Watkin Jones plc

STRONG FUTURE VISIBILITY

Annual report and financial statements 2018

Welcome to the
Watkin Jones plc
annual report and financial statements 2018

Watkin Jones specialises in creating and managing places for people to live. We are a leading UK developer and constructor of multi-occupancy residential properties, with a focus on the student accommodation and build to rent sectors. We have strong relationships with the institutional investors who acquire our developments and a reputation for high quality and successful on-time delivery.

Since 1999, we have delivered 38,000 student beds across 117 sites, making us a leader in the UK purpose built student accommodation ("PBSA") market. We are now using our development skills to grow in build to rent. Fresh Property Group, our specialist accommodation management company, manages more than 15,400 student beds and build to rent units on behalf of our institutional clients. We have also delivered more than 80 residential developments, ranging from starter homes to executive housing and apartments.

Our competitive advantage lies in our experienced management team and business model, which enable us to offer an end-to-end solution for investors, delivered entirely in-house with minimal reliance on third parties, across the entire lifecycle of an asset.

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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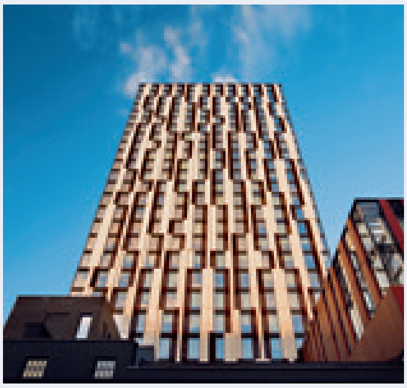

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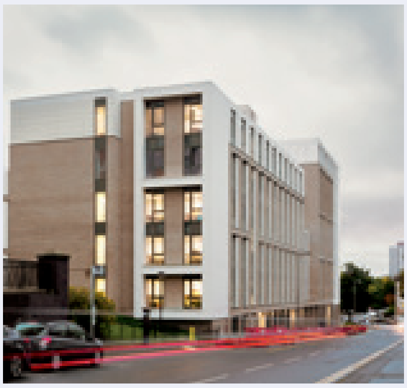


OUR HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Strong revenue and gross profit growth driven by student accommodation development.
- Robust gross margin of 20.0% (FY17: 21.0%), in line with our expectations and reflecting the high-quality locations of our student accommodation developments.
- Adjusted profit before tax[1] increased by 15.7% to £50.1 million and adjusted basic earnings per share[1] increased by 13.8% to 16.0 pence.
- Proposed final dividend of 5.13 pence per share, to give a total dividend of 7.6 pence per share, up 15.2% and in line with our progressive dividend policy.
- Good cash performance, with a net cash inflow from operating activities of £54.4 million (FY17: £19.2 million) contributing to net cash at the year end of £80.2 million (30 September 2017: £41.0 million).

Revenue

+20.3% to £363.1 million
(2017: £301.9 million)

Gross profit

+14.0% to £72.4 million
(2017: £63.5 million)

Operating profit

+26.3% to £53.9 million
(2017: £42.7 million)

Adjusted operating profit[1]

+16.2% to £49.6 million
(2017: £42.7 million)

Profit before tax

+25.6% to £54.3 million
(2017: £43.3 million)

Adjusted profit before tax[1]

+15.7% to £50.1 million
(2017: £43.3 million)

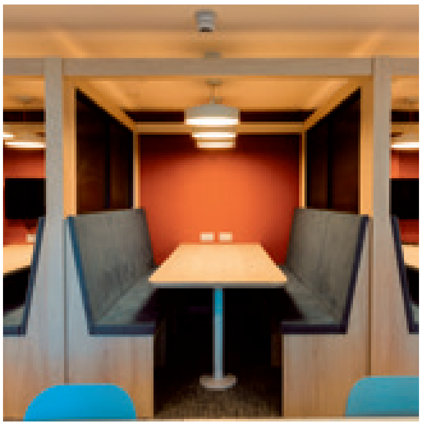
EBITDA

+24.6% to £56.3 million
(2017: £45.2 million)

Adjusted EBITDA[2]

+15.1% to £52.0 million
(2017: £45.2 million)

1. For FY18, adjusted operating profit, adjusted profit before tax and adjusted earnings per share are calculated before the impact of an exceptional gain of £4.3 million. This gain relates to compensation for the reduction in scope of services and early termination of management contracts for assets sold by the Curlew Student Trust (the "Trust") and the Group's share of profit from the sale of the assets paid on its carried interest investment in the Trust. For FY17, there is no difference between the adjusted and unadjusted measures.
2. EBITDA comprises operating profit from continuing operations plus the Group's profit from joint ventures, adding back charges for depreciation and amortisation. For FY18, adjusted EBITDA is stated before the exceptional gain of £4.3 million. For FY17, there is no difference between EBITDA and adjusted EBITDA.



Net cash

+95.5% to £80.2 million
(2017: £41.0 million)

Basic earnings per share

+23.6% to 17.3 pence
(2017: 14.0 pence)

Adjusted basic earnings per share[1]

+13.8% to 16.0 pence
(2017: 14.0 pence)

Dividend per share

+15.2% to 7.6 pence
(2017: 6.6 pence)

BUSINESS HIGHLIGHTS

Student accommodation development

- Ten developments (3,415 beds) completed as scheduled in FY18.
- Nine developments (4,490 beds) currently forward sold for delivery in FY19 and FY20.
- Total secured development pipeline of 7,534 student beds across 17 sites, for delivery between FY19 and FY21.

Build to rent development

- Entered into development agreements with investors to deliver apartment schemes in Reading and Wembley, for occupation in FY21.
- Secured development pipeline, including Reading and Wembley, of approximately 1,500 apartments across seven sites, for delivery over the period FY20 to FY22.
- The Board continues to explore ways to enhance shareholder returns from the build to rent opportunity, including the possibility of establishing a new investment vehicle.

Residential

- Completed 175 sales (FY17: 94 sales), comprising homes and apartments in the North West.

Accommodation management

- At the start of FY19, Fresh Property Group ("FPG") had 15,421 student beds and build to rent apartments under management across 56 schemes (FY18: 16,617 beds and apartments across 57 schemes).
- Strong underlying growth, including first contracts in Ireland, offset by the previously announced loss of 4,597 student beds following a portfolio sale by the Curlew Student Trust.
- In total, FPG contracted to manage 18,258 student beds across 65 schemes by FY21.
- Build to rent apartments under management contracted to increase from 546 across five schemes to 820 across six schemes by FY21.

Board changes

- As previously announced, Richard Simpson joined the Board as Chief Executive Officer on 2 January 2019, with Mark Watkin Jones stepping down as CEO as of that date and as a Director of the Board on 15 January 2019.
- Liz Reilly will join as an independent Non-Executive Director from 21 January 2019.

CONTINUED STRATEGIC PROGRESS

Watkin Jones had another strong year, demonstrating the continued success of the Group's strategy and business model.

October 2017

- Completed the forward sales of student accommodation developments in Pittodrie, Aberdeen and Midland Road, Bath.

January 2018

- Achieved planning consent for two student accommodation developments in London and one in Chester.
- Achieved planning consent for build to rent developments in Bournemouth, Sutton and Sheffield.

December 2017

- Exchanged contracts on a build to rent site in Uxbridge.

March 2018

- Achieved planning consent for a student accommodation development in Coventry.
- Secured a student accommodation site in Sheffield.

May 2018

- Entered into a development arrangement with M&G Real Estate to deliver a build to rent scheme in Reading.

September 2018

- Completed the forward sale of a portfolio of four student accommodation developments, with the option of a fifth development conditional on planning consent.

August 2018

- Exchanged contracts to acquire a student accommodation site in Wembley, London and entered into a development agreement to deliver build to rent apartments on an adjoining site.

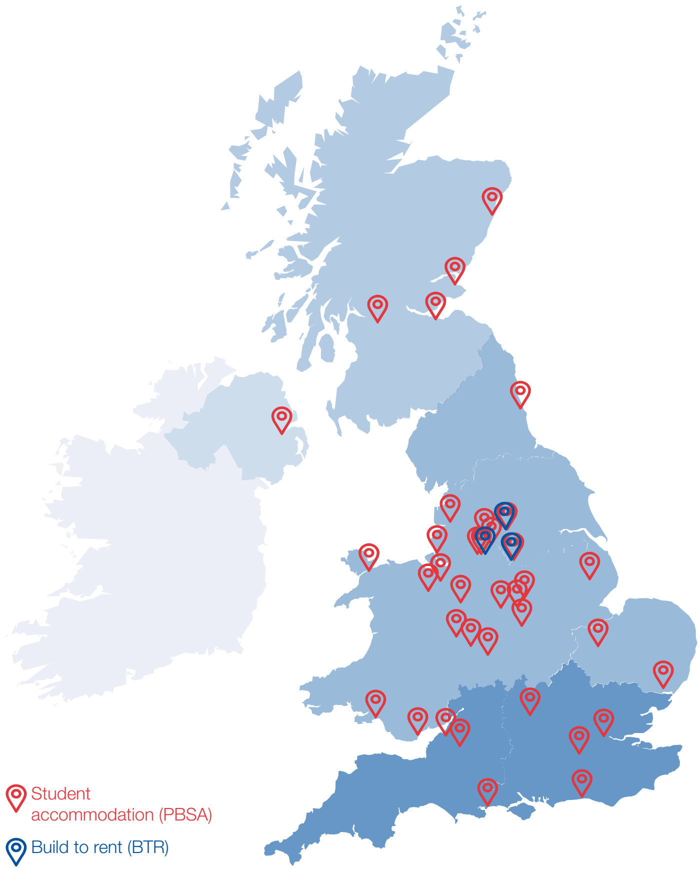
AT A GLANCE

The Group has four complementary businesses, with particular strength in student accommodation and a growing presence in build to rent.

Our student accommodation schemes

Between 1999 and 2018, we completed 117 schemes in 37 towns and cities, delivering 38,000 student beds.

	Schemes	Beds
Scotland	19	6,179
Northern Ireland	3	886
North and Midlands	68	22,909
South	27	8,017
Total	117	37,991

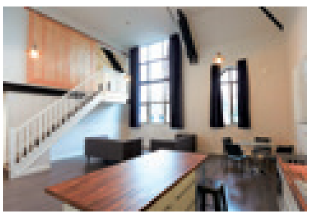


SA STUDENT ACCOMMODATION

We are one of the UK's leading developers of PBSA, with a reputation for high quality and on-time delivery. Student accommodation development is the main driver of the Group's revenue and profits.

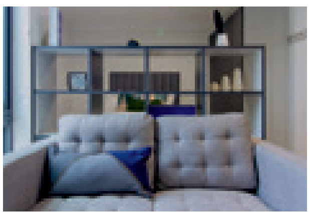
BTR BUILD TO RENT

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



AM ACCOMMODATION MANAGEMENT

Fresh Property Group is a leading independent manager of PBSA and build to rent assets. It presents institutional clients with a single accommodation management offering.



R RESIDENTIAL

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

INVESTMENT CASE

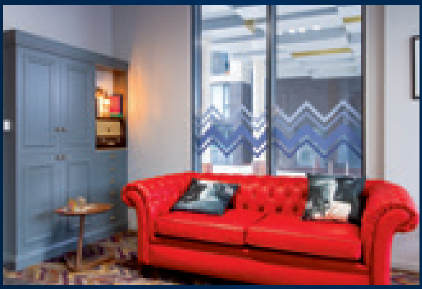
Watkin Jones has significant strengths, which combine to make us a compelling business.

ESTABLISHED BRAND AND REPUTATION

We are one of the UK's leading developers of PBSA and have a 100% record of delivering developments before they are due to be let. This gives us a strong reputation and contributes to our excellent relationships with leading institutions. In turn, our track record in PBSA makes us an attractive partner in the build to rent market, which shares many similarities with PBSA.

COMPLETE SOLUTION FOR INVESTORS

Watkin Jones offers a complete delivery and management solution to investors in PBSA and build to rent, from identifying the site through to letting and 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.



ATTRACTIVE MARKETS

We operate in large and growing markets. There are nearly 1.8 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. The UK has a growing generation of renters across all lifestyles, with all age groups showing increases in the numbers that rent. Rented housing accounts for 20% of the UK's total housing stock.

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, 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.

REDUCED RISK, HIGH VISIBILITY AND STRONG FINANCIAL PROFILE

Our business model offers significant advantages. Forward selling minimises our development risk, as we typically look to sell each scheme to an investor before we start construction. Our pipeline of forward-sold schemes and secured development sites gives us significant visibility of our earnings and cash flow. Forward selling also gives us favourable working capital dynamics, as we receive payment each month for the value of development works completed, rather than only receiving payment once a development has completed.

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 after a development is completed.

CHAIRMAN'S STATEMENT

This was another strong year for the Group, as we built on the platform established in FY17, which was the first full year after our IPO.

Grenville Turner
Independent Non-Executive Chairman

This was another strong year for the Group, as we built on the platform established in FY17, which was the first full year after our IPO.

Performance and dividend

The Group's performance was driven by another excellent result in our core business, student accommodation development, with encouraging progress in build to rent. The accommodation management and residential businesses also did well in FY18 and increased their contribution. Overall, the Group delivered pleasing revenue growth, whilst maintaining a strong gross margin, resulting in a double-digit increase in earnings. The cash performance was also excellent, reflecting the favourable working capital profile of our business model and contributing to a robust balance sheet at the year end.

This year's performance was particularly pleasing in the context of a challenging market. The political environment in the UK has increased uncertainty and we are seeing more competition for our people. As an emerging sector, build to rent is also attracting new entrants. The outturn for the year is therefore a credit to the executive team and everyone in Watkin Jones.

We look to reward shareholders through growing dividends and continue to target a payout which is twice covered by earnings by FY19. Having paid an interim dividend of 2.47 pence per share, the Board has recommended a final dividend of 5.13 pence per share, to give a total for the year of 7.6 pence per share. This represents 15.2% growth over the 6.6 pence per share paid in respect of FY17. The total dividend is 2.1 times covered by adjusted basic earnings per share.

The final dividend will be paid on 28 February 2019 to shareholders on the register at the close of business on 25 January 2019. The shares will go ex-dividend on 24 January 2019.

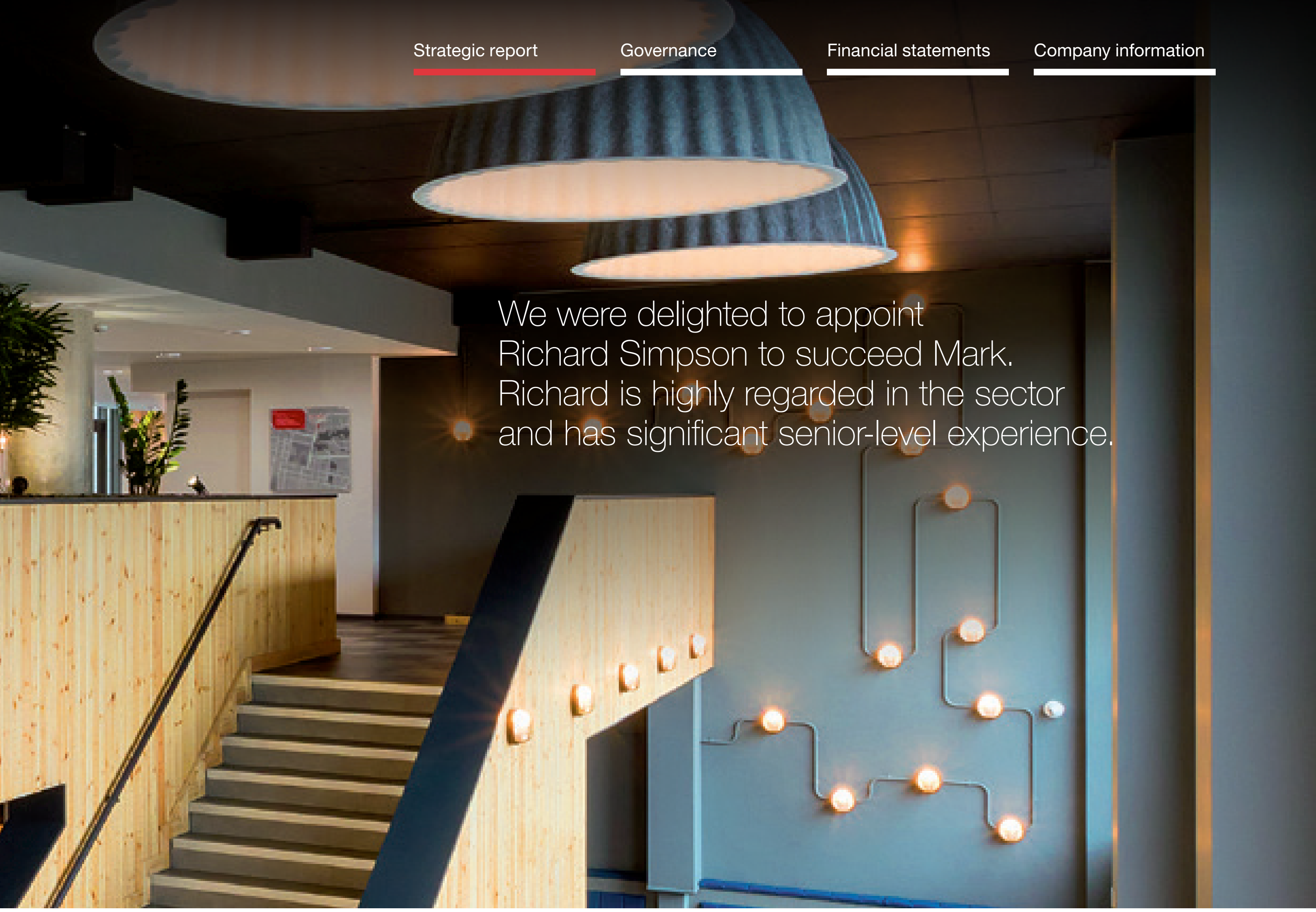
Board, management and people

In my statement last year I noted that, for personal reasons, Mark Watkin Jones had advised the Board of his intention to stand down as Chief Executive Officer. Once again, I want to thank Mark on behalf of the Board for his immense contribution to the Group, which has transformed Watkin Jones into the successful business it is today.

Board in focus 2018

Investors' site visit to Mannequin House, London

Investors' site visit to Duncan House, London



We were delighted to appoint Richard Simpson to succeed Mark. Richard is highly regarded in the sector and has significant senior-level experience.

After a thorough search, we were delighted to appoint Richard Simpson, who joined the Board as CEO on 2 January 2019, to succeed Mark. Richard is highly regarded in the sector and has significant senior-level experience, most recently as Group Property Director of Unite plc, where he worked closely with Watkin Jones on several occasions. He also chaired the British Property Federation's cross-sector Student Accommodation Committee from 2013 to 2015. His knowledge and skills will be invaluable to the Group as we continue to grow.

Over the last year the transition arrangements have been put in place to ensure a smooth and orderly handover of CEO responsibilities. This has been possible through the work we did in strengthening the senior management structure in the previous year. This allowed us to broaden the leadership team's responsibilities, enable effective delegation and support the development of the team and the layers of management beneath. The leadership team has responded superbly and their combined strength has made the transition to a new CEO much easier.

Given the strength of the broader management team and their ability to support Richard in taking the business forward, the Board and Mark have agreed that this was the right time for him to step back from the business and he stepped down from the Board on 15 January 2019. Mark and the Watkin Jones family remain highly supportive shareholders.

One of the Board's objectives for the year was to appoint an additional independent Non-Executive Director, who would become chair of the Remuneration Committee. We were therefore delighted to announce that Liz Reilly will be joining the Board on 21 January 2019. She has an outstanding background in human resources and the real estate sector and is currently Group Human Resources Director at SEGRO plc, a FTSE 100 Real Estate Investment Trust. Liz adds valuable skills and experience on the Board and we look forward to working with her.

Her appointment also means that the Non-Executive Directors will form a majority on the Board, including myself as Chairman.

We recognise the need to retain and motivate our senior leaders and, after consultation with major shareholders, introduced a new long-term incentive plan this year. Details of the plan can be found in the Remuneration Committee report on page 59.

Looking forward

The Board remains confident in the Group's prospects. We will continue to grow the business through our focus on student accommodation, while making further progress in build to rent, which has the potential to become a second important income stream for Watkin Jones over the next few years.

Grenville Turner
Independent Non-Executive Chairman

14 January 2019

Q&A:
MARK WATKIN JONES

Mark Watkin Jones discusses the Group's performance and prospects and his decision to step down as Chief Executive Officer.

Mark Watkin Jones
Chief Executive Officer

Q:
Why did you decide now was the right time to hand over the reins as CEO?

A:
It is better to do these things from a position of strength. In my view, the business is in the best place it has ever been and the visibility our pipeline gives us makes it the ideal time for a transition. I think we have the right person for the job in Richard Simpson and we have an experienced team supporting him, who have all bought into the strategy and ambition for the Group and are ready to take it forward.

Q:
What pleased you most about this year's results?

