Risk appetite	Medium	Medium	Medium	Medium	Medium	Low	Low	Low
Risk profile	Medium	Medium	Medium	Low	Medium	Low	Low	Low
Expected change	▶	▶	▲	▶	▶	▶	▶	▶

Note: based on the detailed review of risk appetite and risk profile undertaken by the Board and referred to on page 36.

Turn to page 2 to read about Our strategy

R1. Markets	Exposure to largely external factors

Commentary:

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

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

Current risk status:	Strategic priorities potentially impacted:	Anticipated movement in risk:

Mitigation and controls already in place:

- The diversity of our portfolio (sectors and geography) mitigates against a downturn in one of our core markets. Our core regional markets are typically less volatile than the London and South East markets. The Income Generation portfolio includes a diversity of income streams which has a similarly mitigating effect.
- Value gains are generally driven more by active management than market movements.
- We build headroom into our sales forecasts by identifying potential alternative sales in the event that planned sales do not proceed as quickly as anticipated.
- We can control our working capital movements by managing acquisitions and development spend to respond to market movements. Our cash flow forecasts also provide for a minimum £5m “buffer” throughout the year.
- The Executive Committee monitors, and updates the Board on, prevailing market conditions continuously and keeps the strategy under review, to ensure that it evolves with market movements.

Further actions to be taken to mitigate and manage risk:

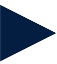
- We are taking steps to widen our geographical footprint, to mitigate against market movements at a regional level.
- Our development plans and projected sales will inform our strategy on acquisitions and masterplans, to ensure we maintain a balanced mix of commercial and residential sites across our portfolio.
- We will continue to grow and strengthen our recurring income portfolio, through acquisitions, asset management and targeted direct development, to further improve the sustainability of the business during periods of market downturn.

Managing Risk
Continued

R2. Delivery	**Exposure to both external and internal factors**

Commentary:

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

Current risk status:	Strategic priorities potentially impacted:	Anticipated movement in risk:
		

Mitigation and controls already in place for external factors:

- Our dedicated Acquisitions team is now well-established and continues to grow, with a dedicated Technical Manager recruited into the team during 2017. The Executive Committee regularly reviews strategic priorities and the availability of capital to ensure the team can focus its time and resources appropriately.
- Our Strategic Land team has a proven track record for promoting schemes through the planning application process. Success is achieved through careful masterplanning and preparation of applications, alongside tireless stakeholder management at a local level.

R3. Politics	**Largely subject to external factors**

Commentary:

Changes in national and/or local government policy, including planning, could impact the Group's activities.

Current risk status:	Strategic priorities potentially impacted:	Anticipated movement in risk:
		(1)

Mitigation and controls already in place:

- The diversity of our portfolio affords a degree of mitigation to adverse political changes which could impact our markets.
- We make representations on our own, alongside partners and in conjunction with key industry bodies, to minimise the prospect of adverse policy changes being enacted.
- Our Strategic Land team monitors closely the political landscape and climate at a local level where we have current or prospective planning promotions. This informs our masterplanning and promotion strategy.
- We are proactively engaging with HS2 Limited to minimise the potential impact of the proposed HS2 route on our Gateway 45 and Lounge sites.

Further actions to be taken to mitigate and manage risk:

- We will input into upcoming Government consultations on land value capture and other policy matters which could affect the Group's activities.

(1) The anticipated increase to risk over the next 12 months reflects: (A) Government sentiment and initiatives in relation to land value capture; and (B) the inherent uncertainty in the current political climate as the Government enters the advanced stages of negotiation on the UK's departure from the European Union.

R4. Finance	Subject to both external and internal factors

Commentary:

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

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

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

Current risk status:	Strategic priorities potentially impacted:	Anticipated movement in risk:

Mitigation and controls already in place:

- We undertook an equity raise in March 2017 to fund acceleration of our acquisitions pipeline, whilst maintaining our policy of prudent gearing. At the end of the financial year ended 31 December 2017, our Net Loan to Value was 7.0% or 20.8% when calculated against the income portfolio.
- We have extended the term of our £75m revolving credit facility with RBS to 13th February 2023 and have increased our bonding facility from £10m to £15m. We have a £30m fixed rate swap at an all-in-rate of 2.955% (including fees) until June 2020.
- Since 2014 (when we began to replenish our portfolio) we have spent £33.1m (at 31/12/17) on investment properties, acquiring £2.99m of rental income to replace wasting income assets such as our coal fines sales and coal mine methane royalties.
- We have undertaken selective direct development on certain of our sites, both solely and in joint venture, to grow our recurring income. At the date of this Report, all of our wholly owned direct developments are fully let.
- Our business model has evolved to include planning promotion, construction management, letting promotion and asset management for third parties. These generate income, although we recognise that they represent variable, rather than recurring income.
- We appointed a new insurance broker (Marsh) in 2016 and have carried out thorough reviews of our insurance programme for the 2017 and 2018 renewals, resulting in material improvements in cover.

Further actions to be taken to mitigate and manage risk:

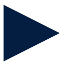
- We have earmarked funding for further income acquisitions in 2018-2020.
- Given the success of our direct development activities in 2017 and the strength of occupational demand at the AMP and Logistics North, we have commenced construction of further phases of direct development.

Managing Risk
Continued

R5. People	**Largely subject to internal factors**

Commentary:

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

Current risk status:	Strategic priorities potentially impacted:	Anticipated movement in risk:
		

Mitigation and controls already in place:

- Whilst having a small team amplifies capacity and “key-person” risks, it also means that the Executive Committee can keep those risks under close and continuous review.
- We have recruited five new roles since publication of the 2016 Annual Report to ensure we have capacity to meet the demands of a growing business and portfolio.
- During 2017 we appointed a new Head of HR and Organisation Development. She has undertaken a comprehensive review of HR policies and processes, remuneration and our personal development programme and has identified a number of initiatives for implementation during 2018.
- The ‘Our People’ section of this report on pages 55 to 57 sets out the initiatives we have introduced and intend to implement to ensure we recruit, retain and develop the right people for the business.

R6. Legal and Regulatory	**Subject to both external and internal factors**

Commentary:

Given the nature of our operations and certain of our legacy and acquired sites, management: of environmental and health and safety risks; and regulatory compliance, is a key component of our activities and is afforded very high priority. The Board has limited appetite for environmental risk and no appetite for health and safety risk. Environmental and/or health and safety incidents and/or regulatory breaches could result in clean-up costs, financial penalties, liabilities to third parties and/or reputational damage.

Changes to regulatory and/or licensing regimes could also have an adverse effect on our strategy and/or business model.

Current risk status:	Strategic priorities potentially impacted:	Anticipated movement in risk:

Mitigation and controls already in place:

- Our Estates, Environment and Safety (“EES”) team manage health and safety, and environmental risks on a day-to-day basis. Page 53 of this report provides an explanation of how we mange and monitor health and safety.
- Our Environmental Manager has completed his Waste Management Industry Training and Advisory Board (“WAMITAB”) qualification and is now able to manage our waste licences in-house, with assistance from external consultants and contractors where appropriate. We regularly review, amend and surrender permits as sites mature or activities change.
- We maintain an open dialogue with the Environment Agency (“EA”) in respect of all of our permitted sites. If issues arise, we take quick and proactive steps to address them, in collaboration with the EA.

Further actions to be taken to mitigate and manage risk:

- A number of workstreams are underway to ensure that we will be compliant with the General Data Protection Regulation when it comes into force on 25 May 2018.
- Online training (health and safety and management of modern slavery, bribery, facilitation of tax evasion and data protection) will be rolled out to all staff during 2018.

R7. Governance and Internal Controls	Largely subject to internal factors

Commentary:

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

Current risk status:	Strategic priorities potentially impacted:	Anticipated movement in risk:

Mitigation and controls already in place:

- Whilst we are a standard listed Company on the London Stock Exchange we comply with the UK Corporate Governance Code on a comply or explain basis, with explanations for only limited instances of non-compliance in our Annual Report. The high standards of governance to which we aspire are reflected in the fact that we are in the process of applying to the UKLA to step up to a Premium Listing.
- Our revised Delegated Authorities Policy, introduced in 2016, is now well established, as are improved Board and Executive Committee processes and governance measures.
- An external review of some of our internal financial controls was undertaken by KPMG in Q4 of 2017. The results of that review were reported to the Audit Committee and recommendations for improvements are being implemented.
- We are progressing a number of active workstreams to ensure that we will be compliant with the General Data Protection Regulation when it comes into force on 25 May 2018.
- Our risk review process, which is led by our Company Secretary, includes regular meetings with the Senior Management Team at which opportunities to improve internal controls, such as the process for vetting, appointing and/or paying contractors, are identified. The Audit Committee undertakes a review of the effectiveness of internal controls and processes annually.

Further actions to be taken to mitigate and manage risk:

- An external cyber-security and business interruption review will be undertaken during 2018.
- Our internal controls and processes are subject to ongoing review, including external audits on an annual basis, to ensure they remain "fit for purpose" as the business grows and delivers across more and more sites.

R8. Communications and stakeholder management	Subject to both internal and external factors

Commentary:

Working with a broad spectrum of stakeholders is fundamental to our business activities and performance. If we do not communicate and maintain strong relationships with them this will lead to operational underperformance and, ultimately, underperformance of our share price.

Current risk status:	Strategic priorities potentially impacted:	Anticipated movement in risk:

Mitigation and controls already in place:

- Communications tracker maintained including bi-weekly review to ensure that our external communications remain timely and appropriate. This tracker records, where possible, Harworth's planned activities for the next six months.
- Please see the Harworth and its stakeholders section of this report on pages 46 and 47 for an explanation of the means by which we identify, engage with, and consider the interests of our stakeholders.

Business continuity assessments

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

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

Both assessments are closely linked to the Directors' robust assessment of the principal risks facing the Group (including those that would threaten its business model, future performance, solvency or liquidity), which is outlined on pages 36 to 43.

Going concern statement

Accounting standards require that the Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using the going concern basis of accounting for a period of at least 12 months following the approval of this Annual Report. In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At year end, the Group had cash and cash equivalents of £8.4m, net debt of £32.3m and a net loan to value of 7.0%. The Group has a £75m revolving credit facility with RBS, which contains typical financial covenants and now runs until February 2023. At the year end there was headroom of £51.7m on that facility. It also had infrastructure loans totalling £17.2m. The financial position of the Group, including information on cash flow, can be found in the Financial Statements on pages 98 to 141. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see Our strategy (pages 2 and 3), How we add value (pages 4 and 5), The markets we operate in (page 6) and the Group's principal risks and uncertainties (pages 36 to 43).

Viability statement

Viability period and rationale

In accordance with provision C.2.2 of the Code, the Directors have assessed the prospect of the Group over a longer period than the 12 months required by the 'Going Concern' statement. The Board conducted this review for a period of five years ending 31 December 2022, with three years of detailed assessment and two years of outline numbers. This period was selected for the following reasons:

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

Key assumptions and sensitivity analysis

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

The main assumptions relate to the forecast supply and demand dynamics for the residential and commercial property markets, and the availability of acquiring new sites. Where appropriate, analysis is carried out to evaluate the potential impact of the Group's principal risks actually occurring. The five-year review also makes certain assumptions about the normal level of capital recycling likely to occur and considers whether additional financing facilities will be required.

Principal risks and uncertainties

The principal risks and uncertainties that are considered relate to economic assumptions, income generation variability and appropriate staffing levels. Principally, these fall within the Markets, Delivery, Politics and People categories of risk identified on pages 36 to 43. Sensitivity analysis has been applied in terms of income generation, cash flow and EPRA NNNAV impacts, particularly from changes in value gains. These risks are fairly well balanced on the up and downside. No mitigating or remedial actions have been identified but, if needed, more cash could be generated through increased sales and/or reduced development spend and acquisitions, and, if needed, such cash could be targeted toward the acquisition of income generating properties.

Viability assessment

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

Our Operations team in action at Thoresby

Harworth and its stakeholders

The Board recognises that identifying, engaging with, and understanding the impact of decisions on the Group's key stakeholders is fundamental to the long-term sustainability and success of the business, as well as being a core element of the Directors' duties under the Companies Act.

The Group's key stakeholders can be grouped into ten main categories as shown below. Whilst there are unlikely to be regular, material changes to the constituency of these stakeholders, they will remain subject to regular review. The Board feels that, overall, the Group engages proactively with its various stakeholders and considers a broad range of interests when decisions are made, both strategic and operational, but acknowledges that further work needs to be done to ensure that appropriate levels of engagement are identified and maintained, and stakeholder interests become an embedded part of Harworth's decision-making processes.

Our Advisers

We work with a select group of professional advisers who know our business extremely well. At an operational level, we work with a small legal panel and core groups of accountancy firms and property agencies. At a corporate level, we have spent time identifying advisers who are the right fit for Harworth and who have become our trusted advisers. These include our corporate legal advisers, DLA, our brokers, Canaccord and Peel Hunt, our communications advisers, FTI Consulting, our remuneration consultants, Kepler, and our insurance brokers, Marsh.

Our connections are as much with individuals at those firms as the firms themselves and have been made at all levels of our respective businesses, which makes for lasting relationships. All relationships remain subject to ongoing reviews.

Our Funders

The Group's core debt facility is a £75m revolving credit facility with The Royal Bank of Scotland (RBS), which is complemented by a suite of public sector infrastructure loans (currently c.£17.3m) and a flexible bonding facility provided by HCC Insurance, which facilitates our development activity.

The keys to our funder relationships are transparency (about the performance of the business) and delivery (against our covenants and undertakings). As the business, and its requirement for debt, continue to grow, these relationships will remain fundamental to maintaining business momentum.

Our Communities, Our Environment, and Our Responsibilites

See "Operating responsibly" on pages 48 to 54 for further detail.

Our Customers: commercial occupiers and housebuilders

Our reputation for engagement with existing and prospective commercial occupiers and housebuilders is fundamental to our placemaking credentials and ability to monetise the value in our portfolio and consequently recycle capital.

The maturity of sites such as the AMP and Logistics North and our track record in delivering direct development for the likes of McLaren Automotive and Whistl, demonstrate our now established, but still growing, reputation for working with owner occupiers and tenants to create development platforms and deliver built space which is fit for purpose.

We have continued to make residential sales to both new and repeat housebuilders, evidencing our reputation for delivery and the increasing strength and breadth of our housebuilder relationships.

As our residential sites mature we are reviewing our estates management function to ensure that our residential developments remain attractive places to live. This will include a degree of engagement with homeowners and occupiers.

Our Contractors and Suppliers

On our wide range of projects we work with a preferred group of contractors and suppliers who have a track record for delivery and with whom we have built trusted relationships. With some we work under an umbrella framework agreement and with most we work to a suite of precedent documents, which makes for consistency of approach.

The most important aspects of these relationships are a collaborative approach, and regular and open dialogue to ensure that there are few surprises and solutions are identified and delivered quickly where projects change and develop.

Our Public Sector Partners

We have built strong working relationships with local authorities, in particular their planning and economic development functions, in working up, securing and implementing planning consents for our landholdings across the North of England and the Midlands. This approach involves early engagement on our initial ideas for sites to ensure that our plans for each site are consistent with the economic strategies for, and conditions within, that particular area.

In addition, public sector funding remains a key part of our funding strategy and we have used a mixture of public grant and loan finance to deliver both on- and off-site infrastructure works to 'open up' sites for development and to fund the construction of new commercial units. This has involved working with agencies including Homes England (the former Homes & Communities Agency) and a number of regional Local Enterprise Partnerships, in addition to local authorities.

Finally, we continue to make regular contributions to public policy consultations run by both Central and Local Government, ranging from the National Planning Policy Framework through to key infrastructure projects such as HS2.

Our People

See pages 55 to 57 for detail.

vorth

Regulatory Bodies

We recognise how important it is that the Environment Agency ("EA") and Health and Safety Executive ("HSE"), the two regulatory bodies with whom we deal most, have confidence in the way we undertake our activities.

We maintain an open dialogue with the EA in relation to all of our permitted sites, both at local and central levels. We are proactive in reporting monitoring results to the EA and work closely with it to review, amend and surrender permits when sites mature or activities change, and to address issues quickly if they arise.

On the rare occasions that incidents occur at our sites, we are quick to liaise with the HSE, typically on a precautionary basis.

Our Shareholders

We continue to benefit from a loyal and supportive shareholder base, some of whom have held the Company's shares since Harworth Estates became a standalone business, and indeed before.

The Board recognises the importance of open and regular communications with Shareholders. To that end, we have made a concerted effort over the last 12 months to explain better how the Group creates value from its portfolio. This effort has included a Capital Markets Morning in January 2017, an improved articulation of the business model in investor communications and a marked increase in the regularity of our RNS and RNS Reach announcements. Towards the end of 2017, we also engaged FTI Consulting to help improve our investor communications and relations approach. This has already led to a more structured investor relations and communications timetable, which will include a briefing and site visits for institutional Shareholders and analysts planned for June of this year.

The Group benefits from there being representatives on the Board from its two largest shareholders: the Peel Group and the Pension Protection Fund ("PPF"). Steven Underwood (Peel Group) and Martyn Bowes (PPF) provide an ongoing shareholder perspective on key strategic and operational decisions. The Board ensures that it remains attuned to the views of its other major investors, via regular reports and feedback collated by, and briefings from, its brokers, as well as market expectations via analyst research notes.

Our Joint Venture Partners

We have four principal joint venture partners to help deliver a number of our schemes:

- Evans Properties, our partner at Gateway 45 in Leeds;
- Dransfield Properties, with whom we are bringing forward the local centre at our flagship Waverley site;
- LCPF, with whom we partner on the Multiply scheme at Logistics North in Bolton; and
- M&G Real Estate, our forward funding partner on the LN225 and LN175 units at Logistics North.

These ventures are only successful because of the collaborative relationships we have established with our partners. There are three key principles to this approach:

- utilising our complementary skill sets in delivering initiatives;
- maintaining open and regular dialogue to ensure interests remain aligned; and
- setting clear milestones for delivery and creating a track record of achievement.

Operating responsibly

Harworth takes its responsibilities as a socially aware and responsible regeneration company extremely seriously. We are proud that our developments have helped to bring new life to former industrial areas, whilst also being able to support a number of key community initiatives that have an effect beyond our day-to-day work.

Acting responsibly in making this difference, both through minimising the environmental effect of our work, and in working safely and with appropriate regard to our legal responsibilities, also forms a critical part of being socially responsible in what we deliver day-to-day. This section explains how we deliver this in practice.

Our communities

In its work over the past decade, Harworth has helped to deliver thousands of new jobs and homes on its land across the North of England and the Midlands. In the case of Waverley and Logistics North, these are leading examples of regeneration in the North of England, replacing many times over the jobs that were lost when mining ended.

Using our land and property experience to deliver future schemes in the same vein as Waverley and Logistics North is essential in both regenerating former industrial areas and in supporting the growth of UK plc. The recently published *Industrial Strategy* White Paper sets out a long-term plan for the rebalancing and growth of the national economy, building on national strengths and helping to deliver a highly skilled, competitive economy for the UK. Together with strategies to deliver the 'Northern Powerhouse' and the 'Midlands Engine', these provide the context to secure a step change in investment and growth across the North and Midlands. The provision of new commercial land and property to facilitate new inward investment and indigenous growth has an extremely important role to play.

Housing also has an important role to play in creating the conditions for economic and productivity growth. This is highlighted in the Industrial Strategy, with £11.6bn of investment focused on housing through the National Productivity Investment Fund. Building a sufficient number of high quality houses to meet the needs of the economy is vital in order to attract and retain skilled workers and support economic growth across the North and the Midlands. Whilst the number of completions has been increasing, further growth is required to meet demand and address the shortfall in supply which has worsened following the drop in house building in many areas since the financial crisis.

With sites in eleven Local Enterprise Partnership ("LEP") areas across the North and Midlands (including residential sites in six LEP areas), Harworth can contribute to delivering these economic growth ambitions through development of commercial floorspace, residential properties and low carbon energy, supporting the LEPs as they seek to meet their economic objectives and generate lasting change for communities. Economic consultancy Ekosgen has estimated that Harworth's portfolio of sites has the potential to accommodate 59,000 jobs that would generate c.£2.9bn of Gross Value Added per annum when fully built out and occupied. Harworth's landholding also has the potential to deliver more than 18,000 new homes. This potential is significant in supporting the delivery of sustainable new developments to improve the quality of life for people in the North of England and the Midlands.

On a day-to-day basis, our work in local communities has also meant that we have been able to support a number of important social causes to extend the impact of what we do. The three case studies from 2017 shown within this section provide a snapshot of the sort of projects we support in the North of England and the Midlands.

Case study 1
City of Trees programme: Supporting environmental change across Wigan and Bolton

Starting in December 2017, we were involved in 'digging deep' for environmental charity City of Trees – a charity aiming to regenerate the landscape of Greater Manchester by planting trees in unused and unloved areas. This work followed the planting of 30,000 trees with the City of Trees at Logistics North in 2015 as part of the creation of its 550-acre Country Park.

Throughout the month, Harworth planted hundreds of trees and volunteered many hours of staff time to the cause, working in conjunction with the charity by planting trees within their Smithhills project at Lady Mabels Wood – a former colliery in Bickershaw on the Wigan-Bolton border.

Not only did this partnership with City of Trees aim to convert the neglected site into a new country park, transforming the quality of life for both the residents and the environment, we also worked in conjunction with three primary schools in Bolton on this project. To give back to the communities in which we work, we feel it is important to educate schools about the small but powerful efforts they can make themselves in preserving woodlands, whilst involving them in the hands-on planting of the trees.

Country Park at Logistics North, December 2017

Case study 2
Urban Outreach at Logistics North: Giving something back over Christmas

Over the Christmas period, Harworth and the LCPF helped to spread a bit of festive cheer by offering the use of one of the newly built 'Multiply' units at our Logistics North site in Bolton to local charity Urban Outreach free of charge. The use of this large working space served as a distribution headquarters to Urban Outreach Chief Executive Dave Bagley and his army of 100+ volunteers to pack and distribute several hundred hampers to families across Bolton who would otherwise have struggled to put food on the table for Christmas.

The charity had already packed some goods at Central Baptist Church but it needed a base for finishing its mammoth packing feat and preparing the hampers for distribution. Over 1,000 hampers were distributed in a single day.

Leader of Bolton Council, Cllr Cliff Morris, said: "This is the best of Bolton coming together to help people in need and it shows true Christmas spirit. We were contacted by Dave to see if we could help the charity with a base and it is fantastic that Harworth and the Lancashire County Pension Fund responded so quickly and offered a solution."

Mr Bagley said: "This is how Bolton rolls and the use of the unit makes it much easier to plan our deliveries. 2017 is proving to be the biggest year ever – 2,050 children along with over 2,060 adults will have an incredible Christmas thanks to everyone's combined efforts."

Christmas hamper packing at Logistics North, December 2017

Case study 3

Active Towns programme at Waverley: Encouraging greater physical activity through estate-based intervention

Starting in September 2017, Harworth has established an innovative partnership with Sheffield Hallam University, in which a team of experts and academics with Health and Sport backgrounds are working collaboratively with Harworth to construct an 'active environment' prototype at our Waverley development in Rotherham.

After a funding boost of almost £30,000 from Innovate UK, the project has been designed to prioritise the views of local communities. It is prepared to work on ideas that are put forward by residents and employees for using the site to encourage people to become more active, including the wider use of Waverley's 7km perimeter trails and the installation of new community gardens. Earlier this year, the University's Advanced Wellbeing Research Centre ("AWRC") and Outdoor Recreational Research Group received £50,000 from the Higher Education Innovation Fund to begin this new partnership.

Residents believe that more parks and community orientated spaces, fitness opportunities and an increase in child friendly play spaces are key to future development. Additionally, AMP employees are keen to see the site become increasingly walk and cycle friendly. Harworth and Sheffield Hallam University will be testing a range of ideas in the first half of 2018 to encourage workers and residents to become more active.

The proposed project coincides with the AWRC's aims to create innovations that will improve the nation's health, tackling key challenges such as static levels of physical activity, mental health and rising obesity. The main aim of this project is to create a new environment which makes a positive impact on one of the key challenges within modern society.

Public open space at Waverley, December 2017

Operating responsibly
Continued

Our environment

Harworth and its predecessor business has over twenty years' experience in tackling large, complex, brownfield sites. We have a reputation for delivering new developments responsibly, whilst also recycling value from materials that can be recycled for uses elsewhere. In addition, we consistently aim to reduce our environmental impact as a business through active resource management and waste minimisation. This section explains how we minimise our environmental impact across all of our operations as one of the UK's leading regeneration companies.

Redeveloping sites in a responsible manner

In bringing forward sites for redevelopment – whether for residential, commercial or low-carbon uses – we apply five key principles in reducing our environmental impact across our estate.

1) Remediation and restoration

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

2) Re-using public assets

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

3) Demolition

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

4) Material recovery

Whether it is coal slurry, metals, concrete or fill material, we have the capability to extract the maximum value from derelict land and property, raising revenue that can ultimately be put to preparing land for eventual redevelopment whilst also being environmentally responsible. The team has been able to extract and sell over 1.1m tonnes of coal slurry to power station operators to produce electricity between 2011 and 2017 – a material previously considered as waste.

5) Minimising public impact

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

Reducing greenhouse gas emissions from our operations

Harworth also operates a Safety, Health and Environmental Management System ("SHEMS") to ensure the effective control of environmental risk and operates a management system to ensure environmental issues are considered at all levels. The policy advocates the promotion of sustainable and environmental opportunities by active resource management and waste minimisation.

We declared in our 2016 Annual Report that we were aiming to improve performance in 2017 by implementing an improvement plan covering three discrete areas:

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

We are pleased to report that we implemented a number of actions to reduce fuel consumed per employee and electricity consumption across our estate:

- Smart Working where staff have organised their diaries to reduce business miles, with CO2e per employee reducing; and
- Isolating the electricity supply to buildings which are unoccupied, ensuring lighting or heating cannot be accidentally left on.

Although we were able to reduce yellow plant journeys on sites we previously worked on in 2016, we increased the number of sites where we operated yellow plant – both in the Major Developments we are bringing forward and the number of sites where we are recovering coal fines as part of the site restoration process. As a result, the overall amount of gas oil used in plant did increase in 2017.

This statement outlines the greenhouse gas emissions arising from Harworth's activities for 2017 and it follows the Environmental Reporting Guidelines set by the Department for Environment, Food and Rural Affairs.

Emissions are reported in tonnes of CO_2 equivalents (CO_2e) and refer to three areas:

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

Scope 2 Gas oil used in plant at operational sites

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

	Emission source	Tonnes of CO_2e (2017)	Ratio (2017)	Tonnes of CO_2e (2016)	Ratio (2016)
Scope 1	Fuel for staff vehicles	254	4.8:1[1]	243	4.8:1
Scope 2	Gas oil used in plant	1,848	308:1[2]	1,326	265:1
Scope 3	Electricity usage	632	37.2:1[3]	639	42.6:1
Total		2,734		2,208	

Notes:
Ratios are calculated against the following quantifiable factors:
1 Average employee numbers (2017: 53, 2016: 51)
2 Number of sites where gas oil is used in plant (2017: 6, 2016: 5)
3 Number of business parks that we operate (2017: 17, 2016: 15)

We aim to improve performance further in 2018 by taking forward the following actions on our sites:

- Continue the smart working programme where staff plan efficiently to reduce their business miles;
- Ensure all newly acquired properties are run as cost effectively as possible; and
- Continue using well maintained yellow plant and periodically reviewing operational techniques.

Our responsibilities

In addition to being responsible in our operations, Harworth is also committed to being a responsible employer as part of its role as an employer of choice. This includes appropriately developing and supporting its staff (as described in 'Our People' from page 55), alongside working safely and fully complying with all relevant aspects of UK law as this section explains.

