WATKIN JONES plc

STRONG FUTURE VISIBILITY

Annual report and financial statements 2017

Welcome to the
Watkin Jones plc
annual report and financial statements 2017

Watkin Jones is a leading UK developer and constructor of multi-occupancy property assets, with a focus on the student accommodation and build to rent sectors. We have strong relationships with institutional investors and a reputation for successful, on-time delivery of high-quality developments.

Since 1999, we have delivered more than 34,500 student beds across 107 sites, making us a leader in the UK purpose built student accommodation ("PBSA") market. In addition, Fresh Property Group, our specialist accommodation management company, manages more than 16,000 student beds on behalf of its institutional clients. Watkin Jones has also been responsible for over 50 residential developments, ranging from starter homes to executive housing and apartments.

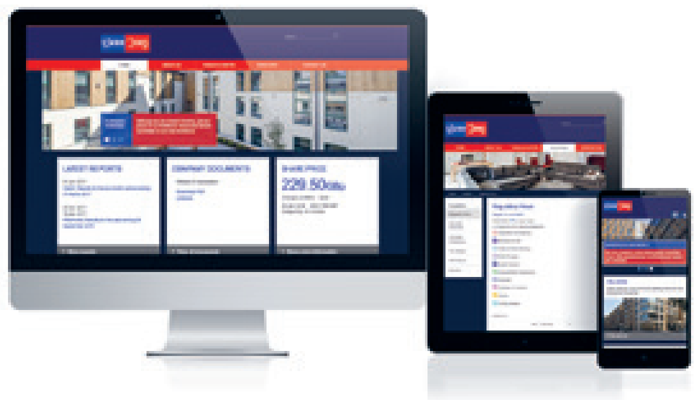
We are now expanding our development and management operations into the build to rent sector.

Our competitive advantage lies in our business model and our experienced management team. This enables us to offer an end-to-end solution for investors, delivered in-house and with minimal reliance on third parties, across an asset's entire life cycle.

Watkin Jones was admitted to trading on AIM in March 2016.

Visit us online

www.watkinjonesplc.com



Watkin Jones Group

@Watkin_Jones

Watkin Jones Group

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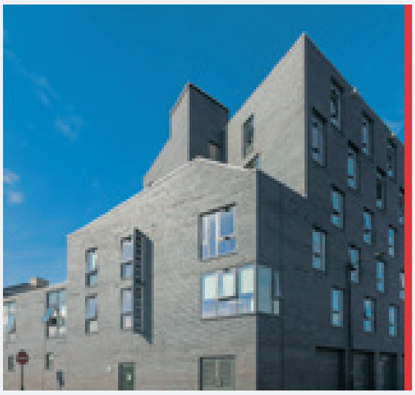

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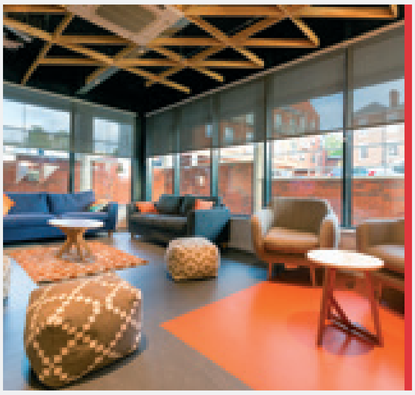


OUR HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Revenue and gross profit growth were strong and in line with our expectations, driven by student accommodation developments
- Further increase in the gross margin, reflecting the strong locations of our student accommodation developments and a full-year contribution from Fresh Student Living, which was acquired in FY16
- Final dividend of 4.4 pence per share to give a total dividend of 6.6 pence, up 10.0% in line with our progressive dividend policy (FY16 total dividend was 4.0 pence for the period after our IPO, equivalent to 6.0 pence on a full-year basis)
- Continued robust cash performance, with a net cash inflow from operating activities of £19.2 million (FY16: £15.1 million after exceptional IPO costs), with a further £22.8 million of cash received in October 2017, relating to forward sales agreed before the year end
- Net cash of £41.0 million at 30 September 2017 (30 September 2016: £32.2 million)

Revenue

+13.1% to £301.9 million

(2016: £267.0 million)

Gross profit

+18.0% to £63.5 million

(2016: £53.8 million)

EBITDA (2016 adjusted)[1]

+8.6% to £45.2 million

(2016: £41.6 million)

Operating profit (2016 adjusted)[2]

+12.7% to £42.7 million

(2016: £37.9 million)

Profit before tax

+326% to £43.3 million

(2016: £13.3 million)

1. For FY17, there is no difference between EBITDA and adjusted EBITDA. EBITDA comprises operating profit from continuing operations plus the Group's profit from joint ventures, adding back charges for depreciation and amortisation. For FY16, adjusted EBITDA is stated before exceptional IPO costs.
2. For FY17, there is no difference between operating profit and adjusted operating profit. For FY16, adjusted operating profit is stated before exceptional IPO costs.
3. For FY17, there is no difference between basic and adjusted basic EPS. For FY16, adjusted basic EPS is calculated using the profit for the period from continuing operations excluding exceptional IPO costs and is based on the number of shares in issue at 30 September 2016.

BUSINESS HIGHLIGHTS

Student accommodation development

- All ten student accommodation developments for FY17 delivered ahead of the 2017/18 academic year (3,314 beds)
- 17 student accommodation developments (6,578 beds) were sold during the year, including one operational asset (590 beds), and had a total development value of £506 million
- Total development pipeline of 9,120 student beds across 23 sites, with 15 forward sold (6,090 beds)
- Delivery pipeline:
  - FY18 deliveries – all ten student developments (3,415 beds) scheduled for delivery ahead of the 2018/19 academic year are forward sold
  - FY19 deliveries – five student developments (2,675 beds) scheduled for delivery ahead of the 2019/20 academic year have already been forward sold
  - A further eight development sites (3,030 beds) have been secured and are targeted for delivery during FY19 to FY21

Build to rent development

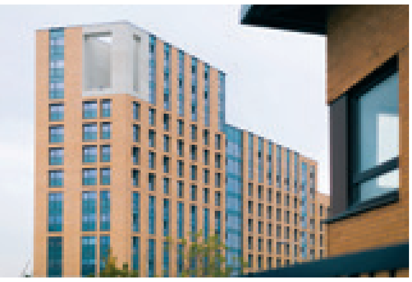
- The build to rent development pipeline continues to gain momentum. The Group has five development sites, which it owns or has exchanged contracts to acquire, and is in separate negotiations on several other opportunities. From these it is targeting to develop approximately 1,500 units during the period FY18 to FY22, subject to securing the remaining necessary planning consents
- Successfully completed the Group's first build to rent development in Leeds (322 units)

Accommodation management

- Created the Fresh Property Group, operating under the Fresh Student Living and Five Nine Living brands, bringing our accommodation management businesses under a single leadership
- 16,082 student beds under management for the 2017/18 academic year (52 schemes) up from 12,337 beds under management for the 2016/17 academic year (44 schemes)
- Contracted to manage 535 build to rent units, across five schemes, including the scheme completed in Leeds during the year

Basic EPS (2016 adjusted)[3]

+12.9% to 14.0 pence
(2016: 12.4 pence)



Dividend per share

+10.0% to 6.6 pence
(2016: 4.0 pence)

Net cash

+27.3% to £41.0 million
(2016: £32.2 million)

A YEAR OF CONTINUED PROGRESS

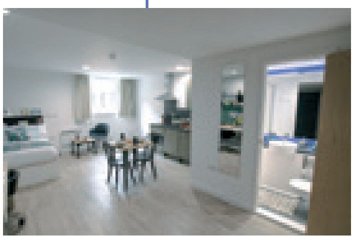
We continued to successfully implement our strategy during the year and were recognised for the quality of our business and leadership through a number of awards.

October 2016

- Forward sale of St Mungo Avenue development in Glasgow to a new institutional investor

January 2017

- Practical completion of phase 2 of the Leeds development, which included the Group's first build to rent scheme

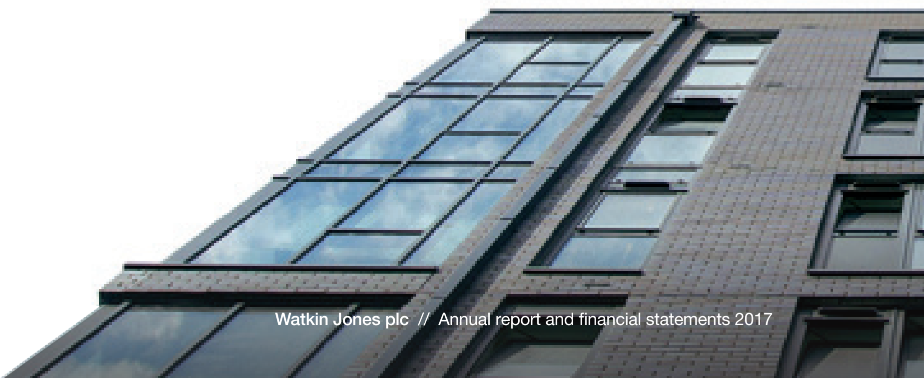


December 2016

- Forward sale of developments at Bridge Street, Cardiff; Queen Street, Belfast; and Duncan House, Stratford
- Planning consents received for two developments in Aberdeen and one in Sheffield
- Sale of Athena Hall, Ipswich, which was owned by a Watkin Jones plc joint venture

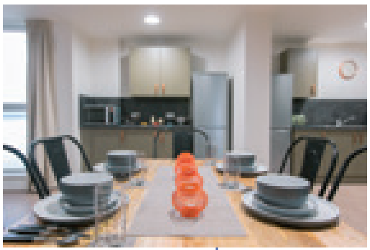
February 2017

- Forward sale of Christchurch Road development in Bournemouth



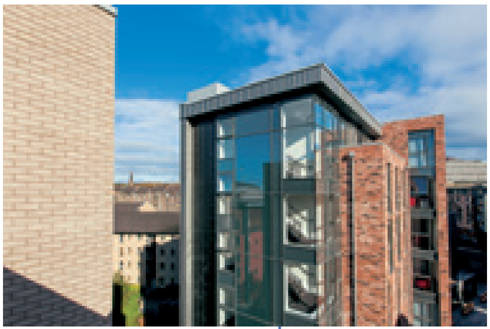
April 2017

- New Bridewell development in Bristol wins silver in the Considerate Constructors National Site Awards



June 2017

- Forward sale of a portfolio of six developments for a gross development value of £165 million



May 2017

- Watkin Jones plc wins Company of the Year and Mark Watkin Jones wins Business Leader of the Year at the Regional Insider Business Leaders awards

August 2017

- Planning consent received for a 322-unit build to rent development in Bath Lane, Leicester
- Forward sale of the Little Patrick Street development in Belfast
- Development agreement entered into for the Hollis Croft scheme in Sheffield

AT A GLANCE

Watkin Jones specialises in creating and managing places for people to live. We have four complementary businesses, with particular strength in student accommodation and a growing presence in build to rent.

SA **STUDENT ACCOMMODATION**

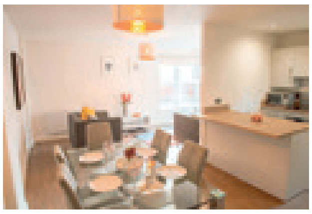
We are one of the UK's leading developers of purpose built student accommodation, with a reputation for high quality and on-time delivery.

BTR **BUILD TO RENT**

We entered this sector in 2015, drawing on our expertise in student accommodation to deliver purpose built residential rental properties for institutional investors.

AM **ACCOMMODATION MANAGEMENT**

Fresh Property Group is a leading independent manager of PBSA, with 52 schemes currently under management under the Fresh Student Living brand, and also manages build to rent assets under the Five Nine Living brand.



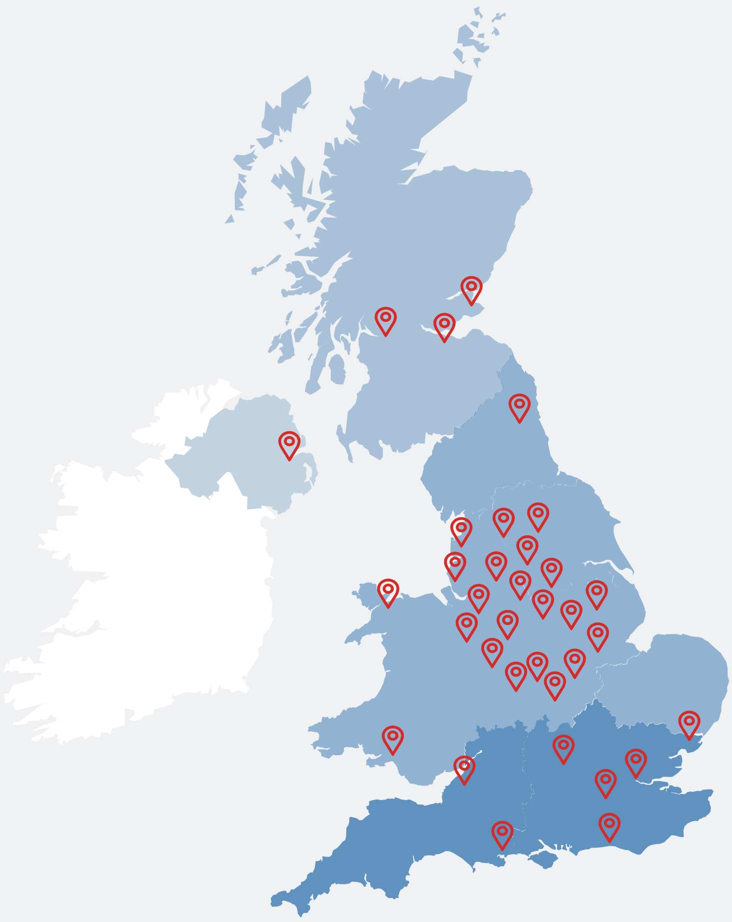
R **RESIDENTIAL**

Watkin Jones Homes builds properties ranging from starter homes to executive housing and apartments, designed to reflect modern lifestyles.

Our student accommodation schemes

Between 1999 and 2017, we completed 107 schemes in 34 towns and cities, delivering more than 34,500 beds.

Scotland	17 schemes	5,631 beds
Northern Ireland	2 schemes	569 beds
North and Midlands	64 schemes	21,172 beds
South	24 schemes	7,204 beds
Total	107 schemes	34,576 beds

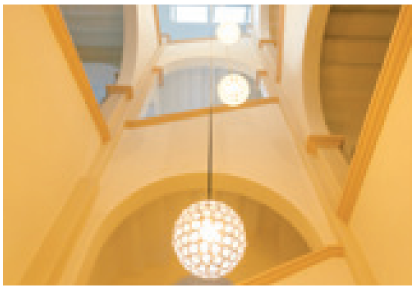


INVESTMENT CASE

Watkin Jones has significant strengths, which combine to make us a compelling business.

ESTABLISHED BRAND AND REPUTATION

We are one of the leading developers of PBSA in the UK, having delivered more than 34,500 beds since 1999. We have a 100% record of delivering PBSA developments ahead of the academic year, giving us a strong reputation and contributing to our excellent relationships with leading institutions. These include AIG, Arlington, Brookfield, CBRE Global (Curlew Student Trust), Europa Capital, GSA, Lasalle, Legal & General, M&G, UBS and UPP.

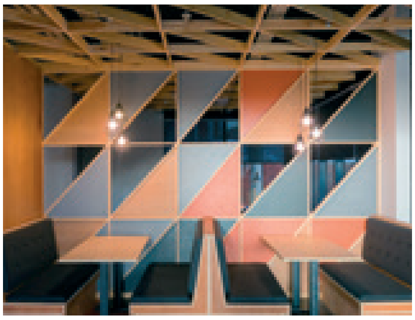


BUSINESS MODEL REDUCES RISK

Watkin Jones plc is one of the few companies in PBSA and build to rent offering a complete solution to investors, from identifying the site through to managing the finished building. We believe that we are the only full-service provider to sell all our developments, meaning we do not compete with our own investment clients. The forward sale model minimises our development risk.

HIGH VISIBILITY AND STRONG FINANCIAL PROFILE

We have significant visibility of our earnings and cash flow from forward-sold schemes and our development pipeline. As developers and constructors, we capture both development and construction margin. Where Fresh Property Group is appointed as property manager, we earn ongoing revenue and margin post completion of a development. Forward selling developments gives us favourable working capital dynamics, as we invoice on a monthly basis, rather than selling completed developments at the end of the construction phase.

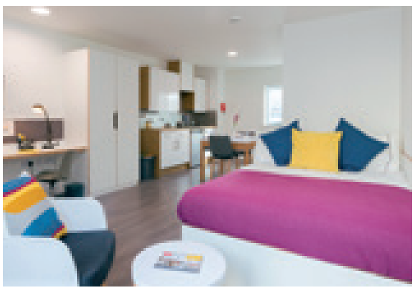


ATTRACTIVE MARKETS

We operate in large and growing markets. There are over 1.7 million full-time students in the UK and demand for university places remains well ahead of supply. A higher number of students than ever are studying away from home, adding to the demand for private PBSA. Significant funds are available for investment in build to rent, with the market expected to grow by £45 billion over the next five years.

SIGNIFICANT GROWTH PROSPECTS

We see the potential to deliver significant growth in the coming years. Attractive markets will allow us to be selective in acquiring new development sites in PBSA and build to rent, as we focus on the quality and sustainability of our earnings. We also have an opportunity to grow the portfolio of properties managed by Fresh Property Group, in both the student accommodation and build to rent markets.



CHAIRMAN'S STATEMENT

This was Watkin Jones' first full financial year since its IPO. Having spent much of the previous year organising as a public company, FY17 was a year of confident delivery.

Grenville Turner
Independent Non-Executive Chairman

Board in focus 2017

Investors' site visit to
Mannequin House, London

Investors' site visit to
Duncan House, London

For more information on the Board, see page 41.

Performance and dividend

The Group produced a strong trading performance in FY17, which was in line with our expectations. Good revenue growth and rising gross margins contributed to a double-digit increase in earnings. The business is also highly cash generative and we further increased the net cash on the balance sheet.

This performance underpins our ability to reward shareholders through our progressive dividend policy. At the time of the IPO, we promised to pay a healthy dividend, recognising that this was important to investors in an environment where many companies were having to reduce or scrap their dividend payouts.

Last year's total dividend was 4.0 pence per share which, taking into account the timing of the IPO, was equivalent to a dividend for the full year of 6.0 pence. After paying an interim dividend of 2.2 pence per share this year, the Board has recommended a final dividend of 4.4 pence per share, to give a total dividend of 6.6 pence.

This represents growth in the total dividend of 10.0% against the FY16 full-year equivalent. The final dividend will be paid on 28 February 2018 to shareholders on the register at close of business on 26 January 2018. The shares will go ex-dividend on 25 January 2018.

The Board has also decided to adopt a policy of aiming to pay dividends at a level which will be two times covered by annual earnings and will implement this policy fully by FY19.

Mannequin House,
London

I believe that the Group's financial and operational performance and its strategic progress all demonstrate that Watkin Jones is a business that delivers on its promises.

Board, management and people

There were no changes to Board membership during the year. The Directors continue to work well together, and towards the end of 2017 we began our first formal appraisal of the Board's performance to identify areas for further development.

The Group's success this year reflects the strong leadership of the Executive Directors, Mark Watkin Jones and Phil Byrom, and their colleagues.

Mark, Phil and the team have continued to successfully manage the pipeline, control costs, ensure delivery and implement our strategy for growth. I want to thank them and everyone in Watkin Jones for their significant contribution.

The Group has an experienced and stable senior team and we spent time this year assessing their capabilities, investing in development and considering succession planning. We are also proposing to introduce a long-term incentive plan during FY18, to help us retain our senior people and reward performance. More information on the plan can be found in the Remuneration Committee report on pages 47 and 48.

It is with regret that Mark Watkin Jones has notified the Board of his intention to stand down as the Group's Chief Executive Officer once a suitable successor has been appointed, following an orderly handover period. For personal reasons, Mark is not able to undertake a full-time executive role over the longer term and he and the Board believe that it is in the Group's best interests to recruit a successor.

The Board will initiate a formal search process to identify a new Chief Executive Officer. The Board is keen to retain the benefit of Mark's valuable knowledge and experience and the intention is that, following the transition, the Board will look at how this might be achieved, including the option of him becoming a Non-Executive Director of Watkin Jones.

After 15 years at the helm, the Board understands Mark's desire to relinquish the Chief Executive Officer position and the associated demands of this role. Mark has played a pivotal part in shaping the Watkin Jones strategy and success. Under Mark's leadership, Watkin Jones has gone through a transformational period, a key part of which has been the establishment and development of a strong senior management team who have increasingly taken on the day-to-day responsibility for the running of the business and who are capable of supporting the Group's long-term growth aspirations.

The Board will be seeking a successor to Mark who can build on this platform and maintain the Group's track record of profitable, cash generative growth.

The Board would like to thank Mark for his enormous contribution and is also delighted that he has indicated his willingness to continue to support his successor and the business going forward.

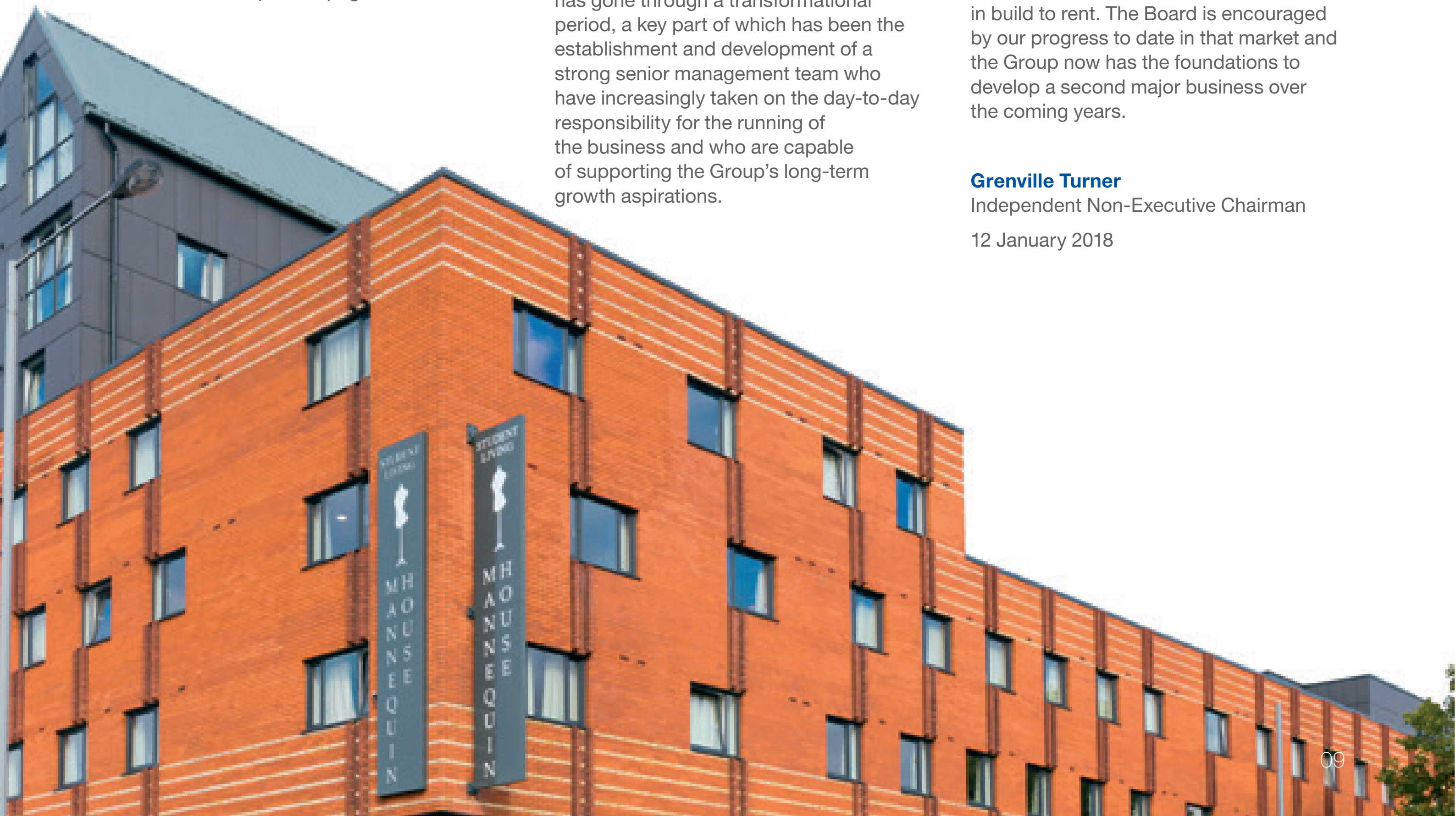
Looking forward

The Board is confident about the outlook for the Group. The development pipeline gives us excellent visibility of our revenues and earnings, protecting our performance and giving us the time to adjust our plans if necessary. While Brexit is a source of uncertainty for many businesses, it is unlikely to be a significant issue for the Group. EU students are only 7% of the market and the demand for UK higher education is such that universities will continue to fill their places, no matter what happens to EU student numbers.

