

# CHAIRMAN'S INTRODUCTION



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

**ALASTAIR LYONS – CHAIRMAN**

## Dear Shareholder,

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

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

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

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

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

## Board Leadership and Company Purpose

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

In pursuing this purpose, the Company aims to generate for its shareholders a 10% average total return per annum, through the property cycle. To achieve that we set ourselves stretching strategic and financial objectives but with the foundations of: a

strong balance sheet; a resilient, recurring income stream; and a robust governance framework.

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

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

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

## Division of Responsibilities

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

During 2018, as part of our preparatory work for the Company's step-up to the premium list, we established a Disclosure Committee comprising the Chief Executive, Finance Director and Group General Counsel and Company Secretary, which will liaise

closely with myself as Chairman. This formalises what was already a robust review and decision-making process in respect of the Company's disclosure obligations. The terms of reference for our other Committees will also be reviewed and updated shortly to ensure alignment with the revised Code.

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

## Composition, Succession and Evaluation

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

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

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

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

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

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

# CHAIRMAN'S INTRODUCTION

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

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

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

## Audit, Risk and Internal Control

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

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

## Remuneration

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

## Annual General Meeting

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

**Alastair Lyons**

Chairman

16 April 2019

# STATEMENT OF CORPORATE GOVERNANCE

## 1. COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

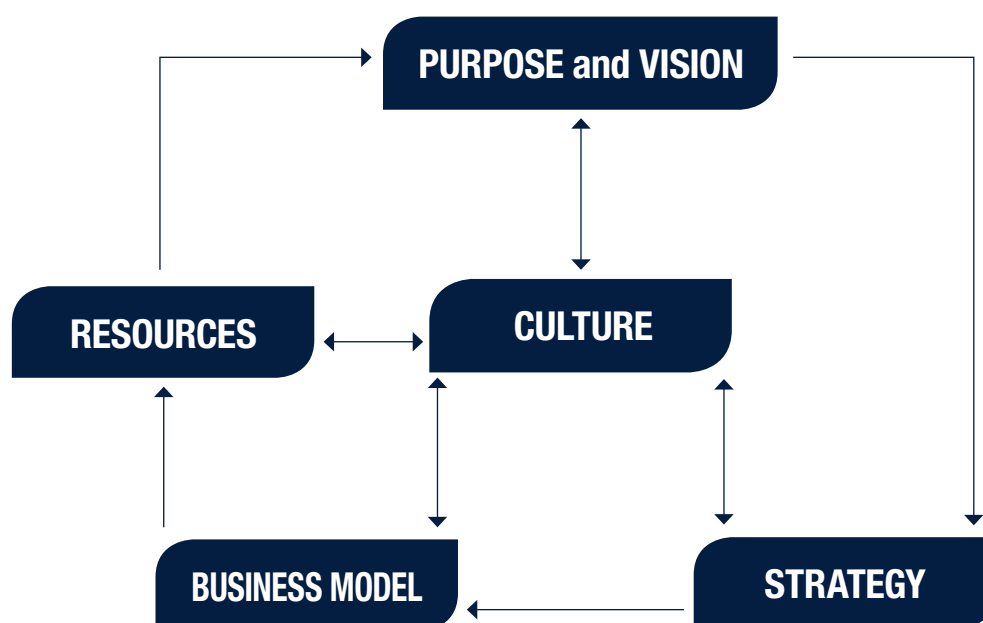
During the period under review, the 2016 Code applied to all companies with a listing on the premium segment of the Official List. It is publicly available on the website of the Financial Reporting Council. The Company was listed on the standard segment of the Official List up to and including 31 July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