Health and safety

Health and safety has an extremely high profile in our business. Day-to-day review and management rests with our EES team, led by our Associate Director of EES. With effect from the start of 2018, the EES team reports to our Company Secretary, who has a wider responsibility for risk, compliance and governance. Our Chief Executive has ultimate responsibility for all health and safety matters.

Our EES team ensures that health and safety is embedded into all of our activities. The team hosted a mandatory safety training day for all employees in July 2017. Our 2018 initiatives will include mandatory health and safety training in the form of online tuition and testing carried out by a third party provider. There is also targeted training for certain employees, such as training on CDM and asbestos which was delivered to our Major Developments and Operations teams in the first quarter of 2018.

Harworth's SHEMS is based on the Plan, Do, Check and Act model advocated by the HSE. The EES team maintains a "site risk register" which rates each of our sites as "low risk", "medium risk" or "high risk", from a health and safety perspective. A medium or high risk rating recognises that action needs to be taken at the site, whether within a prescribed timetable (medium risk sites) or immediately (high risk sites). All our low and medium risk sites are inspected at least annually and our high risk-rated sites are inspected more regularly. At the date of this Report, there were no "high risk" sites in the site risk register. Material risk movements in our site risk register are fed into the bi-annual review of the Group Risk Register.

Further proactive safety initiatives are undertaken in the form of health and safety inspections and audits. The geographical spread of our sites is large and the type of sites is varied. Any issues reported, whether they are incidents or accidents, are logged and appropriate follow up action is undertaken. This process is key to identifying areas for improvement across the portfolio.

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

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

Since publication of the 2016 Annual Report, we have increased our engagement of JPW Consultancy Limited ("JPW"), an external health and safety consultant, to advise on health and safety issues across the business. JPW focuses on health and safety at our Major Development sites, including management of consortium meetings between Harworth and stakeholders at these sites, such as contractors and local authorities.

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 Executive Committee and the Board;
- Reference is always made to health and safety in the Chief Executive's monthly overview and update to the Board;
- There are quarterly safety meetings hosted by our Associate Director of EES, attended by the Executive Committee and employees from a cross-section of the business; and
- Our Associate Director of EES meets with the Board in January of each year to report on key issues encountered and actions undertaken during the previous year and priorities for the coming year.

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

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

In June 2017, the Company published its first Modern Slavery Statement, a copy of which appears on our website at www.harworthgroup.com/investors/reports-presentations/.

The Company will publish its second Modern Slavery Statement before the end of June 2018, which will reflect the progress that has been made on the workstreams identified in

Operating responsibly
Continued

the 2017 statement. In terms of progress to date, we can report that: (A) our Company Secretary has instructed one of the Group's legal panel firms, Gateley plc ("Gateleys") to prepare and deliver training on tackling modern slavery and human trafficking and we expect that training to be conducted in the second or third quarters of 2018; (B) all new suppliers have committed to complying with our Supplier Code of Conduct on anti-slavery and human trafficking; (C) we have notified 145 of our existing suppliers of our expectation that they will comply with our Supplier Code of Conduct and demonstrate zero-tolerance of modern slavery and human trafficking; and (D) the review of, and updates to, our suite of construction agreement precedents, which has been facilitated by one of our legal panel firms, will be completed shortly and those updated precedents impose obligations on our contractors and consultants in relation to anti-slavery and human trafficking.

Since publication of the 2016 Annual Report, the following new policies have been introduced:

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

All employees have been made aware of these new policies. They are available on the Group's shared drive and reminders are sent to employees periodically. Our policies on anti-corruption and bribery and anti-facilitation of tax evasion are also published on our website.

The Gifts, Donations, Sponsorship and Hospitality policy introduces a more robust regime for the approval of business development activity at all levels of the business and a register of all activity. That register is monitored by the Company Secretary on a regular basis and will be reviewed by the Audit Committee on an annual basis.

General data protection regulations (GDPR)

We do not hold extensive amounts of personal data, but recognise the importance of protecting the data that we do control. A number of workstreams are being undertaken to ensure that the Group will be compliant with the General Data Protection Regulation when it comes into force on 25 May 2018. Those workstreams include: an internal audit and "mapping" exercise of personal data; the creation of a "Personal Data Master Record" which will be subject to regular review; changes to our employee terms and conditions; the implementation of a new data protection policy, with accompanying operational guidelines, such as for handling data subject rights; new fair-collection (privacy) notices; data processing terms and conditions for third parties with whom we share data; and a suite of training materials. Our retained corporate lawyers, DLA, are advising on and assisting with a number of these workstreams.

Our People

The Harworth team is a small but growing team of dedicated and experienced professionals who continue to drive consistent returns from our strategic land and investment property portfolio, demonstrated by the extent to which value gains are driven by active management of the Group's assets. It is critical to the Group's continued performance and growth ambitions that we recruit, retain and develop the right people. We can only achieve that if we engage with our employees, create an environment in which they can develop their skills and experience, and reward them for their hard work and contribution.

Employee numbers and costs

The average number of persons, including Executive Directors, employed by the Group and our staff costs are set out in Note 6 to the financial statements.

Employee engagement

The Board recognises the importance of engaging with employees and considering the interests of employees when making decisions. Whilst there is already some engagement between the Board and wider Harworth team, such as site visits hosted by our operational teams, the Board is keen to improve the level of engagement, both informally and formally.

One of the most important aspects of our employee engagement strategy is our newly formed People Steering Group, which we established in the first half of 2018. It comprises a group of eight employees from different teams across the business, with a variety of groups represented by an appropriate mix of people, based on (amongst other things) length of service, experience and gender.

The purpose of The People Steering Group is twofold. From an operational perspective, it will take a lead in identifying and developing a "people agenda" and in proposing and implementing initiatives to drive that agenda. The group will, for example, help to formulate an agenda and format for our annual staff conference. The group will also be a forum for engagement between the Board and employees. It met with two of our Non-Executive Directors in March 2018, with the intention that similar meetings will be repeated periodically, so that the Board remains briefed and familiar with the views and concerns of employees.

Our annual staff survey is now into its third year, covering a range of themes including communication, development, morale and motivation. Once again there was a high completion rate, with 98% of employees responding to the survey, up from 96% in 2016. This reflects the fact that the annual survey is a meaningful exercise with feedback driving tangible initiatives. In 2017, in response to feedback from the 2016 survey, we:

- focussed on promoting entrepreneurship at our annual staff conference;
- introduced communications breakfasts for all employees, hosted by our teams on a rolling basis so that thought leadership and case studies can be shared;
- introduced "CEO breakfasts" giving every employee (in small groups) an opportunity to share their thoughts on a range of topics with our Chief Executive; and
- ran a time management course for some of our employees (and will roll this out for all employees in 2018).

We have identified further initiatives from the 2017 survey results and are looking to implement those during 2018, including a continued focus on time and capacity management.

In addition to the new initiatives identified above, we have continued to use the Harworth newsletter, annual staff conference and post results employee roadshows to cascade information to our teams. This is a priority for the business, to mitigate against any risk of a "silo effect" as the business, and our teams, grow.

Our culture

We believe we have a positive working culture at Harworth, based on the results of our employee survey over the last three years and the fact that we were identified by Property Week in February 2018 as one of the 50 Best Places to Work in Property. However, until we formally identify the fundamentals of our culture and values, it is difficult for the Board and Executive Committee to ensure that they are preserved and promoted across the business. With that objective, over the next 12 to 18 months, our newly appointed Head of HR and Organisation Development will lead a collaborative process with our employees to identify what makes Harworth a good place to work, with a view to defining better our positive culture and values so that we can use it as a framework for behaviour and decision-making across all aspects of the business.

Recruitment, retention and development

Reflecting the momentum in, and continued growth of, the business, we have recruited five new roles since publication of our 2016 Annual Report into our Acquisitions, Strategic Land, Major Developments, Finance and Business Support teams.

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

During 2017 we overhauled our appraisal process so that all employees will now have bi-annual performance reviews.

In 2017, a significant number of our employees attended external training courses. This included a second wave of employees who completed an external leadership programme, comprising six modules. A third wave will start the course shortly. Two of our employees continue to work towards professional qualifications and we continue to provide financial support to a number of our employees in renewing their

Our People
Continued

Harworth's team for Tour de Yorkshire Sportive

memberships of professional bodies, both in terms of ongoing CPD requirements and renewal fees.

External coaching continues to be available to our Executive Committee and Senior Management Team and we encourage them all to use this resource from time to time.

There were three strategic promotions at the end of 2017, including one promotion to our Senior Management Team. This reflects the growing experience and strength in depth of our teams.

Recognition and reward

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

Bonuses for all employees 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 2017, these targets were based on NNNAV gains, sales volume, acquisitions and profit excluding value gains.

During 2017, the first awards were made to our Senior Management Team under the newly established Senior Management Deferred Share Bonus Plan. A second set of awards were made earlier this month. The performance measures for these awards mirror aspects of the Executive Committee long-term incentive plan, incentivising and rewarding our Senior Management whilst aligning their interests with those of shareholders. The options which vest under this plan will be satisfied by shares purchased in the market.

We also established the Harworth Group Save As You Earn scheme, which gives employees an opportunity (annually) to save up to £500 a month over 3 years and then purchase shares in the Company at a discount of 20% to the market price of the shares at the outset of the scheme. We see the SAYE Scheme as a tangible way in which 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 priority, recognition is important too. During 2017, we have put greater emphasis on celebrating successes, such as at our staff conference, quarterly breakfast briefings and employee roadshows and in our newsletter.

Diversity And Equal Opportunities

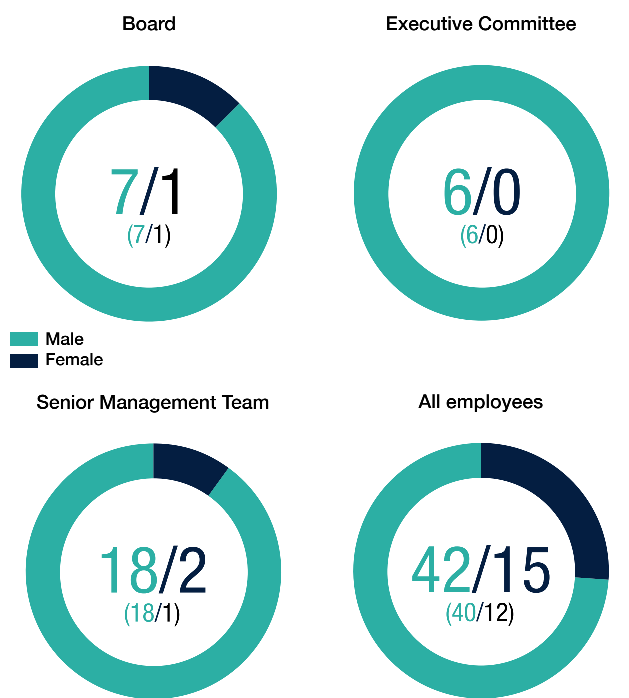
Like much of the real estate and construction sectors, we have a significant challenge to become the gender balanced business we want to be. We are working hard to achieve that objective but recognise that it will take time. The analysis over the page demonstrates the gender imbalance across the Harworth team, particularly amongst the Board, Executive Committee and Senior Management Team (figures in brackets denote the position at the date our 2016 Annual Report was published). We are also mindful that there are no individuals from an ethnic minority background working at Harworth.

Harworth has a diversity policy which provides that we are "committed to providing equal opportunities… avoiding unlawful discrimination in employment… and ensuring that no job applicant or employee receives less favourable treatment or is disadvantaged on the grounds of gender, race, disability, sexual orientation, religion or belief, age, and pregnancy or maternity". However, given the extent of the diversity challenge

facing the Group, the Board acknowledges the need for a more progressive policy, which must underpin proactive initiatives. To that end, as part of a wider review of employment terms and policies Gateleys has undertaken a review of our diversity policy and will be helping us to refine the policy in 2018.

Notwithstanding the need for improvements to the Group's diversity policy, there are already some initiatives in place designed to ensure that opportunities for recruitment, development and promotion are available to all and to promote both gender and ethnic diversity in the business:

- towards the end of 2016, the Remuneration Committee approved enhancements to the Group's maternity, paternity and adoption pay policy;
- eight of our employees work part-time, whether that be a reduced number of days or reduced hours every day, including two members of our Senior Management Team, and employees have the opportunity to work flexibly; and
- we have tasked our recruitment consultants with presenting candidate "long-lists" with a gender balance and one or more individuals of an ethnic minority background, wherever possible.



Some progress has been made since publication of the 2016 Annual Report. Of the five new roles for which the Group recruited, a majority (4) were filled by female candidates. However, there has been recruitment for two replacement roles in that period, one of which was vacated by a female and filled by a male. There were three promotions during the year. Two of those were junior promotions of male employees. The third was a promotion of a female employee to the Senior Management Team. It is important to note that, whilst the Group's desire to improve diversity will be a consideration in decisions on recruitment and promotion, selections will continue to be made based on merit and ability.

Whilst Harworth is not obliged to publish gender pay gap analysis, we are keen to be transparent about the extent of the diversity challenge we face. To that end, the Board has decided to undertake gender pay gap analysis and report on it voluntarily. The results of that analysis appear below:

Gender pay gap

Mean gender pay gap	50%
Median gender pay gap	46%
Mean bonus gender pay gap	85%
Median bonus gender pay gap	75%

Proportion of men and women in each quartile band

	Lower	Lower middle	Upper middle	Upper
Males	64%	69%	100%	90%
Female	36%	31%	0%	10%

We believe that our gender pay gap is more a function of historic trends across the property and construction sectors than reflective of a "Harworth" approach. These figures reflect the fact that, historically, men have held the vast majority of the most senior jobs in the property, construction and mining sectors and, as such, our gender imbalance is particularly stark at the Executive Committee and Senior Management Team levels. We are making efforts to address this, but the fact we operate with a small team, with limited turnover (itself a positive) means that it will take time to address current imbalances.

Whilst Harworth has a long way to go in improving diversity across its business, we have long been, and remain, committed to creating a working environment that is free from discrimination, harassment and victimisation, where everyone feels valued and respected. This approach 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 CPD and promotion within our business to any disabled employees.

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

Owen Michaelson
Chief Executive
24 April 2018

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Board of Directors and Company Secretary

Jonson Cox

Former Chairman*

N R

Term of office

Joined the Board on 15 November 2010 as Executive Chairman. Non-Executive Chairman since December 2012. Last re-elected in May 2017. Stepped down as Chairman and Chair of the Nomination Committee on 6 March 2018 (replaced by Alastair Lyons). Resigned as a Non-Executive Director on 31 March 2018.

Length of service

7 years 5 months (to 31 March 2018)

Independent

No

Skills and experience

Jonson's early career was with Royal Dutch Shell and Kelda Group. He joined Anglian Water as Chief Executive from 2004 until 2010. He was a Non-Executive Director of Wincanton plc from 2005 to 2014. In November 2012 he was appointed Chairman of the Water Services Regulation Authority (Ofwat).

Jonson joined the Board in 2010 to lead the former UK Coal through its 2012 restructuring. He served as Non-Executive Chairman following the restructuring and led the Company through its 2015 acquisition of Harworth Estates.

External appointments

Chairman of Water Services Regulation Authority (Ofwat) and the Cory Group. Advisor to I Squared Capital LLP. Director of Viridian Holdings Ltd and Stonebrook Associates Ltd.

Alastair Lyons

Chairman*

N R

Term of office

Joined the Board on 7 March 2018.

Length of service

2 months

Independent

Yes

Skills and experience

Alastair is Non-Executive Chairman of Welsh Water and Deputy Chairman of Bovis Homes Group PLC (but will retire from the latter role in May 2018). He was Non-Executive Chairman of Admiral Group plc from 2000 to 2017 and of Serco Group plc and Towergate Insurance until June 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) and Deputy Chairman of Bovis Homes Group PLC (but will retire from his role at Bovis Homes at its next AGM in May 2018).

Owen Michaelson

Chief Executive

Term of office

Joined the Board on 24 March 2015 having previously been Chief Executive of HEPGL from 28 September 2012 and of the Harworth Estates division of UK Coal since August 2010. Last re-elected in May 2017.

Length of service

3 years 2 months (7 years 9 months including appointment to HEPGL and Harworth Estates division of UK Coal)

Independent

No

Skills and experience

Owen has more than 26 years' experience in the remediation of brownfield land and has held executive roles at the Peel Group, Black Country Properties and Viridor. Prior to becoming the Chief Executive of Harworth Group plc, he took over the stand-alone operations of Harworth Estates at the commencement of the restructuring of the former UK Coal in August 2010. He established the business as a recognised developer of brownfield land, before being appointed to the Board of Harworth Group plc following its acquisition of Harworth Estates in 2015.

External appointments

Board member for Sheffield City Region Local Enterprise Partnership.

Andrew Kirkman

Finance Director

Term of office

Joined the Board on 1 January 2016. Last re-elected in May 2017.

Length of service

2 years 4 months

Independent

No

Skills and experience

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

External appointments

None.

Lisa Clement

Senior Independent Director

R N

Term of office

Joined the Board on 15 December 2011. Last re-elected in May 2017.

Chair of the Remuneration Committee and Senior Independent Director.

Length of service

6 years 5 months

Independent

Yes

Skills and experience

Lisa was formerly Chief Financial Officer of Sea Containers Limited, Managing Director of Capita Learning and Development and has held senior divisional roles at Cendant Inc and BPP Holdings plc.

External appointments

Director of Everything But The Cow Limited.

* On 7 March 2018, Alastair Lyons was appointed Non-Executive Chairman in place of Jonson Cox. On 31 March 2018, Jonson Cox resigned as a Non-Executive Director.

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

Anthony Donnelly
Non-Executive Director

R A

Term of office
Joined the Board on 24 March 2015 having previously been a Non-Executive Director of HEPGL from 10 December 2012 and a Director of the Harworth Estates division of UK Coal from January 2011. Last re-elected in May 2017.

Length of service
3 years 2 months (7 years 4 months including appointment to HEPGL and Harworth Estates division of UK Coal)

Independent
Yes

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

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

Andrew Cunningham
Non-Executive Director

[A] N

Term of office
Joined the Board on 26 April 2016. Elected in May 2017. Chair of the Audit Committee.

Length of service
2 years

Independent
Yes

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

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

* During the year, Andrew was appointed, but subsequently resigned, as Chairman of Aviva Investors Secure Income REIT PLC.

Steven Underwood
Non-Executive Director

R A

Term of office
Joined the Board on 2 August 2010. Last re-elected in May 2017.

Length of service
7 years 9 months

Independent
No, representative of the Peel Group

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

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

Martyn Bowes
Non-Executive Director

Term of office
Joined the Board on 24 March 2015 having previously been a Non-Executive Director of HEPGL from 19 March 2013. Last re-elected in May 2017.

Length of service
3 years 2 months (5 years 2 months including appointment to HEPGL)

Independent
No, representative of the PPF

Skills and experience
Martyn originally trained as an accountant and as a banker. He has spent the majority of his career in banking, most recently from 2001 to 2007 with Barclays Capital as Managing Director, Real Estate Finance. Since leaving Barclays he has pursued a portfolio business career, which in 2012 involved a takeover with fellow Directors of the South of England based Welbeck Land real estate business. Martyn now acts as Finance Director for Welbeck Land and also maintains other interests in debt advisory and healthcare.

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

Chris Birch
Group General Counsel and Company Secretary

Term of office
Appointed on 6 June 2016.

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

External appointments
None.

Former Chairman's introduction

"Harworth acknowledges a better balance is needed across the business in terms of gender and ethnicity. This is a big challenge and will take time to address fully, but remains an ongoing and important objective.

JONSON COX – CHAIRMAN (AS AT 31 DECEMBER 2017)

Dear Shareholder,

Whilst I stood down as Non-Executive Chairman of the Board prior to publication of this Annual Report and Financial Statements, as Chairman during the period under review it falls to me to present the Company's Corporate Governance Statement, on behalf of the Board.

It comprises the Statement of Corporate Governance, the Directors' remuneration report, the Audit Committee report, the Nomination Committee report, the Directors' report and the Statement of Directors' responsibilities. The Board is accountable to all stakeholders for good corporate governance. It recognises the importance of good governance as a foundation for long-term, sustainable growth and is committed to demonstrating high standards and continuous improvement in this regard.

These reports explain the Company's governance framework and policies, which are subject to regular review and refinement.

While, at the date of this report, the Company remains a standard listed Company on the London Stock Exchange, it aims to comply with the UK Corporate Governance Code (the Code), and workstreams are underway to apply to the FCA for the Company's shares to be moved from a standard listing to a premium listing. I am pleased to report that, save as explained in the Directors' report on page 96, the Company has complied with the Code for the period under review. The Company is monitoring the consultation process in respect of the proposed introduction of a revised Code and will continue to review and update its policies and procedures to ensure compliance with the new, revised Code.

Composition of the Board

There were no changes to the composition of the Board or the Board committees during the period under review. However, on 7 March 2018 Alastair Lyons replaced me as Chairman of the Board and I resigned from the Board with effect from 31 March 2018. Alastair will also become Chair of the Nomination Committee and take my place as a member of the Remuneration Committee.

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

The Nomination Committee's focus in 2017 was on the appointment of my replacement, which was announced in December. Succession planning is underway for the two longest-serving independent Non-Executive Directors. During 2018 a comprehensive review of succession and development plans is being undertaken by our newly appointed Head of HR & Organisation Development. This will ensure that there are succession plans in place at all levels of the business and all employees have the opportunity to reach their full potential. The Nomination Committee will use those plans to inform its detailed review of succession plans for the Executive Directors and wider Executive Committee. The Board recognises the value that can be derived from a broader range of ideas, skills, experience and perspectives at all levels of the business, but particularly at Board, Executive Committee and Senior Management Team levels. It also acknowledges a better balance is needed across the business in terms of gender and ethnicity. This is a big challenge and will take time to address fully, but remains an ongoing and important objective.

Leadership and Accountability

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

The Board adds value through constructive dialogue with, and challenge to, the Executive Directors and wider Executive Committee to create accountability and drive performance. To that end, all Directors must have a good knowledge of the Group's business and the markets in which it operates. The Board timetable includes site visits, which help to improve knowledge and understanding of our key sites and, at the same time, are an opportunity for our Non-Executive Directors to get to know better the operational teams driving value growth from our portfolio. The Board also receives detailed operational updates from the Capital Growth, Income Generation and Acquisitions divisions each on a bi-annual basis, so that all Directors are alive to the operational challenges facing the business, which is the backdrop against which performance is delivered.

Once again, there has been a strong focus on risk management and internal controls this year. The Audit Committee has overseen another comprehensive review of the Group's insurance programme, a detailed review of the Board's risk appetite and the Group's risk profile; and an external review of some of the Group's internal financial controls. The Audit Committee report on pages 86 to 89 contains further details.

The Board and Executive Committee undertook the annual review of the Group's strategy in September. That review re-affirmed the fundamentals of the Group's long-term strategy, although we did resolve to refine the way we articulate our strategic priorities to stakeholders. This is reflected in the Strategic Report on page 2. We believe the medium-term outlook is positive given the ongoing performance of our core markets in the North of England and Midlands, the continued shortage of housing, the fundamentals underpinning manufacturing and logistics markets and the largely supportive backdrop of Government policy and sentiment.

Having established a formal internal Board evaluation process at the end of 2016, during 2017 we: implemented action points to address the areas identified for improvement, most notably on inductions and continuous professional development for Directors; undertook evaluations for each of our Board committees; have analysed the results and are addressing areas for improvement; and implemented a programme of 360 degree self-appraisals for all of our Non-Executive Directors. Individual appraisals have demonstrated that each Non-Executive Director continues to contribute effectively and demonstrate commitment to the role.

Another internal Board evaluation was undertaken in the first quarter of 2018. It was pleasing to see that the results reflected the actions taken in response to feedback the previous year. The results do identify further areas for improvement, and these will be looked at during the balance of 2018. In accordance with the Code, we will instruct an external Board evaluation towards the end of this year.

Remuneration

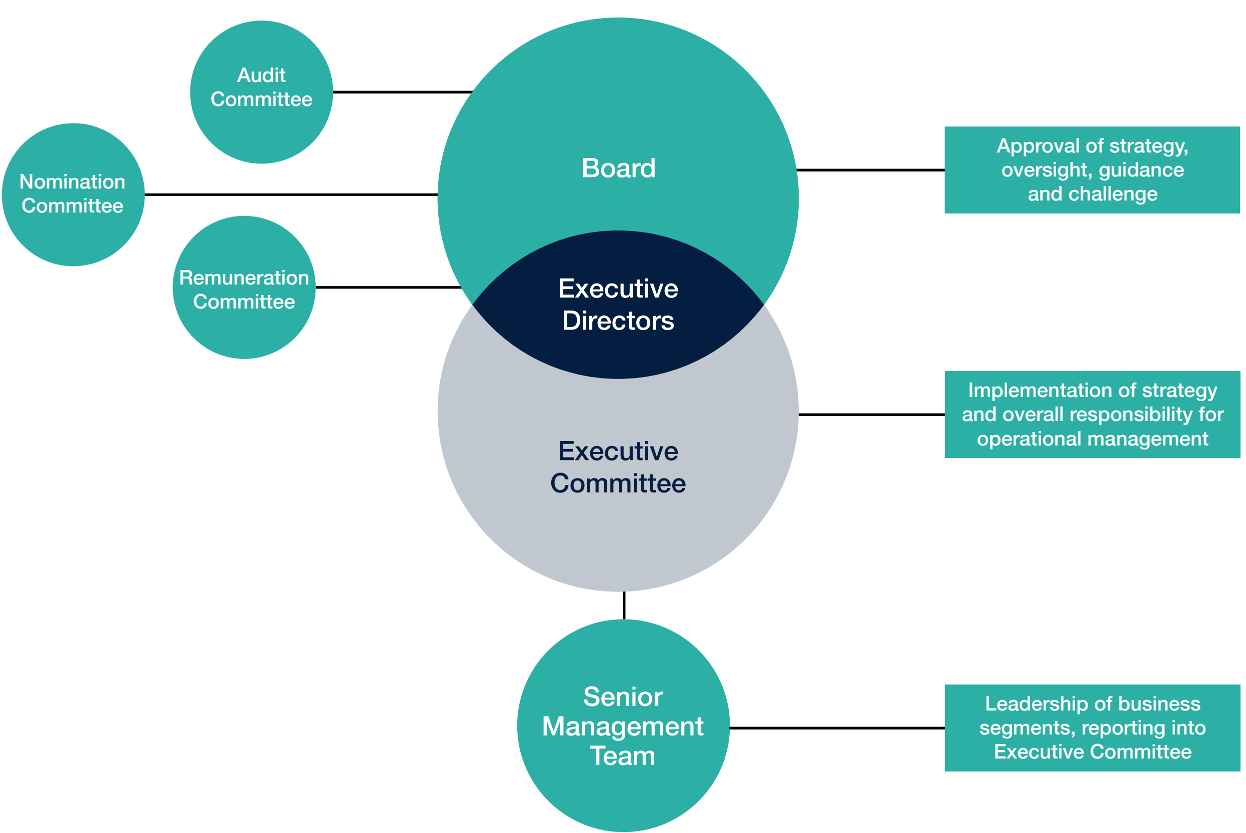
Our remuneration policy and arrangements are designed to support the Group's objectives. Having made some changes to our Chief Executive's bonus entitlement and our Finance Director's salary and bonus entitlement, we believe that the current remuneration packages are appropriate for incentivising management to drive long-term value growth. The Remuneration Policy tabled at the 2016 Annual General Meeting received overwhelming support from Shareholders. A summary of the policy appears at pages 75 to 77. The policy will be reviewed towards the end of 2018 and early part of 2019, with a view to an updated policy being tabled at the 2019 Annual General Meeting.

