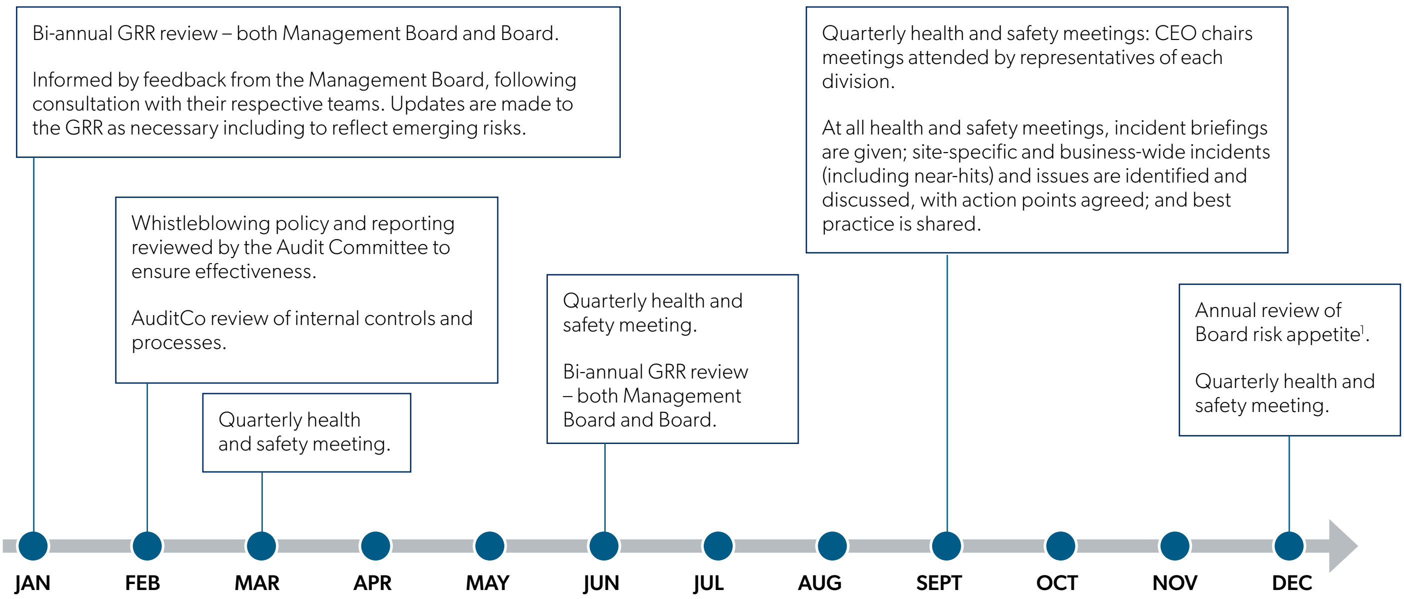
Effectively managing our risks

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

The Board recognises that not all risks can be eliminated, or sufficiently mitigated at an acceptable cost, and that there are some risks which, given the nature of Harworth's business and the track record and experience of the team, it is prepared to accept. The Board also recognises that the Group's insurance programme plays an important part in reducing the impact of certain inherent risks which are neither acceptable nor capable of removal.

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

Risk review framework: annual cycle



Our Estates, Environment and Safety team maintains a site risk register through which we continuously monitor the risk status of each of our sites. Sites are inspected throughout the year and material changes in their risk status are reported to the Management Board and Board on a monthly basis.

The GRR is a "living" management tool used throughout the year. All members of the Management Board consult regularly with their teams about, and feed-back on, existing and new operational risks, and the effectiveness of risk management measures.

The Management Board has ultimate responsibility on a day-to-day basis for: the Group's risk profile; the implementation of, and adherence to, risk management controls and procedures; and monitoring the continued effectiveness of the same.

