CREATING THE FUTURE OF **LIVING**

Annual report and financial statements 2019

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Watkin Jones Group

@Watkin_Jones

Watkin Jones Group

Visit us online
www.watkinjonesplc.com

Welcome to the Watkin Jones plc annual report and financial statements 2019

Watkin Jones is the UK's leading developer and manager of residential for rent properties.

We have unrivalled experience in the purpose built student accommodation ("PBSA") market. Since 1999, we have completed 123 developments with 41,000 beds. We have a strong reputation for quality and on-time delivery and excellent relationships with the institutions who acquire our developments. We are now leveraging this expertise in the build to rent sector.

Fresh Property Group ("FPG") is our specialist accommodation manager. It manages nearly 18,000 student beds and build to rent apartments on behalf of our institutional clients.

This gives us an end-to-end solution for investors, provided entirely in-house, and generates invaluable feedback from tenants. Their input helps us to ensure our future developments keep pace with the latest demands.

We also develop homes for sale and have completed more than 80 developments, generating 2,500 homes for sale. These range from starter homes to executive housing and apartments.

The Group has a capital-light business model, in which we forward sell most of our developments before we start construction work. This helps to minimise risk and generates strong returns and cash flows.

Our purpose is to create the future of living.

This means creating residential properties at the forefront of societal and technological change, in which people choose to live.

OUR HIGHLIGHTS

Revenue[1]

+3.2% to £374.8 million

(2018: £363.1 million)

Gross profit[1]

+6.0% to £76.8 million

(2018: £72.4 million)

Adjusted operating profit[2]

+5.4% to £52.3 million

(2018: £49.6 million)

Operating profit[1]

-7.8% to £49.7 million

(2018: £53.9 million)

Adjusted profit before tax[2]

+4.5% to £52.3 million

(2018: £50.1 million)

Profit before tax[1]

-8.5% to £49.7 million

(2018: £54.3 million)

Adjusted EBITDA[3]

+3.6% to £53.9 million

(2018: £52.0 million)

EBITDA[3]

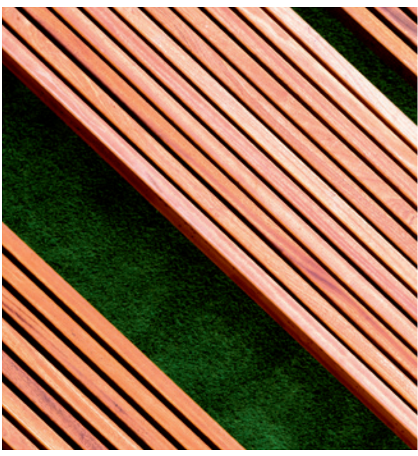
-8.8% to £51.4 million

(2018: £56.3 million)

FINANCIAL HIGHLIGHTS

- Revenue up by 3.2% to £374.8 million (FY18: £363.1 million), underpinned by student accommodation development and benefiting from strong growth in build to rent ("BtR") revenues.
- Gross profit of £76.8 million, up 6.0% from £72.4 million in FY18 and reflecting a robust gross margin of 20.5% (FY18: 20.0%).
- Adjusted profit before tax increased by 4.5% to £52.3 million (FY18: £50.1 million).
- Final dividend of 5.6 pence per share, giving a total dividend of 8.35 pence per share, up 9.9% and fulfilling our previously stated policy of moving to a dividend twice covered by adjusted earnings.
- Net cash inflow from operating activities of £17.6 million (FY18: £54.4 million).
- Gross cash at the year end of £115.6 million (30 September 2018: £106.6 million) and net cash at the year end of £76.8 million (30 September 2018: £80.2 million), after accounting for £14.8 million cash cost of acquiring BtR site in Brighton & Hove.
- Adjusted return on equity[4] of 29.9% for the year (FY18: 33.2%), reflecting the Group's capital-light business model.

1. FY19 is the first year that the Group has adopted IFRS 15 'Revenue from Contracts with Customers'. This requires us to account separately for the land sale and development agreement elements of forward-sold contracts, rather than treating them as a combined agreement. The effect on the Group's results has been to reduce FY19 revenue and profit before tax by £0.6 million. The prior period comparatives have not been restated.
2. For FY19, adjusted operating profit, adjusted profit before tax and adjusted basic earnings per share are calculated before the impact of an exceptional charge of £2.6 million. This charge relates to the commitment to compensate the Group's new CEO, Richard Simpson, for forfeiting outstanding incentives held in respect of his former employer, of which £2.2 million is a non-cash charge. 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 related 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.
3. EBITDA comprises operating profit from continuing operations plus the Group's profit from joint ventures, adding back charges for depreciation and amortisation. For both FY19 and FY18, adjusted EBITDA is stated before the respective exceptional items set out in note 2 above.
4. Adjusted return on equity is calculated as profit before interest and tax, excluding exceptional items, as a percentage of total equity.



BUSINESS HIGHLIGHTS

Student accommodation development

- Six developments (2,723 beds) completed on time ahead of the 2019/20 academic year (FY18: ten developments, 3,415 beds).
- All seven developments (2,609 beds) for delivery in FY20 forward sold, with a further four developments (1,928 beds) forward sold for FY21 delivery and 448 beds in legals for sale.
- Added prime sites to the future pipeline in Birmingham, Exeter, Edinburgh and Bath.
- Total forward sold and secured development pipeline of 6,670 student beds across 17 sites, for delivery between FY20 and FY24.

Build to rent development

- Continued to make good progress with the 315-apartment scheme at Reading and the 301-apartment scheme in Wembley, with both on schedule for delivery in FY21.
- Three further schemes forward sold (396 apartments) for delivery between FY20 and FY22.
- Secured prime development sites in Brighton & Hove (for delivery in FY22) and Woking (for delivery in FY23) and, subsequent to the financial year end, in Birmingham (for delivery in FY23).
- Obtained planning consent for sites in Sutton (forward sold) and Leicester.
- Total forward sold and secured development pipeline, including Reading and Wembley, of nine sites (approximately 2,300 apartments) for delivery between FY20 and FY23.

Accommodation management

- At 30 September 2019, FPG managed 17,721 student beds and BtR apartments across 64 schemes (30 September 2018: 15,421 beds and apartments, across 56 schemes).
- Continued success in winning management contracts for new and existing schemes. In total, FPG is currently contracted to manage 20,448 student beds and BtR apartments, across 66 schemes, by FY22.

Residential

- Continued robust performance, with 150 homes and apartments sold (FY18: 175 sales), including 42 apartments at developments in Stratford and Bath.
- Forward sold a 35-apartment development in Chester, for delivery in FY20.
- Commenced works under a development agreement for 75 apartments at Marshgate, Stratford for delivery in FY21.

Net cash

-4.1% to £76.8 million

(2018: £80.2 million)

Adjusted basic earnings per share[2]

+4.6% to 16.7 pence

(2018: 16.0 pence)

Basic earnings per share

-8.9% to 15.8 pence

(2018: 17.3 pence)

Dividend per share

+9.9% to 8.35 pence

(2018: 7.6 pence)

PROGRESSING OUR DEVELOPMENT PIPELINE

We continued to benefit from our low-risk, capital-light business model during the year, completing a number of forward sales and adding prime development sites for PBSA and BtR to the pipeline.

A year of continued progress

December 2018
- Secured a development agreement for a residential apartment scheme in Marshgate, Stratford.

March 2019
- Acquired a BtR site in Woking.
- Completed the forward sale of a PBSA development and an adjacent BtR development to two separate clients on a site in Wembley.

July 2019

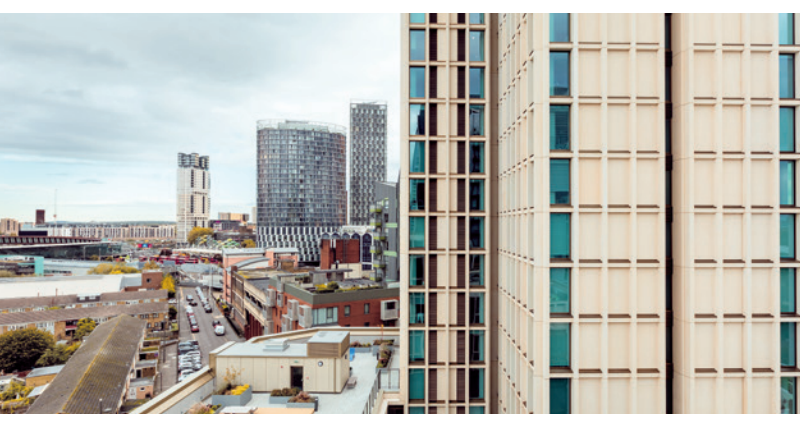
- Completed the forward sale of a PBSA development in Canterbury.
- Completed a development agreement for a PBSA development in Swansea.
- Secured planning permission for a PBSA development and an adjacent BtR development on a site in Leicester.
- Acquired a PBSA development site in Exeter.
- Secured a BtR site in Brighton & Hove.

August 2019

- Completed a development agreement for a PBSA development in Glasgow.

September 2019

- Completed the forward sale of a mixed PBSA and BtR development in Sheffield.
- Forward sold BtR developments in Sutton and Bournemouth.
- Sold two PBSA developments in Chester.
- Secured a development agreement for a PBSA development in Edinburgh.
- Obtained planning consent for a PBSA development in Bristol.
- Secured a mixed PBSA and BtR development site in Edinburgh and a PBSA site in Bath.
- Forward sold a residential apartment development in Chester.



AT A GLANCE

The Group has four complementary businesses, which together position us to create the future of living.

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 currently the main contributor to the Group's revenue and profits.

> Find out more on page 22

BUILD TO RENT

We have growing momentum in this market, drawing on our expertise in PBSA to deliver purpose designed BtR properties for institutional investors. BtR is set to make a comparable contribution to the Group's revenues as PBSA in the medium term.

> Find out more on page 26

ACCOMMODATION MANAGEMENT

Fresh Property Group is a leading independent manager of PBSA and BtR assets. It presents our institutional clients with a unified accommodation management offering.

> Find out more on page 30

RESIDENTIAL

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

> Find out more on page 34

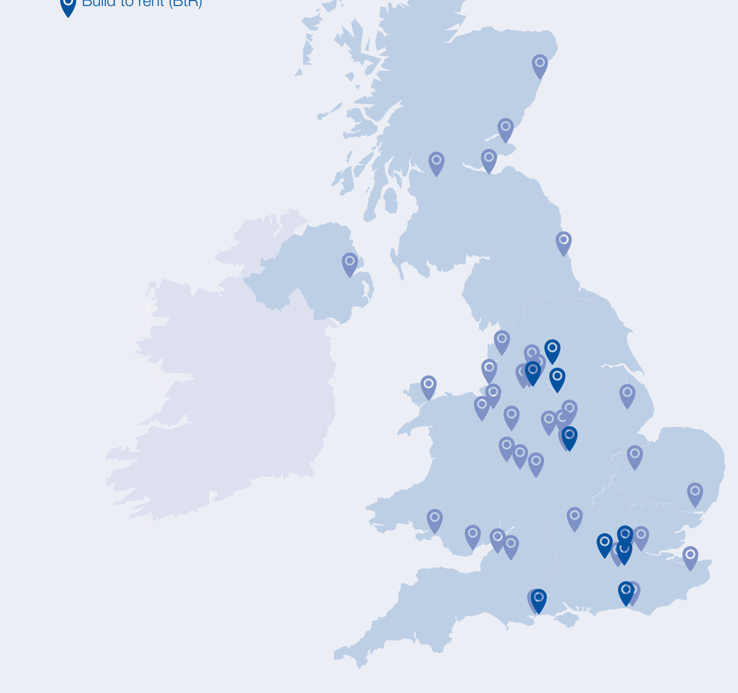
Revenue

Student accommodation
£246.1 million
(2018: £312.7 million)

Build to rent
£73.6 million
(2018: £3.8 million)

Accommodation management
£7.5 million
(2018: £7.3 million)

Residential
£38.1 million
(2018: £30.0 million)



Our student accommodation schemes

Between	we completed	in	delivering
1999 – 2019	**123** schemes	**37** towns and cities	**41,000** student beds

INVESTMENT CASE

Watkin Jones has a strong position in growing markets, positioning us for further success.

Strong track record based on consistent delivery

Watkin Jones is a specialist in residential for rent. We have a 20-year track record of assured delivery, combined with consumer insights that position us to be at the forefront of product development.

Attractive markets

The residential for rent market has attractive characteristics, in both PBSA and BtR, offering the potential for us to grow for the long term.

Complete solution for investors

Increasing consumer demand for residential for rent accommodation makes the sector appealing for institutional investors, who are looking to acquire suitable assets and employ specialist operators to run them. We have excellent institutional relationships and can offer them a complete solution for their needs.

Low-risk, capital-light business model

This strong investor demand for new, high-quality products in turn drives demand for client-funded forward sales transactions, allowing us to de-risk our development activity and generate strong cash flows and high returns from our capital-light business.

Resilient business with excellent visibility of earnings and cash flows

Our development pipeline gives us excellent visibility of our revenues, earnings and cash flows. Combined with our strong balance sheet and robust supply chain relationships, this makes us a resilient business.

Attractive competitive environment

Our markets have high barriers to entry, ranging from institutions' desire to work with experienced developers and managers of residential for rent properties, such as Watkin Jones, to the need for land sourcing, planning and transaction expertise. These barriers mean we operate in an attractive competitive environment.

CHAIRMAN'S STATEMENT

This was another good year for Watkin Jones, which again demonstrated the robustness of our business model.

Grenville Turner
Non-Executive Chairman

This year has shown the success of our move into build to rent development, which was a material contributor to our financial performance for the first time.

This was another good year for Watkin Jones, which again demonstrated the robustness of our business model. The Group delivered further profitable growth in line with expectations, despite the difficult macro environment caused by Brexit-related uncertainty and near-recessionary economic conditions in the UK.

Performance

Student accommodation development remained our core revenue generator and we once again completed all our developments on time, ahead of the start of the academic year. This distinguishes us in a market where more than 20 competitor schemes were reportedly delivered late in 2019, meaning investors see us as a trusted delivery partner. We have the commitment and discipline to deliver and a good understanding of risk and how to mitigate it. We also benefit from our excellent subcontractor relationships, which we leverage to deliver on budget and to the right quality.

This year has also shown the success of our move into build to rent development. The strong demand for the two developments we forward sold at the end of the year provided further evidence of the depth of institutional interest in this sector.

These sales, coupled with the continued good progress of our on-site developments at Reading and Wembley, meant that for the first time BtR development was a material contributor to our financial performance in FY19.

The accommodation management and residential businesses also had a good year.

The performances achieved across the Group mean that our people continue to work for a successful business, which values their contribution and aims to help them achieve their potential. As part of this, we need to make sure safety and compliance remain at the top of our agenda. The Group safety team presented to the Board during the year about their experiences on our sites and how they go about their work, and the Board has made clear that we will always prioritise safety.

Dividends

We have continued to implement a progressive dividend policy, and in line with our previous guidance, we will pay a dividend for this year that is twice covered by adjusted earnings. The Board is therefore recommending a final dividend of 5.6 pence per share. Combined with the interim dividend of 2.75 pence per share, this gives a total dividend for the year of 8.35 pence, up 9.9% on the 7.6 pence paid in respect of FY18.

Board in focus 2019

Capital Markets Day, November 2019.

The final dividend will be paid on 28 February 2020 to shareholders on the register at the close of business on 24 January 2020.

The ability to pay attractive dividends to shareholders reflects the Group's profitability and the benefits of our capital-light business model. This limits our risk and generates good levels of cash, which we can reinvest to grow the business and use to reward our shareholders.

Board, management and people

Richard Simpson was appointed to succeed Mark Watkin Jones as CEO. He commenced his role in January 2019 and has made a successful transition into the business. Richard is already making a significant contribution, in terms of developing our strategy, decision-making processes and structures.

More generally, strengthening the senior team and refining their responsibilities has been an important focus area for us over recent years. It has been pleasing to see them really gel as a leadership group, which is critical both for the robustness of our business and for succession planning.

The Board is keenly aware of the importance of culture to sustainable business success. Under Richard's leadership we are doing even more work in this area, to ensure our culture is both demanding and supportive. We are increasing engagement with our people and have hired the Group's first Human Resources Director, Jackie Kelly, with culture being high on her agenda.

We also extended the Board in January 2019, with Liz Reilly joining us as a Non-Executive Director. Liz has been a great addition and her appointment has enhanced the quality of our discussions and debate, as well as increasing diversity on the Board.

Governance

The Board spent considerable time during the year supporting and challenging the development of the Group's strategy, which is set out on page 18. We took a granular approach, which included receiving expert presentations on our markets and their attractiveness, a review of our own business and its performance, and an analysis of our competitors and how we will continue to differentiate ourselves, so we can effectively deploy capital and build on our current success. We also focused on risk management and in particular the Group's preparations for Brexit, which have been carried out in detail and to a high standard, as described on page 14.

This year, we had our first externally facilitated review of the Board's performance. The feedback from the review was predominantly positive, in particular noting the cohesive team and the Board's strong culture, as well as identifying areas we will address. More information can be found on page 62.

Looking forward

While we need to keep a close eye on the macro environment, which can change rapidly, our business model is proving robust through different cycles. The extension into the BtR market offers significant growth potential, while our core student accommodation business continues to perform very well and underpins our growth ambitions. I therefore believe the Group has a bright future and I look forward to reporting on further progress in the coming year.

Grenville Turner
Non-Executive Chairman

13 January 2020

Q&A: RICHARD SIMPSON

New Chief Executive Officer Richard Simpson discusses the future for the business and the growth opportunities he sees ahead of us.

From our position of strength, and given the structural opportunity within both PBSA and BtR, now is the right time to be more ambitious about increasing our market share.

Q:
What are the growth opportunities in your sectors?

A:
There are two significant factors driving PBSA development: the growth in student numbers and the obsolescence of existing stock. From 2021, we're going to see the number of 18 year olds start to increase again and that will continue for at least a decade. If current participation rates are maintained, that will lead to an extra 100,000 students. In addition, the Government's white paper set out its aim to increase the number of international students by 30% by 2030. If delivered, that would mean a further 130,000 students. So together, these factors would increase student numbers by 15%.

On the supply side, there are currently around 627,000 PBSA beds in the UK, just over half of which are owned by universities. Much of that university owned stock is at least 20 years old and has not kept pace with students' needs. So there is significant potential for redevelopment of this stock.

For BtR, we're seeing a major increase in the number of households choosing to rent. A large amount of private rented sector housing is of low quality and BtR offers a much better living experience. That's driving big demand for BtR homes. However, there are currently only 143,000 BtR units in total, including those under development. Savills estimate a mature market could reach 1.7 million units, which would require decades of new developments to achieve.

Q:
You are putting more emphasis on understanding the needs of your customers. Why is that so important?

A:
We're thinking about the business in a different way. It's less about being "business to business" and more about being "business to customer". That means we need a real understanding of the people who live in our developments and what they want, both now and in the future. FPG is a major advantage for us here, as it gives us constant feedback from nearly 18,000 student and BtR customers.

The logic is that if we're satisfying their demands through exemplary buildings, those buildings will be full of happy customers, which will benefit the rental performance. That makes our developments more attractive to institutional customers. At the same time, we use our strong relationships with the institutions to understand their appetite for investing in specific types of property in specific locations. All of this feeds into our development plans, so we can deliver buildings that meet customer needs and that institutions want to own.

Q:
Why is now the right time to launch a new strategy?

A:
We're now more than three years post-IPO and, in that time, Watkin Jones has established a good track record as a public company. We've shown our shareholders that we have the capability to deliver consistently. From that position of strength, and given the structural opportunity within both the PBSA and BtR sectors, I feel that now is the right time to be more ambitious about increasing our market share.

Q:
What is the future for the residential business?

A:
The residential build to sell business remains an important part of what we do. We see signs of increasing institutional interest in acquiring houses, as part of a broader build to rent offer. One part of the solution to the UK housing crisis may be to get institutional capital to come into the UK housing market at scale, with management provided by professional landlords to give tenants a fantastic living experience. It could be an interesting strategic option to tie build to sell into our BtR business in the medium term, so we can develop houses for institutions to own.

In the near term, we can build houses nationally but we have a particular focus on the North West, where affordability is among the strongest in the country. I also like the expertise it gives us, in terms of understanding residential construction through the lens of building houses rather than city centre blocks.

Q:
What are conditions like in the supply chain?

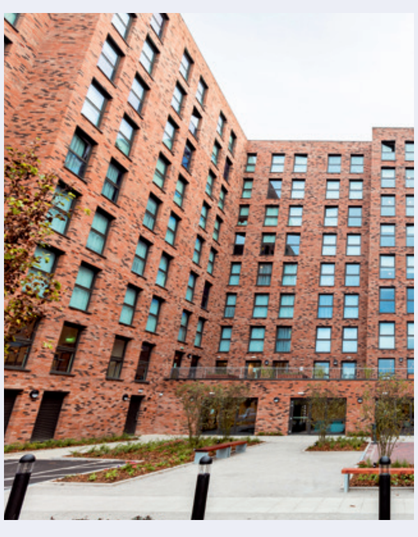
A:
Our supply chain partners are crucial for our ability to deliver on time and to the right quality. Many parts of the construction sector are under pressure at the moment, with some major contractors having gone into administration. That makes us an even more attractive partner for our supply chain. We're financially strong, we're stable and we have a defined pipeline of work in both PBSA and BtR. That means our supply chain really sees the benefits of working with us.

Q:
What are the biggest challenges facing the Group?

A:
First, ensuring we're building the right product in the right sector. That comes back to our customer insight and understanding what they want. We're close to our institutional investors and through FPG means we're also close to the customers who live in the developments we manage.

Then we need to buy the right land. We have an outstanding record over many years of buying attractive land all over the UK. Our track record of then obtaining planning is excellent. Planning is core to our value chain and we resource it and prioritise it appropriately. Then we need to manage construction effectively, while making sure we have done what we can to mitigate any potential impact of Brexit.

Underlying all of this, our people need to be energised by our strategy and our ambition for the business. The strategy was born from engagement and discussion with the whole business, so our people support it and really want to be part of that journey.



CHIEF EXECUTIVE OFFICER'S REVIEW

> This was another successful year for Watkin Jones. Our performance demonstrates the quality of the business and shows we are in the right sectors.

Richard Simpson
Chief Executive Officer

> Our ambition is to be the leader for developing and managing residential for rent schemes in the UK.

This was another successful year for Watkin Jones. Our performance demonstrates the quality of the business and shows we are in the right sectors. Demand across our operations remains resilient, in contrast with the broader uncertainty seen in many sectors in the UK.

Performance

Revenue from continuing operations was £374.8 million (FY18: £363.1 million), an increase of 3.2%. Gross profit rose by 6.0%, from £72.4 million in FY18 to £76.8 million in FY19, as we achieved our margin targets across the Group. Operating profit was 5.4% up at £52.3 million (FY18: £49.6 million) before an exceptional charge of £2.6 million (FY18: exceptional gain of £4.3 million). The pre-exceptional operating margin was at 14.0% (FY18: 13.7%). This report uses adjusted performance measures where necessary in order to give a clearer understanding of our underlying performance. Adjusted measures exclude exceptional gains last year and the one-off cost of my recruitment this year.