While we see growth opportunities across all parts of the Group, over the medium term we see the greatest upside potential in build to rent. The Board is encouraged by our progress to date in that market and the Group now has the foundations to develop a second major business over the coming years.

Grenville Turner
Independent Non-Executive Chairman

12 January 2018



Q&A:
MARK WATKIN JONES

Chief Executive Officer Mark Watkin Jones gives his view on the Group's performance and markets, and how he expects the business to develop in the coming years.

Q:
The Group delivered a strong performance this year but where do you think you could have done better?

A:
We did everything that we set out to do in 2017. The EU referendum seemed to temporarily dent investor confidence, which meant build to rent did not take off as quickly as we expected in the year. But there is a significant amount of cash waiting to come into the sector and we have put in place the foundations we need, so we can really push that forward.

Q:
You are now more than a year on from the IPO. Has it provided the benefits you hoped for?

A:
Yes, without a doubt. It has raised our profile with clients, with the supply chain and in recruitment. Our people can see the value of their contribution and it has given them a sense of ownership, which means there is more challenge in the business. People are also more forthcoming with their views about where we should take the business. That is great. What has not changed is that we are still very much results focused.

Q:
You sold a portfolio of developments this year. Is this a trend in the market?

A:
There is increased demand for buying portfolios, as that allows institutions to deploy more capital and gives them an immediate platform in the market. They may be prepared to pay a little more to achieve that. However, we also want to maintain our relationships with our existing institutional clients, and bringing individual developments to market allows us to work with more institutions each year. So we have to have the right balance.

Q:

Is there a danger of the student accommodation market becoming saturated? How much further can it go?

A:

I think there will always be opportunities in the student market. Students will continue to migrate from houses of multiple occupation to purpose built, and they will want newer and better products, in better locations. So long as we can find the right sites, we can continue to provide that for them, even in towns and cities that might be perceived as saturated. We do not own the completed assets, so we are not competing against ourselves when we add developments in those locations.

Our business model is also important here. We only commit small sums of working capital to schemes and we have a three-year pipeline, which gives us flexibility to change direction quickly.

Finally, a lot of university-owned PBSA was built pre-1999 and will continue to deteriorate. The universities are looking to the private sector to enhance their offer, which will create more opportunities for us.

Q:

There is growing political pressure to build more homes in the UK, both for private and social housing. How would this affect demand for build to rent?

A:

Each and every unit of accommodation has to ease the pressure on demand for homes, so build to rent has an important part to play. Attitudes are also changing. It is far more socially acceptable to rent than it was ten or 15 years ago. The UK is becoming more like Europe, where the majority of people rent. The Government's thinking has also shifted – they are more focused on increasing the overall supply of housing, across a range of different tenures.

Q:

How are you managing cost inflation in the supply chain?

A:

I think we are managing cost inflation exceptionally well. Our supply chain follows us from project to project and because we have a standard product, they become quicker and more efficient at delivering over time. We give them visibility of our pipeline, so they can build their businesses around ours and we can balance their workload by scheduling build to rent schemes around the student accommodation programme. Being able to offer our supply chain twelve months of very similar work is a real competitive advantage for us.

Q:

Is the residential business still core to Watkin Jones?

A:

Yes. It is a good contributor to the Group and our central services can support it with very little additional cost. It also offers us more than just revenue and profit. Working in private residential gives our people a really good grounding in how we operate as a business. Many of the people who have worked in it have progressed onto bigger and more complex projects, which is great for us because we know what they can do when we transfer them into different divisions.

Q:

What do you think the balance of the Group will look like in the medium term?

A:

The aspiration is to grow build to rent to a similar size to student accommodation, so we have two earnings and cash flow streams that are comparable to each other. That also applies to accommodation management, where we can replicate in build to rent what we have achieved with Fresh Student Living.

CHIEF EXECUTIVE OFFICER'S REVIEW

The Group had another strong year in FY17, as we successfully implemented our strategy and delivered financial performance in line with our expectations.

Mark Watkin Jones
Chief Executive Officer

Performance

Revenue from continuing operations rose by 13.1% to £301.9 million (FY16: £267.0 million), contributing to an 18.0% increase in gross profit to £63.5 million (FY16: £53.8 million). Operating profit was 12.7% higher at £42.7 million (FY16: £37.9 million before exceptional IPO costs), representing an operating margin of 14.1% (FY16: 14.2%).

Our business is strongly cash generative and we achieved an operating cash inflow of £19.2 million (FY16: £15.1 million after exceptional IPO costs), with a further £22.8 million of cash received after the year end, relating to forward sales we agreed during FY17.

Developing student accommodation generates our core revenue and earnings and the business had another excellent year. We completed all ten schemes on time (3,314 beds), maintaining our 100% record of delivering ahead of the start of the academic year. We also continued to refill the pipeline of development sites, ensuring we maintain the visibility of earnings that is fundamental to our business model.

Our accommodation management business, Fresh Property Group, is continuing to perform well. It currently has 16,082 student beds under management for the 2017/18 academic year, a 30% increase on the number under management for 2016/17. The business is also expanding in the build to rent market and now has 535 units under management, including the 322-unit scheme we completed in Leeds during the year.

We are successfully building a pipeline of development opportunities in build to rent. The Group has five development sites, which it owns or has exchanged contracts to acquire, and is in separate negotiations on several other opportunities.

The residential business also had a good year, completing 94 sales and increasing its gross margin to 16.7%, from 11.5% in FY16.

Strategy

The Group is following a consistent strategy, as set out on page 16, which is delivering sustainable growth and positioning us to take advantage of the exciting opportunities ahead.

The visibility provided by developing student accommodation is central to this strategy. It gives us a secure and growing base of revenue, earnings and cash flow, which allows us to develop new businesses to enhance that growth. The strength of our student accommodation pipeline makes this an excellent time to pursue our strategy in build to rent. We can use the knowledge, experience and relationships we have developed in student accommodation over nearly two decades, which are all directly applicable in the build to rent market.

Our development pipeline will also provide a stream of new contracts in accommodation management, in both student and build to rent.

Winning contracts to manage buildings developed by third parties is another exciting source of growth for this business, as the market is far greater than the buildings we develop ourselves.

People and culture

Any business is only as good as the people it employs, which is why we invest so much time and money in developing our people and helping them to achieve their potential.

Our primary focus in FY17 was on ensuring the Group has the leadership it needs to achieve its growth plans. We have established an Executive Committee to provide the executive leadership to the Group below Board level and to further the management of our governance responsibilities. The members of the Executive Committee are myself, Philip Byrom (CFO), Alex Pease (Investment Director), Jim Davies (MD Newmark Developments) and Rebecca Hopewell (CEO Fresh Property Group).

Our strategy is to deliver sustainable growth and position us to take advantage of the exciting opportunities ahead.

Business highlights

- Revenue from continuing operations rose to £301.9 million in FY17 (FY16: £267.0 million)
- Gross profit increased to £63.5 million in FY17 (FY16: £53.8 million)
- Operating profit before exceptional IPO costs incurred in FY16 was 12.7% higher at £42.7 million
- Ten student accommodation developments (3,314 beds) completed during FY17
- Development pipeline of 9,120 beds across 23 sites, with 15 forward sold (6,090 beds)
- The build to rent development pipeline gathered momentum. The Group has five development sites, which it owns or has exchanged contracts to acquire, and is in separate negotiations on several other opportunities
- Fresh Property Group contracted to manage 16,082 student beds for FY18 (52 schemes), up from 12,337 beds for FY17 (44 schemes)

The operational Board was unchanged during the year, and we have looked to invest in and empower them, as well as the management teams below them and throughout the Group. This included helping our people to understand how they contribute to the business and to show them the opportunities available within the Group, which we believe make us an employer of choice. As part of this, we have begun succession planning for management at Board level and below.

Our other activities in the year encompassed enhancing performance management and improving communication, to drive engagement and collaboration across our divisions.

Sustainability

With a history dating back more than two centuries, it is natural for us to think for the long term. We therefore aim to ensure we are economically, socially and environmentally sustainable. The way we work is governed by a set of robust policies and we look to understand and manage the needs of our stakeholders, which include our people, clients, supply chain and shareholders, as well as wider society in the form of our communities and both the local and global environment.

More information about our approach to sustainability can be found on pages 28 to 31.

Curlew Student Trust portfolio sale

We have been advised by Curlew Capital that the Curlew Student Trust ("CST") is in legal negotiations to sell a portfolio of its assets. CST was launched in 2013 as a seven-year Fund, with a strategy to forward fund and hold good quality student accommodation assets in strong university towns and cities across the UK. CST is backed by clients of CBRE Global Investment Partners. The sale is expected to exchange and complete in the next few weeks.

The sale transaction includes 14 schemes (5,124 beds) which are managed by the Fresh Property Group. It is expected that Fresh will continue to provide management services to the new owner for FY18, but that ultimately the new owner may decide to take the management in house. Fresh will be fully compensated for any unexpired contract periods on all of the assets should they be terminated early by the new owner. Should Fresh not be retained as property manager for these assets, this will not have a material effect on the Group's financial performance.

Curlew Capital have advised us that, following the success of CST, they have received approval to launch a second Fund, Curlew Student Trust 2 ("CST 2"), backed again by clients of CBRE Global Investment Partners. CST 2 will have a similar strategy to CST to forward fund and hold good quality student accommodation assets in strong university towns and cities across the UK. CST 2 will have a 25-year life and is expected to be launched in January 2018. CST 2 has already secured two seed assets (917 beds) for delivery in 2020 and has ambitious growth plans. Fresh will be the preferred property manager for CST 2, which creates the potential for longer-term business growth for Fresh.

Outlook

I believe that Watkin Jones is in an excellent position. Student accommodation continues to provide strong visibility and we have growing momentum in build to rent. At the same time, our investment in our people gives us the leadership we need to take advantage of the opportunities ahead.

As noted in the Chairman's statement on page 09, after careful consideration I have decided that it is necessary for me to step back from my position as Chief Executive Officer. The Group has reported strong results for FY17 and with excellent earnings visibility, Watkin Jones is in a strong position to achieve continued success in both student accommodation and build to rent. Solid foundations are in place for my successor to work with, including an excellent management team that has supported me over the years in successfully growing the business and who will continue to drive Watkin Jones forward for the long-term benefit of our shareholders.

Mark Watkin Jones
Chief Executive Officer

12 January 2018

BUSINESS MODEL

Since we completed our first PBSA scheme in 1999, we have developed substantial expertise and competitive advantages in development and property management, which are now directly applicable to the emerging build to rent market.

INPUTS

The inputs to our business model

The following assets and resources help us to create value for our stakeholders:

People
We employ excellent people, with significant experience of delivering on time and to the highest standards.

Knowledge
We have a deep understanding of our markets and how to develop and manage schemes successfully.

Relationships
Our strong relationships with our institutional investors, supply chain, agents, consultants, planning authorities and universities all underpin our success.

Scale, reputation and financial strength
As a well-capitalised tier 1 developer, with a strong reputation for delivery, we are a partner of choice for key investors.

Natural resources
Our building processes use natural resources including land, materials and energy.

Our four-stage development model

1 Site procurement and planning

Identify site

Negotiation of option/acquisition

Obtain planning permission

Discussions with university/ key stakeholders

2 Transaction and funding

Forward sale to institutional investors

Value added opportunities

Land sale and development agreement

Typically 2.5 years

We use our market knowledge and understanding of investor demand to target key towns and cities for both PBSA and build to rent developments. We then identify sites through our own staff, our network of agents and other consultants, enabling us to buy most sites off-market. Our track record helps us to buy at attractive prices, since we can offer vendors more certainty of completion.

We typically reduce risk by acquiring sites subject to planning. Our expert team then liaises with the planning authority. This in-house resource is unusual in our sector and gives us a significant advantage, allowing us to obtain planning permission more quickly and at a lower cost. This helps us to start on site sooner and deliver on time.

Our forward sale model reduces our risk, as we generally aim to sell each scheme to an investor before we start construction. Institutions' desire to work with tier 1 developers, such as us, is an important barrier to entry. Forward sales give us excellent visibility of our earnings and cash flow, as we bill the purchaser for the land and each month during construction, rather than only receiving a lump sum on completion. We may decide not to immediately forward sell some developments, when we conclude we can earn a higher sale price by waiting. Ultimately we do sell all of our developments. This means we do not compete with our institutional clients, encouraging them to share their plans with us. We also look for ways to add value for clients, such as negotiating direct arrangements with universities for student accommodation.

The diagram above shows a typical example of our end-to-end development cycle.

3 Construction and delivery

Construction and delivery

Unlike many developers, we are experienced constructors, employing expert construction directors and project managers to deliver our schemes. This means that for most developments we do not rely on third-party contractors, increasing our margin and our ability to deliver on time. We will on occasion use a third-party contractor, where the geographic location of the development warrants it, while providing project management oversight ourselves.

We have long-term relationships and agreed national rates with key suppliers. Our supply chain regularly follows us from scheme to scheme, making them experts in our developments. This helps us to deliver to a high standard and reduces our costs of managing them. By staggering our PBSA and build to rent developments, we can use the same supply chain for both.

4 Asset management

Asset management

3-7 years (renewable)

Fresh Property Group enables us to offer an end-to-end solution to investors and gives us an income stream beyond completion. Fresh combines national scale with local knowledge, differentiating it from its largely regional competitors. It also has the ability to manage both PBSA and build to rent schemes for the same investor. The insights Fresh develops by engaging with students and tenants keep us up-to-date with the latest trends, so we can adapt our future schemes accordingly.

Fresh has a scalable platform, having invested significantly in systems and processes which are tailored to both student accommodation and build to rent. The required investment means barriers to entry are high. We believe that a minimum of 5,000 beds under management is required to break even.

OUTPUTS

The value we create

Our business creates value for a wide range of stakeholders.

For investors

Institutions benefit from high-quality assets that meet their investment criteria and management services that help to maximise their returns.

For students and tenants

Students and tenants gain from high-specification homes and excellent service.

For our people

Our people get the opportunity to develop their careers in a successful and growing business.

For our supply chain

Suppliers benefit from a consistent workload and the opportunity to grow their business alongside ours.

For communities

Our developments free up houses of multiple occupation, making them available for local families, and improve community facilities.

For government

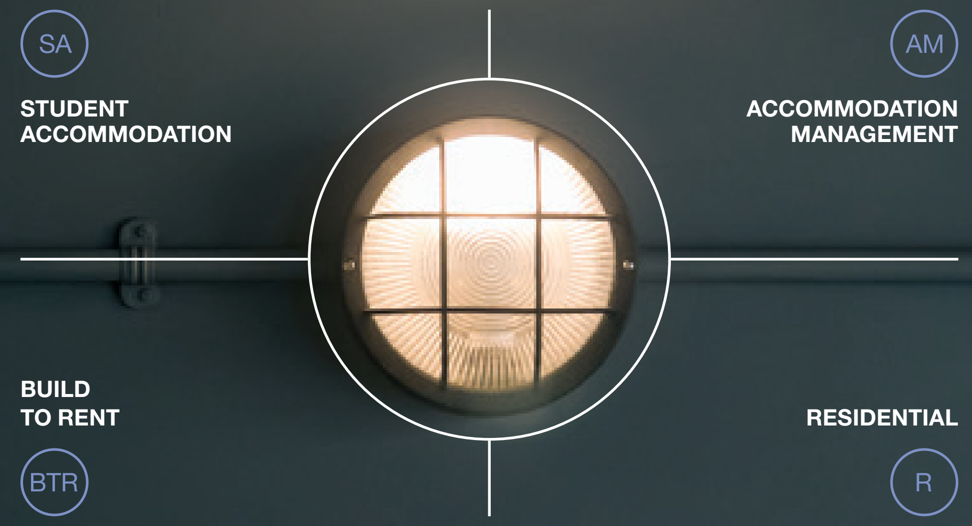
Through a variety of taxes, we contribute to both communities and national services.

For shareholders

Shareholders benefit from rising earnings, cash flows and dividends.

OUR STRATEGY

We see opportunities to grow across the Group and have set clear strategic objectives for each part of our business.



SA STUDENT ACCOMMODATION

Our core strategic objective is to leverage our position as the UK's leading developer of student accommodation and take advantage of the attractive market to sustainably increase earnings.
This means:

- developing 3,000 to 4,000 PBSA beds per year, focusing on quality of earnings;
- using our forward sale model to minimise risk; and
- continuing to build strategic partnerships with institutional investors, so they become repeat clients.

BTR BUILD TO RENT

We intend to progressively enter the build to rent market by:

- leveraging our expertise in PBSA to capitalise on the similarities with build to rent, and using the expertise of our residential development teams; and
- engaging with our existing institutional investors to obtain forward funding for these projects, where appropriate.

AM ACCOMMODATION MANAGEMENT

We will continue to grow Fresh Property Group by:

- offering end-to-end solutions, so institutional investors engage us to manage the PBSA and build to rent assets the Group develops; and
- winning the management of new and existing assets developed by third parties.

R RESIDENTIAL

Our objectives in residential are to:

- continue to develop sites from our current residential land bank; and
- strategically acquire new sites for residential development, if and when they become available.

KEY STRATEGIC THEMES

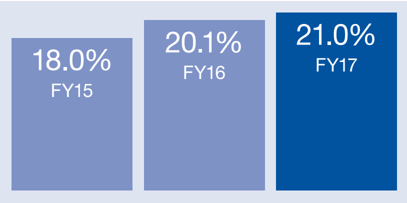
Underpinning the objectives set out above is a set of consistent strategic themes. In order to meet our objectives, we need to:

- focus on delivery and operational excellence, to maintain our reputation as an attractive and reliable partner for institutions;
- ensure we grow in a sustainable way, to help maintain that reputation for delivery;
- deepen our relationships with our existing institutional clients and develop relationships with new institutions;
- retain our talented people and invest in training and development; and
- invest in the systems and processes that support our businesses.

KEY PERFORMANCE INDICATORS

We have established a range of key performance indicators ("KPIs") for the Group, to measure our progress towards achieving long-term, sustainable growth for shareholders.

Gross margin (%)

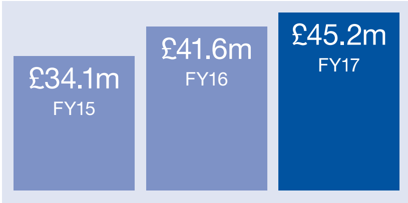


Purpose
Shows our ability to maintain and improve the quality of our earnings over time.

Definition
Gross profit as a percentage of revenue.

Performance
Gross margin increased to 21.0%, as a result of the quality of our student accommodation developments and a full year contribution from Fresh Student Living.

EBITDA (adjusted) (£m)

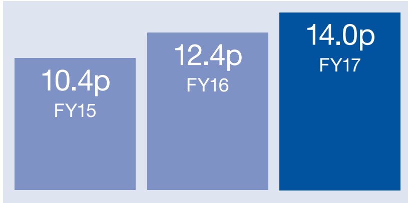


Purpose
Reflects our ability to deliver both revenue growth and rising margins.

Definition
Earnings before interest, tax, depreciation, amortisation and exceptional items.

Performance
We increased adjusted EBITDA by 8.6% to £45.2 million, driven by growth in revenues and higher margins.

Basic EPS (adjusted) (pence)

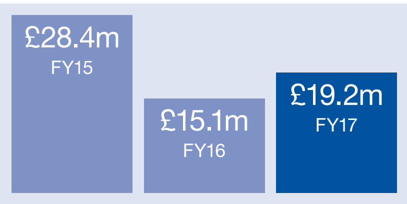


Purpose
Shows our ability to deliver profitable growth and underpins our progressive dividend policy.

Definition
Profit from continuing operations attributable to ordinary shareholders, adjusted to exclude exceptional items, divided by the weighted average number of shares in issue in the year.

Performance
Adjusted earnings per share increased by 12.9% to 14.0 pence, as a result of revenue growth and margin expansion, partially offset by an increase in overheads.

Net cash inflow from operating activities (£m)

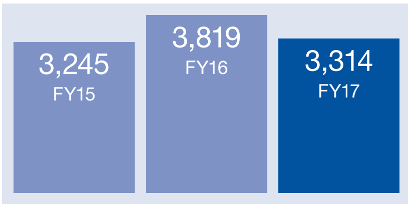


Purpose
Demonstrates that we generate high-quality profits, which are readily converted to cash, and underpins our dividend payout.

Definition
Cash flow generated by our operating activities.

Performance
Net cash inflow from operating activities was £19.2 million. Cash performance was affected by the timing of receipts from forward sales agreed in the year, with £22.8 million received shortly after the year end. The cash inflow from operating activities in FY16 of £15.1 million was after exceptional IPO costs incurred of £26.6 million.

Number of student beds delivered

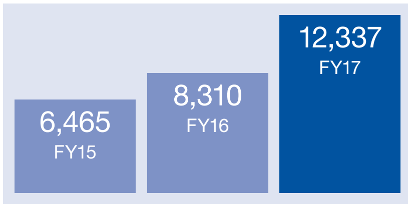


Purpose
Shows our ability to deliver our pipeline of student accommodation developments, which provides the core of our earnings and cash flow.

Definition
The number of beds in the student accommodation development projects that we completed during the financial year.

Performance
We delivered 3,314 beds across ten schemes in FY17, in line with our objective of delivering between 3,000 and 4,000 beds each year.

Number of student beds and build to rent units under management



Purpose
Shows our ability to expand our high-margin accommodation management business.

Definition
The number of student beds and build to rent units that Fresh Property Group is contracted to manage on behalf of our institutional clients.

Performance
The number of student beds and build to rent units under management continued to grow strongly, increasing from 8,310 under management for the 2015/16 academic year (32 schemes) to 12,337 under management for the 2016/17 academic year (44 schemes).

The Group acquired Fresh Student Living in February 2016 and the number of beds under management for FY15 in the chart above is for Fresh on a standalone basis.

OPERATING REVIEW

SA

STUDENT ACCOMMODATION

Revenues from developing student accommodation increased by 8.0% to

£256.1 million

(FY16: £237.2 million).

Key statistics

Delivered FY17	
3,314 beds	**10** schemes
Pipeline	
9,120 beds	**23** schemes
Forward sold	
6,090 beds	**15** schemes

Laycock Studios
Sheffield

"The UK PBSA market remains attractive and offers good opportunities for further growth.

Alex Pease
Investment Director
at Watkin Jones Group

The market opportunity

The number of full-time students in the UK is a key determinant of demand for PBSA, since these students are more likely to live away from home than part-time students. The full-time student population has steadily grown, increasing by an average of 2% per year since 2004, to reach 1.74 million. Despite the increase in tuition fees in 2012, demand for university places remains substantially greater than supply. In 2016/17, there were 699,850 applications to UK universities, of which 533,890 were accepted. UCAS applicants in 2016/17 were 7% higher than in 2011/12.