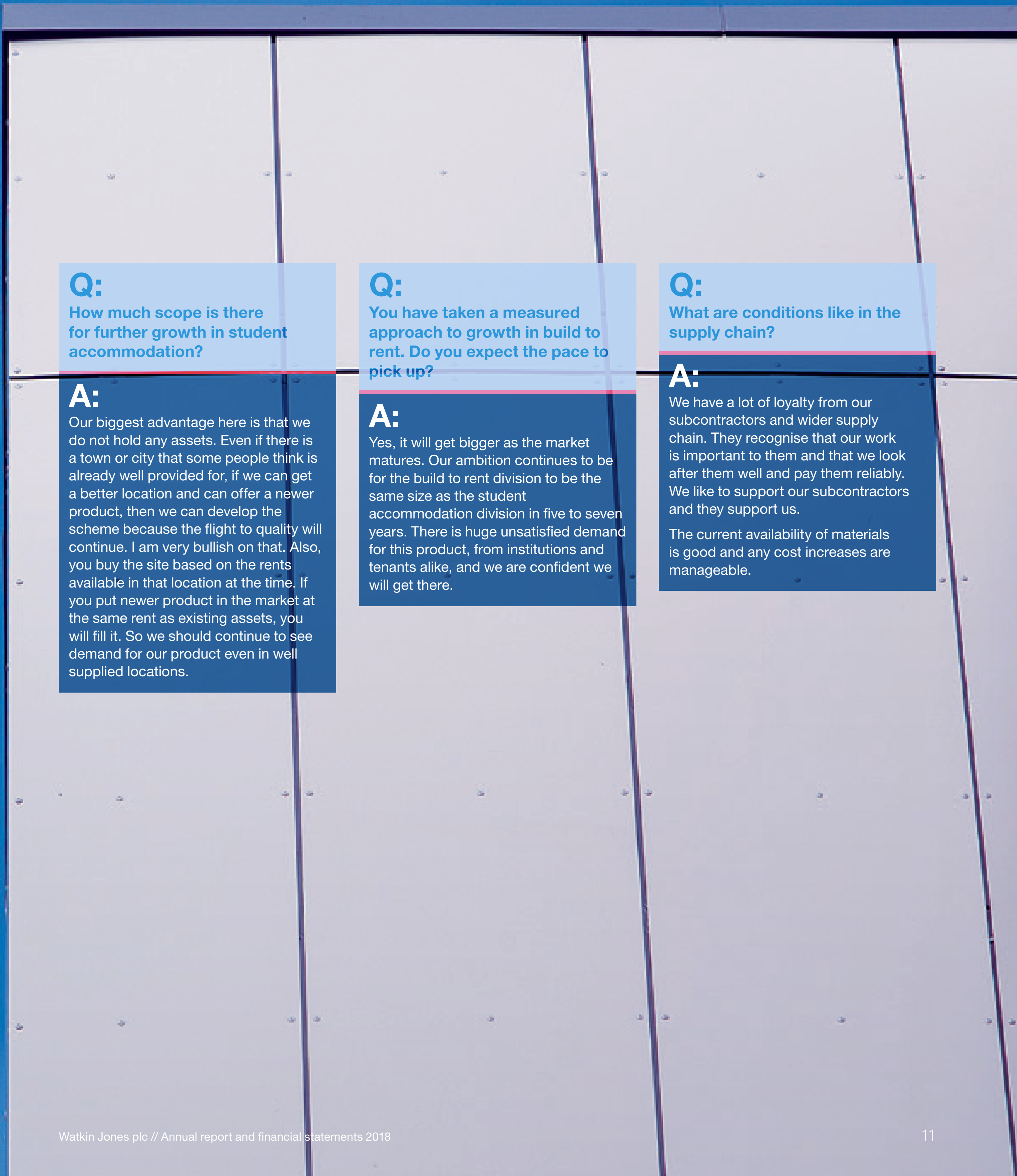
A:
Apart from the financial performance, it was the team's loyalty and commitment to continuing to deliver. One of the main drivers of the IPO was to keep the business moving ahead. Having to meet external expectations means everyone continues to be focused on what needs to be done, because nobody wants to let the shareholders or their colleagues down. We are seeing the success of the changes we made to management responsibilities in the previous year and the team drives extra value from understanding how their individual roles contribute to the success of the wider Group.

Q:
What are the biggest challenges facing the business?

A:
Maintaining the pipeline is an essential part of our business model and the biggest challenge we face. If you have a three-year pipeline, it allows you to make informed decisions about when and where you want to proceed. It also means you do not have to buy poor sites, just to try and keep up your numbers.

Another challenge is establishing the build to rent market and proving the scale of the opportunity there. The market is still in its infancy and we need to help it mature. The progress we have made to date is very encouraging in that respect.

The other issue is looking after your staff. The more successful you become, the more attractive your people are to other companies. We have to protect the business's knowledge of how we do things and we need to keep reminding people that it is a team effort. Our people are supported by a huge infrastructure and the resources they need to do their jobs. We have a very committed, hands-on Board and our people know how much support they get. I think you work hard here but you get well looked after.



Q:
How much scope is there for further growth in student accommodation?

A:
Our biggest advantage here is that we do not hold any assets. Even if there is a town or city that some people think is already well provided for, if we can get a better location and can offer a newer product, then we can develop the scheme because the flight to quality will continue. I am very bullish on that. Also, you buy the site based on the rents available in that location at the time. If you put newer product in the market at the same rent as existing assets, you will fill it. So we should continue to see demand for our product even in well supplied locations.

Q:
You have taken a measured approach to growth in build to rent. Do you expect the pace to pick up?

A:
Yes, it will get bigger as the market matures. Our ambition continues to be for the build to rent division to be the same size as the student accommodation division in five to seven years. There is huge unsatisfied demand for this product, from institutions and tenants alike, and we are confident we will get there.

Q:
What are conditions like in the supply chain?

A:
We have a lot of loyalty from our subcontractors and wider supply chain. They recognise that our work is important to them and that we look after them well and pay them reliably. We like to support our subcontractors and they support us.

The current availability of materials is good and any cost increases are manageable.

CHIEF EXECUTIVE OFFICER'S REVIEW

This was a record year for Watkin Jones, as we delivered revenue and profits that were slightly ahead of our expectations.

Mark Watkin Jones
Chief Executive Officer

Business highlights

- Revenue from continuing operations rose to £363.1 million in FY18 (FY17: £301.9 million).
- Gross profit increased to £72.4 million in FY18 (FY17: £63.5 million).
- Operating profit achieved in FY18, before an exceptional gain of £4.3 million, was 16.2% higher at £49.6 million (FY17: £42.7 million).
- Ten student accommodation developments (3,415 beds) completed during FY18.
- Secured student accommodation development pipeline of 7,534 beds across 17 sites, with nine forward sold (4,490 beds).
- Build to rent development pipeline increased. Secured development pipeline of approximately 1,500 apartments across seven sites.
- Fresh Property Group contracted to manage 15,421 student beds and build to rent apartments for FY19 (56 schemes), compared to 16,617 beds and apartments across 57 schemes for FY18. Good underlying growth of 14 schemes, offset by the loss of 4,597 student beds as a result of the portfolio sale by the Curlew Student Trust.
- 175 residential sales completed (FY17: 94 sales).

Performance

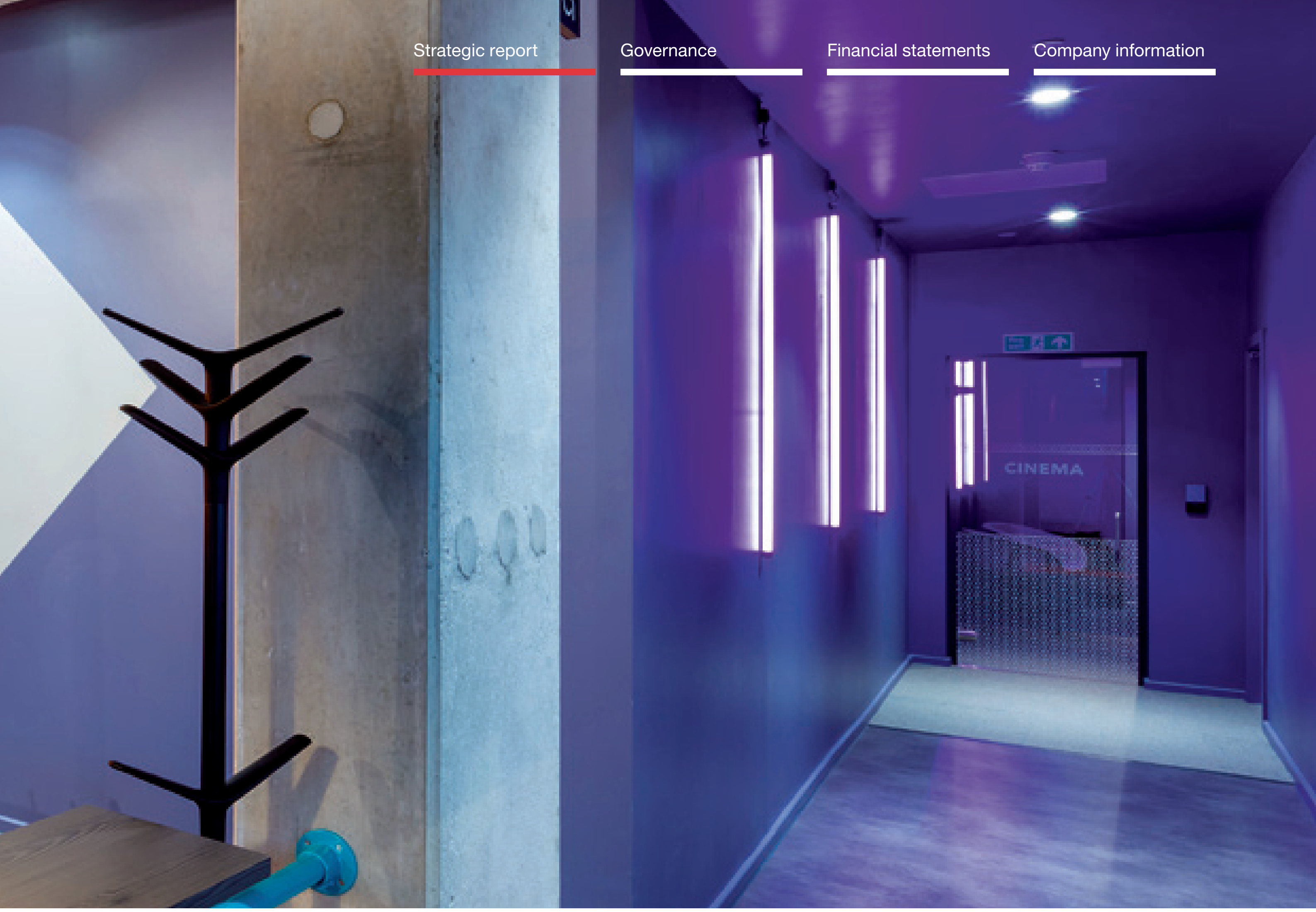
Revenue from continuing operations rose by 20.3% to £363.1 million (FY17: £301.9 million). Gross profit was 14.0% higher at £72.4 million (FY17: £63.5 million), contributing to a 16.2% increase in operating profit to £49.6 million (FY17: £42.7 million), before an exceptional gain of £4.3 million. The pre-exceptional operating margin was 13.7% (FY17: 14.1%). Our business continues to be strongly cash generative, reflecting the favourable cash profile of our forward sale model. The operating cash inflow for the year was £54.4 million (FY17: £19.2 million).

Revenues benefited by £42.6 million from the forward sale of a portfolio of four development sites, which completed on 30 September 2018. The benefit to margins was less significant, as the majority of the profit on these developments will flow through over the coming two years.

Student accommodation development generates the majority of our revenue and earnings and the business had another strong year, growing revenue by 22.1% to £312.7 million (FY17: £256.1 million). We completed all ten schemes on time (3,415 beds) and the pipeline of development sites remains robust, enabling us to maintain the high visibility of our future earnings.

We continue to make good progress in build to rent, both with acquiring sites for our own developments and working with institutions who are bringing opportunities to us. This allows us to leverage our development expertise for them and gives us another avenue for growth in this market. We entered into two significant development agreements with institutions during the year, to deliver a 315-apartment scheme for M&G in Reading and a 300-apartment scheme for Lum Chang Holdings Limited and Sin Heng Chang Private Ltd in Wembley. Our pipeline in this business is now around 1,500 apartments across seven sites, with several other opportunities in legal negotiations or under offer.

Fresh Property Group ("FPG") continues to perform well and its underlying growth was strong. As previously announced, FPG lost 4,597 student beds under management during the year, after our client the Curlew Student Trust ("CST") sold its Enigma property portfolio. Despite this, FPG saw a net drop in student beds and build to rent apartments under management of just 1,196 units, after winning 14 new student schemes to manage from the start of the 2018/19 academic year.



FPG's compensation for the initial reduction in scope of services followed by early termination of the management contracts with CST, plus FPG's share of the profit from the proceeds of disposal of the assets, paid on its carried interest in CST, resulted in an exceptional income in the year of £4.3 million.

The residential business also had a good year, completing 175 sales (FY17: 94 sales). We see prospects for this business to grow by strategically acquiring attractive new small to medium-sized sites.

Strategy

The Group is following a consistent strategy, based on the four pillars of our business. Student accommodation development remains core and the Board is committed to continuing to drive that business forward, while we develop a second substantial revenue stream in the build to rent market and benefit from increasing contributions from the FPG and residential businesses.

We continue to look at ways to enhance shareholder returns from the longer-term value creation opportunity in build to rent. This may include establishing an independent new investment vehicle, which would be able to attract third-party capital and would acquire the Group's build to rent developments on a forward-sale basis, thereby not changing the Group's business model. We will update shareholders on our plans as appropriate.

As we look for development opportunities for student accommodation and build to rent, we are identifying smaller sites suitable for our residential business to develop apartments. We will carefully manage the working capital required for this part of the business.

People and culture

The Group has seen real benefits from the changes we made last year to our senior management structure. This included establishing an Executive Committee, to provide leadership to the Group below Board level. We also invested in and empowered the Operational Board, which comprises the members of the Executive Committee plus the managing directors of the delivery divisions, and the management teams below them throughout the Group. This work has helped the teams to achieve an excellent performance across our businesses.

As part of the succession process, the Executive Committee and Operational Board has assumed increasing responsibility over the year for the day to day management of the Group. The success of this transition has given me confidence that this is the right time for me to step away from the Group and allow Richard and the team to take the business forward.

Watkin Jones is a specialised business with a highly structured delivery process, which allows our people to develop a deep understanding of their roles. This is enabling us to tackle our development schemes earlier, making it easier to deliver them and contributing directly to our people's job satisfaction and the Group's financial performance.

This is my last report as Chief Executive Officer and I want to thank all of my colleagues around the Group for helping to make Watkin Jones the success it is today.

CHIEF EXECUTIVE OFFICER'S REVIEW continued

Sustainability

Watkin Jones is a business that thinks for the long term and we therefore look to ensure we can deliver sustainably, benefiting all of our stakeholders along the way. This means understanding and managing the needs of our stakeholders, which include our people, clients, supply chain and shareholders. Our view is that their success is our success, and we aim to work with them to maintain high levels of trust, loyalty and respect. The Group's stakeholders also include our communities and the local and global environment, and we take their needs into account in the way we operate. More information about our approach to sustainability can be found on pages 38 to 41.

Brexit

Whilst the outcome of negotiations surrounding the UK's exit from the European Union remain uncertain, the Group is carrying out a review with its supply chain to establish the potential risks that might arise from a "no deal" Brexit on the supply of materials and labour required for our developments. Whilst the responsibility for maintaining continuity of supply rests predominantly with our supply chain, we are focused on ensuring that the appropriate contingency measures are put in place to ensure that our development activities will continue without material interruption.

Outlook

I believe that the Group is in the best shape it has ever been. We continue to have excellent visibility of our future revenues and earnings, supported by the pipeline of forward-sold and secured sites for student accommodation.

Despite delivering fewer student beds in FY19, the locations and forward sale values we have achieved for these schemes underpin our earnings expectations from this division over the next twelve months and beyond.

Our success in securing the significant build to rent development agreements in Reading and Wembley, together with our secured pipeline of sites, is highly encouraging. In addition, our residential and accommodation management divisions are well positioned to contribute to progressive earnings growth. As a result, we remain confident in the outlook for the Group.

Mark Watkin Jones
Chief Executive Officer
(until 2 January 2019)

Director
(until 15 January 2019)

14 January 2019

Q&A: RICHARD SIMPSON

Richard Simpson joined Watkin Jones as our Chief Executive Officer on 2 January 2019. Here he explains what attracted him to the Group and sets out his views on the future.

Richard Simpson
Chief Executive Officer

Q:
Why did you choose to join Watkin Jones?

A:
Watkin Jones is a great company. It has proven expertise as an end-to-end property developer and a formidable track record of success. It is also quite pioneering, establishing itself in exciting sectors which are attractive to institutional investors. The high-quality team was also important and I am looking forward to working with them.

Q:
How well did you know Watkin Jones before you joined?

A:
At Unite Students, I worked closely with Watkin Jones on several student accommodation projects around the country. Every one of those projects went extremely well. I got to know the product and how the company works and formed strong relationships with many of the key people. It gave me a clear insight into the business and I was very impressed.

Q:
What are your immediate priorities?

A:
My priority is to get to know the business in detail. I want to understand every aspect of the operations, get a clear overview of the projects and pipeline, and meet the wider team and our investors. This is a business that has never performed better, so I have a very strong platform to start from, but there are always opportunities to improve further. I will be looking closely at that over the first few months.

Q:
What are your thoughts on the student accommodation market?

A:
There are about 1.8 million full-time students in the UK and only around 600,000 PBSA beds, so that suggests a big supply-demand imbalance and a good future for student accommodation. You have to be selective about the cities you build in and put the right product on the right sites, but I am very confident about the prospects in this market.

Q:
What excites you about the build to rent opportunity?

A:
Student accommodation is one part of the broader private rented sector and the exemplar for how purpose built residential schemes should be done. That means Watkin Jones is extremely well placed to leverage its student accommodation expertise into build to rent. There is a structural shortage of homes in the UK and that makes this market very exciting.

Q:
What do you think makes Watkin Jones unique?

A:
The end-to-end capability is key. This business understands how to identify the right cities, buy the right sites and get planning. Then it can turn that vision into reality by developing, constructing and managing the schemes. The Group has done this successfully for years and that track record makes it a great partner for institutions, who are usually risk averse. The private residential expertise is also important, both as a source of growth in its own right and in allowing us to take on mixed-use schemes. This is a unique collection of skills in the UK.

BUSINESS MODEL

We have nearly 20 years' experience in the PBSA market. During this time, we have developed substantial expertise and competitive advantages in property development and management, which we are now leveraging in the build to rent market.

INPUTS

Inputs to our business model

The following tangible and intangible 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 that meet the needs of investors and tenants.

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

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. This process may also identify smaller sites for us, which are suitable for private residential apartments. Our track record helps us to buy sites 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.

2 Transaction and funding

Forward sale to institutional investors
Value added opportunities
Land sale and development agreement

Typically 2.5 years

Our forward sale model reduces our risk, as we generally aim to sell each PBSA or built to rent scheme to an investor before we start construction. We may decide not to immediately forward sell some developments, when we can earn a higher sale price by waiting, but ultimately we do sell all of our developments. 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.

Selling our developments 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. Institutions' desire to work with tier 1 developers, such as us, is an important barrier to entry.

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 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. The insights FPG acquires by engaging with students and tenants also keep us up to date with the latest trends, so we can adapt our future developments accordingly.

Fresh combines national scale with local knowledge, differentiating it from its largely regional competitors. It can manage both PBSA and build to rent schemes for the same investor and focuses on repeat business with institutions, so it can manage portfolios of assets for them.

Fresh has a scalable platform, having invested significantly in systems and processes which are tailored to student accommodation and build to rent. The required investment means barriers to entry are high. We believe that a minimum of 5,000 units 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
We contribute to both communities and national services through a variety of taxes.

For shareholders
Shareholders benefit from rising earnings, cash flows and dividends.

OUR STRATEGY

We have set clear strategic objectives for each part of our business, with the aim of delivering sustainable growth across the Group.

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 in excess of 2,500 PBSA beds in a typical year, prioritising the quality of earnings over the number of beds;
- using our forward sale model to minimise risk; and
- continuing to build strategic partnerships with institutional investors, so they become repeat clients.

R RESIDENTIAL

Our objectives for the residential business are to grow its profit contribution by:

- continuing to develop sites from our current residential land bank; and
- strategically acquiring new sites for residential development, in particular targeting opportunities for higher margin smaller to medium-sized housing and apartment schemes, while carefully managing the working capital requirements for the business to achieve sustained self-funded growth.

BTR BUILD TO RENT

Our objective is to progressively expand in the build to rent market in order to grow this part of the business to an equivalent size as the student accommodation business over time. We will do this by:

- leveraging our expertise in PBSA to capitalise on the similarities with build to rent;
- drawing on the expertise of our residential development teams;
- exploring the possibility of establishing an independent investment vehicle to acquire the Group's build to rent developments on a forward sale basis. This would facilitate acceleration of the Group's build to rent development pipeline; and
- partnering with institutional investors to develop schemes on their behalf.

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.

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 for the Group, to measure our progress towards achieving long-term, sustainable growth for shareholders.

Gross margin (%)

FY18	20.0%
FY17	21.0%
FY16	20.1%

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 maintained at the Group's target of 20%. The higher margin achieved in FY17 reflects the exceptional margin contribution from certain schemes completing in that year.

EBITDA (adjusted) (£m)

FY18	£52.0m
FY17	£45.2m
FY16	£41.6m

Purpose
Reflects our ability to deliver sustainable earnings growth.

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

Performance
We increased adjusted EBITDA by 15.1% to £52.0 million, driven by higher revenues.

Basic EPS (adjusted) (pence)

FY18	16.0p
FY17	14.0p
FY16	12.4p

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 13.8% to 16.0 pence, as a result of the Group's strong profit growth in the year.

Cash inflow from operating activities (£m)

FY18	£54.4m
FY17	£19.2m
FY16	£15.1m

Purpose
Demonstrates that we generate high-quality profits which are readily converted to cash, as a consequence of our working capital light forward sale model, and underpins our dividend payout.

Definition
Cash flow generated by our operating activities.

Performance
Cash inflow from operating activities was £54.4 million.

Number of student beds delivered

FY18	3,415
FY17	3,314
FY16	3,819

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 3,415 beds across ten schemes in FY18, in line with our objective.

Number of student beds and build to rent units under management

FY18	16,617
FY17	12,337
FY16	8,310

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
Student beds and build to rent apartments under management for FY18 were increased by 34.7% to 16,617.

OPERATING REVIEW

SA

STUDENT ACCOMMODATION

Revenues from developing student accommodation increased by 22.1% to

£312.7 million

(FY17: £256.1 million).

Key statistics

	Beds	Schemes
Delivered FY18	3,415 beds	10 schemes
Pipeline	7,534 beds	17 schemes
Forward sold	4,490 beds	9 schemes

Bailey Fields
Sheffield

HIGHLIGHTS

Student accommodation development

- Ten developments (3,415 beds) completed as scheduled in FY18.
- Nine developments (4,490 beds) currently forward sold.

- Total development pipeline of 7,534 student beds across 17 sites:
  - FY19 deliveries – six student developments (2,723 beds) scheduled for delivery. All sites secured with planning consents in place and five sites (2,646 beds) forward sold.
  - FY20 deliveries – seven student developments (approximately 2,606 beds) scheduled for delivery, all of which have been secured. Four sites (1,844 beds) are forward sold.
- FY21 deliveries – four sites secured (2,205 beds), with a number of additional sites in progress.

Performance

Revenues from student accommodation development rose strongly, with a 22.1% increase to £312.7 million (FY17: £256.1 million). The gross margin achieved on these sales was 19.4% (FY17: 22.1%). On 30 September 2018 we completed the forward sale of a portfolio of four student accommodation developments, with the purchaser entering into an option agreement to acquire a fifth scheme subject to receipt of planning. The revenue contribution from the forward sale of the four developments in FY18, which mainly constituted the land sales, was £42.6 million. The margin recognised on the initial sales value was 11.1%, with the profit on the development works to be recognised in FY19 and FY20. Adjusting for the impact of this forward sale, the gross margin for the year was 20.7% and was above the Group's target of 20%. The comparatively higher margin in FY17 reflects the exceptional margin contribution from certain developments completed in that year.