1 Review undertaken in December and reported to Board in January

The GRR maps the risk profile of the business. It is a dynamic document and remains subject to continuous review and evolution. The GRR currently identifies risks grouped into nine categories: **Markets; Delivery; Politics; Finance; People; Environment; Social; Governance;** and **Legal and Regulatory**. Risks are scored from "very low" to "very high", according to residual risk status (after accounting for mitigation measures already in place) and materiality. Categories and risks remain subject to regular review. The Board's objective is to maintain, as far as possible, an alignment between its risk appetite and the risk profile of the business.

During 2021 we are reviewing our risk management systems to ensure that they evolve with the continuing growth of the business. This will likely lead to some changes at an operational and Board level including to the way we monitor risk profile and management and to our framework of internal controls and assurance. Once implemented, these changes will be explained in the 2021 Annual Report.

Principal risks and uncertainties

Within our 2019 Annual Report, we presented the risk profile of the business both on a "business as usual" basis and with a "COVID-19" overlay. Ahead of publication of this report, the Directors have carried out a robust assessment of the Company's principal and emerging risks. Given its prolonged impact, our GRR now reflects risk on a COVID-19 basis only. As would be expected, the materially higher risk environment attributable to COVID-19 is reflected in a higher than normal risk profile across some of our principal risk categories.

Changes in the status of our principal risks

Our principal Markets risks have returned to a "medium" risk status, reflecting underlying strength in our core industrial and residential markets, albeit the latter is expected to increase in risk as we head towards the end of 2021. There have been reductions across our Finance risk category including our capital, income and cashflow risks, reflecting strong 2020 financial performance and metrics, and our valuations risk, now that material uncertainty clauses have been dropped and we have transaction evidence from the second half of 2020. However, our insurance risk has increased reflecting a very challenging 2021 renewal. In our People risk category, our resourcing risk has increased to a "high" risk status, reflecting resource stretch due to COVID-19 in the short-term and the growth trajectory of the business. However, our employee engagement and culture risks have reduced thanks to extensive work undertaken to promote internal communication, employee engagement and wellbeing. In our Social risk category, sustainability risk has increased, reflecting the growing impact of the climate change agenda on the business (as opposed to the impact of climate change itself which is measured in our Environment risk category).

A detailed analysis of our principal risk categories is set out on the following pages.

Sky House at Waverley

Dashboard

(key shown on opposite page)

Markets			
M1. Commercial property market	↓	🔵	→
M2. Residential property market	↓	🔵	↑
M3. Energy market	→	⚪	→
M4. Adaptation of strategy	↓	🔵	↑
Delivery			
D5. Acquisitions	→	🟣	→
D6. Planning	→	🟣	→
D7. Project delivery	→	🟣	→
D8. Other operational shortfalls	→	🔵	→
D9. Mining legacy	→	🔵	→
Politics			
P10. Planning policy changes	→	🔵	→
P11. Other policy changes	↓	🔵	→
Finance			
F12. Availability of capital	↓	🟣	→
F13. Income	↓	🟣	→
F14. Cashflow	↓	🔵	→
F15. Valuations	↓	🔵	→
F16. Insurance	↑	🟣	→
People			
PP17. Resourcing	↑	🟣	→
PP18. Succession planning	→	🔵	→
PP19. Employee engagement	↓	🔵	→
PP20. Communication and connectivity	↓	🔵	→
PP21. Diversity	→	🔵	→
PP22. Culture	↓	🔵	→

Environment			
E23. Environmental incident	→	🔵	→
E24. Harworth's environmental impact	→	⚪	→
E25. Climate change	→	⚪	→
Social			
S26. Purpose	→	🔵	→
S27. Sustainability	↑	🟣	→
S28. Communities and stakeholders	→	🔵	→
Governance			
G29. Investors	→	🟣	→
G30. Internal controls and processes	↓	🔵	→
G31. Joint ventures	↓	🔵	→
G32. Cyber and information security	→	🔵	→
G33. Business continuity	→	🔵	→
Legal and Regulatory			
LR34. Health and safety incident	→	🔵	→
LR35. Other regulatory breach	→	⚪	→
LR36. Legislative and regulatory changes	→	⚪	→