UK demographics are positive, with an upturn in the number of 17 to 21-year-olds coming through from 2021. Trends in international students are also positive. Over 397,000 students are now from outside the UK, representing 23% of the student population and an increase of 70% over the period 2005/06 to 2015/16. Non-EU international student numbers increased by 24% from 2008/09 to 2015/16, making up circa 17.8% of the full-time student population. While EU international student acceptances have fallen in 2017 by 2.1%, this is offset by an increase in non-EU international students of 1.8%. EU international students make up a relatively small proportion of the market at circa 7.3% and we do not believe that the changes in EU student numbers will have a noticeable impact on demand for PBSA.

At the start of the 2017/18 academic year Cushman and Wakefield reported that 602,000 PBSA bed spaces were available. Significant scope remains for increased penetration of private PBSA, particularly as universities turn to the private sector for provision and more students than ever are studying away from home (1.04 million). Since 2013, growth has predominantly come from the private sector, where bed numbers up to 2016 have increased by 43% compared to an increase of 5% in university accommodation across the same period.

PBSA investment

Institutional investors increasingly see UK PBSA, which has maintained good headline rental growth, as a core real-estate holding. Headline rental growth in 2016/17 was 2.9%. The increasing maturity of the market is seeing investors demand greater scale, driving investment activity. The UK student accommodation market has also attracted capital from all over the globe. The largest share of transactions from non-UK domiciled investors in 2016 was from Asia, whilst 2017 has seen significant investment activity from North America. It is estimated that £3.6 billion of stock has been traded in 2017. £1.05 billion of stock is believed to be under offer and a further £1.5 billion of stock is believed to be in the market.

Competition

We operate across the entire PBSA development lifecycle, and whilst there are other specialist PBSA developers in the UK, most do not construct their own developments, few provide asset management services, and their scale and geographical focus vary considerably. Some are owner/operators, who invest in assets and manage developments themselves.

Some non-specialist developers have exposure to PBSA, offering procurement, planning and construction services. Typically, these firms are either housebuilders or commercial property developers with student accommodation divisions.

We believe our focus, market knowledge, geographical coverage and ability to work across the entire development cycle give us a competitive advantage. We also believe that we are the only developer that forward sells all its schemes to investors, making us an attractive conduit for institutions looking to increase exposure to PBSA. These factors make us well placed to compete effectively.

Performance

Revenues from student accommodation development were £256.1 million, up 8.0% on the £237.2 million achieved in FY16. This reflected the quality of the sites, which had correspondingly higher values, and in turn fed through to a higher gross margin, which rose to 22.1% (FY16: 20.5%).

We look to maintain a pipeline of student accommodation of around 10,000 beds, for delivery over the following three years. Our pipeline remains robust. All ten of the developments for completion in FY18, ahead of the 2018/19 academic year, have been forward sold. For FY19, we are targeting delivery of seven developments, of which five had been forward sold at the year end. All the sites for FY19 have been secured and all have planning consent. We have secured five sites for FY20 and a number of other sites are in negotiation. Of the secured sites, three have planning consent, with the remainder progressing through the planning process.

In total, at the year end, we had a development pipeline of 23 sites, representing 9,120 beds, with an appraised development value of £762 million. Of these beds:

- 3,415 are for delivery in FY18;
- 3,153 are for delivery in FY19; and
- 2,552 are for delivery in FY20 and beyond.

In total, we sold 17 developments with 6,578 beds during the year, including one operational asset of 590 beds, with a total development value of £506 million.

The planning environment remains challenging but our expertise and in-house resource has enabled us to continue to make good progress. During FY17, we achieved planning consent for six developments (1,610 beds), with consent for a further three developments (959 beds) received since the year end.

OPERATING REVIEW continued

BTR

BUILD TO RENT

We are encouraged by our progress in build to rent and by the prospects we see in the market.

Key statistics

Delivered FY17
322
units

Clarendon Quarter
Leeds

"We have been successful in securing sites and planning permissions for build to rent development.

Jim Davies
Managing Director
Newmark Developments

The market opportunity

Build to rent has significant momentum as an asset class, with a number of factors creating demand for properties and supporting rental levels. This makes build to rent an exciting opportunity for institutional investors.

There is well-known structural supply and demand imbalance in the UK property market and for many years, the supply of new homes has fallen well short of the number required. In 2016/17, the number of new homes built reached 217,350. This was the highest for nine years but still well below the 300,000 that the government is targeting by 2022. The shortage of new builds contributes to high house prices in parts of the country with the strongest local economies, pricing many people out of the market. As a result, many people are renting for the long term instead.

In addition, the population has become more transitory, moving from a "job for life" attitude to the expectation that young people will now have several jobs during their lifetime. Young adults between the ages of 20 to 30, accustomed to the benefits of all-inclusive PBSA, make up a significant share of the build to rent market and often enjoy the flexibility of renting.

Since 1991, the private rented sector has more than doubled in size and now accommodates 19% of all UK households (circa five million households). This figure is forecast to increase to 25% by 2021, as the sector continues to grow. Private renters are also getting older, with 46% of those in their late twenties and early thirties being tenants, up from 24% in 2006.

The rental market is fragmented and dominated by small buy-to-let landlords, with little over 3% being owned by institutions. This is expected to change, as build to rent offers institutions an attractive income stream that correlates strongly with inflation and is considered highly sustainable through the economic cycle. Current investment in the build to rent sector is estimated to total £25 billion and is forecast to reach £70 billion by 2022. According to recent research by the Investment Property Forum, 80% of residential investors surveyed intend to increase their exposure over the next twelve months, with £8 billion earmarked for investment in 2018.

Performance

During the year, we completed our first build to rent development, the 322-apartment scheme in Leeds. In October 2017, it won Best Large Development at the Yorkshire Residential Property Awards.

Another key initiative for us was the preparation of our build to rent development specification. This enables institutional clients to specify our product offering and allows us to appropriately cost potential schemes.

We made good progress with securing a pipeline of further development opportunities. We acquired a site in Sutton, London, on which we have now obtained planning for 165 units, and secured planning for a site in Leicester to build a total of 322 units. Subsequent to the year end, we also secured planning on a site in Bournemouth, to build a total of 147 units and on a site in Sheffield for 62 units. In addition we have exchanged contracts to acquire a site in Uxbridge, which subject to planning consent, will deliver approximately 270 units, and we are in separate negotiations on several other opportunities. We are targeting the development of around 1,500 units on these sites during the period FY18 to FY22, subject to obtaining the remaining necessary planning consents.

We are encouraged by our progress to date and by the prospects we see in build to rent. As noted above, there is growing institutional demand for build to rent assets, and through Fresh Property Group (see pages 22 to 23) we will increasingly be able to demonstrate the revenue enhancement and cost savings achievable with specialist management, which in turn will increase the value of completed assets. We are therefore currently taking a prudent approach to forward sales, in anticipation of rising values in the build to rent market.

OPERATING REVIEW continued

AM

ACCOMMODATION MANAGEMENT

We created Fresh Property Group in FY17, bringing our accommodation management businesses under a single leadership.

Key statistics

FY17

12,337 student beds

44 schemes

FY18

16,082 student beds

52 schemes

535 build to rent units

5 schemes

Dobbie's Point
Glasgow

"2017 has been another great year for Fresh Student Living. By creating the Fresh Property Group, we can replicate this success across the build to rent sector.

Rebecca Hopewell
CEO
Fresh Property Group

We created Fresh Property Group during FY17, to bring our two accommodation management businesses under a single leadership team. It operates under the Fresh Student Living brand in student accommodation and Five Nine Living in build to rent. Creating Fresh Property Group allows us to present institutional clients with a single accommodation management offering that covers both the PBSA and build to rent markets, and helps us to make maximum use of our resources and expertise, while avoiding duplication.

Fresh Property Group is a key part of the Group's complete end-to-end solution for clients, which spans sourcing of sites to managing the completed developments. It can take on all aspects of accommodation management for clients, including mobilising, marketing and letting, managing the building and tenants, and collecting rent. The business has invested significant amounts in best-in-class systems and processes, which make it highly scalable and provide efficient processing of back-office functions, freeing our people to focus on providing excellent service.

The business grew strongly in FY17, generating revenue of £6.1 million and gross profit of £3.8 million, representing a margin of 61.9%. For FY16, this reporting segment comprised the Fresh Student Living business, which we acquired in February 2016. For the period post-acquisition, Fresh Student Living contributed £2.8 million to FY16 revenue and £1.7 million to gross profit. On a like-for-like basis, Fresh Student Living's revenues for the year to 30 September 2016 amounted to £5.1 million, at a gross margin of approximately 60%.

In addition to managing student schemes we developed, Fresh Property Group continued to win contracts to manage third-party developments during the year. In total, Fresh Property Group is currently contracted to manage 16,082 student beds across 52 schemes for the 2017/18 academic year (2016/17 academic year: 12,337 beds across 44 schemes). By FY20, Fresh Property Group is currently contracted to manage 20,628 beds across 68 schemes, which is an increase of 1,992 beds since the date of Watkin Jones plc's last annual report.

As explained on page 13, this number may initially be reduced by 5,124 beds as a consequence of the sale of a portfolio of assets by the Curlew Student Trust ("CST"). However, the launch of CST 2, which will have a life of 25 years, and for which Fresh will be the preferred property manager, presents a significant replacement growth opportunity.

We also continue to develop our letting and operational management services for the build to rent sector, where we are looking to leverage our capabilities and institutional relationships developed in PBSA. At the end year, there were five schemes managed under the Five Nine Living brand, with 535 units between them, including the development the Group completed in Leeds during the year.

Key initiatives to support the growth of Fresh Property Group in FY17 included launching a new website for Fresh Student Living. This offers a better service to students and, in turn, helps us to improve returns for our institutional clients. In addition, we launched the Five Nine Living website, which includes a full online booking system. We believe this functionality is currently unique in the build to rent market.

The quality of Fresh Property Group's service was recognised by the industry during the year, when it won Operator of the Year at Property Week's Student Accommodation Awards. A number of our front-line staff and teams were also winners at the inaugural Student Housing Leadership Awards.

OPERATING REVIEW continued

R

RESIDENTIAL

We will continue to acquire suitable new sites to achieve our objective of growing the residential business whilst developing out the historic land bank.

“

Our residential business made good progress in the year, with improving profit and margins.

Mark Watkin Jones
Chief Executive Officer

The residential business performed in line with our expectations in the year. It completed 94 sales in FY17 (2016: 127), resulting in revenue of £18.1 million, down from £26.3 million in FY16. Revenue in the prior year included £11.0 million of sales at nil-margin from the Group's legacy development sites in Droylsden, Manchester and the Cestria, Chester development. Sales in FY17 included £6.0 million of nil-margin sales from these two sites. Sales at Droylsden, Manchester are ongoing and will continue to release cash from inventory.

With fewer nil-margin sales from legacy sites and more profitable schemes coming into development during FY17, the gross margin was increased to 16.7% (FY16: 11.5%).

Our objective is to continue to grow the residential business, acquiring suitable sites to enable us to maintain a land bank sufficient for around three years of development. At the year end, the land bank was 589 plots (30 September 2016: 573 plots).

2017 CASE STUDIES

We bring forward accommodation in many of the UK's cities and towns and have extensive experience of working within sensitive planning environments, where careful consultation is necessary to ensure schemes respond to specific local policies.

MANNEQUIN HOUSE

LONDON

This project consists of 527 student beds over seven storeys. It comprises a single block built around a central landscaped courtyard, with 45 studios, 482 cluster beds and ancillary facilities.

527
beds

HOME PARK

BOURNEMOUTH

This mixed-use project comprises 454 student bedrooms and a 129-bed hotel for Premier Inn, plus around 70,000 sq ft of high-grade office space and 2,000 sq ft of retail space – all built over a two-level basement car park, with parking for 196 vehicles and 290 cycles.

454
beds

LAYCOCK STUDIOS

SHEFFIELD

The project includes the construction of a mixed-use development, incorporating 139 studios with associated works and ancillary facilities, with a small commercial unit and a landscaped courtyard.

139
beds

BOTANIC STUDIOS

BELFAST

This student accommodation project, consists of 156 studios over eight storeys with ancillary facilities.

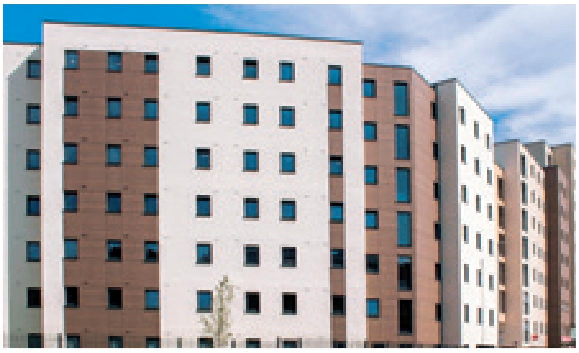
156
beds

DOBBIE'S POINT
GLASGOW
This project comprises 440 student beds over 13 storeys, along with 4,000 sq ft of retail space. The student beds include 30 studios and 410 cluster beds.

440
beds

THE TOWPATH
CHESTER
This project includes a 330-bedroom student accommodation development across three blocks, with associated hard and soft landscaping, car parking spaces and slipway works.

330
beds

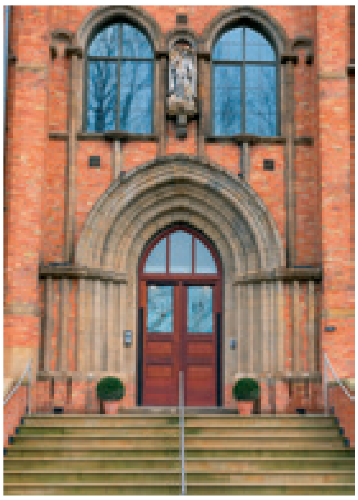


ST DAVID'S
SWANSEA PHASE 2
This is an extension to the successful Morfa Road, Phase 1 scheme, which was completed in 2014. This new build student accommodation scheme comprised 340 student beds, split into 329 cluster bedrooms and eleven studios.

340
beds

CLARENDON QUARTER
LEEDS
This scheme consists of 322 build to rent units, completed in two phases. The building offers a choice of studios and one and two bedroom apartments, all with access to brand-new leisure amenities, including a well-equipped and modern gym, club lounges and a cosy snug, as well as a large laundry room.

322
units



SUSTAINABILITY

We recognise that we are accountable for our impact on society, as well as for delivering financial performance for shareholders.

As the Group continues to grow, we seek to ensure that our actions and policies reflect our commitment to economic, social and environmental sustainability.

Our stakeholders include our people, clients, supply chain and communities, all of which are fundamental to our business model and may be positively or negatively affected by our activities. In addition, we look to minimise our impact on both the local and global environment.

People

Watkin Jones' success relies on having a highly skilled and motivated workforce. As outlined in the Chairman's and Chief Executive Officer's statements, investing in our leadership was a key feature of the year. In a growing business, we need leaders with the capabilities and capacity to take on bigger roles and ensure we maintain our excellent record of delivery. We will seek to bring through talented people who are already in the organisation, while identifying any gaps we need to fill.

Our people benefit from tailored personal and professional development programmes. These include award-winning initiatives such as our graduate placements, apprenticeships, management development programmes and construction skills certification schemes. To attract the next generation of talent into the industry, we spend considerable time engaging with schools and careers advisers, to explain the broad range of careers and trades available to young people, and run a scholarship for students studying construction.

We regularly monitor our people's training needs and have a continuous learning process, from on-boarding and induction to a culture of managing performance. Performance reviews take place regularly with line managers and our Training & Development Manager. To continually improve and promote our learning culture, we have a competency framework linked to our values. Learning and development is a fundamental factor. We encourage learning, with the courses available to our people ranging from Construction Apprenticeships, HNCs and BScs in Construction to professional qualifications and health and safety training.

Training methods are varied and include e-learning, seminars and external training. Focus groups share professional knowledge and we continue to inspire a culture of shared successes. We monitor and review learning outcomes and successes to produce an annual human resources strategy, thus ensuring we meet the Group's future needs for skilled and talented people.

We pride ourselves on providing good terms of employment, promoting health and wellbeing and ensuring a vibrant, happy and safe working environment. Our human resources department seeks to ensure we treat staff fairly and with respect, in accordance with our equality and diversity policy. We maintain open lines of communication, including employee communication forums and focus groups, to ensure our employees have a voice, and we actively listen to their ideas.

General Data Protection Regulation ("GDPR")

In preparation for the introduction of the GDPR legislation in May 2018 we are creating an Audit Checklist using the GDPR legislation, its recitals, Supervisory Authority guidance and the Article 29 Working Party (to become European Data Protection Board under GDPR) opinions, letters and recommendations. It will cover every aspect of the data protection standards and requirements and will be used to review, assess and improve the measures and controls that will be put in place to protect data subjects, their rights and their personal information.

We will include an action plan template with the GDPR checklist to be used to audit existing measures and record progress towards becoming GDPR compliant. This will necessitate the completion of an action plan after each audit to identify gaps and propose solutions, actions and mitigations to ensure compliance. Action plans and completed audits will be retained for six years and be made available to the Supervisory Authority upon request.

How sustainability supports our business model

	Site procurement and planning	Transaction and funding	Construction and delivery	Asset management
People	✓	✓	✓	✓
Clients		✓		✓
Supply chain			✓	
Communities	✓			✓
Environment			✓	

SUSTAINABILITY continued

Diversity and inclusion

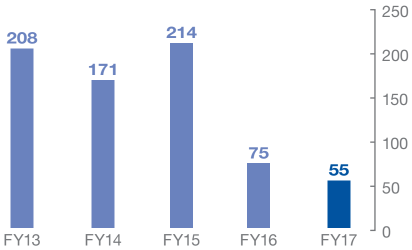
The table below shows our gender diversity as at the year end.

	2017		2016	
	Men	Women	Men	Women
Board	4	–	4	–
Senior management	90	14	92	12
Other employees	231	339	241	251
Total	**325**	**353**	337	263

The construction industry has traditionally been male dominated and this is reflected in the proportion of men in senior roles. We take diversity, including gender, into account during recruitment and recognise the benefits that diversity brings. The growth of the accommodation management business is bringing more women into the Group, including in more senior roles.

Gender pay reporting is now a legislative requirement and we will be reporting our findings on the government website before April 2018, together with our statement on how we will act on the data collected. We see this as a positive opportunity to demonstrate the Group's commitment to building a diverse and inclusive workplace that provides equal opportunities to all employees, irrespective of gender.

Reportable incident rates



Health and safety

Protecting the health and safety of our people and subcontractors is vital. Compliance is our absolute minimum standard and we strive to continuously improve our procedures. We operate a behavioural safety programme to promote a strong health and safety culture within our business and this has led to a progressive reduction in the number of accidents and incidents. Our approach involves training programmes for all employees, enforcing rigorous and mandatory procedures, comprehensive risk assessments, regular systems audits and ongoing review of procedures.

We have a robust health and safety management system and we are full members of the British Safety Council. We support the construction industry's Working Well Together campaign. We are also fully accredited by the Construction Health and Safety Assessment Scheme and, together with key developers, we work to improve safety standards across the UK.

Clients

Our clients are leading institutional investors, who acquire the PBSA and build to rent developments we produce, and employ us to manage them on their behalf.

We maintain close relationships with our clients, so we can understand the types of development and locations that are attractive to them. We foster these relationships both formally and informally, and at a variety of levels. While we work on a repeat basis with existing clients, we also aim to add new clients each year. In FY17, we worked with three institutions for the first time.

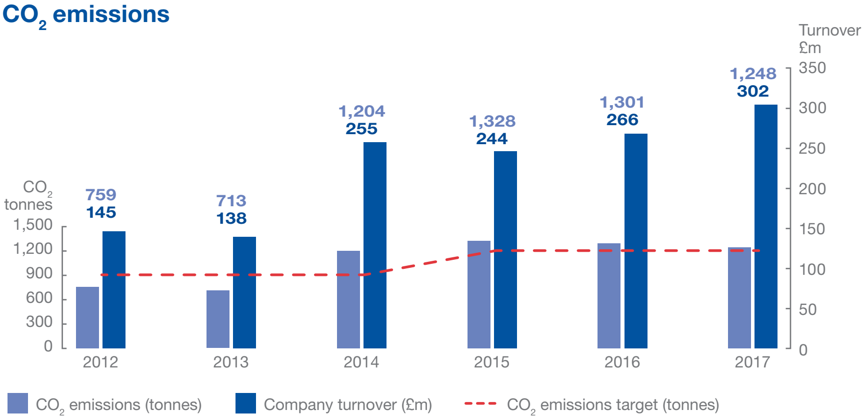
When we look for an investor for a particular site, we typically approach a select group of institutions whose investment needs are met by that site. From time to time, however, we will make a development available on the open market, allowing us to assess investor appetite and ensure we are achieving robust prices.

Supply chain

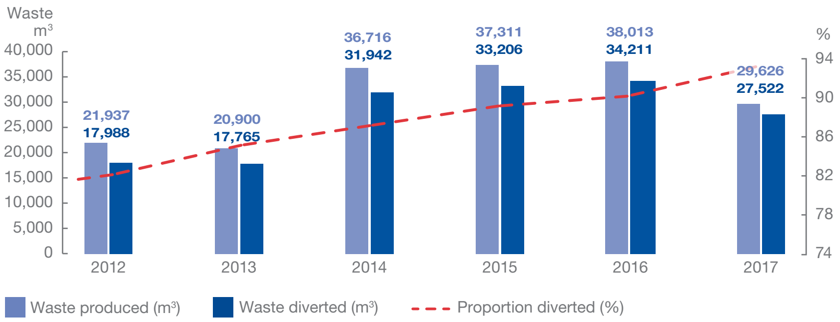
Our supply chain is crucial to successfully delivering our schemes. We look for opportunities to work closely with our supply chain partners, for mutual benefit. This includes negotiating national rates with key subcontractors, while they benefit from a highly visible and growing workload with us.

By carefully managing our supply chain, we simplify our construction process, reduce risk, and generate cost, maintenance and environmental benefits.

CO_2 emissions



Waste diverted from landfill



Our process for working with our supply chain includes:

- a detailed evaluation of potential suppliers, looking at their quality, safety, environmental and financial performance;
- defining and tracking the key procurement activities and dates for each project;
- selecting suppliers and subcontractors for each project, taking into account location, current workload, type and size of project, and cost;
- on-site quality control, including records of progress and performance;
- performance review on completion, to ensure our supply chain partners are delivering to the required standard; and
- continuous improvement, by identifying issues and acting on them.

Our vision is for our entire supply chain to embrace and share our commitment to sustainable development and ethical business practices.

Communities

The biggest benefit we deliver to our communities is through our day-to-day business activities. As a condition of obtaining planning consent for our developments, we often undertake improvement work in the local area, which can range from providing affordable homes to contributions towards new schools, landscaping and enhancing roads and public realm areas.

Build to rent developments are a high-quality source of new homes, which help to relieve pressure on local housing stock. Councils also often see PBSA developments as a way of addressing housing shortages. A large PBSA development can free up more than 100 homes that were previously occupied by students, making them available to local families.

The Watkin Jones Community Fund supports projects that make a real difference to the communities in which we work. During FY17, the fund made donations to a wide range of charities, sport clubs and other community groups. We also support and actively encourage our employees to help local community organisations and activities.

Environment

Many of our activities affect the environment and we are committed to minimising our impact. As an ISO 14001 accredited company, our environmental policy and waste monitoring procedures are well established throughout the Group. They include:

- establishing detailed waste management plans before work begins on our sites;
- reclaiming and recycling materials in an environmentally friendly manner wherever possible;
- maintaining site boundaries to minimise windblown contamination;
- using water spray during dry conditions to minimise dust pollution; and
- regularly monitoring noise levels to keep unavoidable disturbances to a minimum.