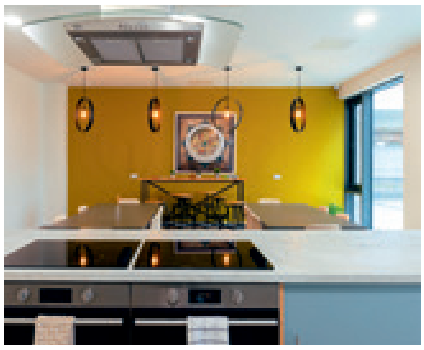
During the year, we completed ten student accommodation developments across the UK, with a total of 3,415 beds. In doing so, we maintained our track record of completing 100% of developments before they were due to be let.

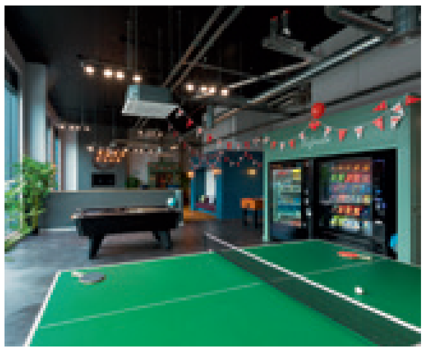
We look to maintain a robust pipeline, for delivery over the following three years. For FY19, we are scheduled to deliver six schemes with 2,723 beds. Five of these schemes (2,646 beds) have been forward sold and the remaining scheme (77 beds) is secured.

For FY20, we expect to deliver seven schemes (2,606 beds), of which four schemes (1,844 beds) have been forward sold. The remaining three schemes (762 beds) are secured. We continue to build our delivery pipeline for FY21, with four development sites (circa 2,205 beds) already secured.

In total, at the year end we had a secured development pipeline of 17 sites, representing 7,534 beds, with an appraised development value of approximately £650 million.

Our expertise and in-house resource have enabled us to continue to make good progress with obtaining planning consents. During FY18, we achieved planning consent for six developments (2,932 beds). A further two of our secured sites (798 beds) are progressing through the planning process.





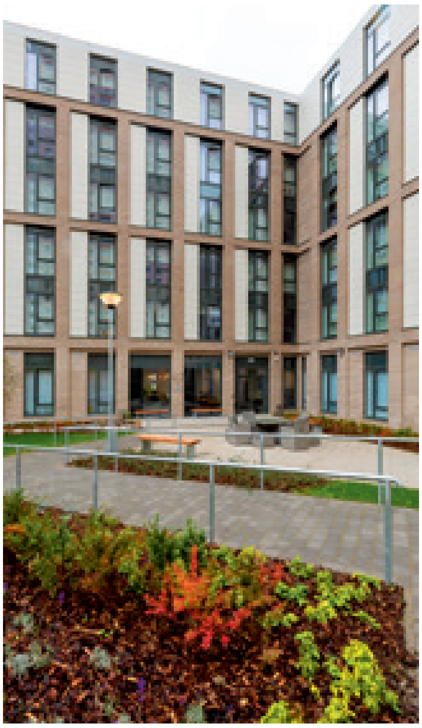
OPERATING REVIEW continued

SA

STUDENT ACCOMMODATION CONTINUED

Our focus, market knowledge, geographical coverage and ability to work across the entire development cycle give us a competitive advantage.

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 around 1.8 million in 2018.

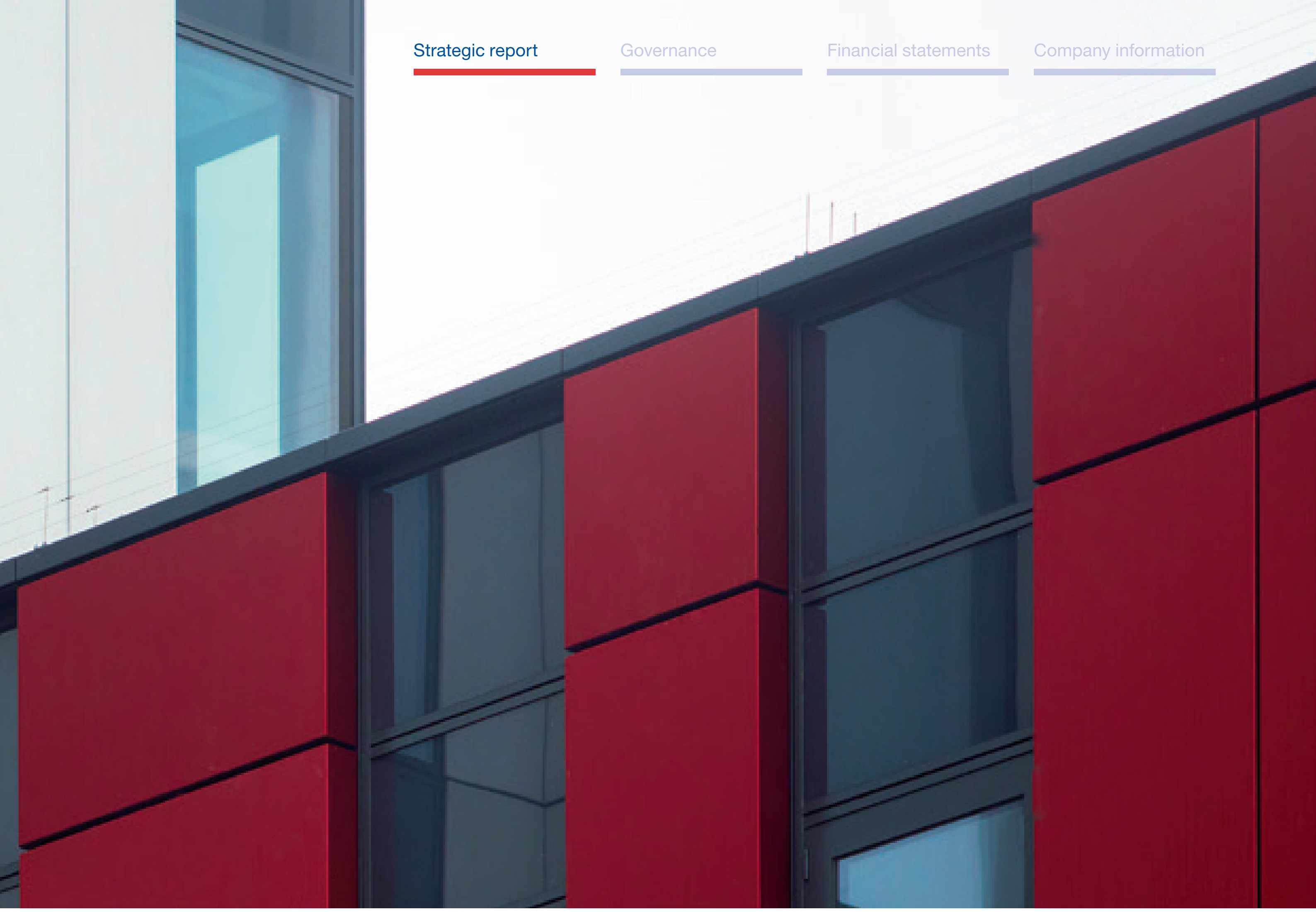
Demand for university places remains substantially greater than supply. In 2017/18, there were 695,565 applications to UK universities, of which 533,360 were accepted, resulting in unfulfilled demand for 162,205 places. UCAS applicants in 2017/18 were 6.4% higher than in 2011/12, the year before tuition fees increased substantially.

The increase in the student population has occurred despite the decline in the number of 18-year-olds in the UK over recent years. However, the demographic outlook is positive, with an upturn in this age group coming through from 2021. Trends in international students are also positive. Around 404,000 students are from outside the UK, representing 22.5% of the student population and an increase of 54% over the period 2006/7 to 2016/17.

Non-EU international student numbers increased by 20% over the eight years to 2016/17 and they make up circa 15.8% of the full-time student population. International students from the EU are a relatively small proportion of the market at 6.7% and we do not believe that any changes in EU student numbers post-Brexit would have a noticeable impact on demand for PBSA.

For the start of the 2018/19 academic year, Cushman & Wakefield reported, in their UK Student Accommodation Report 2018/19, that 627,000 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. New PBSA predominantly comes from the private sector. In 2018, 77% of new PBSA beds came from the private sector.

As a result of this growth, Cushman & Wakefield reported that, for the 2018/19 academic year, 47% of beds are operated by the private sector, up from 43% for 2017/18. The balance is operated by the universities themselves. It is estimated that 75% of university-operated accommodation was built pre-1999 and is no longer fit for purpose or meeting occupier expectation.



This is contributing to a "flight to quality", with students seeking modern, high-specification accommodation in the private sector.

A similar "flight to quality" is also evident in the private sector, with students increasingly preferring the modern high-quality PBSA private sector offering to the more traditional private landlord-run houses of multiple occupation ("HMOs").

This trend is also being driven by the recent fiscal and planning barriers which make the acquisition of houses for student letting more costly and difficult for private landlords, which will lead to a reduction in the number of students living in HMOs.

This accords with the national and local government agendas, which recognise PBSA as a better solution for housing students and enables HMOs to be made available to help towards the shortage in residential accommodation.

PBSA investment

Institutional investors see UK PBSA as a mature, stable and income-producing asset class. This makes it a defensive investment and an attractive asset to hold in times of uncertainty. Investors also favour the continued headline rental growth in the sector, which Cushman & Wakefield reported stood at 2.8% for the 2018/19 academic year.

As a result of these factors, investor sentiment remains strong and they are willing to pay premiums for larger portfolios of PBSA assets, so they can quickly allocate their capital and build scale. Around £4.1 billion of stock was traded in 2017, with a further £2.45 billion traded in the first three quarters of 2018. An additional £0.65 billion of stock is believed to be under offer. Demand for this stock comes from both domestic and international institutions.

Competition

Watkin Jones operates across the entire PBSA development lifecycle. While 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 providing student accommodation developments.

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. This makes us an attractive conduit for institutions looking to increase exposure to PBSA and means we do not compete with our institutional clients by also being an asset owner. These factors make us well placed to compete effectively.

Around
404,000
students are from outside the UK

Representing
22.5%
of the student population

An increase of
54%
In international students 2006/7 to 2016/17

OPERATING REVIEW continued

BTR

BUILD TO RENT

We continued to make good progress in build to rent, successfully growing our development pipeline.

Key statistics

Pipeline
1,478 apartments

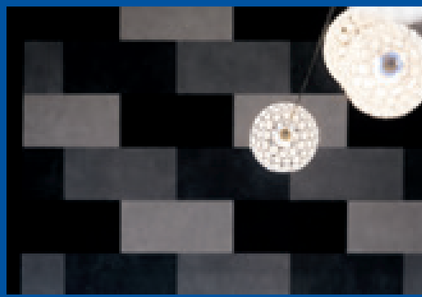
7 schemes

Telereal
Bournemouth

HIGHLIGHTS

Build to rent development

- Entered into development agreements with investors to deliver a 315-apartment scheme in Reading and a 300-apartment scheme in Wembley, with both scheduled for occupation in FY21.
- Achieved planning consents for development sites in Bournemouth and Sutton.
- Secured a significant development site in Uxbridge, with planning consent progressing.
- In total, the Group now has a delivery pipeline of approximately 1,500 apartments across seven sites, for delivery between FY19 and FY22.
- The Board continues to explore ways to enhance shareholder returns from the Group's build to rent programme, including the possible establishment of a new independent investment vehicle.



Performance

In FY18, we continued to make good progress with our build to rent development pipeline, as well as securing development funding agreements with institutional investors.

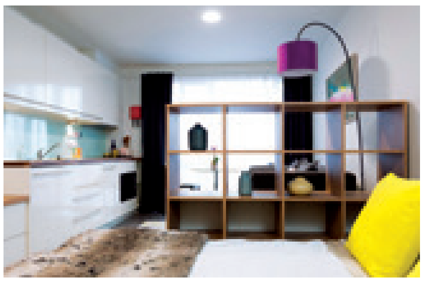
In May 2018, we entered into a development funding agreement with M&G Real Estate to deliver a build to rent scheme in Reading. Under the agreement, we will receive £68.5 million for the development works we are to carry out, with completion targeted for FY21. The scheme is in the Thames Quarter, close to the railway station and town centre, and comprises 315 high-specification studio, one, two and three-bed apartments. Residents will benefit from outstanding facilities, including a triple height atrium, cinema room, multiple private dining facilities, tenant lounges and a selection of rooftop terraces, providing views of the River Thames.

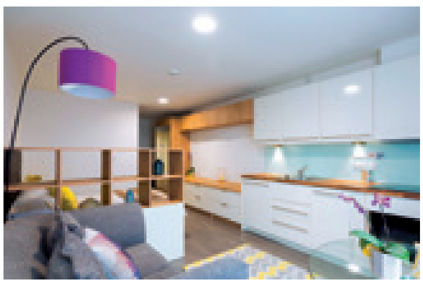
In August 2018, we announced a development agreement with Kelaty Propco Limited, a joint venture ultimately owned by Singapore incorporated Lum Chang Holdings Limited and Sin Heng Chang Private Ltd. The 300-apartment scheme is in Wembley, London and is adjacent to a 599-bed student accommodation site we acquired from the joint venture. The development is targeted for completion in FY21.

During the year, we secured planning consents for 147 units at Holdenhurst Road, Bournemouth, and we also secured consent for 165 units at our site in Sutton.

The other notable event in the year was securing a significant development site in Uxbridge. We are progressing planning consent for the site, on which we expect to deliver around 260 units.

Including the developments in Reading and Wembley, we now have a secured delivery pipeline of approximately 1,500 apartments across seven sites, which we are targeting to deliver between FY19 and FY22. In addition, we have several other site opportunities which are in legal negotiations to acquire or are under offer.





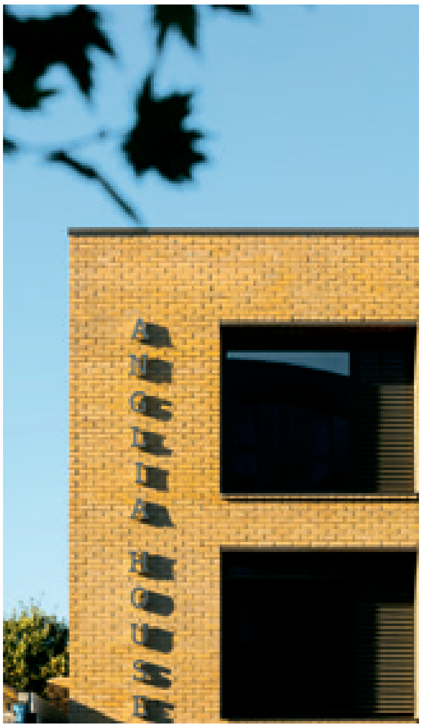
OPERATING REVIEW continued

BTR

BUILD TO RENT CONTINUED

By leveraging off our expertise in PBSA, we have been able to secure significant development opportunities in build to rent.

Jim Davies
Managing Director
Newmark Developments



The market opportunity

Build to rent represents an exciting opportunity and continues to have growing momentum as an asset class.

There is well-known structural supply and demand imbalance in the UK residential property market, with the supply of new homes in the UK failing to keep up with demand. Factors driving this demand include rising life expectancy, an increase in one-person households and immigration. The government is targeting 300,000 new dwellings each year, but only 195,000 were delivered in 2017/18, continuing a trend established over many years of delivery falling short of requirements. In their 2017 House Building Report, Knight Frank reported that the UK's population is growing at a rate of 200,000-250,000 additional households every year, whilst over the previous 15 years the supply of new homes has averaged only 160,000, clearly demonstrating the sustained shortage in new homes.

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 medium to long term instead. Young people are increasingly seeing property renting as a better lifestyle choice, providing quality of living, whilst maintaining flexibility, in the expectation of changing jobs more frequently than in the past.

These trends mean that 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. Renters are also getting older and, across the private rented sector, people in their late 20s and early 30s make up 46% of renters, up from 27% in 2006.

Rented housing now accounts for 20% of the UK's total housing stock, but the market is fragmented and dominated by small buy-to-let landlords, with little over 3% being owned by institutions. This compares with around 25% in the USA, which is a more mature institutional market. The proportion of UK rented homes owned by institutions is therefore expected to rise, as build to rent offers them an attractive income stream that correlates strongly with inflation and is considered highly sustainable through the economic cycle. Investment in the build to rent sector is estimated to total £3 billion in 2018, up 50% since 2017, and is forecast to reach £70 billion by 2022.

The government is targeting

300,000

new dwellings each year, but only

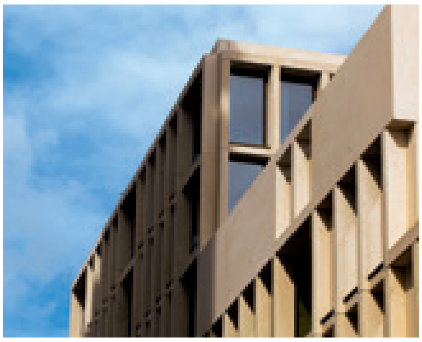
195,000

were delivered in 2017/18

The UK's population is growing at a rate of

200,000-250,000

additional households every year



OPERATING REVIEW continued

AM

ACCOMMODATION MANAGEMENT

The quality of our accommodation management services continues to be highly regarded.

Key statistics

Student beds and build to rent apartments under management

FY18
16,617 **57** schemes

FY19
15,421 **56** schemes

Dobbie's Point
Glasgow

HIGHLIGHTS

Accommodation management

- At the start of FY19, Fresh Property Group ("FPG") had 15,421 student beds and build to rent apartments under management, across 56 schemes, compared with 16,617 beds and apartments under management across 57 schemes a year earlier.
- FPG delivered strong underlying growth, being appointed to manage 14 new student schemes with 3,740 beds from the start of the 2018/19 academic year. This included FPG's first two contracts in Ireland (369 beds), with two further schemes (595 beds) under contract for FY20.
- This underlying growth was offset by the previously announced loss of 4,597 student beds, following the sale of the Enigma property portfolio by the Curlew Student Trust ("CST"). Curlew Capital has launched a second fund ("CST2") for which FPG is the preferred property manager, creating the potential for longer-term growth.
- In total, FPG is contracted to manage 18,258 student beds across 65 schemes by the start of FY21.
- The number of build to rent apartments under management is contracted to increase from 546 apartments across five schemes to 820 apartments across six schemes by FY21, with FPG having won a bid to manage a 274-apartment scheme in Manchester.

Fresh Property Group ("FPG") is a key part of our end-to-end solution for clients, which spans sourcing of sites to managing the completed developments. FPG operates under the Fresh Student Living brand in student accommodation and the Five Nine Living brand in build to rent.

FPG can take on all aspects of accommodation management for clients, including mobilising, marketing and letting, managing the building and tenants, collecting rent and providing the operational financial reporting for the asset. The business has invested significant amounts in best-in-class systems and processes, which makes it highly scalable, with efficient processing of back-office functions, freeing our people to focus on providing excellent service.

The business continued to grow strongly in FY18, generating revenue of £7.3 million (FY17: £6.1 million) and gross profit of £4.5 million (FY17: £3.8 million), representing a gross margin of 61.8% (FY17: 61.9%).

As previously announced, during the year the Curlew Student Trust ("CST") sold a portfolio of student accommodation assets managed by FPG (the Enigma portfolio).

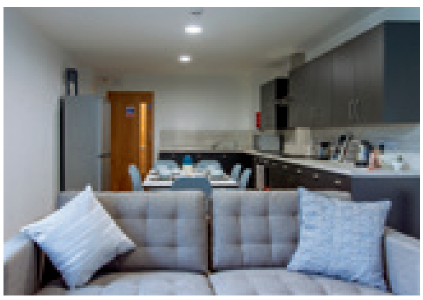
This resulted in FPG providing a reduced level of service from 1 May 2018 to August 2018, when the management agreements were finally terminated. FPG was fully compensated for its loss of revenue associated with the reduced scope of services and early termination of the management agreements, as discussed in the financial review on pages 42 to 45. The sale reduced FPG's number of student beds under management for the start of the 2018/19 academic year by 4,597.

Following the successful sale of the Enigma portfolio, Curlew Capital has set up a new fund, CST2, to continue to develop and acquire student accommodation assets across the UK. FPG remains the property manager for the remaining eight assets in CST (1,714 beds) and is preferred manager for CST2, which has already secured a portfolio of over 1,300 beds, with a further 1,300 beds in solicitors' hands, and has ambitious growth plans. This presents the potential for further long-term growth in FPG.

FPG had a good year for winning new management contracts, picking up 14 student accommodation schemes (3,740 beds) with effect from the start of the 2018/19 academic year. As a result, FPG saw a net drop in beds under management of only 1,196, despite the CST sale. Excluding the beds under management associated with the properties sold by CST, FPG's beds under management were increased by 30% compared to the start of the 2017/18 academic year.

This led to FPG having 15,421 student beds and build to rent apartments under management at the start of FY19 across 56 schemes. Of these schemes, 48% were developed by Watkin Jones and 52% by third parties, showing the broad attraction of FPG's offer to institutional clients. By FY21, FPG is currently contracted to manage 18,258 student beds across 65 schemes.

The new business won in the year included FPG's first contracts in Ireland. It was awarded the management of two schemes in Dublin for the 2018/19 academic year (369 beds) and another two schemes (595 beds) for the 2019/20 academic year. FPG has established Fresh Property Group Ireland Limited to pursue further opportunities in Ireland, including in build to rent. The establishment of the Irish business utilises FPG's existing management systems and represents a low-cost way to enter a new market.



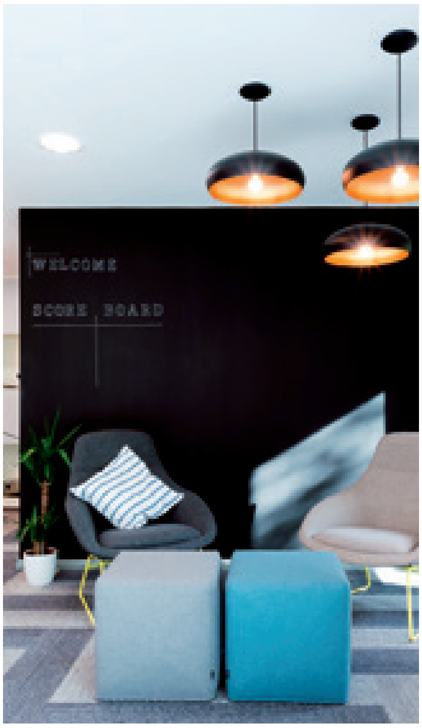
OPERATING REVIEW continued

AM

ACCOMMODATION MANAGEMENT CONTINUED

FPG had a successful year, achieving solid underlying growth and establishing its presence in Ireland.