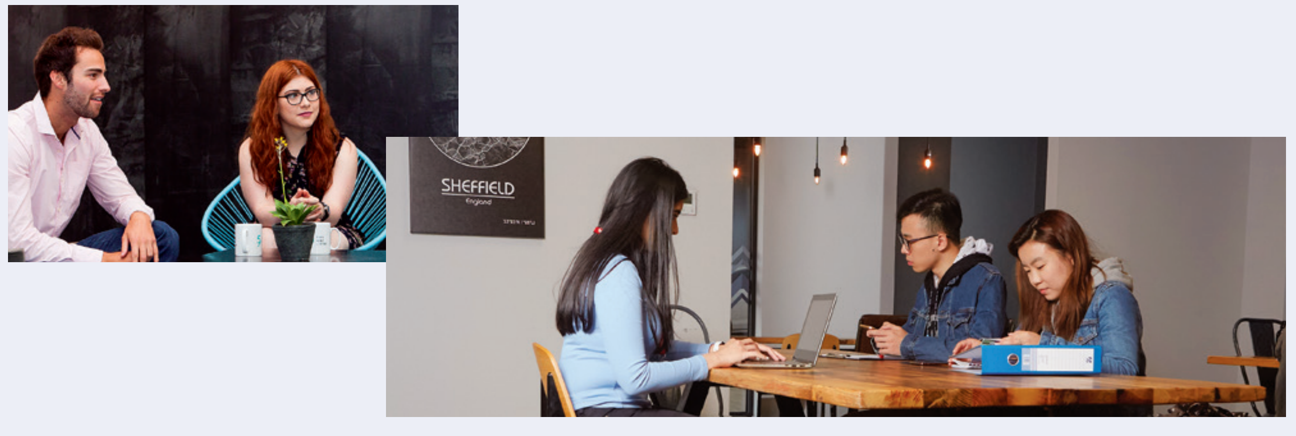
Our forward sale model continues to benefit both our cash generation and our returns. The operating cash inflow for the year was £17.6 million (FY18: £54.4 million), while our return on equity was 29.9% (FY18: 33.2%).

Student accommodation development remains the largest revenue generator in the Group. Revenues were in line with expectations at £246.1 million (FY18: £312.7 million), with the lower level of revenues reflecting a reduction in the number of student beds delivered as we focused on selecting development sites on which we could achieve strong margins. In total, we delivered six student schemes with 2,723 beds in FY19 (FY18: ten schemes with 3,415 beds). We once again completed all our developments on time, ahead of the start of the academic year. The business has a high-quality pipeline of development sites coming through.

For the first time, build to rent development made a significant contribution to our performance, with revenue of £73.6 million (FY18: £3.8 million). This business will be an increasingly important growth driver for us in the coming years and we continue to prove the success of our low-risk forward sale model, having progressed our existing developments, completed a number of forward sales, added new sites to the pipeline and obtained several new planning consents.

Business highlights

- Revenue from continuing operations rose to £374.8 million in FY19 (FY18: £363.1 million).
- Operating profit achieved in FY19, before an exceptional charge of £2.6 million, was 5.4% higher at £52.3 million (FY18: £49.6 million).
- Secured student accommodation development pipeline of 6,670 beds across 17 sites, with eleven forward sold (4,537 beds).
- Secured BtR development pipeline of approximately 2,300 apartments across nine sites, with five forward sold (1,012 apartments).
- Fresh Property Group contracted to manage 17,721 PBSA beds and BtR apartments for FY20 (64 schemes), compared to 15,421 beds and apartments across 56 schemes for FY19. Continued success in winning new contracts means FPG is currently contracted to manage 20,448 PBSA beds and BtR apartments by FY22.



FPG had a solid year, as new business wins more than offset last year's reduction in beds following a client's sale of its student property portfolio. The business earns a highly attractive margin and has excellent prospects, with contracts in place to manage a further 2,727 PBSA beds and BtR apartments by FY22, and a pipeline of opportunities offering the potential for growth over and above this.

The residential business also had a good year in FY19. It completed 150 sales (FY18: 175 sales), including 108 sales in its North West heartland, and benefited from sales of apartments in Stratford and Bath.

Strategy

During the year, we reviewed and refreshed the Group's strategy. The starting point for our review was to confirm which markets we wanted to be in.

The overall sector we operate in is residential for rent and, within that, our chosen markets remain PBSA and BtR.

Our ambition is to be the leader for developing and managing residential for rent schemes in the UK, by increasing our market share in both PBSA and BtR. We see the opportunity for growth over the next five years as described on page 18. To realise this opportunity, we will leverage our existing capabilities and maintain the same business model as today, which is capital light and based on forward sales, minimising risk and not relying on debt finance.

Underpinning our ability to grow is our understanding of our customers. FPG shines a light on consumers for us, so we know what students and BtR tenants want from their homes. The business looks after nearly 18,000 customers, giving us an enormous amount of feedback. This helps us to refine how we configure, build and operate our buildings. We also need to understand institutional investors' appetite for different types of product and locations. This determines where we buy sites and what type of building would suit them.

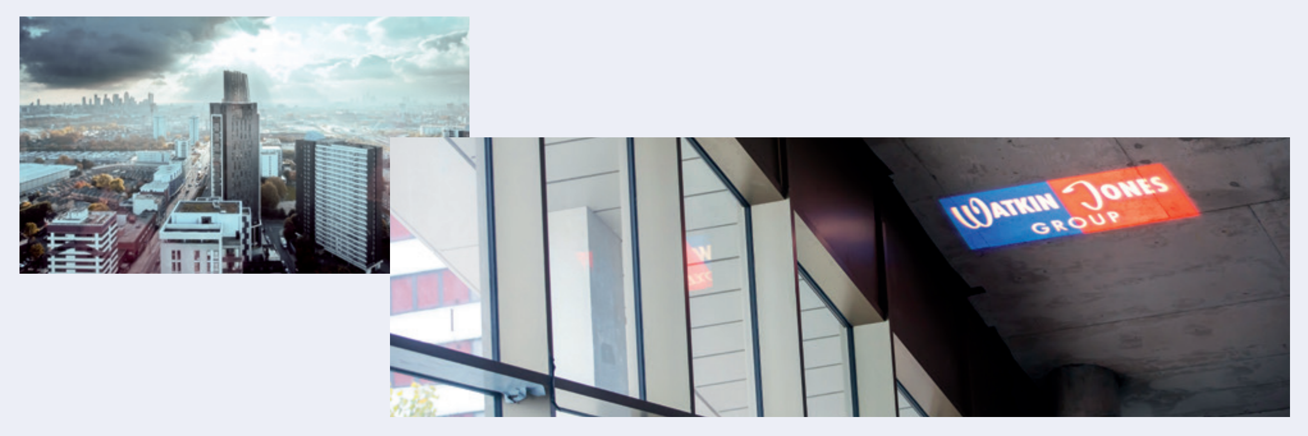
We have previously referenced the possibility of creating a separate BtR investment vehicle. The forward sales of BtR developments we completed towards the end of the financial year showed us there is strong liquidity in the sector. This means that while a dedicated vehicle with a suitable partner might be appropriate for us in the future, we do not currently require one to succeed in the BtR market.

People and culture

To support our growth plans, we need to ensure our organisation is fit for the future, with the right culture and level of resource. We have done a lot of the groundwork this year, including recruiting more people who are expert in delivering buildings through the development lifecycle.

Property development is a multi-disciplinary process, requiring a range of skills from understanding customers to planning, acquiring sites, procuring subcontracts and managing construction. This requires strong internal collaboration, transparency and knowledge management. We therefore need a culture which reflects this, where our people work in cross-functional project teams and can be more mobile, flexible and comfortable with change. Being joined up will help us to spot market changes and adapt accordingly, resulting in better products.

CHIEF EXECUTIVE OFFICER'S REVIEW continued



People and culture continued

We have made good progress with how the business works together, focusing on engagement and building teams. This involves adjusting our internal structures. We operated with three delivery divisions for PBSA and separated the development lifecycle in two: land sourcing, planning and design; and then the delivery of the building.

We have now created single, larger delivery units for both student and BtR development, as well as development hub structures, which will lead to better integration across the full development lifecycle. This will enable better decision making and deliver superior outcomes. It will also make it easier to define career paths for our people, so they can progress within the business. We are therefore investing in learning and development, to help prepare people for the next step.

Sustainability

Our purpose – creating the future of living – means we look to provide sustainable solutions through the assets we develop and manage. We need to create places that will be attractive to live in for years to come, which help their residents succeed in life through the quality of their homes and the customer service they receive, and which play a part in fixing the UK's housing shortage. This in turn will create attractive, long-term returns for our institutional partners, encouraging them to invest more in the residential to rent sector.

As a responsible business, we also have to operate in a sustainable way. That means minimising our environmental impact, protecting the health and safety of everyone on our sites, ensuring we have a properly diverse and inclusive workforce, engaging effectively with our supply chains and benefiting the community.

The fire safety of the buildings we develop is of paramount importance to us and we construct our developments to high fire management specifications. However, the integrity of cladding systems and fire protection measures used on high-rise buildings is a matter of ongoing review and is likely to be the subject of further direction or new legislation in due course. In the meantime, we will continue to work with the owners of the properties we have developed, as appropriate, to ensure the continued safety of tenants.

More information on our approach to sustainability can be found on pages 38 to 43.

Brexit

An important workstream during the year was ensuring we are prepared for any Brexit outcome. Our work has included a wide range of scenario planning, including identifying alternative sources of supply for key materials sourced from the EU, requesting our supply chain to forward buy where necessary so we can ensure continued progress with our current schemes, understanding the impact of tariffs and exchange rate movements on our costs, ensuring we have sufficient labour on site and reviewing our counterparty risks.

As a business that primarily forward sells its developments, acquires land on a subject-to-planning basis, is net cash positive and does not hold significant property assets, we feel that our exposure to even the hardest forms of Brexit is relatively limited. Brexit may also create land-buying opportunities for us, if it has an impact on the wider economy. EU students make up only around 7% of the total UK student population, so Brexit should not have a material impact on demand for total PBSA beds.

Outlook

We are positive about the outlook for both the student accommodation and BtR sectors. There is continued investor appetite in those markets and we are confident in our ability to expand our position as market leader. We therefore expect to grow the business over the next five years, in line with our strategy. While Watkin Jones is not immune from any potential impact of Brexit, we believe our business model puts us in a strong position to continue to grow.

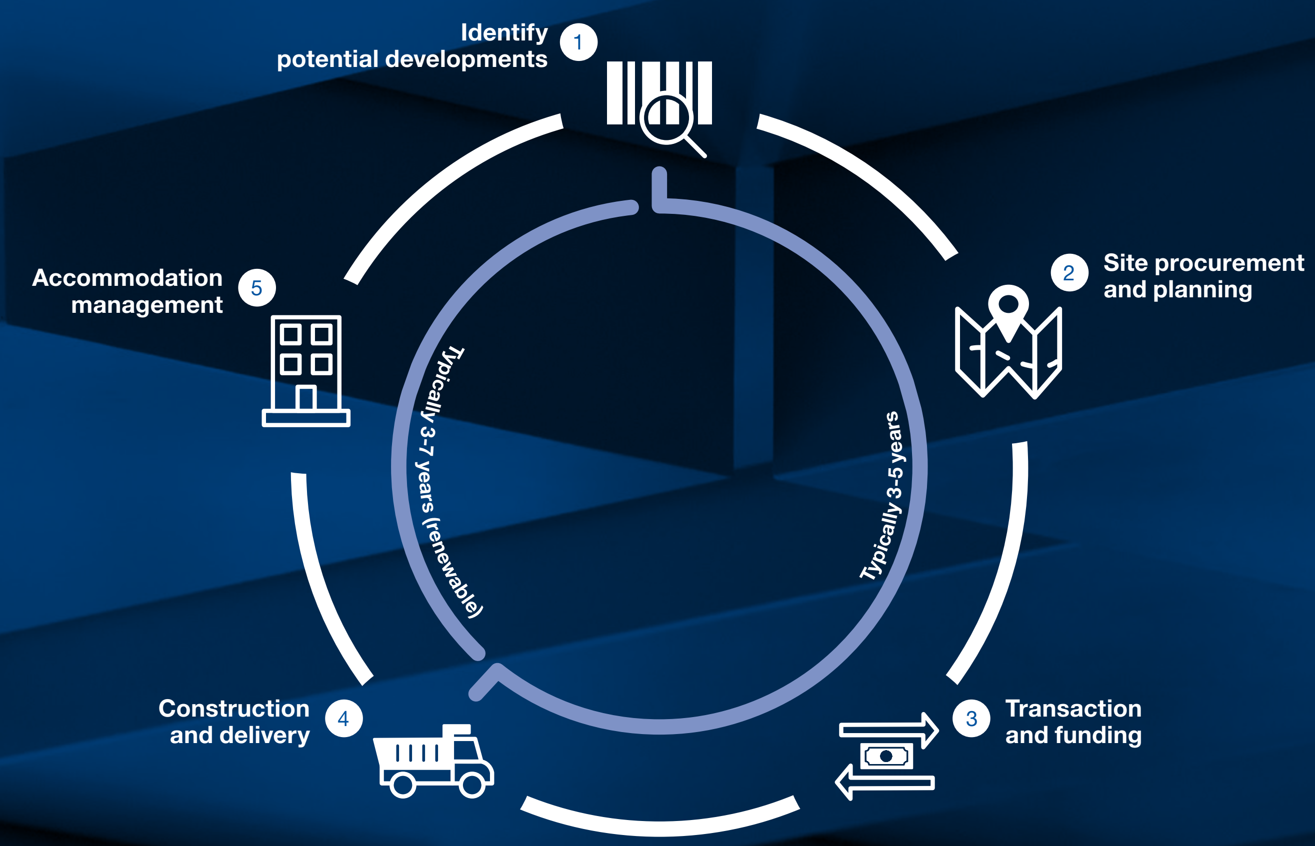
Richard Simpson
Chief Executive Officer

13 January 2020

BUSINESS MODEL

By understanding consumer demand, investor demand and delivering through development expertise, Watkin Jones can create the future of living.

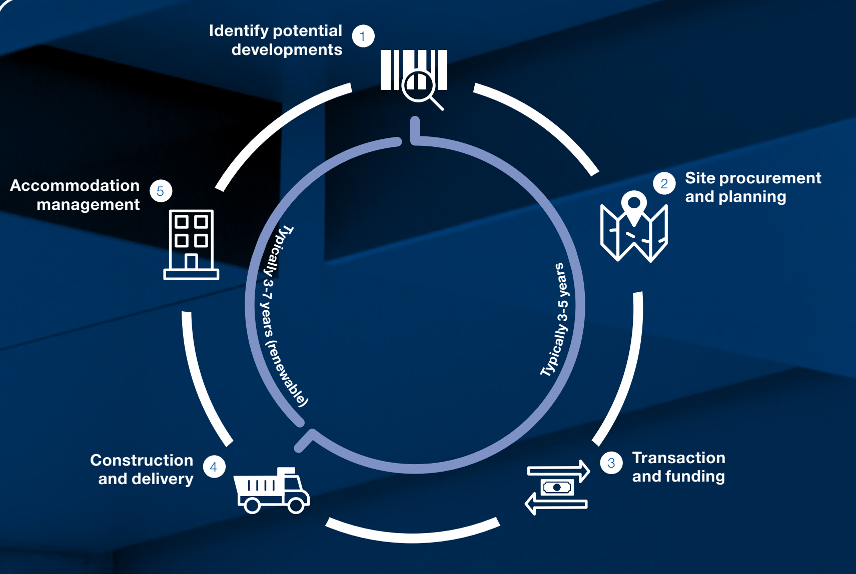
OUR DEVELOPMENT MODEL:



BUSINESS MODEL continued

Our business model is designed to support our purpose – to create the future of living. We do this through a five-part development model, which helps us to remain a leader in our markets.

OUR DEVELOPMENT MODEL



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 customers, 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.

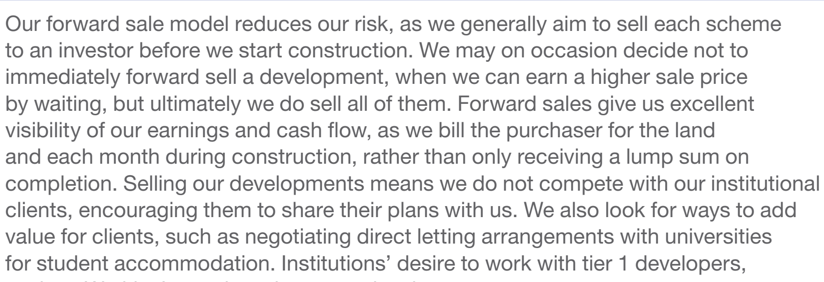
Identify potential developments

The starting point for each development is our insight into what customers want. FPG continuously engages with students and tenants, keeping us up to date with the latest trends, so we can design our developments accordingly. We use our market knowledge and understanding of investor demand to screen different regions, cities and towns across the UK, to decide which locations will most successfully meet the needs of both tenants and our institutional clients. We then identify sites through our own staff, our network of agents and other consultants. This process may also identify smaller sites for us, which are suitable for private residential apartments. Having identified a site, we then work up a detailed proposal for the development, which must be approved by our Investment Committee before it can proceed.

Site procurement and planning

Our network of contacts enables us to buy many of our sites off market. Our track record and reputation help 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 receipt of satisfactory planning. Our expert teams then liaise with the planning authority. Our in-house planning 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.

OUTPUTS



3 Transaction and funding

Our forward sale model reduces our risk, as we generally aim to sell each scheme to an investor before we start construction. We may on occasion decide not to immediately forward sell a development, when we can earn a higher sale price by waiting, but ultimately we do sell all of them. 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 letting arrangements with universities for student accommodation. Institutions' desire to work with tier 1 developers, such as Watkin Jones, is an important barrier to entry.

4 Construction and delivery

Unlike many developers, we are experienced constructors, employing expert construction directors and project managers to deliver the majority of our schemes. We will 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 BtR developments, we can use the same supply chain for both.

5 Accommodation management

FPG gives us an end-to-end solution for investors and generates an income stream beyond completion. It combines national scale with local knowledge, differentiating it from its largely regional competitors. It can manage both PBSA and BtR schemes for the same investor and focuses on repeat business with institutions, so it can manage portfolios of assets for them.

FPG 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.

The value we create
Our business creates value for a wide range of stakeholders.

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

> Find out more on page 36

For customers
Student and BtR tenants and occupiers of our homes gain from high-specification homes and excellent service.

> Find out more on page 36

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

> Find out more on pages 36 and 38

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

> Find out more on pages 36 and 41

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

> Find out more on pages 37 and 42

For government
We contribute to both communities and national services through a variety of taxes.

> Find out more on page 46

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

> Find out more on page 37

OUR STRATEGY

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

Defining our strategic ambitions

As discussed in the Chief Executive Officer's review on page 13, during the year we undertook a detailed review of our strategic priorities and options.

This included in-depth analysis of:

- our markets and their growth potential;
- our positions in those markets;
- the growth in output we could deliver over the coming years; and
- the internal resources, structure and supply chain we would require to deliver that growth.

The review confirmed that:

- in the residential for rent sector we have two core markets – student accommodation and build to rent;
- our operational capabilities position us for strong growth in those markets;
- we are already the leading developer in PBSA, giving us the platform we need to step up delivery;
- BtR development is an evolving but clearly established sector with growing institutional demand, giving us the opportunity to establish Watkin Jones as the leading BtR developer; and
- our residential business forms an important part of the Group's ambition to create the future of living, enhancing our residential living knowledge and expertise.

STUDENT ACCOMMODATION DEVELOPMENT

Our strategy in PBSA is to continue to leverage our leadership position in student accommodation development, by:

- targeting the best locations;
- developing buildings that meet the current and future needs of our customers, based on our customer insight;
- using our forward sale model to minimise risk; and
- building on our institutional relationships, to increase repeat business.

Growth opportunity:

3,500 PBSA beds per annum

for delivery by FY23/24

BUILD TO RENT DEVELOPMENT

We aim to grow in the BtR market while de-risking our expansion, by leveraging:

- our PBSA design, planning and delivery expertise and our supply chain, to capitalise on the strong similarities to build to rent;
- our consumer and institutional knowledge, to create leading-edge products; and
- our institutional relationships, to develop schemes on their behalf using our low-risk forward sale model.

Growth opportunity:

1,000 BtR units per annum

for delivery by FY23/24

ACCOMMODATION MANAGEMENT

We will continue to grow Fresh Property Group by:

- offering institutional-grade letting and management services, so institutions engage us to manage PBSA and BtR assets developed by both Watkin Jones and third parties; and
- delivering an exceptional customer experience, which supports high occupancy, rental growth and low tenant churn, which generates high-quality returns for our institutional asset owners.

RESIDENTIAL

In residential, our strategy is to:

- maintain our current delivery rate of c.150 homes a year, focusing on our core North West market, whilst maintaining a land bank of c.450 units;
- focus on mid-market units as our core product;
- look for opportunities to develop smaller assets for sale into the BtR market; and
- use our residential expertise to deliver residential units in mixed-use schemes.

OUR STRATEGY IN ACTION

PBSA and BtR case study
Kelaty House, London

The scheme
- 599 PBSA beds, 301 BtR apartments
- Practical completion Q3 2021

Acquisition
- Off-market acquisition – agent & vendor confidence Watkin Jones would deliver

Structuring – transactional & technical
- Development expertise unlocked complex mixed-use scheme
- Comprehensive redesign

Planning
- In-house planning unlocks +100 beds

Insight
- Wembley regeneration area
- Transport links & amenities

Institutional grade
- Forward fund to DWS (PBSA) and Singaporean institutional investors (BtR)
- DWS' first entry into the UK PBSA market

Capital-light structure
- DWS forward fund land purchase & PBSA development
- Lum Chang forward fund BtR development

BtR case study
Holdenhurst Rd, Bournemouth

The scheme
- 159 BtR apartments and 37,000 sqft commercial office space
- Practical completion Q1 2020

Acquisition
- Off market
- Mixed-use multi-phased development

Planning
- Change of use
- Office to BtR led scheme

Development expertise master planning
- Part of a master planning consent for 940 PBSA beds, 129 hotel beds, 159 BtR apartments and 125,000 sqft commercial office space across three sites

Insight
- Strong demographic and economic analysis
- Micro location
- Identified BtR market opportunity

Institutional grade
- Competitive market bidding
- Forward fund to M&G Real Estate

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. Adjusted measures exclude the impact of exceptional items, to better reflect our underlying performance.

Gross margin (%)

20.5%

Year	Gross margin
FY19	20.5%
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
We achieved a gross margin of 20.5% in FY19, reflecting the focus on high-quality developments in student accommodation and the change in business mix, with a larger contribution from BtR development which has slightly lower margins.

EBITDA (adjusted) (£m)

£53.9m

Year	EBITDA (adjusted)
FY19	£53.9m
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
Adjusted EBITDA increased by 3.6%, reflecting the growth in revenues and the business mix effect noted under gross margin.

Basic EPS (adjusted) (pence)

16.7p

Year	Basic EPS (adjusted)
FY19	16.7p
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 were 4.6% higher in FY19, reflecting our profit growth during the year.

Cash inflow from operating activities (£m)

£17.6m

Year	Value
FY19	£17.6m
FY18	£54.4m
FY17	£19.2m
FY16	£15.1m

Purpose
Demonstrates that our working capital-light forward-sale model ensures we turn our high-quality profits into cash, which underpins our dividend payout.

Definition
Cash flow generated by our operating activities.

Performance
We delivered a cash inflow from operating activities of £17.6 million.

The reduction in the year was due to working capital movements and the deal structure for the sale of a PBSA development in Chester (see page 47).

Number of student beds delivered

2,723

Year	Value
FY19	2,723
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 we completed during the financial year.

Performance
We met our objective for the year of delivering 2,723 beds, across six developments.

The reduction in the number of student beds delivered was the result of our decision to focus on a smaller number of development sites on which we could achieve strong margins, in the light of Brexit uncertainty.

Number of student beds and BtR units under management

17,721

Year	Value
FY19	17,721
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 BtR units that Fresh Property Group is contracted to manage on behalf of our institutional clients.

Performance
The number of student beds and BtR units under management showed strong underlying growth in the year.

OPERATING REVIEW

STUDENT ACCOMMODATION

We completed **2,723** student beds at good margins in FY19 and added to our forward sold and secured delivery pipeline.

HIGHLIGHTS

Student accommodation development

- Six developments (2,723 beds) completed as scheduled in FY19.
- Eleven developments (4,537 beds) currently forward sold.

Total forward sold and secured development pipeline of 6,670 student beds across 17 sites:

- FY20 deliveries – seven student developments (2,609 beds) scheduled for delivery. All forward sold.
- FY22 deliveries – three sites secured (1,032 beds), with a number of additional sites in progress.
- FY21 deliveries – seven student developments (approximately 3,253 beds) scheduled for delivery, six of which (2,838 beds) have been secured. Four sites (1,928 beds) are forward sold and 448 beds are in legals for sale.
- FY23/24 deliveries – one site secured (191 beds), with a number of additional sites in progress.

Creating great places to live for the UK student population.