These procedures are designed to ensure that we comply with relevant legislation. We will continue to adopt best practice wherever possible, to promote the principles of sustainable construction.

Carbon footprint

We are always looking to reduce our carbon footprint and keep carbon emissions as low as possible. We achieve this through selection of materials; choosing low emission, fuel efficient vehicles; sourcing from local suppliers where possible; and using energy efficient heating and lighting systems within our buildings.

Even though our activity levels have increased, we have managed to reduce our carbon emissions proportionally. Reducing our carbon footprint is a high priority for us and we continue to look to improve and make use of new technologies.

Waste diverted from landfill

We continue to perform well with regard to diverting waste from landfill and our performance in this area is comparable with the best in our industry. We achieve this by ensuring wherever possible that waste is segregated on site and that we select waste management companies who have the ability to divert the majority of waste from landfill sites. This is again an area we continue to monitor and look for ways to improve our performance.

FINANCIAL REVIEW

The Group delivered another strong financial performance in FY17, with growth in revenue, gross margin and earnings.

Philip Byrom
Chief Financial Officer

Highlights

Continuing operations	FY17 £m	FY16 £m	Change
Revenue	**301.9**	267.0	+13.1%
Gross profit	**63.5**	53.8	+18.0%
Administrative expenses	**(20.8)**	(15.9)	+30.9%
Operating profit before exceptional IPO costs	**42.7**	37.9	+12.7%
Exceptional IPO costs	**—**	(26.6)	
Operating profit	**42.7**	11.3	
Profit on disposal of interest in joint venture	**0.9**	—	
Share of profit in joint ventures	**0.5**	3.0	
Net finance costs	**(0.8)**	(1.0)	
Profit before tax	**43.3**	13.3	+326.3%
Tax	**(7.5)**	(8.2)	
Profit for the year	**35.8**	5.1	
Basic earnings per share	**14.0p**	3.8p	
Adjusted basic earnings per share	**14.0p**	12.4p	12.9%
Dividend per share	**6.6p**	4.0p	

The Group delivered another strong financial performance in FY17, with growth in revenue, gross margin and earnings. No exceptional costs were incurred in FY17. The solid increase in revenues to £301.9 million, coupled with a gross margin achieved of 21.0%, led to a profit for the year of £35.8 million and an increase in basic earnings per share to 14.0 pence. Cash flow from operations was also strong, with cash balances increased by £18.1 million to £65.3 million.

Revenue

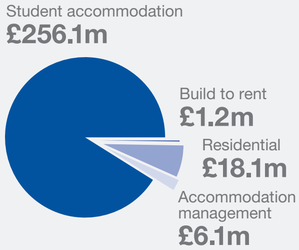
Revenue from continuing operations rose by 13.1% to £301.9 million, primarily as a result of growth in our student accommodation development activities, which showed a £19.0 million (8.0%) increase in revenue, and a full-year contribution from the Fresh Student Living accommodation management business we acquired in FY16. Fresh contributed revenues of £6.1 million in FY17, compared to £2.8 million for the seven-month post-acquisition period last year. This growth was partially offset by an expected reduction in revenue from residential sales, which benefited in FY16 from a higher level of sales from legacy sites. More information about the performance of each business can be found in the operating review on pages 18 to 25.

As well as the revenue generated by our primary businesses, we earned £20.4 million (FY16: £0.7 million) of additional revenue from the development of commercial property associated with mixed-use planning consents. This revenue is reported within our corporate segment and for FY17 related to the forward sales of a hotel and offices at our Christchurch Road, Bournemouth development site. We also completed the delivery of 454 student beds at this site in the year.

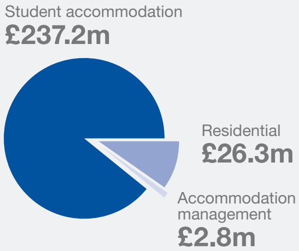
Gross profit increased to £63.5 million (FY16: £53.8 million), with an increase in the gross margin to 21.0% (FY16: 20.1%).

Revenue by operating segment

FY17

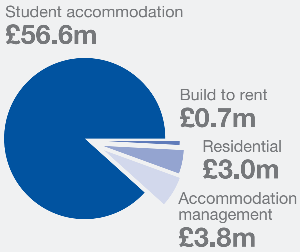


FY16

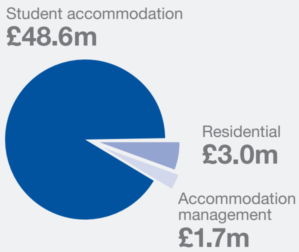


Gross profit by operating segment

FY17



FY16



Gross profit

Gross profit increased to £63.5 million (FY16: £53.8 million), resulting in a gross margin of 21.0% (FY16: 20.1%). The higher gross margin reflects the quality of location of our student accommodation developments and the effective acquisition of land sites for development at competitive prices. The gross margin for the student accommodation development business increased to 22.1% from 20.5% in FY16. In addition, the margin benefited from the full-year contribution from Fresh, which contributed a margin of 61.9%, and from an improved margin on residential sales. Residential sales in FY16 included £11.0 million of sales from legacy development sites at nil margin, compared to £6.0 million in FY17, which led to an improvement in the residential gross margin from 11.5% to 16.7%. Excluding the sales from legacy sites at nil margin, the margin from the underlying residential business improved to 25.0% from 19.8% in FY16.

Administrative expenses

Administrative expenses include the costs of Group support services, as well as head office costs, and were in line with our expectations at £20.8 million (FY16: £15.9 million). This reflects a full year of additional costs as a public company, an increase in support services personnel to support the growth in the Group's operations, a full year of overheads for Fresh and some investment in this business to create the platform for its expansion into the build to rent sector.

Operating profit before exceptional items

There were no exceptional items in FY17 and the operating profit achieved was £42.7 million, representing a margin of 14.1%. As described below, the Group incurred exceptional costs associated with the IPO in FY16. Adjusting for these resulted in an operating profit before exceptional items of £37.9 million in FY16, representing a margin of 14.2%.

Exceptional items

In FY16, the Group incurred a number of exceptional costs in relation to its IPO. These totalled £26.6 million and comprised £6.5 million of transaction-related fees and commissions, and £20.1 million for settling share-based management incentive arrangements that triggered on completion of the IPO.

Profit on disposal of interest in joint venture

The Group disposed of its joint venture interest in Athena Hall (Jersey) Limited during the year, realising a profit on disposal of £0.9 million. This company owned a student accommodation property in Ipswich that had previously been developed by the Group. The proceeds received from the disposal, including the repayment of a loan to Athena Hall (Jersey) Limited, amounted to £6.2 million, of which £0.7 million remains owed by way of a loan to the purchaser and is repayable within three years from the date of the transaction.

FINANCIAL REVIEW continued

Our strong cash generation results from our forward sale model.

Share of profit in joint ventures

Our share of profit in joint ventures totalled £0.5 million, compared to £3.0 million in FY16. We have several joint ventures with Lacuna Developments Limited, based in Northern Ireland, which enable us to benefit from development opportunities in Belfast. One student accommodation scheme was completed in FY17, with a second in build for delivery in FY18.

Finance costs

Our net finance costs totalled £0.8 million, down from £1.0 million in FY16. This was largely a consequence of our increased cash balances. We continue to incur finance costs on the loans which we have with Svenska Handelsbanken AB, as well as for having available our revolving credit facility with HSBC (page 35).

Taxation

The tax charge for the year was £7.5 million, representing an effective tax rate of 17.3%. This reflects the underlying tax rate for the year of 19.5%, following the reduction in the headline rate from 20% to 19% in April 2017, coupled with the benefit of a prior year adjustment of £0.8 million, as a result of finalising the tax computations for FY16. This adjustment arose from various items and deductible expenses, partly relating to the IPO, which were not taken into account when the tax numbers for the FY16 financial statements were prepared.

Earnings per share

Basic earnings per share from continuing operations were 14.0 pence. In FY16, the calculation of earnings per share was affected by the change in the number of shares in issue as a result of the IPO. On a proforma basis, after adjusting for the impact of the exceptional IPO costs and using the number of shares in issue at 30 September 2016, basic earnings per share for FY16 were 12.4 pence.

Cash flows

Cash flows	FY17 £m	FY16 £m
Operating profit before exceptional IPO costs	**42.7**	37.9
Loss from discontinued operations	**–**	(1.1)
Exceptional IPO costs	**–**	(26.6)
Depreciation and amortisation	**1.0**	0.8
(Increase)/decrease in working capital	**(18.4)**	13.5
Finance costs paid	**(1.0)**	(1.2)
Tax paid	**(5.1)**	(8.2)
Net cash inflow from operating activities	**19.2**	15.1
Cash flow from joint venture interests	**5.6**	4.2
Dividends paid	**(12.4)**	(13.4)
Net cash flow from (sale)/purchase of fixed assets	**(0.3)**	2.6
Acquisition of Fresh	**–**	(14.5)
Purchase of other financial assets	**–**	(1.0)
Cash flow from borrowings	**6.0**	(5.1)
Increase/(decrease) in cash	**18.1**	(12.1)
Cash at beginning of year	**47.2**	59.3
Cash at end of year	**65.3**	47.2
Less: borrowings	**(24.3)**	(15.0)
Net cash	**41.0**	32.2

Dividends

As discussed in the Chairman's statement on page 08, the Board has recommended a final dividend of 4.4 pence per share, giving a total dividend for the year of 6.6 pence per share. The cash cost of the final dividend will be £11.2 million. At 30 September 2017, the Company had distributable reserves of £152.8 million available to pay the final dividend.

Adjusted EBITDA

Adjusted EBITDA is an important measure of underlying performance for the Group. It is calculated as operating profit plus profit from joint ventures, before interest, tax, depreciation, amortisation and exceptional items.

Adjusted EBITDA increased by 8.6% to £45.2 million (FY16: £41.6 million), representing an adjusted EBITDA margin of 15.0% (FY16: 15.6%).

Cash flows

The Group's cash flow was strong. A net cash inflow from operating activities of £19.2 million was achieved after absorbing £18.4 million into working capital, mainly in respect of amounts recoverable on developments. Shortly after the year end we received £22.8 million of cash relating to forward sales we agreed during FY17, but which were not contractually completed in time to receive the cash by the year end. This was in respect of our development sites at Pittodrie Street, Aberdeen and Midland Road, Bath.

We spent £12.4 million in paying dividends, the impact of which was reduced by £5.6 million of cash received from our joint venture interests, principally the proceeds from the disposal of Athena Hall (Jersey) Limited, and by £6.0 million net cash inflow from borrowings.

The resultant net increase in cash of £18.1 million gave closing cash balances of £65.3 million. Net cash at the year end, after deducting borrowings of £24.3 million, amounted to £41.0 million. In comparison, net cash at 30 September 2016 stood at £32.2 million, made up of £47.2 million of cash less borrowings of £15.0 million.

Statement of financial position

During the year we invested £3.6 million in new plant, principally tower cranes required to support our development programme. These assets were acquired under hire purchase agreements.

The Group's investment in joint ventures was reduced by £4.1 million as a result of the disposal of Athena Hall (Jersey) Limited. As noted above, working capital increased by £18.4 million over the period, with trade and other receivables increasing by £21.5 million to £36.3 million. Inventory and work in progress stood at £125.2 million at 30 September 2017, compared to £128.2 million at the end of the previous year. The inventory balance includes £11.5 million invested in the acquisition of the Sutton build to rent site. Despite this, after adjusting for the timing of the forward sales receipts referred to above, our working capital position would have been relatively unchanged.

Bank facilities

At 30 September 2017, the Group had undrawn borrowing facilities of £36.7 million with HSBC Bank plc, comprising a £40 million five-year revolving credit facility ("RCF"), which matures on 15 March 2021, and a £10 million on demand and undrawn working capital facility. The RCF is available to support our land procurement and development opportunities and can be used for strategic land acquisitions or to fund discrete development activities, primarily the residential or commercial elements of certain larger mixed-use developments, alongside the forward sale model. We utilised the RCF to assist with several site acquisitions during the year and to fund the build of the hotel and offices at Christchurch Road, Bournemouth.

The Group's loan facilities with Svenska Handelsbanken AB, used to fund the operating build to rent stock which the Group holds in Sheffield and Droylsden, were renewed for a further five-year term in March 2017. The outstanding balance on these loans at 30 September 2017 amounted to £8.4 million.

Philip Byrom
Chief Financial Officer

12 January 2018

The strategic report, which includes the review of principal risks and uncertainties on pages 36 to 39, has been approved by the Board and signed on its behalf:

Mark Watkin Jones
Chief Executive Officer

12 January 2018

PRINCIPAL RISKS AND UNCERTAINTIES

This section sets out some of the risks our business faces. If any of the following risks were borne out in reality, there could be an impact on our business, its financial condition or results.

Risk	Impact	Link to business model
Market and economic conditions		
A change in the student market or in economic conditions could lead to reduced demand for PBSA or investors seeking increased yields.	Reduced demand could restrict the number of schemes we can forward sell each year. An increase in client yield expectations would result in compression of development values.	• Transaction and funding
The PBSA and build to rent markets are attractive, which could encourage new entrants and result in increased competition.	Increased competition could increase land prices or make it harder to secure attractive sites. More developments would be brought to market, with a potential reduction in demand for Watkin Jones' schemes.	• Site procurement and planning • Transaction and funding
Development costs		
Under the forward sale model, the development price is agreed at the outset, which means the Group then carries the cost risk.	Incorrect cost estimates or increases in material or labour costs could result in the Group not achieving its expected development returns.	• Construction and delivery
Delivery risk		
We could fail to complete student accommodation developments on time, ahead of the start of the academic year.	If a development is not completed on time, this would result in financial penalties and would damage the Group's reputation for on-time delivery, which could make it more difficult to sell future developments.	• Transaction and funding • Construction and delivery
Business continuity and disaster recovery		
There is a risk that business continuity is not maintained in response to a disaster or other business continuity event.	A failure to maintain business continuity could lead to financial loss, a delay to the delivery of schemes or loss of personnel.	• Site procurement and planning • Transaction and funding • Construction and delivery • Asset management

The Group's mitigations against these risks and an assessment of their potential net impact and likelihood are also set out below.

Mitigation	Net risk assessment
• The forward sale model provides the Group with a degree of resilience. A two to three-year pipeline of committed contracts provides the Group with time to respond to market changes. • The student market remains attractive, with student numbers continuing to grow and university places consistently oversubscribed. UK demographics are positive, with an upturn in the number of 17 to 21-year-olds coming through from 2021. • 75% of university PBSA was built pre-1999 and needs replacing. • Legislative changes relating to student housing/multiple occupancy properties are helping to stimulate the requirement for PBSA. • There is a continuing "flight to quality" as students prefer PBSA over traditional, and typically inferior, landlord-run properties. • Careful selection of sites in the right locations maintains demand for new PBSA developments from both students and investors.	Impact: Moderate Likelihood: Remote
• The Group has a competitive advantage in that it provides the full end-to-end service for clients, which provides a barrier to entry. • Watkin Jones holds "tier 1" developer status, which is a requirement for institutional funds to engage on a forward sale basis. • The Group benefits from economies of scale, has established subcontractor supply chains and delivery expertise, which makes it harder for new entrants to compete.	Impact: Minor Likelihood: Possible
• The Group's specialism and experience in building PBSA helps the accurate estimation of development costs. • Subcontractor orders are placed as early as possible in the construction phase, ensuring prices are locked in and taking the risk out of cost inflation as the build progresses. • The Group has economies of scale and buying power, which has enabled it to secure national supply agreements. • Designs have been standardised to enable conformity of material supply and build processes.	Impact: Minor Likelihood: Possible
• The Group's specialism and experience in building PBSA means that construction programming and techniques are well established to ensure on-time delivery. The Group has an outstanding record of on-time delivery, achieved across 107 schemes. • The senior construction management team has many years of experience with the Group in building PBSA. • As a complete developer of PBSA, the Group is in control of the overall timescale for delivery of a scheme and can therefore ensure that projects are started on site sufficiently early. The Group can take the decision to defer a project for a year if there are planning delays.	Impact: Moderate Likelihood: Unlikely
• The Group's activities are geographically dispersed and there is no dependence on one location. • A business disaster recovery plan is in place for the Group's key information systems. • System data backup routines are in place.	Impact: Minor Likelihood: Remote

PRINCIPAL RISKS AND UNCERTAINTIES continued

Risk	Impact	Link to business model
Cash flow risk Cash flow constraints could result in the inability to meet financial commitments or source new land opportunities.	Cash flow constraints could lead to an over-dependence on banking facilities, leading to an increase in borrowing costs, and could limit the Group's ability to source new sites, with a resultant impact on future profitability.	• Site procurement and planning • Transaction and funding
Human resources There is a risk of over-reliance on senior management to drive the Group's performance and success.	The loss of a number of senior management personnel would result in a significant knowledge loss and would affect the Group's ability to deliver its targets and meet its strategic objectives in the short to medium term.	• Site procurement and planning • Transaction and funding • Construction and delivery • Asset management
We may find it difficult to recruit and retain professional site, design and support services personnel.	A failure to attract, recruit and retain the right personnel for the business could restrict its ability to grow and could result in development margins being eroded, through the use of personnel without the requisite skills, experience and knowledge. Rectifying this could lead to excessive use of senior management time and expense in recruiting personnel.	• Site procurement and planning • Construction and delivery
Health and safety By their nature, construction sites are inherently high-risk environments. There is a risk that a failure to follow established health and safety procedures could result in serious incident or fatality.	A major on-site health and safety incident could result in a significant fine or financial cost, increased insurance renewal premiums, damage to reputation and potential project delay.	• Construction and delivery
Financial crime We may be unable to prevent or detect financial crime.	Financial crime could lead to financial loss, breach of regulations, regulatory censure/fine and loss of reputation.	• None
Historic PBSA lease commitments Historically the Group has entered into operating leaseback arrangements in respect of several of its PBSA developments, in order to enhance their sales price by providing a secure level of income return to the purchaser of the asset. There is the risk that future net rental returns from the operation of the property may be less than the lease rental commitments.	If future net rental returns from the operation of the property are less than the lease rental commitments, there would be a financial cost to the Group, which could impact its earnings and cash position.	• None

Mitigation	Net risk assessment
• The forward sale model significantly helps to reduce the Group's cash requirements, as developments should be cash positive once they have been forward sold. • The cost of site acquisitions is generally known several months in advance, as the purchase commitment is usually subject to receipt of a satisfactory planning permission. This provides good visibility of future commitments and enables the Group's cash flow requirements to be managed. • Regular cash flow forecasts are prepared and are subject to review by the Executive Directors. • The Group had cash of £65.3 million at 30 September 2017 and has a £40 million five-year revolving credit facility available, which had headroom of £26.6 million at 30 September 2017.	Impact: Moderate Likelihood: Unlikely
• Senior Directors are significant shareholders in the Company and have a vested interest in ensuring its continued success. • Senior management are incentivised through an annual bonus scheme. A rolling three-year LTIP is proposed to help drive performance and encourage longer-term commitment. • Succession planning is starting to be put in place for senior positions. • Being a public company and with a successful track record makes it easier to attract the right quality of applicants for senior positions.	Impact: Moderate Likelihood: Possible
• An established HR function is in place and has been further strengthened in the year. It covers all the main HR areas, including recruitment, training and performance review. • The Group seeks to remain competitive in its remuneration levels and employment terms. • An open culture continues to be developed within the Group, to ensure best practice, experience and ideas are shared. • Senior management support and encourage personal development and attendance on training courses. • The Group's status as a public company helps the retention and recruitment of personnel.	Impact: Minor Likelihood: Probable
• The Group has rigorous health and safety policies and procedures in place, which are managed by an established health and safety department which regularly conducts health and safety audits across all the Group's sites. • Weekly health and safety meetings are held. • Health and safety is taken seriously at Board and Executive Committee level, regularly reporting on findings and recommendations. • The Group engages with its insurers to help ensure best practice is maintained. • Insurance covers are reviewed annually and maintained at appropriate levels.	Impact: Minor Likelihood: Unlikely
• Several layers of authorisation checks operate within the Group's business processes, which are subject to segregation of duties. • There is little opportunity for price fixing, as development prices are determined on a negotiated basis. • Senior management take an active role in reviewing transactions and ensuring that procedures are followed.	Impact: Insignificant Likelihood: Remote
• The properties concerned are managed by Fresh Student Living, which means the Group is in a position to maximise future net rental returns. • Provision has historically been made in the financial statements to cover the discounted cost to the Group of lease commitments, where the expected future net rental returns are less than the lease rental commitments. • Several of the leases are expected to generate significant positive net returns for the Group, so that on a blended basis the Group's risk is mitigated.	Impact: Minor Likelihood: Unlikely

CHAIRMAN'S INTRODUCTION

This was a year of continued development for the Board and the Group.

Grenville Turner
Independent Non-Executive Chairman

This was a year of continued development for the Board and the Group. The quality of our corporate governance has a direct influence on the Group's ability to continue to deliver for our clients, tenants, people and shareholders. We have not complied with the UK Corporate Governance Code, which is allowable for AIM-listed companies. However, we recognise the benefits that the Code brings and we continue to apply the principles that are appropriate for a company of our size and nature.

The Group has suitable governance structures in place and we have continued to develop and embed the processes and procedures that support our governance framework. This ensures that the Board and the business can operate effectively, while protecting the Group's entrepreneurial culture. Examples include reviewing delegated authorities and formalising our whistleblowing policy, including implementing an external helpline. These enhancements to our governance and controls will continue in the coming year.

Structure of the Board

Board of Directors

Grenville Turner Non-Executive Chairman	**Simon Laffin** Non-Executive Director
Mark Watkin Jones Chief Executive Officer	**Philip Byrom** Chief Financial Officer

During the year, the Board reviewed and debated the Group's strategy, which included presentations from each part of the business. The strategy has proved highly successful and the Board is convinced that it remains appropriate going forward. Having reaffirmed our commitment to it, the strategy has informed our budgeting and financial planning process. This helps to ensure that the Group will have the financial resources it needs to fulfil its strategy, while rewarding shareholders with progressive dividends.

In last year's report, I noted that we intended to recruit a third Non-Executive Director. This would give the Board a majority of independent directors and allow the new member to become chairman of the Remuneration Committee. This remains our intention. At the same time, we recognised that as a relatively new Board, we needed to spend some time working together so we could understand what skills and qualities – including diversity – would be most beneficial in a new director. Completing a formal appraisal of the Board and its effectiveness, which we began at the end of 2017, will also be important for informing this debate. We will take the findings into account when we begin the search for candidates in 2018.

Grenville Turner
Independent Non-Executive Chairman

12 January 2018

BOARD OF DIRECTORS

The Board recognises the importance of maintaining an open dialogue with shareholders, keeping them informed of the Group's strategy, progress and prospects.

Grenville Turner
Independent Non-Executive Chairman

Grenville has 40 years' experience in retail banking and the property sector. His past directorships include Rightmove plc, St James's Place plc, Sainsbury's Bank plc, Countrywide plc and Realogy, the largest realtor in the US.

Grenville was Chairman of ThreeSixty Developments (formerly Knightsbridge Student Housing) and is Chairman of Capital Professional Limited and the Titlestone group of companies. He is also a Non-Executive Director of ZPG Plc and Vice Chairman of the English National Ballet. He is a qualified chartered banker and holds an MBA from Cranfield School of Management.

Mark Watkin Jones
Chief Executive Officer

Mark has been involved in the business full time since 1990, when he graduated from Portsmouth Polytechnic with a degree in Construction Management. He was appointed Managing Director in 2003 and has been instrumental in the Group's growth, introducing the structures and procedures that allow the business to operate as it does today.

Mark has been recognised for his strong leadership and people development skills by Construction Excellence. He has also received an Ernst & Young Real Estate Entrepreneur of the Year award. In 2017, he won Business Leader of the Year at the Regional Insider Business Leaders Awards and was shortlisted for the AIM Entrepreneur of the Year Award.