Annual General Meeting

Our Annual General Meeting will be held at 2.00 p.m. on Tuesday 29 May 2018 at The Bessemer Conference Room, AMP Technology Centre, Advanced Manufacturing Park, Brunel Way, Waverley, Rotherham, S60 5WG. That meeting will be chaired by my successor, Alastair Lyons. I would like to encourage all Shareholders to attend.

Jonson Cox
Chairman (as at 31 December 2017)
24 April 2018

Statement of Corporate Governance



Role of the Board

The Company is headed by a Board of Directors. Its key responsibilities are summarised in the table below. The Group's delegated authorities policy was subject to a detailed review and updated in November 2016 and remains fit for purpose. It includes matters reserved for the Board. Examples of Board reserved matters are also set out in the table below.

Key responsibilities

- Set objectives and strategy for delivery of value to Shareholders.
- Monitor management performance against strategy and targets.
- Provide constructive challenge to management proposals and activity.
- Stewardship of the Group's resources and overall responsibility for management of the Group to ensure long-term viability, sustainability and growth of the business.
- Ensure engagement with stakeholders and consideration of stakeholders interests in decision-making.
- Ultimate responsibility for risk appetite and management.

Examples of reserved matters

- Group strategy and budgets.
- Constitution and the structure of the corporate Group and its capital.
- Annual and half-year reports and financial statements, and the declaration of dividends.
- The Group's principal banking facilities and hedging arrangements.
- Material sales, lettings, acquisitions and joint ventures.
- Risk appetite and insurance programme.
- Appointment of Non-Executive Directors, Executive Directors and Company Secretary.
- Policies relating to whistleblowing, bribery, data protection, anti-facilitation of tax evasion, modern slavery and business continuity.

The Board has delegated certain responsibilities to the Remuneration, Audit and Nomination Committees. The terms of reference of those committees can be found on the Group's website at www.harworthgroup.com/investors/governance. Those terms of reference were last updated in December 2017.

Role of the Executive Committee

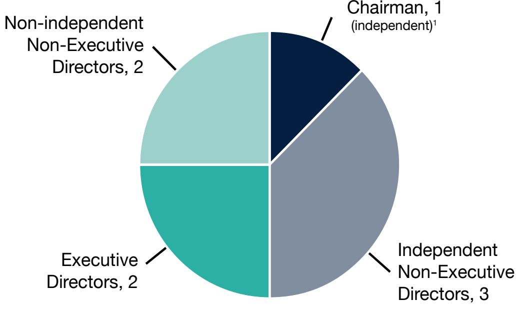
The Executive Committee has responsibility for implementing the Group's strategy and oversight of day-to-day management of the Group's business, with reference to, and challenge from, the Board on Board reserved matters. It comprises the Chief Executive, Finance Director and Group General Counsel and Company Secretary, together with: the Managing Director, Capital Growth; the Executive Director, Income Generation; and the Director, Acquisitions.

Role of the Senior Management Team

The Senior Management Team comprises ten senior employees who lead each of the Group's business segments, being: Strategic Land; Major Developments; Business Space; Building Delivery; Natural Resources; Operations; EES; HR; Communications and Finance. Each member of the Senior Management Team reports to a member of the Executive Committee.

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

Composition of the Board



1 As at the date of this Report

The Board is made up of the Chairman, Chief Executive, Finance Director and five Non-Executive Directors. The Directors' biographies appear on pages 60 and 61.

The Board considers that its Non-Executive Directors bring the requisite judgement, knowledge and experience to the Board's deliberations. They have no financial or contractual interests in the Group, other than interests in Ordinary Shares as disclosed in the Directors' interests in Ordinary Shares section of the Directors' remuneration report at page 84.

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

Independence

The Code recommends that, as a Company outside of the FTSE 350, the Company should have at least two independent Non-Executive Directors.

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

The Board considers that Lisa Clement, Anthony Donnelly and Andrew Cunningham are independent.

The Board recognises that Steven Underwood, who is a Director and representative of the Peel Group, which is the largest Shareholder in the Company, and Martyn Bowes, who is the representative of the Pension Protection Fund, which holds 25% of the issued capital, are not independent. The Board considers that their skills and experience are relevant to the business and they contribute to the realisation of the Group's strategy. Both Shareholder relationships are governed by relationship agreements.

Going forward, there will be four independent and four non-independent directors on the Board. The Board considers this balance to be appropriate, but will keep the position under review, particularly given that the proposed new Code provides that a majority of the Board, including the Chairman, should be independent.

Statement of Corporate Governance
continued

Role/Committee	Key responsibilities
Chairman Jonson Cox (Alastair Lyons, from 7 March 2018)	• Overall leadership of the Board, with responsibility for ensuring its effectiveness by facilitating a constructive dialogue between the Board and the Executive Committee • Ensures that a fixed schedule of matters is retained for the Board's review and approval • With support from the Company Secretary, sets the annual Board agenda programme and Board meeting agendas, ensures that directors receive accurate, timely and clear information, and ensures that there is adequate time available for discussion of agenda items in particular strategic issues • Ensures there is ongoing and effective communication with Shareholders • Ensures that the Board identifies the Group's key stakeholders, that there is appropriate engagement with them, and their interests are considered when decisions are made
Chief Executive Owen Michaelson	• Responsible for all operational matters within the parameters of the authorities delegated by the Board • Leads on the formulation of strategy which, once agreed by the Board, falls to him to implement • Leads and chairs the Executive Committee • Responsible for the Group's risk profile, including health and safety and environmental policies, procedures and matters • Ensures that the Board is appraised of all material matters • Responsible for the Company's profile with Shareholders • Leads the establishment and maintenance of an appropriate culture and code of ethics for the Group • Responsible for formulation and implementation of people strategy
Finance Director Andrew Kirkman	• Supports the Chief Executive on strategy and risk • Leads on all financial matters, including tax and treasury • Responsible for leading the raising of any new equity capital • Leads on investor relations • Reviews the financial analysis of all major transactions including acquisitions, sales and capital investments • Leads on M&A and portfolio acquisitions • Responsible for insurance and pensions, in conjunction with the Company Secretary • Responsible for internal controls, systems and processes, in conjunction with the Company Secretary
Senior Independent Director Lisa Clement	• Provides a sounding board for the Chairman • Acts as an intermediary for other Non-Executive Directors • Available to Shareholders if they have concerns where communication through the Chairman or Executive Directors is not successful or appropriate • Leads the process for appointing a new Chairman • Leads the annual appraisal of the Chairman's performance
Non-Executive Directors Lisa Clement Anthony Donnelly Andrew Cunningham Steven Underwood Martyn Bowes	• Help to formulate a strategy for the Group and monitor the delivery of that strategy • Provide constructive challenge to the Executive Directors on matters referred to the Board • Scrutinise the performance of the business against the strategy, agreed objectives and targets • Review and scrutinise financial information and internal risk controls • Available for meetings if requested by major Shareholders

<table>
<tr><th>Role/Committee</th><th>Key responsibilities</th></tr>
<tr><td>Remuneration Committee
Lisa Clement (chair)
Anthony Donnelly
Jonson Cox
(Alastair Lyons from 7 March 2018)
Steven Underwood</td><td>• Determines and agrees with the Board the Company’s remuneration policy for Executive Directors
• Determines the salaries, bonuses, long-term incentive arrangements, pension arrangements, other benefits and contract terms of the Executive Directors and members of the Executive Committee
• Determines the long-term incentive arrangements of the Senior Management Team
• Monitors salary and bonus levels of all employees
• Approves grant of options for Save-As-You-Earn Scheme
• Carries out an annual review of benefits available to all Group employees
• Responsible for changes to certain Group-wide employment policies</td></tr>
<tr><td>Nomination Committee
Jonson Cox (chair)
(Alastair Lyons from 7 March 2018)
Lisa Clement
Andrew Cunningham</td><td>• Leads the process for Board appointments by making recommendations to the Board, both for filling Board vacancies and appointing additional persons to the Board, following evaluation of the balance of skills, knowledge and experience on the Board
• Carries out a regular review (typically annually) of succession and development planning for the Executive Directors, the Chairman and Non-Executive Directors and members of the Executive Committee, to maintain an appropriate balance of skills and experience on the Board and on the Executive Committee
• Considers and makes recommendations to the Board on its composition, balance and membership and on the endorsement of Directors for re-election at the AGM
Note: the Chairman will not chair the Committee when it deals with the appointment of a successor to the chairmanship. This process will be led by the Senior Independent Director (and was in 2017)</td></tr>
<tr><td>Audit Committee
Andrew Cunningham (chair)
Anthony Donnelly
Steven Underwood</td><td>• Reviews the integrity of the Company’s annual and interim reports, preliminary and interim results announcements and any other formal announcements relating to its financial performance
• Reviews the effectiveness of the Group’s system of internal financial and risk controls.
• Reviews the Group’s insurance programme.
• Reviews the terms of appointment, independence, effectiveness and remuneration of the Company’s external auditors and makes recommendations to the Board on the reappointment of the external auditors. Leads the re-tendering process for the appointment of external auditors, if applicable.
• Reviews and if necessary updates the Group’s risk register.
• Reviews the Group’s anti-bribery policy (including an annual review of the Group’s hospitality register) and other policies relating to financial security, business ethics and compliance
• Reviews the adequacy of the Group’s cyber-security measures and business continuity plans and procedures</td></tr>
<tr><td>Group General Counsel and Company Secretary
Chris Birch</td><td>• Secretary to the Board and its committees
• Ensures that all Board reserved matters are referred to the Board for review and approval and that all Board procedures are complied with
• Advises on regulatory compliance (including GDPR, Bribery Act, Modern Slavery Act, Criminal Finances Act) and Corporate Governance
• Prepares Board and committee agendas and collates and distributes papers
• Available to advise the Directors on all legal and compliance matters
• Assists the Chairman with Board evaluations and Director inductions and development
• Responsible for internal controls, systems and processes, in conjunction with the Finance Director
• Responsible for insurance and pensions, in conjunction with the Finance Director
• Responsible for cyber-security and business continuity planning and procedures
• Manages EES team</td></tr>
</table>

Statement of Corporate Governance
continued

Board activities in 2017

The activities of the Board during the year ended 31 December 2017 included (operational approvals not listed):

Month	Activities	Strategy	Delivery	Risk and governance	Finance	Shareholder relations
January	Capital Markets Day					✔
	Annual update from AD of EES			✔		
	Capital Growth operational update		✔			
February	FYE 2016 Preliminary results and final dividend				✔	✔
	Board evaluation feedback and action points			✔		
	Acquisitions operational update		✔			
March	Approval of share placing	✔			✔	✔
	FYE 2016 Annual Report and Financial Statements				✔	✔
	Income Generation operational update		✔			
April	Public sector funding update				✔	
	Feedback from preliminary results investor roadshow					✔
	Capital Growth operational update		✔			
May	Annual General Meeting					✔
	H2 investor relations programme					✔
	Acquisitions operational update		✔			
June	People plan	✔	✔	✔	✔	
July	FYE 2017 Interim results				✔	✔
	Income Generation update		✔			
September	Strategy review	✔				
	Feedback from interim results investor roadshow					✔
October	Emerging government policies	✔				
	Capital Growth operational update		✔			
November	Draft budget and strategic plan	✔			✔	
	Extension of term of revolving credit facility				✔	
	Real Estate market - broker update	✔				
December	Final budget and strategic plan	✔			✔	
	Insurance programme renewal			✔		
	Prospective appointment of new Chairman			✔		

Board diversity

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

The Board is acutely aware of the fact there is only one woman and no individuals of an ethnic minority amongst the Board and Executive Committee and only two women and no individuals of an ethnic minority on the Senior Management Team. The Board recognises that the Company faces a significant challenge to address the significant, historic imbalances in the workforce and is committed to doing so over time. The Board has not, and will not, set arbitrary numerical targets for diversity and future appointments will continue to be made based on merit and objective criteria to ensure that the best candidates are appointed for all roles. However, diversity is an active and important consideration in all succession plans and Harworth is committed to giving women and ethnic minorities every opportunity to apply for the new and replacement roles for which we recruit, as the business continues to grow, and to ensuring that there are adequate measures in place to support their progress and development within the organisation. Further information on the Group's diversity policy and initiatives appears in the 'Our People' section of this report on pages 55 to 57.

Insurance and advice for Directors

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

All Directors have access to the advice and services of the Company Secretary. The Board has established a procedure by which any Director, for the purpose of furthering his or her duties, may take independent professional advice at the Company's expense. No Director had reason to use this facility in 2017.

Contractual terms and conditions

The Chief Executive and the Finance Director have service contracts, which may be terminated by the Company on not more than six months' notice. Termination of the Chairman's appointment is also subject to six months' notice, whilst the appointments of all other Non-Executive Directors are subject to three months' notice. There are no Directors on fixed term contracts. There are no contractual clauses that give any of the Directors an entitlement to compensation exceeding their due payment in lieu of notice.

External appointments, conflicts of interest and time commitment

Upon appointment, each Director is required to notify the Company of its external board appointments, other significant commitments and any actual or potential conflict of interest. Where a Director proposes to take on additional external responsibilities, the Chairman and Chief Executive, with advice from the Company Secretary, consider whether such appointment could give rise to potential conflicts of interest. Each Director has an opportunity to disclose actual or potential conflicts of interests to the Board, either by way of general notice or at the beginning of each Board meeting and Board committee meeting. The Articles of Association provide that the Board can authorise actual and potential conflicts of interest of Directors.

Where actual or potential conflicts of interest arise, the relevant Director does not receive Board papers and is excluded from discussions and voting on the subject matter that gives rise to the conflict.

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

Steven Underwood has previously declared by way of general notice, and the Board has approved, a potential conflict of interest arising from the fact that he is Peel Group's Board representative and an executive Director of a number of Peel Group companies one or more of which may deal with Harworth at an operational level from time to time. These include Peel Environmental Limited ("PEL"), with whom Harworth Estates Limited entered into certain joint venture arrangements in 2011. Those joint venture arrangements were varied during 2017, with the approval of Shareholders at the 2017 Annual General Meeting. This resulted in options being granted to PEL in respect of three sites (also approved by Shareholders). PEL exercised two of those options during the second half of 2017. During 2017, the Board also considered a prospective sale of land to a joint venture to which the Peel Group were party. That sale did not proceed. The joint venture variations (including the new options granted to PEL) and prospective sale gave rise to conflicts of interest for Steven Underwood. Whilst those conflicts were approved by the Board, Steven Underwood did not receive Board papers, was not present for any Board discussions relating to, and did not vote on, those matters.

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

During 2017, the Board approved Owen Michaelson's appointment to the Board of the Sheffield City Region Local Enterprise Partnership. No conflicts of interest have arisen as a result of that appointment. The Executive Directors are also Directors of a number of Group subsidiary companies.

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

Tenure and re-election

The Articles of Association of the Company provide that one third of the Directors should be subject to re-election by Shareholders. The Board considers it good practice for all Directors to be subject to election or re-election at every Annual General Meeting and, as such, all Directors will stand for election or re-election by Shareholders at the 2018 Annual General Meeting.

The terms of appointment of all Directors appear on pages 60 and 61. The Board is mindful that, under the Code, Non-Executive Directors will be deemed to lose their independence after nine years in office and that Anthony Donnelly (taking account of his time as a director of HEPGL and the "Harworth Estates" division of UK Coal) and Lisa Clement have been on the Board for over 7 years and 6 years, respectively. As such, having secured the appointment of a new Chairman, the Nomination Committee's focus will now turn to plans for their succession.

Effectiveness

Induction, professional development and external advice

The Chairman and the Company Secretary are responsible for preparing and coordinating an induction programme when new Directors are appointed to the Board. Following Board evaluation feedback, the induction programme for new Directors has been improved and Alastair Lyons has recently undertaken an extensive induction in the period leading up to his appointment in March 2018.

Also in response to Board evaluation feedback, steps were taken during 2017 to introduce some more structure to the CPD of Directors. Board packs now include external CPD briefings for Directors, with a short synopsis prepared by the Company Secretary. In addition, the Company Secretary provides written and verbal updates to the Board and the Board committees, as appropriate, on governance and regulatory changes, such as the General Data Protection Regulation and proposals for revisions to the Code. Annually, external professional firms will deliver CPD workshops for the Board and Board committees. KPMG hosted a session with the Board in October 2017 and plans are in place for DLA to do the same in 2018, with similar sessions timetabled for the Board committees.

Performance evaluation

Formal Board and Board committee evaluations are now undertaken annually. The first set of committee evaluations were undertaken in the second half of 2017, led by the committee chairs alongside the Company Secretary. A second full Board evaluation was undertaken in the first quarter of 2018. The results reflected improvements made during 2017 in response to feedback from the 2016 evaluation but also identified areas for continuous improvement, which will be explored in the second half of 2018. Aligned with the Code requirements for FTSE 350 companies, the Company intends to instruct an external Board evaluation towards the end of 2018. Annual appraisals of each Non-Executive Director are also undertaken on a rolling basis.

Statement of Corporate Governance
continued

Board Evaluation Cycle

2016/2017 Year 1 Internal Review → 2017/2018 Year 2 Internal Review → 2018/2019 Year 3 Externally Facilitated Review → (back to Year 1)

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

Strategy, Budget and Board information

The Board engages in a robust process annually to review and approve the Group's strategy and annual budget. The Board and Executive Committee undertook a detailed review of strategy in September. The strategy will continue to be subject to internal, annual reviews, with external input periodically when appropriate. A draft budget and strategic plan, for implementation of the strategy over a five-year plan period, is prepared by the Executive Committee and presented to the Board in November each year. The Board provides comment and challenge, which is incorporated into a revised draft for further Board review and approval in December. Activities and performance of the business is then monitored by the Board throughout the year against the approved budget and strategic plan.

Historically, Board and Board committee papers have been circulated both in soft (by email) and hard (by post) copies in advance of each meeting. From May, the use of electronic only papers will be introduced. Papers are supplemented by reports and presentations, as appropriate. The papers include monthly reports from the Chief Executive, Finance Director (including monthly financial management information to enable the Board to monitor performance against the approved budget and strategic plan) and Company Secretary. Detailed briefings are given to the Board, both in writing and in person, by each of the Managing Director, Capital Growth; the Executive Director, Income Generation; and the Director, Acquisitions twice a year. An annual update report is given, both in writing and in person, by the Associate Director for EES, who has divisional responsibility for environmental and health and safety matters.

Board papers are circulated not less than one full week prior to each meeting. The Company Secretary maintains "Action Schedules" for the Board and each Board committee which records action points agreed at each meeting. That schedule, together with the minutes of each meeting are reviewed by the Chairman of the Board or the Chair of the relevant Board committee (as appropriate) and then, at the following Board or committee meeting, the wider Board or committee (as appropriate).

Attendance at board meetings

There were 11 regular Board meetings scheduled during 2017 and three additional meetings held by conference call in February and September (to consider specific operational items). Attendance by individual Directors at Board meetings is shown in the table opposite. There were also site visits, a strategy review day offsite and a Board CPD workshop during the year.

	Number of meetings attended	Attendance
Jonson Cox	14/14	100%
Owen Michaelson	14/14	100%
Andrew Kirkman	14/14	100%
Lisa Clement	13/14	93%
Anthony Donnelly	14/14	100%
Steven Underwood	11/14	79%
Martyn Bowes	13/14	93%
Andrew Cunningham	14/14	100%

Steven Underwood was unable to attend three Board meetings, one Remuneration Committee meeting and one Audit Committee meeting during 2017 because of prior commitments in his capacity as Chief Executive of the Peel Group. It should be noted that two of those Board meetings and the committee meetings were scheduled (the committee meetings and one of the Board meetings being on the same day) and the other Board meeting was an additional telephone meeting.

In the lead up to the Company's placing of shares in March 2017, authority was delegated to a sub-committee to approve certain aspects of the placing. The sub-committee comprised Jonson Cox, Owen Michaelson, Andrew Kirkman and Andrew Cunningham and met twice during March. All sub-committee members were present and certain other Directors were in attendance.

Internal controls and risk

The Board acknowledges its responsibility for identifying business risks, determining risk appetite and ensuring the maintenance of a robust system of internal controls and processes to monitor and manage risk. Pages 38 to 43 of the Strategic Report identify the principal risks and uncertainties facing the Group, the current risk profile of the business and the anticipated movements in that profile over the next 12 months. Page 37 of the Strategic Report and page 89 of the Audit Committee report explain how internal controls and processes for managing risk are monitored, which now includes an annual external review of certain controls and of the Group's need for an internal audit function. The principal internal controls of the Group are summarised below. Based on the Audit Committee's most recent review, the Board is satisfied that there are in place effective systems for managing and mitigating significant risk.

Delegated authorities

The Company's delegated authorities policy determines matters reserved exclusively for the Board and also provides a framework for decision-making throughout the business. It was subject to a detailed review and update in November 2016.

Cash management

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

Risk register

During 2017, as part of its ongoing continual improvement programme, the Group undertook another detailed review of its principal risks and uncertainties. This review was led by our Company Secretary in conjunction with the Board, the Audit Committee, the Executive Committee and the Senior Management Team. This review has led to a further refinement of the Group's Risk Register. Further details are set out in the Strategic Report on pages 36 to 43.

Communication with Shareholders

The Board places great emphasis on open and regular communications with Shareholders. The Chief Executive and Finance Director meet and present to large investors, institutional Shareholders and analysts after the publication of the Company's preliminary and interim results. The Company also hosted a Capital Markets Morning in January 2017 in London for existing and potential institutional Shareholders with the purpose of better explaining how the Group drives value from its portfolio. A briefing and collection of site visits for institutional Shareholders and analysts is planned for June of this year with a similar objective.

The Board regularly receives feedback from the Company's brokers and the Executive Directors on the views of major Shareholders, particularly after publication of annual and half-year results. It receives 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 benefits from there being representatives on the Board from its two largest Shareholders. They provide ongoing Shareholder feedback and perspective on key strategic decisions.

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

The Company has a planned programme of announcements throughout the year, prepared by our Associate Director of Partnerships and Communications with support from FTI Consultancy and reviewed regularly by the Board to ensure that investors are updated regularly on progress in the business. The annual and interim reports, together with the www.harworthgroup.com website, are our principal means of communication with all Shareholders during the year. Copies of all reports, Shareholder presentations and communications are available on the investors section of the website.

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

Annual General Meeting

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

The resolutions to be proposed at the Annual General Meeting to be held on 29 May 2018, together with the explanatory notes, appear in the separate Notice of Annual General Meeting accompanying this Annual Report. The Notice is also available on our website at www.harworthgroup.com/investors/reports-presentations.

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

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

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

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

Jonson Cox
Chairman (as at 31 December 2017)
24 April 2018

Directors' remuneration report

Members and attendance at meetings during the year ended 31 December 2017	
Lisa Clement Chair and Senior Independent Director	4(4)
Anthony Donnelly Independent Non-Executive Director	4(4)
Steven Underwood Non-Executive Director (not independent)	3(4)
Jonson Cox Chairman (not independent)	4(4)

Key responsibilities

- Determines and agrees with the Board the Company's remuneration policy for Executive Directors.
- Determines the salaries, bonuses, long-term incentive arrangements, pension arrangements, other benefits and contract terms of the Executive Directors and members of the Executive Committee.
- Determines the long-term incentive arrangements of the Senior Management Team.
- Monitors salary and bonus levels of all employees.
- Approves grant of options for Group Save-As-You-Earn Scheme.
- Carries out an annual review of benefits available to all Group employees.
- Responsible for changes to certain Group-wide employee policies.

The Committee's terms of reference, which were last reviewed and updated in December 2017, are set out on the Company's website and can be found at www.harworthgroup.com/investors/governance/

The Board undertakes an annual evaluation of the Committee's performance to ensure its continued ability to discharge its key responsibilities.

Chair's introduction

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017, for which we will be seeking approval at the Annual General Meeting on 29 May 2018.

The Remuneration Policy

The Company's Remuneration Policy has been 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. We believe that the remuneration of the Executive Directors reflects appropriately the strong performance of the Group and management's contribution.

The Remuneration Policy was approved by Shareholders at the 2016 Annual General Meeting with over 99% shareholder support.

This report

This report is divided into 3 sections: this Chair's introduction, an 'at a glance' summary of the Remuneration Policy, and the annual Directors' remuneration report, which explains how the policy was implemented in 2017 and how it will be implemented in 2018.

This report has been prepared in accordance with the provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Report) (Amendment) Regulations 2013 (the Regulations). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules and the principles of the Code on a comply or explain basis.

In accordance with the Regulations, the following sections of the Directors' remuneration report are subject to audit: the single total figure of remuneration for Directors and accompanying notes (pages 78 and 79); scheme interests awarded during the financial year (pages 80 and 81); payments to past Directors (page 82); and the statement of Directors' shareholdings and share interests (page 84). The remaining sections of the report are not subject to audit.

Salary increases for 2018

The salary of the Chief Executive has been increased by 2.5%, in line with the median salary increases applied across the wider workforce. With effect from 1 January 2018, the salary of the Finance Director has been increased from £205,000 to £235,000, in recognition of the additional responsibility he has taken on for leading the Group's M&A and large-scale (portfolio) acquisition activity, in furtherance of the Group's ambitious plans for growth.

Pension

The pension arrangements of the Executive Directors remain unchanged. They may elect to receive a pension contribution of 10% of salary (which is consistent with the contributions made for all other employees) or an equivalent cash allowance.

Bonus

The annual bonus will continue to operate on the basis of a combination of financial performance (including NNNAV, sales volume, strategic business development and profit excluding value gains), and personal objectives.

The Chief Executive's bonus opportunity has been increased to 125% for 2018 only. This remains below the exceptional limit of 150% approved by Shareholders. This is the first time that the Chief Executive's bonus opportunity has exceeded 100% of salary and reflects the additional stretch in the targets for 2018. Any payment of bonus in excess of 100% of salary will be deferred for one year, in accordance with the Remuneration Policy. The financial performance targets and personal/strategic objectives for the Chief Executive's 2018 bonus will be reported in the 2019 Annual Report.

With effect from 1 January 2018, the bonus opportunity of the Finance Director has been increased to 100%. This is an ongoing increase in recognition of the additional responsibility he has taken on for leading the Group's M&A and large-scale (portfolio) acquisition activity, in furtherance of the Group's ambitious plans for growth.

Long Term Incentive Plan

At the 2016 Annual General Meeting, Shareholders approved the adoption of a new Long Term Incentive Plan (LTIP) with over 99% Shareholder support. The first awards under that LTIP were made to Executive Directors and other members of the Executive Committee shortly after the 2016 Annual General Meeting. Following a review of the performance measures adopted for the 2016 awards, the Committee concluded that those measures remained appropriate. However, for the 2017 awards the total returns performance targets were considered by the Committee and adjusted to range from 8% p.a. (threshold) to 12% p.a. (stretch) having ranged from 8% p.a. (threshold) to 14% p.a. (stretch) for the 2016 awards, to align better with the Company's plans over the relevant 3 years. For the 2018 LTIP awards the performance measures and targets remain unchanged.