Rebecca Hopewell
CEO
Fresh Property Group



FPG continues to grow its presence in the build to rent sector. For FY18, it managed five schemes with 546 apartments between them. During the year, it also won a contract to manage a 274-apartment scheme in Manchester, which is scheduled for delivery in 2020, taking the total number of build to rent apartments under management to 820. A key initiative for FPG in the year was developing a service offering for smaller build to rent developments, without communal facilities. This broadens its addressable market in build to rent.

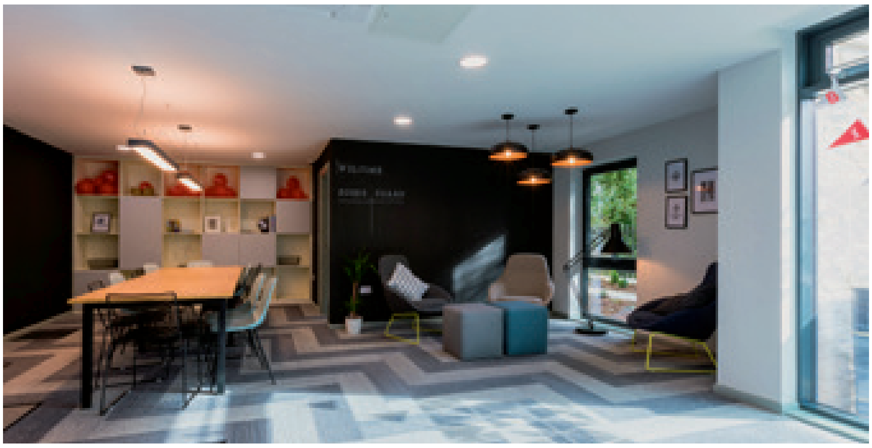
FPG has also taken on the management of its first fully mixed-use scheme, Avon Studios in Bath. This is a single block incorporating 94 student beds, ten build to rent units and four affordable housing units.

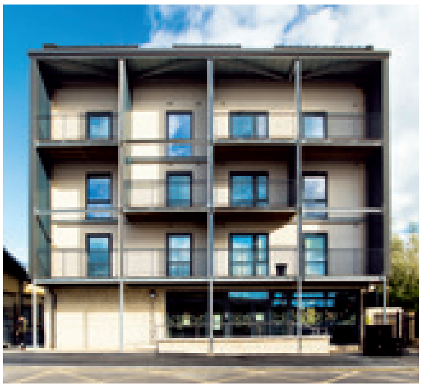
FPG's single infrastructure, sitting across both student and build to rent, allows it to deliver a unified management service for the client, capturing economies of scale across the whole block while providing a service tailored to the individual tenant groups within the building.

To support its operational effectiveness, FPG has equipped its accommodation teams with the Salesforce CRM system, to maximise the conversion of enquiries into bookings. The system will lead to improved analysis of marketing spend and return on investment, to enable targeted spend that generates the best returns. It will also give FPG a single view of the customer.

The quality of FPG's service was again recognised through the industry awards it received in the year. These included the National Student Housing Survey International Quality Mark 2018, and the Best Private Halls of Residence and Unsung Hero awards at the Property Week Student Accommodation Awards 2018.

All of FPG's accommodation teams have completed mental health training with charity partner Young Minds. This is of particular significance, given the increasing prevalence of stress and mental health issues among students.





OPERATING REVIEW continued

R

RESIDENTIAL

We are well placed to achieve sustained profitable growth in our residential business.

Revenues from our residential business increased by 65.8% to £30.0 million (FY17: £18.1 million).

Mark Watkin Jones
Chief Executive Officer

HIGHLIGHTS

Residential

- Completed 175 sales (FY17: 94 sales), comprising a mix of homes and apartments in the North West.

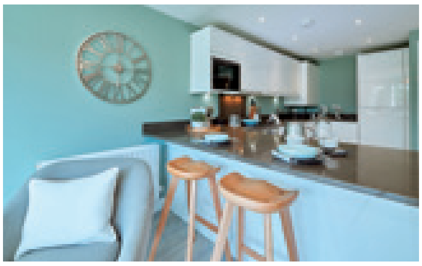
The residential business had a good year, completing 175 sales against 94 in the prior year. This resulted in revenues of £30.0 million (FY17: £18.1 million). The business continues to make sales at nil margin at its legacy development site at Droylsden, Manchester. These sales totalled £10.2 million in the year (FY17: £6.0 million). Sales from this site are ongoing and will continue to release cash from inventory. The gross margin for the business was 14.6%, down from 16.7% in FY17, as a result of these nil-margin sales.

Excluding the nil-margin sales, the gross margin achieved for the business was 22.2% (FY17: 25.0%).

The business is well placed to achieve sustained profitable growth going forward. We will look to acquire small to medium-sized housing sites in the North West, whilst also acquiring attractive sites suitable for small apartment schemes identified by the Group's national site acquisitions team. For example, in FY18 we commenced the development of a 44-apartment scheme in Bath which will be completed in FY19.

In addition, the planning consents for PBSA sites often include a residential element. An example of this is our current mixed-use development in Stratford, which includes 44 residential apartments, also for delivery in FY19.

However, we do not intend to acquire a substantial land bank in this business and our intention is to manage the working capital requirements so that, as far as possible, the business is self-funding. At the year end, we had a land bank of 657 plots (30 September 2017: 589 plots).



2018 CASE STUDIES

We develop 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.

AVON STUDIOS
BATH

This project is located just outside Bath city centre. It comprises 108 studios, with 94 for students and 14 key worker affordable homes. The development has ancillary and communal facilities, along with external landscaping. The site is on the north bank of the River Avon, right next to the reconstructed Destructor Bridge, the new and important gateway to the Bath Western Riverside.

108

BRIDGE STREET
CARDIFF

This is the tallest completed building in Cardiff, with 477 student beds in a 27-storey tower block and an adjacent ten-storey block. These two blocks stand above central amenity space and two retail areas on the ground floor. In addition, there are four duplex apartments for private rent or sale, as well as an alcohol treatment centre.

477

BAGOT STREET
BIRMINGHAM

The Bagot Street development contains 492 student beds in two blocks, one of 17 storeys and the other of eleven storeys, joined by a single-storey link building. The development has ancillary and communal facilities, along with external landscaping and car parking.

492

BAILEY FIELDS
SHEFFIELD

The Bailey Fields student development provides 543 beds, comprising 69 studios, 17 one-bed apartments and 457 clusters. The site provides excellent access to Sheffield city centre. It is within walking distance of both the University of Sheffield and Sheffield Hallam University and close to major arterial roads and transport infrastructure.

543

QUEEN STREET
BELFAST

This development provides 317 student beds with landscaped courtyard areas, ancillary and communal spaces, behind the listed façade of a former linen mill.

317

2018 CASE STUDIES continued

We use our market knowledge and understanding of investor demand to target key towns and cities and, at the micro level, we carefully select those sites which will be attractive to students and look to secure them off-market wherever possible.

CALEDON HOUSE
ABERDEEN

Caledon House comprises 199 student beds opposite the Robert Gordon University campus in Aberdeen. It offers a range of en-suite rooms and studios.

199

OXFORD HOUSE
BOURNEMOUTH

The project required the demolition of a seven-storey office building and the construction of a new 16-storey block, comprising 486 student beds with ancillary services, together with 38,309 sq ft of office and education space, a two-storey basement car park for 123 cars, plus cycle parking. A new electrical substation has also been incorporated into the buildings at ground level.

486

ST MUNGO'S
GLASGOW

St Mungo's contains 349 student bedrooms, across a mixture of four to seven-bedroomed cluster flats and 173 standard studios. On the ground floor is a cinema room, gym and social and amenity space for the students. The scheme has an enclosed central courtyard and a landscaped eastern courtyard, which has ramped levels and seating to encourage residents to use it.

349

NEWMARKET STREET
CAMBRIDGE

The scheme contains 219 student rooms, plus communal and ancillary facilities. There are two enclosed central courtyards with landscaping, which are fully accessible and have mixed seating to encourage use.

219

MARKET STREET
NEWCASTLE

The scheme contains 225 bedrooms across a mixture of five to nine-bedroomed cluster flats and 47 studios, as well as communal and ancillary facilities and landscaped courtyards. The site is within walking distance from both Northumbria University and Newcastle University, and close to local transport links.

225

SUSTAINABILITY

In FY18 we made further good progress with our sustainability objectives and invested in new performance management, e-learning and recruitment systems.

Waste diverted from landfill

FY18:

94%

FY17: 93%

CO_2 emissions (tonnes)

FY18:

1,065

FY17: 1,248

Reportable accidents

FY18:

3

FY17: 3

Gender diversity male:female

FY18:

54%:46%

FY17: 48%:52%

Caledon House

Aberdeen

We carry out our operations responsibly and ethically, seeking to create value for our wider stakeholders, whilst minimising our environmental impact.

Our approach recognises that in addition to delivering financial performance for our shareholders, we need to create value for our wider stakeholders, who include our people, clients, supply chain and communities. These stakeholders are all 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 relies on having a highly skilled and motivated workforce. One of the year's important developments was therefore the recruitment of the Group's first human resources director, who joined after the year end and sits on our Operational Board. Her remit is to work closely with the other members of the senior management team to drive our people agenda. This includes a strong focus on employee engagement and ensuring that we have a culture that helps us to attract and retain millennials, who will make up the majority of our workforce as we go forward. We will also introduce a business partner approach to HR, so that the HR team works closely with the commercial side of the business and can add real value.

To support employee engagement, we will launch an all-employee survey in early 2019. This will be carried out by an independent provider and we have already conducted diagnostic interviews with people at all levels of the business, to help frame the questions we will ask.

During FY18, we introduced a new online performance management system. This ensures a consistent approach to performance management for everyone across the Group and enables easy tracking of appraisal completion. The performance management process then informs the annual training programme.

Watkin Jones is a geographically diverse business, so we have implemented a learning management system called Litmos. This provides all of our people with access to excellent training packages through an e-learning portal. Litmos contains around 800 e-learning modules, covering a wide variety of topics including compliance, health and safety, management development and health and wellbeing. Litmos has also enabled us to set up structured learning paths for colleagues who are on personal development plans, allowing them to gain the necessary skills, knowledge and behaviours to progress within the Group. In the first eight months after its introduction, around 11,000 courses were completed by 537 employees, which is an average of more than 20 courses per person.

We also implemented a new online recruitment portal during the year. The aim is to improve the recruitment experience for potential employees, as well as to aid our diversity and inclusion agenda by introducing "blind" sifting of CVs.

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

	2018		2017	
	Men	**Women**	Men	Women
Board	**4**	**—**	4	—
Senior management	**42**	**13**	37	12
Other employees	**341**	**322**	284	341
Total	**387**	**335**	325	353

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. Our actions to help recruit and retain more women in senior positions across the Group include:

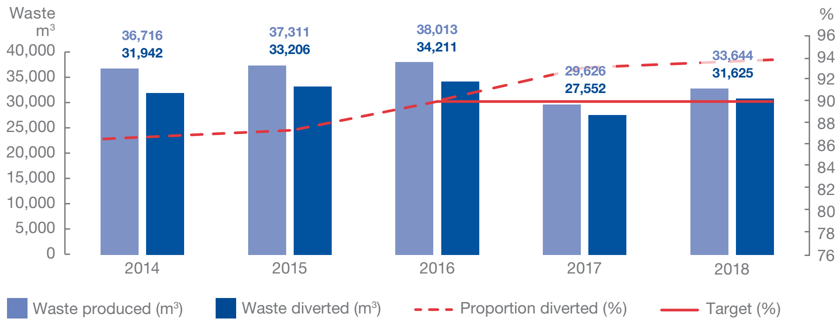
- introducing more flexible and family-friendly working practices;
- including more women on interview panels;
- identifying female staff with potential for accelerated development; and
- identifying female role models and mentors within the business.

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

Waste diverted from landfill



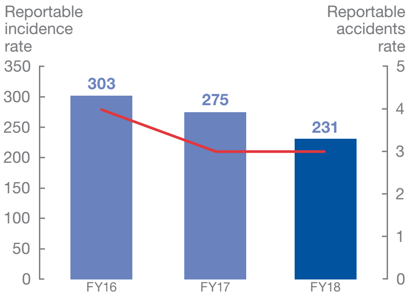
Health and safety

Protecting the health and safety of our people and subcontractors is vital. Legal compliance is our absolute minimum standard and we aim to achieve best practice. We have a Group-wide health and safety policy, underpinned by a series of procedures covering everything we do on site, along with a robust health and safety management system.

The divisional managing directors lead health and safety for their divisions. They are supported by the Group health and safety department, which comprises four health and safety advisers. The health and safety advisers conduct an inspection and audit of all sites every two weeks and all offices each month. Sites are scored after each audit and results are reported to the divisional MDs on a weekly, monthly and quarterly basis. The Group health and safety team holds weekly conference calls with the site teams to discuss performance, any issues identified and any incidents that have occurred. A monthly meeting with the divisional MDs is held to review health and safety issues, any initiatives being conducted and other key areas such as training. The quarterly analysis looks to identify any recurring incidents and trends in performance. Contract managers and directors are also required to audit sites each month, with the results reviewed by the Group health and safety team.

Fresh Property Group has continued to invest in its health and safety management systems and personnel during FY18, including the appointment of a Head of Health and Safety. Role specific training is provided for our people and our Property Team all hold a formal health and safety management qualification. We gain health and safety assurance over the sites managed by Fresh Property Group through a programme of both internal and external inspections.

Reportable incident rates and reportable accidents



Reportable incidence rate: This is an HSE standard reporting metric being the number of reportable accidents multiplied by 100,000 divided by average number of people employed.

Reportable accidents: This is the absolute number of accidents reported by the Group to HSE in accordance with the RIDDOR regulations.

Our subcontractors play a key role in on-site safety. Everyone working onsite receives a site-specific briefing before commencing work. No one is allowed on site without first proving their competency, for example by checking they hold a valid Construction Skills Certification Scheme card. This proves their identity, the qualifications they hold and the training they have received.

We run numerous health and safety training programmes for people at all levels. These include programmes for directors and site managers, as well as a wide range of specific programmes such as working at height or manual handling. All direct employees must also complete a training programme on our health and safety policy.

During the year, we introduced random testing for drugs and alcohol on all sites and at our offices. The aim is to test 20% of the workforce each year, including both employees and subcontractors. We also aim to continuously improve our performance through numerous initiatives. In FY18, these included promoting near miss reporting, skip safety and fire procedures on site.

Watkin Jones is a full member of the British Safety Council and we are accredited by the Construction Health and Safety Assessment Scheme. We also support the construction industry's Working Well Together campaign.

Our rigorous approach to health and safety has helped us to improve our performance year on year, with a further reduction in our reportable incident rate during FY18.

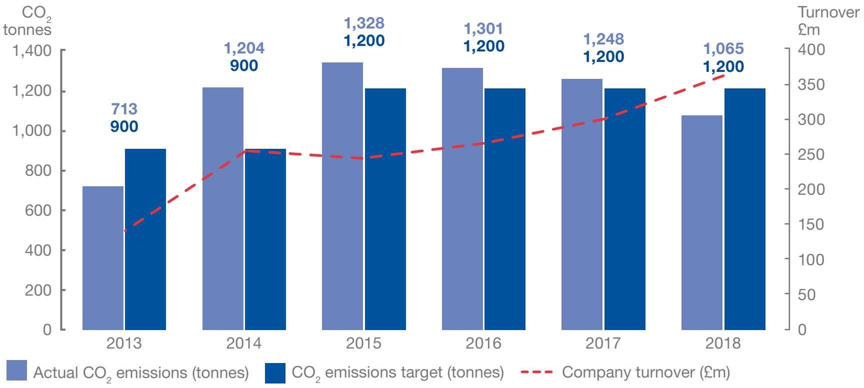
Supply chain

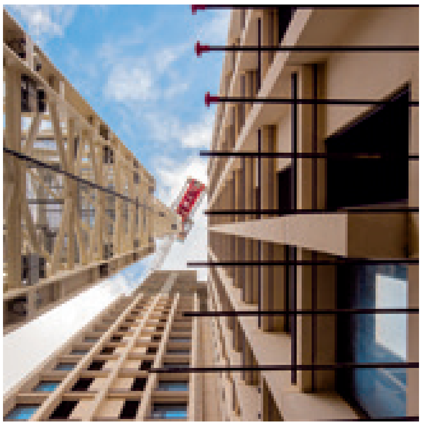
Our supply chain is crucial to successfully delivering our schemes. We look for opportunities to work closely with our supply chain partners, for mutual benefit. This includes negotiating national rates with key subcontractors, while they benefit from a highly visible and growing workload with us.

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

CO_2 emissions





- 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.

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. For FY18 we diverted 94% of our waste from landfill (FY17: 93%), exceeding our diversion target of 90%. 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.

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.

For FY18 our CO_2 emissions totalled 1,065 tonnes, beating our target of 1,200 tonnes and down from 1,248 tonnes last year. Reducing our carbon footprint is a high priority for us and we continue to look to improve and make use of new technologies.

The careful selection of new company cars, the installation of Skype facilities in all the offices and more use of trains has lowered the Company's CO_2 emissions against a much higher turnover. The CO_2 target is set in our ISO 14000 Environmental Management System.

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.

Clients

The majority of our clients are leading institutional investors, who acquire the 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.

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.

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 FY18, the fund made donations to a wide range of charities, sports clubs and other community groups. We also support and actively encourage our employees to help local community organisations and activities.

FINANCIAL REVIEW

The Group delivered a strong financial performance for the year, including robust cash generation, contributing to a healthy balance sheet at the year end.

Philip Byrom
Chief Financial Officer

Highlights

Continuing operations	FY18 £m	FY17 £m	Change
Revenue	**363.1**	301.9	+20.3%
Gross profit	**72.4**	63.5	+14.0%
Overheads	**(22.8)**	(20.8)	+9.5%
Operating profit before exceptional items	**49.6**	42.7	+16.2%
Exceptional income	**4.3**	—	
Operating profit	**53.9**	42.7	+26.3%
Profit on disposal of interest in joint venture	**0.1**	0.9	
Share of profit in joint ventures	**1.0**	0.5	
Net finance costs	**(0.7)**	(0.8)	
Profit before tax	**54.3**	43.3	+25.6%
Tax	**(10.1)**	(7.5)	
Profit for the year	**44.2**	35.8	+23.5%
Basic earnings per share	**17.3p**	14.0p	+23.6%
Adjusted basic earnings per share	**16.0p**	14.0p	+13.8%
Dividend per share	**7.6p**	6.6p	+15.2%

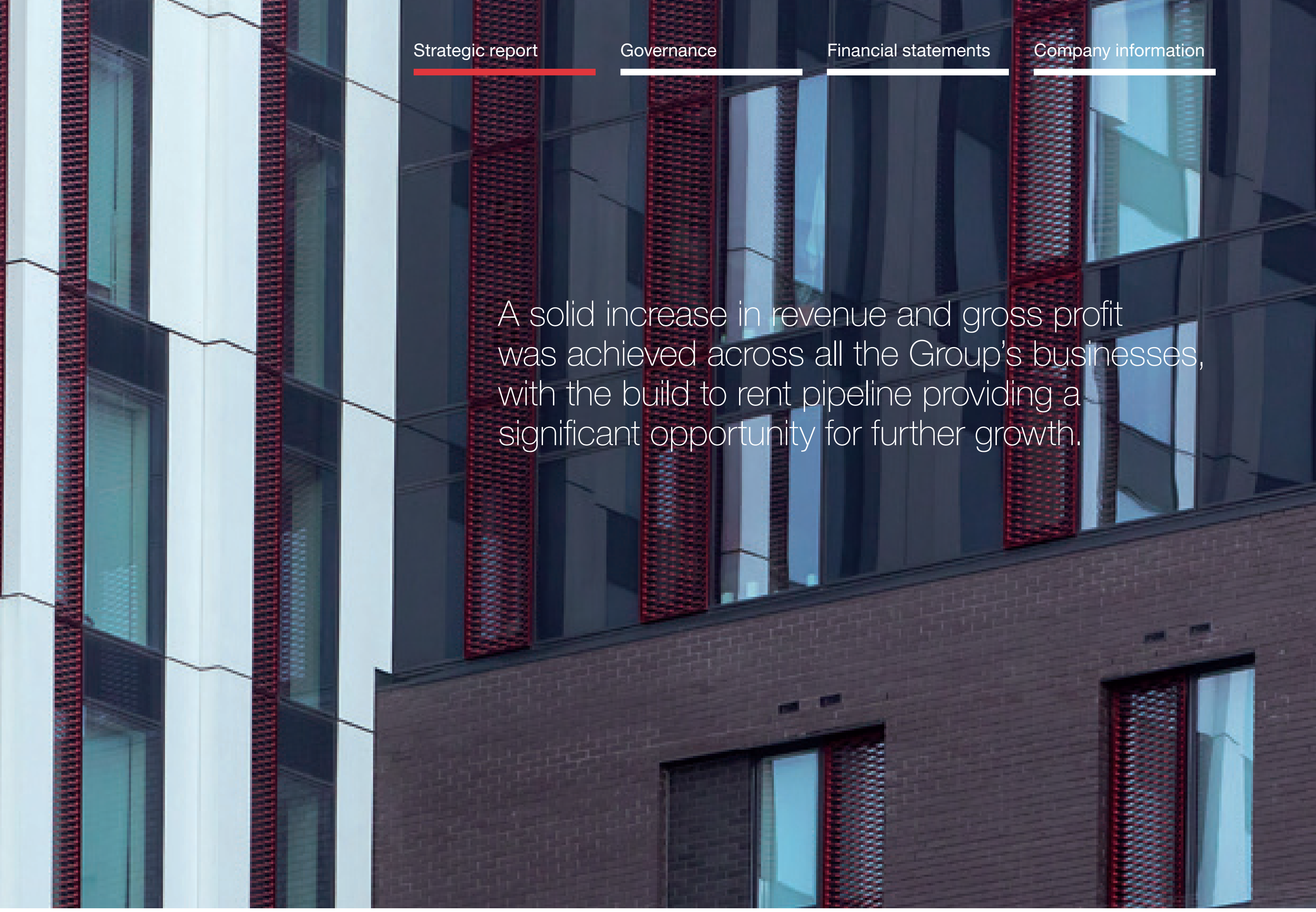
Revenue

Revenue from continuing operations increased from £301.9 million in FY17 to £363.1 million in FY18, representing growth of 20.3%. Student accommodation development remains the primary driver of our top line, with revenue growth of £56.6 million or 22.1% in FY18. This result benefited from the completion of the forward sale of four PBSA developments on 30 September 2018, which accounted for £42.6 million of the revenue in the year and primarily represents the initial land sales values achieved. These forward sales also had an impact on the gross margin in our student business, as discussed further below.