M1. Adverse movements in commercial property market	PP19. Inadequate employee engagement
M2. Adverse movements in residential property market	PP20. Deficiencies in internal communications
M3. Adverse movements in energy market	PP21. Failure to address diversity challenge
M4. Failure to adapt strategy to reflect market changes	PP22. Failure to promote positive and consistent culture
D5. Inability to source new strategic sites	E23. Environmental incident
D6. Adverse planning decisions	E24. Failure to manage effectively Harworth's environmental impact
D7. Increase in development costs due to market-wide cost increases	E25. Failure to plan for and respond to climate change
D8. Other operational shortfalls	S26. Failure to deliver on our Purpose
D9. Legacy mining issues result in adverse remediation costs	S27. Impact of climate change agenda and/or failure to deliver sustainable projects
P10. Adverse changes to national planning framework	S28. Ineffective engagement with local communities and other stakeholders
P11. Adverse changes to other national and/or regional policies	G29. Failure to communicate and engage effectively with investors
F12. Capital constraints	G30. Inadequacies in or ineffective internal controls and processes
F13. Shortfalls in income	G31. Inadequate governance of joint ventures
F14. Failure to budget and/or manage cashflow	G32. Failure to provide effectively for cyber and information security
F15. Deficiencies in valuations process	G33. Failure to plan for significant adverse events
F16. Gaps in or increased costs of insurance programme	LR34. A health and safety incident
PP17. Insufficient people resourcing	LR35. Other regulatory breach
PP18. Inadequate succession planning	LR36. Adverse legislative, regulatory and/or licensing changes

KEY							
Change in rating during last six months		Risk rating after mitigation	Forecast change in rating during next six months		Link to strategy	
→	Risk has not changed	○ Very low	→	Risk forecast to remain unchanged		Development
↓	Risk has decreased	● Low	↓	Risk forecast to decrease		Investment
↑	Risk has increased	● Medium	↑	Risk forecast to increase		Regions
		● High				Sectors
		● Very high				Prudent financial approach

Detailed review

Markets

Markets				
Commercial property market	↓	●	→	
Residential property market	↓	●	↑	
Energy market	→	●	→	
Adaptation of strategy	↓	●	↑	

Stakeholder groups impacted

Investors, suppliers, customers, advisers, joint venture partners, our people

Risk profile

Despite the severe downturn and turbulence in the macro-economic climate, largely attributable to COVID-19, industrial property market evidence shows resilience and even strength. Both house prices and housing sales volumes have remained strong nationally including on our sites. There remains political support for our core markets, and the agreement reached between the UK and the EU prior to the end of the Brexit transition period affords some stability. This is reflected in our principal Markets risks returning to a "medium" risk status. However, demand in the housing market is being positively affected in the short-term by the Government's stamp duty holiday and the introduction of the Mortgage Guarantee Scheme. Whilst the stamp duty holiday has now been extended to the end of June and will then taper off until the end of September, the housing market may soften as those deadlines approach. There are also concerns about the outlook for employment over the medium-term, notwithstanding recent budget initiatives, and this might adversely affect the market for residential development land. Given this, we expect the residential property market risk to increase in the second half of FYE'21.

Examples of mitigation measures taken during 2020

- We continued to broaden our search for acquisitions and footprint of projects.
- We continued to explore alternative residential tenure delivery models.
- The profile of our strategic land acquisitions was weighted towards commercial projects, helping towards rebalancing of our portfolio.
- Regular property market updates were commissioned.

Examples of mitigation measures planned in 2021

- The business review will include horizon scanning of existing and potential new markets, products and projects at a Group and regional level, and a review of the balance of residential and commercial sites.
- Close monitoring of market dynamics.
- Energy sector initiatives across the portfolio.