Key activities of the Committee since publication of the 2016 Annual Report

- Reviewing the 2016 Remuneration Policy approved by Shareholders to ensure it continues to align with Group strategy and Shareholders' interests.
- Approving the 2017 Directors' Remuneration Report.
- Approving base salary increases for the Executive Directors and members of the Executive Committee and an increase in bonus entitlement for the Executive Directors.
- Adjudicating 2017 bonus outcomes.
- Approving 2018 bonus targets.
- Approving the vesting of awards under the Harworth Estates Property Group Limited 2012 LTIP.
- Reviewing performance for the 2016 and 2017 LTIP awards and projections for those awards.
- Approving 2018 LTIP awards and performance measures for the Executive Committee and Senior Management Team.
- Reviewing a report on Group-wide remuneration for 2018.
- Carrying out an annual review of Group-wide employee benefits.
- Approving invitations and grant of options pursuant to the Group-wide Save As You Earn Scheme.
- First meeting with People Steering Group, attended by the Chair of the Committee.
- Review of gender-pay gap calculations.

Shareholding guidelines

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

Senior management deferred share bonus plan

During 2017, the Committee approved the adoption of a deferred share bonus plan for the Senior Management Team, to help align senior management with Shareholders' interests, and to retain and incentivise senior members of the team who make a significant contribution to value growth, but are not members of the Executive Committee and so do not participate in the LTIP. The first awards under that new scheme were made in 2017 alongside the 2017 LTIP awards to the Executive Committee. Those awards vest subject to absolute total return achieving the same performance targets as in the LTIP. Further awards have been made to the Senior Management Team under the plan alongside the 2018 LTIP awards to the Executive Committee. The absolute total return performance targets remain unchanged. Any awards that vest will be satisfied with shares purchased in the market.

Harworth Estates long term incentive plan (2012)

Following the establishment of Harworth Estates as a standalone business at the end of 2012, a one-off cash-based long-term incentive plan was introduced by HEPGL to reward value created by the Group in the period 1 January 2013 to 31 December 2017. Awards under that scheme vested upon approval of the Group's financial statements for the year ended 31 December 2017 and payments were made in March this year. The payments made to the Chief Executive and Finance Director are included in the Single Total Figure of Remuneration for Executive Directors which appears on page 78. It is important to note that this scheme was a one-off scheme and covered performance over a five-year period.

Chairman and Non-Executive Directors

The fees for the Chairman (£160,000) and the basic fees for Non-Executive Directors (£42,500) have remained unchanged during 2017. Andrew Cunningham received an additional fee of £7,500 for chairing the Audit Committee, and I received additional fees of £7,500 for chairing the Remuneration Committee and £3,000 as Senior Independent Director. The additional fees for Committee Chairs remain unchanged for 2018. With effect from 1 January 2018, the additional fee payable to the Senior Independent Director has been increased to £7,500, in recognition of the increased time commitment that the role at Harworth entails. This increase was determined by the Chairman and Executive Directors in accordance with the Company's Remuneration Policy. The Committee considers that NED fees appropriately reflect the work and responsibilities associated with each role.

Save As You Earn Scheme

At the 2017 Annual General Meeting, Shareholders approved a Save As You Earn Scheme for all employees. Following that approval, employees were invited to participate in the scheme and shares were offered to participants at a 20% discount to the prevailing market value. It was pleasing to see that more than half of our employees chose to participate in the scheme. It is the intention that invitations to participate in the scheme will be sent annually and the 2018 invitations have been issued following publication of the preliminary results for the year ended 31 December 2017.

Directors’ remuneration report
continued

Gender pay gap reporting

Although not obliged to publish a gender pay gap report, the Company acknowledges the challenge it faces to improve gender and ethnic diversity at all levels of the business and wants to be transparent about the extent of that challenge and the progress it is making in meeting it. As such, we have decided to voluntarily report on the Company’s gender pay gap within the ‘Our People’ section of this report at page 57.

Engagement with our employees

The Board recognises the importance of engaging with, and considering the interests of, the Group’s employees in its decisions. The Committee ensures it is aware of the remuneration and benefits of the wider workforce when setting remuneration packages of Executive Directors and Executive Committee members. The Committee already undertakes an annual review of Group-wide benefits and reviews a report prepared by the Head of HR and Organisation Development on Group-wide salary increases and bonus payments, which informs the Committee’s decisions on Executive Director and Executive Committee remuneration. The Committee also oversees awards under the senior management deferred share bonus plan. In my capacity as Chair of the Committee, I met with the newly formed People Steering Group in March 2018, together with Martyn Bowes. That meeting was the first of a regular programme of meetings between members of the Board and the People Steering Group at which the Board will engage with employee representatives on a host of issues including remuneration.

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

Lisa Clement
Chair of Remuneration Committee
24 April 2018

Remuneration Policy – at a glance

Our Remuneration Policy was approved by Shareholders at the 2016 AGM with more than 99% of votes in favour and is expected to continue until 2019. The full policy can be found in the 2015 Annual Report, which is also on the Company's website (www.harworthgroup.com/investors/reports-presentations/), and a summary is outlined below.

Remuneration principles

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

Salary

What is it for?	How is it determined?	How much is it?
To provide competitive base reward that recognises the individual's skill and experience	Salaries are reviewed annually with reference to similar roles at comparable companies, individual contribution and experience, and the average pay review across the workforce	+2.5% for Chief Executive for 2018, in line with average annual pay review across the Group. An above-average increase for the Finance Director to reflect increase in responsibilities.

	1 January 2017	1 January 2018
CEO	£301,000	£308,525
FD	£205,000	£235,000

Pension and benefits

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

Annual bonus

What is it for?	How does it operate?	What performance is measured?	How much is it?
To incentivise and reward strong performance against financial and personal annual targets, aligned with progress against the strategic plan and value delivered to Shareholders	Paid in cash* Malus and clawback apply (up to 2 years post-employment) in case of misconduct, misstatement, miscalculation or at the Committee's discretion **If bonuses are (exceptionally) >100% of salary, any amount over 100% of salary would be deferred in shares for up to 3 years*	At least 75% financial and no more than 25% personal, with Committee discretion to add underpins or override outcomes if they are misaligned with underlying performance 2018 performance conditions:	Up to 100% of salary (or exceptionally 150%) Maximum for 2018: CEO 125% of salary FD 100% of salary

	CEO	FD
Financial*	76%	75%
Personal**	24%	25%

Payment subject to health and safety, business reputation, covenant compliance, financial irregularity and leadership underpins

** EPRA NNNAV gains: 47% (CEO) 60% (FD), sales volume: 12% (CEO) 15% (FD), profit excluding value gains: 8% (CEO) 10% (FD) and strategic development of the business: 33% (CEO) 15% (FD)*

*** Payments for achieving personal/strategic objectives may be reduced in the event targets are missed*

What pays out? *(as a % of maximum)*	
Below Target	0%
Target	50%
Maximum	100%

Directors' remuneration report

continued

Remuneration policy – at a glance (continued)

Long-term incentive plan (LTIP)

What is it for?	How does it operate?	What performance is measured?	How much is it?
To drive sustained long-term performance that supports value creation for Shareholders	3-year performance period 2-year holding period post-vesting on 50% of all vested shares 50% of any vested shares (after tax) must be held until Executive Director achieves a shareholding of 100% of salary in Harworth Malus and clawback may apply (up to 2 years post-employment) in case of misconduct, misstatement, miscalculation or a significant health, safety or environmental incident	At least 2 measures, linked to strategy, with Committee discretion to add underpins or override outcomes if they are misaligned with underlying performance 2018 performance conditions: 50% on Total Shareholder Return between median and median +9% p.a.* 50% on Absolute Total Return (EPRA NNNAV growth + dividends) between 8%, 10% and 12% p.a. growth Vesting subject to disposal proceeds and sustainable dividend underpins **70% vs tailored peer group comprising Inland Homes, Henry Boot, U+I, Urban and Civic and St. Modwen and 30% vs FTSE All Share Real Estate Investment Services Index*	100% of salary for all Executive Directors (or exceptionally 200%)

What pays out?
(as a % of maximum)

	TSR	ATR
Below Threshold	0%	0%
Threshold	12.5%	5%
Target	–	12.5%
Maximum	50%	50%

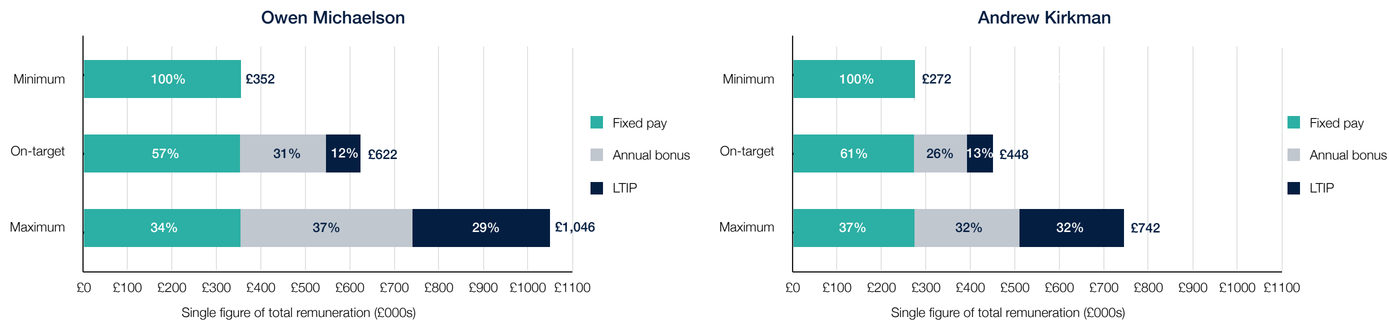
TSR = Total Shareholder Return
ATR = Absolute Total Return

Timing of 2018 pay

CEO pay	2018	2019	2020	2021	2022	2023
Salary	£309k					
Pension	10% of salary					
Benefits	c.£13k					
Annual bonus	up to 125% of salary					
LTIP	up to 100% of salary			➡ 50% held for at least 2 years ➡		

FD pay	2018	2019	2020	2021	2022	2023
Salary	£235k					
Pension	10% of salary					
Benefits	c.£13.5k					
Annual bonus	up to 100% of salary					
LTIP	up to 100% of salary			➡ 50% held for at least 2 years ➡		

Performance scenarios for 2018 pay (£'000s)



Performance scenario	Fixed pay	Annual bonus	LTIP
Minimum	Salary (as at 1 January 2018) plus Pension (10% of salary) plus Benefits (based on 2017 actual)	None	None
On-target		50% of maximum	25% of maximum(1)
Maximum		100% of maximum	100% of maximum

(1) Given that there are only threshold and maximum performance triggers for the TSR performance measure, the "on-target" performance scenario for the LTIP reflects vesting at the threshold performance trigger for TSR (12.5%) and vesting at the target performance trigger (12.5%) for ATR.

NED fees

How are they structured?

Chairman receives a single all-inclusive fee, set by the Committee

NEDs receive a base fee plus additional fees for acting as a Committee Chair or Senior Independent Director. Their fees are set by the Chairman and Executive Directors.

What are the fees in 2018?

	1 January 2018
Chairman fee	£160,000
NED base fee	£42,500
Audit and Remuneration Committee Chair	£7,500
Senior Independent Director	£7,500

Directors' remuneration report
continued

Annual Remuneration report

The Remuneration Committee

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

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

- Owen Michaelson, Chief Executive Officer
- Andrew Kirkman, Finance Director
- Head of HR and Organisation Development
- Representatives of Kepler Associates (see further below).

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

The Committee has retained Kepler Associates, a brand of Mercer and part of the MMC Group of companies ("Kepler"), to provide independent advice on executive remuneration matters. Kepler was appointed by the Committee in 2015 following a competitive selection process, through which the Committee has satisfied itself that Kepler's advice is objective and independent. Kepler is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consulting Group's website at www.remunerationconsultantsgroup.com. Services provided by Kepler during the period under review included advice on the overall remuneration packages for the Executive Directors, advising on the performance conditions for awards under the LTIP scheme and reviewing and advising on the Directors' remuneration report, as well as other ad-hoc advice related to remuneration. The fees paid to Kepler in relation to advice provided to the Committee for 2017 were £22,733 plus VAT. The Committee evaluates the support provided by Kepler annually. Other than advice on remuneration, no other services were provided by Kepler to the Group. The Company does retain Marsh, which is also a member of the MMC Group of companies, as its insurance brokers. The Committee considered that appointment and concluded that it does not impair Kepler's independence.

External appointments

None of the Executive Directors currently hold external directorship appointments, although Owen Michaelson has been appointed as a member of the Board of the Sheffield City Region Local Enterprise Partnership, which was approved by the Board on the basis that it requires a limited time commitment and helps to promote both the profile and local relationships of the Group. Owen Michaelson receives no fee for that appointment.

Single total figure of remuneration for Executive Directors

The table below sets out a single figure for the total remuneration received by each Executive Director of the Company for the financial year ended 31 December 2017 with a comparison to the previous year, representing payments received in respect of the period for which each individual was a Director of the Company.

	Owen Michaelson		Andrew Kirkman	
	2017 £	2016 £	**2017 £**	2016 £
Salary	**301,000**	293,550	**205,000**	200,000
Taxable benefits[1]	**12,810**	12,320	**13,669**	12,857
Relocation allowance	**–**	–	**–**	75,000
Single-year variable[2]	**242,681**	264,195	**128,600**	138,375
Multiple-year variable[3]	**805,475**	–	**175,740**	–
Pension benefit[4]	**30,100**	29,355	**20,500**	20,000
Total	**1,392,066**	599,420	**543,509**	446,232

(1) Taxable benefits consist primarily of car and fuel allowance. For 2017 these were £11,826 for Owen Michaelson (£11,579 for 2016) and £12,879 for Andrew Kirkman (£12,417 for 2016). Other benefits included life assurance and health insurance.

(2) Annual bonus payments for performance during 2017 were received by Owen Michaelson and Andrew Kirkman, details of which are included below in "Incentive outcomes for year ending 31 December 2017". The annual bonus for 2017 was paid in March 2018.

(3) The Harworth Estates 2012 LTIP, which was a cash-based LTIP scheme implemented in 2013 with a five year performance period, vested on the approval of the financial statements for the financial year ended 31 December 2017. Payments were made in March 2018. This was a one-off scheme and no previous or future payments have been or will be made under the scheme. No other LTIP awards vested based on performance periods ending during 2016 or 2017.

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

Single total figure of remuneration for Non-Executive Directors

The table below sets out a single figure for the total remuneration received by each Non-Executive Director of the Company for the financial years ended 31 December 2016 and 31 December 2017, representing payments received in respect of the period for which each individual was a Director of the Company.

	Base fee		Committee chair fees		SID fee		Total	
	2017 £	2016 £	**2017 £**	2016 £	**2017 £**	2016	**2017 £**	2016 £
J. Cox	**160,000**	160,000	**–**	–	**–**	–	**160,000**	160,000
L. Clement	**42,500**	42,500	**7,500**	7,500	**3,000**	750	**53,000**	50,750
S. Underwood[(1)]	**42,500**	42,500	**–**	–	**–**	–	**42,500**	42,500
A. Donnelly	**42,500**	42,500	**–**	–	**–**	–	**42,500**	42,500
M. Bowes	**42,500**	42,500	**–**	–	**–**	–	**42,500**	42,500
A. Cunningham	**42,500**	29,008	**7,500**	1,200	**–**	–	**50,000**	30,208
P Hickson[(2)]	**–**	21,667	**–**	–	**–**	–	**–**	21,667

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

(2) Peter Hickson resigned on 26 April 2016.

Incentive outcomes for year ended 31 December 2017

Annual bonus

Annual bonuses for 2017 were paid to both Executive Directors based on a combination of financial performance and personal objectives. Maximum annual bonus opportunities were 100% of salary for Owen Michaelson and 75% of salary for Andrew Kirkman. Performance was measured based 75% on financial and 25% on personal performance for both Owen Michaelson and Andrew Kirkman. Performance against targets and subsequent vesting of 2017 annual bonuses are set out in the tables below.

Financial performance outcomes

For 2017 bonuses, 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.

		Performance targets (£'000s)			
Measure	**Weight (% of financial performance)**	**'Target'**	**'Stretch'**	**Actual performance**	**Vesting outcome**
NAV gains	60%	38,900	46,700	47,400	100%
Sales volume	15%	50,000	56,000	57,800[(1)]	100%
Acquisition (strategic development of the business)	15%	Deployment of equity raise proceeds	Target' plus material additional acquisitions	Equity raise proceeds deployed	50%
Profit excluding value gains	10%	2,200	2,750	2,240	50%
Total vesting on financial performance outcomes	Owen Michaelson (75% weighting)				87.5%
	Andrew Kirkman (75% weighting)				87.5%

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

Directors' remuneration report
continued

Annual Remuneration report (continued)

Personal performance outcomes

Executive Director	Achievements during the year	Vesting of component
O. Michaelson (25% weighting)	• To reduce the share price discount to EPRA NNNAV, through business results, business profile and investor relations. • To present and obtain Board approval of a five-year strategic plan which, over the plan period, delivers a consistent 10% return and achieves the Company's ambitious growth plans. • To grow the Company's reputation into a nationally recognised go-to regional brownfield land developer winning large scale redevelopment opportunities.	60%
A. Kirkman (25% weighting)	• To reduce the share price discount to EPRA NNNAV, through business results, business profile and investor relations. • To manage the Company's Balance sheet, debt facilities and all forms of equity to fund the strategic plan. • To show clear leadership and support for all team members to develop a standard form of capital appraisal for all projects enabling the Board to make clear judgements and comparisons on the prioritisation of capital. • To develop a clear and transparent tax management and mitigation plan which optimises the Company's position and allows the tax losses and tax assets held by the business to be properly understood, modelled and protected.	72%

Overall bonus outcomes

	Financial		Personal vesting		Overall bonus outcome Sum product of weighting and vest%	
Executive	Weighting	Vesting	Weighting	Vesting	% of bonus	% of salary
O. Michaelson	75%	87.5%	25%	60%	80.6%	80.6%
A. Kirkman	75%	87.5%	25%	72%	83.6%	62.7%

The overall bonus outcomes for the Chief Executive and Finance Director reflect a strong year of performance for the business, with EPRA NNNAV growth of 12.5%, the deployment of the proceeds of the March 2017 equity raise (c.£27m) on strategic land acquisitions and more stability in the Group's recurring income stream.

Scheme interests awarded during 2017

2017 LTIP awards

LTIP awards of 100% of salary were made in 2017 to Owen Michaelson and Andrew Kirkman under the LTIP approved by Shareholders at the 2016 AGM.

Executive Director	Type of award	Date of award	Number of shares granted	Face value[1]	% receivable at threshold[2]	End of performance period
O. Michaelson	2017 LTIP	5 April 2017	310,256	301,000	17.5%	31 December 2019
A. Kirkman	2017 LTIP	5 April 2017	211,304	205,000	17.5%	31 December 2019

(1) Face value based on the average share price on the three trading days immediately preceding the date of grant of 97p.

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

For all participants, awards will vest after three years in accordance with the performance conditions outlined in the table below, subject to achieving the additional underpins that 30% of value created comes from disposal proceeds and that dividends are sustainable. For Executive Directors, 50% of any vested shares will be subject to a minimum two-year post-vesting holding period. No award will vest below threshold performance and vesting will increase on a straight-line basis between defined levels of performance.

	Total Shareholder return[1] (50% weighting)		Absolute total return (50% weighting)	
Vesting schedule	**3-year TSR outperformance of median p.a.**	**% of element vesting**	**3-year ATR p.a.**	**% of element vesting**
Threshold	0%	25%	8%	10%
Target	–	–	10%	25%
Maximum	9%	100%	12%	100%

(1) For 2017 awards, 70% of the TSR outperformance condition is measured vs the median of Harworth's 5 closest listed peers: Inland Homes, Henry Boot, U+I, Urban and Civic and St. Modwen, and 30% vs the FTSE All Share Real Estate Investment Services Index.

Harworth Estates LTIP

The full details of the scheme are provided in the notes to the Remuneration Policy in the 2015 Annual Report. Details of the scheme interests awarded to Andrew Kirkman on appointment are outlined below, together with the scheme interests that had been awarded to Owen Michaelson at the outset of the scheme.

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

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

The awards under the Harworth Estates LTIP vested upon approval of the Group's financial statements for the financial year ended 31 December 2017 and payments were made in March 2018. During the period 1 January 2013 to 31 December 2017 the value created by HEPGL and its subsidiaries for the purposes of the scheme was £161,112,000 and the disposal proceeds underpin was satisfied. This resulted in a payment of £2,929 to participants for each unit held. The following payments were made to Owen Michaelson and Andrew Kirkman under the scheme:

Executive	**Payment under Harworth Estates LTIP**
O. Michaelson	£805,475
A. Kirkman	£175,740

This was a one-off scheme with a five-year performance period. No previous payments and no future payments have been or will be made under the scheme.

Percentage change in CEO remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2016 and 2017 compares with the percentage change in the average of each of those components of pay for the employees of the Group as a whole.

	Salary £'000		Percentage change	Taxable benefits £'000		Percentage change	Bonus £'000		Percentage change
	2017	2016		**2017**	2016		**2017**	2016	
CEO Pay	301	294	2.5%	10	10	0%	243	264	-8%
Average per employee			2.5%			0%			8%

Relative importance of spend on pay

Total employee pay expenditure			Distributions to Shareholders		
2017	2016	**% change**	**2017**	2016	**% change**
£7.849m	£6.363m	23%	£2.7m 0.828p per share	£2.2m 0.743p per share	10%

Staff costs increased between 2016 and 2017 due to an increase in the size of the workforce and additional accrual for the HEPGL 2012 LTIP to reflect increased payments resulting from outperformance.

Directors' remuneration report
continued

Annual Remuneration report (continued)

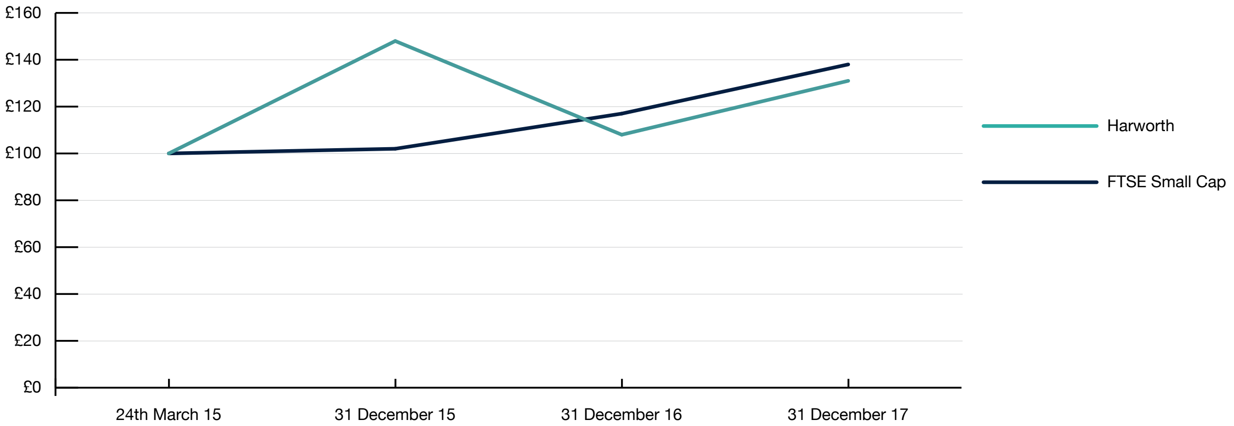
Total dividends for the financial year ended 31 December 2016 were 0.753p per share, resulting in total dividends of £2.2m, ignoring the March 2017 equity raise. Total dividends for the financial year ended 31 December 2017 are 0.828p per share, resulting in total dividends of £2.7m. Part of this increase in total dividends is attributable to the March 2017 equity raise. As such, the percentage change is shown above on a per share basis.

Review of past performance

The following graph charts the Total Shareholder Return (TSR) of the Company and the FTSE Small Cap Index over the period from the Company's relisting on 24 March 2015 to 31 December 2017. The FTSE Small Cap Index represents the most appropriate broad index comparison for a Company of Harworth's size. The table below shows the Chief Executive's 'single-figure' remuneration over the same period.

Historical TSR performance

Growth in the value of a hypothetical £100 holding over the period from re-listing on 24 March 2015 to 31 December 2017:



Historical CEO remuneration

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

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

Payment paid to past directors

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

Exit payments made in the year

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

Implementation of Executive Directors' remuneration policy for 2018

Base salary

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

The Committee approved the following base salary increases for 2018:

Executive Director	Annual base salary at 1 January 2017	Annual base salary at 1 January 2018	Percentage increase
O. Michaelson	£301,000	£308,525	2.5%
A. Kirkman	£205,000	£235,000	14.6%

A typical salary increase of 2.5% was awarded across the Group at the annual pay review, effective 1 January 2018.

Pension

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

Performance related annual bonus

For 2018 the Committee has approved the following annual bonus opportunities for Executive Directors. The Chief Executive's bonus will be based 76% on financial measures and 24% on personal objectives. The Finance Director's bonus will be based 75% on financial measures and 25% on personal objectives, as detailed below:

Executive	Maximum financial bonus opportunity (% of salary)	Maximum personal bonus opportunity (% of salary)	Overall maximum bonus opportunity (% of salary)
O. Michaelson	95%	30%	125%
A. Kirkman	75%	25%	100%

The Committee has reviewed the financial performance measures to ensure they are appropriately aligned with the Company's strategic plan for the coming year. Financial performance for 2018 will be measured against the following financial performance measures:

Executive	Weight (% of financial bonus opportunity)	
	CEO	FD
NNNAV gains	47%	60%
Sales volume	12%	15%
Acquisitions (strategic development of business)	12%	15%
Profit excluding value gains	8%	10%
Acquisitions – super-stretch target	21%	–

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

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

LTIP

LTIP awards of 100% of salary have been made in 2018 to Owen Michaelson and Andrew Kirkman under the LTIP scheme, the details of which were outlined in the Remuneration Policy in the 2015 Annual Report. For all participants, awards will vest after three years in accordance with the performance conditions outlined in the table below, subject to achieving the additional underpins that 30% of value created comes from disposal proceeds and that dividends are sustainable. No award will vest below threshold performance and vesting will increase on a straight-line basis between the defined levels of performance shown in the table below. Executive Directors will be required to hold 50% of any shares that vest (post-tax) for an additional two years post-vesting.

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

(1) For 2018 awards, 70% of the TSR outperformance condition is measured vs. the median of the Company's five closest listed peers: Inland Homes, Henry Boot, U+I, Urban and Civic and St. Modwen, and 30% vs. the FTSE All Share Real Estate Investment Services Index.

Directors' remuneration report

continued

Annual Remuneration report (continued)

Implementation of Non-Executive Director remuneration policy for 2018

- The Chairman of the Board receives a fee of £160,000 per annum, unchanged from 2017.
- Non-Executive Directors receive a base fee of £42,500 per annum, unchanged from 2017.
- An additional fee of £7,500 per annum is payable to each of the Chair of the Audit Committee (Andrew Cunningham) and the Chair of the Remuneration Committee (Lisa Clement) for chairing those respective committees, unchanged from 2017. No additional fee is paid to the Chairman for chairing the Nomination Committee.
- A further additional fee of £7,500 is paid to Lisa Clement as Senior Independent Director. This additional fee has increased from £3,000 paid in 2017.

Directors' interests

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 23 April 2018 (being the latest possible date prior to the publication of this report) is set out below. None of the Directors has a beneficial interest in the shares of any other Group Company. Details of Directors' share options are also set out in the tables below. Current shareholding as a percentage of salary is based on the middle market closing price for the shares on 5 April 2018 of 109.0p.