Philip Byrom
Chief Financial Officer

Philip has been Chief Financial Officer since joining the Group in 2002. In addition to his role as CFO, he has led a number of complex financing arrangements and material property and corporate transactions.

Philip qualified as a chartered accountant with Price Waterhouse in 1990 and progressed rapidly to senior manager, giving him responsibility for several public company clients. He moved into industry in 1995 and gained broad experience through group and divisional finance roles, including as Divisional Finance Director for Pharmaceutical Technologies at BWI plc. Philip holds an honours degree in Civil Engineering from Manchester University.

Simon Laffin
Independent Non-Executive Director

Simon is Chairman of Flybe Group plc and Assura plc. Previously he has been a Non-Executive Director of Quintain Estates and Development plc, Aegis Group plc, Mitchells & Butlers and Northern Rock (as part of the rescue team). He has also served as Chairman of Hozelock Group and as an adviser to CVC Capital Partners. Prior to this, he was Group Finance & Property Director of Safeway plc.

CORPORATE GOVERNANCE

The Board's primary focus during the year has been to continue to develop the procedures that ensure effective corporate governance of the Group.

The Board

The Board comprises two Executive Directors and two independent Non-Executive Directors, including the Chairman. Biographies of the Directors can be found on page 41.

Mark Watkin Jones and Philip Byrom were appointed Directors under service agreements dated 16 March 2016. These contracts may be terminated by twelve months' notice by either party.

Grenville Turner and Simon Laffin were appointed to the Board by letters of appointment dated 26 February 2016. These appointments run for three years from the date of admission (23 March 2016) and are terminable on three months' notice by either side.

The Chairman and Chief Executive Officer have separate, clearly defined roles. The Chairman is responsible for overseeing the Board and the Chief Executive Officer is responsible for implementing the Group's strategy and for its operational performance.

The Board meets regularly to consider strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information, including briefing papers distributed in advance of Board meetings.

Matters reserved for the Board for its decision include:

- approving the Group's strategic aims and objectives;
- reviewing performance against the Group's strategic aims, objectives and business plans;
- overseeing the Group's operations;
- approving changes to the Group's capital, corporate, management or control structures;
- approving results announcements and the annual report and financial statements;
- approving the dividend policy;
- declaring the interim dividend and recommending the final dividend and any special dividend;
- approving any significant changes in accounting policies;
- approving the treasury policy;
- approving the Group's risk appetite and principal risk statements;
- reviewing the effectiveness of the Group's risk and control processes;
- approving major capital projects and material contracts or arrangements;
- approving all circulars, prospectuses and admission documents;
- ensuring a satisfactory dialogue with shareholders;
- establishing Board Committees and approving their terms of reference;
- approving delegated levels of authority;
- approving changes to the Board and its Committees;
- determining the remuneration policy for the Directors and other senior executives;
- providing a robust review of the Group's corporate governance arrangements; and
- approving all Board mandated policies.

All Directors have access to the advice and services of the Chief Financial Officer, who ensures that the Board's procedures are followed and that applicable rules and regulations are complied with, and to the professional company secretarial services of Prism Cosec. In addition, the Company has procedures to enable the Directors to obtain independent professional advice at the Company's expense, if necessary to further the Directors' duties.

All of the Directors will stand for election at the forthcoming AGM.

Board Committees

The Board has Audit, Nomination and Remuneration Committees, which operate under written terms of reference. The reports of these Committees can be found on pages 44 to 48.

Attendance at meetings

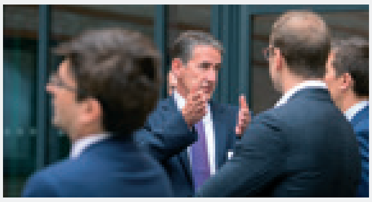
The table below sets out the number of Board and Committee meetings attended by each Director during the year:

	Board	Audit Committee	Remuneration Committee
Grenville Turner	7/7	5/5	4/4
Mark Watkin Jones	7/7	5/5	4/4
Philip Byrom	7/7	5/5	–
Simon Laffin	7/7	5/5	4/4

The Nomination Committee did not meet during the year.

Relations with shareholders





Shareholders' and analysts' site visit to Mannequin House London

As Executive Directors, Mark Watkin Jones and Philip Byrom are not members of the Committees but were invited to attend meetings as appropriate to assist with the matters discussed.

Board effectiveness

In December 2017, the Board instigated procedures to conduct its first formal review of its performance. This will be an internal review, based on questionnaires issued to each Board member. The questionnaires will cover:

- Board processes and supporting materials;
- the role of the Board;
- Board composition;
- Board culture and dynamics;
- the organisation and effectiveness of the Board's Committees;
- potential Board development needs; and
- Non-Executive Director individual effectiveness.

The findings of the review and any subsequent actions will be reported in the 2018 annual report.

Internal controls

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the Group's size, complexity and risk profile.

The key features of the Group's internal control system include:

- the preparation of monthly management accounts and comparison to budget;
- clearly defined roles and responsibilities, with appropriate segregation of duties;
- clear authorisation and approval processes;
- regular preparation and review of cash forecasts;
- senior management review of material contracts and agreements; and
- approval by senior management of all land purchases and development sales agreements.

In November 2017, the Board approved the recommendation of the Audit Committee to appoint KPMG to provide internal audit services to the Group. KPMG will commence its internal audit services in January 2018.

Relations with shareholders

The Board recognises the importance of maintaining an open dialogue with shareholders, keeping them informed of the Group's strategy, progress and prospects. As part of this, the Board is committed to a high standard of corporate reporting.

During the year, the Executive Directors continued their ongoing programme of meetings with existing and potential shareholders. Meetings took place after the release of the FY16 results in January 2017 and the FY17 interim results in June 2017.

The Board was kept informed about shareholders' views after these meetings by follow up from the Company's corporate brokers.

In April 2017, the Executive Directors hosted a site visit for shareholders and analysts at The Court, Clarendon Quarter, Leeds, which is the Group's first completed build to rent development, on the day of its official opening.

In September 2017, the Executive Directors hosted a further day of site visits to Mannequin House in London, which was completed in 2017, and to Duncan House, Stratford, East London, which is a mixed-use development under construction for delivery in FY19 and comprising 511 student beds, 44 residential apartments and nearly 28,000 sq ft of academic teaching and affordable commercial space.

The Board intends to introduce a long-term incentive plan for the Executive Directors and a number of the Group's other senior managers, which is discussed in more detail in the Remuneration Committee report on pages 47 and 48. In January 2018, the Chairman wrote to the top ten institutional shareholders to summarise the proposals and to request any feedback.

A key event during the year was the successful placing of 50.25 million existing shares in Watkin Jones plc of which 49.25 million were held by the G&J Watkin Jones 1992 Settlement Trust and one million by Philip Byrom. These shares represented 19.7% of the Company's share capital. The placing has broadened the share register, allowing some key institutions to acquire shares for the first time, and has also increased the liquidity of the shares.

Our advisers play an important part in helping us to communicate effectively with shareholders. In May 2017, we announced the appointment of Peel Hunt LLP as the Company's nominated adviser and corporate broker. We appointed Jefferies Hoare Govett as joint corporate broker in June 2017.

Annual General Meeting ("AGM")

The Company's AGM will be held at 10.30am on Tuesday 13 February 2018 at the offices of Buchanan, 107 Cheapside, London EC2V 6DN. The Notice of Meeting, setting out the resolutions proposed, is contained in a separate document and is available on the Group's website, **www.watkinjonesplc.com**

AUDIT COMMITTEE REPORT

The Audit Committee continued to review and establish the procedures and systems necessary to establish robust standards of financial control.

Committee members

Simon Laffin (chairman)
Grenville Turner

Additional attendees, as invited

Ernst & Young LLP
Mark Watkin Jones
Philip Byrom

Committee responsibilities

The Committee is primarily responsible for:

- monitoring corporate risk and the quality of internal controls;
- ensuring that the Group's financial performance is properly measured and reported; and
- liaising with and reviewing the work of the Group's external auditor.

A copy of the Committee's terms of reference is available on the Company's website **www.watkinjonesplc.com/investors/corporate-governance**

The Committee meets at least twice in a full year. In FY17, it met five times.

Dear Shareholder

On behalf of the Audit Committee, I am pleased to present the Audit Committee report for the year ended 30 September 2017. The Board is satisfied that I have the necessary recent and relevant financial experience to chair the Audit Committee.

The work of the Committee

In the year following the Company's public listing, the Audit Committee continued to review and establish the procedures and systems necessary to ensure robust standards of financial control. Aside from the significant accounting judgements which are set out separately below, the Committee considered the following items during the year:

Policies and procedures	The Committee reviewed and approved both a new full Policies and Procedures Manual and a Board Procedures Manual.
Whistleblowing	The Committee oversaw the setting up of a confidential, third-party hotline and ensured that this was widely publicised within the business.
Non-audit services	The Committee reviewed and approved the Company's policy for non-audit services.
Treasury Policy	The Committee reviewed and recommended a Group Treasury Policy which the Board subsequently adopted.
Interim results	The Committee reviewed and approved the interim results taking into account a limited-scope interim review provided by EY.
Full-year results	The Committee reviewed EY's plan for the full-year audit. The auditor informed the Committee that it would report unadjusted audit differences and significant judgemental items in excess of £0.1 million. The audit materiality level was £2.2 million.
Going concern	The Committee undertook a review of the Company's going concern status at the reporting period end.
Internal audit	The Committee reviewed the need for internal audit and agreed that the Company was of sufficient size to merit the appointment of a third party to provide this service. Following a full selection process, involving proposals submitted from three firms, the Committee recommended to the Board that KPMG be selected to provide this service. The Board approved this proposal and KPMG were subsequently appointed to provide internal audit services commencing January 2018. The scope of services to be provided will be to assist management in further developing its risk register and to carry out specific reviews designed to ensure that the controls in place to help mitigate against risks are operating effectively.
Delegated authorities	The Committee reviewed and approved the Company's delegated authority matrix.
Executive Committee terms of reference	The Committee reviewed proposed terms of reference for the Executive Committee and made recommendations to the Board.
Dividend	The Committee reviewed the Company's distributable reserves on behalf of the Board before making recommendations on the interim and final dividends.
Revenue recognition and lease accounting	The Committee discussed the potential implications of IFRS 15 and IFRS 16 on the Company with the auditor. The Company has begun its initial assessment of the likely impacts, but the Committee considers it too early to quantify the financial effects.

Effectiveness of the external auditor

In the first meeting following the conclusion of last year's audit, the Committee and the Chief Financial Officer reviewed the performance of the auditor, looking at the audit scope, the cost effectiveness and the general performance and concluded that Ernst & Young LLP ("EY") continued to provide an effective service.

The Committee and the Board remain satisfied with the performance of EY and have concluded that the firm is independent and has the necessary level of objectivity. The Board will, therefore, recommend that a resolution for the re-appointment of EY as external auditor for the Company should be proposed at the AGM in February 2018.

The management of risk

The Company has established a Risk Committee, which is a committee of the Executive Committee and is chaired by the Chief Executive Officer. The Company's risk register is reviewed by the Risk Committee and any evolving trends or matters of concern are subject to review. In the coming year, the Risk Committee will work closely with internal audit to further develop the risk register and to review the effectiveness of mitigating controls. The minutes of the Risk Committee and reports of the internal auditor will be tabled at the Audit Committee meetings. The Chief Executive Officer and internal auditor will attend the Audit Committee meetings, or parts of those meetings, to report on risk and other salient matters.

The Audit Committee's risk assessment:

Revenue recognition: this is a presumed significant risk in all audit work, but the specific issue for us is recognition of long-term contract revenue.

Management override: this is also a presumed risk. The issue for the Audit Committee is ensuring that there are sufficient management controls to offset this risk.

Land and work-in-progress valuation: this is an important part of long term contract accounting. The Company has clear accounting policies for these valuations, with the forward sale model reducing the risk around the selling price.

Final year-end audit report

The Committee met with EY and reviewed their report on the year-end results. Careful consideration was given to:

- revenue recognition of projects under development and the valuation of work-in-progress. This was agreed as properly accounted for;
- the risks of management override of controls. The risk was noted and would be included in the brief to the new internal auditors;
- the control and documentation of related party transactions. It was agreed that the process would be more formally documented at all stages;
- quality of earnings. It was noted that there were no significant out of period movements in this year's numbers;
- a number of immaterial corrected and uncorrected audit differences. These were accepted;
- the independence of the external auditor. EY has been the auditor for 14 years, but the Committee was firm in its view that the auditor has retained its independence from management. EY did no chargeable work for the Company other than the audit and half year review; and
- new accounting and reporting standards. The Committee noted that all requirements for an AIM-listed business are being complied with.

Significant accounting estimates and judgements

The Committee reviewed a schedule of significant accounting estimates and judgements presented by management, with both internal and external auditors present. This highlighted:

- provisions for onerous lease commitments. These increased by £0.7 million this year as a result of historic lease commitments, effectively rent guarantees, on PBSA properties sold in prior years, reflecting some lower occupation levels. It is no longer the policy of the Company to enter into arrangements of this nature;
- bonus accrual. The accrual is made before the Remuneration Committee signs off the final bonus, which itself is based on the final published accounts; and
- carrying value of intangible assets. This relates to the carrying value of Fresh Student Living. A 20-year cash flow forecast was prepared that showed that the value booked was comfortably justified.

Simon Laffin
Chairman of the Audit Committee

12 January 2018

NOMINATION COMMITTEE REPORT

We have established an Executive Committee to provide broadened responsibilities and exposure to executive management below the Executive Directors and to enable the effective delegation of operational responsibilities.

Committee members

Grenville Turner (chairman)
Simon Laffin

Committee responsibilities

The Committee identifies and nominates, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Committee meets as required. In FY17, the Committee did not meet.

Dear Shareholder

In last year's report, I set out three priorities for the Nomination Committee in FY17. The first of these was the recruitment of an additional Non-Executive Director. As I explain in my introduction to corporate governance on page 40, this remains our intention and will be a priority for FY18.

Our second priority for this year was to complete succession planning for the Executive Directors and oversee succession planning for the executives below Board level. This process is ongoing. We have structured the Executive Committee to provide broadened responsibilities and exposure to executive management below the Executive Directors and to enable the effective delegation of operational responsibilities. This will enable existing talented members of the Executive Committee to be developed. We are also in the process of recruiting a deputy CFO and we hope to be able to make this appointment in early 2018.

The third priority for FY17 was to introduce a formal recruitment process for senior positions. This process is now in place.

Diversity

We recognise the business benefits of diversity. Our aim is to go beyond the legal requirement to treat everyone fairly, so we ensure that Watkin Jones is an attractive employer to the widest possible workforce.

As discussed in the diversity and inclusion section on page 30 of the strategic report, women remain under-represented at senior levels of the Group. In part, this is due to the nature of the industry in which we operate as well as to the relative stability of the senior team, which means we have had fewer opportunities to increase diversity. Going forward we will continue to look for ways to enhance all aspects of diversity across the Group.

Priorities for FY18

In the coming year, the Committee has a number of priorities. These include:

- recruiting a new Chief Executive Officer;
- recruiting an additional Non-Executive Director, who will take over as chairman of the Remuneration Committee; and
- recruiting a deputy to the Chief Financial Officer who has the potential to be a successor in this role.

In considering candidates for the above roles, the Committee would like to take the opportunity to increase diversity. However, our overriding objective will be to appoint the people we believe are best for the roles.

Grenville Turner
Chairman of the Nomination Committee

12 January 2018

REMUNERATION COMMITTEE REPORT

In 2017 the Committee undertook a benchmarking review of executive remuneration to ensure that terms remain competitive with market practices and against other comparably sized AIM-listed and sector peers.

Committee members

Grenville Turner (chairman)
Simon Laffin

Additional attendees, as invited

Mark Watkin Jones
Philip Byrom

Committee responsibilities

The Committee is primarily responsible for:

- reviewing the performance of the Executive Directors; and
- determining their terms and conditions of service, including their remuneration.

The Remuneration Committee meets at least once a year. In FY17, it met four times.

Dear Shareholder

This report sets out the Group's remuneration policy for the Directors and explains how this policy was applied during the year. It also outlines the proposed long-term incentive plan, which will be put to shareholders for approval at the AGM on 13 February 2018.

Remuneration policy

The Company continued to operate a simple remuneration policy for FY17. Executive Directors were eligible to receive:

- basic salary;
- annual bonus;
- pension contributions; and
- other benefits, including a car allowance and health insurance.

Basic salaries

The current annual salaries of the Executive Directors are as follows:

- Mark Watkin Jones: £350,000; and
- Philip Byrom: £215,000.

The Committee reviews the Executive Directors' salaries annually but is not obliged to increase them. In FY17 the Committee undertook a benchmarking review of executive remuneration to ensure that terms remain competitive with market practices and against other comparably sized AIM-listed and sector peers.

The Committee also considers:

- the performance, role and responsibility of each Director;
- the economic climate, market conditions and the Company's performance; and
- the level of pay across the Group as a whole.

In FY17, following the benchmarking review exercise, Mark Watkin Jones received a 16.7% increase in basic salary and Philip Byrom received a 19.4% increase. This compared with an average 6.5% increase for salaries across the Group.

Annual bonus

The Executive Directors' annual bonuses for FY17 were based on carefully chosen corporate performance and personal performance measures. These measures incentivise delivery of the plan for the year, as well as ensuring future performance through measures related, for example, to the development pipeline.

The maximum bonus opportunity is 100% of basic salary for both Mark Watkin Jones and Philip Byrom. Three quarters of the annual bonus relates to corporate performance and one quarter to achieving personal targets. Of the annual bonus relating to corporate performance 75% is payable for achieving EBITDA in line with the market consensus.

For FY17, Mark Watkin Jones and Philip Byrom both received a bonus of 84.5% of salary.

Pensions

The Company contributes to pension plans for the Executive Directors at a rate of 10% of basic salary, which was increased from the previous rate of 7% in April 2017. The Directors may elect to receive all or part of the pension contribution in cash, provided that there is no difference in cost to the Company.

Non-Executive Directors' fees

The current fees for the Non-Executive Directors are as follows:

- Grenville Turner: £125,000; and
- Simon Laffin: £52,000.

These fees are subject to annual review. The fees were not adjusted in FY17.

REMUNERATION COMMITTEE REPORT continued

Remuneration in the year

During the year, the Directors received the following emoluments:

	Basic salary/fee		Annual bonus		Pension contribution		Benefits in kind		Total	
	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16
Mark Watkin Jones	325,000	225,000	274,641	243,750	28,000	50,000	24,136	72,910	651,777	591,660
Philip Byrom	197,500	155,000	166,897	146,250	17,050	10,850	16,310	15,033	397,757	327,123
Grenville Turner	125,000	62,500	—	—	—	—	—	—	125,000	62,500
Simon Laffin	52,000	26,000	—	—	—	—	—	—	52,000	26,000

The figures for FY16 in the table above comprise the emoluments for Mark Watkin Jones and Philip Byrom as directors of Watkin Jones Group Limited for the six months to 31 March 2016 and as Directors of Watkin Jones plc for the six months to 30 September 2016. The emoluments for Grenville Turner and Simon Laffin for FY16 are for the six-month period from the date of their appointment to 30 September 2016.

Directors' interests in the Company's shares

At 30 September 2017, the Directors had the following interests in the Company's shares:

	Number of shares
Mark Watkin Jones	7,650,000
Philip Byrom	3,167,891
Grenville Turner	340,900
Simon Laffin	100,000
Total	**11,258,791**

Mark Watkin Jones also has a potential beneficial interest in the G&J Watkin Jones 1992 Settlement Trust and in the Watkin Jones Will Trust, which between them held 66,759,407 shares in the Company at 30 September 2017.

Proposed long-term incentive plan

The Committee engaged FIT Remuneration Consultants LLP to advise on the suitable design of a new long-term incentive plan for the Executive Directors and selected senior executives, to ensure that total remuneration packages are appropriately aligned to the market and the long-term interests of shareholders. Shareholder approval for the new plan, which is consistent with best practice on AIM and is described in the notice of AGM, will be sought at the AGM on 13 February 2018. Subject to shareholder approval, it is envisaged that the initial awards will be granted shortly after the AGM.

Grenville Turner
Chairman of the Remuneration Committee

12 January 2018

DIRECTORS' REPORT

The Directors present their report, together with the audited financial statements for the year ended 30 September 2017.

The corporate governance disclosures on pages 42 and 43 form part of this report.

Principal activity

The Company is incorporated and registered in England and Wales, with registered number 9791105. Its shares are traded on the Alternative Investment Market of the London Stock Exchange.

The Company is the ultimate holding company of the Group. The Group's principal activities are described in the strategic report on pages 02 to 39.

Review of business

The strategic report on pages 02 to 39 provides a review of the business, the Group's trading for the year ended 30 September 2017, key performance indicators and an indication of future developments and risks.

Result and dividend

The Group's profit for the year was £35.8 million (FY16: £4.2 million). More information about the Group's financial performance can be found in the financial review on pages 32 to 35, and in the financial statements on pages 55 to 91.

The Board has recommended a final dividend for the year of 4.4 pence per share, giving a total dividend for the year of 6.6 pence per share. More information about dividends can be found in the Chairman's statement on pages 08 and 09 and in the financial review on pages 32 to 35.

Directors

The Company's Directors during the year were:

- Grenville Turner;
- Mark Watkin Jones;
- Philip Byrom; and
- Simon Laffin.

The Directors' biographies can be found on page 41. Details of the Executive Directors' service contracts, the Non-Executive Directors' letters of appointment and the Directors' dates of appointment can be found in the corporate governance report on pages 42 and 43.

Directors' interests

The Directors' interests in the Company's shares are set out in the Remuneration Committee report on page 48.

Directors' indemnity provisions

The Company has purchased and maintained throughout the period Directors' and officers' liability insurance in respect of the Directors.

Share capital structure

At 30 September 2017, the Company's issued share capital was £2,552,689 divided into 255,268,875 ordinary shares of one pence each.

The holders of ordinary shares are entitled to one vote per share at the Company's general meetings.

Political donations

The Company made no political donations during the year.

Substantial shareholdings

Based on the share register analysis as at 15 December 2017, and as far as the Company is aware, the following represents interests in excess of 3% of its ordinary share capital:

Holder	Number of shares held	Percentage
G&J Watkin Jones 1992 Settlement Trust	38,901,422	15.24
Woodford Investment Management	32,875,000	12.88
Watkin Jones Will Trust	27,857,985	10.91
Octopus Investments	12,749,031	4.99
Seek Ventures Limited	10,000,000	3.92
BlackRock Investment Management (UK)	9,260,645	3.63

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint EY will be proposed at the forthcoming AGM.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Approval

This Directors' report was approved on behalf of the Board on 12 January 2018.

Philip Byrom
Chief Financial Officer

12 January 2018

DIRECTORS' RESPONSIBILITIES

in relation to the annual report and financial statements

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with IFRS as adopted by the EU and applicable law.