Performance

Revenues from student accommodation development were 21.3% lower at £246.1 million (FY18: £312.7 million), in line with our expectations and reflecting the lower number of student beds delivered in FY19 as a result of our decision to focus on a smaller number of development sites on which we could achieve strong margins, in the light of Brexit uncertainty. In FY19, we completed six schemes with 2,723 beds, compared with ten schemes with 3,415 beds in FY18. In doing so, we maintained our 100% record of completing developments before they were due to be let.

Our business model typically sees us forward sell our developments. However, we may begin developments and sell them later, where we believe this will create the most value for the Group. Towards the end of the year, we sold two developments on this basis in Chester. The first development, on Hunter Street, was completed for the start of the 2019/20 academic year. The second development, on Liverpool Road, was sold on a forward commitment basis, under which we received a deposit from the acquirer, with the balance payable on handover of the completed development during FY20. This reduced FY19 revenue by approximately £20.0 million, compared with the amount that would have been recognised in the year had we forward sold the scheme.

The gross margin for FY19 was 21.0%, against 19.4% in FY18. The robust margin this year reflected the mix profile of the schemes in development and our continuing success in sourcing and obtaining planning for high-quality sites, in locations with strong investor demand. The gross margin in FY18 was affected by the forward sales of a number of developments on 30 September 2018. These mainly constituted land sales and totalled £42.6 million, with a margin of 11.1% being recognised. Adjusting for the impact of these forward sales, the FY18 margin was 20.7%.

We have a strong pipeline of developments, for delivery over the next few years. For FY20, we are scheduled to deliver seven schemes with 2,609 beds. All of these schemes have been forward sold. For FY21, our pipeline comprises seven sites with 3,253 beds. At the year end, four of these schemes with 1,928 beds had been forward sold, with a further 448 beds in legals for sale. One site (462 beds) is secured and has planning and one site (415 beds) is in legals to secure. We are building our pipeline for delivery in FY22 and beyond, with four sites (1,223 beds) currently secured subject to planning.

The total forward sold and secured development pipeline at 30 September 2019 comprised 17 sites, representing 6,670 beds, and with an appraised development value to the Group of approximately £630 million.

We continued to make good progress with planning consents during the year, utilising our in-house expertise. In FY19, we obtained three consents for developments totalling 1,055 beds. A further six sites (2,187 beds) are progressing through the planning process.

OPERATING REVIEW continued

SA

STUDENT ACCOMMODATION CONTINUED

Around
425,000
students are from outside the UK

Representing
c.23%
of the student population

An increase of
54%
in international students 2006/7 to 2017/18

We see good opportunity for growth in the PBSA sector.

Alex Pease
Investment Director
at Watkin Jones Group

The market opportunity

Demand for university places continues to grow

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 continues to rise, with growth of around 50,000 students per year in recent years. In 2018/19, there were nearly 1.88 million full-time students in the UK.

Students from the UK totalled 1.42 million in 2017/18. This was an increase of 2% on the previous year and reflects increased participation rates more than offsetting the absolute decline in the number of 18 year olds. This decline is set to reverse, with increasing numbers of 18 year olds from 2021 and for the next 20 years, which will result in rising numbers of people of university age each year.

Analysis of ONS population projections, along with entry rates from UCAS, point to a 100,000 increase in full-time undergraduate numbers between now and 2030.

Trends in international students are also positive. The UK is the second most in-demand student market, after the US, and has 33 of the top 250 universities worldwide. There were around 125,000 EU students in the UK in 2017/18, up 4% on the previous year, while non-EU international students totalled around 297,000, up nearly 5%.

EU students made up 6.8% of the total UK student population in 2017/18, which means that any changes in EU student numbers post-Brexit should not have a material impact on demand for PBSA beds. The Government has published its immigration white paper, which should be positive for international student numbers in the UK, and targets a 30% growth in international students by 2030, equivalent to an increase in international student numbers of approximately 130,000. The Government is also proposing to increase the time international students can stay in the UK after graduating so they can look for work, which should make the UK a more attractive place to study.

Taking the effect of the increase in the number of 18 year olds, together with the targeted increase in international students, would lead to a total increase in full-time student numbers of 230,000 by 2030.

Even though the student population has grown, there is still significant unmet demand for university places. For the 2018/19 academic year, there were 695,650 applications to UK universities, of which 533,360 were accepted, resulting in demand outstripping supply by 30%.

Another notable trend in the higher education market is the "flight to quality". The introduction of tuition fees coincided with the removal of the cap on student places at each university. This has allowed better institutions to grow, with the result that lower-quality institutions are struggling to retain or grow their student numbers. Between 2012/13 and 2017/18, the number of full-time students at the bottom five institutions fell by 30%, while full-time numbers at the top five institutions grew by 46%. This has clear implications for the location of new PBSA developments.

There is considerable scope for growth in PBSA provision

Cushman & Wakefield reported in its UK Student Accommodation Report 2018/19 that 627,000 PBSA beds were available for the start of the 2018/19 academic year. Of this, universities provided 53% and the private sector provided 47%. This is a notable change from just a few years ago, with universities providing two-thirds of all beds in 2014. With around 25,000 beds being added each year, the market could reach 910,000 beds by 2030.

Significant scope remains for increased penetration of private PBSA. Knight Frank estimates that the private sector will deliver 82% of the total beds set to be completed by 2021, with universities providing the remaining 18%.

Private PBSA developers need to be selective about the locations they choose. This is due to the flight to quality noted above and because the level of supply of PBSA beds in some towns and cities means that asset owners have seen higher vacancy rates and lower rental growth than expected. However, even in towns and cities with strong supply, being able to identify the right micro-locations can allow developers to build assets that will successfully fill at attractive rental levels. In addition, even towns and cities currently seen as oversupplied will become attractive for new development over time, as student numbers continue to rise and existing PBSA stock ages.

Indeed, it is estimated that 75% of university-operated accommodation was built pre-1999 and is no longer fit for purpose or meeting occupier expectations. We estimate that around 75,000 PBSA beds require redevelopment. This is contributing to 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 high-quality private PBSA to traditional houses of multiple occupation ("HMOs") run by private landlords.

This trend is being exacerbated by 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 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. New institutions from the UK, Europe and the Far East have therefore entered the market in recent years. According to Knight Frank, total investment in student accommodation is set to increase from £51 billion in 2019 to £65 billion by 2025.

There is growing demand from UK institutions, who are increasingly focused on operational real estate and who have become increasingly comfortable with the granular leasing profile offered by direct-let PBSA. There has been some weakening in the demand from European investors, driven by hedging costs and the prospects of a no-deal Brexit. Overall, however, international investors have not been deterred by Brexit, reflecting the long-term nature of their investment decisions, and the depreciation of sterling has increased the attractiveness of UK investments for overseas buyers.

There has been a notable increase in the demand for portfolios of assets, allowing institutions to deploy large amounts of capital and gain a sizeable operational platform for economies of scale.

As of Q2 2019, JLL estimated that £3.86 billion of transactions had completed or were under offer for 2019, ahead of the £3.2 billion recorded in 2018 as a whole and close to the £4.1 billion recorded in 2017. There has been sufficient institutional demand for yields to compress for prime assets, with yields shifting down by between 25 and 50 basis points over the twelve months to Q2 2019.

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 accommodation management services, and their scale and geographical focus vary considerably. 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 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.

Market conditions are having some effect on the level of competition. For example, lower yields in prime markets mean some investors who previously acquired operational stock or forward funded new developments are looking to acquire development sites, so they can generate sufficient returns. Some private residential developers are also diversifying into PBSA, due to the sector's strong fundamentals. However, these developers do not have the scale to be competitive and, having bought sites at a premium, often end up selling them. This is typically the result of build-cost inflation and institutions' desire to work with a tier one developer, making it hard for an inexperienced developer to obtain institutional funding.

OPERATING REVIEW continued

BUILD TO RENT

BtR development made its first material contribution to our revenues in FY19.

HIGHLIGHTS

Build to rent development

- Continued to make good progress with the 315-apartment scheme in Reading and 301-apartment scheme in Wembley, with both on schedule for delivery in FY21.
- Obtained planning consents for development sites in Sutton and Leicester.
- Three schemes (396 apartments) forward sold for delivery between FY20 and FY22.
- Secured prime development sites in Brighton & Hove (for delivery in FY22), Woking (for delivery in FY23) and, subsequent to the year end, in Birmingham (for delivery in FY23).
- Total forward sold and secured development pipeline, including Reading and Wembley, of approximately 2,300 apartments across nine sites, for delivery between FY20 and FY23.

Key statistics

Pipeline

2,300 apartments

9 schemes

Forward sold

1,012 apartments

5 schemes

We are replicating our low-risk forward sale model in BtR.

Performance

BtR development made its first material contribution to the Group's performance in FY19, with revenue of £73.6 million (FY18: £3.8 million). This reflected revenues from the 315-apartment scheme in Reading and the 301-apartment scheme in Wembley, both of which are progressing well, and the forward sale of two other developments. These were the schemes in:

- Bournemouth, comprising 159 apartments and 37,000 sqft of commercial office space, for delivery in FY20; and
- Sutton, London, comprising 166 apartments and scheduled for delivery in FY21.

We also forward sold a 71-apartment scheme for delivery in FY22, which forms part of a mixed-use PBSA and BtR scheme in Sheffield.

The gross profit for the year from BtR was £13.2 million (FY18: £1.0 million), at a gross margin of 18.0%. This reflects an encouraging start to our performance in this market, driven by the developments in build, and compares favourably with our medium-term expectation of a 15% average margin for BtR developments.

We secured planning consents during the year for the development site in Sutton and a 184-apartment development in Leicester, which is adjacent to our PBSA development site in the city. The Leicester development is scheduled for delivery in FY22.

We also continued to add to our development pipeline, securing during the year a prime site in Woking, for the development of 336 apartments (subject to planning) for delivery in FY23, and another in Brighton & Hove. This site has an existing planning consent for 186 apartments and c.2,000 sqm of commercial space. We intend to rework the design for this scheme, with the intention of obtaining planning for c.220 apartments. The scheme is targeted for delivery in FY22. Subsequent to the year end, we secured a site in Birmingham on which we are progressing planning for a 567-apartment scheme for delivery in FY23.

In total, we now have a forward sold and secured development pipeline, including Reading and Wembley, of nine sites, from which we are targeting to deliver approximately 2,300 apartments over the period FY20 to FY23. Six of these sites have planning (1,196 apartments). We also have a substantial pipeline of target sites and are actively negotiating on a number of opportunities.

All the developments for delivery in FY20 (159 apartments) and FY21 (782 apartments) have been forward sold, with one development (71 apartments) for delivery in FY22 also forward sold.

OPERATING REVIEW continued

BUILD TO RENT CONTINUED

The Government is targeting

300,000

new dwellings each year

Average

150,000

net new dwellings supplied each year over the last 15 years

The UK's population is growing at a rate of

200,000-250,000

additional households every year

Young people in particular increasingly see renting as a better lifestyle choice.

Jim Davies
Managing Director
Newmark Developments

The market opportunity

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

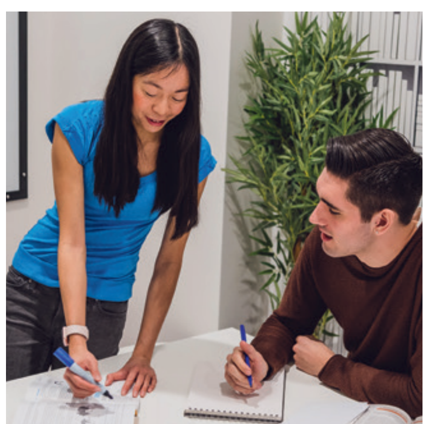
There is well-known structural supply and demand imbalance in the UK residential property market, with the supply of new homes in the UK failing to keep up with demand. Factors driving this demand include rising life expectancy and immigration, which together will contribute to a 7.3 million increase in the UK population by 2035, as well as growth in one-person households and urbanisation. To meet this demand, 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. Indeed, the net housing supply has averaged around 150,000 dwellings over the last 15 years. With around 200,000-250,000 additional households being formed in England alone each year, there is a significant current UK housing deficit.

This 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. Stricter mortgage regulations and the need for larger deposits have also increased the barriers to home ownership. At the same time, people are increasingly getting married and having children later, delaying the point at which they decide to buy a house. This results in people living in rental stock for longer.

Urbanisation is an important factor, which is reshaping the country's economic and demographic structures. The UK has one of the highest rates of urbanisation, which influences issues such as infrastructure constraints, competition for land, planning, logistics and housing affordability. Many of the locations where we see the greatest potential for build to rent are in urban areas with universities, where education leads to employment opportunities and the need for housing.

As a result of all of these factors, many people are renting for the medium to long term. Young people in particular increasingly see renting as a better lifestyle choice, providing quality of living while maintaining flexibility, in the expectation of changing jobs more frequently than in the past. This has contributed to the number of people renting in England doubling over the last ten years (source: English Housing Survey), while 2.5 million households have entered the rental market since 2000. Private renters are expected to account for 25% of all households by 2021 (source: Knight Frank, EHS, DCLG).

The total number of BtR apartments completed, under construction or in the pipeline now amounts to c.143,000 units, of which around 75,000 are in London. At full maturity, the BtR sector could grow to 1.7 million units (source: Savills), providing considerable scope for growth.



Institutional demand is strong

Ownership of UK rented housing is fragmented and dominated by small buy-to-let landlords, with little over 5% being owned by institutions. This compares with around 40% in the USA, which is a more mature institutional market. Individual private landlords are exiting the market, however, as recent changes to the tax regime start to take effect. Large-scale professional BtR landlords are well placed to absorb this change, as well as satisfying some of the structural shortfall in the UK's housing supply.

As a result, the proportion of UK rented homes owned by institutions is expected to rise, as BtR 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 was estimated at £3 billion in 2018, up 50% on the previous year, with around £2.1 billion of transactions in the first nine months of 2019. Total investment in the sector is estimated at £35 billion in 2019. Using Savills' estimate of 1.7 million units, investment would increase to around £544 billion by 2071, based on the current run rate of a net 30,000 units being added each year.

OPERATING REVIEW continued

ACCOMMODATION MANAGEMENT

Through Fresh Property Group we gain invaluable customer feedback and market knowledge.

HIGHLIGHTS

Accommodation management

- At the start of FY20, Fresh Property Group ("FPG") had 17,721 student beds and build to rent apartments under management, across 64 schemes, compared with 15,421 beds and apartments under management across 56 schemes a year earlier.
- Continued success in winning management contracts for new and existing schemes. In total, FPG is contracted to manage 20,448 student beds and BtR apartments across 66 schemes by the start of FY22.
- New business won in the year included being appointed as manager to six PBSA schemes currently being developed by Curlew Capital's new fund, CST2.
- FPG also had continued success in being appointed to manage new schemes in Ireland and will be responsible for managing six PBSA schemes (1,516 beds) by the start of FY21.
- In December 2018, won Operator of the Year at the Property Week Student Accommodation Awards.

Key statistics

Student beds and build to rent apartments under management

FY19

15,421 **56** schemes

FY20

17,721 **64** schemes

We are all about delivering a high-quality customer experience.

Fresh Property Group is a key part of our end-to-end solution for clients. By focusing on delivering exceptional customer experience and creating vibrant communities, where people want to live, we drive return for our clients.

Revenue in FY19 was £7.5 million, compared with £7.3 million in FY18. This reflects strong underlying growth, given the full-year impact of the loss of 4,597 beds under management in FY18, following the sale of a portfolio of student schemes by a client, the Curlew Student Trust ("CST"). The business delivered a gross profit of £4.6 million (FY18: £4.5 million), representing a gross margin of 61.5% (FY18: 61.8%).

At the start of FY19, we had 15,421 student beds and BtR apartments under management across 56 schemes. We had a strong year for new business, mobilising a number of new student schemes and adding existing schemes to the portfolio. At the start of FY20, we therefore had 17,721 student beds and BtR apartments under management, across 64 schemes, above the level prior to CST's portfolio sale. For FY22, we are currently contracted to manage 20,448 student beds and BtR apartments, across 66 schemes.

OPERATING REVIEW continued

ACCOMMODATION MANAGEMENT CONTINUED

Fresh is now the largest third-party operator of PBSA, reflecting the quality of our service.

Rebecca Hopewell
CEO
Fresh Property Group

Our growth this year has moved us up two places to sixth in CBRE's PBSA Operator League Table. The five largest operators are all in-house management arms of PBSA owners and FPG is now the biggest third-party operator. Of the 64 schemes we currently manage, approximately half were developed by third parties, showing our success at winning business from institutional clients and reflecting the high quality of our offer.

New business won in the year included being appointed to six student schemes currently being developed by Curlew Capital's new fund, CST2. We also mobilised an additional two sites in Ireland during the year, with a further two schemes mobilising for the 2020/21 academic year. For the start of FY21 we will therefore have six PBSA schemes (1,516 beds) under management in Ireland. We have strengthened the team in Ireland as a result, employing an operations manager.

While growth this year has been driven by contracts to manage PBSA schemes, we continue to discuss BtR opportunities with clients in both the UK and Ireland. We have therefore worked hard to ensure we have the right proposition, structure and processes to effectively take on the growth opportunity we see in the BtR market.

We also continue to invest in technology, both to enhance our own operations and to improve the customer experience. Our investment in a new system, Salesforce, during FY18 was beneficial this year, giving us improved visibility of leads and making us better able to track their conversion into bookings. We have also invested in our booking system for PBSA, to improve efficiency and enhance the customer journey.

In addition, we are investing in a new system to support our management of both PBSA and BtR developments, allowing us to offer a really exceptional customer experience. We are planning to go live with the new system towards the end of FY20.

During the year, we introduced Think Fresh training for our people, in partnership with Mary Gober International. This is a combination of ten e-learning modules and "huddles", which are small discussion groups designed to embed the content. Around 220 of our people have been assigned the training, from front line customer service staff to directors. The training is leading to a better customer experience, with the latest National Student Housing Survey rating our overall management at 91%, staff knowledge at 94% and staff friendliness at 93%.

We are constantly looking at ways to improve the sense of community at our sites and this year at Foundry Courtyard, Glasgow, we piloted weekly life skills workshops for the residents. Workshops include self confidence, managing stress, communication and teamwork. We hope to roll this out nationally.

FPG has continued to win awards, reflecting the quality of our service. In December 2018, we received Operator of the Year at the Property Week Student Accommodation Awards. The Shield in Newcastle also won Best Social Experience and Best Value for Money Student Accommodation from Student Crowd.

OPERATING REVIEW continued

RESIDENTIAL

Our residential business forms an important part of our ambition to create the future of living.

HIGHLIGHTS

Residential

- Continued robust performance with 150 homes and apartments sold (FY18: 175 sales), including 42 apartments at developments in Stratford and Bath.
- Forward sold a 35-apartment development in Chester, for delivery in FY20.
- Commenced works under a development agreement for 75 apartments at Marshgate, Stratford, for delivery in FY21.

The residential business performed well and is an important part of our ambition to create the future of living.

Richard Simpson
Chief Executive Officer

The residential business had another solid year, with revenue increasing from £30.0 million to £38.1 million, a rise of 27%.

We completed 150 sales compared with 175 in FY18. This included sales in our core North West market, together with 42 apartment sales at our developments in Stratford and Bath. These two developments will make a further contribution to revenues in the coming year.

Sales at nil margin from our legacy site in Droylsden reduced from £10.2 million in FY18 to £3.5 million in FY19.

We also forward sold a residential development of 35 apartments on Trafford Street in Chester, for delivery in FY20.

During the year we were engaged by a client to commence the development of 75 residential apartments at Marshgate, Stratford, for delivery in FY21. This will make a meaningful contribution to the revenues for our residential business over the next two years.

The gross profit for the year was £7.7 million (FY18: £4.4 million), representing a margin of 20.3% (FY18: 14.6%). Excluding the nil margin sales at Droylsden, the gross margin was 22.3%, against 22.2% in the previous year.

At the end of the year, we had a land bank of 462 plots (30 September 2018: 657 plots). We will continue to acquire smaller to medium-sized development sites of 50-100 homes, primarily in our core North West market, which is expected to remain one of the stronger performing regions in the UK. We will also utilise our residential experience to deliver the residential element of mixed-use schemes, such as the one in Stratford.

ENGAGING OUR STAKEHOLDERS

We recognise our responsibility to all our stakeholders, which include our people, our institutional clients, the customers who live in the buildings we develop or manage, our supply chain, shareholders and local communities.

How we engage our stakeholders

Stakeholder	Interests	How we engage
Employees Watkin Jones employs around 700 people, across numerous disciplines. Having a highly engaged and motivated workforce is central to achieving our growth plans.	Our people's interests include: • learning and development; • career opportunities; • reward; • culture; • health, safety and wellbeing; • internal communication and collaboration; • feeling valued for their work; and • the Group's strategic direction and success.	Our employee engagement activities are described in the People section on pages 38 and 39.
Institutional clients We work with a growing list of institutional investors. They purchase the PBSA and BtR developments we create, usually on a forward-funded basis, and employ FPG to manage assets on their behalf.	Our institutional clients' interests include: • the location, specification and quality of our developments; • on-time delivery of completed developments; • quality of customer service; • the safety and wellbeing of tenants; and • financial returns from the operation of completed developments, including occupancy levels and net rental performance.	We maintain close relationships with current and potential institutional clients, so we can understand the types of development and locations that are attractive to them. By sharing our knowledge of the markets in which we operate and our insight into consumer requirements, we create developments that meet their aspirations and those of their customers. We foster these relationships both formally and informally and at a variety of levels, including during the marketing of individual assets. Our investment team is primarily responsible for our client relationships.
Customers We are responsible for managing nearly 18,000 student beds and BtR units. Delivering high-quality service to these customers is key to ensuring they have an excellent experience of living in the developments we manage and helps to ensure high levels of occupancy for our institutional clients and contributes to rental growth.	Our customers' interests include: • the location, specification and quality of their homes; • the sense of community within their buildings; • on-site facilities, including internet connectivity; • customer service levels, including how friendly and knowledgeable our staff are; and • value for money.	Our primary engagement with customers is through our on-site managers and other team members. They are responsible for delivering the high standards of service we promise and for gathering and acting on customer feedback. We use that customer feedback to help in the specification and design of future developments.
Supply chain Our subcontractors and suppliers are responsible for providing the skilled people and materials we employ to construct our developments. As such, they are a central part of our delivery model.	Our supply chain's interests include: • our development programme and the volume of repeat business we can offer; • effective and respectful working relationships; • pricing and payment terms; and • health and safety.	Our process for selecting and managing our supply chain partners is described on page 41. Our quantity surveyors and procurement specialists have primary responsibility for liaising with the supply chain.

We commit to being open and honest in communicating Group information and to maintaining two-way dialogue with all of our stakeholder groups.

Stakeholder	Interests	How we engage
Shareholders To be a sustainable business, we need a well-informed and supportive shareholder base. We therefore look to ensure regular and open communications with our shareholders, while delivering strong and consistent performance.	Our shareholders' interests include: • financial and operational performance; • our development pipeline and growth plans; • strategy; • market trends; • Board and management; • sustainability and responsible business; • corporate governance; • management pay and incentives; • news flow; and • dividend policy.	Our interactions with our shareholders are set out on page 63.
Communities We look to be a good neighbour and to deliver real value to our local communities through our developments and via the Watkin Jones Community Fund.	Our communities' interests include: • the development of buildings which make a positive contribution to the local community; • the development of, or making of financial contributions to support, local infrastructure projects; • employment and business opportunities; • local housing supply; • affordability; • our environmental impact; and • support for community causes.	The way in which we engage with communities is described on page 42.

Section 172(1) statement

The Board is fully aware of its duty under s172(1) of the Companies Act 2006 to promote the success of the Company for the benefit of members as a whole. The Group's stakeholder engagement activities help to inform the Board's decisions, by ensuring the Directors are aware of stakeholders' interests.

As the Group works through a multi-year development cycle and operates in markets driven by long-term demographic and social trends, the Board takes a long-term view in reaching key decisions, such as reviewing and approving the Group's refreshed strategic direction this year. When taking decisions, the Board looks to act in the interests of shareholders as a whole and to ensure all shareholders are fairly treated.