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

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

## 2. BOARD LEADERSHIP AND COMPANY PURPOSE

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



### Strategy

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

# STATEMENT OF CORPORATE GOVERNANCE

## continued

### Communication with Shareholders

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

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

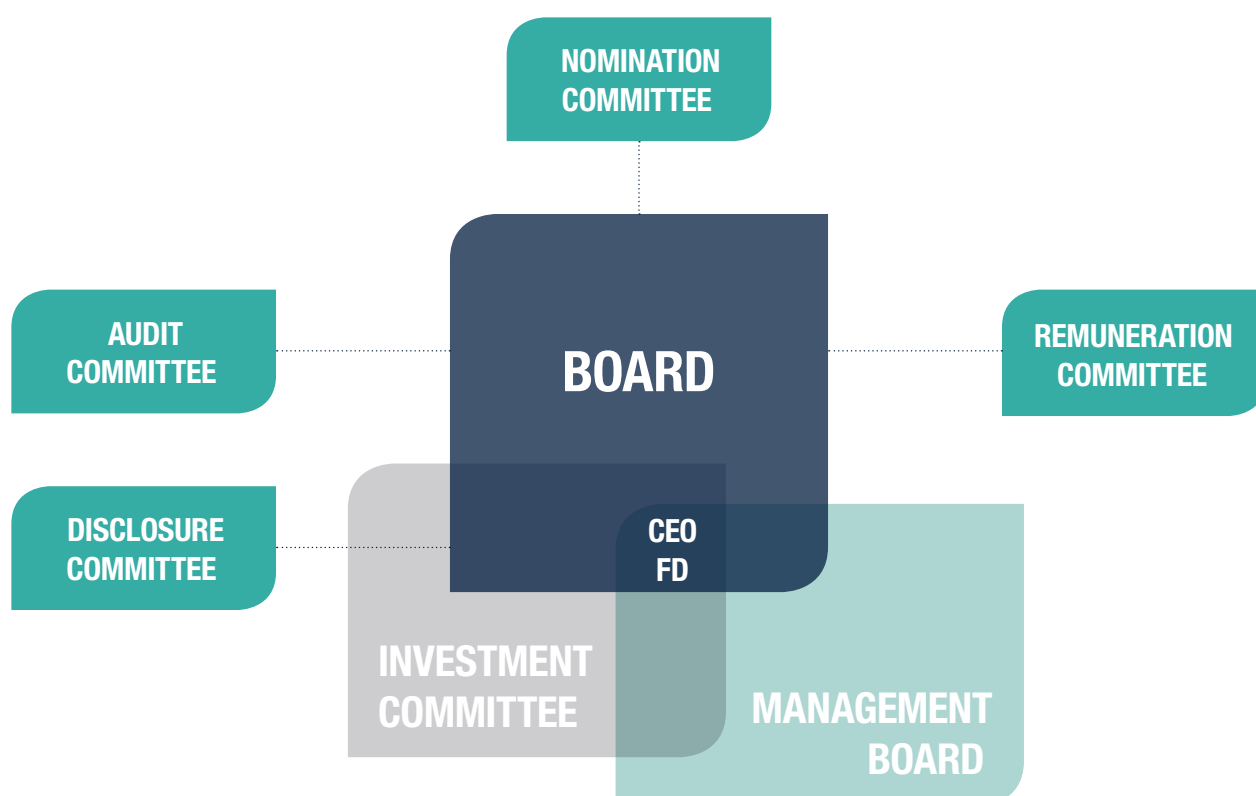
The Board regularly receives feedback from the Company's brokers and the Executive Directors on the views of existing and prospective shareholders, particularly after publication of annual and half-year results. It receives and reviews quarterly reports on the main changes to the composition of the Company's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

The Company has a planned programme of announcements throughout the year, prepared by our Head of Communications and Investor Relations, with support from FTI Consultancy, and reviewed by the Board, to ensure that investors remain updated regularly on progress in the business. The annual and interim reports, together with the [www.harworthgroup.com](http://www.harworthgroup.com) website, are the Company's principal means of communication with all shareholders during the year. Copies of all reports, shareholder presentations and communications are available on the investors' section of the website.

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

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

### 3. DIVISION OF RESPONSIBILITIES





## Role of the Board

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

Key responsibilities	Examples of reserved matters
<ul style="list-style-type: none"> <li>Establish the Company's purpose and strategy.</li> <li>Stewardship of the Group's resources and overall responsibility for management of the Group to ensure long-term and sustainable viability, and growth, of the business.</li> <li>Provide constructive challenge to management proposals and activity.</li> <li>Measure management performance against strategy and targets.</li> <li>Determine risk appetite and review risk profile and management.</li> <li>Promote a culture aligned to the Company's purpose and strategy and measure how embedded it is in the business.</li> <li>Ensure appropriate engagement with stakeholders and consideration of stakeholder interests in decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>Group strategy and budgets.</li> <li>Constitution, and corporate and capital structure, of the Group.</li> <li>Annual report and financial statements, and the declaration of dividends.</li> <li>The Group's principal banking facilities and hedging arrangements.</li> <li>Material sales, lettings, acquisitions and joint ventures.</li> <li>Risk appetite and insurance programme.</li> <li>Appointment of Non-Executive Directors, Executive Directors and Company Secretary.</li> <li>Policies relating to whistleblowing, anti-bribery, data protection, anti-facilitation of tax evasion, prevention of modern slavery and business continuity.</li> </ul>