Delivery

Delivery				
Acquisitions	→	●	→	
Planning	→	●	→	
Project delivery	→	●	→	
Other operational shortfalls	→	●	→	
Mining legacy	→	●	→	

Stakeholder groups impacted

Investors, suppliers, customers, advisers, regulatory bodies, our people, communities

Risk profile

The UK remains a highly competitive landscape for strategic land and investment property acquisitions, with limited COVID-19 distress reflected in pricing in our core markets to date. Despite a strong pipeline, this is reflected in a "high" acquisitions risk status. Some local authorities have slowed progress on their local plans pending progress and clarity on central Government planning reforms, which could affect our short-term pipeline of planning applications. That said, at the time of publishing this report, it appears that local and mayoral elections will go ahead which may assist with local political stability. Overall, we have retained a "high" risk status for our planning risk. Our project delivery risk also retains a "high" risk status, reflecting concerns about supply chain pressures attributable to multiple factors, including COVID-19, the impact of major infrastructure projects such as HS2 on materials, the recognised skills shortage within the construction industry, and the increased cost of insurance. Our other Delivery category risks remain unchanged, both carrying a "medium" risk status.

Examples of mitigation measures taken during 2020

- Local political stakeholder mapping was undertaken and advisers were appointed.
- Standardisation of our financial modelling for acquisitions.
- The Harworth Common Platform of resources was rolled out.
- PPA target parameters were agreed.

Examples of mitigation measures planned in 2021

- The business review will include a review of Group and regional acquisition strategies.
- Further work will be undertaken on financial modelling for acquisitions.
- We will continue to promote consistency in procurement, led by our Central Services team, particularly as we broaden our supply chain.
- Sales of more surplus land will further reduce our mining legacy.

Politics

Politics				
Planning policy changes	→	●	→	
Other policy changes	↓	●	→	

Stakeholder groups impacted

Investors, advisers, joint venture parties, our people, Government, communities

Risk profile

Whilst the macro-political backdrop and local political climate are reflected in our Markets and Delivery risk categories, our Politics category risks are informed by changes in central Government policy. Overall, political risks remain largely unchanged with some increases in risk, such as the growing prospect of some form of tax on development, being offset by positive movement, such as on levelling up, regional devolution and infrastructure investment.

Examples of mitigation measures taken during 2020

- Bio-diversity pilot schemes were appraised.
- Public funding applications were progressed, linked to regional devolution.

Examples of mitigation measures planned in 2021

- The business review will continue to appraise alternative housing models. A modular homes initiative is being explored.
- We will continue to progress funding for a new railway station at Waverley, which has now been allocated to Sheffield City Region via the National Infrastructure Fund.
- Ongoing negotiation with HS2 Ltd on our compensation claim for Gateway 45 Leeds.
- Business cases will be worked up with LEPs to secure Government funding support via the 'Levelling Up Fund'.
- Engagement with central Government and Transport for the North on rail freight use at certain sites.

Finance

Finance				
Availability of capital	↓	●	→	
Income	↓	●	→	
Cashflow	↓	●	→	
Valuations	↓	●	→	
Insurance	↑	●	→	

Stakeholder groups impacted

Investors, suppliers, funders, advisers, our people

Risk profile

There have been reductions in our capital, income and cashflow risks, reflecting strong financial performance and metrics in 2020 including our net debt position and the corresponding headroom in our RCF, rent collections, sales and deferred consideration payments, and investment property acquisitions, offset to some extent by higher insurance and headcount costs. That said, our capital and income risks continue to carry "high" risk scores. This reflects persistent economic uncertainty and that expanding our capital sources and increasing the breadth and resilience of our income portfolio, in both cases to support the growth of the business, remain strategic priorities. Our valuations risk, which monitors the risk of deficiencies in the valuation process, has reduced now that material uncertainty clauses have been dropped and we have transaction evidence from the second half of 2020. The insurance risk has been increased to a "high" risk status, reflecting a very challenging 2021 renewal, resulting in markedly higher pricing, material increases in excesses on certain sites and some deterioration in the scope of certain aspects of cover.