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 parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT
to the members of Watkin Jones plc

Opinion

In our opinion:

- Watkin Jones plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Watkin Jones plc which comprise:

Group	Parent company
Consolidated statement of financial position as at 30 September 2017	Statement of financial position as at 30 September 2017
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 39 to 44 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 38 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Revenue recognition • Carrying value of land and work in progress
Audit scope	• The Group solely operates in the United Kingdom. We performed an audit of the complete financial information of all the Group companies and we performed direct procedures on joint venture balances included within the Group financial statements.
Materiality	• Overall Group materiality of £2.2 million which represents 5% of pre-tax income.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Watkin Jones plc

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified. These matters included 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 were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition (Revenue – 2017: c.£302 million, 2016: c.£267 million) Refer to the Audit Committee report (pages 44 and 45); accounting policies (pages 59 to 64); and notes 6 and 7 to the consolidated financial statements (pages 65 and 66). The Group's main revenue stream comes from long-term contracts (2017: c.£278 million, 2016: c.£238 million). In line with IAS 11 'Construction Contracts', revenue and margin is recognised on a percentage of completion basis. There are various assumptions within the development appraisals regarding the estimated costs to complete which impact whether revenue and margin are recognised in the appropriate period. There is therefore a risk that the incorrect amount of revenue and cost has been taken to the income statement if the estimated costs to complete are incorrect, either due to error or management bias. Revenue from residential sales of c.£18 million (2016: c.£26 million) was recognised on legal completion. There is a risk that revenue is not recorded in the appropriate period due to cut off errors or management bias. Accommodation management revenue of c.£6 million (2016: c.£3 million) and rental income of £21 million (2016: £14 million) were recognised in line with management services provided or rental agreements in place. There is a risk that revenue is not recorded in the appropriate period due to cut off errors or management bias.	Our audit procedures included: • evaluating the design and implementation of controls over revenue recognition; and • we performed audit procedures designed to address the risk of management override of controls including journal entry testing to confirm the processing and timing of journals to record revenue are consistent with our expectations. In relation to long-term contract revenue: • we considered the revenue recognised with reference to the stage of completion, focusing on those developments not fully constructed pre year end; • for all developments where revenue in excess of £162,000 was recognised in the year, we agreed revenue to signed development agreements and critically challenged the forecast cost to complete; and • for a sample of costs incurred during the year, we verified that they had been allocated to the appropriate development. In relation to residential sales: • we selected a sample of residential sales made in September 2017 and October 2017 and corroborated the sale to the legal completion documentation and cash receipt. In relation to accommodation management revenue/rental income: • we selected a sample of sales invoices raised in September 2017 and October 2017 and recalculated the revenue recognised and deferred at year end by reference to the service contract; and • we performed substantive analytical review procedures. **Scope of our procedures:** The whole Group was subject to full scope audit procedures over revenue.	We have audited the timing of revenue recognition and assessed the risk of management override. Based upon the audit procedures performed, we conclude that revenue (and the associated gross profit on the long-term contracts) has been recognised on an appropriate basis in the year.

Risk	Our response to the risk	Key observations communicated to the Audit Committee

Carrying value of land and work in progress 2017: c.£125 million (2016: c.£128 million) of inventories held split between land of c.£70 million (2016: c.£75 million) and work in progress of c.£55 million (2016: c.£53 million)
 	
Refer to the Audit Committee report (pages 44 and 45); accounting policies (pages 59 to 64); and note 21 to the consolidated financial statements (page 78).
 	
The valuation of inventories at the lower of cost and net realisable value requires significant judgements by management over the anticipated revenues and forecast development costs.
 	
There is therefore a risk that the carrying value of the land and work in progress balances reported within inventories are overstated.
	Our audit procedures included:
	• we evaluated the design and implementation of controls over carrying value of land and work in progress;
	• for land and work in progress developments held at 30 September 2017 with a carrying value in excess of £162,000, we:
	  • evaluated the assumptions made regarding selling price to market data and verified to post year end signed development agreements where relevant;
	  • compared the actual and estimated costs and margin over the development lifecycle and validated key drivers for change in margin to assess management's forecasting accuracy;
	  • verified a sample of costs incurred in the year to purchase invoice; and
	  • critically assessed the appropriateness of key assumptions and the development's commercial viability; and
	• for those sites determined to be most at risk of overstatement, we involved our internal valuation specialists to validate the value of land and work in progress held.
	
	Scope of our procedures:
	The whole Group was subject to full scope audit procedures over land and work in progress.
		We have audited the inputs and assumptions used by management to assess the carrying value of land and work in progress.
		
		We conclude that the inputs and assumptions applied are reasonable and that the carrying value of land and work in progress at 30 September 2017 is appropriate.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We performed an audit of the complete financial information of all the Group companies and we performed direct procedures on joint venture balances included within the Group financial statements.

Changes from the prior year

There has been no change in our scope compared to the prior year.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £2.2 million (2016: £1.97 million), which is 5% (2016: 5%) of pre-tax income (2016: pre-tax income adjusted for exceptional costs). We believe that pre-tax income provides us with a key performance measure of management and is what the users of the financial statements are most interested in.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £1.67 million (2016: £1.48 million). We have set performance materiality at this level due to our past experience on the audit indicates a lower risk of misstatements, both corrected and uncorrected.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Watkin Jones plc

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1 million (2016: £0.1 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, including the strategic report and governance, set out on pages 02 to 49, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 50, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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 and parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Victoria Venning
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Manchester

12 January 2018

Notes

- The maintenance and integrity of the Watkin Jones plc website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2017

	Notes	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Continuing operations			
Revenue	6	301,914	266,980
Cost of sales		(238,383)	(213,169)
Gross profit		63,531	53,811
Administrative expenses		(20,846)	(15,928)
Operating profit before exceptional IPO costs		42,685	37,883
Exceptional IPO costs	8	—	(26,561)
Operating profit	9	42,685	11,322
Profit on disposal of interest in joint venture	20	930	—
Share of profit in joint ventures	20	519	2,972
Finance income		101	252
Finance costs	12	(957)	(1,282)
Profit before tax from continuing operations		43,278	13,264
Income tax expense	14	(7,478)	(8,179)
Profit for the year from continuing operations		35,800	5,085
Discontinued operations			
Loss after tax for the year from discontinued operations	13	—	(878)
Profit for the year attributable to ordinary equity holders of the parent		35,800	4,207
Other comprehensive income			
Subsequently reclassified to income statement:			
Net gain on available-for-sale financial assets		130	116
Total comprehensive income for the year attributable to ordinary equity holders of the parent		35,930	4,323

		Pence	Pence
Earnings per share for the year attributable to ordinary equity holders of the parent			
Basic earnings per share		14.024	3.123
Basic earnings per share from continuing operations	15	14.024	3.774
Adjusted basic earnings per share from continuing operations (excluding exceptional IPO costs)	15	14.024	23.489

The notes on pages 59 to 87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2017

	Notes	30 September 2017 £'000	30 September 2016 £'000
Non-current assets			
Intangible assets	17	14,962	15,521
Property, plant and equipment	18	4,911	1,876
Investment in joint ventures	20	1,816	5,950
Deferred tax asset	28	277	262
Other financial assets	29	2,698	2,545
		24,664	26,154
Current assets			
Inventory and work in progress	21	125,220	128,157
Trade and other receivables	23	36,299	16,436
Cash and cash equivalents	24	65,325	47,221
		226,844	191,814
Total assets		251,508	217,968
Current liabilities			
Trade and other payables	25	(88,664)	(90,781)
Provisions	27	(699)	(253)
Other financial liabilities	29	(13)	(63)
Interest-bearing loans and borrowings	26	(1,505)	(14,970)
Current tax liabilities		(8,199)	(6,018)
		(99,080)	(112,085)
Non-current liabilities			
Interest-bearing loans and borrowings	26	(22,823)	(43)
Deferred tax liabilities	28	(1,368)	(1,151)
Provisions	27	(2,006)	(1,957)
		(26,197)	(3,151)
Total liabilities		(125,277)	(115,236)
Net assets		126,231	102,732
Equity			
Share capital	31	2,553	2,553
Share premium		84,612	84,612
Merger reserve		(75,383)	(75,383)
Available-for-sale reserve		399	269
Retained earnings		114,050	90,681
Total equity		126,231	102,732

The notes on pages 59 to 87 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 12 January 2018 and signed on its behalf by:

Mark Watkin Jones
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Available-for-sale reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 October 2015	1,000	6,300	—	153	105,597	113,050
Profit for the year	—	—	—	—	4,207	4,207
Other comprehensive income	—	—	—	116	—	116
Total comprehensive income	—	—	—	116	4,207	4,323
Dividend paid (note 16)	—	—	—	—	(13,395)	(13,395)
Share restructuring prior to IPO	1,695	167,864	—	—	—	169,559
Capital reduction prior to IPO	—	(167,864)	—	—	167,864	—
Issue of shares on IPO	855	84,586	—	—	—	85,441
Issue of shares to employees of Fresh Student Living Limited	—	26	—	—	—	26
Issue of shares to employee SIP	3	—	—	—	—	3
Group reconstruction of Watkin Jones plc and Watkin Jones Group Limited	(1,000)	(6,300)	(75,383)	—	(173,592)	(256,275)
Balance at 30 September 2016	2,553	84,612	(75,383)	269	90,681	102,732
Profit for the year	**—**	**—**	**—**	**—**	**35,800**	**35,800**
Other comprehensive income	**—**	**—**	**—**	**130**	**—**	**130**
Total comprehensive income	**—**	**—**	**—**	**130**	**35,800**	**35,930**
Dividend paid (note 16)	**—**	**—**	**—**	**—**	**(12,431)**	**(12,431)**
Balance at 30 September 2017	**2,553**	**84,612**	**(75,383)**	**399**	**114,050**	**126,231**

The notes on pages 59 to 87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2017

	Notes	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Cash flows from operating activities			
Cash inflow from operations	33	25,378	24,457
Interest received		101	252
Interest paid		(1,083)	(1,408)
Interest element of finance lease rental payments		(33)	(22)
Tax paid		(5,117)	(8,152)
Net cash inflow from operating activities		19,246	15,127
Cash flows from investing activities			
Acquisition of property, plant and equipment		(336)	(150)
Proceeds on disposal of property, plant and equipment		42	2,750
Acquisition of Fresh Student Living Limited (net of cash acquired)		—	(14,496)
Proceeds from disposal of interest in joint venture		5,510	—
Loan repayment from joint venture		73	4,242
Purchase of other financial assets		—	(1,024)
Net cash inflow/(outflow) from investing activities		5,289	(8,678)
Cash flows from financing activities			
Dividends paid	16	(12,431)	(13,395)
Issue of shares prior to IPO		—	88,151
Issue of shares on IPO		—	85,441
Cash outflow on Group reconstruction of Watkin Jones plc and Watkin Jones Group Limited		—	(173,592)
Capital element of finance lease rental payments		(605)	(278)
Drawdown of RCF		24,833	—
Repayment of bank loans		(18,228)	(4,825)
Net cash outflow from financing activities		(6,431)	(18,498)
Net increase/(decrease) in cash		18,104	(12,049)
Cash and cash equivalents at 1 October 2016 and 1 October 2015		47,221	59,270
Cash and cash equivalents at 30 September 2017 and 30 September 2016		65,325	47,221

The notes on pages 59 to 87 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2017

1. General information

Watkin Jones plc (the "Company") is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (registration number 9791105). The Company is domiciled in the United Kingdom and its registered address is 21-22 Llandygai Industrial Estate, Llandygai, Bangor, Gwynedd LL57 4YH.

The principal activities of the Company and its subsidiaries (collectively the "Group") are those of property development and the management of properties for multiple residential occupation.

The consolidated financial statements for the Group for the year ended 30 September 2017 comprise the Company and its subsidiaries. The basis of preparation of the consolidated financial statements is set out in note 2 below.

2. Basis of preparation

The financial statements of the Group have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events may ultimately differ from those estimates.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. The financial statements are prepared on the historical cost basis except as disclosed in these accounting policies.

The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

3. Accounting policies

3.1 Basis of consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The consolidated financial statements of the Group for the year ended 30 September 2017 and the comparatives for the year ended 30 September 2016 have been prepared on the basis that Watkin Jones plc was in existence throughout these periods. The terms of the acquisition of the shares in Watkin Jones Group Limited, in the year ending 30 September 2016, were such that the Group reconstruction should be accounted for as a continuation of the existing Group rather than as an acquisition, and as such merger accounting was applied. The cash consideration paid as part of the Group reconstruction has been reflected against retained earnings as a distribution. Accordingly, the financial statements and the comparatives have been prepared on this basis.

3.2 Going concern

The financial statements have been prepared on a going concern basis. The Directors consider that it is appropriate for the financial statements to be prepared on this basis having considered all relevant information, including the Group's trading and cash flow forecasts, the trading opportunities available to the Group and the ongoing support of its banks.

3.3 Business combinations

Business combinations are accounted for using the acquisition method. The cost of any acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. There have been no non-controlling interests ("NCI") recognised in the business combinations to date. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised immediately in the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is carried in the statement of financial position at deemed cost as at 1 October 2012, the date of transition to IFRS for the Group, less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ("CGU") and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained (note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

3. Accounting policies continued

3.4 Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and OCI of the joint venture.

When necessary, adjustments are made to bring the accounting policies of joint ventures in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in joint ventures is impaired. If there is such evidence, the Group undertakes an impairment test and calculates the amount of any impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as 'share of profit of joint ventures' in the statement of comprehensive income.

Upon loss of joint control over a joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of comprehensive income.

3.5 Revenue recognition

Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Construction contracts

The Group principally operates fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognised by reference to the stage of completion of the contract activity at year end (the percentage of completion method).

The outcome of a construction contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

Contract revenue

Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they are capable of being reliably measured.

Contract costs

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

The Group's contracts are typically negotiated for the construction of a single asset or a group of assets which are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the percentage of completion method is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts. Assets covered by a single contract are treated separately when:

- the separate proposals have been submitted for each asset;
- each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- the costs and revenues of each asset can be identified.

A group of contracts are treated as a single construction contract when:

- the group of contracts is negotiated as a single package; the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
- the contracts are performed concurrently or in a continuous sequence.

Sale of completed property

Where a contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Sales of property under development

Where a contract is judged to be for the construction of a property and the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition is applied and revenue is recognised as work progresses. Continuous transfer of work in progress is applied when:

- the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer; and
- all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when the buyer cannot put the incomplete property back.

In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Rental income

Rents receivable are credited to the statement of comprehensive income on a straight-line basis.

Accommodation management

Management fees relate to contracted charges for the provision of management services as an agent to landlords of student accommodation and build to rent properties. Management fees are recognised in line with the management contracts in the period to which they relate.

Dividends

Revenue is recognised when the Group's right to receive payment is established.

3.6 Foreign currency

The Group's presentational currency, which is pounds sterling, is also the functional currency of the parent and its subsidiaries.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of those transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the foreign exchange rate ruling at the date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

3.7 Segment reporting

Operating segments are identified in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group determines its reportable segments having regard to permitted aggregation criteria with the principal condition being that the operating segments should have similar economic characteristics. For the purposes of determining its operating segments, the chief operating decision-maker has been identified as the Executive Committee. This Committee approves investment decisions, allocates the Group's resources and reviews the internal reporting in order to assess performance.

3.8 Other intangible assets

The cost of intangibles acquired as part of a business combination is the fair value at the date of acquisition.

Intangible assets other than goodwill are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the intangible assets as follows:

Customer relationships:	– eleven years
Brand:	– ten years

3.9 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost represents expenditure that is directly attributable to the purchase of the asset.

Depreciation is charged so as to write off the costs of assets less their residual values over their estimated useful lives, on the following basis:

Aeroplane:	– 4% straight line
Plant and machinery:	
cranes	– 5% reducing balance
other	– 20% reducing balance
Motor vehicles:	– 25% reducing balance

The assets' estimated useful lives, depreciation rates and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

3.10 Impairment of property, plant and equipment and intangible assets including goodwill

At each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with any impairment recognised immediately through the statement of comprehensive income.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

If indication exists that previously recognised impairment losses no longer exist or have decreased, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation reserve. No impairment loss in respect of goodwill is permitted to be reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

3. Accounting policies continued

3.11 Inventory

Inventory is stated at the lower of cost and net realisable value. Cost comprises all costs directly attributable to the purchasing and development of the property, including the acquisition of land and buildings, legal costs, attributable overheads, attributable finance costs and the cost of bringing developments to their present condition at the balance sheet date. Net realisable value is based on estimated selling price less the estimated cost of disposal. Provision is made for any obsolete or slow moving inventory where appropriate.

3.12 Financial assets

Financial assets are recognised initially at fair value. The subsequent measurement of financial assets depends on their classification as follows:

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through the statement of comprehensive income.

The Group's investments in unit trust and equity interests held under shared ownership schemes are classified as AFS equity assets, and are included within other financial assets on the Group's statement of financial position.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised through OCI in the AFS reserve. When the investment is derecognised, the cumulative gain or loss is recognised in finance income. If the investment is determined to be impaired, the cumulative loss is reclassified to the statement of comprehensive income in finance costs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are stated at cost less impairment. The losses arising from impairment are recognised in the statement of comprehensive income in cost of sales or other operating expenses.

The Group's financial assets within trade and other receivables are classified as loans and receivables.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.13 Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Borrowing costs

All borrowing costs are recognised in the Group's profit for the year on an EIR basis except for interest costs that are directly attributable to the construction of qualifying assets, being the Group's inventory. These are capitalised and included within the cost of the asset. Capitalisation commences when both expenditure on the asset and borrowing costs are being incurred, and necessary activities to prepare the asset for use are in progress. In the case of new developments, this is generally once planning permission has been obtained. Capitalisation ceases when the asset is ready for use or sale. Interest capitalised relates to borrowings specific to a development.

Trade and other payables

Trade and other payables are carried at cost.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3.14 Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses interest rate swaps to hedge interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative and are included within other financial assets or liabilities on the Group's balance sheet, as appropriate.

Any gains or losses arising from changes in the fair value of other derivatives are taken directly to the statement of comprehensive income.

Interest rate swaps on specific borrowings

As described in these accounting policies, the Group capitalises interest on specific borrowings that fund the construction of qualifying inventory.

Where the Directors consider that the gains and losses of the interest rate swap are directly attributable to the construction of qualifying inventory, the net cash cost of interest on an accruals basis is capitalised. Otherwise, interest capitalised is limited to that incurred on the underlying specific borrowings on an EIR basis.

Current versus non-current classification

Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond twelve months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

3.15 Discontinued operations

A discontinued operation is a component of the Group's business, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparative statement of financial position and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

3.16 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3.17 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprises cash at bank and in hand.

3.18 Employee benefits

The Group operates a defined contribution plan, for which it pays contributions to privately administered pension plans on a contractual basis. The contributions are recognised as an employee benefit expense as they fall due.

3.19 Employee benefits – long-term incentive plans

The cost of the incentive schemes is measured at the grant date, taking into account the terms attaching to the awards, and at each balance date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the cost of the reward and the portion of the vesting period expired at the balance sheet date. Changes in the carrying amount for the liability are recognised in the statement of comprehensive income for the period.

3.20 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

3. Accounting policies continued

3.20 Leases continued

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.21 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in OCI or those recognised directly in equity, in which case it is recognised in accordance with the underlying item.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the year end and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

3.22 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

3.23 Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The Group makes provision for future operating lease rental commitments relating to properties where it is probable that those commitments cannot be fully met from the economic benefits derived from the operation of the properties concerned. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, which has the most significant effect on the amounts recognised in the financial statements:

Sale and operating leaseback of properties

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (applying the lease classification principles described in note 3.20). For sale and operating leasebacks, the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the statement of comprehensive income. Several property operating leases have been entered into in the period between 1 October 2009 and 30 September 2017. When forming the conclusion of operating lease classification, consideration has been given to the key lease classification indicators of IAS 17. The leases are typically for a three to 35-year period. The Directors have reviewed the remaining useful lives for these particular properties and concluded they are significantly longer than the period of the lease. Other key indicators considered in reaching an operating lease classification were the present value of the minimum lease payments and the ownership clauses in the contracts upon expiry of the lease.

Estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

When a contract for the sale of a property upon completion of construction is judged to be a construction contract, revenue is recognised using the percentage of completion method as construction progresses. The Group considers the terms and conditions of the contract, including how the contract was negotiated and the structural elements that the customer specifies when identifying individual projects as construction contracts. The percentage of completion is estimated by reference to the stage of the projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

5. New standards and interpretations

The following standards and interpretations that are anticipated to be relevant to the Group have an effective date after the date of these financial statements. The Group has not early adopted them and plans to adopt them from the effective dates once endorsed for application in the EU. The Directors are in the process of analysing the effect of new standards on the Group.

Not yet endorsed by the EU:

Standard or interpretation	Effective for accounting periods beginning on or after
Annual improvements to IFRS 2014-2016 Cycle	1 January 2017
Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'	1 January 2018
Amendments to IAS 40 'Transfers of Investment Property'	1 January 2018
IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019
Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures'	1 January 2019

Endorsed by the EU:

Standard or interpretation	Effective for accounting periods beginning on or after
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRS 9 'Financial Instruments' (issued in 2014)	1 January 2018
IFRS 16 'Leases'	1 January 2019
Amendments to standards	
Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017
Amendments to IAS 7 'Disclosure Initiative'	1 January 2017

6. Revenue

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Accommodation management	6,126	2,868
Rental income received	21,128	14,317
Sale of goods (residential property)	18,077	25,043
Sales from development and construction contracts (note 22)	256,583	224,752
	301,914	266,980

Sales to two individual customers account for greater than 10% of the total revenue, representing revenue of £80,966,000 and £52,338,000 and are reported under the student accommodation segment (2016: sales to three individual customers of £82,560,000, £37,984,000 and £34,000,000).

7. Segmental reporting

The Group has identified four segments for which it reports under IFRS 8 'Operating Segments'. The following represents the segments that the Group operates in:

a. Student accommodation – the development of purpose built student accommodation;

b. Build to rent – the development of build to rent accommodation;

c. Residential – the development of traditional residential property; and

d. Accommodation management – the management of student accommodation and build to rent property.

Corporate – revenue from the development of commercial property forming part of mixed use schemes and other revenue and costs not solely attributable to any one division.

The build to rent segment has been introduced for the first time in FY17. This is a new segment in which the Group is to commence development activities. During FY17 several build to rent opportunities were secured, leading to a holding of inventory and work in progress for this segment at 30 September 2017.

All revenues arise in the UK.

Performance is measured by the Board based on gross profit as reported in the management accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

7. Segmental reporting continued

Year ended 30 September 2017	Student accommodation £'000	Build to rent £'000	Residential £'000	Accommodation management £'000	Corporate £'000	Total £'000
Segmental revenue	256,138	1,216	18,076	6,126	20,358	301,914
Segmental gross profit	56,553	685	3,024	3,795	(526)	63,531
Administration expenses	—	—	—	(1,702)	(19,144)	(20,846)
Share of disposal of interest in joint venture	930	—	—	—	—	930
Share of operating profit in joint ventures	535	—	—	—	(16)	519
Finance income	—	—	—	—	101	101
Finance costs	—	—	—	—	(957)	(957)
Profit/(loss) before tax	58,018	685	3,024	2,093	(20,542)	43,278
Taxation	—	—	—	—	(7,478)	(7,478)
Continuing profit/(loss) for the year	58,018	685	3,024	2,093	(28,020)	35,800
Loss from discontinued operations (note 13)						—
Profit for the year attributable to ordinary equity shareholders of the parent						35,800
Inventory and work in progress	33,337	41,429	38,868	—	11,586	125,220
Inventory and work in progress – discontinued						—
Total inventory and work in progress (note 21)						125,220

Year ended 30 September 2016	Student accommodation £'000	Residential £'000	Accommodation management £'000	Corporate £'000	Total £'000
Segmental revenue	237,163	26,312	2,828	677	266,980
Segmental gross profit	48,575	3,033	1,666	537	53,811
Administration expenses	—	—	(1,375)	(13,176)	(14,551)
Distribution costs	—	—	—	(1,377)	(1,377)
Exceptional IPO costs	—	—	—	(26,561)	(26,561)
Share of operating profit in joint ventures	2,975	—	—	(3)	2,972
Finance income	—	—	—	252	252
Finance costs	—	—	—	(1,282)	(1,282)
Profit/(loss) before tax	51,550	3,033	291	(41,610)	13,264
Taxation	—	—	—	(8,179)	(8,179)
Continuing profit/(loss) for the year	51,550	3,033	291	(49,789)	5,085
Loss from discontinued operations (note 13)					(878)
Profit for the year attributable to ordinary equity shareholders of the parent					4,207
Inventory and work in progress	68,635	53,666	—	5,506	127,807
Inventory and work in progress – discontinued					350
Total inventory and work in progress (note 21)					128,157

8. Exceptional IPO costs

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Exceptional IPO costs		
IPO transaction costs	—	6,500
Management incentive payments	—	20,061
Total exceptional IPO costs	—	26,561

The prior year charge for management incentive payments comprises amounts payable to certain senior management of Watkin Jones Group Limited in connection with various long-term incentive plans which fell due on the admission to AIM of Watkin Jones plc. The amount comprised a total charge of £21,735,400, plus stamp duty costs of £98,440, less an amount previously provided of £1,773,200. Of the total incentive payments made, management invested £13,942,984 in shares in Watkin Jones plc as part of the IPO.