The Group's business model relies heavily on its reputation with institutional investors and with the customers who occupy the properties it manages. The Directors therefore take a close interest in the Group's ability to consistently deliver for institutions and customers, and ensuring it maintains high standards of ethical conduct (see pages 42 and 43). The Group also takes a rigorous approach to ensuring it operates in a way which puts sustainability at the forefront, as described on pages 38 to 43.

SUSTAINABILITY

Our approach to sustainability recognises that in addition to delivering financial performance for our shareholders, we need to create value for the wider stakeholders discussed on pages 36 and 37.

Our people

To help deliver our growth plans, we invested in our human resources ("HR") function in FY19. This included recruiting our first Group HR Director and making other senior HR appointments, to support learning and development and engagement (see below).

In early 2019, we introduced an HR business partner model. Our HR business partners are working closely with business leaders and management teams, to help them understand our organisational and people capabilities and determine how we can build on them in the future. This is enabling the HR business partners to work with the business to shape and implement effective HR strategies and activities.

In June 2019, we undertook our first employee engagement survey, giving everyone in Watkin Jones the chance to have their say. The results of the survey were highly positive, with an overall engagement score of 77%. Particular highlights were that:

- 94% of our people stated they are committed to providing the best possible customer service; and
- 86% believe they can and do make a valuable contribution to our success.

The survey also identified areas for improvement, notably introducing new ways to recognise and reward those who go the extra mile and putting more emphasis on career development.

As part of communicating the engagement survey outputs, we are looking to establish ways to have regular feedback across the business, encouraging our people to contribute ideas. We have also appointed our first Head of Communication and Engagement, to help educate our managers on the importance of good communication and create improved communication channels.

We recognise the importance of learning and development, particularly in respect of developing our future leaders. To support this agenda, we appointed a Head of Leadership, Learning & Development during the year. We also continue to sponsor colleagues working towards academic qualifications.

To help us attract new talent into the business, we conducted a full review of our recruitment function during the year, including analysing the process, success rate and costs. This resulted in us forming a new relationship with Blue Octopus, a provider of talent acquisition technology. This reflects changes in the way people search for jobs, moving away from recruitment agencies and giving us access to the best online job portals, while creating a simple candidate journey and being more cost effective.

Diversity and inclusion

We understand and appreciate the importance of diversity and inclusion and the positive impact that it can have for both our people and the business. We have therefore developed a diversity and inclusion strategy, as part of our People Plan. Our strategy is designed to bring a diverse range of knowledge, insight and innovation into our business. The strategy considers a broad range of diversity characteristics, including gender and ethnic diversity, and gives us a tool against which we can measure our progress.

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

	2019		2018	
	Men	**Women**	Men	Women
Board	**4**	**1**	4	—
Senior management	**49**	**17**	42	13
Other employees	**329**	**300**	341	322
Total	**382**	**318**	387	335

While construction has traditionally been a male-dominated industry, the growth of FPG is bringing more women into the Group, including in senior roles. We also appointed Liz Reilly as a Non-Executive Director to the Board.

Our people policies

The Group has a wide range of policies relating to its people. These cover maternity, paternity and adoption leave, equality and diversity, employee privacy, dignity at work, equal opportunities, pensions and grievance procedures.

In FY19 we reviewed and improved our family-friendly policies covering maternity, paternity and adoption leave, providing additional support to our staff when they need it the most.

In addition, our Corporate Social Responsibility ("CSR") policy sets out several overarching aims in respect of our people, including investing in their development, being a good and fair employer, maintaining open communication and continually improving our health and safety performance. This policy also requires us to produce an annual human resources strategy, to ensure we can meet the future needs of both the Group and our people.

The practices we operate seek to retain and develop our talent across the business.

Ensuring compliance

We have several routes for our people to report compliance issues relating to our people policies. They can discuss any issues with their line manager or, if they feel unable to do so, with their HR manager. If the issue remains unresolved, we have a formal grievance procedure, as set out in our grievance policy. In addition, we have an outsourced whistleblowing service, which allows our people to raise concerns confidentially about a wide range of matters. Our employee survey and annual staff conference also give people the opportunity to provide feedback about the operation of our policies.

We are not aware of any material breaches of our people policies during the year.

SUSTAINABILITY continued

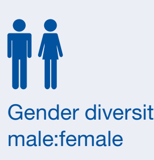
Key statistics

Reportable accidents

FY19:

2

FY18: 3



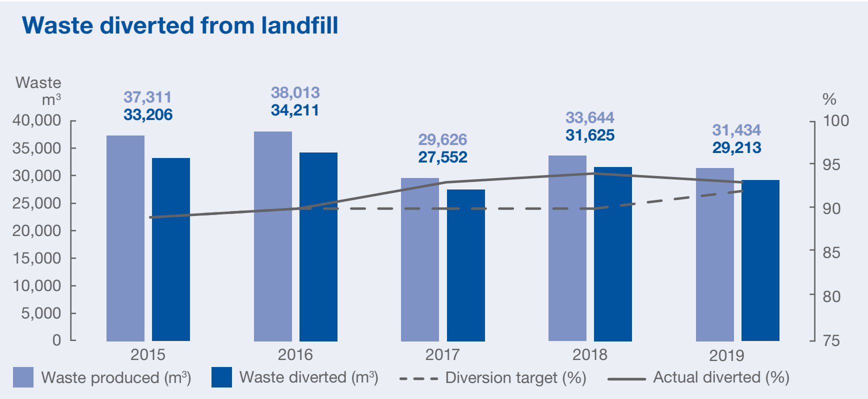
Gender diversity male:female

FY19:

55%: 45%

FY18: 48%:52%

Waste diverted from landfill



Health and safety

Health and safety policy

Protecting the health and safety of our people and subcontractors is vital. We have a Group-wide health and safety policy, which provides a comprehensive description of responsibilities for health and safety throughout the organisation, from the Board to the people working directly on site. It also details the arrangements which form our robust health and safety management system, such as necessary training, risk assessments, supervision and the use of protective equipment.

Ensuring compliance

The divisional managing directors ("MDs") lead health and safety for their divisions. They are supported by the Group health and safety department, which comprises our 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 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 team.

Our subcontractors play a key role in on-site safety. Everyone working on site must have a general induction before they reach the site, followed by 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 employees must also complete an induction and annual training programme on our health and safety policy.

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.

Within Fresh Property Group, 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.

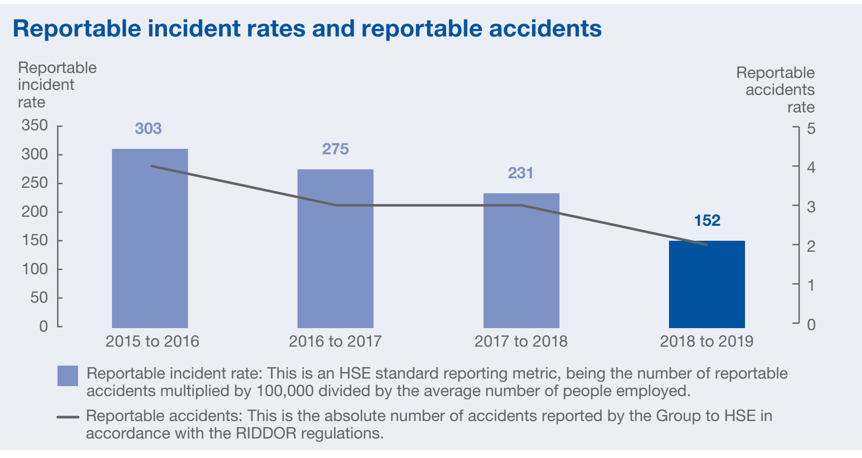
Health and safety performance

During the year, we conducted numerous initiatives to further improve our health and safety performance. These included: fire safety on site, in particular relating to high-rise buildings under construction; site security; dust control and protection; correct wearing of head protection; planning and maintaining safe site routes; contractor morning briefings; winter weather working; and mental health awareness.

These actions helped us to deliver a further improvement in health and safety performance, with our reportable accidents reducing to two from three in FY18.

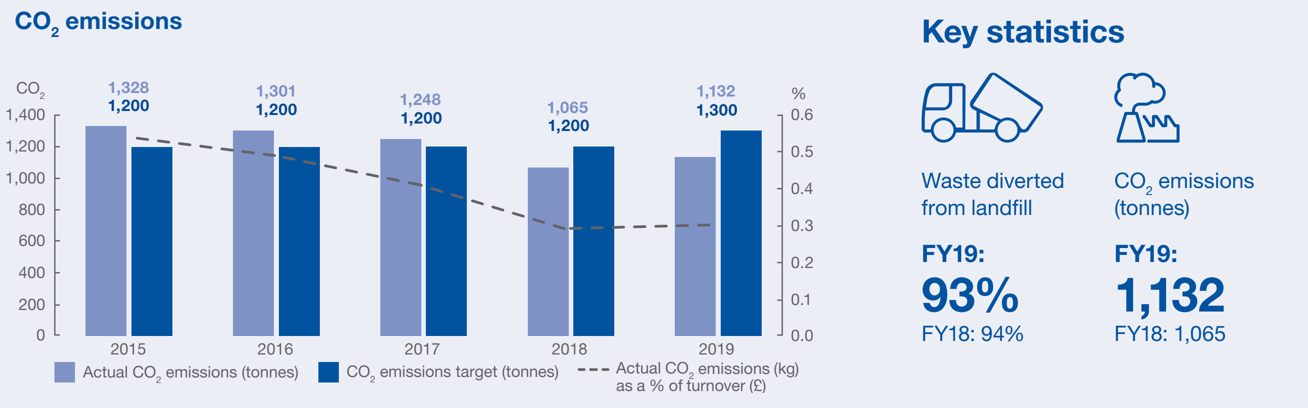
Our reportable incidence rate, which is an HSE standard reporting metric, was 152 per 100,000 employees in FY19, down from 231 in FY18, and compares to a figure of 2,620 for the construction industry as a whole, as reported by HSE.

Reportable incident rates and reportable accidents



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



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;
- 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.

Environment

Our environmental policies

We have an environmental policy statement, which sets out our commitment to protecting the environment, preventing pollution, and monitoring and reducing the impact of our operations on the environment and local communities. The policy requires us to work with our clients to promote best-practice environmental management techniques and with our suppliers to ensure strong environmental supply chain management and to promote sustainable sourcing of products and materials. We also have a separate policy covering our approach to waste management. This details our process for minimising waste production and requires us to use registered and approved contractors for waste management services.

Ensuring compliance

We ensure compliance with our environmental policies in a number of ways. These include:

- implementing business-specific environmental management systems, with the Group being accredited to ISO 14001;
- developing objectives, supported by detailed targets, to manage all potentially significant environmental aspects;
- developing meaningful key performance indicators to measure resource use, waste and emissions, and to promote environmental best practice; and
- providing training to staff and subcontractors, to raise awareness of environmental issues and to ensure effective management of our environmental impacts.

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.

Environmental performance

Waste diverted from landfill

The proportion of waste we divert from landfill is comparable with the best in the industry. In FY19, we diverted 93% of waste from landfill (FY18: 94%), ahead of our target for the year of 92%. The reduction in the absolute level of waste created is the result of constructing buildings which create less waste by design, for example by having more components constructed off site, and through carefully managing the ordering of general building materials.

Greenhouse gas emissions

We continue to actively manage our CO_2 emissions, with our actual emissions being below our target for the last two years, taking into account the growth in the Group's revenues.

Our company car fleet is the main contributor to our CO_2 emissions. Company cars are replaced on a three-year cycle on a contract hire arrangement, with drivers being provided with a choice of vehicles selected taking into account their CO_2 emissions data.

SUSTAINABILITY continued

Communities

Communities policy

Our CSR policy covers our approach to community relations. Under this policy, we:

- strive to make a positive economic and social contribution to the communities we work in;
- engage in proactive community relations and seek to be a good neighbour and citizen wherever we operate;
- invest in local community development, through the Watkin Jones Community Fund;
- support and actively encourage our employees to help local community organisations and activities; and
- promote the values of CSR across the construction sector, through our involvement in regional and national industry bodies.

Community impact

Through our development activities we make a positive impact on local communities. 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.

BtR 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. The Fund aims to support a wide range of projects with a particular emphasis on enhancing the physical environment and improving quality of life for local people. Applications are welcomed from community-based groups and not-for-profit organisations. During FY19, the fund made donations to a wide range of charities, sports clubs and other community groups.

Fire safety

The fire safety of the buildings we develop is of paramount importance to us. We construct our developments to high fire management specifications, complying fully with applicable building and fire regulations, and with rigorous fire safety management and maintenance regimes.

The fire safety of high-rise buildings has rightly been under scrutiny since the Grenfell incident and, more recently, the fire at the Cube in Bolton. This has resulted in an ongoing review of cladding systems used and their fire resistant properties. We will continue to act as appropriate, in conjunction with the owners of the properties we have developed, to ensure the continued safety of tenants.

Ethical business

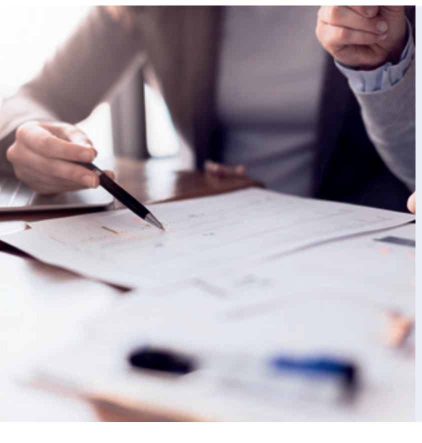
Watkin Jones is committed to acting in an ethical and responsible way in all its business dealings. This includes protecting human rights and looking to prevent any instances of bribery or corruption.

Human rights

Human rights policies

We have several policies covering aspects of human rights, both within Watkin Jones and in our supply chain. These include our policies on dignity at work, equal opportunities, equality and diversity, and anti-slavery and human trafficking. The aims of these policies include ensuring that we:

- have a work environment free of harassment and bullying, where everyone is treated with dignity and respect;
- provide equal employment opportunities and avoid unlawful discrimination in employment and against customers;
- avoid any kind of unfair or illegal discrimination on the basis of colour, race, nationality, ethnic background, language, religion, sex, age, marital status, sexuality or disability; and
- prevent any slavery or human trafficking in our own operations or within our supply chain.



Ensuring compliance

We ensure all new and existing employees have appropriate training to understand their rights and responsibilities under our human rights-related policies.

Employees can report any issues of non-compliance with our employment policies through the same routes described in the our people section above. Any person with concerns about slavery or human trafficking must raise them through their line manager, our Compliance Officer or through our whistleblowing procedures.

Our Compliance Officer has primary responsibility for implementing the anti-slavery and human trafficking policy, monitoring its use and effectiveness, dealing with any queries about it, and auditing internal control systems and procedures to ensure they are effective in countering modern slavery.

We are not aware of any material breaches of our human rights policies during the year.

Anti-bribery and corruption (“ABC”)

Anti-bribery and corruption policy

We have a detailed ABC policy. It sets out the basic rules for our people and for third parties working on our behalf, and is designed to give them sufficient knowledge to detect and prevent bribery and corruption, and guidance on where to seek advice. The policy is supported by practical examples, which illustrate how to apply the rules in the context of our business.

Ensuring compliance

We promote compliance with the ABC policy in a number of ways. These include:

- conducting risk-based due diligence on all agents and other third parties who will be conducting business on our behalf;
- promoting employee and third-party awareness of, and compliance with, the ABC policy through appropriate communication, training and disciplinary procedures;
- raising ABC awareness through specific online training during induction and annual refresher training; and
- requiring each employee to sign an annual declaration to confirm they have complied with the policy.

Directors, managers and supervisors are personally responsible for monitoring compliance:

- in respect of all business matters they are managing or supervising; and
- by everyone involved in matters they are managing or supervising, including third-party agents, joint ventures and contractors working for and on behalf of Watkin Jones.

Anyone with suspicions about an ABC policy violation must report it to their supervisor, manager or Director, or by contacting the Compliance Officer or the whistleblowing line. An update on all whistleblowing submissions is presented to each meeting of the Audit Committee.

We are not aware of any breaches of the policy during the year.

How sustainability underpins our business model

	Identify potential developments	Site procurement and planning	Transaction and funding	Construction and delivery	Accommodation management
People	✔	✔	✔	✔	✔
Clients			✔	✔	✔
Supply chain		✔	✔	✔	✔
Communities	✔	✔		✔	✔
Environment	✔	✔		✔	✔

FINANCIAL REVIEW

"The Group made further progress during the year, delivering financial results in line with expectations.

Philip Byrom
Chief Financial Officer

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

Revenue

Revenue from continuing operations increased by 3.2%, from £363.1 million in FY18 to £374.8 million in FY19. As expected, student accommodation development revenues were £246.1 million, or 21.3% lower, as a result of the planned reduction in the number of developments completed compared with the previous year. This was the result of our decision to focus on a smaller number of development sites on which we could achieve strong margins, in the light of Brexit uncertainty.

BtR development generated revenues of £73.6 million, up from £3.8 million in FY18. This reflects good progress with the on-site developments and forward sales completed in the year. The BtR business is set to make an important contribution to our growth over the coming years.

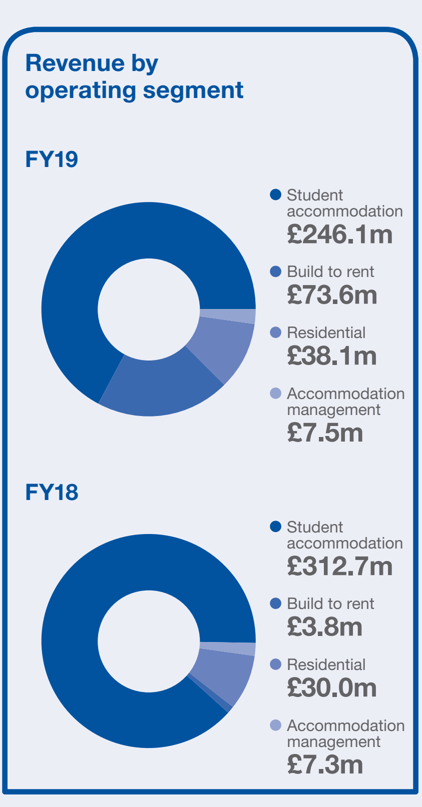
Accommodation management continued to make good progress. Revenues increased to £7.5 million, against £7.3 million in FY18, with strong underlying growth more than offsetting the full-year impact of the loss of the Curlew Student Trust beds in FY18.

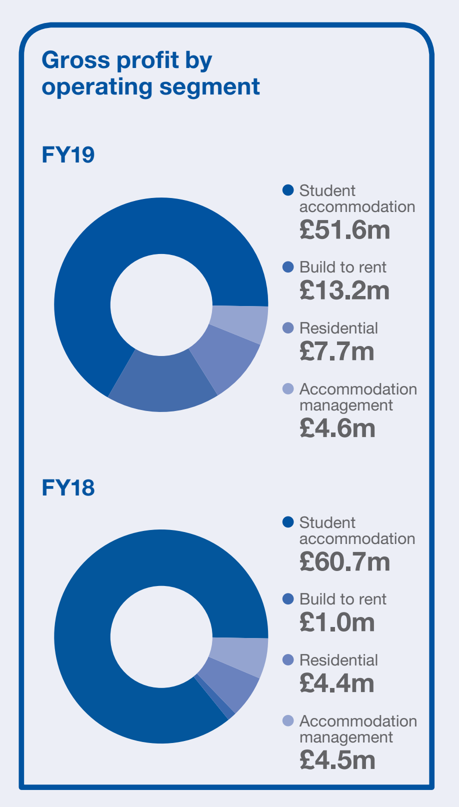
Highlights

Continuing operations	FY19 £m	FY18 £m	Change
Revenue	374.8	363.1	+3.2%
Gross profit	76.8	72.4	+6.0%
Overheads	(24.5)	(22.8)	+7.2%
Operating profit before exceptional items	52.3	49.6	+5.4%
Exceptional (charge)/income	(2.6)	4.3	
Operating profit	49.7	53.9	-7.8%
Profit on disposal of interest in joint venture	–	0.1	
Share of profit in joint ventures	0.3	1.0	
Net finance costs	(0.3)	(0.7)	
Profit before tax	49.7	54.3	-8.5%
Tax	(9.4)	(10.1)	
Profit for the year	40.3	44.2	-8.8%
Basic earnings per share	15.8p	17.3p	-8.9%
Adjusted basic earnings per share	16.7p	16.0p	+4.6%
Dividend per share	8.35p	7.6p	+9.9%

Highlights

Substantial growth in BtR revenues offsetting lower revenues from PBSA in FY19.





The residential business also delivered strong revenue growth, with revenue up 27.0% to £38.1 million (FY18: £30.0 million). The business had a solid performance in its core North West housing market and also benefited from the sales of apartments in Stratford and Bath. In addition, the business generated revenues from acting as developer for a client on a separate residential scheme in Stratford, which will make a greater contribution in FY20 and FY21.

The Group has continued to generate revenue from the development of commercial property associated with its student and BtR developments. In FY19, this amounted to £9.5 million and arose from the commercial office element of the BtR scheme in Bournemouth, which was forward sold in the year. Commercial property revenues in FY18 were £9.3 million and related to a hotel and offices at the student accommodation development site in Christchurch Road, Bournemouth.

FY19 is the first year that we have adopted IFRS 15 'Revenue from Contracts with Customers'. This requires us to account separately for the land and development agreement elements of forward-sold contracts, rather than treating them as a combined agreement. The effect on the Group's results has been to reduce FY19 revenues and profit before tax by £613,000. The prior period comparatives have not been restated. More information can be found in note 5 to the financial statements.

Gross profit

Gross profit was £76.8 million, up 6.0% from the £72.4 million recorded in FY18. The gross margin was 20.5% (FY18: 20.0%).

Student accommodation development generated gross profit of £51.6 million (FY18: £60.7 million) and a gross margin of 21.0% (FY18: 19.4%), reflecting our focus on a select number of high-quality developments. The underlying gross margin in FY18 was 20.7%, after adjusting for forward sales that completed on 30 September 2018. These forward sales primarily comprised the land sales element, which were at lower margins than the margins to be recognised on the development works in FY19 and FY20.

BtR development achieved a gross profit of £13.2 million (FY18: £1.0 million), at a gross margin of 18.0%. This is an encouraging start to our performance in this market and is ahead of the average margin of 15% we expect to achieve from our BtR pipeline in the medium term.

FPG maintained its highly attractive profitability. Its gross profit of £4.6 million (FY18: £4.5 million) equated to a gross margin of 61.5% (FY18: 61.8%).

The residential business generated gross profit of £7.7 million (FY18: £4.4 million). The gross margin of 20.3% (FY18: 14.6%) reflected a reduction in nil margin sales at the legacy Droylsden site, from £10.2 million in FY18 to £3.5 million this year. Excluding these nil margin sales, the underlying gross margin was 22.3% (FY18: 22.2%).

Commercial property activities produced a loss of £0.1 million (FY18: profit of £1.8 million).

Administrative expenses

Administrative expenses rose by 7.2%, from £22.8 million in FY18 to £24.5 million in FY19. This was the result of recruitment to support the ongoing development of the business and a general salary increase of 3%.

Operating profit before exceptional items

Operating profit before exceptional items was £52.3 million (FY18: £49.6 million), reflecting an operating margin of 14.0% (FY18: 13.7%).

Exceptional items

An exceptional charge of £2.6 million was recorded in the year. This related to the cost of compensating our new CEO, Richard Simpson, for forfeiting outstanding incentives he held in respect of his former employer, Unite Group plc ("Unite"). The charge comprises a cash cost of £0.4 million in respect of forfeiting his 2018 Unite bonus and a non-cash cost of £2.2 million, in respect of forfeiting his outstanding 2015–2017 Unite LTIP awards. More information can be found in the Remuneration Committee report on pages 68 to 72.

FINANCIAL REVIEW continued

Our cash balance increased by £9.0 million to £115.6 million.

Exceptional items continued

In FY18, the Group recorded exceptional income of £4.3 million. This resulted from Curlew Student Trust's sale of a portfolio of assets, and the subsequent reduction in scope and early termination of FPG's contracts to manage the majority of these assets. Of this, £3.0 million was received as compensation for the reduction in scope and early termination of the management contracts. The Group also holds a carried interest in the Curlew Student Trust and made an exceptional profit of £1.3 million on the portfolio sale.