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

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

# STATEMENT OF CORPORATE GOVERNANCE

## continued

Role/Committee	Key responsibilities
<b>Chairman</b> Alastair Lyons	<ul style="list-style-type: none"> <li>Leads the Board and is responsible for its overall effectiveness in directing the Company by facilitating a culture of openness and debate</li> <li>Ensures that the company has a clear strategy and objectives, and that the Board receives regular transparent reporting as to the Company's progress in achieving its objectives</li> <li>Facilitates a constructive relationship between the Non-Executive Directors and the executive team</li> <li>Ensures that a fixed schedule of matters is maintained for the Board's review and approval</li> <li>With support from the Company Secretary, sets the annual Board programme and Board meeting agendas, ensures that directors receive accurate, timely and clear information, and that there is adequate time available for discussion of agenda items and an effective decision-making process in place</li> <li>Ensures there is ongoing and effective communication with shareholders</li> <li>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</li> <li>With support from the Company Secretary, ensures that the effectiveness of the Board is subject to regular review including by an external evaluator on a periodic basis</li> </ul>
<b>Chief Executive</b> Owen Michaelson	<ul style="list-style-type: none"> <li>Leads the establishment and maintenance of an appropriate culture for the Group</li> <li>Responsible for the design of the Company's organisation and the appointment of appropriately skilled and experienced individuals to the resulting management structure</li> <li>Leads on the formulation of strategy which, once agreed by the Board, falls to him to implement</li> <li>Responsible for all operational matters within the parameters of the authorities delegated by the Board</li> <li>Leads and chairs the Investment Committee and Management Board</li> <li>Responsible for maintaining the Group's risk profile within the risk appetite determined by the Board, including health and safety and environmental policies, procedures and matters</li> <li>Ensures that the Board is appraised of all material matters</li> <li>Responsible for the Group's profile with shareholders and for engaging appropriately and effectively with the Group's key stakeholders</li> <li>Responsible for formulation and implementation of the People Strategy and for effective internal communication</li> </ul>
<b>Finance Director</b> Andrew Kirkman	<ul style="list-style-type: none"> <li>Supports the Chief Executive on strategy and risk</li> <li>Leads on all financial matters, including tax and treasury</li> <li>Responsible for leading the raising of any new equity and debt capital</li> <li>Leads on investor relations and responsible for designing the communication of the Group's performance to investors and external stakeholders</li> <li>Reviews the financial analysis of all major transactions including acquisitions, sales and capital investments</li> <li>Leads on M&amp;A and portfolio acquisitions</li> <li>Responsible for ensuring clear, effective, and timely measurement and reporting of commercial and financial key performance indicators to support Board and management decision-making</li> <li>Responsible for insurance, in conjunction with the Company Secretary, and pensions</li> <li>Responsible for internal financial controls, systems and processes, in conjunction with the Company Secretary</li> </ul>
<b>Senior Independent Director</b> Lisa Clement	<ul style="list-style-type: none"> <li>Provides a sounding board for the Chairman</li> <li>Acts as an intermediary with the Chairman for other Non-Executive Directors</li> <li>Available to shareholders if they have concerns where communication through the Chairman or Executive Directors is not successful or appropriate</li> <li>Leads the process for appointing a new Chairman</li> <li>Leads the annual appraisal of the Chairman's performance</li> </ul>
<b>Non-Executive Directors</b> Lisa Clement Anthony Donnelly Andrew Cunningham Ruth Cooke Angela Bromfield Steven Underwood Martyn Bowes	<ul style="list-style-type: none"> <li>Help to formulate a strategy for the Group based on a proposal by the Chief Executive, agree strategic objectives and implementation plan</li> <li>Provide constructive challenge to the Executive Directors on matters referred to the Board</li> <li>Scrutinise the performance of the business against the strategy, agreed objectives and targets</li> <li>Review and scrutinise commercial and financial key performance indicators and other information</li> <li>Help to formulate the Group's risk appetite and monitor the Group's risk profile and risk management framework</li> <li>Available for meetings if requested by major shareholders</li> </ul>