Build to rent generated revenues of £3.8 million in FY18 (FY17: £1.2 million), with this business expected to make an increasing contribution to the Group's performance from FY19.

Our accommodation management business, Fresh Property Group, showed good growth, with revenue up 19.2% to £7.3 million (FY17: £6.1 million).

The residential business also had a strong year, with revenues up by £11.9 million, or 65.8%, to £30.0 million.



A solid increase in revenue and gross profit was achieved across all the Group's businesses, with the build to rent pipeline providing a significant opportunity for further growth.

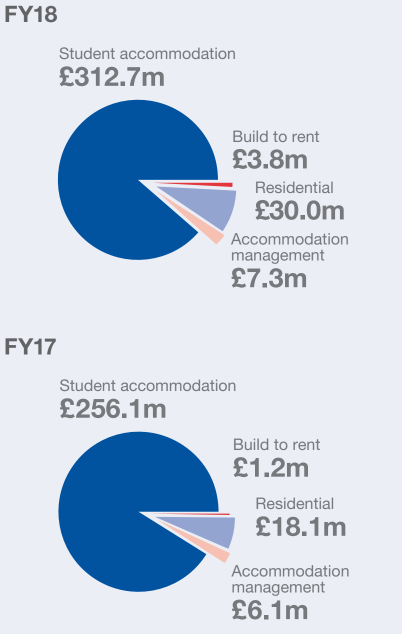
In addition to the four primary businesses, the Group generated revenue from the development of commercial property associated with our mixed-use planning consents. This is reported within our corporate segment and accounted for £9.3 million of revenue in FY18 (FY17: £20.4 million). In both years, this revenue related to a hotel and offices at our development site at Christchurch Road, Bournemouth. These properties were forward sold in FY17 and completed in FY18.

Gross profit

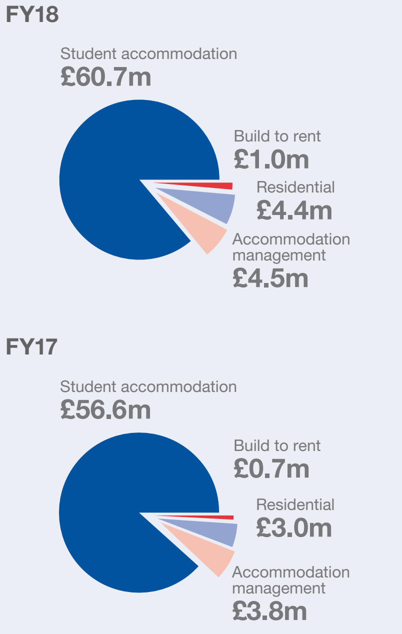
Gross profit increased from £63.5 million in FY17 to £72.4 million in FY18. This represented growth of 14.0% and a gross margin of 20.0% (FY17: 21.0%).

The gross margin for the student accommodation development business was 19.4% (FY17: 22.1%). The forward sales that completed on 30 September 2018, discussed above, were at comparatively low margins as they primarily related to the land, with the development and construction margin due to flow through over the next two years. Adjusting for the impact of these sales, the underlying gross margin for this business in FY18 was 20.7% and remained above our 20% hurdle rate for these developments. The comparatively higher margin in FY17 reflects the exceptional margin contributions from certain developments completed in that year.

Revenue by operating segment



Gross profit by operating segment



FINANCIAL REVIEW continued

We achieved a strong cash inflow in the year, with our cash balance increasing by £41.3 million to £106.6 million.

Gross profit continued

Build to rent generated a gross profit of £1.0 million (FY17: £0.7 million). Fresh Property Group contributed gross profit of £4.5 million (FY17: £3.8 million) and maintained its high gross margin of 61.8% (FY17: 61.9%). Gross profit from residential sales was £4.4 million, up from £3.0 million in FY17. The gross margin of 14.6% (FY17: 16.7%) reflects the impact of a further £10.2 million of nil margin sales at the legacy development site at Droylsden, Manchester. Excluding these legacy site sales, the gross margin was 22.2% (FY17: 25.0%). Gross profit from commercial property was £1.8 million, compared with a loss of £0.5 million in FY17.

Administrative expenses

Administrative expenses include the costs of Group support services as well as head office costs, and totalled £22.8 million for FY18 (FY17: £20.8 million). The growth of 9.5% reflects an underlying rise in salary costs, with an average salary increase of approximately 5% across the Group, and additional resources to support the growth of the business, including new development directors and technical specialists.

Operating profit before exceptional items

Operating profit before exceptional items was £49.6 million (FY17: £42.7 million), up 16.2%. The operating margin was 13.7% (FY17: 14.1%).

Exceptional items

Curlew Student Trust's sale of a portfolio of assets, and the subsequent reduction in scope and early termination of Fresh Property Group's contracts to manage the majority of these assets, resulted in an exceptional gain for the Group of £4.3 million. Of this, £3.0 million was received as compensation for the reduction in scope of the management contracts and their early termination. The Group also holds a carried interest in the Curlew Student Trust and made an exceptional profit of £1.3 million by way of its share of the profit arising from the portfolio sale.

There were no exceptional items in FY17.

Cash flows

Continuing operations	FY18 £m	FY17 £m
Operating profit before exceptional items	**49.6**	42.7
Exceptional items	**4.3**	—
Depreciation and amortisation	**1.3**	1.0
Decrease/(increase) in working capital	**11.3**	(18.4)
Finance costs paid	**(1.0)**	(1.0)
Tax paid	**(11.1)**	(5.1)
Net cash inflow from operating activities	**54.4**	19.2
Purchase of fixed assets	**(0.3)**	(0.3)
Cash flow from joint venture interests	**1.6**	5.6
Cash flow from other financial assets	**1.4**	—
Dividends paid	**(17.5)**	(12.4)
Cash flow from borrowings	**1.7**	6.0
Increase in cash	**41.3**	18.1
Cash at beginning of year	**65.3**	47.2
Cash at end of year	**106.6**	65.3
Less: borrowings	**(26.4)**	(24.3)
Net cash	**80.2**	41.0

Profit on disposal of interest in joint venture

During the year, the Group sold its legacy interest in Rufus Estates Limited, a joint venture relating to a development site in Chester. The sale generated a profit of £0.1 million. In FY17, the Group realised a profit of £0.9 million after disposing of its joint venture interest in Athena Hall (Jersey) Limited, which owned a student accommodation property previously developed by the Group.

Share of profit in joint ventures

The Group has several joint ventures, with the most significant being those with Lacuna Developments Limited, based in Northern Ireland, allowing us to develop student accommodation sites in Belfast. Our share of profit in these joint ventures in FY18 was £1.0 million (FY17: £0.5 million).

Finance costs

Our finance costs are primarily fees associated with the availability of our revolving credit facility ("RCF") with HSBC, and the interest cost of the loans we have with Svenska Handelsbanken AB (see bank facilities below). The net finance cost for the year was £0.7 million, down from £0.8 million in FY17, as a result of increased interest received on our cash balances.

Taxation

The tax charge for the year was £10.1 million (FY17: £7.5 million). This represents an effective tax rate of 18.7%, broadly in line with the standard rate of corporation tax of 19%. The effective tax rate in FY17 was 17.3%, reflecting the benefit of a prior year adjustment of £0.8 million.

Earnings per share

Basic earnings per share from continuing operations were 17.3 pence (FY17: 14.0 pence). Adjusted basic earnings per share, which exclude the impact of the exceptional gains discussed above, were 16.0 pence (FY17: 14.0 pence).

Dividends

As discussed in the Chairman's statement on page 8, the Board has recommended a final dividend of 5.13 pence per share, giving a total dividend for the year of 7.6 pence. The cash cost of the final dividend will be £13.1 million.

At 30 September 2018, the Company had distributable reserves of £135.2 million available to pay the final dividend.

EBITDA

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 and amortisation.

EBITDA increased by 24.6% to £56.3 million (FY17: £45.2 million).

Adjusted EBITDA, which excludes exceptional items, increased by 15.1% to £52.0 million (FY17: £45.2 million), representing an adjusted EBITDA margin of 14.3% (FY17: 15.0%).

Statement of financial position

At the year end, inventory and work in progress stood at £132.8 million (30 September 2017: £125.2 million), with the increase of £7.6 million due to expenditure on the residential and academic elements of the mixed-use development site at Stratford. The year-end balance included £43.5 million in relation to our build to rent development sites and operational assets, which we are targeting to sell in the coming year. We were also carrying £18.9 million of work in progress relating to the residential and academic elements of the Stratford mixed-use scheme, which we are also looking to convert into sales in FY19.

Trade and other receivables decreased by £9.3 million to £27.0 million, primarily as a result of the receipt of the proceeds from the completion of the sale of the hotel at Christchurch Road, Bournemouth, for which the Group had a receivable balance of £11.8 million at the end of FY17.

Trade and other payables increased by £10.5 million in the year to £99.1 million, reflecting the increase in the Group's activity level.

Other financial assets reduced by £1.3 million to £1.4 million, as a result of the distribution of portfolio sales proceeds by the Curlew Student Trust.

Cash flows

The Group continued to generate strong cash flow, with a net cash flow from operating activities of £54.4 million. This performance benefited from a receipt of £38.8 million from the forward sale of the four assets on 30 September 2018. Cash flow in the year was also enhanced by the receipt of £22.8 million of cash relating to forward sales agreed in FY17 which were contractually completed in FY18.

The working capital decrease of £11.3 million reflects the movements in inventory and work in progress, receivables and payables, discussed above.

Dividends paid in the year amounted to £17.5 million, while tax payments totalled £11.1 million.

The settlement from the reduction in scope of services and early termination of the Fresh Property Group management contracts, together with the distributions from the Group's investment in the Curlew Student Trust, following the portfolio sale, resulted in cash receipts of £6.0 million for the Group.

Fresh Property Group used £0.3 million of these receipts to make a similar carried interest investment in Curlew Student Trust 2, which was launched in the year, recognising the importance of Fresh Property Group's role as property manager for the Fund.

These movements contributed to a cash balance of £106.6 million at the year end and a net cash position of £80.2 million, after deducting borrowings of £26.4 million. At 30 September 2017, the Group had cash of £65.3 million, borrowing of £24.3 million and net cash of £41.0 million.

The Group's cash balance typically peaks around the year end, as in the last weeks of the financial year we receive the final payments on student accommodation developments completing ahead of the new academic year, as well as the initial proceeds from the latest forward sales. The Group is then a net utiliser of cash during the first half of the following year, as a result of outflows such as tax and dividend payments, overhead costs and land purchases. We therefore see the cash balance at the year end as an appropriate level for funding our day-to-day cash requirements and to put the Group in a position of strength when bidding for new sites.

Bank facilities

The Group's bank facilities comprise a £40 million five-year RCF, which matures on 15 March 2021, and a £10 million on-demand working capital facility, both with HSBC Bank plc. At 30 September 2018, we had drawn £17.4 million against the RCF (30 September 2017: £13.3 million), while the working capital facility was undrawn, giving us total undrawn facilities of £32.6 million.

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 used the RCF to assist with several site acquisitions during the year and to fund the build of the residential and academic facilities at our development site in Stratford.

The Group also has loan facilities with Svenska Handelsbanken AB, which are used to fund the Group's operating build to rent stock in Sheffield and Droylsden. These facilities run to March 2022. The outstanding balance at 30 September 2018 was £7.3 million (30 September 2017: £8.4 million).

Philip Byrom
Chief Financial Officer

14 January 2019

The strategic report, which includes the review of principal risks and uncertainties on pages 46 to 49, has been approved by the Board and signed on its behalf:

Mark Watkin Jones
Chief Executive Officer
(until 2 January 2019)

Director
(until 15 January 2019)

14 January 2019

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 result in reduced demand for PBSA or in investors seeking increased yields.	Reduced demand could restrict the number of schemes the Group 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's 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 The Group 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.	Failing 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 an end-to-end service for clients, which is a barrier to entry. • Watkin Jones is recognised as a "tier 1" developer, which is typically a requirement for institutional funds to engage on a forward sale basis. • The Group benefits from economies of scale and 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 in, and experience of, building PBSA helps us to accurately estimate 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 in, and experience of, 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 117 schemes. • The senior construction management team has many years' 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 a single location. • A business disaster recovery plan is in place for the Group's key information systems. • System data backup routines.	Impact: Minor Likelihood: Remote

PRINCIPAL RISKS AND UNCERTAINTIES continued

Risk	Impact	Link to business model
Cash flow risk Cash flow constraints could mean the Group is unable to meet its 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 people 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
The Group may find it difficult to recruit and retain professional site, design and support services personnel.	Failing 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 The Group may be unable to prevent or detect financial crime.	Financial crime could lead to financial loss, breach of regulations, regulatory censure/fines 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 affect its earnings performance 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 satisfactory planning permission. This provides good visibility of future commitments and enables the Group to manage its cash flow requirements. • Regular cash flow forecasts are prepared, which are reviewed by the Executive Directors. • The Group had cash of £106.6 million at 30 September 2018 and has a £40 million five-year revolving credit facility available, which had headroom of £22.6 million at 30 September 2018.	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 and a rolling three-year LTIP which was introduced in March 2019. • Succession planning has been put in place for senior positions. • Being a public company with a successful track record makes it easier to attract the right quality of applicants for senior positions.	Impact: Moderate Likelihood: Possible
• The Group's established HR function 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. • The Group continues to develop an open culture, to ensure sharing of best practice, experience and ideas. • Senior management support and encourage personal development and attendance on training courses. • The Group's status as a public company will help to recruit and retain personnel.	Impact: Minor Likelihood: Probable
• The Group has rigorous health and safety policies and procedures, managed by an established health and safety department which regularly conducts health and safety audits across all of the Group's sites. • Weekly health and safety meetings are held. • Health and safety is taken seriously at Board and Executive Committee level, with regular reporting on findings and recommendations. • The Group engages with its insurers to help ensure it maintains best practice. • 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 Property Group, 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

The Board has adopted the Quoted Companies Alliance Corporate Governance Code, with which we substantially comply.

Grenville Turner
Independent Non-Executive Chairman

Dear Shareholder

Strong corporate governance is critical for business success and, as a result, the bar for governance practices is continually being raised. This year, all AIM companies have been required to adopt a recognised corporate governance code and to report on how they have complied with it. The Board has chosen to adopt the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"), which takes the key elements of good governance and applies them in a way that works for growing companies. We believe this makes it the most appropriate code for the Group, at this stage in our development.

We substantially comply with the QCA Code and there are no significant areas where our governance structures and practices differ from the QCA Code's expectations. The corporate governance statement and committee reports on the following pages explain our approach to governance and include the disclosures required in the annual report.

A complete index of the disclosures required by the QCA Code, including those on the Company's website, can be found at **http://www.watkinjonesplc.com/investors/corporate-governance**

As Chairman, I am responsible for running the Board and for the Group's overall corporate governance, with the support of the Company Secretary. I believe that strong governance is particularly important for Watkin Jones, as it directly influences our ability to deliver for our clients, tenants, people and shareholders. The Group must complete its developments to strict timetables and our governance plays a significant part in ensuring we meet our commitments. We therefore support the continued raising of governance standards. Our own governance practices have matured since the IPO in 2016, as we have embedded the necessary working practices and processes. We continue to monitor their operation and refine our approach as necessary, to ensure our governance is as effective as possible.

The Board takes a keen interest in the Group's culture, which combines the entrepreneurial flair of a growing business with the operational rigour required to deliver developments safely, on time and to the highest standards. Treating our people well, including recognising and rewarding performance, is also an important part of our culture. To understand how well we are doing, the Group has commissioned an employee engagement survey, which will be rolled out in early 2019.

In FY18, the Board completed its first formal assessment of its effectiveness. This demonstrated that the Board is working well and highlighted some areas for improvement, as described on page 53. The exercise also helped us to identify particular skills and experience we wished to add to the Board, which informed our approach to appointing Liz Reilly as an additional independent Non-Executive Director. Liz will join the Board on 21 January 2019. More information can be found in the Nomination Committee report on page 57 and 58.

Grenville Turner
Independent Non-Executive Chairman

14 January 2019

Structure of the Board

Board of Directors

Grenville Turner Non-Executive Chairman	**Simon Laffin** Non-Executive Director
Richard Simpson Chief Executive Officer	**Philip Byrom** Chief Financial Officer

BOARD OF DIRECTORS

The Directors have a good balance of skills, experience and backgrounds, ensuring the Board can have high-quality discussions and appropriate debate during its decision making.

Grenville Turner
Independent Non-Executive Chairman

Appointed to the Board:
26 February 2016

Skills and experience
Substantial business experience, with more than 40 years in retail banking and property.

Prior knowledge of the student accommodation sector, gained through the chairmanship of ThreeSixty Developments.

Experience of chairing several other company boards.

Qualified chartered banker, with an MBA from Cranfield School of Management.

Other current appointments
Chairman of Oasis Document Storage Limited and FSP Limited and Vice Chairman of the English National Ballet.

Past appointments
Chairman and Chief Executive of Countrywide plc; Chief Executive of Intelligent Finance; Chairman of ThreeSixty Developments (formerly Knightsbridge Student Housing) and the Titlestone Group; Non-Executive Director of Rightmove plc, St James's Place plc, Sainsbury's Bank plc, Realogy, Zoopla Property Group plc and the Department for Communities and Local Government.

Richard Simpson
Chief Executive Officer

Appointed to the Board:
2 January 2019

Skills and experience
Fifteen years' experience working in the property development and student accommodation sectors, most recently as Group Property Director at The Unite Group plc prior to joining Watkin Jones.

Substantial executive experience in setting the strategic direction for all aspects of property portfolio management.

Significant experience at Board level, including seven years serving on the Board of The Unite Group plc, plus two years in a non-executive capacity with CityWest Homes.

Qualified chartered surveyor and a fellow of the Royal Institute of Chartered Surveyors.

Past appointments
Group Property Director for The Unite Group plc; non-executive director, CityWest Homes; Chair of the British Property Federation's cross-sector Student Accommodation Committee from 2013-2015; and served for six years in the British Army.

Philip Byrom
Chief Financial Officer

Appointed to the Board:
16 March 2016

Skills and experience
Sixteen years' experience as CFO of Watkin Jones Group, including leading complex financing arrangements and material property and corporate transactions.

Broad range of prior experience in industry, gained in group and divisional finance roles.

Qualified chartered accountant, with a degree in Civil Engineering from Manchester University.

Past appointments
Divisional Finance Director for Pharmaceutical Technologies at BWI plc; Group Financial Controller at BWI plc and Advance International Group Limited; and Senior Manager at Price Waterhouse.

Simon Laffin
Independent Non-Executive Director

Appointed to the Board:
26 February 2016

Skills and experience
Experienced chairman, executive and non-executive director in large and small, public and private companies, including acting as audit committee chair.

Experienced in retail, property, FMCG, financing, restructuring and private equity in the UK, Europe, USA and Australia.

Overseen major turnarounds in both public and private companies.

Strong reputation and relationships with institutional shareholders.

Other current appointments
Chairman of Flybe Group plc and Chairman of the Audit Committee of Dentsu Aegis Network Ltd.

Past appointments
Chairman of Assura plc and Hozelock Group Limited; Group Finance & Property Director of Safeway plc; Non-Executive Director of Quintain Estates and Development plc, Aegis Group plc, Mitchells & Butlers plc and Northern Rock (as part of the rescue team); and an adviser to CVC Capital Partners.

CORPORATE GOVERNANCE

The Group's corporate governance and Board effectiveness have continued to evolve during the year and regular dialogue has been maintained with shareholders.

The Board

At the date of this report, the Board comprises two Executive Directors and two independent Non-Executive Directors, including the Chairman. Biographies of the Directors can be found on page 51.

Richard Simpson and Philip Byrom were appointed Directors under service agreements dated 2 January 2019 and 16 March 2016 respectively. 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.

Mark Watkin Jones stepped down as Chief Executive Officer ("CEO") on 2 January 2019 and as a member of the Board on 15 January 2019.

Liz Reilly will be appointed to the Board as an independent Non-Executive Director on 21 January 2019.

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

Board meetings

The Board meets regularly to consider strategy, performance and the framework of internal controls. The Chairman sets the agenda for each meeting, with the assistance of the Company Secretary. To enable the Board to discharge its duties, all Directors receive appropriate and timely information, including briefing papers distributed in advance of Board meetings. These papers include reports from the CEO and the Chief Financial Officer ("CFO"), as well as reports on investor relations and corporate governance.

The Company Secretary produces minutes of each meeting, including actions to be taken. The Chairman then follows up each action at the next meeting.

Only the Non-Executive Directors are members of the Board committees. Mark Watkin Jones and Philip Byrom were invited to attend committee meetings to assist with the matters discussed.

Matters reserved for the Board

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.

Advice for Directors

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

Election and re-election of Directors

At the forthcoming AGM, Grenville Turner, Philip Byrom and Simon Laffin will stand for re-election to the Board. Richard Simpson and Liz Reilly will stand for election to the Board.

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 54 to 61.

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	Nomination Committee
Grenville Turner	8/8	6/6	4/4	4/4
Mark Watkin Jones	8/8	–	–	–
Philip Byrom	8/8	–	–	–
Simon Laffin	8/8	6/6	4/4	4/4

The Executive Directors are not members of the Board committees but do attend when invited by the Chairman.

Relations with shareholders

Duncan House, Stratford

Board effectiveness

During the year, the Board conducted its first formal review of its performance. This was an internal review, based on questionnaires issued to each Board member. The questionnaires covered:

- 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 evaluation found that the Board and its processes had matured considerably since IPO and that the Board was functioning well, was forward thinking and had good and open discussions of strategic opportunities and challenges. The evaluation also noted that the Board needed to continue to evolve, that it would benefit from recruiting a Director with experience of human resources and remuneration, and that it would gain from greater diversity. The recruitment of an additional Non-Executive Director since the year end will help to address these matters.

The Board intends to conduct an externally facilitated effectiveness review during FY19.

Internal controls

The Board is 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 Audit Committee's recommendation to appoint KPMG to provide internal audit services to the Group. These internal audit services began in January 2018. More information can be found in the Audit Committee report on pages 54 to 56.

Relations with shareholders

The Board recognises the importance of maintaining an open dialogue with shareholders and 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 programme of meetings with existing and potential shareholders. Meetings took place after the release of the FY17 results in January 2018 and the FY18 interim results in June 2018. The Board was kept informed about shareholders' views after these meetings by follow up from the Company's corporate brokers.

In September 2018, Philip Byrom hosted a site visit for shareholders and analysts at the Group's mixed-use development at Duncan House, Stratford. This visit was also attended by Grenville Turner, Simon Laffin and members of the Executive Committee.