9. Total operating profit

This is stated after charging/(crediting):

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Operating lease rentals	13,904	8,481
Audit services to the parent company	75	95
Audit services to the subsidiaries	120	128
Auditor's remuneration for other services provided	—	246
Loss on foreign exchange	119	—
Amortisation of intangible assets	559	326
Depreciation:		
Owned assets	412	241
Assets under finance leases	108	100
(Profit)/loss on disposal of fixed assets	(26)	80
	15,271	9,697

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

10. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Construction	238	235
Accommodation management	352	142
Management and administration	90	91
	680	468

The aggregate payroll costs of these persons were as follows:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Wages and salaries	20,250	15,789
Employee incentive – long-term incentive plans (note 32)	—	20,061
Issues of shares to employee SIP and to employees of Fresh Student Living Limited	—	29
Social security costs	2,425	1,780
Defined contribution pension costs	549	540
	23,224	38,199

Pensions

The Group operates a defined contribution Group personal pension plan scheme for the benefit of the employees and certain Directors. The assets of the scheme are administered in a fund independent from those of the Group. Contributions during the year amounted to £549,000 (2016: £490,000). There are £Nil unpaid contributions at the end of the year (2016: £Nil).

The Group also operates a small defined contribution scheme for the benefit of certain former employees. This scheme is closed to new entrants. The assets of the scheme are administered by trustees in a fund independent from those of the Group. Contributions during the year amounted to £Nil (2016: £Nil).

In addition, the Group operates a small self-administered pension scheme for the benefit of certain current and former Directors. The assets of the scheme are administered by trustees who include Mark Watkin Jones, who is a Director of the Group. The scheme is subject to actuarial review on a triennial basis. The benefits provided by the scheme are limited to its available assets. Contributions to the scheme during the year amounted to £Nil (2016: £50,000).

Key management personnel

The Group considers that its Directors and other senior managers who are either members of the Executive Committee or Directors of Watkin Jones & Son Limited are key management personnel for the purposes of IAS 24 'Related Parties'.

The aggregate payroll costs of key management were as follows:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Wages and salaries	3,003	2,822
Employee incentive – long-term incentive plans (note 32)	—	20,061
Social security costs	403	378
Defined contribution pension costs	134	160
	3,540	23,421

11. Directors' emoluments

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Directors' emoluments	1,181	947
Employee incentive – long-term incentive plans	–	6,038
Contributions to money purchase pension schemes	45	50
Highest paid Director:		
Emoluments	624	316
Employee incentive – long-term incentive plans	–	6,038
Contributions to money purchase pension schemes	28	11

12. Finance costs

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Finance charges	564	1,225
Finance charges payable under finance leases	33	22
Other interest payable	360	35
	957	1,282

In addition, the Group has capitalised during the year in development land and work in progress, interest payable of £159,000 (2016: £148,000) on bank loans.

13. Discontinued operations

On 9 July 2015, the Board took the decision to discontinue the activities of the construction contracting segment. The segment had minimal directly attributable assets and liabilities and those remaining have been transferred to continuing operations. The results for the construction contracting segment are set out below:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Revenue	–	9,863
Cost of sales	–	(10,961)
Gross loss	–	(1,098)
Administrative expenses – goodwill impairment	–	–
Operating loss for the year from discontinued activities	–	(1,098)
Income tax credit	–	220
Loss for the year	–	(878)
	Pence	Pence
Earnings per share from discontinued operations	–	(0.344)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

14. Income taxes

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Current income tax		
UK corporation tax on profits for the year	8,096	7,508
Adjustments in respect of previous periods	(820)	(299)
Total current tax	7,276	7,209
Deferred tax		
Origination and reversal of temporary differences	202	135
Impact of change in tax rate	—	(52)
Adjustments in respect of prior year	—	887
Total deferred tax	202	970
Total tax expense	7,478	8,179

Reconciliation of total tax expense

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Accounting profit before tax from continuing operations	43,278	13,264
Accounting loss before tax from discontinued operations	—	(1,098)
Accounting profit before income tax	43,278	12,166
Profit multiplied by standard rate of corporation tax in the UK of 19.5% (2016: 20%)	8,439	2,433
Expenses not deductible	(52)	4,958
Joint ventures results reported net of tax	(101)	(594)
Other differences	35	30
Prior period adjustment	(820)	1,161
At the effective rate of tax of 17.3% (2016: 65.6%)	7,501	7,988
Income tax expense reported in the statement of profit or loss	7,478	8,179
Income tax attributed to a discontinued activity	—	(220)
Income tax attributed to an available-for-sale asset	23	29
	7,501	7,988

15. Earnings per share

Basic earnings per share ("EPS") amounts are calculated by dividing the net profit or loss for the year attributable to ordinary equity holders of the parent by the weighted average number of shares in issue during the year.

There is no difference between basic earnings per share and diluted earnings per share as there are no dilutive share option arrangements in place at 30 September 2017.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Profit attributable to ordinary equity holders of the parent	**35,800**	4,207
Profit from continuing operations attributable to ordinary equity holders of the parent	**35,800**	5,085
Adjusted profit from continuing operations attributable to ordinary equity holders of the parent (excluding exceptional IPO costs)	**35,800**	31,646
	Number of shares	Number of shares
Number of ordinary shares for basic earnings per share	**255,268,875**	134,729,152
	Pence	Pence
Basic earnings per share from continuing operations		
Basic profit for the year attributable to ordinary equity holders of the parent	**14.024**	3.774
Adjusted proforma basic earnings per share from continuing operations (excluding exceptional IPO costs)		
Basic profit for the year attributable to ordinary equity holders of the parent	**14.024**	23.489

Using the number of shares in issue at 30 September 2016, the adjusted proforma basic earnings per share from continuing operations for the year ended 30 September 2016 would have been 12.397 pence.

16. Dividends

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Dividend paid prior to IPO	**—**	10,000
Interim dividend paid in June 2017 of 2.2 pence (June 2016: 1.33 pence)	**5,615**	3,395
Final dividend paid in February 2017 of 2.67 pence	**6,816**	—
	12,431	13,395

The final dividend proposed for the year ended 30 September 2017 is 4.4 pence per ordinary share. This dividend was declared after 30 September 2017 and as such the liability of £11,231,831 has not been recognised at that date. At 30 September 2017, the Company had distributable reserves available of £152,784,000 (30 September 2016: £165,215,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

17. Intangible assets

	Customer relationships £'000	Brand £'000	Goodwill £'000	Total £'000
Cost				
At 1 October 2015	—	—	—	—
Arising on acquisition of Fresh Student Living	5,604	499	9,744	15,847
At 30 September 2016 and 30 September 2017	**5,604**	**499**	**9,744**	**15,847**
Amortisation				
At 1 October 2015	—	—	—	—
Amortisation for the year	297	29	—	326
At 30 September 2016	297	29	—	326
Amortisation for the year	509	50	—	559
At 30 September 2017	**806**	**79**	**—**	**885**
Net book value				
As at 30 September 2017	**4,798**	**420**	**9,744**	**14,962**
As at 30 September 2016	5,307	470	9,744	15,521

The Directors have reviewed the carrying value of the investment in Fresh Student Living, which is a single CGU, at 30 September 2017, compared to its recoverable amount and are satisfied that no impairment is required. The recoverable amount has been based on value in use, by reference to the budgets and projected cash flows for the CGU over a 20-year period, with future cash flows discounted at a rate of 10% to reflect the time value of money. A 20-year cash flow period for the CGU has been used as this appropriately reflects the longer-term nature of its business, given the duration and renewable nature of student accommodation property management agreements in place.

The following are the key assumptions used in projecting the cash flows:

- contracted management agreements in place are renewed in line with past experience;
- new management agreements are secured to deliver the budgeted beds under management for the CGU for the five-year period ending 30 September 2022. Thereafter management agreements are secured to manage an additional 1,000 student beds per annum. This reflects the CGU's past success in securing new management agreements;
- management fees charged will increase at 2.5% per annum, in line with assumed RPI inflation;
- the achieved gross margin is maintained in line with past experience; and
- indirect costs are incurred in line with the budgets for the CGU for the five-year period ending 30 September 2022 and thereafter increase at 4% per annum. This reflects underlying assumed RPI inflation of 2.5% plus an allowance for additional indirect costs as a result of the increase in beds under management.

Acquisition of Fresh Student Living Limited in the prior year

On 25 February 2016 Founded Living Limited, a subsidiary of Watkin Jones Group Limited, acquired the 750 ordinary shares in Fresh Student Living Limited ("Fresh") held by Mark and Glyn Watkin Jones, who were both Directors of and shareholders in Watkin Jones Group Limited, for a cash consideration of £11,835,512. The shares acquired represented 77.48% of the issued shares of the company.

On 23 March 2016, on satisfaction of the condition of admission to AIM of Watkin Jones plc, Founded Living Limited acquired the 218 A ordinary shares held by various directors and senior managers of Fresh, for a cash consideration of £3,164,488. The shares acquired represented the remaining issued shares of the company. As a condition of the acquisition of these shares, the vendor shareholders were required to invest £1,397,609, being 50% of the net of tax proceeds received, in shares in Watkin Jones plc as part of the IPO.

The total consideration paid for the shares in Fresh was therefore £15,000,000, plus stamp duty of £75,010.

Fresh is engaged in the management of purpose built student accommodation. Its services include the letting and operational management of properties, for which the company is engaged under a management agreement and receives a management fee, as well as consultancy and mobilisation services provided during the development phase of a student property.

The resulting goodwill of £9,744,000 arising on the acquisition has been capitalised and is subject to an annual impairment review by management. Goodwill is attributed to Fresh's knowledge and expertise in the letting and management of purpose built student accommodation and in the synergy with the Group's student accommodation development business.

The book and fair value of the net assets acquired in respect of Fresh were as follows:

	Book value £'000	Fair value adjustment £'000	Fair value £'000
Non-current assets			
Intangible assets			
Customer relationships	—	5,604	5,604
Brand	—	499	499
Goodwill	—	9,744	9,744
Property, plant and equipment	90	—	90
Deferred tax asset	261	(228)	33
Other financial assets	150	54	204
	501	15,673	16,174
Current assets			
Trade and other receivables	1,262	—	1,262
Cash at bank and in hand	579	—	579
	1,841	—	1,841
Total assets	2,342	15,673	18,015
Current liabilities			
Trade and other payables	(1,830)	(10)	(1,840)
	(1,830)	(10)	(1,840)
Non-current liabilities			
Deferred tax liabilities	—	(1,100)	(1,100)
	—	(1,100)	(1,100)
Total liabilities	(1,830)	(1,110)	(2,940)
Net assets	512	14,563	15,075

In the period from acquisition until 30 September 2016, Fresh contributed revenue of £2,828,000 and an operating profit of £291,000.

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for the year ended 30 September 2017

18. Property, plant and equipment

	Plant and machinery £'000	Aeroplane £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 October 2015	3,840	3,318	157	7,315
Additions	240	—	—	240
Disposals	(113)	(3,318)	—	(3,431)
At 30 September 2016	3,967	—	157	4,124
Additions	3,571	—	—	3,571
Disposals	(168)	—	—	(168)
At 30 September 2017	**7,370**	**—**	**157**	**7,527**
Depreciation				
At 1 October 2015	1,967	432	109	2,508
Charge for the year	188	122	31	341
Disposals	(47)	(554)	—	(601)
At 30 September 2016	2,108	—	140	2,248
Charge for the year	505	—	15	520
Disposals	(152)	—	—	(152)
At 30 September 2017	**2,461**	**—**	**155**	**2,616**
Net book value				
At 30 September 2017	**4,909**	**—**	**2**	**4,911**
At 30 September 2016	1,859	—	17	1,876
At 30 September 2015	1,873	2,886	48	4,807

Finance leases

The carrying value of plant and machinery and motor vehicles held under finance leases at 30 September 2017 was £3,305,000 (2016: £807,000). Additions during the year include £3,422,000 (2016: £85,000) of plant and machinery under finance leases.

19. Subsidiaries

The Group holds 100% of the share capital of the following unless otherwise stated:

Name	Class of shares	Nature of business
Anderson Wharf (Student) Limited[4]	Ordinary	Property developer
Between Towns Road Oxford[4*]	Ordinary	Property developer
Bridge Street Student Limited[4]	Ordinary	Property developer
Christchurch Road Bournemouth Limited[4]	Ordinary	Property developer
Customhouse Student Limited[4]	Ordinary	Property developer
Duncan House Developments Limited[4]	Ordinary	Property developer
Fairleague Limited[4]	Ordinary	Property developer
Forrest Road Student Limited[4]	Ordinary	Property developer
Garthdee Road Aberdeen Limited[4]	Ordinary	Property developer
Goldcharm Residential Limited[4]	Ordinary	Property developer
Gorse Stacks Development Limited[5]	Ordinary	Property developer
Heol Santes Helen Limited[4]	Ordinary	Property developer
Holdenhurst Road Bournemouth Limited[4]	Ordinary	Property developer
Hunter Street Chester Limited[4]	Ordinary	Property developer
Liverpool Road Chester Limited[4]	Ordinary	Property developer
Market Street Newcastle Limited[4]	Ordinary	Property developer
New Century House Bournemouth Limited[4]	Ordinary	Property developer
Onega Centre Bath Limited[4]	Ordinary	Property developer
Oxford House Bournemouth Limited[4]	Ordinary	Property developer
Pittodrie Street Aberdeen Limited[4]	Ordinary	Property developer
Rockingham Street Student Limited[4]	Ordinary	Property developer
Spiritbond Stockwell Green Limited[4]	Ordinary	Property developer
Stylegood Limited[4]	Ordinary	Property developer
Superscheme Limited[4]	Ordinary	Property developer
Sutton Court Road Limited[4]	Ordinary	Property developer
Trafford Street Chester Limited[4]	Ordinary	Property developer
Victoria Park Bath Limited[4]	Ordinary	Property developer
Watkin Jones & Son Limited[3]	Ordinary	Property developer
Watkin Jones Liverpool Student Limited[4]	Ordinary	Property developer
DR (Student) Limited[4]	Ordinary	Holding company
Fresh Property Group Holdings Ltd (formerly Founded Living Limited)[4]	Ordinary	Holding company
Watkin Jones Group Limited[1]	Ordinary	Holding company
Watkin Jones Holdings Limited[2]	Ordinary	Holding company
Newmark Developments Limited[4]	Ordinary	Holding company and property development services
Watkin Jones AM Limited[4]	Ordinary	Property fund asset manager
Saxonhenge Limited[4]	Ordinary	Leasing of aeroplane

* Incorporated during the year.
1. Wholly owned by Watkin Jones plc.
2. Wholly owned by Watkin Jones Group Limited.
3. Wholly owned by Watkin Jones Holdings Limited.
4. Wholly owned by Watkin Jones & Son Limited.
5. Wholly owned held by Newmark Developments Limited.
6. Wholly owned by DR (Student) Limited.
7. Wholly owned by Fresh Property Group Holdings Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

19. Subsidiaries continued

Name	Class of shares	Nature of business
Darley Student Accommodation Limited[6]	Ordinary	Property letting
Dunaskin Student Limited[4]	Ordinary	Property letting
Finefashion Limited[4]	Ordinary	Property letting
Goldcharm Student Lettings Limited[4]	Ordinary	Property letting
Lucas Student Lettings Limited[4]	Ordinary	Property letting
New Bridewell Limited[4]	Ordinary	Property letting
New Bridewell 1 Limited[4]	Ordinary	Property letting
Nicelook Limited[4]	Ordinary	Property letting
Polarpeak Limited[4]	Ordinary	Property letting
Qualityoffer Limited[4]	Ordinary	Property letting
Scarlet P Limited[4]	Ordinary	Property letting
Swiftmatch Limited[4]	Ordinary	Property letting
Wisedeed Limited[4]	Ordinary	Property letting
Fresh Property Group Ltd (formerly Fresh Student Living Limited)[7]	Ordinary	Accommodation management
Five Nine Living Limited[7]	Ordinary	Accommodation management

* Incorporated during the year.
1. Wholly owned by Watkin Jones plc.
2. Wholly owned by Watkin Jones Group Limited.
3. Wholly owned by Watkin Jones Holdings Limited.
4. Wholly owned by Watkin Jones & Son Limited.
5. Wholly owned held by Newmark Developments Limited.
6. Wholly owned by DR (Student) Limited.
7. Wholly owned by Fresh Property Group Holdings Ltd.

In addition, the Group has a number of dormant or insignificant subsidiaries that have not been listed because they are immaterial.

All of the Group's subsidiaries have the same registered office address as the Company, with the exception of Fresh Property Group Holdings Ltd, Fresh Property Group Ltd and Five Nine Living Limited, whose registered office address is 7-9 Swallow Street, London W18 4DE.

20. Joint ventures

At 30 September 2017, the Group had the following joint ventures, whose principal place of business is the UK:

Name	Class of shares	Percentage share capital held	Financial year end	Activity
Deiniol Developments Limited[1]	Ordinary	50%	30 September	Property development
Rufus Estates Limited[2]	Ordinary	50%	30 June	Property development
Lacuna Edinburgh Limited[1]	Ordinary	50%	31 March	In members' voluntary liquidation
Lacuna Belfast Limited[1]	Ordinary	50%	31 March	Property development
Lacuna Dublin Road Limited[1]	Ordinary	50%	31 March	Property development
Lacuna Academy Street Limited[1]	Ordinary	50%	31 March	Property development
Lacuna WJ Limited[1]	Ordinary	50%	31 March	Property development
Spiritbond Finsbury Park Limited[1]	Ordinary	50%	30 September	Property development
Spiritbond Elephant & Castle Limited[1]	Ordinary	50%	30 September	Property development
Freshers PBSH Chester (General Partner) Limited[1]	Ordinary	50%	30 September	Property fund general partner

1. Held by Watkin Jones & Son Limited.
2. Held by Newmark Developments Limited.

The Group's interest in joint ventures are accounted for using the equity method.

Summarised financial information of the joint ventures and reconciliation with the carrying amount of the investment in the consolidated statement of financial position are set out below:

Year ended 30 September 2017	Lacuna Academy Street Limited	Lacuna Belfast Limited £'000	Lacuna Dublin Road Limited £'000	Lacuna WJ Limited £'000	Spiritbond Finsbury Park Limited £'000	Spiritbond Elephant & Castle Limited £'000	All other joint ventures £'000	Total £'000
Revenue	–	–	9,851	9,793	–	–	6	19,650
Operating profit/(loss)	–	(1,070)	1,526	1,856	(1)	–	110	2,421
Finance income/(expense)	–	–	–	–	–	–	–	–
Profit/(loss) before tax	–	(1,070)	1,526	1,856	(1)	–	110	2,421
Income tax gain/(expense)	–	217	(305)	(371)	1	–	–	(458)
Profit/(loss) for the year	–	(853)	1,221	1,485	–	–	110	1,963
Total comprehensive income/(loss) for the year	–	(853)	1,221	1,485	–	–	110	1,963
Group share of profit/(loss) for the year	–	(834)	556	742	–	–	55	519
Current assets, including cash and cash equivalents	1,509	1,217	2,317	2,020	3	35	1,396	8,497
Non-current assets	–	–	–	–	–	–	–	–
Current liabilities, including financial liabilities	(1,509)	(549)	(467)	(536)	(27)	(11)	(1,766)	(4,865)
Non-current liabilities – financial liabilities	–	–	–	–	–	–	–	–
Equity	–	668	1,850	1,484	(24)	24	(370)	3,632
Remove joint venture partners share of net assets	–	(334)	(925)	(742)	12	(12)	185	(1,816)
Remove share of amounts due (to)/from joint ventures	–	–	–	–	–	–	–	–
Consolidation adjustments	–	–	–	–	–	–	–	–
Group's carrying amount of the investment	–	334	925	742	(12)	12	(185)	1,816

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

20. Joint ventures continued

On 9 December 2016 the Group disposed of its joint venture interest in Athena Hall (Jersey) Limited, realising a profit on disposal of £930,000. The proceeds received from the disposal, including the repayment of a loan to Athena Hall (Jersey) Limited, amounted to £6,210,000, of which £700,000 remains owed by way of loan to the purchaser and is repayable within three years from the date of the transaction.

Year ended 30 September 2016	Athena Hall (Jersey) Limited £'000	Lacuna Belfast Limited £'000	Lacuna Dublin Road Limited £'000	Lacuna WJ Limited £'000	Spiritbond Finsbury Park Limited £'000	Spiritbond Elephant & Castle Limited £'000	All other joint ventures £'000	Total £'000
Revenue	2,226	15,022	3,445	—	920	55	10	21,678
Operating profit/(loss)	1,961	3,798	785	—	(7)	4	(4)	6,537
Finance (expense)/income	(445)	2	—	—	—	—	—	(443)
Profit/(loss) before tax	1,516	3,800	785	—	(7)	4	(4)	6,094
Income tax expense	(189)	(759)	(157)	—	—	(6)	—	(1,111)
Profit/(loss) for the year	1,327	3,041	628	—	(7)	(2)	(4)	4,983
Total comprehensive income/(loss) for the year	1,477	3,041	628	—	(7)	(2)	(4)	5,133
Group share of profit/(loss) for the year	785	1,826	368	—	(4)	(1)	(2)	2,972
Current assets, including cash and cash equivalents	1,038	4,787	788	2,315	13	277	2,147	11,365
Non-current assets	27,601	—	—	—	—	—	—	27,601
Current liabilities, including financial liabilities	(1,629)	(765)	(160)	(2,315)	(37)	(253)	(2,360)	(7,519)
Non-current liabilities – financial liabilities	(23,939)	—	—	—	—	—	—	(23,939)
Equity	3,071	4,022	628	—	(24)	24	(213)	7,508
Remove joint venture partners share of net assets	(1,535)	(1,604)	(260)	—	12	(12)	107	(3,292)
Remove share of amounts due from/(to) joint ventures	4,814	(2,870)	(460)	1,320	—	—	—	2,804
Consolidation adjustments	(1,070)	—	—	—	—	—	—	(1,070)
Group's carrying amount of the investment	5,280	(452)	(92)	1,320	(12)	12	(106)	5,950

21. Inventory and work in progress

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Development land	**70,236**	74,628
Stock and work in progress	**54,984**	53,529
Total inventories at the lower of cost and net realisable value	**125,220**	128,157

Total costs incurred during the year were £237,762,000 (2016: £223,193,000), of which £44,612,000 are included in inventory and work in progress (2016: £61,609,000).

22. Construction contracts

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Total income and expense recognised on contracts in progress in the year		
Costs incurred and recognised profit for period	256,583	224,752
Contract revenue for the period	256,583	224,752
Less progress billings and advances	(257,064)	(239,085)
	(481)	(14,333)
Brought forward	(6,032)	8,301
Carried forward	(6,513)	(6,032)
Amounts recoverable on contracts	13,907	4,233
Payments received in advance on contracts	(20,420)	(10,265)
Construction contracts in progress, net position	(6,513)	(6,032)
Aggregate amount of costs incurred and recognised profits (less losses) to date	306,795	254,128
Retention asset	5,463	6,485

Retention assets are included in trade receivables.