Share of profit in joint ventures

The Group's share of profit in joint ventures was £0.3 million (FY18: £1.0 million). The most significant of the Group's joint ventures are those with Lacuna Developments Limited, which allowed us to develop student accommodation sites in Belfast. These developments are now complete.

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 £0.3 million, down from £0.7 million in FY18, as a result of the Group's strong cash position at the start of the year.

Profit before tax

Profit before tax for the year amounted to £49.7 million (FY18: £54.3 million). Adjusted profit before tax, which excludes the impact of exceptional items, increased by £2.2 million to £52.3 million (FY18: £50.1 million).

Taxation

The corporation tax charge was £9.4 million (FY18: £10.1 million). The effective tax rate of 19.0% (FY18: 18.7%) was in line with the UK corporation tax rate of 19%. Information on our tax strategy can be found in the Investor section of our website, **www.watkinjonesplc.com**

Cash flows

Continuing operations	FY19 £m	FY18 £m
Operating profit before exceptional items	52.3	49.6
Exceptional items	(0.4)	4.3
Depreciation and amortisation	1.4	1.3
(Increase)/decrease in working capital	(25.4)	11.3
Finance costs paid	(0.5)	(1.0)
Tax paid	(9.8)	(11.1)
Net cash inflow from operating activities	17.6	54.4
(Purchase)/disposal of fixed assets	(0.3)	(0.3)
Cash flow from joint venture interests	—	1.6
Cash flow from other financial assets	0.2	1.4
Dividends paid	(20.1)	(17.5)
Cash flow from borrowings	11.6	1.7
Increase in cash	9.0	41.3
Cash at beginning of year	106.6	65.3
Cash at end of year	115.6	106.6
Less: borrowings	(38.8)	(26.4)
Net cash	76.8	80.2

Earnings per share

Basic earnings per share from continuing operations were 15.8 pence (FY18: 17.3 pence). Adjusted basic earnings per share, which exclude the impact of the exceptional items discussed above, were 16.7 pence (FY18: 16.0 pence).

Dividends

The Board has recommended a final dividend of 5.6 pence per share, giving a total dividend for the year of 8.35 pence. The cash cost of the final dividend will be £14.3 million.

At 30 September 2019, the Company had distributable reserves of £115.1 million available to pay the final dividend.

More information on our dividends for the year and our dividend policy can be found in the Chairman's statement on pages 08 and 09.

EBITDA

EBITDA is an important measure of our underlying performance. It is calculated as operating profit plus profit from joint ventures, before interest, tax, depreciation and amortisation.

EBITDA decreased by 8.8% to £51.4 million (FY18: £56.3 million). Adjusted EBITDA, which excludes exceptional items, increased by 3.6% to £53.9 million (FY18: £52.0 million), representing an adjusted EBITDA margin of 14.4% (FY18: 14.3%).

Statement of financial position

At the year end, inventory and work in progress was £134.2 million, largely unchanged from the £132.8 million at 30 September 2018, and reflects the investment in the year in the BtR site at Brighton & Hove (£14.8 million) and in work in progress associated with a PBSA development on Liverpool Road in Chester (£9.5 million), which has been sold on a forward commitment basis, offset by sales of the Bournemouth and Sutton BtR development sites for which £21.9 million was held in inventory and work in progress at 30 September 2018.

Contract assets and trade and other receivables were £39.1 million at 30 September 2019, up by £12.1 million (30 September 2018: £27.0 million). The increase was primarily in respect of amounts receivable on forward-sold developments which are not yet contractually due, mainly final payments which will be due on practical completion.

Contract liabilities and trade and other payables stood at £85.7 million at the year end, a decrease of £13.4 million from the £99.1 million at 30 September 2018. The decrease is primarily in respect of amounts received in advance on forward-sold developments, which were £9.2 million lower at 30 September 2019.

Cash flows

The Group's forward sale business model contributes to good cash generation. The net cash flow from operating activities in the year was £17.6 million (FY18: £54.4 million).

Cash generation in FY19 was affected by the working capital movements referred to above and by the deal structure for the sale of the PBSA development on Liverpool Road in Chester. Consideration for this sale will be received on handover of the development during FY20. While this has produced a better commercial outcome for us when compared with a typical forward sale, it did reduce cash flow in FY19 by approximately £16.0 million versus the cash that a forward sale would have generated.

Operating cash flow in FY18 benefited from a receipt of £38.8 million from the forward sale of four PBSA development sites on 30 September 2018.

Dividends paid in the year amounted to £20.1 million (FY18: £17.5 million). Corporation tax payments totalled £9.8 million (FY18: £11.1 million).

At the year end, we had a gross cash balance of £115.6 million and borrowings of £38.8 million, resulting in a net cash position of £76.8 million. At 30 September 2018, we had net cash of £80.2 million, after deducting borrowings of £26.4 million from a gross cash balance of £106.6 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 user of cash until the following year end, 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 strong position when bidding for new sites.

Bank facilities

Our bank facilities comprise a five-year RCF and a £10 million on-demand working capital facility, both with HSBC Bank plc. During the year, we increased the RCF from £40 million to £60 million, to give us further capacity to support our growth. The maturity date for the RCF was unchanged, with the facility expiring on 15 March 2021.

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.

At the year end, we had drawn £32.1 million against the RCF (30 September 2018: £17.4 million) and the working capital facility was undrawn. We therefore had total headroom within our facilities of £37.9 million.

The Group also has loan facilities with Svenska Handelsbanken AB, which are used to fund our operating build to rent stock in Sheffield and Droylsden. These facilities run to March 2022. The outstanding balance at the year end was £5.5 million (30 September 2018: £7.3 million).

Implementation of IFRS 16 'Leases'

FY20 will be the first year in which the Group is required to adopt IFRS 16, which covers lease accounting and will have a material impact on the Group's financial statements. The date of initial application for the Group will be 1 October 2019. In the past, the Group has sold a small number of student developments subject to operating leasebacks, equivalent to rental guarantees. These transaction structures were utilised in selected instances and reflected market conditions at that time. Since 2016 the Group has operated exclusively on a non-leaseback model, which it expects to maintain going forward. These, together with leases for the rental of office space and vehicles, must now be accounted for in the statement of financial position in accordance with IFRS 16.

The impact will be to recognise a right-of-use asset of c.£132 million, a deferred tax asset of c.£3 million and a lease liability of c.£150 million. The difference between the right-of-use asset, deferred tax asset and lease liability of c.£15 million will be reflected as a reduction in shareholders' equity.

For FY20 we estimate that the effect of adopting IFRS 16 on our earnings will be to reduce operating lease costs, currently charged to cost of sales and administrative expenses, by approximately £11.2 million and to increase depreciation by £8.5 million and finance costs by £4.5 million. This will reduce profit before tax by approximately £1.8 million in FY20, but will increase EBITDA by approximately £11.2 million.

In adopting IFRS 16, we will restate the prior reporting periods in order to ensure comparability of results and performance, given the materiality of the amounts involved.

More information can be found in note 5 to the financial statements on pages 90 and 91.

Philip Byrom
Chief Financial Officer

13 January 2020

RISK MANAGEMENT AND PRINCIPAL RISKS

The effective management of risk is essential to the successful delivery of our strategy.

Risk management process

The Board has established a formal risk management process, under which it identifies, evaluates and monitors the principal risks facing the Group and the effectiveness of the controls and procedures in place to mitigate against them. This includes:

- the Board's approval of a detailed corporate risk register, which identifies the principal risks and is prepared and kept under review by the Risk Committee, which meets monthly as a sub-committee of the Executive Committee;
- the review of assurance and information about the management of those risks, including specific reviews carried out by KPMG as our outsourced internal audit provider;
- an assessment of the Group's risk appetite for particular categories of risk, as a basis against which to assess whether the principal risks are being mitigated against to an acceptable level.

The Audit Committee reviews the risk register as part of its regular meetings. The reviews include:

- any substantial changes to the principal risks, including new or emerging risks;
- material changes to the control frameworks in place;
- changes in risk scores;
- changes in risk appetite; and
- progress with any additional mitigating actions which have been agreed.

The Audit Committee also provides appropriate challenge to the effectiveness of mitigating controls, including the review and testing of mitigating controls for selected risks by KPMG as part of the annual internal audit plan.

Risk categories and risk appetite

Appropriate risk categories for the Group have been identified into which the principal risks can be allocated. Against each of these risk categories the Board has considered the level of risk it is willing to accept in order to achieve the Group's business objectives. We have no appetite for risk in relation to health and safety matters, whereas we have a moderate risk appetite in relation to our people and technology, where we are making changes to the way we work in order to enable us to deliver future growth and create the future for living. The risk categories are listed below together with the assessed risk appetite.

Risk category	Risk appetite
Strategic	Cautious
Financial	Averse – cautious
Operational	Cautious
People	Moderate
Regulatory and compliance	Cautious
Technology	Moderate
Health and safety	Averse

Heat map

The heat map summarises our exposure to our principal risks by considering the likelihood of a risk event occurring and its potential impact on the Group. It shows the gross risk assessment before mitigating factors and controls are taken into account and the net risk assessment after taking into account relevant mitigating factors and controls. The ovals on the heat map show the Board's appetite for risk for each risk category, with the aim that after taking into account mitigating factors and controls, the net risk is reduced to a level that sits within or below the Board's appetite for risk.

The principal risks and risk appetite have been assessed using the following scoring matrix.

Likelihood	Score	Impact	Score
Highly probable	5	Extreme	5
Probable	4	Major	4
Possible	3	Moderate	3
Unlikely	2	Minor	2
Remote	1	Insignificant	1

Using the above matrix, the gross and net risk assessment score for a principal risk is the product of the assessed likelihood and impact scores.

Principal risks

A principal risk is a risk that is considered material to the delivery of the Group's strategy or its performance, position or future prospects. The Board through the Audit Committee has undertaken a robust review of the principal risks facing the Group. The principal risks which the Board considers are relevant to the Group are summarised by risk category and considered more fully on pages 50 to 57.

Principal risk:	Risk category:
01. Economic cycle	Strategic
02. Investor appetite	Strategic
03. Increased competition	Strategic
04. Capital structure	Strategic
05. Land availability	Strategic
06. Planning environment	Strategic
07. Cash flow	Financial
08. Financial crime	Financial
09. Cyber crime	Financial
10. Project delivery	Operational
11. Disaster recovery and business continuity	Operational
12. Culture	People
13. Capacity and capability	People
14. Failure to comply with legislation	Regulatory and compliance
15. Health and safety	Health and safety

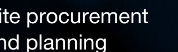
Risk appetite	Averse						Cautious				Moderate		High	
Risk score	1	2	3	4	5	6	8	9	10	12	15	16	20	25

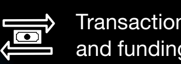
Key: Risk appetite (oval) Gross risk score = G Net risk score = N

RISK MANAGEMENT AND PRINCIPAL RISKS continued

Risk	Impact	Risk assessment	Gross	Net
Strategic				
01. Economic cycle Changes in the political/economic cycle could have an impact on the real estate market and investor confidence. Link to business model:	A downturn in the economic cycle and loss of investor confidence in the student accommodation or BtR markets could have a significant impact on our ability to forward sell our developments. An increase in required investment yields would result in compression of development values, impacting our margins and cash requirements.	Likelihood	5	4
		Impact	4	3
		Risk score	20	12
02. Investor appetite The Group's target market sectors could become less attractive to investors. Link to business model:	A change in investor sentiment could reduce demand for our developments and therefore restrict the number of schemes which the Group can forward sell each year. Investor yield requirements could increase, leading to a reduction in development values, impacting the Group's margins and cash requirements. The resultant loss in shareholder confidence and impact on our share price could be significant.	Likelihood	3	2
		Impact	4	3
		Risk score	12	6
03. Increased competition The PBSA and build to rent markets are attractive, which could encourage new entrants and result in increased competition. Link to business model:	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.	Likelihood	3	2
		Impact	3	2
		Risk score	9	4
04. Capital structure The Group's capital structure may be inadequate in supporting the future growth of the business. Link to business model:	The Group could be constrained in its ability to secure the new sites required to support its growth strategy, limiting its capacity to grow earnings.	Likelihood	3	2
		Impact	3	3
		Risk score	9	6

Key


Site procurement and planning


Transaction and funding

Construction and delivery

Accommodation management

Within risk appetite?	Mitigation
Yes	• Our strategy is to focus on our core student accommodation and BtR markets which remain fundamentally attractive and are generally seen by institutional investors as resilient during times of broader market uncertainty. • The Executive Committee approves market and city target locations annually. • Our three-stage Investment Committee approval process ensures rigorous review of site acquisitions, including the downside risk of movements in development values. • Site acquisitions above £15 million are subject to approval by the Board, who consider the papers reviewed by the Investment Committee. • Our business model means we generally forward sell our development sites to institutional investors before any significant development works have been carried out. Consequently, we have limited direct exposure to the impact of falling real estate values. • By forward selling our developments we operate a working capital-light model, which limits the call on the Group's own cash. • By maintaining a forward sold pipeline of deliveries for two to three years ahead, it provides the Group with time to respond to market changes. • By acquiring sites on a subject to satisfactory planning basis, we are able to maintain good visibility and control over the Group's land acquisition commitments, which helps manage the Group's cash requirements.
Yes	• Through adopting our business model of forward selling developments, the Group is insulated to a degree as this provides additional time to respond to changes in investor sentiment in relation to the demand for our developments. • Our site evaluation and approval process has clear selection criteria to ensure a focus on acquiring sites in target cities and locations that are more attractive than the location of existing stock, so that occupier demand should be strong. • The Group's business model is to develop for institutionally owned, professionally managed clients. The tighter regulation of the residential lettings market and fiscal headwinds facing smaller landlords could prove beneficial to our clients. • Through focusing on the core student accommodation and BtR markets the Group operates in two markets that management has analysed and assessed as having significant unsatisfied demand, reducing the risk of them becoming less attractive to investors.
Yes	• The Group has developed the services that it offers such that it provides an end-to-end service for its clients. This provides a competitive advantage and is also 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 has built up economies of scale and has established subcontractor supply chains and delivery expertise, all of which makes it harder for new entrants to compete. • Our strategy of focusing on the core student accommodation and BtR markets means we operate in two markets where the overall supply of new stock is low. • The Group's management team monitors the competitive landscape in order to identify and respond to changes.
Yes	• The Group operates a business model under which it forward sells its developments. This limits the amount of cash the Group must commit to each scheme. • Our site procurement and planning model means that we secure most of our sites on the basis of achieving satisfactory planning. This enables the Group to control its cash requirements and, where possible, structure the acquisition such that it is back-to-back with an onwards forward sale. • In the unlikely event of the Group experiencing capital constraints, its site procurement model also provides the option of slowing down land procurement, thereby mitigating the impact. • The Group maintains additional sources of liquidity through agreed banking facilities. These currently include a £60 million revolving credit facility and a £10 million overdraft facility. Furthermore, the Group operates with a positive cash balance day-to-day.

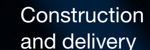
RISK MANAGEMENT AND PRINCIPAL RISKS continued

Risk	Impact	Risk assessment	Gross	Net
Strategic continued				
05. Land availability Link to business model:	An inadequate supply of available land would inhibit the Group's ability to deliver its growth strategy or could increase the risk of acquiring sites in less attractive locations or at higher prices.	Likelihood	3	3
		Impact	4	3
		Risk score	12	9
06. Planning environment There is a risk that the planning environment may become more onerous, making it more difficult to secure the planning consents we require. BtR does not currently have its own planning use class, which may make it potentially more difficult to secure consents in this core sector. Link to business model:	Difficulty or delay in obtaining planning consents could impact the Group's target delivery programme and potentially inhibit its ability to achieve growth, impacting on the Group's earnings performance.	Likelihood	3	2
		Impact	4	3
		Risk score	12	6
Financial				
07. Cash flow Cash flow constraints could mean that the Group is unable to meet its financial commitments or source new land opportunities. Link to business model:	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.	Likelihood	3	2
		Impact	4	3
		Risk score	12	6
08. Financial crime The Group may be unable to prevent or detect financial crime. Link to business model: None	Financial crime could lead to financial loss, breach of regulations, regulatory censure/fines and loss of reputation.	Likelihood	3	3
		Impact	4	2
		Risk score	12	6
09. Cyber crime The Group may be unable to prevent, detect or respond to a cyber attack. Link to business model: None	A cyber attack could lead to financial loss, breach of regulations, regulatory censure/fines and loss of reputation.	Likelihood	4	3
		Impact	4	4
		Risk score	16	12

Key

Site procurement and planning

Transaction and funding

 Construction and delivery

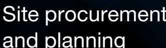
Accommodation management

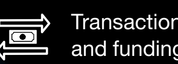
Within risk appetite?	Mitigation
Yes	• The Group has an established land sourcing capability and where possible targets off-market opportunities, which helps mitigate against any increased competition for land. • Through its strong track record of the successful delivery of schemes, the Group has a good reputation in the market for being a reliable purchaser of land. • Our site evaluation and approval process incorporate macro and micro market analysis and viability assessments to ensure that the Group's land sourcing is targeted in the right locations. • The Group has the capital resources available to commit to opportunities as they become available, which also provides vendors with increased confidence that it will complete an acquisition.
Yes	• We have an established national planning resource which appraises each PBSA and BtR site opportunity from a risk and compliance perspective, with a view to securing planning consent. This appraisal process includes high level consideration of emerging/developing policies at a local authority level and their risk to the Group. • We cross check our internal planning appraisals with local, external consultants to further ensure local planning policy and design considerations are taken into account. • Our three-stage Investment Committee approval process ensures rigorous review of site acquisitions, including planning consent consideration. • We do not normally progress site acquisitions other than those with satisfactory and viable planning applications and so the risk of an increasingly onerous planning regime would have minimal effect in the short to medium term.
Yes	• Our business model of forward selling developments helps to reduce the Group's cash requirements significantly. • Through typically structuring site acquisitions such that they are conditional upon obtaining satisfactory planning, the cost of site acquisitions is generally known several months in advance. This provides management with 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 Chief Financial Officer. • The Group held cash of £115.6 million at 30 September 2019 and has agreed adequate banking facilities, including a £60 million revolving credit facility and a £10 million overdraft facility.
Yes	• We operate layers of authorisation checks within the Group's business processes, in accordance with a delegated authorities matrix. • We ensure segregation of duties within our ordering, approvals and payments processes. • We determine development prices on a negotiated basis, providing little opportunity for price-fixing. • Senior management takes an active role in reviewing transactions and ensuring that procedures are followed.
No	• The Group has achieved the Cyber Essentials certification. • We undertake data information security training annually. • We undertake information security control monitoring over IT access permissions. • We maintain daily incremental server backups. • We undertake vulnerability scanning. • Further mitigating actions are currently being taken in order to reduce the net risk assessment to within our risk appetite.

RISK MANAGEMENT AND PRINCIPAL RISKS continued

Risk	Impact	Risk assessment	Gross	Net
Operational				
10. Project delivery The Group could materially fail to complete one or more developments on time. Link to business model: • Transaction and funding • Construction and delivery	If a development is not completed on time, this could result in significant financial penalties and would damage the Group's reputation for on-time delivery, which could make it more difficult to sell future developments.	Likelihood Impact Risk score	5 4 20	3 3 9
11. Disaster recovery and business continuity There is a risk that business continuity is not maintained in response to a disaster or other business continuity event. Link to business model:	Failing to maintain business continuity could lead to financial loss, a delay to the delivery of schemes or loss of personnel.	Likelihood Impact Risk score	4 4 16	3 4 12
People				
12. Culture The Group's culture and organisational design may inhibit future growth. Link to business model:	A failure to address any cultural and organisational limitations in the business will restrict the Group's ability to achieve its growth potential and limit shareholder value creation.	Likelihood Impact Risk score	5 3 15	3 3 9
13. Capacity and capability The Group may find it difficult to recruit and retain employees with the right capabilities. Link to business model:	The Group's employees are critical to its performance. The failure to identify, retain and motivate people will restrict the Group's growth plans and could result in development margins being eroded.	Likelihood Impact Risk score	5 4 20	3 4 12

Key


Site procurement and planning


Transaction and funding

Construction and delivery

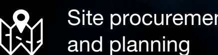
Accommodation management

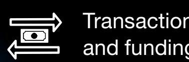
Within risk appetite?	Mitigation
Yes	• The Group's specialism in, and extensive experience of, building multi-occupancy residential accommodation means that our construction programming and techniques are well established to ensure on-time delivery. • The senior construction management team has many years' repeat experience with the Group in building multi-occupancy residential accommodation, which gives us a good practical knowledge of the required build times and project management requirements. • As a complete developer of PBSA and BtR, the Group is in control of the overall timescale for delivery of a scheme and we 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. • Project delivery is carefully monitored by operational senior management and through project status reporting at operational and Executive Committee meetings. • Projects identified as at risk are subject to review by senior operational management, who have the knowledge to consider acceleration options.
Yes	• 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. • There are system data backup routines in operation with a lot of data hosted off-site using cloud-based platforms.
Yes	• We have introduced a new organisational structure and operating model which has been designed, in part, with a view to facilitating behaviours that are closely aligned to the Group's growth strategy. • A steering group of senior executives has been set up to track and monitor the implementation of the new operating model. • The Group has appointed an external business coach to work with members of the senior leadership team to help further develop a positive workplace culture. • A Head of Learning & Leadership Development has been appointed and is charged with focusing on talent management and associated training.
Yes	• The Group has an established human resources function with frameworks in place for recruitment, training and performance review. • During FY19, a Head of Learning & Leadership Development has been appointed with a focus on improving the Group's talent management framework and associated training. • The Group seeks to remain competitive in its remuneration levels and employment terms.

RISK MANAGEMENT AND PRINCIPAL RISKS continued

Risk	Impact	Risk assessment	Gross	Net
Regulatory and compliance				
14. Failure to comply with legislation The Group is subject to a broad range of regulatory and compliance requirements, which it may fail to comply with. Health and safety, GDPR, anti-bribery, anti-modern slavery, AIM and MAR regulations all provide obligations on the Company, which need to be complied with. Link to business model: None	A failure to comply with the relevant legislation may lead to fines or financial penalties and reputational damage, which may impact the Group's earnings performance and may impact investor/shareholder confidence. In the case of health and safety, a failure to comply with regulations could result in serious incident or fatality.	Likelihood	5	3
		Impact	4	4
		Risk score	20	12
Health and safety				
15. 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. Link to business model:	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.	Likelihood	5	2
		Impact	4	3
		Risk score	20	6

Key


Site procurement and planning


Transaction and funding

Construction and delivery

Accommodation management

Within risk appetite?	Mitigation
Yes	• The Board and Executive Committee take their governance obligations seriously and set the right tone and culture for the organisation as a whole. • Policies and procedures are well embedded in the organisation to ensure compliance with, and monitor performance against, relevant legislation. • We operate with an established and experienced health and safety department which fosters a pro-active approach to health and safety throughout the Group, monitors compliance through regular audits and provides appropriate training. • We take health and safety seriously at Board and Executive Committee level, with regular reporting of findings and recommendations. The health and safety department reports directly to the CEO. • The Group's outsourced internal audit function undertakes a programme of reviews, which includes specific areas of focus (including health and safety, GDPR and anti-bribery) and facilitates further enhancement of controls. • We engage with our insurers to help ensure we maintain best practice and insurance covers are reviewed annually and maintained at appropriate levels. • We administer induction and annual compliance training courses covering all relevant policies, along with regular communications, which help to continually re-educate and ensure compliance. • We monitor and report to the Executive Committee and Board on compliance-related matters. • We have a Compliance Officer who is responsible for overseeing compliance. The contact details for the Compliance Officer are published in the relevant policies. • We maintain a whistleblowing line, which enables any compliance related matters to be raised confidentially, with whistleblowing reports, including nil reports, provided to each Audit Committee meeting.
Yes	• Health and safety is a top priority at Board and Executive Committee level, with regular reporting on findings and recommendations. • The Group has a rigorous health and safety management framework in place supported by well-established policies and procedures. • The Group has an established health and safety department which regularly conducts health and safety audits across all of its sites. • The Group engages with its insurers to help ensure it maintains best practice.