Role/Committee	Key responsibilities
<b>Remuneration Committee</b> Lisa Clement (chair) Anthony Donnelly Alastair Lyons Steven Underwood (until 1 April 2019) Angela Bromfield (from 1 April 2019)	<ul style="list-style-type: none"> <li>• Determines and agrees with the Board the Company's remuneration policy for the Executive Directors</li> <li>• Determines the salaries, bonuses, long-term incentive arrangements, pension arrangements, other benefits and contract terms of the Executive Directors and members of the Investment Committee</li> <li>• Reviews the remuneration approach adopted for all employees</li> <li>• Will approve grant of options for Save-As-You-Earn Scheme and Share Incentive Plan, if both are approved by shareholders at the AGM</li> <li>• Carries out an annual review of benefits available to all Group employees</li> <li>• Responsible for changes to certain Group-wide employment policies</li> </ul>
<b>Nomination Committee</b> Alastair Lyons (chair) Lisa Clement Andrew Cunningham	<ul style="list-style-type: none"> <li>• Leads the process for Board appointments by making recommendations to the Board, both for filling Board vacancies and appointing additional persons to the Board, following evaluation of the balance of skills, knowledge and experience on the Board</li> <li>• Carries out regular (at least annually) review of succession planning for the Board and members of the Investment Committee</li> <li>• Leads on promoting and assessing the achievement of diversity across the business, particularly on the Board and at a senior management level</li> <li>• Considers and makes recommendations to the Board on its composition, balance and membership and on the proposal of Directors for re-election at the AGM</li> </ul> <p>*Note: the Chairman will not chair the Committee when it deals with the appointment of a successor to the chair. This process will be led by the Senior Independent Director (as it was in 2017)</p>
<b>Audit Committee</b> Andrew Cunningham (chair) Anthony Donnelly Steven Underwood (until 1 April 2019) Ruth Cooke (from 19 March 2019) Angela Bromfield (from 1 April 2019)	<ul style="list-style-type: none"> <li>• Reviews the integrity of the Company's annual report, preliminary and interim results announcements and any other formal announcements relating to its financial performance</li> <li>• Reviews the effectiveness of the Group's system of internal controls and processes</li> <li>• Reviews the Group's insurance programme</li> <li>• Reviews the terms of appointment, independence, effectiveness and remuneration of the Company's external auditors and makes recommendations to the Board on the reappointment of the external auditors. Leads the tender process for the appointment of external auditors, if applicable</li> <li>• 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</li> <li>• Reviews the Group's ongoing compliance with the GDPR</li> <li>• Reviews the adequacy of the Group's cyber-security measures, information security and business continuity plans and procedures</li> <li>• Reviews the Group's whistleblowing procedures and the appropriate investigation of cases referred through the process</li> </ul>
<b>Disclosure Committee</b> Andrew Kirkman (chair) Owen Michaelson Chris Birch	<ul style="list-style-type: none"> <li>• Ensures a robust review and decision-making process in respect of the Company's disclosure obligations under the Market Abuse Regulation and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules</li> <li>• Liaises closely with the Chairman</li> </ul>
<b>Group General Counsel and Company Secretary</b> Chris Birch	<ul style="list-style-type: none"> <li>• Secretary to the Board and its committees and to the Investment Committee and Management Board</li> <li>• Ensures that all Board reserved matters are referred to the Board for review and approval and that all Board procedures are complied with</li> <li>• Advises on regulatory compliance (including GDPR, Bribery Act, Modern Slavery Act, Criminal Finances Act) and corporate governance</li> <li>• Prepares Board and committee agendas and collates and distributes papers</li> <li>• Available to advise the Directors on all legal and compliance matters</li> <li>• Assists the Chairman with Board evaluations and Director inductions and development</li> <li>• Responsible for governance, both at Board and operational levels, including internal controls, systems and processes</li> <li>• Responsible for insurance, in conjunction with the Finance Director, and risk</li> <li>• Responsible for GDPR compliance</li> <li>• Responsible for cyber-security, information security and business continuity planning and procedures</li> <li>• Manages the Estates Environment and Safety ("EES") team</li> </ul>



# STATEMENT OF CORPORATE GOVERNANCE

## continued

### Board activities in 2018

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

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

## Role of the Investment Committee and Management Board

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

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

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

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

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

## External appointments, conflicts of interest and time commitment

Upon appointment, each Director is required to notify the Company of their external board appointments, other significant commitments and any actual or potential conflict of interest. Where a Director proposes to take on additional external responsibilities, the Board, with advice from the Company Secretary, considers the time commitment of such appointment and whether it could give rise to potential conflicts of interest. Each Director has an opportunity to disclose actual or potential conflicts of interests to the Board, either by way of general notice or at the beginning of each Board or Committee meeting. The Articles of Association provide that the Board can authorise actual and potential conflicts of interest of Directors. Where actual or potential conflicts of interest arise, the relevant Director does not receive Board papers and is excluded from discussions and voting on the subject matter that gives rise to the conflict.