23. Trade and other receivables

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Financial assets		
Trade receivables	11,147	8,742
Less: provision for impairment of receivables	—	—
Trade receivables – net	11,147	8,742
Amounts recoverable on contracts	13,907	4,233
Other receivables	8,905	1,722
Available-for-sale financial assets	910	949
Receivable from other related parties	40	66
Receivable from joint ventures	1,390	718
Total financial assets	36,299	16,430
Other		
Prepayments	—	6
Total trade and other receivables	36,299	16,436

The fair value of the Group's equity interest in shared ownership schemes, included within available-for-sale financial assets, is materially equal to historic cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

23. Trade and other receivables continued

The ageing analysis of trade receivables is as follows:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Neither past due nor impaired	11,147	8,742
Past due but not impaired:	—	—
Not more than three months	—	—
Greater than three months	—	—
	11,147	8,742

As at 30 September 2017 and 2016, trade receivables that were neither past due nor impaired related to a number of debtors for whom there is no recent history of default. The other classes of trade and other receivables do not contain impaired assets.

24. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand. The Group has not drawn on any overdraft facilities.

25. Trade and other payables: current

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Financial liabilities		
Trade payables	46,784	48,982
Payments received in advance on contracts	20,420	10,265
Other payables	9,419	24,169
Related parties (note 38)	3	2
Joint ventures (note 38)	1,618	12
Total financial liabilities	78,244	83,430
Other		
Other taxes and social security costs	623	1,022
Accruals and deferred income	9,797	6,329
Total trade and other payables	88,664	90,781

Other payables include amounts payable for land sites acquired amounting to £Nil (2016: £14,880,000).

26. Interest-bearing loans and borrowings

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Current		
Investec Bank plc term land loan	—	6,400
Svenska Handelsbanken AB five-year term loan	457	8,733
HSBC Bank plc RCF arrangement fees	(80)	(380)
Finance leases	1,128	217
	1,505	14,970

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Non-current		
Svenska Handelsbanken AB five-year term loan	7,937	—
HSBC Bank plc RCF	13,344	—
HSBC Bank plc RCF arrangement fees	(220)	—
Finance leases	1,762	43
	22,823	43

Finance lease disclosure

	30 September 2017		30 September 2016	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Within one year	1,128	1,023	217	197
Later than one year and less than five years	1,762	1,474	43	36
After five years	—	—	—	—
Total minimum lease payments	2,890	2,497	260	233
Lease amount representing finance charges	—	113	—	22
Present value of minimum lease payments	—	2,610	—	255

There is no material difference between the fair value of the Group's borrowings and their book values.

At 30 September 2017, the Group had undrawn borrowing facilities of £36.7 million (2016: £50 million) with HSBC Bank plc, comprising a £40 million five-year revolving credit facility ("RCF"), which matures on 15 March 2021, and a £10 million on-demand and undrawn overdraft facility.

The RCF is secured by a debenture over Watkin Jones Group Limited, Watkin Jones Holdings Limited and Watkin Jones & Son Limited. The applicable interest rate is 2.25% over LIBOR.

The loan with Svenska Handelsbanken AB is a five-year term loan secured by a legal charge over certain operating property stock assets The maturity date is 15 March 2022 and the applicable interest rate is 2.65% over three-month LIBOR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

27. Provisions

Current

	Onerous lease provision £'000
At 30 September 2016	253
Utilised	(253)
Transferred from non-current	699
At 30 September 2017	**699**

Non-current

	Onerous lease provision £'000
At 30 September 2016	1,957
Arising during the year	748
Transferred to current	(699)
At 30 September 2017	**2,006**

A provision has been made for property operating lease commitments (note 35), where it is probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision has been calculated by comparing the expected future rent liabilities for the remaining term of the leases with the expected net income from the operations of the properties concerned, excluding future maintenance costs. The resultant expected net liabilities have been discounted at a risk-free rate of 10% to reflect the time value of money.

28. Deferred tax

The movement on the deferred tax account is shown below:

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
As at the start of the period	(889)	1,118
Acquired in business combination	—	(1,008)
Statement of comprehensive income credit	(202)	(970)
Statement of comprehensive income credit	—	(29)
At the end of the period	**(1,091)**	(889)
Comprising:		
Deferred tax asset	277	262
Deferred tax liability	(1,368)	(1,151)
At the end of the period	**(1,091)**	(889)

The movements in deferred tax assets and liabilities is shown below:

	Short-term timing differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 October 2016	(772)	(117)	(889)
Statement of comprehensive income credit	(117)	(85)	(202)
At 30 September 2017	**(889)**	**(202)**	**(1,091)**

	Short-term timing differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 October 2015	1,410	(292)	1,118
Acquired in business combination	(1,008)	—	(1,008)
Statement of comprehensive income (credit)/charge	(1,145)	175	(970)
Statement of comprehensive income credit	(29)	—	(29)
At 30 September 2016	(772)	(117)	(889)

29. Other financial assets and liabilities

Other financial assets

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Financial instruments at fair value		
Available-for-sale financial assets at fair value through other comprehensive income	**2,698**	2,545
Other financial assets	**2,698**	2,545

The available-for-sale financial assets at fair value comprise units held in the Curlew Student Trust, a Guernsey registered unitised fund established to invest in student accommodation (the "Fund"). The Group has invested a total of £2,150,000 (2016: £2,150,000) in the Fund, including £150,000 invested by Fresh Student Living Limited prior to its acquisition by the Group, as part of an agreement to develop three student accommodation properties for the Fund, which were completed in the years ending 30 September 2014 and 30 September 2015. At 30 September 2017, the Group held 1,839,991 units (2016: 1,839,991 units) in the Fund.

Other financial liabilities

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Derivatives		
Interest rate swaps	**(13)**	(63)
Net profit/(loss) on derivatives in profit or loss	**50**	(16)

The fair value of the Group's derivatives is stated at their mark to market values, and is classified as Level 2 in the fair value hierarchy.

The fair value of the units in the Curlew Student Trust, included within available-for-sale financial assets, is based on a quoted price (Level 1 in the fair value hierarchy). This is an investment and is not related to any individual property.

30. Financial risk management

The Group is exposed to a variety of risk such as market risk, credit risk and liquidity risk. The Group's principal financial instruments are:

- loans and borrowings; and
- trade and other receivables, trade and other payables and cash arising directly from operations.

This note provides further detail on financial risk management and includes quantitative information on the specific risks.

The Group recognises that movements in certain risk variables might affect the value of its loans and also the amounts recorded in its equity and its profit and loss for the period. Therefore the Group has assessed the following risks:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk; currency risk; and other prices risk, such as equity price risk.

The Group's exposure is primarily to the financial risks of changes in interest rates in relation to loans and borrowings.

Foreign currency risk

Capital items that are non-sterling priced are monitored to review the requirement for appropriate hedging.

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30. Financial risk management continued

Liquidity risk

Cash flow is regularly monitored and the relevant subsidiaries are aware of their working capital commitments. The Group reviews its long-term funding requirements in parallel with its long-term strategy, with an objective of aligning both in a timely manner.

The table below summarises the maturity profile of the Group's gross, undiscounted financial liabilities at 30 September 2017 and 30 September 2016:

Liquidity risk – 30 September 2017	On demand £'000	Less than one year £'000	Between one and five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	—	1,505	22,823	—	24,328
Trade and other payables	—	78,244	—	—	78,244
	—	79,749	22,823	—	102,572

Liquidity risk – 30 September 2016	On demand £'000	Less than one year £'000	Between one and five years £'000	More than five years £'000	Total £'000
Interest-bearing loans and borrowings	—	14,970	43	—	15,013
Trade and other payables	—	83,430	—	—	83,430
	—	98,400	43	—	98,443

Interest rate risk

Due to the levels of interest-bearing loans and borrowings, the Group has no material exposure to interest rate movements.

A 0.5% movement in the interest rate applied to the interest-bearing loans and borrowings would have an impact on the Group's profit before taxation as below:

	Effect on profit before tax	
0.5% change in interest rate	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Impact on profit before tax	123	76

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument leading to a financial loss. The Group is exposed to credit risk from its cash and cash equivalents and trade receivables.

Credit risk from balances with banks and financial institutions is managed by depositing with reputable financial institutions, from which management believes the risk of loss to be remote. The Group's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts of cash at bank and in hand.

Credit evaluations are performed for all customers. Management has a policy in place and the exposure to credit risk is monitored on an ongoing basis. At the year end there were no significant concentrations of risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Capital management policy

The primary objective of the Group's capital management is to ensure that it has the capital required to operate and grow the business at a reasonable cost of capital without incurring undue financial risks. The Board periodically reviews its capital structure to ensure it meets changing business needs. The Group defines its capital as equity plus loans and borrowings. The Directors consider the management of debt to be an important element in controlling the capital structure of the Group. The Group may carry moderate levels of long-term borrowings to fund operations and working capital requirements. The net cash of the Group is analysed in note 34.

31. Share capital

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Allotted, called up and fully paid		
Ordinary shares of one pence each	2,553	2,553

The number of ordinary shares in issue at 30 September 2017 was 255,268,875 (30 September 2016: 255,268,875).

32. Employee benefits – long-term incentive plans

The Group's liabilities under long-term incentive plans in place at 30 September 2015 were fully settled on admission of the Company to AIM. The Group had no long-term incentive plans in place at 30 September 2017 or 30 September 2016.

33. Reconciliation of profit before tax to net cash flows from operating activities

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Profit before tax from continuing operations	43,278	13,264
Loss before tax from discontinued operations	—	(1,098)
Profit before tax	43,278	12,166
Depreciation	520	341
Amortisation of intangible assets	559	326
(Profit)/loss on sale of plant and equipment	(26)	80
Issue of shares to employee SIP and employees of Fresh Student Living Limited	—	29
Finance income	(101)	(252)
Finance costs	957	1,282
Profit on disposal of interest in joint ventures	(930)	—
Share of profit in joint ventures	(519)	(2,972)
Decrease/(increase) in inventory and work in progress	2,937	(8,474)
Interest capitalised in development land, inventory and work in progress	159	148
(Increase)/decrease in trade and other receivables	(21,523)	5,353
(Decrease)/increase in trade and other payables	(428)	16,682
Increase/(decrease) in provision for property lease commitment	495	(252)
Net cash inflow from operating activities	25,378	24,457

Major non-cash transactions

There were no major non-cash transactions during the period.

34. Analysis of net cash/(debt)

30 September 2017	At beginning of year £'000	Cash flow £'000	Non-cash movements £'000	At end of year £'000
Cash at bank and in hand	47,221	18,104	—	65,325
Finance leases	(260)	605	(3,235)	(2,890)
Bank loans	(14,753)	(6,605)	(80)	(21,438)
Net cash	32,208	12,104	(3,315)	40,997

30 September 2016	At beginning of year £'000	Cash flow £'000	Non-cash movements £'000	At end of year £'000
Cash at bank and in hand	59,270	(12,049)	—	47,221
Finance leases	(538)	278	—	(260)
Bank loans	(19,645)	4,825	67	(14,753)
Net cash	39,087	(6,946)	67	32,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2017

35. Operating leases

Total commitments – Group as lessee

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	14,467	14,161
Later than one year and less than five years	44,081	45,777
After five years	176,064	185,975
	234,612	245,913

Commitments under operating leases include operating leases relating to student accommodation properties. The minimum and maximum rent increases applicable to the remaining terms of these leases and their termination dates are as follows:

	Minimum rent increase %	Maximum rent increase %	Termination date
Lucas Studios, Birmingham	2.5	5.0	31 August 2018
Darley Bank, Derby	1.0	5.0	31 August 2019
Merlin Heights, Leicester	—	4.0	31 August 2019
Collegelands, Glasgow	2.0	5.0	6 September 2026
Europa, Liverpool	2.0	5.0	18 March 2030
Optima, Loughborough	2.0	5.0	18 March 2030
Glassyard Building, London	2.5	2.5	10 September 2034
Dunaskin Mill, Glasgow	1.5	5.0	5 September 2051
New Bridewell, Bristol	1.5	5.0	12 March 2052

These properties were the subject of sale and operating leaseback, the judgements relating to which are described in note 4.

Total commitments – Group as lessor

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	157	139
Later than one year and less than five years	455	239
After five years	924	696
	1,536	1,074

The Group acts as lessor in respect of certain commercial property.

36. Capital and other financial commitments

The Group had no material capital commitments at 30 September 2017. At 30 September 2016, the Group was committed to completing on the purchase of a land site in Aberdeen for a cash sum of £2.0 million, which it subsequently sold in the year ending 30 September 2017.

37. Contingent liabilities

The Group has contingent liabilities of £5,341,000 (2016: £3,967,000) in respect of performance bonds entered into with HCC International Insurance Company Plc, Euler Hermes Europe S.A. (N.V.), Aviva Insurance UK Limited and the Electrical Contractors' Insurance Company Limited.

The Group has given a debenture containing a fixed and floating charge and has entered into a corporate guarantee of the Group's bank borrowings from HSBC Bank plc, which at the balance sheet date amounted to £13,344,000 (2016: £Nil).

No material liabilities are expected to arise as a result of the above arrangements.

38. Related party transactions

During the year, the Group purchased a land site in Chester from Carlton (North Wales) Limited at its third party open market value of £1,200,000. The Group processed payroll costs on behalf of Carlton (North Wales) Limited and its subsidiary companies of £284,000 (2016: £549,000). The amount owed by Carlton (North Wales) Limited and its subsidiary companies at the balance sheet date was £40,000 (2016: £66,000).

The Group paid rent and service charges to Planehouse Limited and its subsidiary companies amounting to £316,000 (2016: £316,000) and processed payroll costs on behalf of the Company of £93,000 (2016: £61,000). During the year the Group sold to Planehouse Limited, at its third party open market value, a commercial office property, which is under construction in Bournemouth for a consideration of £15,253,000. A payment of £8,000,000 was received prior to the year end from Planehouse Limited on completion of the sale of the part constructed property at that time. The balance of the consideration is payable on successful completion and handover of the development.

During the year ending 30 September 2016, the Group provided construction services to Planehouse Limited amounting to £134,000. The amount owed to Planehouse Limited and its subsidiary companies at the balance sheet date was £3,000 (2016: £2,000).

Mark Watkin Jones is a director of Carlton (North Wales) Limited and Planehouse Limited, which are controlled by family trusts in which he has a potential beneficial interest.

The Group provided services to the Watkin Jones & Son Limited Directors' Pension Scheme amounting to £16,000 (2016: £16,000).

As referred to in note 29, the Group has invested a total of £2,150,000 (2016: £2,150,000) in units in the Curlew Student Fund (the "Fund"), a Guernsey registered unitised fund established to invest in student accommodation. The fair value of the units at 30 September 2017 was £2,698,000 (2016: £2,545,000). During the year, the Group sold properties to and provided construction services to the Fund amounting in total to £80,966,000 (2016: £82,560,000).

Under a joint venture agreement the Group was owed £718,000 at 30 September 2017 by Deiniol Developments Limited (2016: £718,000). The Group owns 50% of the share capital in Deiniol Developments Limited.

Under a joint venture agreement, the Group owed £12,000 (2016: £12,000) to Rufus Estates Limited. The Group owns 50% of the share capital in Rufus Estates Limited.

At the balance sheet date, £55,000 (2016: £1,000) was owed to Lacuna Edinburgh Limited by the Group. The Group owns 50% of the share capital in Lacuna Edinburgh Limited, which is in members' voluntary liquidation.

The Group has a 50% interest in Lacuna Belfast Limited. During the year the Group invoiced development fees to Lacuna Belfast Limited amounting to £1,150,000 (2016: £Nil). The Group received payments of £Nil from Lacuna Belfast Limited during the year (2016: £2,347,000) in connection with its development activities. At the balance sheet date £470,000 was owed to Lacuna Belfast Limited (2016: £Nil).

The Group has a 50% interest in Lacuna Dublin Road Limited. During the year, the Group invoiced development fees to Lacuna Dublin Road Limited amounting to £800,000 (2016: £Nil). The Group received payments of £Nil from Lacuna Dublin Road Limited during the year (2016: £965,000). At the balance sheet date, £246,000 was owed to Lacuna Dublin Road Limited (2016: £475,0000 owed by Lacuna Dublin Road Limited).

The Group has a 50% interest in Lacuna WJ Limited. During the year the Group invoiced development fees to Lacuna WJ Limited amounting to £473,000 (2016: £Nil). The Group received payments of £2,825,000 from Lacuna WJ Limited during the year (2016: made payments to Lacuna WJ Limited of £150,0000). At the balance sheet date, £835,000 (2016: £Nil) was owed to Lacuna WJ Limited.

During the year, the Group acquired a 50% interest in Lacuna Academy Street Limited. The Company has made payments during the year of £668,000 to assist with its development activities. At the balance sheet date £668,000 was owed by Lacuna Academy Street.

The Group has a 50% interest in Spiritbond Finsbury Park Limited. During the year, the Group charged management and development fees of £Nil (2016: £457,000). At the balance sheet date, no amount was owed to or from Spiritbond Finsbury Park Limited (2016: £Nil).

The Group has a 50% interest in Spiritbond Elephant & Castle Limited. During the year the Group charged management and development fees of £Nil (2016: £25,000). At the balance sheet date no amount was owed to or from Spiritbond Elephant & Castle Limited (2016: £Nil).

All transactions with related parties have been carried out on an arm's length basis.

COMPANY STATEMENT OF FINANCIAL POSITION

as at 30 September 2017

	Notes	30 September 2017 £'000	30 September 2016 £'000
Fixed assets			
Investments	42	**255,775**	255,775
Current liabilities			
Trade and other payables	43	**(15,826)**	(3,395)
Total liabilities		**(15,826)**	(3,395)
Net assets		**239,949**	252,380
Capital and reserves			
Share capital	44	**2,553**	2,553
Share premium		**84,612**	84,612
Retained earnings		**152,784**	165,215
Total equity		**239,949**	252,380

The notes on pages 90 and 91 are an integral part of these Company financial statements.

No income statement has been presented as permitted by Section 408 of the Companies Act 2006. The profit for the Company after taxation was £Nil.

Approved by the Board of Directors on 12 January 2018 and signed on its behalf by:

Mark Watkin Jones
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
for the period ended 30 September 2017

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2016	2,553	84,612	165,215	252,380
Profit for the year	—	—	—	—
Dividend paid	—	—	(12,431)	(12,431)
Balance as at 30 September 2017	**2,553**	**84,612**	**152,784**	**239,949**

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Issue of shares prior to IPO	1,695	167,864	—	169,559
Capital reduction prior to IPO	—	(167,864)	167,864	—
Issue of shares on IPO	855	84,586	—	85,441
Issue of shares to employee SIP	3	—	—	3
Issue of shares to employees of Fresh Student Living Limited	—	26	—	26
Profit for the year	—	—	746	746
Dividend paid	—	—	(3,395)	(3,395)
Balance as at 30 September 2016	2,553	84,612	165,215	252,380

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 September 2017

39. Accounting policies

General information

Watkin Jones plc (the "Company") is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (registration number 9791105). The Company is domiciled in the United Kingdom and its registered address is 21-22 Llandygai Industrial Estate, Llandygai, Bangor, Gwynedd LL57 4YH.

The Company was incorporated as HDCO3 Limited on 23 September 2015.

Basis of preparation

No income statement has been presented as permitted by Section 408 of the Companies Act 2006. The profit for the Company after taxation was £Nil.

The balance sheet has been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU.

Investment in subsidiaries

The Company's investments in subsidiaries are accounted for at cost less accumulated impairment losses.

Dividends

Revenue is recognised when the Company's right to receive payment is established.

Trade and other payables

Trade and other payables are carried at cost.

40. Employee costs

The only employees of Watkin Jones plc are the Executive and Non-Executive Directors. Details of the employee costs associated with the Directors are included in the Remuneration Committee report and summarised below.

	2017 £'000	2016 £'000
Wages and salaries	1,141	524
Social security costs	154	70
Pension costs	45	17
	1,340	611

Employee costs for the year ended 30 September 2016 are for the six-month period to 30 September 2016, following the admission of the Company to AIM.

41. Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the year		
Interim dividend paid in June 2017 of 2.2 pence (June 2016: 1.33 pence)	5,615	3,395
Final dividend paid in February 2017 of 2.67 pence	6,816	—
	12,431	3,395

The final dividend proposed for the year ended 30 September 2017 is 4.4 pence per ordinary share. This dividend was declared after 30 September 2017 and as such the liability of £11,231,831 has not been recognised at that date. At 30 September 2017, the Company had distributable reserves available of £152,784,000 (30 September 2016: £165,215,000).

42. Investments in subsidiaries

	Subsidiary undertakings £'000
Cost	
At 30 September 2016 and 2017	255,775

The Company owns 100% of the issued shares in Watkin Jones Group Limited, a company incorporated in England and Wales (note 19). The principal activity of Watkin Jones Group Limited is that of property development.

43. Trade and other payables: current

	2017 £'000	2016 £'000
Financial liabilities		
Group undertakings	15,826	3,395

44. Allotted and issued share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
Ordinary shares of one pence each	2,553	2,553

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Company registrars
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42-50 Hersham Road
Walton-on-Thames
Surrey KT12 1RZ

SHAREHOLDER INFORMATION

Country of incorporation and main country of operation
Watkin Jones plc is incorporated in England & Wales.
The Company operates in the UK.

Number of securities in issue
As of 12 January 2018, the Company's issued share capital consists of 255,268,875 ordinary shares with a nominal value of one pence each. The Company has no treasury shares.

Details of any restrictions on the transfer of securities
There are no restrictions on any of the Company's AIM securities.

Securities not in public hands
As of 12 January 2018, the percentage of the Company's issued share capital that is not in public hands is 34.9%.

Details of other exchanges or trading platforms
The Company's shares will only be traded on the London Stock Exchange's AIM market at present.

Company registration
Registered office: 21-22 Llandygai Industrial Estate, Llandygai, Bangor, Gwynedd LL57 4YH. Registered in England and Wales (company number 9791105).

FINANCIAL CALENDAR

Annual General Meeting ("AGM")
The Company's AGM will be held at 10.30am on 13 February 2018 at the offices of Buchanan, 107 Cheapside, London EC2V 6DN.

Final dividend
The final dividend will be paid on 28 February 2018 to shareholders on the register at close of business on 26 January 2018. The shares will go ex-dividend on 25 January 2018.

GLOSSARY

AFS	available-for-sale
AGM	Annual General Meeting
AIM	Alternative Investment Market
CGU	cash-generating unit
CST	Curlew Student Trust
EBITDA	earnings before income tax, depreciation and amortisation
EIR	effective interest rate
EPS	earnings per share
EY	Ernst & Young LLP
Fresh	Fresh Property Group
GDPR	General Data Protection Regulation
IFRS	International Financial Reporting Standards
IPO	initial public offering
KPI	key performance indicators
NCI	non-controlling interests
OCI	other comprehensive income
PBSA	purpose built student accommodation
RCF	revolving credit facility
SIP	share incentive plan

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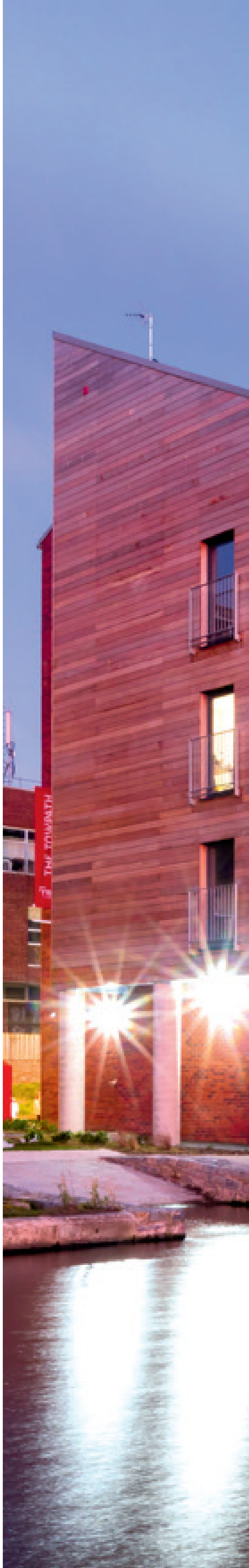

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