Examples of mitigation measures taken during 2020

- A £30m increase in our RCF.
- Tight capital management during the early COVID-19 period including strong rent collections.
- Acquisitions of investment properties in Brierley Hill and Knowsley and direct development at AMP and Logistics North.
- The appointment of a Partnerships Manager to support public funding applications.
- The appointment of a Head of Income and additional Business Space resource.
- The appointment of a new insurance broker and extensive re-marketing of our insurance programme ahead of the 2021 renewal.

Examples of mitigation measures planned in 2021

- Planned programme of direct development.
- Continued "churn" of investment property portfolio to further increase recurring income.
- Long-term and temporary income opportunities will continue to form a key element of Major Development site strategies.
- Proactive asset management will continue across the Business Space and Natural Resources investment portfolio, including on rent collections, new lettings and lease re-gears.
- Risk management and mitigation measures to be implemented across the portfolio ahead of the 2022 insurance renewal with a focus on sites perceived by insurers as high risk.

People

People				
Resourcing	↑	●	→	
Succession planning	→	●	→	
Employee engagement	↓	●	→	
Communication and connectivity	↓	●	→	
Diversity	→	●	→	
Culture	↓	●	→	

Stakeholder groups impacted

Our people

Risk profile

Our resourcing risk has increased to a "high" risk status, reflecting resource stretch due to COVID-19 in the short-term and the growth trajectory of the business. Short-term measures have been, and continue to be, implemented to mitigate the COVID-19 impact whilst longer-term measures will take time to bear fruit. Our other People risks have either remained unchanged or reduced, reflecting the extensive work undertaken to promote internal communication, employee engagement and wellbeing, all of which have been impactful and well received, demonstrated by the positive results from our most recent employee survey.

Examples of mitigation measures taken during 2020

- See the People section of this report (pages 58 to 63) for the measures we have implemented during 2020 including to look after the health and wellbeing of our people, to embed the Harworth Values into the business, to promote diversity, and on engagement and communication, recruitment, succession, reward and talent development.

Examples of mitigation measures planned in 2021

- The business review will cover organisation design, systems and resources.
- We will continue progress on recruitment for replacement and new roles. Regular reviews of resourcing will be undertaken which may lead to outsourcing of workstreams and/or appointment of additional interim support where needed to overcome short-term capacity pressures.
- Further work on personal development plans for certain employees.
- Employee engagement initiatives will continue and, where they have been curtailed by COVID-19, they will be revived when restrictions are lifted.
- The People Steering Group will lead reviews of 'How we want to work' post COVID-19 and of what more can be done to promote all forms of diversity across the business.

Environment

Environment				
Environmental incident	→		→	
Harworth's environmental impact	→		→	
Climate change	→		→	

Stakeholder groups impacted

Investors, advisers, regulatory bodies, our people, communities

Risk profile

Our environmental risks remain largely unchanged. The risk of an environmental incident continues to carry a "medium" risk profile. Whilst the prospect is considered unlikely the impact of an incident could be material. As such, given the nature of the business, the profile of this risk is unlikely to reduce further. Environmental impact and climate change continue to have "low" risk scores, reflecting that, overall, Harworth's projects have a positive environmental impact and that the physical impacts of climate change, predominantly flooding, are limited at this stage. The impact of the climate change agenda on the business is more marked but this is reflected within the sustainability risk below.

Examples of mitigation measures taken during 2020

- We continued to operate a "re-use and re-cycle" approach to site remediation to minimise off site waste and importation of virgin materials.
- We continued to factor climate change guidance into remediation and infrastructure design.
- We undertook a review of, and implemented improvements to, our internal controls and assurance in respect of permitted activities undertaken by tenants.

Examples of mitigation measures planned in 2021

- We will continue our collaborative engagement with the Environment Agency.
- We will maintain a proactive approach to flood management.
- We will maintain our strong performance in recycling materials during the land remediation process.