During the year, the Board introduced a long-term incentive plan for the Executive Directors and a number of the Group's other senior managers, as described in the Remuneration Committee report on pages 59 to 61. The Chairman wrote to the top ten institutional shareholders to summarise the proposals and to request any feedback. He subsequently met with a number of these shareholders to discuss the proposals, as well as the Group's strategy and progress.

In addition to the events described above, the Group looks to keep investors informed through regulatory announcements of important newsflow, including forward sales of developments, planning permissions received and sites acquired.

Annual General Meeting ("AGM")

The Company's AGM will be held at 10.30am on Thursday 14 February 2019 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

Following the recommendation of the Audit Committee, KPMG have been appointed to operate the Company's first internal audit function.

Committee members
Simon Laffin (chairman), Grenville Turner

Additional attendees, as invited
Ernst & Young LLP, KPMG 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 internal and external auditors.

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 FY18, it met six times.

Dear Shareholder

The work of the Committee
In the year, the Audit Committee continued 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:

VAT	The Committee reviewed an issue that arose on the VAT treatment of the classification of a dwelling. This very technical area, raised by HMRC, was discussed and management's response to HMRC was reviewed by the Committee. The Committee sought and received assurances that more management review would be applied to this area in the future.
GDPR	The Committee reviewed management's plans to comply with GDPR. The first round of work was completed with a specialist external consultancy and their recommendations implemented to ensure compliance to the best of our ability.
Dormant companies	The Committee requested a review of dormant companies to see if more could be struck off. This is now in hand and several are in the process of being struck off.
Earlier year-end reporting	The Committee requested that management and the external auditor consider whether it would be feasible to accelerate the year-end reporting process through the adoption of a more controls-based audit approach. This will continue to be assessed against the maturity/consistency of controls as the business evolves.
Related party transactions	The Committee reviewed the related party transaction policy and requested a number of changes, approving the final document.
Whistleblowing	The Committee reviewed the confidential, third-party hotline to receive whistleblowing reports and reviewed any reports made. There were no matters of concern for the Committee.
Finance team	The Committee reviewed the operation of the senior finance management team and approved the creation of a deputy CFO role, participating in interviews to agree a successful candidate.
Annual report	The Committee reviewed the annual report to ensure that it gave a fair and balanced view of the Company's performance. It then recommended to the Board that it be approved.
Interim results	The Committee reviewed and approved the interim results, taking into account a limited-scope interim review provided by EY. Significant areas that EY looked at were: disposal of a JV; the accounting for the distribution received in respect of the Group's investment in the Curlew Student Trust, following a property portfolio sale by the Trust; revenue/profit recognition of new forward sales; and the acquisition accounting of land.

External audit	The Committee reviewed EY's plan for the half-year review and full-year audit. The auditor informed the Committee that it would report unadjusted audit differences and significant judgemental items in excess of £0.125 million. The audit materiality level was £2.5 million. The Committee reviewed this level of materiality and the key audit risks identified by EY. The Committee held a number of sessions with the external auditor without management to ensure that the auditor's views were fully heard and understood.
Internal audit	The Committee recommended to the Board that KPMG be appointed to operate the Company's first internal audit function. KPMG presented its initial audit plan to the Committee for discussion and the Committee has received reports and reviewed progress through the year.
Revenue recognition and lease accounting	The Committee discussed the potential implications of IFRS 15 and IFRS 16, being the two main new accounting standards which will be relevant to the Company, with the auditor. IFRS 15 'Revenue from Contracts with Customers'. The Committee reviewed a paper on IFRS 15 prepared by management which considered each of the Group's revenue streams and whether the accounting for those would materially differ as a consequence of applying the revenue recognition principles set out in IFRS 15, which will be effective for the FY19 financial year. The Committee determined that the only material effect of applying IFRS 15 would be the requirement to separate the revenue accounting for the land sale and development works elements of forward sold contracts. The work performed by management quantified the level of adjustment that will be required to the Group's opening reserves at 1 October 2018, which will be to increase opening reserves by £497,000. Further information is provided in note 5 to the financial statements on page 78. IFRS 16 'Leases'. The Company has begun its initial assessment of the likely impact of IFRS 16, which will be effective for the FY20 financial year, including the identification of all leases where the Group acts as lessee. The Group's current operating lease commitments as lessee and lessor are set out in note 34 to the financial statements, but the Committee considers it too early to quantify the financial effects on the financial statements of applying IFRS 16.
Finance Manual/ delegated authorities	The Committee reviewed and approved the updating of the Company's delegated authority matrix and the preparation of the new Finance Manual.
Dividend	The Committee reviewed the Company's distributable reserves on behalf of the Board before making recommendations on the interim and final dividends.

Effectiveness of the external auditor

After last year's audit, the Committee and the Chief Financial Officer again 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 2019.

The management of risk

The Company has 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. The Risk Committee works closely with internal audit to develop the risk register and to review the effectiveness of mitigating controls. The minutes of the Risk Committee meetings and reports of the internal auditor are tabled at the Audit Committee meetings. The Chief Executive Officer and internal auditor attend the Audit Committee 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.

AUDIT COMMITTEE REPORT continued

Final year-end audit report

The Committee met with EY and reviewed their report on the year-end results, set out on pages 64 to 67. Careful consideration was given to:

- accounting estimates and judgements:
  - a closing provision of £2.7 million for onerous leave commitments, in line with the previous year;
  - accruals for recladding costs and remedial works, mainly related to fire protection works;
  - the annual bonus accrual and accounting for the new Long Term Incentive Plan; and
  - intangible assets relating to Fresh Property Group of £4.3 million in customer relationships and £9.7 million in goodwill.
- revenue recognition of projects under development and the valuation of land and work-in-progress;
- the risks of management override of controls;
- quality of earnings. An exceptional profit of £4.3 million, representing a compensation payment of £3.0 million for the initial reduction in scope of services and subsequent termination of accommodation management contracts following the sale of a portfolio of properties by the Curlew Student Trust ("CST"), together with a profit share of £1.3 million paid to Fresh Property Group on its carried interest investment in CST as a result of the portfolio sale. This exceptional profit has been disclosed separately and excluded from adjusted EBITDA. The result for the year was hit by a number of one-off costs that are included in profit numbers;
- the auditor highlighted a small number of immaterial differences that management has corrected;
- the independence of the external auditor. EY has been the auditor for 15 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 during the year other than the audit and half-year review; and
- new accounting and reporting standards. The Committee reviewed all new standards and in particular agreed the accounting treatment of IFRS 15 'Revenue from Contracts with Customers'. 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. The Group has made provision for historic onerous lease commitments, effectively rent guarantees, on PBSA properties sold in prior years where it is expected that there will be a shortfall in the net student rental income received compared to the lease rentals payable. It is no longer the policy of the Company to enter into arrangements of this nature;
- accrual for remedial works. The Group has made an accrual for remedial works where the Group accepts liability to carry out such works. The amount recognised is based on management's estimates of the cost to complete these works; and
- carrying value of intangible assets. This relates to the carrying value of Fresh Property Group. A 20-year cash flow forecast was prepared that showed that the value booked was comfortably justified.

Financial experience on the Committee

The Board remains satisfied that I have the necessary recent and relevant financial experience to chair the Audit Committee.

Simon Laffin

Chairman of the Audit Committee

14 January 2019

NOMINATION COMMITTEE REPORT

The Committee spent considerable time in selecting a new Chief Executive Officer and was delighted to recommend the appointment of Richard Simpson into the role.

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 FY18, the Committee met four times.

Dear Shareholder

In last year's report, I noted that the Nomination Committee had three priorities for this year. First and foremost, we needed to recruit a new Chief Executive Officer. We also intended to recruit an additional Non-Executive Director and a deputy to the CFO. I am pleased to say that we were successful in achieving all three objectives.

Recruitment of Chief Executive Officer

We conducted a thorough search for a new Chief Executive Officer, assisted by Granger Reis Limited, which has no other connection to the Group. In assessing potential candidates, we were looking for someone who:

- had deep knowledge of the student accommodation sector;
- had experience of operating at plc Board level, with an understanding of the capital markets and needs of investors;
- had sufficient depth of experience but was young enough to stay in the role for the long term;
- was a motivational leader who would support the development of the leadership team; and
- had a good cultural fit with Watkin Jones.

In developing our person specification, we consulted the Executive Committee to canvass their views about the leadership the Group required.

Suitable candidates were interviewed by me, as Chairman, Simon Laffin and Mark Watkin Jones. The process identified Richard Simpson as the outstanding candidate and the Nomination Committee was pleased to recommend his appointment to the Board.

Recruitment of a Non-Executive Director

We identified the need to recruit a third Non-Executive Director for a number of reasons. It would:

- give the Non-Executive Directors a majority on the Board;
- widen the range of skills and experience on the Board, giving us a fresh perspective as the Group continues to grow; and
- provide a replacement for me as chair of the Remuneration Committee, in line with corporate governance best practice.

We established a number of criteria for the new appointment, looking for a candidate who:

- had a demonstrable track record in human resources management at a senior level;
- would bring first-hand experience of working with Remuneration Committees and would be able to chair the Watkin Jones Remuneration Committee;
- had property sector experience;
- had the intellect and breadth of vision to fully contribute to discussing operational matters and the strategic direction of the Group;
- would contribute effectively to the corporate governance agenda; and
- had the personality to work effectively with the other Board members and would embrace the culture of the business.

We appointed Ridgeway Partners Limited to assist us with the search. After a thorough process, we were pleased to recommend the appointment of Liz Reilly to the Board. Liz will join the Board on 21 January 2019.

NOMINATION COMMITTEE REPORT continued

Recruitment of a deputy to the CFO

Given the Group's continued strong growth and the need to ensure effective succession plans are in place for our senior roles, we looked to strengthen the finance function during the year. This led to the appointment of a deputy to the CFO, with a background in the property development industry and the potential to be a successor to Philip Byrom. We also added senior financial resource to support the growth of Fresh Property Group.

Director induction

The Committee recognises the importance of new Directors having a thorough grounding in the business, so they can maximise their contribution to the Group. We have therefore designed detailed induction programmes for Richard Simpson and Liz Reilly. These include meetings with the other Directors, the Executive Committee, our corporate brokers and other professional advisers, as well as visits to our development sites.

Directors' training

All the Directors look to keep their skills and experience up to date. In this regard, we benefit from briefings, presentations and papers provided by our advisers and other professional services firms, covering topical issues such as new regulations, developments in corporate governance and emerging best practice. The Non-Executive Directors also benefit from our interaction with the other boards we sit on, providing us with a range of different perspectives we can apply to Watkin Jones.

Directors' time commitments

All the Non-Executive Directors are required to devote sufficient time to Watkin Jones to enable the Board to discharge its duties effectively. This includes preparation for and attendance at scheduled Board and committee meetings, as well as ad hoc meetings or calls as required. During FY18, the Directors devoted considerable additional time to the recruitment of a new CEO and third Non-Executive Director, and the introduction of the long-term incentive plan. The Board confirms that each of the Non-Executive Directors can commit the necessary time to fulfil their roles.

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 people section on page 39 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. We continue to look for ways to enhance all aspects of diversity across the Group.

Priorities for FY19

In the coming year, the Committee will focus on refining the division of responsibilities in the senior leadership team and ensuring the effective introduction of Richard Simpson as Chief Executive Officer.

Grenville Turner
Chairman of the Nomination Committee

14 January 2019

REMUNERATION COMMITTEE REPORT

In 2018 the Committee introduced a market standard, best practice compliant, long-term incentive plan for the Executive Directors and other senior executives.

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 FY18, 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 terms of the long-term incentive plan, which was approved by shareholders at the AGM on 13 February 2018 and implemented during the year.

Remuneration policy

The Executive Directors have been eligible to receive the following elements of remuneration, under the Company's remuneration policy:

- basic salary;
- annual bonus;
- long-term incentive;
- 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:

- Richard Simpson: £375,000; and
- Philip Byrom: £250,000.

Mark Watkin Jones received an annual salary of £350,000 during the year under review.

The Committee reviews the Executive Directors' salaries annually but is not obliged to increase them. In reviewing salaries, the Committee takes into account:

- pay levels at comparably sized AIM companies and sector peers;
- 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 FY18, Philip Byrom received a 16.3% increase in his basic salary, which had been recommended by the Committee in FY17 as the second increment in a staged increase over two years. This compared with an average 4% increase for salaries across the Group. Mark Watkin Jones did not receive an increase, following his decision to step down from the Board.

Annual bonus

The Executive Directors' annual bonuses for FY18 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. 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 FY18, Mark Watkin Jones received a bonus of 86.7% of salary and Philip Byrom received 86.7% of salary.

Long-term incentive plan

At the 2018 AGM, shareholder approval was obtained for the Watkin Jones Long Term Incentive Plan ("LTIP"), covering the Executive Directors and other senior executives. The first awards under this plan were made during the year.

It is intended that awards under the LTIP, structured as nil or nominal cost options, will be made annually. Awards will normally vest three years from grant subject to the achievement of challenging performance targets and continued service. Award levels will be capped at 200% of salary per individual per annum, although actual award levels are expected to be lower and the Committee will monitor share usage carefully (noting that a 10% dilution limit will apply to the LTIP, or any other employee share plan adopted by the Company). Details of the awards granted to Executive Directors in 2017/18 are set out below.

A 200% of salary shareholding guideline operates for Executive Directors. As such, Executive Directors will be required to retain at least 50% of the net-of-tax LTIP awards which vest in the future, to the extent that the individual does not already hold shares with a value equal to or above 200% of salary.

Pensions

The Company contributes to pension plans for the Executive Directors at a rate of 20% of basic salary for Richard Simpson and 10% of basic salary for Philip Byrom. 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.

REMUNERATION COMMITTEE REPORT continued

Board changes

Richard Simpson

As per the announcement on 18 May 2018, Richard Simpson was appointed Chief Executive Officer ("CEO") on 2 January 2019. A summary of his remuneration package, which is consistent with our current remuneration policy, is as follows:

- Base salary: £375,000
- Pension: 20% of salary
- Maximum annual bonus: 100% of salary
- Maximum annual LTIP award: 200% of salary
- Shareholding guideline: 200% of salary

In addition to the above, Richard will be compensated for incentive awards forfeited upon resignation from his previous employer. He will receive a cash payment during 2019 (i.e. once the quantum is known) to compensate him in respect of his 2018 annual bonus forgone. He will also be granted awards over Watkin Jones plc shares in compensation for share awards which lapsed when he ceased employment with his previous employer. These buyout awards will be granted under the "Watkin Jones Recruitment Plan", which is identical to the shareholder-approved LTIP, other than the terms of the LTIP which would have prevented the grant of the buyout awards have been removed. The terms removed are the 200% of salary limit and requirement for awards to have performance conditions. Details of the proposed awards are as follows:

Unite LTIP award forfeited	Number of shares granted subject to buyout award[1]	Normal vesting date of buyout award[3]	Performance conditions (in addition to continued service)
2015	92,480	2 April 2019	None – Unite Group plc performance targets have already been achieved
2016	434,764	23 June 2019[2]	Vesting will be based on vesting outcome of 2016 Unite Group plc LTIP awards
2017	438,765	10 April 2020[2]	Vesting will be based on vesting outcome of 2017 Unite Group plc LTIP awards
2018	344,201	10 April 2021	Vesting will be based on Watkin Jones EPS and TSR as per the 2018 LTIP award granted to Philip Byrom

1. Converted from Unite Group plc to Watkin Jones plc shares based on the five dealing day average share prices prior to Richard Simpson's date of appointment, as adjusted for dividend equivalents between grant and the date of conversion.
2. Awards will normally vest at the later of the normal vesting date and the date that the Remuneration Committee determines the performance conditions are satisfied.
3. A two-year holding period will apply to the 2016-2018 awards from vesting.

It is envisaged that the buyout awards will be granted in January 2019, following the publication of this annual report. Full details of the buyout awards will be presented in the RNS issued following grant and in next year's Directors' remuneration report.

Mark Watkin Jones

Mark Watkin Jones stepped down from the CEO role on 2 January 2019 and as a member of the Board on 15 January 2019. Mark received no payments in respect of stepping down from the role of CEO, did not receive a 2018 LTIP award and will not be eligible for an annual bonus in respect of FY19.

Liz Reilly

Liz Reilly will be appointed to the Board as a Non-Executive Director on 21 January 2019 and will receive a fee of £52,000 per annum.

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 FY18.

Remuneration in the year

During the year, the Directors received the following emoluments:

	Basic salary/fee		Annual bonus		Pension contribution		Benefits in kind		Total	
	FY18	FY17	**FY18**	FY17	**FY18**	FY17	**FY18**	FY17	**FY18**	FY17
Mark Watkin Jones	**350,000**	325,000	**303,520**	274,641	**35,000**	28,000	**19,481**	24,136	**708,001**	651,777
Philip Byrom	**232,500**	197,500	**201,624**	166,897	**23,250**	17,050	**16,089**	16,310	**473,463**	397,757
Grenville Turner	**125,000**	125,000	—	—	—	—	—	—	**125,000**	125,000
Simon Laffin	**52,000**	52,000	—	—	—	—	—	—	**52,000**	52,000

LTIP awards granted in the year

The initial awards granted to Executive Directors in 2018 were as follows:

	Date of grant	Basis of award (% of salary)	Number of shares under award	Date of vesting
Philip Byrom	31 May 2018	100%	115,955	31 May 2021

The 2018 awards are based on stretching three-year earnings per share ("EPS") and total shareholder return ("TSR") performance targets:

- 50% of awards will be based on sliding scale three-year TSR targets measured from 1 October 2017 to 30 September 2020. 0% of awards will vest for TSR of 5% p.a. increasing pro rata to 100% of this part of awards vesting for TSR of 12% p.a.; and
- 50% of awards will be based on sliding scale three-year EPS targets measured to the year ending 30 September 2020 from a 30 September 2017 base year. 0% of awards will vest for EPS growth of 5% p.a. increasing pro rata to 100% of this part of awards vesting for EPS growth of 12% p.a.

Outstanding share awards

	Award type	Exercise price (£)	Date of grant	Interest at 30 September 2017	Granted in the year	Lapsed in the year	Vested in the year	Interest at 30 September 2018	Date of vesting
Philip Byrom	LTIP	0.01	31 May 2018	—	115,955	—	—	115,955	31 May 2021

Directors' interests in the Company's shares

At 30 September 2018, the Directors had the following interests in the Company's shares:

	Number of shares
Mark Watkin Jones	3,825,000
Philip Byrom	3,167,891
Grenville Turner	340,900
Simon Laffin	100,000
Total	7,433,791

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 2018.

Grenville Turner

Chairman of the Remuneration Committee

14 January 2019

DIRECTORS' REPORT

The Directors present their report, together with the audited financial statements, for the year ended 30 September 2018.

The corporate governance disclosures on pages 52 and 53 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 49.

Review of business

The strategic report on pages 02 to 49 provides a review of the business, the Group's trading for the year ended 30 September 2018, key performance indicators and an indication of future developments and risks.

Result and dividend

The Group's profit for the year was £44.2 million (FY17: £35.8 million). More information about the Group's financial performance can be found in the financial review on pages 42 to 45 and in the financial statements on pages 63 to 103.

The Board has recommended a final dividend for the year of 5.13 pence per share, giving a total dividend for the year of 7.6 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 42 to 45.

Directors

The Company's Directors during the year were:

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

Mark Watkin Jones stood down as CEO on 2 January 2019 and as a member of the Board on 15 January 2019. Mark Watkin Jones was succeeded as CEO by Richard Simpson, who was appointed on 2 January 2019. Liz Reilly will join the Board as an independent Non-Executive Director on 21 January 2019. The biographies of the current Directors can be found on page 51. 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 52 and 53.

Directors' interests

The Directors' interests in the Company's shares are set out in the Remuneration Committee report on page 59.

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 2018, 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.

Auditor

Ernst & Young LLP ("EY") 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.

Substantial shareholdings

Based on the share register analysis as at 14 December 2018, 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	33,646,552	13.18
Watkin Jones Will Trust	27,857,985	10.91
Octopus Investments	20,147,907	7.89
GLG Partners	14,631,808	5.73
Seek Ventures Limited	10,000,000	3.92

Approval

This Directors' report was approved on behalf of the Board on 14 January 2019.

Philip Byrom
Chief Financial Officer

14 January 2019

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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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 comprehensive income for the year then ended	Balance sheet as at 30 September 2018
Consolidated balance sheet as at 30 September 2018	Statement of changes in equity for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 38 to 44 to the financial statements, including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 37 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 ("IFRSs") 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 £2.5 million which represents 5% of pre-tax income.

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

Revenue recognition (Revenue – 2018: £363 million, 2017: £302 million)

Refer to the Audit Committee report (page 55); accounting policies (pages 73 and 74); and notes 6 and 7 of the consolidated financial statements (pages 78 and 79)

The Group's main revenue stream comes from long-term contracts (2018: £303 million, 2017: £256 million). In line with IAS 11 'Construction Contracts', revenue and margin are 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 costs is recorded in the income statement if the estimated costs to complete are incorrect, either due to error or management bias.

Revenue from residential sales of £30 million (2017: £18 million) is recognised on legal completion. There is a risk that the revenue is not recorded in the appropriate period due to cut-off errors or management bias.

Accommodation management revenue of £7 million (2017: £6 million) and rental income of £23 million (2017: £21 million) are 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 response to the risk

Our audit procedures included the following:

- we evaluated 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 that the processing and timing of journals to record revenue are consistent with expectations.

In relation to long-term contract revenue:

- we considered and checked the revenue recognised was consistent with the calculated stage of completion, focusing on those developments not fully constructed pre-year end;
- for all developments where revenue in excess of £188,000 was recognised in the year, we agreed the total forecast value to signed development agreements;
- we then tested the costs to complete and checked that revenue was correctly calculated on that basis;
- we critically challenged the forecast cost to complete by way of review of budgets and hindsight reviews on historical budgeting accuracy, corroborating any variances to budgets back to source documentation;
- for a sample of costs incurred during the year, we verified that they had been allocated to the appropriate development;
- for all developments not fully constructed pre-year end, we challenged management over the forecast costs to come, the total budgeted costs and confirmed the percentage used to assess stage of completion; and
- we reconciled management's cost valuation reports back to revenue recorded to ensure all cumulative movements in revenue and costs have been appropriately recorded in the statement of comprehensive income.

In relation to residential sales:

- we selected a sample of residential sales made in September 2018 and October 2018 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 2018 and October 2018 and recalculated the revenue recognised and deferred at year end by reference to the service contract; and
- we performed substantive analytical review procedures using known occupancy rate movements, rental income per room and known management price movements to corroborate the occurrence and measurement of revenue throughout the period.