BOARD OF DIRECTORS

The Directors have significant and broad experience between them, providing a good level of debate and oversight to the Group's strategy, decision making and governance.

Grenville Turner
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

Non-Executive Chairman of Oasis Document Storage Limited, FSP Limited and Heylo Housing Group 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 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

- More than 15 years' experience working in property development and student accommodation, 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

- Seventeen 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.

A * R N

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, the USA and Australia.
- Overseen major turnarounds in both public and private companies.
- Strong reputation and relationships with institutional shareholders.

Other current appointments

Chairman of the Audit Committee of Dentsu Aegis Network.

Past appointments

Non-Executive Chairman of Assura plc, Flybe Group plc and Hozelock Group; 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.

A R * N

Liz Reilly
Independent Non-Executive Director
Appointed to the Board: 21 January 2019

Skills and experience

- Nearly 20 years of executive experience at large UK businesses.
- Developed knowledge of the real estate sector as Group Human Resources Director of FTSE 100 listed Segro PLC, the owner, asset manager and developer of modern warehousing and light industrial property.
- Gained experience supporting the remuneration committee chair at Segro PLC.

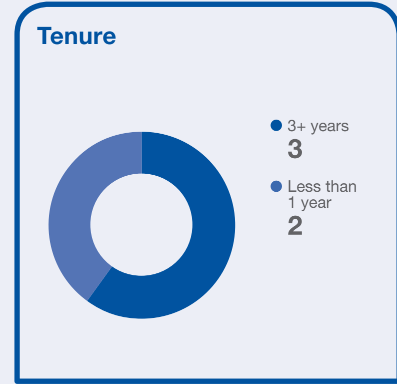
Other current appointments

Group Human Resources Director at Segro PLC.

Past appointments

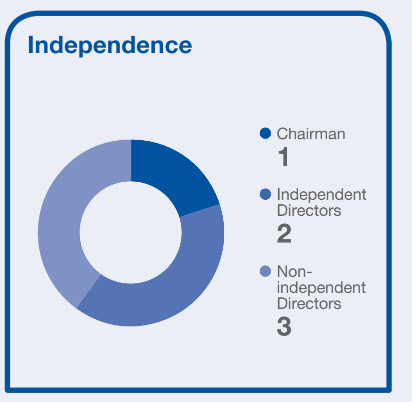
Retail Human Resources Director for J Sainsbury plc; and Group Human Resources Director for FCC UK Environmental (previously the Waste Recycling Group).

Tenure



Experience

Independence



A Audit Committee R Remuneration Committee N Nomination Committee Chair

CHAIRMAN'S INTRODUCTION

> The Board follows the principles set out in the QCA Code, which is designed for growing companies and which we believe is the most appropriate for the Group at this stage in its evolution.

Grenville Turner
Non-Executive Chairman

Board of Directors

Grenville Turner
Non-Executive Chairman

Richard Simpson
Chief Executive Officer

Philip Byrom
Chief Financial Officer

Simon Laffin
Independent Non-Executive Director

Liz Reilly
Independent Non-Executive Director

Dear Shareholder

Consistently delivering high-quality development schemes, on time, to budget and while ensuring rigorous safety standards requires a robust framework of governance and controls. We have therefore continued to build on and embed our governance processes throughout the Group, reflecting our increasing maturity as a public company.

The Board follows the principles set out in the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"), which is designed for growing companies and which we believe is the most appropriate for the Group at this stage in its evolution. There are no significant areas where our governance structures and practices differ from the QCA Code's expectations.

As Chairman, I am responsible for running the Board and for the Group's overall corporate governance, with the support of the Company Secretary. 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**

Our recruitment this year has led to positive changes to the Board, with the appointments of Richard Simpson as CEO and Liz Reilly as an additional Non-Executive Director. Both received thorough inductions on appointment, to ensure they could contribute as quickly and effectively as possible.

Liz's background in human resources made her an ideal choice to chair the Remuneration Committee, allowing me to step down from that role.

As described in more detail on page 62, we conducted our first externally led evaluation of the Board and its committees during the year. This identified many positive aspects of the way the Board works, as well as areas we will address over the coming months. Our intention is to continue to run an externally facilitated evaluation every three years, in line with good practice.

Grenville Turner
Non-Executive Chairman

13 January 2020

CORPORATE GOVERNANCE

Watkin Jones has a robust corporate governance framework, which supports its ability to successfully deliver its strategy.

The Board

The Board comprises two Executive Directors and three independent Non-Executive Directors, including the Chairman. Biographies of the Directors can be found on pages 58 and 59.

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 and Liz Reilly was appointed to the Board by a letter of appointment dated 4 January 2019. The appointments run for an initial term of three years from the date of appointment and thereafter continue subject to 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.

The Chairman and CEO have separate, clearly defined roles. The Chairman is responsible for leading the Board, setting the agenda for Board meetings (with the assistance of the Company Secretary) and for ensuring the Board operates effectively, by promoting a culture of openness and robust discussion. The CEO is responsible for setting and implementing the Group's strategy, for leading and developing the executive team and for managing the Group's day-to-day operations, taking account of the objectives, policies and risk appetite set by the Board.

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. Richard Simpson, Philip Byrom and Mark Watkin Jones (prior to stepping down as CEO) were invited to attend committee meetings to assist with the matters discussed.

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	9/9	5/5	5/5	3/3
Richard Simpson (appointed 2 January 2019)	7/7	–/–	–/–	–/–
Mark Watkin Jones (stepped down 15 January 2019)	2/2	–/–	–/–	–/–
Philip Byrom	9/9	–/–	–/–	–/–
Simon Laffin	9/9	5/5	5/5	3/3
Liz Reilly (appointed on 21 January 2019)	6/6	3/3	2/2	1/1

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

CORPORATE GOVERNANCE continued

During the year, we conducted our first externally facilitated Board evaluation, which found that the Group has successfully transitioned to meeting the norms and standards of a publicly listed company.

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.

Re-election of Directors

The Board's policy is for all Directors to seek re-election each year and, as a result, all of the Directors will be standing for re-election at the forthcoming AGM.

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. The Board confirms that each of the Non-Executive Directors can commit the necessary time to fulfil their roles.

Board committees

The Board has established Audit, Nomination and Remuneration Committees, which operate under written terms of reference. The reports of these committees can be found on pages 64 to 72.

Terms of reference

The terms of reference for the Board and the committees can be found at **http://www.watkinjonesplc.com/investors/corporate-governance**

Board effectiveness

During the year, we appointed Campbell Tickell to conduct our first externally facilitated Board evaluation. The process was led by the Chairman.

The evaluation comprised: a comprehensive review of relevant governance documents against the QCA Code and good practice; a survey of and interviews with all Board members; a Board observation; and a report and presentation to the Board.

The evaluation found that:

- the Group has made a successful transition from its origins as a family-run business to meeting the norms and standards of a publicly listed company;
- it is strongly evident that the Board has been involved from the outset in the Group's programme of transformational change and in looking to shape the Group's organisational culture;
- the Board operates effectively and each member of the Board is an active contributor; and
- the Chairman and CEO have established a good working relationship, underpinned by challenge and support.

The review also found some areas for the Board to address over the next twelve months, in particular the need to consider longer-term arrangements for company secretarial support and to maintain the Board's emphasis on continued improvement of risk management and audit processes. There is also scope to keep the Board's diversity and mix of skills under review.

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.

KPMG provides internal audit services to the Group. More information can be found in the Audit Committee report on pages 64 and 65.

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 FY18 results in January 2019 and the FY19 interim results in May 2019. The Board was kept informed about shareholders' views after these meetings by follow up from the Company's corporate brokers.

In November 2019, the Executive Directors and other members of the Executive Committee hosted a well-attended Capital Markets Day for shareholders and analysts at the Group's mixed-use development at Duncan House, Stratford. The presentations included a review of the Group's markets, strategy and opportunity for growth, as well as providing further insight into the Group's operations and business model.

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 13 February 2020 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**

Relations with shareholders

AUDIT COMMITTEE REPORT

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

Simon Laffin
Chairman of the Audit Committee

Audit Committee

Committee members

Simon Laffin
Independent Non-Executive Director

Grenville Turner
Non-Executive Chairman

Liz Reilly
Independent Non-Executive Director

Additional attendees, as invited:
Ernst & Young LLP, KPMG, Richard Simpson (from 2 January 2019), Mark Watkin Jones (until 2 January 2019), Philip Byrom, and other executives as required.

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 met five times in the last financial year.

Dear Shareholder

During the year, the work of the Committee covered the following matters:

Effectiveness of the external auditor

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

The Committee and the Board remain satisfied with the performance of EY and have concluded that the firm is independent and has the necessary level of objectivity. The incumbent audit partner, Victoria Venning, rotated off the audit and was replaced by Jamie Dixon. The Company policy now is that the external audit shall be tendered at least once every ten years, and EY has been the external auditor for over 20 years.

Accordingly, the Committee will invite a number of audit firms (including two non-Big 4 firms) to tender for the contract during 2020, to take over as external auditor during 2021. The result of this tender, as approved by the Board, will be reported to shareholders following conclusion of the tender process.

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. This register is still developing as a tool for the business and the Committee had a joint meeting in December 2019 with the Board to discuss and approve a refined risk register (see pages 48 to 57).

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 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: Presumed significant risk. The specific issue for Watkin Jones is recognition of long-term contract revenue.

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

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

Final year-end audit report

The Committee met with EY and reviewed their report on the year-end results (see pages 75 to 79). Careful consideration was given to:

- materiality, which was set by the auditors at 5% of profit before tax and one-off items. This equated to overall Group profit materiality of £2.6 million;
- accounting estimates and judgements, primarily relating to:
  - a closing provision of £3.5 million for onerous lease commitments, which increased by £0.8 million net during the year;
  - the annual bonus accrual of £2.9 million; and
  - intangible assets relating to Fresh Property Group of £3.8 million in customer relationships and £9.7 million in goodwill;
- revenue recognition of projects under development and the valuation of work-in-progress. In particular, the adoption and initial application of IFRS 15 'Revenue from contracts with customers' which was applied for the first time;
- the risks of management override of controls;
- quality of earnings. An exceptional cost of £2.6 million representing compensation to the Group's new CEO for forfeiting outstanding incentives held in respect of his former employer, of which £2.2 million was a non-cash charge relating to the issue of replacement share awards. This exceptional cost has been disclosed separately and excluded from adjusted EBITDA;
- a number of immaterial corrected and uncorrected audit differences;
- the independence of the external auditor. EY has been the auditor for over 20 years, but the Committee was firm in its view that the auditor has retained its independence from management. EY did no chargeable work for the Company other than the audit and half-year review; and
- new accounting and reporting standards. The Committee reviewed all new standards and in particular agreed the accounting treatment of IFRS 16 'Leases'. 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; 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.

Other matters considered by the Committee

Annual report and financial statements: The Committee reviewed the annual report and other financial statements during the year to ensure that they were fair, accurate and balanced. It then recommended those reports to the Board for approval. It also considered the going concern statement and recommended this to the Board.

Dividends: The Committee reviewed the ability of the Company to pay the proposed dividend and its appropriateness, and recommended this to the Board.

Controls-based audit: The Committee discussed with both management and the external auditor the benefits and implications of moving towards a controls-based audit. Progress was made in the 2019 audit, with a pathway being developed for further progress in the new financial year.

Business Continuity Planning: There had been no formal Business Continuity Plan ("BCP") in place, although there was an IT disaster recovery plan. The Committee requested both management and the internal audit team to formalise the BCP and to ensure that it provided comprehensive coverage. This is now all in hand with specialist contractors.

GDPR/Cybersecurity: Internal audit reviewed the status of the Company's compliance with GDPR and cybersecurity, and made a number of recommendations. The Committee stressed the importance of full compliance and the need to increase cybersecurity. Management undertook a number of actions in response. An outside contractor has been appointed to oversee GDPR procedures and compliance.

Cash flow reporting and payment practice reporting: An internal audit report was broadly comfortable with procedures, but made some recommendations on formalising and documenting controls.

QX India: QX provides administrative support to Fresh Property Group. The internal audit team looked at the outsourcing contract with QX and made a number of recommendations to ensure compliance, stronger governance and tighter data security.

UK Bribery Act: Compliance with this legislation was reviewed by the Committee and an updated Anti-Bribery and Corruption policy, including gifts and hospitality, was approved.

IFRS 16: The Committee discussed the implications of IFRS 16 with both management and the auditor. The impact is detailed in the financial review on page 47 and in note 5 to the financial statements.

IFRS 2 and CEO recruitment incentives: This was reviewed with the auditor to ensure that the incentives were correctly accounted for and disclosed as a one-off cost.

Dormant companies: The Committee reviewed the number of dormant companies and identified those that could be struck off. As a result, 32 companies have been removed.

Performance metrics: These were assessed for their relevance, appropriateness and completeness for assessing performance against our strategy.

Whistleblowing: The Committee received a small number of whistleblowing reports during the year. It ensured that these were fully and impartially investigated. In one case, the allegations were such as to require an independent legal review.

Financial experience on the Committee

The Committee reviewed its own performance as part of the Board appraisal review. It was felt that the Committee works well. 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

13 January 2020

NOMINATION COMMITTEE REPORT

The Committee successfully met its objectives for the year, as it refined the leadership team's responsibilities and ensured the effective introduction of our new CEO.

Grenville Turner
Chairman of the Nomination Committee

Nomination Committee

Committee members

Grenville Turner
Non-Executive Chairman

Simon Laffin
Independent Non-Executive Director

Liz Reilly
Independent Non-Executive Director

We believe the leadership team is functioning well and gives us confidence as we enter the next phase of the Group's development.

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 FY19, the Committee met three times.

Dear Shareholder

This report explains the work of the Nomination Committee during the financial year. Liz Reilly became a member of the Committee on her appointment to the Board. Committee membership was otherwise unchanged in the period.

The Nomination Committee set itself two priorities for FY19, as outlined in last year's report. These were to refine the division of responsibilities in the senior leadership team and to ensure the effective introduction of Richard Simpson as CEO.

Senior leadership responsibilities

The Group's senior leadership comprises our two Executive Directors, Richard Simpson and Philip Byrom, as well as Jim Davies, who heads up our development activities, Rebecca Hopewell, who is CEO of FPG, and our Investment Director Alex Pease.

During the year, we continued to refine their responsibilities, for example by giving Jim more responsibility for construction overall and asking Rebecca to take on a greater role in the overall transformation of the business.

At the same time, the leadership team has had much greater exposure to the Board this year and has presented to us on a wide range of subjects, from Brexit preparation to a review of our HR structures. We believe the team is functioning well and gives us confidence as we enter the next phase of the Group's development.

Introduction of Richard Simpson as CEO

As outlined in last year's report, we organised a detailed induction programme for both Richard and Liz Reilly, which included meetings with the other Directors, the Executive Committee, our corporate brokers and other professional advisers, as well as visits to our development sites.

The Board has also provided Richard with support in a number of ways, including regular informal dialogue with me, as well as discussions before and after Board meetings. This has helped Richard to make a strong start to life as our CEO and we are delighted with the impact he is already making.

Succession planning and Board composition

During the year, we appointed Jackie Kelly as the Group's first Human Resources Director. An important part of her remit has been to develop our succession planning at executive team level. We have also held discussions at Board level about succession planning for the Directors.

The Board is working well and having added Richard Simpson and Liz Reilly to the Board this year, we are not currently considering any further recruitment at Board level.

Directors' training

All the Directors look to keep their skills and experience up to date. We benefit from briefings, presentations and papers provided by our advisers and other professional services firms, covering topics such as new regulations, developments in corporate governance and emerging best practice. This year has seen a marked increase in presentations from within the business, as well as from our corporate brokers.

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.

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 FY20

In the current financial year, the Committee's priorities will be to:

- ensure we have sufficient senior leadership resource to effectively implement our growth strategy; and
- continue to review our succession planning and ensure it remains up to date.

Grenville Turner

Chairman of the Nomination Committee

13 January 2020

REMUNERATION COMMITTEE REPORT

The Group operates a straightforward remuneration policy, which appropriately balances short and long-term incentives to encourage effective and sustainable delivery of our strategy.

Liz Reilly
Chair of the Remuneration Committee

Remuneration Committee

Committee members

Liz Reilly
Independent Non-Executive Director

Simon Laffin
Independent Non-Executive Director

Grenville Turner
Non-Executive Chairman

Additional attendees, as invited:
Richard Simpson, Philip Byrom, Mark Watkin Jones (prior to stepping down as CEO), Jackie Kelly (Human Resources Director)

Committee responsibilities

The Remuneration Committee is primarily responsible for reviewing the performance of the Executive Directors and determining their terms and conditions of service, including their remuneration. The Committee also determines the remuneration for members of the Executive Committee.

The Committee meets at least once a year. In FY19, it met five 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.

I became chair of the Committee on my appointment to the Board on 21 January 2019. Grenville Turner, who previously chaired the Committee, remains a Committee member.

Remuneration policy

The Executive Directors are 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: £257,500.

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

- pay levels at comparably sized listed 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 FY19, Philip Byrom received a 3% increase to his basic salary, in line with the average increase for salaries across the Group. Richard Simpson did not receive a salary increase, having joined the Company part way through the year. 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 FY19 were based on carefully chosen corporate performance and personal performance measures. These measures incentivise the 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, adjusted to exclude exceptional items, in line with the market consensus.

For FY19, Richard Simpson received a bonus of 78.2% of salary, which was pro-rated to take account of his start date of 2 January 2019. Philip Byrom received a bonus of 77.2% of salary. Mark Watkin Jones was not eligible to receive a bonus for FY19.

Long-term incentive plan

The Watkin Jones Long-Term Incentive Plan ("LTIP") covers the Executive Directors and other senior executives.

Awards under the LTIP are structured as nil or nominal cost options and are normally made annually. Awards will normally vest three years from grant, subject to the achievement of challenging performance targets and continued service. Award levels are capped at 200% of salary per individual per annum.

The Committee monitors share usage carefully, noting that a 10% dilution limit applies to the LTIP or any other employee share plan adopted by the Company. Details of the awards granted to Executive Directors in FY19 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 there is no difference in cost to the Company.

Executive Board changes

Richard Simpson

Richard Simpson was appointed CEO on 2 January 2019. His remuneration package is consistent with our remuneration policy and is detailed above.

In addition to this package, Richard is being compensated for incentive awards he forfeited when he resigned from his previous employer. On 10 April 2019, he received a cash payment of £361,799 to compensate him in respect of his forgone 2018 annual bonus.

On 8 February 2019, Richard was granted awards over Watkin Jones plc shares in compensation for share awards which lapsed when he ceased his previous employment. These buyout awards have been granted under the "Watkin Jones Recruitment Plan", which is identical to the shareholder-approved LTIP, except that 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.

REMUNERATION COMMITTEE REPORT continued

Executive Board changes continued

Richard Simpson continued

Details of the awards are as follows:

Buyout award	Number of shares subject to buyout award	Normal vesting date of buyout award	Vesting/performance conditions
2015 Buyout Award	92,480	2 April 2019	• Continued employment with Watkin Jones only.
2016 Buyout Award	434,764	23 June 2019	• Continued employment with Watkin Jones; and • Vesting based on vesting outcome of 2016 Unite LTIP awards.
2017 Buyout Award	438,765	10 April 2020	• Continued employment with Watkin Jones; and • Vesting based on vesting outcome of 2017 Unite LTIP awards.
2018 Buyout Award	344,201	10 April 2021	• Continued employment with Watkin Jones; and • Vesting subject to the same performance conditions as the awards granted to other Watkin Jones senior executives in May 2018, under the terms of the LTIP.

The 2016, 2017 and 2018 buyout awards are subject to a two-year holding period. To the extent that these awards vest, Richard will not be able to sell any shares resulting from the exercise of an award for a period of two years from the vesting date, other than to fund the resulting tax and NIC liabilities.

During 2019, Richard exercised the 2015 Buyout Award and c.82% of the 2016 Buyout Award (after performance targets were applied). After crediting the awards with dividend equivalents and selling an appropriate number of shares to pay the one pence exercise price and associated tax liabilities, Richard received 236,324 shares. In addition, he received a cash payment of £2,970 to compensate him for the 2019 interim dividend which was not credited in shares to the 2015 Buyout Award.

Mark Watkin Jones

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

Non-Executive Directors' fees

The current fees for the Non-Executive Directors, which were increased by 3% from the prior year, are as follows:

- Grenville Turner: £128,750;
- Simon Laffin: £53,560; and
- Liz Reilly: £53,560.

These fees are subject to annual review, although they will not necessarily be increased each year.

Adviser to the Committee

FIT Remuneration Consultants LLP provides advice to the Committee as and when required, for example in relation to the introduction of the LTIP in FY18, and also provides information such as salary comparators, to enable the Committee to effectively benchmark the Executive Directors' rewards.

LTIP awards granted in the year

The following LTIP awards were granted to the Executive Directors on 31 May 2019:

	Basis of award (% of salary)	Number of shares under award
Richard Simpson	200	342,309
Philip Byrom	100	117,526

The awards have an exercise price of one pence per share and become exercisable after three years from the date of grant, subject to continued employment and performance based on the Company's total shareholder return and earnings per share performance over the three years to 30 September 2021.

Remuneration in the year

During the year, the Directors received the following emoluments:

	Basic salary/fee		Annual bonus		Pension contribution		Benefits in kind		Total	
	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18
Richard Simpson	281,250	—	219,883	—	56,250	—	11,457	—	568,840	—
Mark Watkin Jones[1]	87,500	350,000	—	303,520	8,750	35,000	4,822	19,481	101,072	708,001
Philip Byrom	253,750	232,500	195,846	201,624	25,375	23,250	25,008	21,889	499,979	479,263
Grenville Turner	126,875	125,000	—	—	—	—	—	—	126,875	125,000
Simon Laffin	52,780	52,000	—	—	—	—	—	—	52,780	52,000
Liz Reilly[2]	37,247	—	—	—	—	—	—	—	37,247	—

1. Mark Watkin Jones stepped down from the Board on 15 January 2019.
2. Liz Reilly was appointed to the Board on 21 January 2019 on a fee of £52,000 p.a.

REMUNERATION COMMITTEE REPORT continued

Outstanding share awards

The share awards outstanding for the Executive Directors at 30 September 2019 and as at the date of this report were as follows:

	Richard Simpson					Philip Byrom	
Award type	2015 Buyout Award	2016 Buyout Award	2017 Buyout Award	2018 Buyout Award	LTIP	LTIP	LTIP
Exercise price	1p	1p	1p	1p	1p	1p	1p
Date of grant	8 February 2019	8 February 2019	8 February 2019	8 February 2019	31 May 2019	31 May 2018	31 May 2019
Interest at 1 October 2019	—	—	—	—	—	115,955	—
Granted in the year	92,480	434,764	438,765	344,201	342,309	—	117,526
Lapsed in the year	—	(74,020)	—	—	—	—	—
Exercised in the year[1]	(92,480)	(360,744)	—	—	—	—	—
Interest at 30 September 2019	—	—	438,765	344,201	342,309	115,955	117,526
Date of vesting	2 April 2019	23 June 2019	10 April 2020	10 April 2021	31 May 2022	31 May 2021	31 May 2022
Performance period for TSR and EPS targets	—	—	—	1 October 2017 to 30 September 2020	1 October 2018 to 30 September 2021	1 October 2017 to 30 September 2020	1 October 2018 to 30 September 2021

1. Including dividend equivalents where delivered in additional shares.

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

- 50% of awards as above are based on sliding scale three-year TSR targets. 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 are based on sliding scale three-year EPS targets. 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.

The performance periods for the awards are shown in the table above.

Directors' interests in the Company's shares

At 30 September 2019 and as at the date of this report, the Directors had the following interests in the Company's shares:

	Number of shares
Richard Simpson	236,324
Philip Byrom	2,600,000
Grenville Turner	340,900
Simon Laffin	100,000
Liz Reilly	—
Total	**3,277,224**

Liz Reilly
Chair of the Remuneration Committee

13 January 2020

DIRECTORS' REPORT

The Company's Directors during the year were:

Grenville Turner
Non-Executive Chairman

Richard Simpson
Chief Executive Officer
(appointed 2 January 2019)

Mark Watkin Jones
Chief Executive Officer
(resigned 15 January 2019)

Philip Byrom
Chief Financial Officer

Simon Laffin
Independent Non-Executive Director

Liz Reilly
Independent Non-Executive Director
(appointed 21 January 2019)

The corporate governance disclosures on pages 61 to 63 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 01 to 57.