	Shares held		Options held				
	Beneficially owned	Vested but subject to holding period	Vested but not exercised	Unvested and subject to perf. conditions	Shareholding requirement % salary/fee	Current shareholding % salary/fee	Requirement met?
O. Michaelson	275,090	21,413	–	904,690	100%	105%	Yes
A. Kirkman	200,000	–	–	638,843	100%	93%	No
J. Cox[(1)]	716,504	–	–	–	n/a	n/a	n/a
L. Clement	–	–	–	–	n/a	n/a	n/a
A. Donnelly	–	–	–	–	n/a	n/a	n/a
A. Cunningham	17,333	–	–	–	n/a	n/a	n/a
S. Underwood	38,385	–	–	–	n/a	n/a	n/a
M. Bowes	–	–	–	–	n/a	n/a	n/a
A. Lyons[(2)]	90,000	–	–	–	n/a	n/a	n/a

(1) Jonson Cox resigned on 31 March 2018.

(2) Alastair Lyons was appointed on 7 March 2018.

The table above includes the following shares purchased and sold in the period between 31 December 2017 and 23 April 2018:

A. Kirkman (purchased on 6 March 2018)	60,000
A. Lyons (purchased on 7 March 2018)	90,000
J. Cox (sold on 7 March 2018)	150,000

Summary of Shareholder voting at the 2017 AGM

The table below shows the results of votes at the Harworth Group plc Annual General Meeting on 24 May 2017 on resolutions relating to remuneration.

	Votes				
	For and discretion	For and discretion as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
Resolution 11: Approval of Annual Remuneration report	258,815,879	99.95%	126,444	0.05%	29,716

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

Lisa Clement
Chair of the Remuneration Committee
24 April 2018

Audit Committee report

Members and attendance at meetings during the year ended 31 December 2017

Andrew Cunningham Chair and Independent Non-Executive Director	4(4)
Anthony Donnelly Independent Non-Executive Director	4(4)
Steven Underwood Non-Executive Director (not independent)	3(4)

Key responsibilities

- Reviews the integrity of the Company's annual and interim reports, preliminary and interim results announcements and any other formal announcements relating to its financial performance.
- Reviews the effectiveness of the Group's system of internal financial and risk controls.
- Reviews the Group's insurance programme.
- Reviews the terms of appointment, independence, effectiveness and remuneration of the Company's external auditors and makes recommendations to the Board on the reappointment of the external auditors. Leads the re-tendering process for the appointment of external auditors, if applicable.
- Reviews and if necessary updates the Group's Risk Register.
- Reviews the Group's anti-bribery policy (including annual reviews of the Group's hospitality register) and other policies relating to financial security, business ethics and compliance.
- Reviews the adequacy of the Group's cyber-security measures and business continuity plans and procedures.

The Committee's terms of reference, which were last reviewed and updated in December 2017 are set out on the Company's website and can be found at www.harworthgroup.com/investors/governance/.

The Board undertakes an annual evaluation of the Committee's performance to ensure its continued ability to discharge its key responsibilities.

Key areas of focus during the period since the publication of the 2016 Annual Report

- External review of selected internal financial controls.
- Categorisation of sites as investment or development properties.
- Oversight of detailed review of principal risks and uncertainties and refinement of Group Risk Register.
- Comprehensive review of the Group's insurance programme prior to 2018 renewal.
- Scrutiny of operational cost report review process.
- Approval of new policies and supplier code of conduct in relation to bribery and corruption and facilitation of tax evasion.
- Review of likely impact of International Financial Reporting Standard ("IFRS") 15 and IFRS 9.

Dear Shareholder,

I am pleased to present the Audit Committee report for the year ended 31 December 2017.

The Committee comprises three Non-Executive Directors. I chair the Committee and its other members are Steven Underwood and Anthony Donnelly. The experience of each member of the Committee is summarised on pages 60 and 61. The Board is satisfied that we have recent and relevant financial experience, in addition to all members having trained as chartered accountants. I was a partner at the predecessor firm to PricewaterhouseCoopers LLP from 1989 to 1996 and then held the role of Finance Director at Grainger plc from 1996 until 2009. The Board is also satisfied that the Committee has competence relevant to the real estate sector, given that all members hold (or in my case have held) senior positions at companies operating in that sector.

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

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

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

Andrew Cunningham
Audit Committee Chairman
24 April 2018

Annual and Interim reports

The areas to which the Committee has given particular focus since the publication of the 2016 Annual Report and Financial Statements are summarised below.

Significant financial statement reporting issues considered by the Audit Committee

Categorisation of the property portfolio
During the year £229.1m of property was re-categorised from investment to development property. This re-categorisation was triggered by the evolution of Harworth's business model, including the March 2017 capital raise, as well as the consideration of site and market opportunities. The Committee reviewed the appropriateness and timing of the re-categorisation of properties and the future categorisation policy. It was concluded that the categorisation of the property portfolio was appropriate.

Valuation of the property portfolio
The property portfolio, which is composed of both investment and development properties as well as assets held for sale, joint ventures, overages and owner-occupied properties, comprises the vast majority of the total assets of the business. Harworth continues to use the same independent external valuers, BNP Paribas and Savills, to value the portfolio. However, given the significance of the property values, together with the different accounting treatment for investment and development properties, there remain a number of key judgements. These key judgements are primarily regarding the future intention for the site as well as value per acre, rental amounts, yields and costs to bring the sites forward, recognising that the properties are at different stages of completion. The assumptions and methodology were reviewed for consistency and appropriateness.

The deductions from the expected land values primarily include the costs to complete from external firms. Given the increasing number of Major Developments, further validation and reconciliation work has been performed on the cost reports. The methodology for, and adequacy of, the cost report totals are reviewed by the Committee. Historically, a small number of sites, an assessment has been made of the potential restoration costs that may be incurred by the Group if the obligations are not completed by the mining tenants. The surface mine sites were handed back during the year and this provision is now within the cost report totals.

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

Going concern basis
This is discussed on page 44 of the Strategic Report.

Taxation
The Group recorded a credit for taxation in the year of £7.8m (2016: £3.6m charge) and its first current year tax charge since re-listing of £1.5m (2016: £nil). The movements were as a result of: the execution of a contract giving greater certainty of tax loss utilisation; and the disposals, valuation movements and re-categorisation of property. The assumptions underlying these movements and the tax treatment have been reviewed by the Committee and they are comfortable with the tax position.

The Committee has reviewed the controls which are in place to ensure the completeness and accuracy of the Company's financial records. The production and external audit of the Group's Annual Report and Financial Statements involves a number of parties including, in addition to the external auditor, the Finance Director, Company Secretary, Financial Controller, Associate Director of Partnerships and Communications, actuary and tax accountants. The Committee has also noted (i) the reviews that are undertaken during this process by the various parties, including the external auditor, to ensure consistency and balance in the presentation of the Annual Report and Financial Statements and (ii) the verification exercise which is undertaken in respect of the financial metrics referred to in the Strategic Report and Directors' Report.

As a result, the Committee has concluded that the Annual Report and Financial Statements for the year ended 31 December 2017, when taken as a whole, is fair, balanced and understandable, and provides the information necessary for Shareholders to assess the Company's business model, strategy and performance. The Committee has reported to the Board and the Board's conclusions are set out in the Statement of Directors' responsibilities included in the Directors' Report on page 97.

External auditors

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 is subject to review and approval at the Committee's meeting in September and the external auditors' appointment is subject to a formal review at the Committee's meeting in November each year.

Having reviewed:

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

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

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

Audit Committee report
continued

Analysis of fees paid to the external auditors and non-audit firms for the years ended 31 December 2016 and 31 December 2017

	2017 £'000	2016 £'000
Audit services		
Fees payable to the external auditors for:		
– the audit of the Company and the consolidated financial statements	40	40
– the audit of the Company's subsidiaries financial statements	111	80
– the audit of the Company's joint ventures	8	10
Total	**159**	**130**
Non-audit services		
Fees payable to the external auditors and its associates for non-audit services:		
– audit related assurance services	15	50
– tax advisory services	7	84
– tax compliance services	6	38
– fees in relation to transactions	–	–
Total	**28**	**172**
Total fees payable to external auditors and associates for audit and non-audit services	**187**	**302**
Ratio of audit to non-audit fees paid to external auditor	**5.7:1**	**1:1.3**
Fees payable to non-audit firms for non-audit services		
– audit related assurance services	22	–
– tax advisory services	69	13
– tax compliance services	19	26
– fees in relation to transactions	–	25
– pension accounting	5	1
Total	**115**	**65**

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

- the Committee reviews the audit appointment annually;
- the Group has a policy that, save for audit-related services (such as regulatory and statutory reporting, and work relating to circulars) and exceptional circumstances 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 going forward and pension accounting. KPMG has been appointed to advise on tax matters relating to our joint venture agreements and to carry out an external review of selected internal financial controls;
- the Committee reviews on a regular basis all fees paid for audit, and non-audit fees, with a view to assessing reasonableness of fees, value of delivery, and any independence issues that may have arisen or may potentially arise in the future. An analysis of all audit and non-audit fees is shown above; and
- the Committee reviews the external auditors' report to the Directors and the Committee confirming their independence in accordance with auditing standards.

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

Establishment and implementation of policy for categorisation of properties

In recognition of the evolution, diversification and track record of the business and, in particular, the Group's equity raise in March 2017 to fund the acquisition of strategic land for development, the Company has implemented a new policy on the categorisation of properties within the Group's portfolio. This has been a workstream led by the Finance Director and overseen by the Committee. The portfolio was reviewed at the half-year, pursuant to which the majority of our Waverley, Logistics North and Prince of Wales sites, being our most active sites, were re-categorised as development sites. Another review was undertaken at the full-year, in the light of site and market opportunities, pursuant to which the majority of sites within the Major Developments segment of the business, were re-categorised as development properties. Following completion of this workstream, re-categorisations at the half-year and full-year, and consultation with the Group's external auditors, the Committee formally approved the proposed new policy in February 2018. Further details of the policy are set out in the Financial Review on pages 29 and 30. Going forward, the Committee will oversee reviews of property categorisations at 30 June and 31 December each year.

Risk review and management

During the year, the Committee undertook an interim review of the Group's Risk Register in June and oversaw a detailed review of the Group's principal risks and uncertainties in the second half of the year, led by the Company Secretary, culminating in a refinement of the Group Risk Register in November. The outcome of that review is explained in more detail at pages 36 to 43 of the Strategic Report. In conjunction with the interim and detailed risk reviews, the Committee also carried out a review of, and remains satisfied as to, the effectiveness of the Company's risk management and internal controls systems, including financial, operational and compliance controls. The Committee will continue to carry out bi-annual reviews of the register, alongside reviews of the effectiveness of the Group's internal risk management controls.

Internal financial controls

During the second half of 2017, the Group instructed KPMG to undertake an external review of some of its principal financial controls and processes. KPMG reported to the Committee on the outcome of that review at the Committee's scheduled meeting in November. KPMG identified no major deficiencies in the controls it reviewed but did identify some opportunities to improve efficiencies and risk mitigation. Those recommendations will be implemented during the course of 2018. At that same meeting, the Committee reviewed and confirmed its view that the business is not large or complex enough for a separate internal audit function. KPMG was supportive of that view. The Committee did, however, conclude that a rolling programme of annual external reviews of controls ought to be maintained. For 2018, the Group has instructed an external review of its cyber security resilience and business continuity plans and procedures.

To support the Company's application for its shares to be moved from the standard segment to the premium segment of the Official List, an external reporting accountant is undertaking a review of the Group's financial position and prospects procedures. As well as supporting the Company's application, the outputs from that report will assist the Committee in its ongoing review of the Group's internal controls and processes.

Insurance programme

During the second half of 2017, the Company undertook another detailed review of the Group's insurance programme, in advance of the 2018 renewal. That review has led to: (i) the Group moving its property owner's, employee and public liability insurance cover from QBE to Tokio Marine Kiln ("TMK"), resulting in some extensions of cover and cost savings; (ii) a rate stability agreement with TMK by which premium rates will be fixed for up to three years; and (iii) following a benchmarking exercise, an increase in Directors and Officers insurance cover to £25m.

Cost reports

Since publication of the 2016 Annual Report, the Committee has overseen improvements to the process by which cost plans are regularly reviewed, validated and reconciled. This process has also been reviewed by the external auditors as part of the year-end audit process.

Financial Reporting Council

In 2017, the Financial Reporting Council ("FRC") reviewed Harworth's 2016 Annual Report and Financial Statements as part of its ongoing statutory monitoring requirements. The FRC highlighted a number of areas where enhancements could be made to our financial reporting and these improvements have been reflected in this year's Annual Report and Financial Statements. At the FRC's request, the Company has also restated 2016 Earnings Per Share, as the 2016 Annual Report did not correctly reflect the effect of the May 2016 1 for 10 share consolidation. The FRC is content that these improvements and restatement have answered the points raised and the matters have now been closed.

When reviewing the Company's 2016 Annual Report and Financial Statements, the FRC has made clear to us the limitations of its review as follows: (A) its review is based on the 2016 Annual Report and Financial Statements only and does not benefit from a detailed knowledge of the Group's business or an understanding of the underlying transactions entered into; (B) communications from the FRC provide no assurance that the Company's 2017 Annual Report and Financial Statements are correct in all material respects and are made on the basis that the FRC (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders; and (C) the FRC's role is not to verify information provided but to consider compliance with reporting requirements.

Whistle blowing

Following a review instructed by the Company Secretary in the first quarter of 2018, Gateleys has recommended that our whistleblowing policy and procedures be updated. That firm has been instructed to implement those recommendations and a revised whistleblowing policy will be tabled for approval by the Committee in June, before it is communicated to employees. There were no whistleblowing claims reported to the Committee during 2017.

Compliance

The Committee remains responsible for monitoring the effectiveness of, and compliance with, the Group's policies and procedures for combating modern slavery, bribery and corruption, and the facilitation of tax evasion.

The Committee is also taking the lead in making sure that the Group will be compliant with the General Data Protection Regulation when it comes into force on 25 May 2018.

Further information on these policies, procedures and initiatives appear in the Strategic Report at pages 53 and 54.

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

Andrew Cunningham
Chair of the Audit Committee
24 April 2018

Nomination Committee report

Members and attendance at meetings during the year ended 31 December 2017	
Jonson Cox Chairman of the Committee and the Board (not independent)	1(1)*
Lisa Clement Independent Non-Executive Director	1(1)
Andrew Cunningham Independent Non-Executive Director	1(1)

* Jonson Cox was not present for the informal meetings at which the Committee discussed his succession, but was present for the scheduled meeting of the Committee in December 2017.

Key responsibilities

- Leads the process for Board appointments by making recommendations to the Board, both for filling Board vacancies and appointing additional persons to the Board, following evaluation of the balance of skills, knowledge and experience on the Board.
- Carries out a regular review (typically annually) of succession and development planning for the Executive Directors, the Chairman and Non-Executive Directors and members of the Executive Committee, to maintain an appropriate balance of skills and experience on the Board and on the Executive Committee.
- Considers and makes recommendations to the Board on its composition, balance and membership and on the endorsement of Directors for re-election at the AGM.

Key activities of the Committee since publication of the 2016 Annual Report

- Leading the process for identifying and appointing a successor as Chairman, resulting in the appointment of Alastair Lyons

The Committee's terms of reference, which were last reviewed and updated in December 2017, are set out on the Company's website and can be found at www.harworthgroup.com/investors/governance/.

The Board undertakes an annual evaluation of the Committee's performance to ensure its continued ability to discharge its key responsibilities.

Dear Shareholder,

I am pleased to present to you the Nomination Committee report for the year ended 31 December 2017. Whilst I chaired the Committee during the year under review, the Committee's primary focus during the year was on the process for identifying and appointing my successor and I played no part in that process. The process was led by Lisa Clement, as Senior Independent Director, alongside the other independent Non-Executive Directors, Anthony Donnelly and Andrew Cunningham, and culminated in the appointment of Alastair Lyons as my successor on 7 March 2018. Alastair will chair the Nomination Committee going forward.

Typically, the Committee meets at least once a year to review succession and development planning for the Executive Committee and Senior Management Team and to appraise the balance, experience and skills of the Board. All Non-Executive Directors are invited to attend meetings of the Committee. So too is the Chief Executive when this is considered appropriate. In addition to the informal meetings held during the year to identify my successor, at which I was not present, the full Committee met formally in December to consider the succession plans in place for the Executive Directors, wider Executive Committee and Senior Management Team, which had been subject to a detailed review by the Committee 12 months beforehand. It was agreed that a further detailed review would be deferred until after the newly appointed Head of HR & Organisation Development has undertaken a planned, comprehensive review of succession and development plans at all levels of the business during the course of 2018.

In 2018, the Committee will turn its attention to succession plans for the two longest serving independent Non-Executive Directors, Anthony Donnelly and Lisa Clement, who have both been directors for more than six years.

Jonson Cox
Chairman of the Nomination Committee (as at 31 December 2017)
24 April 2018

Appointment of Alastair Lyons as Chairman

The appointment of Alastair Lyons as Chairman with effect from 7 March 2018 followed a rigorous process to identify the best candidate for the role, a process led by the Board's independent Non-Executive Directors: Lisa Clement, Anthony Donnelly and Andrew Cunningham.

Shortly after the 2017 Annual General Meeting, at which it was announced that Jonson Cox would not stand for re-election at this year's Annual General Meeting, the Non-Executive Directors (excluding Jonson Cox) asked three external search consultancy firms for their proposals to identify a suitable successor. The Company subsequently appointed Warren Partners to conduct an executive search and recruitment process. The Company does not retain Warren Partners in any other capacity and it has no other connection with the Company. In conjunction with Warren Partners, the Non-Executive Directors prepared the selection criteria and a job specification for the role, which included the expected time commitment.

At this point, it was agreed by the Board that the independent Non-Executive Directors would lead, and conduct the first stages of, the search and selection process. Warren Partners identified a "long-list" of candidates. Following a review of that "long-list" by the independent Non-Executive Directors and a meeting with Warren Partners, a "short-list" of eight candidates was identified. Warren Partners interviewed and provided feedback on all "short-list" candidates, resulting in a refined list of five candidates. The independent Non-Executive Directors interviewed all five candidates pursuant to which they identified a preferred candidate. That preferred candidate then met with the other Non-Executive Directors, the Senior Independent Director (on her own), the Executive Directors and wider Executive Committee and the external auditors.

This process culminated in the Committee recommending, and the Board resolving to make an offer to, Alastair Lyons for the role. Upon Alastair accepting the role and the Board taking up references, the appointment was announced to the market on 19 December 2017.

Prior to 7 March 2018, when Alastair's appointment took effect, he has undergone an extensive induction process which has included multiple meetings with the Executive Committee, both collectively and individually, with each member of the Senior Management Team, the Company's brokers and certain of the Company's Shareholders, along with multiple site visits including to one target acquisition site.

At the date of this Report, in addition to his role as the Company's Chairman, Alastair is also Non-Executive Chairman of Welsh Water (Dwr Cymru) and Deputy Chairman of Bovis Homes Group PLC, although he will retire from his role at Bovis Homes at its next Annual General Meeting in May 2018.

Succession planning and board composition

The Committee undertook a detailed review of succession and development plans for the Executive Committee and Senior Management Team in December 2016. A further review had been planned for 2018 but it was recognised by the Committee that the Group's newly appointed Head of HR & Organisation Development will be undertaking a comprehensive review of succession and development plans across all levels of the business during the course of 2018 and, as such, the Committee resolved at its meeting in December 2017 to defer its own planned review until that process has been completed.

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

Anthony Donnelly and Lisa Clement have served on the Board for more than seven and six years respectively (factoring in Anthony Donnelly's term of office as a director of the Harworth Estates division of UK Coal and then of HEPGL). This means that Anthony will cease to be independent under the terms of the Code in January 2020 and Lisa will cease to be independent in December 2020. Having successfully identified and appointed a successor as Chairman, the Committee will now turn its attention to the succession plans for Anthony and Lisa. It will also consider whether, in light of the terms of the proposed new Code, the Company needs to appoint an additional independent Non-Executive Director so that a majority of the Board, including the Chairman, are independent.

Diversity

Alongside its property portfolio, the Company's biggest asset is its people. The Board recognises that the Company faces a challenge to improve the diversity of its team at all levels of the business. The Company has a diversity policy which promotes equal opportunities and prohibits discrimination in employment but that policy has recently been subject to an external review pursuant to which it will be updated shortly. Further information on the Group's diversity policy, its initiatives and objectives for, and progress in, promoting diversity appear at pages 56 and 57 of the Strategic Report.

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

Jonson Cox
Chair of the Nomination Committee (as at 31 December 2017)
24 April 2018

Directors' report

Statements for the year ended 31 December 2017

Introduction

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.
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 2 to 57, 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 60 to 97.
As such, the Directors' Report should be read in conjunction with the Strategic Report (pages 2 to 57) and the wider Statement of Corporate Governance (pages 60 to 97) 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	Statement of Corporate Governance, p65
Amendment of the Articles	Directors' report, p94
Annual General Meeting	Statement of Corporate Governance, p71
Appointment and replacement of Directors	Directors' report, p94
Board of Directors	Board of Directors and Company Secretary, pp60-61 Directors' report, p94
Charitable donations	Directors' report, p95
Change of control	Directors' report, p95
Composition and operation of administrative, management and supervisory bodies and committees	Statement of Corporate Governance, pp64-67
Directors' insurance and indemnities	Statement of Corporate Governance, p68 Directors' report, p94
Disclosure of information to auditors	Statement of Directors' responsibilities, p97
Diversity	Strategic report: Our people, pp56-57
Employee numbers	Strategic report: Our people, p55
Employee engagement	Strategic report: Our people, p55
Employees with disabilities	Strategic report: Our people, p57
Employee share scheme	Strategic report: Our people, p56 Directors' Remuneration report, p73
Future developments of the business	Strategic report, pp2-6
Going concern and viability	Strategic report, p44
Greenhouse gas emissions	Strategic report, pp52-53
Independent auditors	Audit Committee report, pp87-88 Independent auditors' report, pp98-103
Political donations	Directors' report, p95
Post-Balance sheet events	Strategic report: Chief Executive's Statement, p14 Financial Statements, Note 31, p141
Powers for the Company to issue or buy back shares	Directors' report, pp93-94
Powers of the Directors	Directors' report, p94
Profit/loss and dividends	Strategic report, former Chairman's statement, p11 Directors' report, p93
Restrictions on transfer of securities	Directors' report, p93
Rights attaching to shares	Directors' report, p93
Risk management and internal controls	Strategic report, pp36-43 Audit Committee report, p89
Risk management – financial risks and use of financial instruments to mitigate risk	Strategic report, Financial review, p34 Directors' report, p95 Financial statements, Note 23, p134
Share capital	Directors' report, p93
Significant related party agreements	Financial statements, Note 30, p140
Significant Shareholders	Directors' report, p95
Statement of corporate governance including compliance with corporate governance code	Directors' report, p96
Voting rights	Directors' report, p93

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

The Company

Legal form

Harworth Group plc is a Company incorporated in the United Kingdom with Company number 2649340. The principal subsidiaries and associated undertakings are listed in Note 16 of the Financial Statements.

Financial results

The Group's consolidated income statement set out on page 104 shows Group profit before taxation of £41.8m (2016: £43.5m). The net assets attributable to Shareholders of the Group increased to £409.3m (2016: £334.9m) over the financial year to 31 December 2017. The Group's NAV and EPRA NNNAV rose by 22.2% and 18.3%, respectively, during the year. The Group's NAV per share and EPRA NNNAV per share rose by 11.2% and 12.5% respectively. The results for the Group are reviewed in the Chairman's Statement, the Chief Executive's Statement and Financial Review and the detailed results are set out in the financial statements on pages 104 to 141 which accompany this report.

Share capital and authority to allot and purchase shares

The Company's issued share capital as at 31 December 2016 was 292,269,786 Ordinary Shares of 10 pence each. On 22 March 2017, the Company issued and allotted a further 29,226,974 Ordinary Shares of 10 pence each pursuant to a non pre-emptive placing of shares so that, as at 31 December 2017, the Company's issued share capital was 321,496,760 Ordinary Shares of 10 pence each. Those shares were placed at a price of 95 pence, representing a discount of approximately 1.6% to the closing mid-market price of the Company's shares on the day before the announcement of the placing. The placing raised £27.1m (net of expenses) which the Company deployed by acquiring, and making initial investments in, five new strategic land sites during 2017. There have been no further changes to the issued share capital of the Company. As such, the issued share capital of the Company at 23 April 2018 (being the latest date prior to publication of this report) was 321,496,760 Ordinary Shares of 10 pence each. The ISIN of the shares is GB00BYZJ7G42.

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

As at 23 April 2018 (being the latest date prior to publication of this report), there are no restrictions on the transfer of securities in the Company, save for the power of the Board to refuse to transfer shares in certain circumstances prescribed by the Articles of Association, and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any other arrangement between holders of shares which may result in restrictions on the transfer of securities or voting rights, nor any arrangement whereby a Shareholder has waived or agreed to waive dividends (other than the EBT – see below).

The Harworth Group plc Employee Benefit Trust ("EBT") holds shares for the purposes of satisfying awards that may vest under the Company's share-based incentive schemes. The EBT may purchase shares in the Company from time to time to satisfy awards granted to Executive Directors, members of the Executive Committee and Senior Management Team, subject to the achievement of performance targets under the Company's incentive schemes. At 31 December 2017, it held 246,010 Ordinary Shares of 10 pence each in the Company in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards to the Executive Directors are set out in the Directors' remuneration report on page 84. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

Section 551 of the CA06 provides that the Directors may not allot shares unless empowered to do so by Shareholders. On 22 March 2017, the Company issued and allotted 29,226,974 Ordinary Shares of 10 pence each (representing an aggregate nominal value of approximately 9.9% of the Company's issued share capital) for the purposes of the placing referred to above, pursuant to the authority to allot shares granted to the Company by Shareholders at the 2016 Annual General Meeting. In conjunction with the Share Capital Management Guidelines published by the Investment Association, a resolution was passed at the 2017 Annual General Meeting giving the Directors authority to allot shares up to an aggregate nominal value of one-third of the Company's issued share capital plus a further one-third (i.e. two-thirds in all) where the allotment is in connection with a rights issue. The Company has not utilised that authority in the period since the 2017 Annual General Meeting. At the 2018 Annual General Meeting, the Directors propose to renew the authorities granted to them at the 2017 Annual General Meeting.

Allotment of shares for cash

Under Section 561 of the CA06, if the Directors wish to allot unissued shares for cash (other than pursuant to an employee share scheme) they must first offer them to existing Shareholders in proportion to their holdings (a pre-emptive offer). By a special resolution at the 2017 Annual General Meeting, the Shareholders gave authority to the Directors to dis-apply the above mentioned pre-emption and to allot shares for cash other than by way of rights to existing Shareholders, provided that the aggregate nominal value of such shares does not exceed 5% of the Company's total issued equity capital. This authority was compliant with the Pre-Emption Group's Statement of Principles ("PEG Principles").

The Directors have not made use of this authority since the 2017 Annual General Meeting. Prior to the 2017 Annual General Meeting, they did issue shares for non-cash consideration pursuant to the non pre-emptive share placing in March 2017 referred to above.

The Directors propose to renew this authority at the 2018 Annual General Meeting.

The Directors have no current plans to make use of the renewed authority should it be granted, although they consider their renewal appropriate in order to retain maximum flexibility to take advantage of business opportunities as they arise. That said, the PEG Principles request that in any rolling three-year period a Company does not make non-pre-emptive issues for cash exceeding 7.5% of the Company's issued share capital without prior consultation with Shareholders. The Directors intend to comply with that guidance.

Directors' report
Continued

Purchase of own shares
The Company has authority under a Shareholders' resolution passed at the 2017 Annual General Meeting to purchase up to 32,149,675 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 2018 Annual General Meeting.

No shares have been purchased by the Company under the authority granted at the 2017 Annual General Meeting.