Scope of our procedures

The whole Group was subject to full scope audit procedures over revenue.

Key observations communicated to the Audit Committee

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 associated gross profit on long-term contracts) has been recognised on an appropriate basis in the year.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Watkin Jones plc

Key audit matters continued

Risk	Our response to the risk

Carrying value of land and work in progress 2018: £133 million (2017: £125 million) of inventories held, split between land of £49 million (2017: £72 million) and work in progress of £84 million (2017: £55 million)
 	
Refer to the Audit Committee report (page 55); accounting policies (page 75); and note 20 of the consolidated financial statements (page 89)
 	
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 values of the land and work in progress balances reported within the inventories are overstated.
	Our audit procedures included the following:
	
	• we evaluated the design and implementation of controls over the carrying value of land and work in progress; and
	• for land and work in progress developments held at 30 September 2018 with a carrying value in excess of £188,000, we
	  • compared the assumptions made regarding selling prices to market data and corroborated the explanations for any differences;
	  • compared the actual 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
	• for those sites determined to be most at risk of overstatement, being large sites that are in the process of development but are yet to be forward sold, we involved our internal real estate specialists to validate the value of land and work in progress held, who reviewed the methodology used to develop the estimate and evaluated management's estimate against their own estimate.
	
	Scope of our procedures
	The whole Group was subject to full scope audit procedures over land and work in progress.

Key observations communicated to the Audit Committee

We 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 2018 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 take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity. 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 £2.5 million (2017: £2.2 million), which is 5% (2017: 5%) of pre-tax income. We believe that pre-tax income provides us with a key performance measure of management and is what the users of financial statements are more 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% (2017: 75%) of our planning materiality, namely £1.88 million (2017: £1.67 million). We have set performance materiality at this percentage due to our past experience on the audit indicating a lower risk of misstatements, both corrected and uncorrected.

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 £0.125 million (2017: £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, 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 63, 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.

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.

Use of our report

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.

Victoria Venning

Senior statutory auditor
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Manchester

14 January 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2018

	Notes	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Continuing operations			
Revenue	6	363,054	301,914
Cost of sales		(290,624)	(238,383)
Gross profit		72,430	63,531
Administrative expenses		(22,818)	(20,846)
Operating profit before exceptional income		49,612	42,685
Exceptional income	8	4,283	—
Operating profit	9	53,895	42,685
Profit on disposal of interest in joint venture	19	121	930
Share of profit in joint ventures	19	1,023	519
Finance income		228	101
Finance costs	12	(925)	(957)
Profit before tax		54,342	43,278
Income tax expense	13	(10,136)	(7,478)
Profit for the year attributable to ordinary equity holders of the parent		44,206	35,800
Other comprehensive income			
Subsequently reclassified to income statement:			
Net gain on available-for-sale financial assets		37	130
Total comprehensive income for the year attributable to ordinary equity holders of the parent		44,243	35,930

		Pence	Pence
Earnings per share for the year attributable to ordinary equity holders of the parent			
Basic earnings per share	14	17.317	14.024
Diluted earnings per share	14	17.310	14.024
Adjusted proforma basic earnings per share (excluding exceptional income)	14	15.958	14.024
Adjusted proforma diluted earnings per share (excluding exceptional income)	14	15.952	14.024

The notes on pages 72 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2018

	Notes	30 September 2018 £'000	30 September 2017 £'000
Non-current assets			
Intangible assets	16	14,403	14,962
Property, plant and equipment	17	4,809	4,911
Investment in joint ventures	19	2,558	1,816
Deferred tax asset	27	42	277
Other financial assets	28	1,350	2,698
		23,162	24,664
Current assets			
Inventory and work in progress	20	132,778	125,220
Trade and other receivables	22	26,967	36,299
Cash and cash equivalents	23	106,640	65,325
		266,385	226,844
Total assets		289,547	251,508
Current liabilities			
Trade and other payables	24	(99,119)	(88,664)
Provisions	26	(1,068)	(699)
Other financial liabilities	28	—	(13)
Interest-bearing loans and borrowings	25	(1,605)	(1,505)
Current tax liabilities		(7,204)	(8,199)
		(108,996)	(99,080)
Non-current liabilities			
Interest-bearing loans and borrowings	25	(24,877)	(22,823)
Deferred tax liabilities	27	(1,050)	(1,368)
Provisions	26	(1,602)	(2,006)
		(27,529)	(26,197)
Total liabilities		(136,525)	(125,277)
Net assets		153,022	126,231
Equity			
Share capital	30	2,553	2,553
Share premium		84,612	84,612
Merger reserve		(75,383)	(75,383)
Available-for-sale reserve		436	399
Share-based payment reserve	31	84	—
Retained earnings		140,720	114,050
Total equity		153,022	126,231

The notes on pages 72 to 99 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 14 January 2019 and signed on its behalf by:

Mark Watkin Jones
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 October 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
Transactions with owners							
Dividend paid (note 15)	—	—	—	—	—	(12,431)	(12,431)
Balance at 30 September 2017	2,553	84,612	(75,383)	399	—	114,050	126,231
Profit for the year	**—**	**—**	**—**	**—**	**—**	**44,206**	**44,206**
Other comprehensive income	**—**	**—**	**—**	**37**	**—**	**—**	**37**
Total comprehensive income	**—**	**—**	**—**	**37**	**—**	**44,206**	**44,243**
Transactions with owners							
Share-based payments	**—**	**—**	**—**	**—**	**84**	**—**	**84**
Dividend paid (note 15)	**—**	**—**	**—**	**—**	**—**	**(17,536)**	**(17,536)**
Balance at 30 September 2018	**2,553**	**84,612**	**(75,383)**	**436**	**84**	**140,720**	**153,022**

The notes on pages 72 to 99 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2018

	Notes	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Cash flows from operating activities			
Cash inflow from operations	32	**66,582**	25,378
Interest received		**228**	101
Interest paid		**(1,199)**	(1,083)
Interest element of finance lease rental payments		**(48)**	(33)
Tax paid		**(11,140)**	(5,117)
Net cash inflow from operating activities		**54,423**	19,246
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(298)**	(336)
Proceeds on disposal of property, plant and equipment		**18**	42
Proceeds from disposal of interest in joint venture		**400**	5,510
Cash distribution received from other financial assets		**1,744**	—
Purchase of other financial assets		**(350)**	—
Loan payments from joint ventures		**1,176**	73
Net cash inflow from investing activities		**2,690**	5,289
Cash flows from financing activities			
Dividends paid	15	**(17,536)**	(12,431)
Capital element of finance lease rental payments		**(1,203)**	(605)
Drawdown of RCF		**8,036**	24,833
Repayment of bank loans		**(5,095)**	(18,228)
Net cash outflow from financing activities		**(15,798)**	(6,431)
Net increase in cash		**41,315**	18,104
Cash and cash equivalents at 1 October 2017 and 1 October 2016		**65,325**	47,221
Cash and cash equivalents at 30 September 2018 and 30 September 2017		**106,640**	65,325

The notes on pages 72 to 99 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2018

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 2018 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 terms of the acquisition of the shares in Watkin Jones Group Limited by the Company on its IPO in March 2016 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 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 16).

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:

- 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 is 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 land or completed property

Where a contract is for the sale of land or 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

3. Accounting policies continued

3.5 Revenue recognition continued

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.

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 each reporting 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:

Plant and machinery:	
cranes	– 6.7% 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.

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 trusts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

3. Accounting policies continued

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 statement of financial position, 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 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.

3.16 Cash and cash equivalents

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

3.17 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.

3.18 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 reporting date thereafter until the awards are settled. During the vesting period a share-based payment reserve is recognised, representing the product of the cost of the reward and the portion of the vesting period expired at the reporting date. Changes in the carrying amount for the share-based payment reserve are recognised in the statement of comprehensive income for the period.

3.19 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.

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.

3.20 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.

3.21 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.

3.22 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 the Group's weighted average cost of capital.

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 3.19). 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 leasebacks have been entered into in the period between 1 October 2009 and 30 September 2018. 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.

Provision for onerous lease commitments

As described in note 3.22, the Group makes provisions 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 property concerned. In making this assessment, the Group estimates the future economic benefits that will be derived from the operations of the properties, taking into account their current economic performance and known performance conditions, and compares this to the estimated future lease rental obligations, taking into account the rent review terms and estimated future increases in rents payable.

Accrual for remedial works

The Group makes an accrual for remedial works where the Group accepts the liability to carry out such works. The amount of the accrual is based on management's estimate of the cost to complete the works.

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for the year ended 30 September 2018

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 considered the implications of IFRS 9 'Financial Instruments' on the Group's financial statements. The Group accounts for its financial assets and liabilities at fair value, as set out in the accounting policies in note 3, and does not have any complex financial instruments. We recognise there is a choice between accounting for as fair value through profit or loss or fair value through other comprehensive income, and expect the latter to be most likely. We have considered the impact of any expected credit losses, and consider these to be immaterial to the Group. The adoption of IFRS 9, which will be effective for the financial year ending 30 September 2019, is not expected to have a material effect on the Group's financial statements.

The Directors have completed an assessment of the impact of IFRS 15 'Revenue from Contracts with Customers' and the Group will adopt the new standard for the financial year ending 30 September 2019 retrospectively using the cumulative effect approach. Under the cumulative effect approach the results of the prior year are not restated but the initial impact of adopting the standard is taken to opening reserves. As a result, the Group will restate its opening reserves as at 1 October 2018 by a credit of £497,000 to reflect the impact of transitioning to IFRS 15.

This adjustment primarily reflects the unbundling of the land sale and development agreement elements for forward-sold schemes. Using the five-step model required by the new standard, the impact of the £497,000 credit to equity represents the difference in the after tax profit applicable to the unbundled agreements compared to the after tax profit across the combined agreements as recognised under the Group's current accounting policies.

The Directors are in the process of analysing the effect of the other new standards on the Group.

Not yet endorsed by the EU:

Standard or interpretation	Effective for accounting periods beginning on or after
Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures'	1 January 2019
Annual improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)	1 January 2019
IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (issued on 8 December 2016)	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
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
IFRS 9 'Financial Instruments' (issued in 2014)	1 January 2018
IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019
IFRS 16 'Leases'	1 January 2019

6. Revenue

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Accommodation management	7,302	6,126
Rental income received	22,888	21,128
Sale of goods (residential property)	29,965	18,077
Sales from development and construction contracts (note 21)	302,899	256,583
	363,054	301,914

Sales to two individual customers account for greater than 10% of the total revenue, representing revenue of £56,412,000 and £42,584,000, and are reported under the student accommodation segment (2017: sales to two individual customers of £80,966,000 and £52,338,000).

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 operating segment.

All revenues arise in the UK.

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

Apart from inventory and work in progress, no other assets or liabilities are analysed into the operating segments.

Year ended 30 September 2018	Student accommodation £'000	Build to rent £'000	Residential £'000	Accommodation management £'000	Corporate £'000	Total £'000
Segmental revenue	312,695	3,764	29,965	7,302	9,328	363,054
Segmental gross profit	60,705	1,020	4,377	4,513	1,815	72,430
Administration expenses	—	—	—	(3,171)	(19,647)	(22,818)
Exceptional income	—	—	—	4,283	—	4,283
Share of disposal of interest in joint venture	—	—	—	—	121	121
Share of operating profit in joint ventures	1,023	—	—	—	—	1,023
Finance income	—	—	—	—	228	228
Finance costs	—	—	—	—	(925)	(925)
Profit/(loss) before tax	61,728	1,020	4,377	5,625	(18,408)	54,342
Taxation	—	—	—	—	(10,136)	(10,136)
Continuing profit/(loss) for the year	61,728	1,020	4,377	5,625	(28,544)	44,206
Profit for the year attributable to ordinary equity shareholders of the parent						44,206
Inventory and work in progress (note 20)	32,371	44,187	47,021	—	9,199	132,778

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
Profit for the year attributable to ordinary equity shareholders of the parent						35,800
Inventory and work in progress (note 20)	33,337	41,429	38,868	—	11,586	125,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

8. Exceptional income

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Exceptional income		
Compensation for reduction in scope of services and termination of accommodation management contracts resulting from the sale of a portfolio of properties by the Curlew Student Trust	3,020	—
Profit share arising from the sale of the portfolio of properties by the Curlew Student Trust	1,263	—
Total exceptional income	4,283	—

Following the sale of a portfolio of properties by the Curlew Student Trust ("CST"), Fresh Property Group ("FPG") was compensated for the initial reduction in the scope of management services and subsequent termination of the accommodation management contracts for those properties by the new owner. In addition, FPG holds a carried interest investment in CST associated with its role as preferred property manager and received a share of the profit realised by CST on the sale of the property portfolio.

9. Total operating profit

This is stated after charging/(crediting):

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Operating lease rentals	14,600	13,904
Audit services to the parent company	77	75
Audit services to the subsidiaries	124	120
Loss on foreign exchange	571	119
Amortisation of intangible assets	559	559
Depreciation:		
Owned assets	405	412
Assets under finance leases	320	108
Profit on disposal of fixed assets	(7)	(26)
	16,649	15,271

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 2018	Year ended 30 September 2017
Construction	248	238
Accommodation management	388	352
Management and administration	95	90
	731	680

The aggregate payroll costs of these persons were as follows:

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Wages and salaries	20,756	20,250
Employee incentive – long-term incentive plans (note 31)	84	—
Social security costs	2,397	2,425
Defined contribution pension costs	619	549
	23,856	23,224

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 £619,000 (2017: £549,000). There are £47,000 unpaid contributions at the end of the year (2017: £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 (2017: £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 was a Director of the Group during the year. 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 (2017: £Nil).

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 personnel were as follows:

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Wages and salaries	3,648	3,003
Employee incentive – long-term incentive plans (note 31)	78	—
Social security costs	456	403
Defined contribution pension costs	175	134
	4,357	3,540

11. Directors' emoluments

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Directors' emoluments	1,283	1,181
Employee incentive – long-term incentive plans	20	—
Contributions to money purchase pension schemes	58	45
Highest paid Director:		
Emoluments	659	624
Employee incentive – long-term incentive plans	—	—
Contributions to money purchase pension schemes	35	28

12. Finance costs

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Finance charges	603	564
Finance charges payable under finance leases	48	33
Other interest payable	274	360
	925	957

In addition, the Group has capitalised during the year, in development land and work in progress, interest payable of £322,000 (2017: £159,000) on bank loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

13. Income taxes

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Current income tax		
UK corporation tax on profits for the year	10,320	8,096
Adjustments in respect of previous periods	(101)	(820)
Total current tax	10,219	7,276
Deferred tax		
Origination and reversal of temporary differences	(84)	202
Adjustments in respect of prior year	1	—
Total deferred tax	(83)	202
Total tax expense	10,136	7,478

Reconciliation of total tax expense

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Accounting profit before income tax	54,342	43,278
Profit multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.5%)	10,325	8,439
Expenses not deductible	499	17
Income not taxable	(441)	(69)
Joint ventures results reported net of tax	(242)	(101)
Other differences	104	35
Prior period adjustment	(100)	(820)
At the effective rate of tax of 18.7% (2017: 17.3%)	10,145	7,501
Income tax expense reported in the statement of profit or loss	10,136	7,478
Income tax attributed to an available-for-sale asset	9	23
	10,145	7,501

14. Earnings per share

Basic and diluted 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. For the years ending 30 September 2018 and 30 September 2017, all profits arise from continuing operations.

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

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Profit for the year attributable to ordinary equity holders of the parent	44,206	35,800
Adjusted profit for the year attributable to ordinary equity holders of the parent (excluding exceptional income after tax)	40,737	35,800

	Number of shares	Number of shares
Number of ordinary shares for basic earnings per share	255,268,875	255,268,875
Adjustment for the effects of dilutive potential ordinary shares	102,929	—
Weighted average number for diluted earnings per share	255,371,804	255,268,875

	Pence	Pence
Basic earnings per share		
Basic profit for the year attributable to ordinary equity holders of the parent	17.317	14.024
Adjusted proforma basic earnings per share (excluding exceptional income after tax)		
Adjusted profit for the year attributable to ordinary equity holders of the parent	15.958	14.024
Diluted earnings per share		
Basic profit for the year attributable to diluted equity holders of the parent	17.310	14.024
Adjusted proforma diluted earnings per share (excluding exceptional income after tax)		
Adjusted profit for the year attributable to diluted equity holders of the parent	15.952	14.024

15. Dividends

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Interim dividend paid in June 2018 of 2.47 pence (June 2017: 2.2 pence)	6,304	5,615
Final dividend paid in February 2018 of 4.4 pence (February 2017: 2.67 pence)	11,232	6,816
	17,536	12,431

The final dividend proposed for the year ended 30 September 2018 is 5.13 pence per ordinary share. This dividend was declared after 30 September 2018 and as such the liability of £13,095,293 has not been recognised at that date. At 30 September 2018, the Company had distributable reserves available of £135,248,000 (30 September 2017: £152,784,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2018

16. Intangible assets

	Customer relationships £'000	Brand £'000	Goodwill £'000	Total £'000
Cost				
At 1 October 2016, 30 September 2017 and 30 September 2018	**5,604**	**499**	**9,744**	**15,847**
Amortisation				
At 1 October 2016	297	29	—	326
Amortisation for the year	509	50	—	559
At 30 September 2017	806	79	—	885
Amortisation for the year	509	50	—	559
At 30 September 2018	**1,315**	**129**	**—**	**1,444**
Net book value				
As at 30 September 2018	**4,289**	**370**	**9,744**	**14,403**
As at 30 September 2017	4,798	420	9,744	14,962

Intangible assets relate to the acquisition of Fresh Property Group Ltd (formerly Fresh Student Living Limited), which was acquired by the Group in the year ending 30 September 2016. The Directors have reviewed the carrying value of the investment in Fresh Property Group Ltd, which is a single CGU, at 30 September 2018, 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 8.2% 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 and build to rent 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. In the following two years, the number of beds under management increase by 2,500 per annum each year before increasing by 2,000 beds per annum in the year ending 30 September 2025 and 1,500 beds per annum in the year ending 30 September 2026. 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 in the student accommodation sector along with assumed growth in apartments under management in the build to rent market;
- management fees charged will increase at 3.1% 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 period ending 30 September 2023 and thereafter increase at 4% per annum. This reflects underlying assumed RPI inflation of 3.1% plus an allowance for additional indirect costs as a result of the increase in beds under management.

17. Property, plant and equipment

	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost			
At 1 October 2016	3,967	157	4,124
Additions	3,571	—	3,571
Disposals	(168)	—	(168)
At 30 September 2017	7,370	157	7,527
Additions	634	—	634
Disposals	(65)	—	(65)
At 30 September 2018	**7,939**	**157**	**8,096**
Depreciation			
At 1 October 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
Charge for the year	725	—	725
Disposals	(54)	—	(54)
At 30 September 2018	**3,132**	**155**	**3,287**
Net book value			
At 30 September 2018	**4,807**	**2**	**4,809**
At 30 September 2017	4,909	2	4,911
At 30 September 2016	1,859	17	1,876

Finance leases

The carrying value of plant and machinery and motor vehicles held under finance leases at 30 September 2018 was £3,321,000 (2017: £3,305,000). Additions during the year include £336,000 (2017: £3,422,000) of plant and machinery under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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18. Subsidiaries

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

Name	Class of shares	Nature of business
Albion Way Wembley Limited[4]*	Ordinary	Property developer
Anderson Wharf (Student) Limited[4]	Ordinary	Property developer
Bailey Lane 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
Forest Road Student 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
Kelaty House Wembley Limited[4]*	Ordinary	Property developer
Kyle Street Student Limited[4]*	Ordinary	Property developer
Liverpool Road Chester Limited[4]	Ordinary	Property developer
Military Road Canterbury Limited[4]*	Ordinary	Property developer
Onega Centre Bath Limited[4]	Ordinary	Property developer
Pittodrie Street Aberdeen 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
Whitefriars Street Coventry Limited[4]	Ordinary	Property developer
Fresh Property Group Ltd[8]	Ordinary	Accommodation management
Fresh Property Group Ireland Limited[9]*	Ordinary	Accommodation management
Five Nine Living Limited[8]	Ordinary	Accommodation management
DR (Student) Limited[4]	Ordinary	Holding company
Fresh Property Group Holdings Ltd[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

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[7]	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

* 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 by Newmark Developments Limited.
6. Wholly owned by DR (Student) Limited.
7. Wholly owned by New Bridewell Limited.
8. Wholly owned by Fresh Property Group Holdings Ltd.
9. Wholly owned by Fresh Property Group 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, and Fresh Property Group Ireland Limited, whose registered office is One Spencer Dock, North Wall Quay, Dublin 1, Ireland.

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for the year ended 30 September 2018

19. Joint ventures

At 30 September 2018, 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
Lacuna Academy Street Limited[1]	Ordinary	50%	31 March	Property development
Lacuna Belfast Limited[1]	Ordinary	50%	31 March	Property development
Lacuna Dublin Road 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	Dormant
Spiritbond Elephant & Castle Limited[1]	Ordinary	50%	30 September	Dormant
Freshers PBSH Chester (General Partner) Limited[1]	Ordinary	50%	30 September	Property fund general partner

1. Held by Watkin Jones & Son Limited.

The Group's interests 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 2018	Lacuna Academy Street Limited £'000	Lacuna Belfast Limited £'000	Lacuna Dublin Road Limited £'000	Lacuna WJ Limited £'000	All other joint ventures £'000	Total £'000
Revenue	—	—	2,710	14,904	—	17,614
Operating profit/(loss)	(24)	(260)	422	2,365	19	2,522
Finance income/(expense)	—	—	—	—	—	—
Profit/(loss) before tax	(24)	(260)	422	2,365	19	2,522
Income tax gain/(expense)	4	50	(68)	(465)	3	(476)
Profit/(loss) for the year	(20)	(210)	354	1,900	22	2,046
Total comprehensive income/(loss) for the year	(20)	(210)	354	1,900	22	2,046
Group share of profit/(loss) for the year	(10)	(105)	177	950	11	1,023
Current assets, including cash and cash equivalents	1,639	1,814	3,008	3,941	554	10,956
Non-current assets	—	—	—	—	—	—
Current liabilities, including financial liabilities	(1,657)	(1,356)	(806)	(557)	(1,464)	(5,840)
Non-current liabilities, including financial liabilities	—	—	—	—	—	—
Equity	(18)	458	2,202	3,384	(910)	5,116
Remove joint venture partners' share of net assets	9	(229)	(1,101)	(1,692)	455	(2,558)
Group's carrying amount of the investment	(9)	229	1,101	1,692	(455)	2,558

On 29 March 2018, the Group disposed of its joint venture interest in Rufus Estates Limited, realising a profit on the disposal of £121,000. The proceeds from the disposal amounted to £400,000.