Review of business

The strategic report on pages 01 to 57 provides a review of the business, the Group's trading for the year ended 30 September 2019, key performance indicators and an indication of future developments and risks.

Result and dividend

The Group's profit for the year was £40.3 million (FY18: £44.2 million). More information about the Group's financial performance can be found in the financial review on pages 44 to 47 and in the financial statements on pages 80 to 118.

The Board has recommended a final dividend for the year of 5.6 pence per share, giving a total dividend for the year of 8.35 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 44 to 47.

Directors

The biographies of the current Directors can be found on pages 58 and 59. 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 61 to 63.

Directors' interests

The Directors' interests in the Company's shares are set out in the Remuneration Committee report on page 72.

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 2019, the Company's issued share capital was £2,557,221, divided into 255,722,099 ordinary shares of one pence each.

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

Substantial shareholdings

Based on the share register analysis as at 13 December 2019, 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	15.21
Octopus Investments	23,747,103	9.29
M&G Investments	18,010,814	7.04
Canaccord Genuity Group Inc	14,723,133	5.58
Polar Capital	11,206,723	4.38
GLG Partners	10,995,848	4.30
Seek Ventures Limited	10,000,000	3.91
JP Morgan Chase & Co	9,057,520	3.54

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

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

Approval

This Directors' report was approved on behalf of the Board on 13 January 2020.

Philip Byrom
Chief Financial Officer

13 January 2020

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 2019 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 been properly prepared in accordance with IFRSs as adopted by the European Union 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, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Group	Parent company
Consolidated balance sheet as at 30 September 2019	Balance sheet as at 30 September 2019
Consolidated statement of comprehensive income for the year then ended	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 public interest 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 £2.6 million which represents 5% of pre-tax income.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Watkin Jones plc

Key audit matters

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

Risk

Revenue recognition (Revenue – 2019: £375 million, 2018: £363 million)

Refer to the Audit Committee report (page 64); accounting policies (pages 85 and 86); and notes 6 and 7 of the consolidated financial statements (pages 91 to 93)

The Group's main revenue stream comes from long-term contracts (2019: £310 million, 2018: £303 million). In line with IFRS 15, revenue and margin are recognised in line with the five step model to account to revenue.

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 £38 million (2018: £30 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.

Accommodation management revenue of £7 million (2018: £7 million) and rental income of £19 million (2018: £23 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.

Our response to the risk

Our audit procedures included the following:

- we evaluated the design and implementation of controls over revenue recognition and costs to complete and tested these controls as part of our audit strategy; 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 £196,000 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 2019 and October 2019 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 2019 and October 2019 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.

Risk	Our response to the risk

Carrying value of land and work in progress 2019: £135 million (2018: £133 million) of inventories held split between land of £56 million (2018: £49 million) and work in progress of £79 million (2018: £84 million).
 	
Refer to the Audit Committee Report (page 65); accounting policies (page 87); and note 20 of the consolidated financial statements (page 103)
 	
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 and tested controls over the carrying value of land and work in progress;
	• for land and work in progress developments held at 30 September 2019 with a carrying value in excess of £196,000, 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 assessment.

Scope of our procedures

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

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 2019 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 £2.6 million (2018: £2.5 million), which is 5% (2018: 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.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Watkin Jones plc

An overview of the scope of our audit continued

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% (2018: 75%) of our planning materiality, namely £1.96 million (2018: £1.88 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 £0.13 million (2018: £0.12 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 74, 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.

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

13 January 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2019

	Notes	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Continuing operations			
Revenue	6	374,785	363,054
Cost of sales		(298,020)	(290,624)
Gross profit		76,765	72,430
Administrative expenses		(24,472)	(22,818)
Operating profit before exceptional items		52,293	49,612
Exceptional (costs)/income	8	(2,576)	4,283
Operating profit	9	49,717	53,895
Profit on disposal of interest in joint venture	19	—	121
Share of profit in joint ventures	19	286	1,023
Finance income		428	228
Finance costs	12	(695)	(925)
Profit before tax		49,736	54,342
Income tax expense	13	(9,436)	(10,136)
Profit for the year attributable to ordinary equity holders of the parent		40,300	44,206
Other comprehensive income			
Subsequently reclassified to income statement:			
Net (loss)/gain on equity instruments designated at fair value through other comprehensive income		(2)	37
Total comprehensive income for the year attributable to ordinary equity holders of the parent		40,298	44,243
		Pence	Pence
Earnings per share for the year attributable to ordinary equity holders of the parent			
Basic earnings per share	14	15.780	17.317
Diluted earnings per share	14	15.740	17.310
Adjusted proforma basic earnings per share (excluding exceptional (costs)/income)	14	16.689	15.958
Adjusted proforma diluted earnings per share (excluding exceptional (costs)/income)	14	16.646	15.952

The notes on pages 84 to 114 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2019

	Notes	30 September 2019 £'000	30 September 2018 £'000
Non-current assets			
Intangible assets	16	13,844	14,403
Property, plant and equipment	17	4,966	4,809
Investment in joint ventures	19	2,794	2,558
Deferred tax asset	27	290	42
Other financial assets	28	1,139	1,350
		23,033	23,162
Current assets			
Inventory and work in progress	20	134,226	132,778
Contract assets	21	25,578	8,758
Trade and other receivables	22	14,443	18,209
Cash and cash equivalents	23	115,652	106,640
		289,899	266,385
Total assets		312,932	289,547
Current liabilities			
Trade and other payables	24	(81,407)	(84,805)
Contract liabilities	21	(5,164)	(14,314)
Provisions	26	(863)	(1,068)
Interest-bearing loans and borrowings	25	(1,324)	(1,605)
Current tax liabilities		(7,056)	(7,204)
		(95,814)	(108,996)
Non-current liabilities			
Interest-bearing loans and borrowings	25	(37,481)	(24,877)
Deferred tax liabilities	27	(1,042)	(1,050)
Provisions	26	(2,594)	(1,602)
		(41,117)	(27,529)
Total liabilities		(136,931)	(136,525)
Net assets		176,001	153,022
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
Fair value reserve of financial assets at FVOCI		434	—
Share-based payment reserve	31	2,311	84
Retained earnings		161,474	140,720
Total equity		176,001	153,022

The notes on pages 84 to 114 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 13 January 2020 and signed on its behalf by:

Richard Simpson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Available-for -sale reserve £'000	Fair value reserve of financial assets at FVOCI £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 October 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 (as previously reported)	2,553	84,612	(75,383)	436	—	84	140,720	153,022
IFRS 9 restatement (note 5)	—	—	—	(436)	436	—	—	—
Adjustment on initial application of IFRS 15 (net of tax) (note 5)	—	—	—	—	—	—	497	497
As at 30 September 2018 (restated)	2,553	84,612	(75,383)	—	436	84	141,217	153,519
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**40,300**	**40,300**
Other comprehensive income	**—**	**—**	**—**	**—**	**(2)**	**—**	**—**	**(2)**
Deferred tax credited directly to equity (note 27)	**—**	**—**	**—**	**—**	**—**	**—**	**70**	**70**
Total comprehensive income	**—**	**—**	**—**	**—**	**(2)**	**—**	**40,370**	**40,368**
Transactions with owners								
Share-based payments	**—**	**—**	**—**	**—**	**—**	**2,227**	**—**	**2,227**
Dividend paid (note 15)	**—**	**—**	**—**	**—**	**—**	**—**	**(20,113)**	**(20,113)**
Balance at 30 September 2019	**2,553**	**84,612**	**(75,383)**	**—**	**434**	**2,311**	**161,474**	**176,001**

The notes on pages 84 to 114 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2019

	Notes	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Cash flows from operating activities			
Cash inflow from operations	32	**27,811**	66,582
Interest received		**428**	228
Interest paid		**(911)**	(1,247)
Tax paid		**(9,769)**	(11,140)
Net cash inflow from operating activities		**17,559**	54,423
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(361)**	(298)
Proceeds on disposal of property, plant and equipment		**87**	18
Proceeds from disposal of interest in joint venture		**–**	400
Cash distribution received from other financial assets	28	**209**	1,744
Purchase of other financial assets		**–**	(350)
Loan payments from joint ventures		**–**	1,176
Net cash inflow from investing activities		**(65)**	2,690
Cash flows from financing activities			
Dividends paid	15	**(20,113)**	(17,536)
Capital element of finance lease rental payments		**(1,307)**	(1,203)
Drawdown of RCF		**46,244**	8,036
Repayment of bank loans		**(33,306)**	(5,095)
Net cash outflow from financing activities		**(8,482)**	(15,798)
Net increase in cash		**9,012**	41,315
Cash and cash equivalents at 1 October 2018 and 1 October 2017		**106,640**	65,325
Cash and cash equivalents at 30 September 2019 and 30 September 2018		**115,652**	106,640

The notes on pages 84 to 114 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2019

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 2019 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. Accordingly, the difference between the cash consideration paid and the nominal value of the share capital acquired as part of the Group reconstruction were reflected against a merger reserve.

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 from contracts with customers

The Group's primary sources of revenue from contracts with customers are from developing residential and commercial properties. It also provides accommodation management services to third parties. When developing purpose built student accommodation ("PBSA"), build to rent ("BtR") and commercial properties, the Group often acquires the land on which the development will be constructed before it is sold to a customer alongside a construction contract or development agreement for the delivery of the relevant scheme.

Sale of land or completed property

The Group derives a significant portion of its revenue from the sale of land, and the development and sale of completed residential and commercial properties. Most of the Group's land sale agreements relate to sites for PBSA and BtR developments where the Group has obtained planning permission and they are sold to customers in conjunction with a construction contract for the Group to deliver the property.

Contracts for the sale of land and completed residential and commercial developments are typically satisfied at a point in time. This is usually deemed to be the legal completion as this is the point at which the Group has an enforceable right to payment. Revenue from the sale of land, residential and commercial properties is measured at the transaction price agreed in the contract with the customer.

Construction contracts and development agreements

Construction contracts and development agreements mainly relate to the development of PBSA and BtR properties along with any commercial elements of these projects. The duration of the contracts vary but are typically 18 to 30 months in duration. Most contracts are considered to contain only one performance obligation for the purposes of recognising revenue, being the development of the scheme to the agreed specification.

While the scope of works may include a number of different components, in the context of construction service activities these are usually highly interrelated and produce a combined output for the customer.

Contracts are typically recognised over time as the development works are undertaken on land owned and therefore controlled by the customer, with the services being provided by the Group enhancing that land through the construction of a building and associated landscaping and enabling works. In addition, the construction contracts or development agreements provide an enforceable right to payment for the value of construction works performed. Progress is typically measured through valuation of the works undertaken by a professional quantity surveyor, including an assessment of any elements for which a price has not yet been agreed, such as changes in scope.

In order to recognise the profit over time it is necessary to estimate the total contract revenue and costs. Once the outcome of a performance obligation of a construction contract or development agreement can be reasonably measured, margin is recognised in the income statement in line with the corresponding stage of completion.

Total 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.

Total contract costs

The estimates for total contract costs take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any changes in the scope of works and the expected cost of any rectification works during the defects liability period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

3. Accounting policies continued

3.5 Revenue from contracts with customers continued

Significant financing component

The Group often enters into construction contracts or development agreements which entail a final payment upon the practical completion of the property, typically linked to its timely completion. These amounts are included in the estimates for total contract revenue for a scheme such that the period between the recognition of revenue by the Group and when the customer pays can be greater than one year. This difference arises for reasons other than the provision of finance to the customer as it intended to provide protection to the customer that the Group fulfils its obligations under the contract. Accordingly, these contracts are not deemed to contain a significant financing component.

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.

Rental income

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

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 classified, at initial recognition, and subsequently measured at amortised cost or fair value through other comprehensive income ("OCI"). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables, the Group initially measures a financial asset at its fair value plus transaction costs. Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement when there is objective evidence that the asset is impaired.

The Group's investments in unit trusts and equity interests held under shared ownership schemes are classified as equity instruments designated at fair value through OCI. Gains and losses on these assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of comprehensive income when the right to payment has been established, except when the Group benefits from such proceeds as a recovery of the costs of the financial asset, in which case such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. In the previous financial period, the Group's investments in unit trusts and equity instruments held under shared ownership schemes were classified as available-for-sale ("AFS") financial assets. After initial measurement, AFS financial assets were subsequently measured at fair value, with unrealised gains or losses recognised through OCI in the AFS reserve.

Impairment of financial assets

The Group recognises lifetime expected credit losses for trade receivables, contract assets and loans to joint ventures. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast direction of economic conditions at the reporting date, including the time value of money where appropriate.

3.13 Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables. They are initially recognised at fair value net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables and loans and borrowings, including bank overdrafts. 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.

Derecognition

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

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

3.14 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.

3.15 Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

3. Accounting policies continued

3.16 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.

3.17 Employee benefits – long-term incentive plans

The Group operates a long-term incentive plan for certain members of the senior management team under which those employees receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). The cost of the equity-settled transactions is determined by the fair value at the date the grant is made using an appropriate valuation model, further details of which are given in note 31.

That cost is recognised in staff costs note 10, together with a corresponding increase in equity over the period to which the service and performance conditions are fulfilled ("the vesting period"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments which will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expenses recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments which will ultimately vest. Market performance conditions are reflected within the grant date fair value.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market condition the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

3.18 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.

3.19 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.

3.20 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.

3.21 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 3.18). 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 2019. 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 the Group recognises revenue under a construction contract or development agreement, revenue is recognised using the percentage of completion method as construction progresses with the estimated total revenue and cost to complete forming key estimates in determining the amount of revenue recognised. The estimates for total contract costs take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any changes in the scope of works and the expected cost of any rectification works during the defects liability period.

Provision for onerous lease commitments

As described in note 3.21, 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.

5. New standards and interpretations

New standards and interpretations adopted for the first time during the financial year ended 30 September 2019

IFRS 15 'Revenue from contracts with customers'

The Group adopted IFRS 15 'Revenue from contracts with customers' from 1 October 2018 retrospectively using the modified retrospective approach in respect of all contracts. Under the modified retrospective approach the results of the prior year are not restated but the initial impact of adopting the standard is taken to opening reserves. IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and introduces a five-step model to account for revenue, with new guidance provided in areas on which previous IFRS were silent.

The adoption of the new standard has required the land sale and development agreement elements for forward-sold schemes to be accounted for separately, rather than treating them as a combined agreement. Previously, the profit margin recognised was calculated with reference to the combined revenue and costs from both the land sales and development agreement. Under IFRS 15 the revenue and costs from these two contracts are assessed separately, resulting in different profit margins being recognised in relation to each contract. The effect on the Group's results for the year ended 30 September 2019 has been to reduce revenues and profit before tax by £613,000, to increase the tax creditor by £116,000 and to restate opening reserves at 1 October 2018 by an increase of £497,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

5. New standards and interpretations continued

New standards and interpretations adopted for the first time during the financial year ended 30 September 2019 continued

IFRS 9 'Financial instruments'

The Group also adopted IFRS 9 'Financial instruments' from 1 October 2018. The Group accounts for its financial assets and liabilities at fair value and does not have any complex financial instruments. The adoption of IFRS 9 has not had a material effect on the Group's financial statements. However, the Group has determined that assets previously reported as "available-for-sale" should be classified as fair value through OCI and they have been reclassified to a fair value through OCI reserve. The Group's sales on credit are typically to financial institutions with strong credit ratings and therefore the implementation of an expected credit loss model of assessing the impairment of trade receivables has not had a significant impact.

New standards and interpretations that have not yet been adopted

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.

IFRS 16 'Leases'

General impact of application of IFRS 16 'Leases'

IFRS 16 replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a lease' and is mandatorily effective for accounting periods beginning on or after 1 January 2019. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. The date of initial application of IFRS 16 for the Group will be 1 October 2019. On transition, the Group has chosen to apply the full retrospective approach under which the retrospective restatement for each prior reporting period in accordance with IFRS 16 will be presented. The two capitalisation exemptions proposed by the standard – lease contracts with a duration of less than twelve months and lease contracts for which the underlying asset has a low value – will be used. The Group has elected to only apply IFRS 16 to contracts previously identified as a lease under IAS 17.

In preparation for the first-time adoption of IFRS 16, the Group has carried out a review of the forecast impact of its implementation. IFRS 16 will have a material impact on the Group's financial statements, in particular in relation to the six sale and leaseback student accommodation properties. These properties were sold by the Group between 2010 and 2016 to institutional investors and simultaneously leased back by the Group. These leaseback arrangements will now be brought onto the balance sheet as right-of-use assets. IFRS 16 will also have a material impact on the Group's financial statements in relation to leases for the rental of office space and vehicles.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements from IAS 17.

Impact of lessee accounting

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16 the Group will:

- recognise right-of-use assets in the consolidated statement of financial position, initially measured at the present value of the future minimum lease payments from the inception of each lease discounted at the Group's incremental borrowing rate. Depreciation will be recognised in relation to this right-of-use asset with the initial asset valuation calculated on the basis that depreciation has been applied from the inception of the underlying lease;
- recognise lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future minimum lease payment from the inception of each lease discounted at the Group's incremental borrowing rate. The discount is unwound each year with the initial liability valuation calculated on the basis that the unwind of the discount has been applied from the inception of the lease up until the earliest reporting period presented; and
- the difference between the right-of-use assets and lease liabilities will be recognised as an adjustment to equity at the beginning of the earliest comparative period presented.

Subsequent treatment will be as follows:

- recognise depreciation of right-of-use assets in the consolidated statement of comprehensive income;
- the lease liability will be unwound each year, with the discount unwind recognised as an interest expense; and
- separate the total amount of cash paid into a portion repaying the principal of the lease liability (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

For short-term leases (lease of twelve months or less) and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Our assessment of the estimated impact of IFRS 16 indicates that on transition on 1 October 2019, the Group will recognise a right-of-use asset of c.£132 million, a deferred tax asset of c.£3 million and a lease liability of c.£150 million. The difference between the right-of-use asset, deferred tax asset and lease liability is estimated to be c.£15 million and equity will be reduced by this amount.

The application of IFRS 16 will generate a different profile for the recognition of lease expenditure in the Group statement of comprehensive income when compared to IAS 17. The calculation of lease liabilities under IFRS 16 requires the discounting of future minimum lease payments with the unwind of the discount then recognised in the statement of comprehensive income. When estimating future minimum lease payments, the minimum rent increases applicable under each lease are factored into the calculation and for the six student accommodation sale and leaseback properties these minimum annual rent increases range from 1.5% to 2.5%. This will result in the timing of the recognition of lease costs under IFRS 16 having a greater weighting in the early life of the leases than under IAS 17 and lower costs in the later years. In addition, EBITDA for the Group will increase significantly as the costs associated with these leases will now be recognised as depreciation and interest. The following table summarises the estimated difference in cost profile and classification under IFRS 16 when compared to IAS 17, with the figures reported before the impact of corporation tax.

	Year ended September 2020 £'000	Year ended September 2021 £'000	Year ended September 2022 £'000	Year ended September 2023 £'000	Year ended September 2024 £'000
Costs under IAS 17	11,200	11,000	10,900	10,800	10,700
Costs under IFRS 16:					
Depreciation	8,500	8,100	7,900	7,700	7,400
Finance costs	4,500	4,300	4,100	3,800	3,600
Total costs under IFRS 16	13,000	12,400	12,000	11,500	11,000
Reduction in profit before tax under IFRS 16	1,800	1,400	1,100	700	300

The Directors are in the process of analysing the effect of the following new standards which may have an impact on the Group:

Not yet endorsed by the EU:

Standard or interpretation	Effective for accounting periods beginning on or after
Amendments to IFRS 3 'Business Combinations' (issued on 22 October 2018)	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020

Endorsed by the EU:

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

6. Disaggregated revenue information

Year ended 30 September 2019	Student accommodation £'000	Build to rent £'000	Residential £'000	Accommodation management £'000	Corporate £'000	Total £'000
Type of goods or service						
Construction contracts or development agreements	183,779	26,108	3,786	—	694	214,367
Sale of land	38,437	46,312	—	—	8,808	93,557
Sale of completed property	6,250	—	34,278	—	—	40,528
Rental income	17,650	1,223	—	—	—	18,873
Accommodation management	—	—	—	7,460	—	7,460
Total revenue from contracts with customers	246,116	73,643	38,064	7,460	9,502	374,785
Timing of revenue recognition						
Goods transferred at a point in time	44,687	46,312	34,278	—	8,808	134,085
Services transferred over time	201,429	27,331	3,786	7,460	694	240,700
Total revenue from contracts with customers	246,116	73,643	38,064	7,460	9,502	374,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

6. Disaggregated revenue information continued

Year ended 30 September 2018	Student accommodation £'000	Build to rent £'000	Residential £'000	Accommodation management £'000	Corporate £'000	Total £'000
Type of goods or service						
Construction contracts or development agreements	247,152	2,426	—	—	8,747	258,325
Sale of land	43,993	—	—	—	581	44,574
Sale of completed property	—	—	29,965	—	—	29,965
Rental income	21,550	1,338	—	—	—	22,888
Accommodation management	—	—	—	7,302	—	7,302
Total revenue from contracts with customers	312,695	3,764	29,965	7,302	9,328	363,054
Timing of revenue recognition						
Goods transferred at a point in time	43,993	—	29,965	—	581	74,539
Services transferred over time	268,702	3,764	—	7,302	8,747	288,515
Total revenue from contracts with customers	312,695	3,764	29,965	7,302	9,328	363,054

Sales to three individual customers account for greater than 10% of the total revenue, representing revenue of £67,079,000, with £37,963,000 reported under the student accommodation segment and £69,629,000 reported under the build to rent segment (2018: sales to two individual customers of £56,412,000 and £42,584,000 reported under the student accommodation segment).

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 2019	**Student accommodation £'000**	**Build to rent £'000**	**Residential £'000**	**Accommodation management £'000**	**Corporate £'000**	**Total £'000**
Segmental revenue	246,116	73,643	38,064	7,460	9,502	374,785
Segmental gross profit	51,582	13,228	7,713	4,586	(344)	76,765
Administration expenses	—	—	—	(3,167)	(21,305)	(24,472)
Exceptional costs	—	—	—	—	(2,576)	(2,576)
Share of operating profit in joint ventures	286	—	—	—	—	286
Finance income	—	—	—	—	428	428
Finance costs	—	—	—	—	(695)	(695)
Profit/(loss) before tax	51,868	13,228	7,713	1,419	(24,492)	49,736
Taxation	—	—	—	—	(9,436)	(9,436)
Continuing profit/(loss) for the year	51,868	13,228	7,713	1,419	(33,928)	40,300
Profit for the year attributable to ordinary equity shareholders of the parent						40,300
Inventory and work in progress (note 20)	40,268	38,608	45,153	—	10,197	134,226

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

8. Exceptional (costs)/income

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Cost of compensating the Group's new CEO, Richard Simpson, for his forfeit Unite Group plc ("Unite") 2018 bonus	**(411)**	—
Cost of Watkin Jones plc share awards issued on compensating Richard Simpson for his forfeit Unite 2015-2017 share awards	**(2,165)**	—
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 (costs)/income	**(2,576)**	4,283

In the year ended 30 September 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

9. Total operating profit

This is stated after charging/(crediting):

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Operating lease rentals	11,475	14,600
Audit services to the parent company	77	77
Audit services to the subsidiaries	124	124
Loss on foreign exchange	18	571
Amortisation of intangible assets	559	559
Depreciation:		
Owned assets	539	405
Assets under finance leases	296	320
Profit on disposal of fixed assets	(43)	(7)
	13,045	16,649

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 2019	Year ended 30 September 2018
Construction	243	248
Accommodation management	474	388
Management and administration	109	95
	826	731

The aggregate payroll costs of these persons were as follows:

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Wages and salaries	21,566	20,756
Employee incentive – long-term incentive plans (note 31)	2,227	84
Social security costs	2,814	2,397
Defined contribution pension costs	690	619
	27,297	23,856

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 £690,000 (2018: £619,000). There are £51,000 unpaid contributions at the end of the year (2018: £47,000).