A special resolution will be proposed at the 2018 Annual General Meeting to renew this authority. Although the Directors have no immediate plans to do so, they believe it is prudent to seek general authority from Shareholders to be able to act if circumstances were to arise in which they considered such purchases to be desirable. This power will only be exercised if and when, in the light of market conditions prevailing at that time, the Directors believe that such purchases would increase earnings per share and would be for the benefit of Shareholders generally. Any shares purchased under this authority will be cancelled (unless the Directors determine that they are to be held as treasury shares) and the number of shares in issue will be reduced accordingly.

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

Dividends
The Board is recommending a final dividend of 0.575 pence per share which, together with the interim dividend of 0.253 pence per share paid in October 2017, makes a combined dividend of 0.828 pence (2016: 0.753 pence) per share. Payment of the final dividend, if approved at the 2018 Annual General Meeting, will be made on 1 June 2018 to Shareholders on the register at the close of business on 4 May 2018. The ex-dividend date will be 3 May 2018.

The dividend paid in the year to 31 December 2017 and disclosed in the Statement of Changes in Equity is 0.776 pence (2016: 0.74 pence) per share, being the previous year's final dividend of 0.523 pence per share and the interim dividend of 0.253 pence per share in respect of the year ended 31 December 2017. These were paid on 30 May 2017 and 13 October 2017 respectively.

Directors and Directors' interests
A list of the Company's Directors who were in office during the year ended 31 December 2017 and up to the date of signing the financial statements, along with their biographies, appear in the Statement of Corporate Governance on pages 60 and 61.

Details of the Directors' remuneration and beneficial interests in, and options to acquire, Ordinary Shares in the Company as at 31 December 2017 are set out in the Directors' Remuneration report on page 84. Details of the Directors' beneficial interests in, and options to acquire, Ordinary Shares as at 23 April 2018 (being the latest practical date prior to publication of this report) are set out in the Directors' remuneration report on page 84. The Directors do not have any interest in any other Group Company, other than as Directors.

No Director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the Company's business.

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

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

Under the Company's Articles of Association, any Director appointed by the Board since the last Annual General Meeting may only hold office until the date of the following Annual General Meeting, at which time that Director must stand for election by Shareholders. Alastair Lyons will, therefore, be standing for election at the 2018 Annual General Meeting.

The Articles of Association also require one-third of the Directors to retire by rotation at each Annual General Meeting. Any Director who has not retired by rotation must retire at the third Annual General Meeting after his or her last appointment or re-appointment. However, in accordance with the Code, which requires all Directors of FTSE 350 companies to be subject to annual re-election by Shareholders, the Board has again decided that all other Directors will be subject to re-election at the 2018 Annual General Meeting.

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

Directors' indemnities and insurance
As permitted by the Articles of Association, qualifying third-party indemnities have been in place throughout the period under review and remain in force at the date of this report in respect of liabilities suffered or incurred by each Director. The deeds of indemnity are available for inspection by Shareholders at the Company's registered office.

The Company also maintains an appropriate level of Directors' and Officers' liability insurance in respect of legal actions against the Directors. Neither the qualifying third party indemnities nor the insurance provide cover where the Director has acted fraudulently or dishonestly.

Political donations

No political donations were made during the year (2016: £nil). It remains the Company's policy to not make any cash donations to political parties. This policy is strictly adhered to and there is no intention to change it. However, the definitions of 'political donation' and 'political expenditure' used in the Companies Act 2006 remain very broad, which may have the effect of covering a number of normal business activities that would not be considered political donations or political expenditure in the usual sense. These could include support for bodies engaged in law reform or governmental policy review or involvement in seminars and functions that may be attended by politicians. To avoid any possibility of inadvertently contravening the Companies Act 2006, the Directors obtained authority from Shareholders at the 2017 Annual General Meeting for certain political donations and expenditure, subject to financial limits. The Directors will seek to renew this authority at the 2018 Annual General Meeting.

Charitable donations

The Group made charitable donations during 2017 in the aggregate sum of £22,735 (2016: £7,558).

Financial instruments and risk management

The Group's exposure to, and management of capital, liquidity, credit and interest rate risk, are set out within the Financial Review on pages 33 and 34.

General meetings

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

All other general meetings are also required to be held on at least 21 days' clear notice unless the Company offers Shareholders an electronic voting facility. A special resolution reducing the period of notice for general meetings (other than Annual General Meetings) to not less than 14 days was passed at the 2017 Annual General Meeting. The Directors are proposing to seek renewal of that authority at the 2018 Annual General Meeting. It is intended that this shorter notice period will only be used for non-routine business and where merited in the interests of Shareholders as a whole.

Substantial shareholdings

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

Name of holder	Number of Ordinary Shares	Percentage of total voting rights
Goodweather Holdings Limited*	88,892,667	27.65%
Pension Protection Fund	80,374,189	25.00%
Invesco Perpetual	31,993,428	9.95%
Pelham Capital Management	27,480,851	8.55%
London and Amsterdam Trust Company	11,707,922	3.64%

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

Change of control provisions

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

Under the terms of the banking facility agreement entered between RBS and HEPGL in February 2015 and amended in August 2016, December 2016, August 2017 and February 2018, if any person or Group of persons acting in concert gains direct or indirect control of HEPGL the facility will be cancelled and all outstanding loans and bonds, guarantees or letters of credit together with accrued interest shall become immediately due and payable.

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

Directors' report
Continued

Agreements with related parties
At the start of 2017 there subsisted five joint venture agreements with members of the Peel Group, which were approved by Shareholders in 2011, for the promotion and development of energy from waste schemes at five sites owned by the Group. Those joint venture arrangements were varied during 2017, with the approval of shareholders at the 2017 Annual General Meeting.

Compliance with UK Corporate Governance Code
Whilst the Company is listed on the standard segment of the Official List, it has applied the main and supporting principles of the Code, which applied during the financial year ended 31 December 2017 and is publicly available on the website of the Financial Reporting Council. The Company has complied with the provisions of the Code throughout the year ended 31 December 2017, save for the following matters:

- The Audit Committee comprises two independent Non-Executive Directors (Andrew Cunningham and Anthony Donnelly) and one non-independent Non-Executive Director (Steven Underwood). The Company considers that Mr Underwood makes a valuable and important contribution to the Committee because: (i) he is a chartered accountant; and (ii) in his role as Chief Executive of the Peel Group, he has extensive experience of reviewing and scrutinising the financial statements of a large property business. The independent Non-Executive Directors carry a majority of votes on the Committee.
- The Remuneration Committee comprises two independent Non-Executive Directors (Lisa Clement and Anthony Donnelly), the Chairman (Jonson Cox as at 31 December 2017 and now Alastair Lyons as the date of this Report) and one non-independent Non-Executive Director (Steven Underwood). The Company considers that Mr Underwood makes a valuable and important contribution to the Committee because he relays the views of the Company's largest Shareholder on remuneration matters. The independent Non-Executive Directors carry a majority of votes on the Committee.
- Given that Jonson Cox announced at the 2017 Annual General Meeting that he would not be standing for re-election at the 2018 Annual General Meeting and his successor was identified and appointed during the course of 2017, the Non-Executive Directors did not meet during 2017 to appraise the (now former) Chairman's performance. An appraisal of the new Chairman's performance will be undertaken before publication of the 2018 Annual Report.
- The Senior Independent Director was unable to attend the 2017 Annual General Meeting in person, but did attend the meeting, and answered questions, by conference call. All directors will be in attendance at the 2018 Annual General Meeting.

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

Chris Birch
Group General Counsel and Company Secretary
24 April 2018

Statement of Directors' responsibilities
in respect of the financial statements

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

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

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, 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;
- for the Company financial statements, 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;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters relating to their going concern status; 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 and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with CA06 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are 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.

The Directors are also responsible for taking such steps as are reasonably open to them to safeguard 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 preparing a strategic report, corporate governance statement, directors' remuneration report and directors' report that complies with applicable law and regulations.

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

Each of the Directors who were in office during the year ended 31 December 2017 and up to the date of this Report, considers that the 2017 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position, performance, business model and strategy.

Each of the Directors who were in office during the year ended 31 December 2017 and up to the date of this Report, confirms to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; 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 that they face.

Each of the Directors who were in office during the year ended 31 December 2017 and up to the date of this Report also confirms:

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

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

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

Chris Birch
Group General Counsel and Company Secretary
24 April 2018

Independent auditors' report

to the members of Harworth Group plc

Report on the audit of the financial statements

Opinion

In our opinion, Harworth Group plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 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 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 2017 (the "Annual Report"), which comprise: the Balance sheets as at 31 December 2017; 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 2017 to 31 December 2017.

Our audit approach

Overview

- Overall group materiality: £5.0m (2016: £4.6m), based on 1% of total assets.
- Overall company materiality: £2.4m (2016: £2.2m), 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 geographic structure of the Group, the accounting processes and controls and the industry in which the Group operates.
- The Group is structured along two business lines being Capital Growth and Income Generation. The Group financial statements are a consolidation of the 30 reporting units within these two business lines and the Group's centralised functions.
- Of the Group's 30 reporting units, we identified 5 which, in our view, had the most significant effect on the Group Balance sheet and/or the Consolidated income statement due to their size or their risk characteristics. We performed a full scope audit on the Balance sheet and/or the Consolidated income statement as appropriate. The reporting units subject to full scope audit work on the Balance sheet and/or the Consolidated income statement accounted for 94% of total assets and 97% of profit before tax.
- This, together with additional procedures performed on the Group's centralised functions, gave us the evidence we needed for our opinion on the Group financial statements as a whole.
- Valuation of investment property (£216.6m) (Refer to note 15 of the financial statements) (Group).
- Valuation of development property (£210.5m) (Refer to note 17 of the financial statements) (Group).

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, Companies Act 2006. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisors and enquiries of management in so far as they related to the financial statements. 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.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property (£216.6m) (Refer to note 15 of the financial statements) We focused on this area because the Group's investment property assets represent a significant proportion of the assets in the Balance sheet. The Group's portfolio includes properties at varying stages of completion, across various sectors, including mixed-use, industrial and retail. Property valuations are subject to a high degree of judgement as they are calculated from a number of different assumptions specific to each individual property. These include actual and estimated rental values, yields, costs to complete and expected land values per acre. The Group engaged independent external valuers to value its investment properties in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards. For the majority of properties, the residual appraisal method was used, by estimating the fair value of the completed project using a capitalisation method based on expected land values per acre less estimated costs to completion and a risk premium. Completed properties were valued on an income approach basis, taking into consideration assumptions for yields and estimated market rent. A relatively small percentage change in the valuations of individual properties, in aggregate, could result in a material impact on the financial statements.	We read the third party property valuation reports obtained by the Directors and considered if the overall approach and methodology adopted were appropriate given the nature of the properties being valued and whether they were in line with market practice. We also considered the extent to which the approach and methodology were consistent with prior years. For a sample of properties representing 67% of the value of the property portfolio, we discussed the valuation approach on a property by property basis directly with the third party valuer. We considered the specific assumptions used by the valuer for each property, including the expected land values per acre, costs to complete, estimated rental values and yields, and considered whether these were consistent with market evidence and, where relevant, actual sale proceeds on properties disposed of during the year. For properties where further investment property spend is forecast to be incurred, we obtained management estimates for the costs to completion to be incurred and for a sample of costs agreed to supporting documentation, such as tenders or agreements, to check the accuracy of the forecast costs. We found the methodologies used by the third party valuers to be consistent across the portfolio of properties and with prior years. We also found that the assumptions used were within the ranges typically used for similar valuations.

Independent auditors' report
to the members of Harworth Group plc

Key audit matter	How our audit addressed the key audit matter
Valuation of development property (£210.5m) (Refer to note 17 of the financial statements) We focused on this area because the Group's development property assets represent a significant proportion of the assets in the Consolidated Balance sheet. The Group's development properties were valued at £210.5m as at 31 December 2017. These properties are held at the lower of cost and net realisable value, in accordance with IAS 2 – Inventory, following the transfer from investment property at fair value and/or expenditure incurred during the year, resulting in a deemed cost. 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 were several disposals recorded, the portfolio includes certain assets transferred during the 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 the either the property or construction markets could result in a material impact to the financial statements.	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. Management further supported their development appraisals with internal and external third party valuations on each individual site. We read the third party property valuation reports obtained by management and considered if the overall approach and methodology adopted were 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 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. Where applicable due to the advanced stage of the development, we also agreed 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. 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. We also found that the assumptions used were within the ranges typically used for similar valuations.

How we tailored the audit scope

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

The Group is structured along two business lines being Capital Growth and Income Generation. The Group financial statements are a consolidation of the 30 reporting units within these two business lines and the Group's centralised functions. Of the Group's 30 reporting units, we identified 5 which, in our view, had the most significant effect on the Balance sheet and/or the Consolidated income statement due to their size or their risk characteristics. We performed a full scope audit on the Balance sheet and/or the Consolidated income statement as appropriate. The reporting units subject to full scope audit work on the Balance sheet and/or the Consolidated income statement accounted for 94% of total assets and 97% of profit before tax. This, together with additional procedures performed on the Group's centralised functions, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£5.0m (2016: £4.6m).	£2.4m (2016: £2.2m).
How we determined it	1% of total assets.	1% of total assets.
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct and indirect property investments. Due to this, the key area of focus in the audit is the valuation of investment properties and carrying value of development properties. On this basis, we set an overall Group materiality level based on total assets, which is a generally accepted auditing benchmark.	The key driver of the business and determinant of the company'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 materiality level based on total assets, which is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1.4m and £4.6m. 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 £236,000 (Group audit) (2016: £196,000) and £236,000 (Company audit) (2016: £196,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

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) and ISAs (UK) 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 2017 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

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 36 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 44 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 in respect of this responsibility.

Independent auditors' report

to the members of Harworth Group plc

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 97, 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 86 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

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 97, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 22 February 1992 to audit the financial statements for the year ended 31 December 1992 and subsequent financial periods. The period of total uninterrupted engagement is 26 years, covering the years ended 31 December 1992 to 31 December 2017.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
24 April 2018

Consolidated income statement

for the year ended 31 December 2017

	Note	**Year ended 31 December 2017 £'000**	Year ended 31 December 2016 £'000
Revenue	2	**53,673**	33,693
Cost of sales	2	**(37,678)**	(20,905)
Gross profit		**15,995**	12,788
Administrative expenses	2	**(12,020)**	(10,457)
Other gains	2	**35,658**	43,027
Other operating income/(expense)	2	**98**	(204)
Operating profit before exceptional items		**39,731**	45,154
Exceptional income	4	**414**	689
Exceptional expense	4	**(83)**	(682)
Operating profit		**40,062**	45,161
Share of profit of joint ventures	16	**4,039**	647
Finance income	7	**16**	247
Finance costs	7	**(2,277)**	(2,588)
Profit before tax		**41,840**	43,467
Tax credit/(charge)	9	**7,843**	(3,566)
Profit for the financial year		**49,683**	39,901

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

	Note	**pence**	pence
Basic and diluted earnings per share	12	**15.8**	13.7*

*The 2016 earnings per share has been restated to reflect the impact of the May 2016 1 for 10 share consolidation.

The Notes on pages 110 to 141 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	**Year ended 31 December 2017 £'000**	Year ended 31 December 2016 £'000
Profit for the financial year		**49,683**	39,901
Other comprehensive income/(expense) – *items that will not be reclassified to profit or loss:*			
Actuarial loss in Blenkinsopp Pension Scheme	25	**(105)**	(269)
Revaluation of Group occupied property	13	**12**	(17)
Deferred tax on other comprehensive income/(expense) items	9	**(51)**	94
Other comprehensive income/(expense) – *items that may be reclassified subsequently to profit or loss:*			
Fair value of financial instruments	23	**244**	(366)
Total other comprehensive income/(expense)		**100**	(558)
Total comprehensive income for the financial year		**49,783**	39,343

Balance sheets
as at 31 December 2017

	Note	Group		Company	
		As at 31 December 2017 £'000	As at 31 December 2016 £'000	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	13	**802**	789	**–**	–
Other receivables	14	**2,666**	1,397	**–**	–
Investment properties	15	**216,560**	379,190	**–**	–
Investment in subsidiaries	16	**–**	–	**207,896**	207,896
Investment in joint ventures	16	**18,838**	10,549	**–**	–
Retirement asset	25	**–**	–	**563**	602
Trade receivables	18	**5,250**	–	**–**	–
Deferred income tax asset	9	**–**	–	**250**	3,053
		244,116	391,925	**208,709**	211,551
Current assets					
Inventories	17	**211,618**	733	**–**	–
Trade and other receivables	18	**25,165**	24,444	**33,268**	9,151
Assets classified as held for sale	19	**7,688**	8,350	**–**	–
Cash	20	**8,371**	13,007	**1,267**	2,171
		252,842	46,534	**34,535**	11,322
Total assets		**496,958**	438,459	**243,244**	222,873
LIABILITIES					
Current liabilities					
Borrowings	21	**(6,145)**	(1,819)	**–**	–
Trade and other payables	22	**(38,497)**	(33,719)	**(3,536)**	(1,885)
Current tax liabilities	9	**(1,538)**	–	**–**	–
		(46,180)	(35,538)	**(3,536)**	(1,885)
Net current assets		**206,662**	10,996	**30,999**	9,437
Non-current liabilities					
Borrowings	21	**(34,501)**	(50,659)	**–**	–
Trade and other payables	22	**(760)**	(1,520)	**–**	–
Derivative financial instruments	23	**(122)**	(366)	**–**	–
Deferred income tax liabilities	9	**(5,521)**	(14,851)	**–**	–
Retirement benefit obligations	25	**(563)**	(602)	**(563)**	(602)
		(41,467)	(67,998)	**(563)**	(602)
Total liabilities		**(87,647)**	(103,536)	**(4,099)**	(2,487)
Net assets		**409,311**	334,923	**239,145**	220,386
SHAREHOLDERS' EQUITY					
Capital and reserves					
Called up share capital	26	**32,150**	29,227	**32,150**	29,227
Share premium account	27	**24,351**	–	**24,351**	–
Investment in own shares	26	**(263)**	–	**(263)**	–
Fair value reserve		**85,109**	58,279	**–**	–
Capital redemption reserve		**257**	257	**257**	257
Merger reserve		**45,667**	45,667	**45,667**	45,667
Current year profit/(loss)		**49,683**	39,901	**(5,759)**	1,348
Retained earnings		**172,357**	161,592	**142,742**	143,887
Total equity		**409,311**	334,923	**239,145**	220,386

The financial statements on pages 104 to 141 were approved by the Board of Directors on 24 April 2018 and were signed on its behalf by:

Owen Michaelson
Chief Executive

Andrew Kirkman
Finance Director

Company Registered Number 2649340

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Note	Called up share capital £'000	Share premium account £'000	Investment in own shares £'000	Fair value reserve* £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016		**29,227**	**129,121**	**–**	**24,060**	**257**	**45,667**	**69,411**	**297,743**
Profit for the financial year to 31 December 2016		–	–	–	–	–	–	39,901	39,901
Fair value gains		–	–	–	34,236	–	–	(34,236)	–
Other comprehensive (expense)/income:									
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	–	(269)	(269)
Revaluation of Group occupied property	13	–	–	–	(17)	–	–	–	(17)
Fair value of financial instruments	23	–	–	–	–	–	–	(366)	(366)
Deferred tax on actuarial loss on pension scheme	9	–	–	–	–	–	–	94	94
Total comprehensive income for the year ended 31 December 2016		**–**	**–**	**–**	**34,219**	**–**	**–**	**5,124**	**39,343**
Transactions with owners:									
Transfer of share premium to other distributable reserves	27	–	(129,121)	–	–	–	–	129,121	–
Dividends paid		–	–	–	–	–	–	(2,163)	(2,163)
Balance at 31 December 2016 and 1 January 2017		**29,227**	**–**	**–**	**58,279**	**257**	**45,667**	**201,493**	**334,923**
Profit for the financial year to 31 December 2017		–	–	–	–	–	–	49,683	49,683
Fair value gains		–	–	–	32,636	–	–	(32,636)	–
Transfer of unrealised loss	17	–	–	–	(5,818)	–	–	5,818	–
Other comprehensive (expense)/income:									
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	–	(105)	(105)
Revaluation of Group occupied property	13	–	–	–	12	–	–	–	12
Fair value of financial instruments	23	–	–	–	–	–	–	244	244
Deferred tax on other comprehensive (expense)/income items	9	–	–	–	–	–	–	(51)	(51)
Total comprehensive income for the year ended 31 December 2017		**–**	**–**	**–**	**26,830**	**–**	**–**	**22,953**	**49,783**
Transactions with owners:									
Share issue less costs	26	2,923	24,142	–	–	–	–	–	27,065
Other transaction costs	27	–	209	–	–	–	–	–	209
Purchase of own shares	26	–	–	(263)	–	–	–	86	(177)
Dividends paid	11	–	–	–	–	–	–	(2,492)	(2,492)
Balance at 31 December 2017		**32,150**	**24,351**	**(263)**	**85,109**	**257**	**45,667**	**222,040**	**409,311**

*The fair value reserve relates to unrealised gains and losses arising primarily from the revaluation of investment properties and historical gains/losses from investment property that has now been transferred to development property.

Company statement of changes in equity

for the year ended 31 December 2017

	Note	Called up share capital £'000	Share premium account £'000	Investment in own shares £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016		**29,227**	**129,121**	**–**	**257**	**45,667**	**17,170**	**221,442**
Profit for the financial year to 31 December 2016		–	–	–	–	–	1,348	1,348
Other comprehensive income/(expense):								
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	(269)	(269)
Deferred tax on actuarial loss on pension scheme		–	–	–	–	–	28	28
Total comprehensive income for the year ended 31 December 2016		**–**	**–**	**–**	**–**	**–**	**1,107**	**1,107**
Transactions with owners:								
Transfer of share premium to other distributable reserves	27	–	(129,121)	–	–	–	129,121	–
Dividends paid		–	–	–	–	–	(2,163)	(2,163)
Balance at 31 December 2016 and 1 January 2017		**29,227**	**–**	**–**	**257**	**45,667**	**145,235**	**220,386**
Loss for the financial year to 31 December 2017		–	–	–	–	–	(5,759)	(5,759)
Actuarial loss in Blenkinsopp pension scheme	25	–	–	–	–	–	(105)	(105)
Deferred tax on actuarial loss on pension scheme		–	–	–	–	–	18	18
Total comprehensive expense for the year ended 31 December 2017		**–**	**–**	**–**	**–**	**–**	**(5,846)**	**(5,846)**
Transactions with owners:								
Share issue less costs	26	2,923	24,142	–	–	–	–	27,065
Other transaction costs	27	–	209	–	–	–	–	209
Purchase of own shares	26	–	–	(263)	–	–	86	(177)
Dividends paid	11	–	–	–	–	–	(2,492)	(2,492)
Balance at 31 December 2017		**32,150**	**24,351**	**(263)**	**257**	**45,667**	**136,983**	**239,145**

Statements of cash flows
for the year ended 31 December 2017

	Note	Group		Company	
		Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000	**Year ended 31 December 2017 £'000**	Year ended 31 December 2016 £'000
Cash flows from operating activities					
Profit/(loss) before tax for the financial year		**41,840**	43,467	**(2,937)**	(1,707)
Net interest payable/(receivable)	7	**2,261**	2,341	**(501)**	(183)
Other gains	5	**(35,658)**	(43,027)	**–**	–
Share of profit of joint ventures	16	**(4,039)**	(647)	**–**	–
Depreciation of property, plant and equipment	13	**8**	2	**–**	–
Pension contributions in excess of charge		**(144)**	(102)	**(144)**	(102)
Operating cash inflows/(outflows) before movements in working capital		**4,268**	2,034	**(3,582)**	(1,992)
Decrease in inventories		**18,232**	359	**–**	–
Increase in receivables		**(5,970)**	(634)	**(23,714)**	(1,584)
Increase in payables		**8,394**	3,715	**1,787**	1,014
Cash generated from/(used in) operations		**24,924**	5,474	**(25,509)**	(2,562)
Loan arrangement fees paid		**(214)**	(150)	**–**	–
Interest paid		**(1,277)**	(1,861)	**–**	–
Corporation tax received		**175**	–	**–**	–
Cash generated from/(used in) operating activities		**23,608**	3,463	**(25,509)**	(2,562)
Cash flows from investing activities					
Interest received		**16**	247	**–**	9
Investment in/acquisition of joint ventures		**(4,250)**	(9,134)	**–**	–
Proceeds from disposal of investment properties		**24,434**	53,201	**–**	–
Expenditure on investment properties		**(60,431)**	(47,528)	**–**	–
Expenditure on property, plant and equipment		**(9)**	(25)	**–**	–
Cash (used in)/generated from investing activities		**(40,240)**	(3,239)	**–**	9
Cash flows from financing activities					
Net proceeds from issue of ordinary shares		**27,065**	–	**27,065**	–
Proceeds from other loans		**6,502**	5,187	**–**	–
Repayment of bank loans		**(57,000)**	(12,000)	**–**	–
Proceeds from bank loans		**43,000**	–	**–**	–
Repayment of other loans		**(5,111)**	(5,805)	**–**	–
Investment in own shares		**(177)**	–	**(177)**	–
Other transaction costs	27	**209**	–	**209**	–
Dividends paid	11	**(2,492)**	(2,163)	**(2,492)**	(2,163)
Cash generated from/(used in) financing activities		**11,996**	(14,781)	**24,605**	(2,163)
Decrease in cash		**(4,636)**	(14,557)	**(904)**	(4,716)
At 1 January					
Cash		**13,007**	27,564	**2,171**	6,887
Decrease in cash		**(4,636)**	(14,557)	**(904)**	(4,716)
At 31 December					
Cash		**8,371**	13,007	**1,267**	2,171

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies

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

General information

Harworth Group plc (the 'Company') is a company limited by shares, incorporated and domiciled in the United Kingdom. The address of its registered office is Advantage House, Poplar Way, Catcliffe, Rotherham, South Yorkshire, S60 5TR.

The Company is a listed public company on the London Stock Exchange.

Basis of preparation

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

Going concern basis

These financial statements are prepared on the basis that the Group is a going concern. In forming its opinion as to going concern, the Board prepares cash flow forecasts based upon its assumptions with particular consideration to the key risks and uncertainties as summarised in 'Managing Risk' section of this annual report, as well as taking into account the available borrowing facilities in line with the Treasury Policy disclosed on pages 134 and 135.

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

The Group has a £75m revolving credit facility with The Royal Bank of Scotland, for a term of five years, on a non-amortising basis. The facility is in the form of a debenture security whereby there is no charge on the individual assets of the Group. The facility is subject to financial and other covenants.

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

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

Accounting policies

The Group did not early adopt any new or amended standards and does not plan to early adopt any standards issued but not yet effective.

Revenue recognition

Revenue comprises rental and other land related income arising on investment properties, income from construction contracts, the sale of coal fines and the sale of development properties.

Rentals are accounted for on a straight-line basis over the lease term.

Income from construction contracts is recognised in line with the accounting policy for construction contracts. Revenue is recognised when the Group is acting as a principal under a contract with primary responsibility for the contract and has exposure to significant risks and rewards of the contract.

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

Revenue from the sale of development properties is recognised at the point of legal completion and where title has passed.

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

Construction contracts

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

1. Accounting policies: continued

Interest income and expense

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

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

Other receivables (non-current)

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

Inventories

Inventories comprise 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.

Investments in joint ventures

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

Impairment

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

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

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

Investment properties

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

Notes to the financial statements

for the year ended 31 December 2017: continued

1. Accounting policies: continued

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

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

Investment properties in the course of construction
Directly attributable costs incurred in the course of constructing a property 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 carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

Interest income is recognised on financial assets by applying the effective interest rate, except for short-term recievables when the recognition of interest would be immaterial.