Year ended 30 September 2017	Lacuna Academy Street 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	—	—	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, including 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)
Group's carrying amount of the investment	—	334	925	742	(12)	12	(185)	1,816

20. Inventory and work in progress

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Development land	**49,232**	70,236
Stock and work in progress	**83,546**	54,984
Total inventories at the lower of cost and net realisable value	**132,778**	125,220

Total costs incurred during the year were £287,835,000 (2017: £237,762,000), of which £44,208,000 are included in inventory and work in progress (2017: £44,612,000).

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for the year ended 30 September 2018

21. Construction contracts

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Total income and expense recognised on contracts in progress in the year		
Costs incurred and recognised profit for period	302,899	256,583
Contract revenue for the period	302,899	256,583
Less progress billings and advances	(301,942)	(257,064)
	957	(481)
Construction contracts in progress, net position, bought forward	(6,513)	(6,032)
Construction contracts in progress, net position, carried forward	(5,556)	(6,513)
Amounts recoverable on contracts	8,758	13,907
Payments received in advance on contracts	(14,314)	(20,420)
Construction contracts in progress, net position	(5,556)	(6,513)
Aggregate amount of costs incurred and recognised profits (less losses) to date	361,653	306,795
Retention asset	6,776	5,463

Retention assets are included in trade receivables.

22. Trade and other receivables

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Financial assets		
Trade receivables	10,203	11,147
Less: provision for impairment of receivables	—	—
Trade receivables – net	10,203	11,147
Amounts recoverable on contracts	8,758	13,907
Other receivables	5,801	8,905
Available-for-sale financial assets	694	910
Receivable from related parties (note 37)	11	40
Receivable from joint ventures (note 37)	1,500	1,390
Total financial assets	26,967	36,299
Other		
Prepayments	—	—
Total trade and other receivables	26,967	36,299

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.

The ageing analysis of trade receivables is as follows:

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Neither past due nor impaired	**10,203**	11,147
Past due but not impaired:	**—**	—
Not more than three months	**—**	—
Greater than three months	**—**	—
	10,203	11,147

As at 30 September 2018 and 2017, 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.

23. 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.

24. Trade and other payables: current

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Financial liabilities		
Trade payables	**51,377**	46,784
Payments received in advance on contracts	**14,314**	20,420
Other payables	**15,321**	9,419
Payable to related parties (note 37)	**7**	3
Payable to joint ventures (note 37)	**2,904**	1,618
Total financial liabilities	**83,923**	78,244
Other		
Other taxes and social security costs	**4,239**	623
Accruals and deferred income	**10,957**	9,797
Total trade and other payables	**99,119**	88,664

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for the year ended 30 September 2018

25. Interest-bearing loans and borrowings

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Current		
Svenska Handelsbanken AB five-year term loan	457	457
HSBC Bank plc RCF arrangement fees	(80)	(80)
Finance leases	1,228	1,128
	1,605	1,505

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Non-current		
Svenska Handelsbanken AB five-year term loan	6,825	7,937
HSBC Bank plc RCF	17,397	13,344
HSBC Bank plc RCF arrangement fees	(140)	(220)
Finance leases	795	1,762
	24,877	22,823

Finance lease disclosure

	30 September 2018		30 September 2017	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Within one year	1,228	1,114	1,128	1,023
Later than one year and less than five years	795	665	1,762	1,474
After five years	—	—	—	—
Total minimum lease payments	2,023	1,779	2,890	2,497
Lease amount representing finance charges	—	69	—	113
Present value of minimum lease payments	—	1,848	—	2,610

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

At 30 September 2018, the Group had undrawn borrowing facilities of £32.6 million (2017: £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 overdraft facility.

The RCF is secured by a debenture over Watkin Jones Group Limited, Watkin Jones Holdings Limited, Watkin Jones & Son Limited, Duncan House Developments Limited, Onega Centre Bath Limited and Sutton Court Road 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.

26. Provisions

Current

	Onerous lease provision £'000
At 30 September 2017	699
Utilised	**(699)**
Arising during the year	**370**
Transferred from non-current	**698**
At 30 September 2018	**1,068**

Non-current

	Onerous lease provision £'000
At 30 September 2017	2,006
Arising during the year	**294**
Transferred to current	**(698)**
At 30 September 2018	**1,602**

A provision has been made for property operating lease commitments (note 34), 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 using an appropriate discount rate to reflect the time value of money.

27. Deferred tax

The movement on the deferred tax account is shown below:

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
As at the start of the period	**(1,091)**	(889)
Statement of comprehensive income credit/(debit)	**83**	(202)
At the end of the period	**(1,008)**	(1,091)
Comprising:		
Deferred tax asset	**42**	277
Deferred tax liability	**(1,050)**	(1,368)
At the end of the period	**(1,008)**	(1,091)

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

	Short-term timing differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 October 2017	(889)	(202)	(1,091)
Statement of comprehensive income credit/(debit)	**110**	**(27)**	**83**
At 30 September 2018	**(779)**	**(229)**	**(1,008)**

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

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28. Other financial assets and liabilities

Other financial assets

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Financial instruments at fair value		
Available-for-sale financial assets at fair value through other comprehensive income	**1,350**	2,698
Other financial assets	**1,350**	2,698

The available-for-sale financial assets at fair value comprise the value of units held by Watkin Jones & Son Limited in the Curlew Student Trust ("CST"), together with the value of the carried interest held by Fresh Property Group Ltd in CST and Curlew Student Trust 2 ("CST2"). CST and CST2 are Guernsey-registered unitised funds established to invest in student accommodation. Watkin Jones & Son Limited originally invested £2,000,000 in CST, as part of an agreement to develop three student accommodation properties for the fund, and Fresh Property Group Ltd made a carried interest investment of £150,000 aligned to its role as preferred property manager for the fund.

Following the sale of a portfolio of properties by CST during the year ending 30 September 2018, the Group received distributions against the carrying value of its investments in CST amounting to £1,744,000. In addition, Fresh Property Group Ltd received a profit payment of £1,263,000 on its carried interest investment in CST, which has been included in the exceptional income for the year.

From the distributions received, Fresh Property Group Ltd made a further carried interest investment of £350,000 in CST2, which was launched in the year following the successful disposal of the portfolio of assets by CST, and aligns with its role as preferred property manager for CST2.

The Group's investment in CST and CST2 comprises the following:

30 September 2018	Units	Price £	Value £'000
Curlew Student Trust			
Units held by Watkin Jones & Son Limited	**1,689,991**	**0.5427**	**917**
Carried interest investment held by Fresh Property Group Ltd			**83**
			1,000
Curlew Student Trust 2			
Carried interest investment held by Fresh Property Group Ltd			**350**
			350
Group's carrying amount of the investment			**1,350**

30 September 2017	Units	Price £	Value £'000
Curlew Student Trust			
Units held by Watkin Jones & Son Limited	1,689,991	1.4675	2,480
Carried interest investment held by Fresh Property Group Ltd			218
Group's carrying amount of the investment			2,698

Other financial liabilities

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Derivatives		
Interest rate swaps	**—**	(13)
Net profit/(loss) on derivatives through comprehensive income	**—**	50

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 held by Watkin Jones & Son Limited in the Curlew Student Trust, included within available-for-sale financial assets, is based on a quoted fund unit price (Level 2 in the fair value hierarchy). This is an investment and is not related to any individual property. The carried interest investments held by Fresh Property Group Ltd are stated at fair value (Level 2 in the fair value hierarchy).

29. Financial risk management

The Group is exposed to a variety of risks, 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.

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 2018 £'000**	Year ended 30 September 2017 £'000
Impact on profit before tax	**134**	123

Foreign currency risk

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

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 2018 and 30 September 2017:

Liquidity risk – 30 September 2018	**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	**—**	**1,652**	**24,830**	**—**	**26,482**
Trade and other payables	**—**	**83,923**	**—**	**—**	**83,923**
	—	**85,575**	**24,830**	**—**	**110,405**

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

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 33.

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30. Share capital

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'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 2018 was 255,268,875 (30 September 2017: 255,268,875).

31. Employee benefits – long-term incentive plans

The Watkin Jones plc Long Term Incentive Plan (the "Plan") was approved by shareholders at the AGM held on 13 February 2018. Details of the Plan, the vesting requirements and the performance targets applicable to the 2018 awards are set out in the Remuneration Committee report on page 59 to 61. The aggregate total awards granted under the Plan are as follows:

Share awards granted	Year ended 30 September 2018 Number	Year ended 30 September 2017 Number
At 1 October	**—**	—
Granted in the year	**494,058**	—
At 30 September	**494,058**	—

The fair value of the share awards granted subject to earnings per share ("EPS") performance conditions is the market price of an ordinary share of the Company at the date the award is granted. The fair value of the share awards granted subject to total shareholder return ("TSR") performance conditions has been estimated at the grant date using a Monte Carlo valuation model. The following table lists the inputs to the model used for the share awards granted in 2018:

	2018 LTIP
Share price at grant	218.5 pence
Exercise price	One pence
Expected term (years)	Three
Expected volatility (%)	27
Risk-free interest rate (%)	0.65
Are dividend equivalents receivable for the award holder?	Yes

The fair value of the share awards granted under the Plan is charged to the statement of comprehensive income over the vesting period of the awards, provided that the service conditions attaching to the awards continue to be met. The cumulative charge to the statement of comprehensive income is recognised in the statement of financial position as a "share-based payment reserve". For the year ending 30 September 2018, the amount charged to the statement of comprehensive income and credited to share-based payment reserve was £84,000 (30 September 2017: £Nil).

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

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Profit before tax	**54,342**	43,278
Depreciation	**725**	520
Amortisation of intangible assets	**559**	559
(Profit)/loss on sale of plant and equipment	**(7)**	(26)
Finance income	**(228)**	(101)
Finance costs	**925**	957
Profit on disposal of interest in joint ventures	**(121)**	(930)
Share of profit in joint ventures	**(1,023)**	(519)
(Increase)/decrease in inventory and work in progress	**(7,558)**	2,937
Interest capitalised in development land, inventory and work in progress	**322**	159
Decrease/(increase) in trade and other receivables	**9,442**	(21,523)
Increase/(decrease) in trade and other payables	**9,155**	(428)
(Decrease)/increase in provision for property lease commitment	**(35)**	495
Increase in share-based payment reserve	**84**	—
Net cash inflow from operating activities	**66,582**	25,378

Major non-cash transactions

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

33. Analysis of net cash/(debt)

30 September 2018	At beginning of year £'000	Cash flow £'000	Non-cash movements £'000	At end of year £'000
Cash at bank and in hand	65,325	41,315	—	106,640
Finance leases	(2,890)	1,203	(336)	(2,023)
Bank loans	(21,438)	(2,941)	(80)	(24,459)
Net cash	40,997	39,577	(416)	80,158

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

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34. Operating leases

Total commitments – Group as lessee

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	**14,818**	14,467
Later than one year and less than five years	**42,707**	44,081
After five years	**168,022**	176,064
	225,547	234,612

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
Darley Bank, Derby	1.0	5.0	31 August 2019
Merlin Heights, Leicester	—	4.0	31 August 2019[1]
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

1. Terminated early on 14 November 2018 following the sale of the property by the landlord.

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 2018 £'000	Year ended 30 September 2017 £'000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	**13,090**	19,545
Later than one year and less than five years	**6,505**	9,327
After five years	**1,053**	924
	20,648	29,796

The Group acts as lessor in respect of certain commercial property and for the student accommodation properties operated under the sale and leaseback arrangements detailed above. The prior year comparative figures in the above table have been restated to include rentals receivable from student accommodation properties as at 30 September 2017.

35. Capital and other financial commitments

The Group had no material capital commitments at 30 September 2018 or 30 September 2017.

36. Contingent liabilities

The Group has contingent liabilities of £2,729,000 (2017: £5,341,000) 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.

Watkin Jones Group Limited, Watkin Jones Holdings Limited, Watkin Jones & Son Limited and certain subsidiaries thereof have given debentures containing fixed and floating charges and have entered into a corporate guarantee of the Group's bank borrowings from HSBC Bank plc, which at the balance sheet date amounted to £17,397,000 (2017: £13,344,000).

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

37. Related party transactions

The Group processed payroll costs on behalf of Carlton (North Wales) Limited and its subsidiary companies of £301,000 (2017: £284,000). The Group also sold a freehold interest in Plan Penrhos, Bangor amounting to £160,000 to Carlton (North Wales) Limited at open market value. The amount owed to Carlton (North Wales) Limited and its subsidiary companies at the balance sheet date was £7,000 (2017: £40,000).

During the previous year, the Group purchased a land site in Chester from Carlton (North Wales) Limited at its open market value of £1,200,000.

The Group paid rent and service charges to Planehouse Limited and its subsidiary companies amounting to £316,000 (2017: £316,000) and processed payroll costs on behalf of the Company of £80,000 (2017: £93,000). During the year ended 30 September 2017 the Group sold to Planehouse Limited, at its third party open market value, a commercial office property, which was under construction in Bournemouth, for a total consideration of £15,659,000. A payment of £8,000,000 was received from Planehouse Limited in September 2017 on completion of the sale of the part-constructed property at that time. The balance of the consideration was paid on successful completion and handover of the development in the year ended 30 September 2018. The amount owed by Planehouse Limited and its subsidiary companies at the balance sheet date was £11,000 (2017: £3,000 owed to Planehouse Limited).

The Group settled a deed of release of an overage agreement with Plas Y Coed Limited relating to land previously acquired by the Group at Plas Y Coed, Bangor from Plas Y Coed Limited. The amount of £1,120,000 owed was settled by way of transfer of title during the year of five private development houses on the land (three transferred to The Glyn Watkin Jones 1999 Hybrid Settlement Trust and two transferred to Mr Glyn Watkin Jones) at an open market value of £1,020,000, and a further cash payment of £100,000 on 1 October 2018.

During the year, Toplocation 4 Limited has contributed £400,000 towards the cost of recladding works at the Merlin Heights development in Leicester.

Mark Watkin Jones is a director of Carlton (North Wales) Limited, Planehouse Limited, Plas Y Coed Limited and Toplocation 4 Limited, all of which are controlled by family trusts (including The Glyn Watkin Jones 1999 Hybrid Trust) 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 (2017: £16,000).

As referred to in note 28, Watkin Jones & Son Limited invested £2,000,000 in units in the Curlew Student Trust ("CST") and Fresh Property Group Ltd invested £150,000 by way of a carried interest investment in CST. In the year ending 30 September 2018, Fresh Property Group Ltd made a carried interest investment of £350,000 in the Curlew Student Trust 2 ("CST2"). CST and CST2 are Guernsey-registered unitised funds established to invest in student accommodation. Following the sale of a portfolio of properties by CST during the year ending 30 September 2018, the Group received distributions against the carrying value of its investments in CST amounting to £1,744,000. In addition, Fresh Property Group Ltd received a profit payment from the portfolio sale of £1,263,000 on its carried interest investment in CST and payments totalling £3,020,000 as compensation for the initial reduction in scope of services and subsequent termination by the new owner of the accommodation management contracts for the properties sold. These two amounts received by Fresh Property Group Ltd have been accounted for as exceptional income in the year, as disclosed in note 8. The fair value of the units held in CST by Watkin Jones & Son Limited at 30 September 2018 amounted to £917,000 (2017: £2,480,000) and the fair values of the carried interest investments in CST and CST2 held by Fresh Property Group Ltd amounted to £83,000 (2017: £218,000) and £350,000 (2017: £Nil) respectively. During the year, the Group sold properties to and provided construction services to CST amounting in total to £Nil (2017: £80,966,000).

Under a joint venture agreement the Group was owed £714,000 at 30 September 2018 by Deiniol Developments Limited (2017: £718,000). The Group owns 50% of the share capital in Deiniol Developments Limited.

The Group has a 50% interest in Lacuna Belfast Limited. During the year the Group charged development fees to Lacuna Belfast Limited amounting to £25,000 (2017: £1,150,000). The Group made payments of £246,000 to Lacuna Belfast Limited during the year (2017: £Nil). At the balance sheet date, £34,000 was owed by Lacuna Belfast Limited (2017: £470,000 owed to Lacuna Belfast Limited).

The Group has a 50% interest in Lacuna Dublin Road Limited. During the year, the Group charged development fees to Lacuna Dublin Road Limited amounting to £100,000 (2017: £800,000). The Group received payments of £1,242,000 from Lacuna Dublin Road Limited during the year (2017: £Nil). At the balance sheet date, £1,208,000 was owed to Lacuna Dublin Road Limited (2017: £246,000 owed by Lacuna Dublin Road Limited).

The Group has a 50% interest in Lacuna WJ Limited. During the year the Group charged development fees to Lacuna WJ Limited amounting to £777,000 (2017: £473,000). The Group received payments of £1,887,000 from Lacuna WJ Limited during the year (2017: £2,825,000). At the balance sheet date, £1,696,000 (2017: £835,000) was owed to Lacuna WJ Limited.

The Group has a 50% interest in Lacuna Academy Street Limited. The Company has made payments during the year of £85,000 (2017: £668,000) to assist with its development activities. At the balance sheet date, £752,000 (2017: £668,000) was owed by Lacuna Academy Street Limited.

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

COMPANY STATEMENT OF FINANCIAL POSITION

as at 30 September 2018

	Notes	30 September 2018 £'000	30 September 2017 £'000
Fixed assets			
Investments	41	**255,859**	255,775
Current liabilities			
Trade and other payables	42	**(33,362)**	(15,826)
Total liabilities		**(33,362)**	(15,826)
Net assets		**222,497**	239,949
Capital and reserves			
Share capital	43	**2,553**	2,553
Share premium		**84,612**	84,612
Share-based payment reserve		**84**	—
Retained earnings		**135,248**	152,784
Total equity		**222,497**	239,949

The notes on pages 102 and 103 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 14 January 2019 and signed on its behalf by:

Mark Watkin Jones
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

for the period ended 30 September 2018

	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2017	2,553	84,612	—	152,784	239,949
Dividend paid	—	—	—	(17,536)	(17,536)
Share-based payments	—	—	84	—	84
Balance as at 30 September 2018	**2,553**	**84,612**	**84**	**135,248**	**222,497**

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 September 2018

38. 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.

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.

No cash flow has been presented for the Company as it has no cash in its own right.

The statement of financial position 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.

Share-based payments

The Company issues equity-settled share-based payments to certain Executive Directors of the Company and to certain employees of its subsidiaries. Equity-settled share-based payments are measured at fair value at the grant date. The fair value is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. The cost of equity-setted share-based payments granted to employees of subsidiary companies is borne by the employing company, without recharge. The cost of equity-settled share-based payments granted to Executive Directors of the Company is recharged to its principal trading subsidiary as it receives the benefit of their services. In the Company's financial statements, the Company's investment in subsidiaries is increased by an amount equal to the charge for the period, with a corresponding increase to share-based payment reserve.

39. 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. All employee costs incurred by the Company are recharged to Watkin Jones & Son Limited, the Company's principal trading subsidiary.

	2018 £'000	2017 £'000
Wages and salaries	**1,283**	1,141
Employee incentive – long-term incentive plans	**20**	—
Social security costs	**172**	154
Pension costs	**58**	45
	1,533	1,340

40. Dividends

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the year		
Interim dividend paid in June 2018 of 2.47 pence (June 2017: 2.2 pence)	6,304	5,615
Final dividend paid in February 2018 of 4.4 pence (February 2017: 2.67 pence)	11,232	6,816
	17,536	12,431

The final dividend proposed for the year ended 30 September 2018 is 5.13 pence per ordinary share. This dividend was declared after 30 September 2018 and as such the liability of £13,095,293 has not been recognised at that date. At 30 September 2018, the Company had distributable reserves available of £135,248,000 (30 September 2017: £152,784,000).

41. Investments in subsidiaries

	Subsidiary undertakings £'000
Cost	
1 October 2017	255,775
Capital contribution relating to share-based payments	84
30 September 2018	255,859

The Company owns 100% of the issued shares in Watkin Jones Group Limited, a company incorporated in England and Wales (note 18). The principal activity of Watkin Jones Group Limited is that of property development.

42. Trade and other payables: current

	2018 £'000	2017 £'000
Financial liabilities		
Group undertakings	33,362	15,826

43. Allotted and issued share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
Ordinary shares of one pence each	2,553	2,553

44. Share-based payments

Details of share awards granted by the Company to Executive Directors and to employees of its subsidiaries, and that remain outstanding at the year end over the Company's shares, are set out in note 31 to the Group financial statements. The Company did not recognise any expense related to equity-settled share-based payment transactions in the current or preceding year.

As explained in note 38, the cost for the year ending 30 September 2018 of the awards granted during the year has been recharged to Watkin Jones & Son Limited.

ADVISERS

Nominated adviser and broker
Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

Joint broker
Jefferies Hoare Govett
Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Auditor and reporting accountants
Ernst & Young LLP
2 St Peter's Square
Manchester M2 3EY

Solicitors to the Company
DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham B2 4DL

Company registrars
Link Asset Services
The Registry
34 Beckenham Road
Beckenham BR3 4TU

Financial PR
Buchanan
107 Cheapside
London EC2V 6DN

Company secretarial services
Prism Cosec
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 and Wales.

The Company operates in the UK.

Number of securities in issue
As of 14 January 2019, 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 14 January 2019, the percentage of the Company's issued share capital that is not in public hands is 33.2%.

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).

GLOSSARY

AFS	available-for-sale
AGM	Annual General Meeting
AIM	Alternative Investment Market
CST	Curlew Student Trust
CST2	Curlew Student Trust 2
CGU	cash-generating unit
EBITDA	earnings before income tax, depreciation and amortisation
EIR	effective interest rate
EPS	earnings per share
EY	Ernst & Young LLP

Fresh or FPG	Fresh Property Group
GDPR	General Data Protection Regulation
HMO	house of multiple occupation
IFRS	International Financial Reporting Standards
IPO	initial public offering
JV	joint venture
OCI	other comprehensive income
PBSA	purpose built student accommodation
RCF	revolving credit facility
RNS	regulatory news service
TSR	total shareholder return

FINANCIAL CALENDAR

Annual General Meeting ("AGM")

The Company's AGM will be held at 10.30am on Thursday 14 February 2019 at the offices of Buchanan, 107 Cheapside, London EC2V 6DN.

Final dividend

The final dividend will be paid on 28 February 2019 to shareholders on the register at the close of business on 25 January 2019. The shares will go ex-dividend on 24 January 2019.

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Watkin Jones plc
21-22 Llandygai Industrial Estate
Llandygai
Bangor
Gwynedd LL57 4YH

+44 (0)1248 362 516
info@watkinjones.com

www.watkinjonesplc.com

Watkin Jones Group

@Watkin_Jones

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