Social

Social				
Purpose	→		→	
Sustainability	↑		→	
Communities and stakeholders	→		→	

Stakeholder groups impacted

All

Risk profile

Our sustainability risk has increased to a "high" risk status reflecting the current and anticipated impact of the climate change agenda on the business (as opposed to the currently low impact of climate change itself which is measured in our Environment risk category) including on project delivery and costs, investor expectations, planning obligations, market demand and, ultimately, valuations. The status of our other Social risks remains unchanged.

Examples of mitigation measures taken during 2020

- An evolution in our articulation of "the Harworth Way" in investor materials.
- The format of our Board and Investment Committee project appraisals has been updated to promote analysis and debate as to the alignment of new projects with our Purpose and the Harworth Way and their impact on stakeholders.
- See the Partners section of this report (pages 64 to 67) for the ways we engaged with our stakeholders and had regard for their interests during 2020.
- We have made some progress with our funding bids for innovative transport measures, health and wellbeing and 5G provision at new developments. We have continued to promote certain of our sites for rail freight use.

Examples of mitigation measures planned in 2021

- Establish an ESG Committee of the Board.
- We will further evolve our reporting on ESG matters including the identification of KPIs and external benchmarks against which we will measure our performance.
- Working with external suppliers, we will continue to review utility and energy delivery strategies for our major developments.
- We will continue to explore and promote environmental initiatives which align with the zero-carbon agenda, such as rail freight sites, bio-diversity offsetting and solar panel retrofit of our existing investment portfolio.

Governance

Governance				
Investors	→	●	→	
Internal controls and processes	↓	●	→	
Joint ventures	↓	●	→	
Cyber and information security	→	●	→	
Business continuity	→	●	→	

Stakeholder groups impacted

Investors, advisers, regulatory bodies, our people, joint ventures

Risk profile

The status of our Governance risks remains unchanged. Our investors risk retains a "high" risk status, reflecting the share price discount to EPRA NDV which has narrowed but persists. Our other Governance category risks continue to carry a "medium" risk status.

Examples of mitigation measures taken during 2020

- Virtual engagement with investors has been maintained throughout the COVID-19 period. Lynda Shillaw has now met with our largest shareholders.
- Upgrades to our finance platform including automation of our purchase order and invoice payment systems.
- A comprehensive review of our risk management and internal controls systems is underway which will lead to further improvements being made.
- Our Delegated Authorities Policy has been updated and re-profiled across the business.
- Continued improvements in data management.
- KPMG undertook a review of our COVID-19 remote working measures.
- Our annual cyber penetration test has been undertaken and IT system vulnerability scanning has been implemented.
- A consistent approach to joint venture governance has been implemented, overseen by our recently appointed Company Secretarial Assistant.

Examples of mitigation measures planned in 2021

- We will continue to work with our brokers to maintain regular news flow via RNS/RNS Reach and our engagement with existing and prospective investors.
- Maintenance and evolution of cyber and information security measures.
- The review of our risk management and internal controls systems will be completed.
- Desktop tests of our Business Continuity and IT Disaster Recovery plans are scheduled.

Legal and Regulatory

Legal and regulatory				
Health and safety incident	→	●	→	
Other regulatory breach	→	●	→	
Legislative and regulatory changes	→	●	→	

Stakeholder groups impacted

Suppliers, advisers, our people, regulatory bodies

Risk profile

There have been no material movements to the risks in this category, which have all maintained a "medium" or "low" risk rating.

Examples of mitigation measures taken during 2020

- At the outset of COVID-19 we undertook a review of the risk status of every site (accounting for reduced activity on certain sites) which informed our inspection regime.
- We expanded our panel of health and safety consultants.
- We implemented measures to ensure compliance with IR35 and payment practices reporting.
- We maintained our online health and safety training programme for all employees.
- The Company Secretary continued to inform the Board and wider business of applicable legislative and regulatory changes.

Examples of mitigation measures planned in 2021

- We will host our biennial Group-wide Health and Safety Day, in person if possible but virtually if not, supplemented by ongoing online training.
- We will review the effectiveness of our new health and safety consultant panel arrangements.