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

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

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

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

Provisions
Provisions are recognised when:

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

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

1. Accounting policies: continued

Blenkinsopp pension

Following the 2012 Restructuring the Group's only defined benefit pension liability was for the Blenkinsopp Section of the Industry-Wide Mineworkers Pension Scheme.

During the years to 31 December 2017 and 31 December 2016 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 Executive Board of Directors that are used to assess both performance and strategic decisions. Management has identified that the Executive Board of Directors is the Chief Operating Decision Maker in accordance with the requirements of IFRS 8 'Operating Segments'.

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

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

All operations are carried out in the United Kingdom.

Consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Acquisition-related costs are expensed as incurred.

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

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

Exceptional items

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

Share capital and reserves

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

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

Property, plant and equipment

Land and buildings relate to group occupied properties. These properties are stated at their fair value, based on market values, less any subsequent accumulated depreciation or accumulated impairment loss. Depreciation is provided where it is considered

Notes to the financial statements

for the year ended 31 December 2017: continued

1. Accounting policies: continued

significant having regard to the estimated remaining useful lives and residual values of individual properties. Surpluses on revaluations are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the Statement of Comprehensive Income.

Office equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged on these assets so as to write off the cost or valuation of assets over their estimated useful lives of 3 to 4 years, using the straight line method.

Derivatives and hedging

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

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

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

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

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

Tax

Current tax

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

Deferred tax

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

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

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

The carrying value of the Group's investment property is assumed to be realised by sale at the end of use. The capital gains tax rate applied is that which would apply on a direct sale of the property recorded in the Balance sheet regardless of whether the

1. Accounting policies: continued

Group would structure the sale via the disposal of the subsidiary holding the asset, to which a different tax rate may apply. The deferred tax is then calculated based on the respective temporary differences and tax consequences arising from recovery through sale.

Changes in accounting policy and disclosures

a) New standards, amendments and interpretations

At the date of the authorisation of these Financial Statements, the following standards, amendments and interpretations to existing standards are effective or mandatory for the first time for the accounting year ended 31 December 2017:

		Effective from
Annual improvements (issued 2016)	'Annual Improvements to IFRSs 2014–2016 Cycle'	1 January 2017
IAS 7 (amended 2016)	'Disclosure Initiative'	1 January 2017
IAS 12 (amended 2016)	'Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017

The adoption of these standards and interpretations has not had a significant impact on the Group.

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

At the date of the authorisation of these Financial Statements, the following standards, amendments and interpretations were in issue but not yet effective:

		Effective from
Annual improvements (issued 2017)	'Annual Improvements to IFRSs 2015–2017 Cycle'	1 January 2019*
IAS 28 (amended 2017)	'Long-term interests in Associates and Joint Ventures'	1 January 2019*
IAS 40 (amended 2016)	'Transfers of Investment Property'	1 January 2018*
IFRIC 22 (amended 2016)	'Foreign Currency Transactions and Advance Consideration'	1 January 2018*
IFRIC 23 (amended 2017)	'Uncertainty over Income Tax Treatments'	1 January 2019*
IFRS 2 (amended 2016)	'Classification and Measurement of Share-based Payment Transactions'	1 January 2018*
IFRS 4 (amended 2016)	'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	1 January 2018
IFRS 9 (issued 2014)	'Financial Instruments'	1 January 2018
IFRS 9 (amended 2017)	'Prepayment features with negative compensation'	1 January 2019*
IFRS 15 (issued 2014)	'Revenue from Contracts with Customers'	1 January 2018
IFRS 16 (issued 2016)	'Leases'	1 January 2019*
IFRS 17 (issued 2017)	'Insurance contracts'	1 January 2021*

*Not yet endorsed by the EU.

None of these is expected to have a significant effect on the financial statements of the Group, except the following, set out below:

- IFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through SOCI and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in SOCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different from that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, subject to EU endorsement. The impact of IFRS 9 has been assessed on the financial instruments of the Group. At present, based on these assessments, management do not believe that any significant adjustments are required.
- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018. The Group has performed a detailed assessment of the impact of IFRS 15 on existing revenue streams and policies. This review has highlighted that revenues relating to the sales of development properties, particularly where revenue involves a deferred element or conditions subsequent exist, are specifically affected by the standard. The Group expects the impact of implementing this standard on revenue to amount to a decrease of £2.1m for 2017.

Notes to the financial statements

for the year ended 31 December 2017: continued

1. Accounting policies: continued

- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on Balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The full impact of IFRS 16 continues to be assessed, however, management does not believe it will have a significant impact.

Critical accounting estimates and judgements

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

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

Estimation of fair value of investment property

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

The Group has also estimated the extent to which existing mining tenants on investment property owned by the Group would perform their obligations to remediate land at the conclusion of mining activity and therefore the impact of any restoration obligations which may revert to the Group. The potential shortfall has been estimated at £3.2m (2016: £6.0m) and has been treated as a reduction in the valuation of the properties which these former tenants occupied.

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.

Categorisation of the property portfolio

During the year £229.1m of property was re-categorised from investment to development property. This re-categorisation was triggered by the evolution of Harworth's business model, including the March 2017 capital raise, as well as the consideration of site and market opportunities.

Revenue

Overdue rents and royalties from the mining businesses amounting to £2.2m were included in revenue for 2016. Prior to this management concluded that there was a less than remote possibility of recoverability of this income and therefore was not recognised. A clearer outcome of the winding up of the mining businesses in 2016 gave greater visibility of the recoverability of this revenue and therefore revenue was recognised in 2016. This is a non recurring event and there is no such income remaining in 2017.

Taxation

The recognition of deferred tax assets has been reviewed and re-assessed during the year. This has resulted in the recognition of deferred tax assets of £19.1m (2016: £8.4m) based upon the certainty of recoverability. Of this £5.9m has been recognised due to the execution of a contract which resulted in increased certainty that the losses would not be lost and £13.2m is due to the crystallisation of chargeable gains and losses as a result of a number of investment property disposals and the re-categorisation of properties from investment to development properties. These gains have been offset against tax losses that were previously not recognised from a deferred tax perspective.

2. Segment Information

31 December 2017

Group	Note	Capital Growth: Sale of Development Properties £'000	Capital Growth: Other Property Activities £'000	Income Generation £'000	Unallocated costs £'000	Total £'000
Revenue		**29,765**	**5,671**	**18,237**	**–**	53,673
Cost of sales		(27,893)	(4,396)	(5,389)	–	**(37,678)**
Gross profit[1]		**1,872**	**1,275**	**12,848**	**–**	**15,995**
Administrative expenses		–	(1,927)	(1,752)	(8,341)	**(12,020)**
Other gains[2]	5	–	26,924	8,734	–	**35,658**
Other operating income	5	–	–	17	81	**98**
Operating profit/(loss) before exceptional items		**1,872**	**26,272**	**19,847**	**(8,260)**	39,731
Net exceptional items	4	–	–	–	331	**331**
Operating profit/(loss)		1,872	26,272	19,847	(7,929)	**40,062**
Share of profit of joint ventures	16	–	26	4,013	–	**4,039**
Finance income	7	–	–	–	16	**16**
Finance costs	7	–	–	–	(2,277)	**(2,277)**
Profit/(loss) before tax		**1,872**	**26,298**	**23,860**	**(10,190)**	**41,840**

Other information

	Sale of Development Properties £'000	Other Property Activities £'000	Income Generation £'000	Unallocated costs £'000	Total £'000
(1) Gross profit is analysed as follows:					
Gross profit excluding sales of development properties	–	1,275	12,848	–	**14,123**
Gross profit on sale of development properties	7,690	–	–	–	**7,690**
Net realisable value provision on development properties	(5,818)	–	–	–	**(5,818)**
	1,872	1,275	12,848	–	**15,995**
(2) Other gains are analysed as follows:					
Increase in fair value of investment properties	–	26,139	5,994	–	**32,133**
(Decrease)/increase in fair value of assets classified as held for sale	–	(113)	30	–	**(83)**
Increase in fair value of overages	–	586	–	–	**586**
Profit on disposal of investment properties	–	216	2,703	–	**2,919**
Profit on disposal of assets classified as held for sale	–	96	7	–	**103**
	–	26,924	8,734	–	**35,658**

Notes to the financial statements

for the year ended 31 December 2017: continued

2. Segment information: continued

31 December 2017 continued

Segmental assets

	Note	Capital Growth £'000	Income Generation £'000	Unallocated £'000	Total £'000
Property, plant and equipment	13	–	–	802	**802**
Other receivables	14	2,666	–	–	**2,666**
Investment properties	15	43,132	173,428	–	**216,560**
Investments in joint ventures	16	1,042	17,796	–	**18,838**
Inventories	17	211,535	83	–	**211,618**
Non-current trade receivables	18	5,250	–	–	**5,250**
Current trade and other receivables	18	16,516	6,762	1,887	**25,165**
Assets classified as held for sale	19	2,782	4,906	–	**7,688**
		282,923	**202,975**	**2,689**	**488,587**
Unallocated assets:					
Cash	20	–	–	8,371	**8,371**
Total assets		**282,923**	**202,975**	**11,060**	**496,958**

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

31 December 2016

Group	Note	Capital Growth £'000	Income Generation £'000	Unallocated costs £'000	Total £'000
Revenue*		**16,307**	**17,386**	**–**	**33,693**
Cost of sales		(15,967)	(4,938)	–	**(20,905)**
Gross profit		**340**	**12,448**	**–**	**12,788**
Administrative expenses		(1,765)	(1,416)	(7,276)	**(10,457)**
Other gains(1)	5	31,653	11,374	–	**43,027**
Other operating expenses	5	–	(117)	(87)	**(204)**
Operating profit/(loss) before exceptional items		**30,228**	**22,289**	**(7,363)**	**45,154**
Net exceptional items	4	–	(682)	689	**7**
Operating profit/(loss)		**30,228**	**21,607**	**(6,674)**	**45,161**
Share of profit of joint ventures	16	–	647	–	**647**
Finance income	7	–	–	247	**247**
Finance costs	7	–	–	(2,588)	**(2,588)**
Profit/(loss) before tax		**30,228**	**22,254**	**(9,015)**	**43,467**

* No activity relating to sale of development properties occurred in the year ended 31 December 2016.

Other information

(1) Other gains are analysed as follows:

	Capital Growth £'000	Income Generation £'000	Unallocated costs £'000	Total £'000
Increase in fair value of investment properties	23,433	10,280	–	**33,713**
Decrease in fair value of assets classified as held for sale	–	(224)	–	**(224)**
Increase in fair value of overages	747	–	–	**747**
Profit on disposal of investment properties	7,473	1,693	–	**9,166**
Loss on disposal of assets classified as held for sale	–	(375)	–	**(375)**
	31,653	11,374	–	**43,027**

2. Segment information: continued

31 December 2016 continued

Segmental assets

	Note	Capital Growth £'000	Income Generation £'000	Unallocated £'000	Total £'000
Property, plant and equipment	13	–	–	789	**789**
Other receivables	14	1,397	–	–	**1,397**
Investment properties	15	232,886	146,304	–	**379,190**
Investments in joint ventures	16	868	9,681	–	**10,549**
Inventories	17	454	279	–	**733**
Current trade and other receivables	18	10,521	1,673	12,250	**24,444**
Assets classified as held for sale	19	6,152	2,198	–	**8,350**
		252,278	**160,135**	**13,039**	**425,452**
Unallocated assets:					
Cash	20	–	–	13,007	**13,007**
Total assets		**252,278**	**160,135**	**26,046**	**438,459**

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

3. Operating profit

	Note	**Year ended 31 December 2017 £'000**	Year ended 31 December 2016 £'000
Operating profit before tax is stated after charging:			
Net realisable value provision on development properties	17	**5,818**	–
Staff costs	6	**7,849**	6,363
Depreciation of property, plant and equipment	13	**8**	2

4. Exceptional items

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Exceptional income:		
Settlements from the administration of legacy companies	**414**	689
Total exceptional income	**414**	689
Exceptional expense:		
Sundry costs relating to legacy activities	**(83)**	–
Under recovery relating to the cessation of coal fines activities at Rugeley and stock provision	**–**	(682)
Total exceptional expense	**(83)**	(682)
Net exceptional items	**331**	7

Notes to the financial statements

for the year ended 31 December 2017: continued

5. Other gains

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit on disposal of investment properties		**2,919**	9,166
Profit/(loss) on disposal of assets classified as held for sale		**103**	(375)
Increase in fair value of investment properties	15	**32,133**	33,713
Decrease in fair value of assets classified as held for sale	19	**(83)**	(224)
Increase in fair value of overages	14	**586**	747
Total other gains		**35,658**	43,027

Other operating income/(expense) in 2017 and 2016 represents expenses relating to the Blenkinsopp Pension Scheme (see note 25) and other smaller items.

6. Employee information

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

	Group		Company	
	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Administration	**53**	51	**4**	4
Total	**53**	51	**4**	4

Remuneration details of these persons was as follows:

	Group		Company	
	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries	**6,650**	5,418	**2,749**	1,520
Social security costs	**884**	689	**379**	219
Other pension costs	**315**	256	**61**	44
	7,849	6,363	**3,189**	1,783

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 2017 £'000	Year ended 31 December 2016 £'000
Short term employee benefits	**4,361**	2,188
Post employment benefits	**120**	108
	4,481	2,296

Included within the remuneration above are short term employee benefits under incentive plans of £2.9m (2016: £0.8m) payable within twelve months of the Balance sheet date.

Detailed information relating to Directors' remuneration is disclosed in the Directors' remuneration report on pages 72 to 85 and forms part of these financial statements.

7. Finance income and costs

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Total finance income	**16**	247
Finance costs		
– Bank interest	**(994)**	(1,559)
– Facility fees	**(807)**	(545)
– Other interest	**(476)**	(484)
Total finance costs	**(2,277)**	(2,588)
Net finance costs	**(2,261)**	(2,341)

During the year no interest has been capitalised in investment or development properties (2016: £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 2017 £'000	Year ended 31 December 2016 £'000
Audit services		
Fees payable to the Company auditors and its associates for the audit of the Company and the consolidated financial statements	**40**	40
Fees payable to the Company auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**111**	80
– Audit related assurance services	**15**	50
– The audit of the Group's joint ventures	**8**	10
– Tax advisory services	**7**	84
– Tax compliance services	**6**	38
	187	302

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

Notes to the financial statements

for the year ended 31 December 2017: continued

9. Tax credit/(charge)

Analysis of tax credit/(charge) in the year	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Current tax		
Current year	**(1,874)**	–
Adjustment in respect of prior periods	**336**	–
Total current tax charge	**(1,538)**	–
Deferred tax		
Current year	**15,036**	(2,510)
Adjustment in respect of prior periods	**(3,898)**	(1,652)
Effect of changes in tax rates	**(1,757)**	2,042
Re-assessment of recognition of recoverability of deferred tax assets	**–**	(1,446)
Total deferred tax credit/(charge)	**9,381**	(3,566)
Tax credit/(charge)	**7,843**	(3,566)

Other comprehensive income items	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Deferred tax – current year	**(51)**	14
Deferred tax – prior year	**–**	80
Total	**(51)**	94

The tax for the year is lower than the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). The differences are explained below:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit before tax	**41,840**	43,467
Profit before tax multiplied by rate of corporation tax in the UK of 19.25% (2016: 20.00%)	**(8,054)**	(8,693)
Effects of:		
Adjustment in respect of prior periods – deferred taxation	**(3,898)**	(1,652)
Adjustment in respect of prior periods – current taxation	**336**	–
Non-taxable income	**841**	129
Expenses not deducted for tax purposes	**(1,395)**	(390)
Revaluation gains	**–**	4,683
Changes in tax rates	**(1,757)**	2,042
Capital gains tax transferred out	**–**	1,764
Re-assessment of recognition of recoverability of deferred tax assets	**6,600**	(1,446)
Utilisation of unrecognised deferred tax	**15,170**	–
Deferred tax not recognised	**–**	(3)
Total tax credit/(charge)	**7,843**	(3,566)

The movement within the tax reconciliation of £15.2m (2016: £nil) relating to the utilisation of unrecognised deferred tax is a result of the crystallisation of a number of gains in respect of investment property due to the disposal or transfer of these properties to development property (held in inventory). The gains on which deferred tax liabilities have been recognised and were crystallised in the year have been offset against previously unrecognised tax losses.

The tax losses remaining at the end of the year have largely been recognised as a result of the execution of a contract that related to increased certainty that the losses would not be lost. As such these losses have been recognised in the year to reflect an increased deferred tax asset carried forward. This gives rise to the £6.6m disclosed in the tax reconciliation.

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 deferred tax charge of £3.9m compared to the original tax provision prepared for inclusion within the prior year financial statements.

9. Tax credit/(charge): continued

Deferred tax

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated Balance sheet:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Deferred tax liabilities	**(13,067)**	(23,352)
Deferred tax assets	**7,546**	8,501
	(5,521)	(14,851)

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 2016	(11,379)	–	–	**(11,379)**
Recognised in consolidated income statement	(11,973)	8,427	(20)	**(3,566)**
Recognised in consolidated statement of comprehensive income	–	–	94	**94**
At 31 December 2016 and 1 January 2017	(23,352)	8,427	74	**(14,851)**
Recognised in consolidated income statement	10,353	(2,522)	1,550	**9,381**
Recognised in consolidated statement of comprehensive income	(68)	–	17	**(51)**
At 31 December 2017	(13,067)	5,905	1,641	**(5,521)**

There are UK corporation tax losses carried forward of £15.9m (2016: £8.4m); these may be carried forward indefinitely as there is no time limit in respect of using these deferred tax assets.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2016: 17%). A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017), and a further reduction to 17% (effective from 1 April 2020) were enacted as part of the Finance Act 2015. The deferred tax liabilities are shown at 17% (2016: 18%) being the rate expected to apply to the reversal of the liability.

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

Deferred tax assets of £6.1m at 31 December 2017 have not been recognised owing to the uncertainty as to their recoverability. Deferred tax assets of £19.7m were not recognised at 31 December 2016.

The Company has recognised a deferred tax asset in 2017 of £0.3m (2016: £3.1m) and has a potential deferred tax asset of £nil (2016: £nil) in respect of unused tax losses.

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

As permitted by section 408 of the Companies Act 2006, the Company's income statement and statement of comprehensive income have not been included separately in these financial statements. The loss for the financial year was £5.8m (2016: profit £1.3m) and the total comprehensive expense for the financial year was £5.8m (2016: income £1.1m).

11. Dividends

	2017		2016	
	Per share pence	**Total £'000**	Per share pence	Total £'000
Full year dividend for financial year ended 31 December 2015	**–**	**–**	0.51	1,490
Interim dividend for the six months ended 30 June 2016	**–**	**–**	0.23	673
Full year dividend for financial year ended 31 December 2016	**0.52**	**1,680**	–	–
Interim dividend for the six months ended 30 June 2017	**0.25**	**812**	–	–
		2,492		2,163

The proposed final dividend for the year ended 31 December 2017 of 0.58 pence per share makes a total dividend for the year of 0.83 pence (2016: 0.75 pence).

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Notes to the financial statements

for the year ended 31 December 2017: continued

12. Earnings per share

Earnings per share has been calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of shares in issue and ranking for dividend during the year. The weighted average number of shares for 31 December 2017 includes the adjustments necessary to reflect the new shares issued on 17 March 2017 (see note 26).

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit from continuing operations attributable to owners of the parent	**49,683**	39,901
Weighted average number of shares used for basic and diluted earnings per share calculation	**315,296,192**	292,269,786*
Basic and diluted profit per share (pence)	**15.8**	13.7*

* The 2016 earnings per share has been restated to reflect the impact of the May 2016 1 for 10 share consolidation following discussions with the Financial Reporting Council and their review of the 2016 Financial Statements.

13. Property, plant and equipment

Group	Note	**Land and Buildings £'000**	**Office equipment £'000**	**Total £'000**
Net book value at 1 January 2016		–	–	–
Additions at cost		–	25	25
Transfer from investment properties	15	783	–	783
Decrease in fair value		(17)	–	(17)
Depreciation charge		–	(2)	(2)
Net book value at 31 December 2016 and 1 January 2017		766	23	789
Additions at cost		9	–	9
Increase in fair value		12	–	12
Depreciation charge		–	(8)	(8)
Net book value at 31 December 2017		**787**	**15**	**802**
At 31 December 2017				
Cost or fair value		787	25	812
Accumulated depreciation		–	(10)	(10)
Net book value		**787**	**15**	**802**
At 31 December 2016				
Cost or fair value		766	25	791
Accumulated depreciation		–	(2)	(2)
Net book value		766	23	789

At 31 December 2017, the Group had entered into contractual commitments for the acquisitions of property, plant and equipment amounting to £nil (2016: £nil).

Information about the valuation of land and buildings is provided in note 15.

14. Other receivables

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

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
At 1 January		**1,397**	650
Additions		**17**	–
Re-categorisation from investment properties	15	**666**	–
Fair value gains		**586**	747
At 31 December		**2,666**	1,397

Overages were valued at 31 December 2017 and 2016 in accordance with RICS Red Book Valuation by BNP Paribas Real Estate. The same valuation process is used to value overages as described in note 15.

15. Investment properties

Investment property at 31 December 2017 and 31 December 2016 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 Capital Growth and Income Generation.

	Income Generation			Capital Growth		
	Agricultural land £'000	Natural resources £'000	Business space £'000	Major developments £'000	Strategic land £'000	Total £'000
At 1 January 2016	16,763	16,954	90,896	157,589	52,415	334,617
Transfers	4,617	5,682	(25,424)	64,763	(49,638)	–
Direct acquisitions	1,390	–	21,134	–	–	22,524
Subsequent expenditure	286	1,663	5,998	11,223	3,484	22,654
(Decrease)/increase in fair value	(894)	5,203	5,971	12,103	11,330	33,713
Transfer to assets classified as held for sale	(1,680)	–	(477)	(6,153)	–	(8,310)
Transfer to property, plant and equipment	–	–	(783)	–	–	(783)
Disposals	(376)	(13)	(606)	(23,875)	(355)	(25,225)
At 31 December 2016 and 1 January 2017	**20,106**	**29,489**	**96,709**	**215,650**	**17,236**	**379,190**
Transfers between divisions	–	277	11,686	4,137	(16,100)	–
Direct acquisitions	–	–	5,536	15,281	5,198	26,015
Subsequent expenditure	1,684	1,154	8,960	13,100	4,261	29,159
Increase in fair value	3,660	1,438	896	13,072	13,067	32,133
Transfer to assets classified as held for sale	(1,160)	(276)	(3,500)	(8,492)	(350)	(13,778)
Re-categorisation as other receivables	–	–	–	(666)	–	(666)
Re-categorisation as development property in inventories	–	–	–	(229,118)	–	(229,118)
Disposals	(1,963)	(782)	(486)	(2,964)	(180)	(6,375)
At 31 December 2017	**22,327**	**31,300**	**119,801**	**20,000**	**23,132**	**216,560**

Included within investment properties (agricultural land) is a provision of £3.2m (2016: £6.0m) 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 £229.1m (2016: £nil) 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. Following further evolution of Harworth's business model during 2017, we have refined our thinking in the light of site and market opportunities, and concluded that it is appropriate, on the whole, to re-categorise all properties which have received planning permission as development properties. 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.

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.

Notes to the financial statements

for the year ended 31 December 2017: continued

15. Investment properties: continued

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 2017 (2016: none).

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

Agricultural land
Most of the agricultural land is valued using the market comparison basis, with an adjustment made for the length of 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 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.

15. Investment properties: continued

At 31 December 2017		Agricultural land	Natural resources	Business space	Major developments	Strategic land
Reversionary rental yield %	weighted average	–	–	9.66	–	–
	low	–	–	4.86	–	–
	high	–	–	16.86	–	–
Land value per acre £'000	weighted average	4	6	95	196	10
	low	1	1	26	196	1
	high	32	115	2,360	196	449
Cost report totals*	£'000	–	–	11,948	8,478	3,150

At 31 December 2016		Agricultural land	Natural resources	Business space	Major developments	Strategic land
Reversionary rental yield %	weighted average	–	–	9.65	–	–
	low	–	–	5.12	–	–
	high	–	–	15.03	–	–
Land value per acre £'000	weighted average	4	5	67	73	24
	low	1	1	2	22	1
	high	11	115	2,225	333	337
Cost report totals*	£'000	–	730	21,650	127,472	54,350

* Cost report totals represent the estimated cost to bring investment properties to their highest and best use. There is £184.3m (2016: £nil) of cost report totals that now relate to development properties (shown in inventories at deemed cost) and therefore are not disclosed in this note.

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

At 31 December 2017

Valuation metric	+/– change	+/– effect on valuation				
		Agricultural land	Natural resources	Business space	Major developments	Strategic land
Value per acre	5%	1,116	1,565	5,990	1,000	1,156
Rental	5%	–	–	4,872	–	–
Yield (e.g. 11% to 10%)	1%	–	–	12,564	–	–
Cost report totals	5%	–	–	597	424	158

At 31 December 2016

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

The property rental income earned by the Group from its occupied investment property, all of which is leased out under operating leases amounted to £9.1m (2016: £8.4m). Direct operating expenses arising on investment property generating rental income in the year amounted to £3.5m (2016: £3.9m). Direct operating expenses arising on the investment property which did not generate rental income during the year amounted to £0.1m (2016: £0.1m).

The bank and other loans are secured by way of fixed equitable charges over investment properties.

Notes to the financial statements

for the year ended 31 December 2017: continued

16. Investments

Investment in subsidiaries

Company	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cost:		
At 1 January	**207,896**	207,896
Additions in the year	**–**	–
Disposals in the year	**–**	–
At 31 December	**207,896**	207,896
Provision for impairment:		
At 1 January	**–**	–
Additions in the year	**–**	–
Disposals in the year	**–**	–
At 31 December	**–**	–
Net book amount:		
At 31 December	**207,896**	207,896

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

Investment in joint ventures

	£'000
At 1 January 2016	768
Acquisitions	9,134
Share of profit of joint ventures	647
At 31 December 2016 and 1 January 2017	**10,549**
Investment in joint ventures	4,250
Share of profit of joint ventures	4,039
At 31 December 2017	**18,838**

On 26 April 2017, the Group entered into a joint venture agreement with Lancashire County Pension Fund to establish Multiply Logistics North Holdings Limited to develop part of the site at Logistics North, near Bolton.

On 16 December 2016, the Group entered into a joint venture agreement with Dransfield Properties Limited to acquire a 50% share of Waverley Square Limited.

On 14 March 2016 the Group purchased a 50% share of The Aire Valley Land LLP from Keyland Developments Limited for a consideration of £8.5m plus costs of £0.5m. The Aire Valley Land LLP is a joint venture company. It controls 165 acres of land in Leeds that abuts an existing landholding of the Group on the former Skelton Grange power station site.

The Group holds 50% of the ordinary issued shares of Bates Regeneration Limited, a joint venture with Banks Property Limited for the development of an investment property at Blyth, Northumberland.

The Group received £nil (2016: £nil) of dividends from these joint ventures during the year.