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

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

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

Andrew has also made a general declaration of interest in connection with his appointment as a Commissioner of The Port of Blyth but no conflict of interest has arisen in this regard.

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

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

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

# STATEMENT OF CORPORATE GOVERNANCE

## continued

### Induction, professional development and external advice

The Chairman and the Company Secretary are responsible for preparing and coordinating an induction programme when new Directors are appointed to the Board. Alastair Lyons undertook an extensive induction prior to his appointment in March 2018 and both Angela Bromfield and Ruth Cooke are undertaking a similar programme.

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

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

### Attendance at board meetings

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

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

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

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

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

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

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

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

## 4. COMPOSITION, SUCCESSION AND EVALUATION

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

### Composition of the Board and succession



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

The Board considers that its Non-Executive Directors bring the requisite balance of skills, experience and knowledge to the Board's deliberations. They have no financial or contractual interests in the Group, other than interests in Ordinary Shares as disclosed in the Directors' interests section of the Directors' Remuneration Report at page 119.

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

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

### Independence

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

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

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

The Board recognises that Steven Underwood, who is a Director and representative of the Peel Group, which is a 26% shareholder in the Company, and Martyn Bowes, who is the representative of the Pension Protection Fund, which holds 25% of the issued capital, are not independent. The Board considers that their skills and experience are relevant to the business and they contribute to the realisation of the Group's strategy. Both shareholder relationships are governed by relationship agreements.

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

# STATEMENT OF CORPORATE GOVERNANCE

## continued

### Tenure



### Board diversity

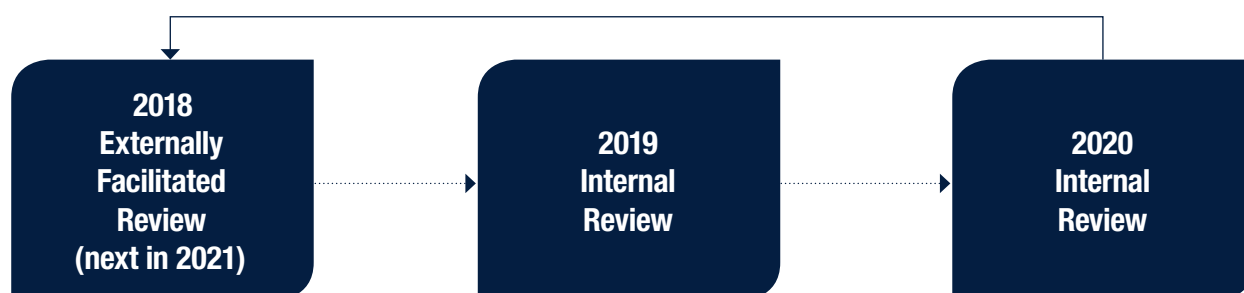
The Board recognises the benefit of having a diverse (in its widest sense) range of individuals on the Board and in senior executive and management positions. The appointments of two new female directors to the Board represent positive progress in this regard. However, the Board is also mindful that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

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

### Evaluation

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

## Board Evaluation Cycle



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

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

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

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

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



# STATEMENT OF CORPORATE GOVERNANCE

## continued

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

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

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

### Re-election and contractual terms and conditions

The Articles of Association of the Company provide that one third of the Directors should be subject to re-election by shareholders. The Board considers it good practice for all Directors to be subject to election or re-election at every AGM and, as such, all Directors will stand for election or re-election by shareholders at the 2019 AGM.

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

## 5. AUDIT, RISK AND INTERNAL CONTROL

### Risk

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

### Audit and internal controls

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

## 6. REMUNERATION

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

## 7. ANNUAL GENERAL MEETING

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

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

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

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

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

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

**Alastair Lyons**

Chairman

16 April 2019