16. Investments: continued

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 2017 £'000	As at 31 December 2016 £'000
Investment property	18,740	11,000
Current assets	2,596	2,314
Total assets	21,336	13,314
Current liabilities	(2,498)	(2,765)
Net investment	18,838	10,549

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Revenue	–	–
Share of profits after tax	4,039	647

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 2017: continued

16. Investments: continued

Investment in subsidiaries

Particulars of the Group undertakings (including joint ventures) at 31 December 2017 are as follows:

Company name	Activity	Description of shares held	Proportion of nominal value of issued share capital held by the Company %
Coalfield Estates Limited [(1)]	Non-trading	Ordinary	100
Harworth Guarantee Company Limited [(1)]	Non-trading	Ordinary	100
Harworth Trustees Limited [(1)]	Dormant	Ordinary	100
Harworth Secretariat Services Limited [(1)]	Non-trading	Ordinary	100
Harworth Estates Property Group Limited [(1)]	Trading	Ordinary	100
Harworth Estates Group Limited [(1)]	Non-trading	Ordinary	100
Harworth No. 3 Limited [(1)]	Non-trading	Ordinary	100
Harworth Services Limited [(1)]	Non-trading	Ordinary	100
Harworth Estates Limited [(1)]	Trading	Ordinary	100
Bates Regeneration Limited [(2)]	Trading	Ordinary	50
EOS Inc Limited [(1)]	Trading	Ordinary	100
Harworth Estates (Agricultural) Limited [(1)]	Trading	Ordinary	100
Harworth Estates (Waverley Prince) Limited [(1)]	Trading	Ordinary	100
Waverley Community Management Company Limited [(1)]	Trading	Ordinary	100
Harworth Estates Curtilage Limited [(1)]	Trading	Ordinary	100
Harworth Estates Investments Limited [(1)]	Trading	Ordinary	100
Harworth Estates Mines Property Limited [(1)]	Trading	Ordinary	100
Harworth Estates No 2 Limited [(1)]	Trading	Ordinary	100
Harworth Estates Overage Limited [(1)]	Trading	Ordinary	100
Harworth Estates Warwickshire Limited [(1)]	Trading	Ordinary	100
Harworth TRR Limited [(1)]	Dormant	Ordinary	100
Logistics North MC Limited [(1)]	Trading	Ordinary	12.18
POW Management Company Limited [(1)]	Trading	Ordinary	100
Rossington Community Management Company Limited [(1)]	Non-trading	Ordinary	100
Harworth Regeneration Limited [(1)]	Dormant	Ordinary	100
Mapplewell Management Company Limited [(1)]	Non-trading	Ordinary	100
Gateway 45 No.1 Limited [(1)]	Non-trading	Ordinary	50
The Aire Valley Land LLP [(1)]	Trading	Ordinary	50
Flass Lane Management Company Limited [(1)]	Non-trading	Ordinary	100
Harworth Surface Water Management (North West) Limited [(1)]	Trading	Ordinary	100
Multiply Logistics North Holdings Limited [(1)]	Trading	Ordinary	20
Waverley Square Limited [(3)]	Trading	Ordinary	50

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

Notes

(1) Registered office at Advantage House, Poplar Way, Rotherham, South Yorkshire, S60 5TR.

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

(3) Registered office at Dransfield House, 2 Fox Valley Way, Fox Valley, Sheffield, S36 2AB.

17. Inventories

	Group	
	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Development properties	**210,471**	–
Planning promotion and option agreements	**1,064**	454
Finished goods	**83**	279
Total inventories	**211,618**	733

The cost of inventory is recognised as an expense within cost of sales in the year of £28.1m (2016: £0.4m). Finished goods are stated after a provision of £0.3m (2016: £0.3m).

The movement in the development properties is as follows:

	Note	**£'000**
At 1 January 2017		–
Re-categorisation from investment properties	15	**229,118**
Subsequent expenditure		**2,424**
Disposals		**(15,253)**
Net realisable value provision		**(5,818)**
At 31 December 2017		**210,471**

The bank and other loans are secured by fixed equitable charges over development properties. A transfer from the fair value reserve to retained earnings of £5.8m (2016: nil) was undertaken as the development property requiring the net realisable provision, stated above had, when previously classified as investment property, a revaluation gain in excess of this balance.

18. Trade and other receivables

	Group		Company	
Current	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Trade receivables	**11,572**	4,179	**–**	–
Less: provision for impairment of trade receivables	**(207)**	(221)	**–**	–
Net trade receivables	**11,365**	3,958	**–**	–
Other receivables	**12,399**	19,111	**284**	291
Prepayments and accrued income	**1,401**	1,375	**–**	–
Amounts owed by subsidiary undertakings (note 30)	**–**	–	**32,984**	8,860
	25,165	24,444	**33,268**	9,151
Non-current				
Trade receivables	**5,250**	–	–	–

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

Included within current other receivables are £9.6m (2016: £8.4m) of deferred consideration on the sale of investment property.

The non-current receivable of £5.3m relates to deferred consideration on the sale of a development property due in more than one year.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables as disclosed in note 23. The Group and Company do not hold any collateral as security.

The amounts owed to the Company by subsidiary undertakings are repayable on demand. Interest is payable at LIBOR +2%.

Group

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

	Group	
	2017 £'000	2016 £'000
At the beginning of the year	**(221)**	(121)
Receivables written off during the year as uncollectable	**10**	–
Released/(provided) for in the year	**4**	(100)
At the end of the year	**(207)**	(221)

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date.

Notes to the financial statements

for the year ended 31 December 2017: continued

18. Trade and other receivables: continued

The other classes of assets within trade and other receivables for the Group contain impaired assets of £0.1m (2016: £0.1m) against which a provision of £0.1m (2016: £0.1m) is held.

As at 31 December 2017, trade receivables of £0.2m (2016: £0.1m) were past due but not impaired. These mainly relate to customers for whom the arrears are being collected through agreed payment plans or where cash has been collected in 2018. The ageing of these was as follows:

	Group	
	2017 £'000	2016 £'000
Up to 3 months	**142**	15
Over 3 months	**74**	43
At the end of the year	**216**	58

As at 31 December 2017, trade receivables of £0.2m (2016: £0.2m) were impaired. The ageing analysis of the impaired trade receivables was as follows:

	Group	
	2017 £'000	2016 £'000
Up to 3 months	**150**	46
Over 3 months	**57**	175
At the end of the year	**207**	221

Provision for impairment charged to the income statement in the year was a credit of £4,000 (2016: charge of £100,000).

Company

The Company had no external receivables as at 31 December 2017 (2016: £nil). The other classes of assets within trade and other receivables do not contain impaired assets.

19. Assets classified as held for sale

	Group	
	2017 £'000	2016 £'000
Investment properties		
At 1 January	**8,350**	9,128
Transferred from investment properties	**13,778**	8,310
Subsequent expenditure	**159**	1,588
Decrease in fair value	**(83)**	(224)
Disposals	**(14,516)**	(10,452)
At 31 December	**7,688**	8,350

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 2017 £'000	As at 31 December 2016 £'000	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Cash	**8,371**	13,007	**1,267**	2,171

21. Borrowings

	Group	
	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Current:		
Secured – other loans	**(6,145)**	(1,819)
	(6,145)	(1,819)
Non-current:		
Secured – bank loans	**(23,437)**	(37,142)
Secured – other loans	**(11,064)**	(13,517)
	(34,501)	(50,659)

At 31 December 2017, the Group had bank borrowings of £24.0m, £23.4m net of unamortised borrowings costs (2016: £38.0m, £37.1m net of unamortised borrowing costs) and a further £17.5m, £17.2m net of unamortised borrowing costs (2016: £15.6m, £15.3m net of unamortised borrowing costs) of infrastructure loans, which resulted in total borrowings of £40.6m net of unamortised borrowing costs (2016: £52.5m net of unamortised borrowing costs). The bank borrowings are part of a £75.0m (2016: £75.0m) revolving credit facility from The Royal Bank of Scotland. The facility is repayable on 13 February 2023 (five year term) after being extended for two years on 13 February 2018. The facility is non-amortising and subject to financial and other covenants.

The infrastructure loans of £17.5m (2016: £15.6m) are provided by public bodies in order to promote the development of major sites. They comprise a £0.4m (2016: £0.8m) loan from Leeds LEP in respect of the Prince of Wales site, £7.3m (2016: £11.7m) from the Homes and Community Agency in respect of Waverley and £0.1m (2016: £0.1m) for Village Farm, £2.4m (2016: £2.3m) from Sheffield City Region JESSICA Fund for Rockingham, £5.2m (2016: £0.7m) for the Advanced Manufacturing Park at Waverley and £2.1m (2016: £nil) from the North West Evergreen Limited Partnership for Units 4 and 5 at Logistics North, Bolton.

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

Current loans are stated after deduction of unamortised borrowing costs of £nil (2016: £nil). Non-current bank and other loans are stated after deduction of unamortised borrowing costs of £0.8m (2016: £1.1m). The bank loans and overdrafts are secured by way of fixed equitable charges over certain assets of the Group.

22. Trade and other payables

Current liabilities

	Group		Company	
	As at 31 December 2017 £'000	As at 31 December 2016 £'000	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Current				
Trade payables	**2,668**	1,555	**6**	443
Amounts owed to subsidiary undertakings (note 30)	**–**	–	**53**	52
Taxation and social security	**2,294**	5,418	**45**	47
Other creditors	**3,196**	2,150	**18**	–
Accruals and deferred income	**30,339**	24,596	**3,414**	1,343
	38,497	33,719	**3,536**	1,885

Accruals and deferred income for the Group includes £17.2m (2016: £15.4m) of liabilities relating to parcels of land that have been sold but where infrastructure costs are yet to be incurred.

The amount owed by the Company to subsidiary undertakings is repayable on demand. Interest is charged at LIBOR +2%.

Non-current liabilities

	Group		Company	
	As at 31 December 2017 £'000	As at 31 December 2016 £'000	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Other creditors	**760**	1,520	**–**	–
	760	1,520	**–**	–

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

Notes to the financial statements

for the year ended 31 December 2017: continued

23. Financial instruments and derivatives

On 21 June 2016 the Group entered into a four-year swap to fix £30m of borrowings at an all-in rate of 2.955% including fees. The interest rate swap has been measured at fair value which is determined using forward interest rates extracted from observable yield curves. The fair value of the interest rate swap at 31 December 2017 was a loss of £0.1m (2015: £0.4m).

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

	2017 £'000	2016 £'000
Gain/(loss) on interest rate swap - cash flow hedge	**244**	(366)

The Group's principal financial instruments include trade and other receivables, cash, interest bearing borrowings and trade and other payables.

Other financial assets and liabilities

	31 December 2017		31 December 2016	
Group	**Book value £'000**	**Fair value £'000**	Book value £'000	Fair value £'000
Assets				
Cash	**8,371**	**8,371**	13,007	13,007
Trade and other receivables	**28,741**	**28,741**	22,792	22,792
Liabilities				
Bank and other borrowings	**40,646**	**40,646**	52,478	52,478
Trade and other payables	**34,612**	**34,612**	27,904	27,904

	31 December 2017		31 December 2016	
Company	**Book value £'000**	**Fair value £'000**	Book value £'000	Fair value £'000
Assets				
Cash	**1,267**	**1,267**	2,171	2,171
Trade and other receivables	**32,994**	**32,994**	8,813	8,813
Liabilities				
Trade and other payables	**3,491**	**3,491**	2,446	2,446

In accordance with IAS 39, the Group classifies the assets and liabilities in the analysis above as 'loans and receivables' and 'other financial liabilities', respectively. At the 2017 and 2016 year ends, the Group did not have any 'held to maturity' or 'available for sale' financial assets or 'held for trading' financial assets and liabilities as defined by IAS 39.

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

24. Financial risk management

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

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

Credit risk

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

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

24. Financial risk management: continued

Interest rate risk

The Group's interest rate risk arises from external borrowings which are charged at LIBOR plus 2%. From 13 February 2018 this rate has increased to LIBOR plus 2.1% following the two year extension to the facility. On 21 June 2016 the Group entered into a four-year swap with RBS to fix £30m of borrowing at an all in rate of 2.955%, including fees. The swap is hedge accounted with any unrealised movements going through reserves.

The Group also has six infrastructure loans with all in funding rates of between 2.5% and 4.7%.

Liquidity risk

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

The Group had net debt at 31 December 2017 of £32.3m; (2016: £39.5m). The Group utilised cash from operating activities and investing activities for the year of £16.6m (2016: generated £0.2m).

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

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
At 31 December 2017			
Trade and other payables	33,852	760	–
Interest payable on borrowings	697	2	61
Bank and other borrowings	5,448	5,156	29,282
At 31 December 2016			
Trade and other payables	26,384	1,520	–
Interest payable on borrowings	–	34	694
Bank and other borrowings	1,819	8,626	41,305

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 2017 this was £32.3m (2016: £39.5m).

The Group has in place a £75.0m revolving credit facility from The Royal Bank of Scotland (RBS). The facility is a five-year term facility which ends in February 2023 (after being extended for two years from 13 February 2018). It is on a non-amortising basis and is subject to financial and other covenants.

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

The Group comfortably operated within these requirements throughout the year.

25. 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 £0.3m (2016: £0.3m). The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense when they are due.

Defined benefit obligations

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

Notes to the financial statements

for the year ended 31 December 2017: continued

25. Retirement benefit obligations: continued

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

	Group		Company	
	As at 31 December 2017 £'000	As at 31 December 2016 £'000	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Relating to continuing activities				
Blenkinsopp	**563**	602	**563**	602

Contributions to the Blenkinsopp scheme of £0.2m were made by the Group during 2017 (2016: £0.2m). It is expected that contributions of a similar amount will be paid in 2018. At December 2017, no contributions remained unpaid (2016: £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 2017	As at 31 December 2016
Discount rate	**2.50% p.a.**	2.55% p.a.
Rate of pension increases	**2.15% p.a.**	2.30% p.a.
Rate of price inflation (RPI)	**3.10% p.a.**	3.25% p.a.
Rate of price inflation (CPI)	**2.10% p.a.**	2.25% p.a.
Rate of cash commutation	**25.00%**	20.00%

	Year ended 31 December 2017	Year ended 31 December 2016
Longevity at age 65 for current pensioners (years)	**19.6 - 22.8**	18.6 – 22.0
Longevity at age 65 for future pensioners (years)	**21.1 - 24.4**	20.3 – 24.0

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:

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Fair value of plan assets	**2,228**	2,117	1,727	1,740	1,393
Present value of funding obligations	**(2,791)**	(2,719)	(2,162)	(2,304)	(2,076)
Net liability recognised in the Balance sheet	**(563)**	(602)	(435)	(564)	(683)

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

The amounts recognised in the consolidated income statement are:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Expenses	**(32)**	(74)
Interest cost	**(13)**	(13)
	(45)	(87)

25. Retirement benefit obligations: continued

A further cost of £0.1m (2016: £0.3m) has been reflected in the statement of comprehensive income in the year. This represents the net effect of experience, and actuarial gains and losses on the scheme in the year.

Change in assets	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Fair value of plan assets at the start of the year	2,117	1,727
Interest income	55	68
Actual return on scheme assets excluding interest income	(19)	289
Employer contributions	189	189
Expenses	(32)	(74)
Benefits paid	(82)	(82)
Fair value of plan assets at the end of the year	**2,228**	2,117

Plan assets are comprised as follows:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Gilts	1,352	1,610
Corporate bonds	1	511
Diversified and multi-asset growth funds	543	–
Sterling liquidity fund	327	–
Other	5	(4)
Total	**2,228**	2,117

Notes to the financial statements

for the year ended 31 December 2017: continued

25. Retirement benefit obligations: continued

Change in defined benefit obligations	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Present value of defined benefit obligations at the start of the year	(2,719)	(2,162)
Interest cost	(68)	(81)
Remeasurements:		
– Loss arising from changes in demographic assumptions	(117)	–
– Loss arising from changes in experience	(10)	–
– Gain/(loss) arising from changes in financial assumptions	41	(558)
Benefits paid	82	82
Present value of defined benefit obligation at the end of the year	(2,791)	(2,719)

Analysis of the movement of the Balance sheet liability	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
At the start of the year	(602)	(435)
Total amounts recognised in the income statement	(45)	(87)
Employer contributions	189	189
Net actuarial loss recognised in the year	(105)	(269)
At the end of the year	(563)	(602)

The maturity of the defined benefit obligation is c.19 years (2016: c.20 years).

Cumulative actuarial gains and losses recognised in equity	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
At the start of the year	(57)	212
Net actuarial loss in the year	(105)	(269)
At the end of the year	(162)	(57)

Experience gains and losses	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Actual return on scheme assets excluding interest income	(19)	289
Remeasurements:		
– Loss arising from changes in experience	(10)	–
– Loss arising from changes in financial assumptions	(76)	(558)
Net actuarial loss	(105)	(269)

Contributions are determined by a qualified actuary on the basis of a triennial valuation, using the projected credit unit method. The most recent valuation for the purpose of determining contributions was at 31 December 2015, which was agreed in September 2017. This showed an estimated past service deficit of £1.2m. The next valuation has yet to be agreed and signed. The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Change in discount rate by 0.1%	45	52
Change in price inflation (and associated assumptions) by 0.1%	40	27
Increase in life expectancy by 1 year	110	64

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

25. Retirement benefit obligations: continued

The Scheme exposes the Company 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.

26. Called up share capital

On 17 March 2017, the Company issued 29,226,974 ordinary shares at 95 pence each, with a nominal value of 10 pence each. On 26 April 2016, 3 Ordinary Shares were issued at 1 pence each and all shares in issue were consolidated from 1 pence shares into 10 pence shares.

	2017		2016	
Group and Company	**Number of shares**	**£'000**	Number of shares	£'000
Issued and fully paid				
At 1 January	**292,269,786**	**29,227**	2,922,697,857	29,227
Shares issued	**29,226,974**	**2,923**	3	–
Share consolidation (1 for 10)	**–**	**–**	(2,630,428,074)	–
At 31 December	**321,496,760**	**32,150**	292,269,786	29,227
Own shares held	**(246,010)**	**(263)**	–	–
At 31 December 2017	**321,250,750**	**31,887**	292,269,786	29,227

The own shares represent the number and cost of shares purchased in the market and held by the Harworth Group plc Employee Benefit Trust to satisfy Long Term Incentive Plan awards for Executive Directors and Senior Executives.

Long Term Incentive Plans

Long Term Incentive Plans were introduced in 2016 and 2017 for Executive Directors and Senior Executives. There were no shares outstanding at 31 December 2017 (2016: nil). The Directors' remuneration report which forms part of these financial statements provides details of current incentive plans.

27. Share premium account

Group and Company	**2017 £'000**	2016 £'000
At 1 January	**–**	129,121
Transferred to other distributable reserves	**–**	(129,121)
Premium on shares issued	**24,842**	–
Costs relating to share issue	**(700)**	–
Other transaction costs	**209**	–
At 31 December	**24,351**	–

On 18 May 2016, approval was granted from the High Court to cancel the £129.1m share premium account of the Company and for it to be re-designated as distributable reserves.

28. Capital and other financial commitments

Capital expenditure contracted for at 31 December 2017 is £10.2m (2016: £4.2m).

29. Operating lease commitments

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

Notes to the financial statements
for the year ended 31 December 2017: continued

29. Operating lease commitments: continued
a) Future minimum lease payments
At 31 December 2017, the future minimum lease payments under non-cancellable leases were payable as follows:

	Group		Company	
	As at 31 December 2017 £'000	As at 31 December 2016 £'000	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Less than one year	**34**	35	**–**	
Between one and five years	**17**	10	**–**	–
	51	45	**–**	–
Amounts recognised in the income statement				
Lease cost	**64**	60	**–**	–

b) Future minimum lease receipts
As set out in note 15 property rental income earned during the year was £9.1m (2016: £8.4m).

At 31 December 2017, the Group had contracted with tenants for the following future minimum lease payments:

	Group		Company	
	As at 31 December 2017 £'000	As at 31 December 2016 £'000	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Less than one year	**8,342**	6,150	**–**	
Between one and five years	**25,001**	17,170	**–**	–
More than five years	**34,814**	29,039	**–**	–
	68,157	52,359	**–**	–

30. Related party transactions
Group
The remuneration of Directors and key management is given in note 6.

Peel Group
The Peel Group charged £42,500 (2016: £42,500) in respect of fees for Steven Underwood, a non-executive director.

The Group paid £0.8m to Peel Group in respect of a deed of release at Logistics North (2016: £nil). £0.3m (2016: £nil) of this was subsequently re-charged to Multiply Logistics North Holdings Limited.

During the year the Group made two land sales to Peel Environmental Limited amounting to £3.1m (2016: £nil) resulting in a £1.2m (2016: £nil) profit on sale. This was unpaid at the year end.

Multiply Logistics North Holdings Limited
The Group made two land sales to Multiply Logistics North Holdings Limited during the year amounting to £8.1m (2016: £nil), recharged costs of £0.6m (2016: £nil) and charged a development management fee of £0.2m (2016: £nil).

Scratching Cat
Geoff Mason, our former Company Secretary, supplied his services through Scratching Cat Limited, a company of which he is a director. During the year charges were made in relation to company secretarial duties of £nil (2016: £0.1m).

30. Related party transactions: continued

Company

The Company carried out the following transactions with subsidiary undertakings.

Details of the Company's intercompany balances and interest at 31 December 2017 are set out below:

	As at 31 December 2017 £'000		As at 31 December 2016 £'000	
	Net Interest receivable/ (payable) in the year £'000	**Net amounts due from/(to) £'000**	Net Interest receivable/ (payable) in the year £'000	Net amounts due from/(to) £'000
EOS Inc Limited	**308**	**22,774**	162	7,465
Harworth Estates Limited	**17**	**709**	14	1,127
Harworth Guarantee Co. Limited	**(1)**	**(53)**	(1)	(52)
Harworth Estates Mines Property Limited	**–**	**7,000**	–	–
Harworth Estates Curtilage Limited	**–**	**2,000**	–	–
Harworth Estates Property Group Limited	**172**	**277**	–	49
Coalfield Estates Limited	**5**	**224**	5	219
	501	**32,931**	180	8,808

Dividends received

During the year the Company received dividends of £nil (2016: £nil) from subsidiary undertakings.

Interest

During the year the Company received net interest of £0.5m (2016: £0.2m) from subsidiary companies.

All transactions occurred whilst the related parties were subsidiary undertakings.

Receivables and indebtedness

Details of the Company's receivables and indebtedness are set out in notes 18 and 22 and amounts due from, or owed to, related parties are set out below:

Owed to:	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Harworth Guarantee Co. Limited	**(53)**	(52)
	(53)	(52)

Owed by:	**As at 31 December 2017 £'000**	As at 31 December 2016 £'000
Harworth Estates Limited	**709**	1,127
Coalfield Estates Limited	**224**	219
EOS Inc Limited	**22,774**	7,465
Harworth Estates Curtilage Limited	**2,000**	–
Harworth Estates Mines Property Limited	**7,000**	–
Harworth Estates Property Group Limited	**277**	49
	32,984	8,860

31. Post Balance sheet events

Financing

On 13 February 2018 the Group extended the terms of its existing £75m RCF with RBS by two years such that it now expires in February 2023.

Chairman

Alastair Lyons became Chairman of the Group on 7 March 2018. Jonson Cox stepped down as Chairman at this point, and retired from the Board at the end of March.

Company information and investor timetable

Former Chairman [1]
Jonson Cox

Chairman [1]
Alastair Lyons

Chief Executive
Owen Michaelson

Finance Director
Andrew Kirkman

Non-Executive Directors
Lisa Clement
Anthony Donnelly
Andrew Cunningham
Steven Underwood
Martyn Bowes

Company Secretary and Registered Office
Christopher Birch
Advantage House
Poplar Way
Rotherham, S60 5TR

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square, 29 Wellington St,
Leeds, LS1 4DL

Solicitors
DLA Piper UK LLP
1 St Paul's Place
Sheffield, South Yorkshire,
S1 2JX

Brokers
Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 7QR

Canaccord Genuity Limited
88 Wood Street
London, EC2V 7QR

Registrars
Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex, BN99 6DA

Principal bankers
The Royal Bank of Scotland
3rd Floor
2 Whitehall Quay
Leeds, LS1 4HR

Company Registered Number
2649340

Share price information
The Company's Ordinary Shares are traded on the London Stock Exchange.
SEDOL number 07919072
ISIN number GB0007190720
Reuters ticket HWG.L
Bloomberg ticker HWG:LN

LEI Code
213800R8JSSGK2KPFG21

Financial Calendar

Ex-Dividend Date	Announced	3 May 2018
Record Date for Dividend	Announced	4 May 2018
Annual General Meeting Bessemer Room, AMP Technology Centre, Waverley, Rotherham, S60 5WG	Announced	29 May 2018
Dividend Payment Date	Announced	1 June 2018
Proposed date for Interim Results Announcement 2018 Interim Results to be published at www.harworthgroup.com/investors		12 September 2018
Proposed Record date for Interim Dividend		21 September 2018
Proposed date for payment of Interim Dividend		19 October 2018

Registrars

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone: 0371 384 2301) and should clearly state the registered shareholder's name and address.

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society should contact the Registrars for a dividend mandate form. Dividends paid in this way will be paid through the Bankers' Automated Clearing System (BACS).

Website

The Group has a website (www.harworthgroup.com) that gives further information on the Group.

Footnotes:
(1) On 7 March 2018, Alastair Lyons was appointed Non-Executive Chairman in place of Jonson Cox. On 31 March 2018, Jonson Cox resigned as a Non-Executive Director.

Definitions and abbreviations used

Term	Definition
2012 Restructuring	The restructuring of the former UK Coal in December 2012
AGM	Annual General Meeting
AMP	Advanced Manufacturing Park, Rotherham
ATR	Absolute Total Return
AWRC	Sheffield Hallam University's Advanced Wellbeing Research Centre
CA06	Companies Act 2006
Code	UK Corporate Governance Code 2016
Company	Harworth Group plc
CPD	Continuing Professional Development
DLA	DLA Piper UK LLP
EA	Environment Agency
EBT	The Harworth Group Plc Employee Benefit Trust
EES	Estates, Environment and Safety team
EPRA NAV	EPRA NNNAV excluding deferred tax, notional deferred tax on the mark to market value of development properties and the mark in market movement on financial investments
EPRA NNNAV or NNNAV	NAV plus the mark to market value of development properties less notional deferred tax on this mark to market
EPS	Earnings Per Share
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FRSs	Financial Reporting Standards
Gateleys	Gateley plc
GDPR	General Data Protection Regulation
Harworth Estates	Harworth Estates Property Group Limited and its subsidiaries
Harworth or Group	Harworth Group plc and its subsidiaries
HEMPL	Harworth Estates Mines Property Limited
HEPGL	Harworth Estates Property Group Limited
HICL	Harworth Insurance Company Limited
HSE	Health and Safety Executive
IFRSs	International Financial Reporting Standards
JPW	JPW Consulting Limited
Kepler	Kepler Associates
KPI	Key Performance Indicator
KPMG	KPMG LLP
LCPF	Lancashire County Pension Fund
LEP	Local Enterprise Partnership
LTIP	Harworth Group Plc Long Term Incentive Plan
LTV	Loan To Value
NAV	Net Asset Value
Parent Entity	Harworth Group Plc
PEG Principles	The Pre-emption Group Principles
PEL	Peel Environmental Limited
PEVG	Profit excluding Value Gains
PPAs	Planning Promotion Agreements
PPF	The Pension Protection Fund
PRA	Prudential Regulatory Authority
psf	Per square foot
PwC	PricewaterhouseCoopers LLP
RBS	The Royal Bank of Scotland plc
RCF	Revolving Credit Facility
Regulations	Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013
RNS	Regulatory News Service
Senior Management Team	The team of directors and associate directors who lead the various divisions of the business and report to the Executive Committee
SHEMS	Safety, Health and Environment Management System
SOCI	Statement of Comprehensive Income
STOR	Short Term Operating Reserve
TMK	Tokio Marine Kiln
TSR	Total Shareholder Return
UKCMHL	UK Coal Mine Holdings Limited
WAMITAB	Waste Management Industry Training and Advisory Board (UK)
WAULT	Weighted Average Unexpired Lease Term

Harworth
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