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 (2018: £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 (2018: £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 2019 £'000	Year ended 30 September 2018 £'000
Wages and salaries	3,910	3,648
Employee incentive – long-term incentive plans (note 31)	2,215	78
Social security costs	865	456
Defined contribution pension costs	213	175
	7,203	4,357

The above amounts for the year ended 30 September 2019 include the exceptional costs of £2,576,000 in compensating Richard Simpson for the forfeiture of his incentive awards on leaving his former employer (note 8). These include an amount of £362,000 included in "Wages and salaries" in respect of his forfeit 2018 bonus and an amount of £1,902,000 included in "Employee incentive – long-term incentive plans" in respect of his forfeit 2015-2017 share awards. The employer's national insurance charge on those amounts of £312,000 has been included in "Social security costs".

11. Directors' emoluments

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Directors' emoluments	1,566	1,283
Employee incentive – long-term incentive plans	2,083	20
Contributions to money purchase pension schemes	82	58
Highest paid Director:		
Emoluments	874	659
Employee incentive – long-term incentive plans	2,040	—
Contributions to money purchase pension schemes	56	35

The amounts included above for the highest paid director, Richard Simpson, include the costs of compensating him for the forfeiture of his incentive awards on leaving his former employer, as referred to in note 10.

12. Finance costs

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Finance charges	612	866
Finance charges payable under finance leases	53	48
Other interest payable	30	11
	695	925

During the year the Group has capitalised interest payable on bank loans of £216,000 (2018: £322,000) in development land and work in progress. The prior year comparative has been restated to reclassify certain bank interest payments from other interest payable to finance charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

13. Income taxes

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Current income tax		
UK corporation tax on profits for the year	9,439	10,320
Adjustments in respect of previous periods	183	(101)
Total current tax	9,622	10,219
Deferred tax		
Origination and reversal of temporary differences	(262)	(84)
Adjustments in respect of prior year	76	1
Total deferred tax	(186)	(83)
Total tax expense	9,436	10,136

Reconciliation of total tax expense

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Accounting profit before income tax	49,736	54,342
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	9,450	10,325
Expenses not deductible	282	499
Income not taxable	(79)	(441)
Joint ventures results reported net of tax	—	(242)
Other differences	12	104
Prior period adjustment	(229)	(100)
At the effective rate of tax of 19.0% (2018: 18.7%)	9,436	10,145
Income tax expense reported in the statement of profit or loss	9,436	10,136
Income tax attributed to an available-for-sale asset	—	9
	9,436	10,145

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 2019 and 30 September 2018, 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 2019 £'000	Year ended 30 September 2018 £'000
Profit for the year attributable to ordinary equity holders of the parent	40,300	44,206
Adjusted profit for the year attributable to ordinary equity holders of the parent (excluding exceptional (costs)/income after tax)	42,621	40,737

	Number of shares	Number of shares
Number of ordinary shares for basic earnings per share	255,382,181	255,268,875
Adjustment for the effects of dilutive potential ordinary shares	658,650	102,929
Weighted average number for diluted earnings per share	256,040,831	255,371,804

	Pence	Pence
Basic earnings per share		
Basic profit for the year attributable to ordinary equity holders of the parent	15.780	17.317
Adjusted proforma basic earnings per share (excluding exceptional (costs)/income after tax)		
Adjusted profit for the year attributable to ordinary equity holders of the parent	16.689	15.958
Diluted earnings per share		
Basic profit for the year attributable to diluted equity holders of the parent	15.740	17.310
Adjusted proforma diluted earnings per share (excluding exceptional (costs)/income after tax)		
Adjusted profit for the year attributable to diluted equity holders of the parent	16.646	15.952

15. Dividends

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Interim dividend paid in June 2019 of 2.75 pence (June 2018: 2.47 pence)	7,018	6,304
Final dividend paid in February 2019 of 5.13 pence (February 2018: 4.4 pence)	13,095	11,232
	20,113	17,536

The final dividend proposed for the year ended 30 September 2019 is 5.6 pence per ordinary share. This dividend was declared after 30 September 2019 and as such the liability of £14,320,438 has not been recognised at that date. At 30 September 2019, the Company had distributable reserves available of £115,135,000 (30 September 2018: £135,248,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

16. Intangible assets

	Customer relationships £'000	Brand £'000	Goodwill £'000	Total £'000
Cost				
At 1 October 2017, 30 September 2018 and 30 September 2019	**5,604**	**499**	**9,744**	**15,847**
Amortisation				
At 1 October 2017	806	79	—	885
Amortisation for the year	509	50	—	559
At 30 September 2018	1,315	129	—	1,444
Amortisation for the year	509	50	—	559
At 30 September 2019	**1,824**	**179**	**—**	**2,003**
Net book value				
As at 30 September 2019	**3,780**	**320**	**9,744**	**13,844**
As at 30 September 2018	4,289	370	9,744	14,403

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 2019, 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 7% 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 three-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% 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 2022 and thereafter increase at 4% per annum. This reflects underlying assumed RPI inflation of 3% 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 30 September 2017	7,370	157	7,527
Additions	634	—	634
Disposals	(65)	—	(65)
At 30 September 2018	7,939	157	8,096
Additions	1,037	—	1,037
Disposals	(193)	—	(193)
At 30 September 2019	**8,783**	**157**	**8,940**
Depreciation			
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
Charge for the year	835	—	835
Disposals	(148)	—	(148)
At 30 September 2019	**3,819**	**155**	**3,974**
Net book value			
At 30 September 2019	**4,964**	**2**	**4,966**
At 30 September 2018	4,807	2	4,809
At 30 September 2017	4,909	2	4,911

Finance leases

The carrying value of plant and machinery and motor vehicles held under finance leases at 30 September 2019 was £3,037,000 (2018: £3,321,000). Additions during the year include £709,000 (2018: £336,000) of plant and machinery under finance leases.

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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
Anderson Wharf (Student) Limited[4]	Ordinary	Property developer
Bailey Lane Student Limited[4]	Ordinary	Property developer
Blackhorse Lane Student Limited[4]	Ordinary	Property developer
Bridge Street Student Limited[4]	Ordinary	Property developer
Christchurch Road Bournemouth Limited[4]	Ordinary	Property developer
Crown Place Woking Limited[4]*	Ordinary	Property developer
Customhouse Student Limited[4]	Ordinary	Property developer
Duncan House Developments Limited[4]	Ordinary	Property developer
Ellen Street Hove Limited[4]*	Ordinary	Property developer
Elliot Road Selly Oak Limited[4]	Ordinary	Property developer
Fairleague Limited[4]	Ordinary	Property developer
Forest Road Student Limited[4]	Ordinary	Property developer
Garthdee Road Aberdeen Limited[4]	Ordinary	Property developer
Gladstone Road Exeter Limited[4]*	Ordinary	Property developer
Goldcharm Limited[4]	Ordinary	Property developer
Goldcharm Residential Limited[4]	Ordinary	Property developer
Gorse Stacks Development Limited[5]	Ordinary	Property developer
Harefield Road, Uxbridge Limited[4]	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
Iona Street Edinburgh 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
Logie Green Development Limited[4]	Ordinary	Property developer
Lower Bristol Road Bath Limited[4]*	Ordinary	Property developer
Market Street Newcastle Limited[4]	Ordinary	Property developer
Megaleague Limited[4]	Ordinary	Property developer
Military Road Canterbury Limited[4]	Ordinary	Property developer
Onega Centre Bath Limited[4]	Ordinary	Property developer
Oxford House Bournemouth Limited[4]	Ordinary	Property developer
Pittodrie Street Aberdeen Limited[4]	Ordinary	Property developer
Quarter House Studios Limited[4]	Ordinary	Property developer
Rockingham Street Student Limited[4]	Ordinary	Property developer
Sherlock Street Birmingham Limited[4]	Ordinary	Property developer
Spiritbond Stockwell Green Limited[4]	Ordinary	Property developer
St Mungo Avenue Glasgow 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

Name	Class of shares	Nature of business
Wisedeed 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
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
New Bridewell 2 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
Extralap Limited[5]	Ordinary	Dormant
Extraneat Limited[4]	Ordinary	Dormant
WJ Developments (Residential) Limited[5]	Ordinary	Dormant

* 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.

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 2019

19. Joint ventures

At 30 September 2019, 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 2019	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	—	—	—	—	—	—
Operating profit/(loss)	(18)	(2)	566	29	(6)	569
Finance income/(expense)	—	—	1	1	—	2
Profit/(loss) before tax	(18)	(2)	567	30	(6)	571
Income tax gain/(expense)	(4)	—	(112)	18	—	(98)
Profit/(loss) for the year	(22)	(2)	455	48	(6)	473
Total comprehensive income/(loss) for the year	(22)	(2)	455	48	(6)	473
Group share of profit/(loss) for the year	(11)	(2)	228	74	(3)	286
Current assets, including cash and cash equivalents	1,821	509	2,698	3,951	566	9,545
Non-current assets	—	—	—	—	—	—
Current liabilities, including financial liabilities	(1,862)	(52)	(40)	(519)	(1,490)	(3,963)
Non-current liabilities, including financial liabilities	—	—	—	—	—	—
Equity	(41)	457	2,658	3,432	(924)	5,582
Remove joint venture partners' share of net assets	21	(228)	(1,329)	(1,716)	464	(2,788)
Group's carrying amount of the investment	(20)	229	1,329	1,716	(460)	2,794

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.

20. Inventory and work in progress

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Development land	**55,605**	49,232
Stock and work in progress	**78,621**	83,546
Total inventories at the lower of cost and net realisable value	**134,226**	132,778

Total costs incurred during the year were £295,146,000 (2018: £287,835,000), of which £55,209,000 are included in inventory and work in progress (2018: £44,208,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

21. Contract assets and liabilities

(a) Current contract assets

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
At 1 October	**8,758**	—
Transferred to receivables	**(4,238)**	—
Balance remaining in relation to contract assets at the start of the year	**4,520**	—
Increase relating to services provided in the year	**21,058**	—
At 30 September	**25,578**	—

The contract assets primarily relate to the Group's right to consideration for construction work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the customer. Most of the Group's contracts for student accommodation and build to rent developments are structured such that there is a significant final payment which only becomes due upon the practical completion of the relevant property. Most of the Group's developments span at least two financial years, which results in the recognition of a contract asset up until the practical completion of the property, at which point it is transferred to trade receivables. None of the contract assets at the end of the year are past due, and taking into account the historical default experience and the future prospects in the industry, the Directors consider that no contract assets are impaired.

(b) Current contract liabilities

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
At 1 October	**14,314**	—
Revenue recognised in the year that was included in contract liabilities at the beginning of the year	**11,529**	—
Contract liabilities repaid	**2,785**	—
Balance remaining in relation to contract liabilities at the start of the year	**—**	—
Increase due to cash received or invoices raised in the year for performance obligations not recognised in revenue	**5,164**	—
At 30 September	**5,164**	—

The contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised.

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially satisfied at the balance sheet date in relation to the development of student accommodation, build to rent and commercial projects:

	Year ending 30 September 2020 £'000	Year ending 30 September 2021 £'000	Year ending 30 September 2022 £'000	Total £'000
Construction contracts	270,800	131,025	—	401,825

22. Trade and other receivables

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Financial assets		
Trade receivables	7,902	10,203
Less: provision for impairment of receivables	—	—
Trade receivables – net	7,902	10,203
Prepayments and other receivables	2,436	5,801
Equity instruments designated at fair value through OCI	521	694
Receivable from related parties (note 37)	1	11
Receivable from joint ventures (note 37)	1,588	1,500
Total financial assets	12,448	18,209
Other		
Prepayments	1,995	—
Total trade and other receivables	14,443	18,209

The fair value of the Group's equity interest in shared ownership schemes, included within equity instruments designated at fair value through OCI, is materially equal to historic cost.

The ageing analysis of trade receivables is as follows:

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Neither past due nor impaired	7,850	9,890
Past due but not impaired:		
Not more than three months	28	—
Greater than three months	16	313
	7,902	10,203

The Group estimates expected credit losses on trade receivables by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. As at 30 September 2019 and 2018, 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

Cash at bank and in hand as at 30 September 2019 includes £1,853,000 of cash deposited by the Group in an escrow account in connection with a development in progress, access to which is contingent upon the completion of certain development works (30 September 2018: £Nil). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

24. Trade and other payables: current

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Financial liabilities		
Trade payables	**50,894**	51,377
Deferred rental income	**4,519**	6,100
Other payables	**1,861**	9,221
Payable to related parties (note 37)	**22**	7
Payable to joint ventures (note 37)	**3,359**	2,904
Total financial liabilities	**60,655**	69,609
Other		
Other taxes and social security costs	**6,147**	4,239
Accruals	**4,038**	4,857
Deferred income	**10,567**	6,100
Total trade and other payables	**81,407**	84,805

25. Interest-bearing loans and borrowings

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Current		
Svenska Handelsbanken AB five-year term loan	**457**	457
HSBC Bank plc RCF arrangement fees	**(116)**	(80)
Finance leases	**983**	1,228
	1,324	1,605

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Non-current		
Svenska Handelsbanken AB five-year term loan	**5,025**	6,825
HSBC Bank plc RCF	**32,135**	17,397
HSBC Bank plc RCF arrangement fees	**(88)**	(140)
Finance leases	**409**	795
	37,481	24,877

Finance lease disclosure

	30 September 2019		30 September 2018	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Within one year	**983**	**892**	1,228	1,114
Later than one year and less than five years	**409**	**371**	795	665
After five years	**—**	**—**	—	—
Total minimum lease payments	**1,392**	**1,263**	2,023	1,779
Lease amount representing finance charges	**—**	**53**	—	69
Present value of minimum lease payments	**1,392**	**1,316**	—	1,848

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

During the period, the Group agreed an increase in the amounts available under its five-year revolving credit facility ("RCF") from £40 million to £60 million. The maturity date of the facility remains at 15 March 2021. At 30 September 2019, the Group had undrawn borrowing facilities of £37.9 million (2018: £32.6 million) with HSBC Bank plc, comprising its RCF, 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 2018	1,068
Utilised	**(1,068)**
Arising during the year	**216**
Transferred from non-current	**647**
At 30 September 2019	**863**

Non-current

	Onerous lease provision £'000
At 30 September 2018	1,602
Arising during the year	**1,639**
Transferred to current	**(647)**
At 30 September 2019	**2,594**

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 2019 £'000	Year ended 30 September 2018 £'000
At the start of the period	**(1,008)**	(1,091)
Included directly in equity	**70**	—
Statement of comprehensive income credit	**186**	83
At the end of the period	**(752)**	(1,008)
Comprising:		
Deferred tax asset	**290**	42
Deferred tax liability	**(1,042)**	(1,050)
At the end of the period	**(752)**	(1,008)

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27. Deferred tax continued
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 2018	(779)	(229)	(1,008)
Statement of comprehensive income credit	**95**	**161**	**256**
At 30 September 2019	**(684)**	**(68)**	**(752)**

	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)

Deferred tax credited directly to equity of £70,000 (2018: £Nil) relates to the share scheme movement in Watkin Jones & Son Limited.

28. Other financial assets and liabilities
Other financial assets

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Financial instruments at fair value		
Equity instruments designated at fair value through other comprehensive income	**1,139**	1,350
Other financial assets	**1,139**	1,350

Equity instruments designated at fair value through other comprehensive income 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 £500,000 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 received a profit payment of £1,263,000 on its carried interest in CST, which was included in the exceptional income for the year.

From the distribution 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 received further distributions against the carrying value of its investments in CST amounting to £209,000 in the year ending September 2019.

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

30 September 2019	**Units**	**Price £**	**Value £'000**
Curlew Student Trust			
Units held by Watkin Jones & Son Limited	**1,689,991**	**0.4251**	**718**
Carried interest investment held by Fresh Property Group Ltd			**71**
			789
Curlew Student Trust 2			
Carried interest investment held by Fresh Property Group Ltd			**350**
			350
Group's carrying amount of the investment			**1,139**

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

The fair value of the units held by Watkin Jones & Son Limited in the Curlew Student Trust, included within equity instruments designated at fair value through other comprehensive income, 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 2019 £'000**	Year ended 30 September 2018 £'000
Impact on profit before tax	**120**	134

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 2019 and 30 September 2018:

Liquidity risk – 30 September 2019	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	—	1,324	37,481	—	38,805
Trade and other payables	—	65,819	—	—	65,819
	—	67,143	37,481	—	104,624

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29. Financial risk management continued

Liquidity risk continued

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

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.

30. Share capital

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'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 2019 was 255,722,099 (30 September 2018: 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 awards are set out in the Remuneration Committee report on pages 68 to 72. The aggregate total awards granted under the Plan are as follows:

Share awards granted	Year ended 30 September 2019 Number	Year ended 30 September 2018 Number
At 1 October	494,058	—
Granted in the year	2,219,126	494,058
Exercised in the year	(453,224)	—
Lapsed in the year	(74,020)	—
At 30 September	2,185,940	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 2019 and 2018:

	2019 LTIP	R Simpson 2018 buyout	2018 LTIP
Share price at grant	215.5 pence	230.0 pence	218.5 pence
Exercise price	One pence	One pence	One pence
Expected term (years)	Three	Three	Three
Expected volatility (%)	26.4	27	27
Risk-free interest rate (%)	0.56	0.71	0.65
Are dividend equivalents receivable for the award holder?	Yes	Yes	Yes

The total number of shares granted subject to the 2019 buyout awards of Richard Simpson's Unite LTIPs for 2015 are fixed as the Unite Group plc performance targets to which they were linked have already been achieved. The fair value of these awards have been calculated using a Black-Scholes valuation model. The following table lists the inputs to the model:

	R Simpson 2015 buyout
Share price at grant	230.0 pence
Exercise price	One pence
Expected term (years)	0.15
Expected volatility (%)	27
Risk-free interest rate (%)	0.71
Are dividend equivalents receivable for the award holder?	Yes

The 2019 buyout awards of Richard Simpson's Unite Group plc LTIPs for 2016 and 2017 vest based on Unite Group plc's rather than Watkin Jones plc's performance. These conditions constitute "non-vesting" conditions under IFRS 2. As such, the fair value of the grant includes a discount for the Unite Group plc performance conditions based on the extent to which Unite was expected to meet the performance targets at the grant date. The Unite Group plc LTIPs for 2016 and 2017 are based on three performance conditions, being adjusted EPS, Total Accounting Return ("TAR") and Relative TSR. The following table lists the estimated performance against those targets and notes on how these were estimated:

	R Simpson 2016 buyout expected vesting	R Simpson 2017 buyout expected vesting	Source
Adjusted EPS	62.5%	58.8%	February 2019 Eikon earnings consensus
TAR	88.0%	95.5%	Published NAV and February 2019 Eikon consensus
Relative TSR	100.0%	100%	Return Index data from Thomson Reuters DataStream with growth measured to February 2019
Total expected vesting	**83.5%**	**84.76%**	

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 2019, the amount charged to the statement of comprehensive income and credited to share-based payment reserve was £2,227,000 (30 September 2018: £84,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2019

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

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Profit before tax	49,736	54,342
Depreciation	835	725
Amortisation of intangible assets	559	559
(Profit)/loss on sale of plant and equipment	(43)	(7)
Finance income	(428)	(228)
Finance costs	695	925
Profit on disposal of interest in joint ventures	—	(121)
Share of profit in joint ventures	(286)	(1,023)
(Increase)/decrease in inventory and work in progress	(1,948)	(7,558)
Interest capitalised in development land, inventory and work in progress	216	322
(Increase)/decrease in contract assets	(16,820)	—
(Increase)/decrease in trade and other receivables	4,682	9,442
(Decrease)/increase in contract liabilities	(9,150)	—
(Decrease)/increase in trade and other payables	(3,251)	9,155
Increase/(decrease) in provision for property lease commitment	787	(35)
Increase in share-based payment reserve	2,227	84
Net cash inflow from operating activities	**27,811**	66,582

Major non-cash transactions

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

33. Analysis of net cash/(debt)

30 September 2019	At beginning of year £'000	Cash flow £'000	Non-cash movements £'000	At end of year £'000
Cash at bank and in hand	106,640	9,012	—	115,652
Finance leases	(2,023)	1,307	(676)	(1,392)
Bank loans	(24,459)	(12,938)	(16)	(37,413)
Net cash	**80,158**	**(2,619)**	**(692)**	**76,847**

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

Cash at bank and in hand as at 30 September 2019 includes £1,853,000 of cash deposited by the Group in an escrow account in connection with a development in progress, access to which is contingent upon the completion of certain development works (30 September 2018: £Nil). Non-cash movements relate to the acquisition of property, plant and equipment under finance leases and the amortisation of bank loan arrangement fees.

34. Operating leases

Total commitments – Group as lessee

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Non-cancellable operating lease rentals are payable as follows:		
Within one year	**11,302**	14,818
Later than one year and less than five years	**43,461**	42,707
After five years	**159,372**	168,022
	214,135	225,547

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
Collegelands, Glasgow	2.0	5.0	6 September 2026
Europa, Liverpool	2.0	5.0	18 March 2030
Optima, Loughborough	2.0	5.0	18 March 2030
Glassyard Building, London	2.5	2.5	10 September 2034
Dunaskin Mill, Glasgow	1.5	5.0	5 September 2051
New Bridewell, Bristol	1.5	5.0	12 March 2052

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

Total commitments – Group as lessor

	Year ended 30 September 2019 £'000	Year ended 30 September 2018 £'000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	**14,846**	14,229
Later than one year and less than five years	**3,586**	6,599
After five years	**917**	1,053
	19,349	21,881

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 operational build to rent properties as at 30 September 2018.

35. Capital and other financial commitments

The Group had no material capital commitments at 30 September 2019 or 30 September 2018.

36. Contingent liabilities

The Group has contingent liabilities of £605,000 (2018: £2,729,000) 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 £32,135,000 (2018: £17,397,000).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 30 September 2019

37. Related party transactions

The Group processed payroll costs on behalf of Carlton (North Wales) Limited and its subsidiary companies of £199,000 (2018: £301,000). The amount owed to Carlton (North Wales) Limited and its subsidiary companies at the balance sheet date was £Nil (2018: £7,000).

The Group paid rent and service charges to Planehouse Limited and its subsidiary companies amounting to £316,000 (2018: £316,000) and processed payroll costs on behalf of the Company of £101,000 (2018: £80,000). The amount owed by Planehouse Limited and its subsidiary companies at the balance sheet date was £Nil (2018: £80,000 owed to Planehouse Limited).

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 £36,000 (2018: £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 £500,000 by way of a carried interest investment in CST. During the year, the Group received a distribution against the carrying value of its investment in CST amounting to £209,000. The fair value of the units held in CST by Watkin Jones & Son Limited at 30 September 2019 amounted to £718,000 (2018: £917,000) and the fair values of the carried interest investments in CST and CST2 held by Fresh Property Group Ltd amounted to £71,000 (2018: £83,000) and £350,000 (2018: £350,000) respectively.

Under a joint venture agreement the Group was owed £716,000 at 30 September 2019 by Deiniol Developments Limited (2018: £714,000). The Group owns 50% of the share capital in Deiniol Developments Limited.

The Group has a 50% interest in Lacuna Belfast Limited. The Group received payments of £230,000 from Lacuna Belfast Limited during the year (2018: made payments of £246,000 to Lacuna Belfast Limited). At the balance sheet date, £199,000 was owed to Lacuna Belfast Limited (2018: £34,000).

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 £Nil (2018: £100,000). The Group received payments of £180,000 from Lacuna Dublin Road Limited during the year (2018: £1,242,000) and made payments of £142,000 to Lacuna Dublin Road Limited. At the balance sheet date, £1,246,000 was owed to Lacuna Dublin Road Limited (2018: £1,208,000).

The Group has a 50% interest in Lacuna WJ Limited. During the year, the Group charged development fees to Lacuna WJ Limited amounting to £60,000 (2018: £777,000). The Group received payments of £280,000 from Lacuna WJ Limited during the year (2018: £1,887,000). At the balance sheet date, £1,915,000 (2018: £1,696,000) 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 £116,000 (2018: £85,000) to assist with its development activities. At the balance sheet date, £868,000 (2018: £752,000) 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 2019

	Notes	30 September 2019 £'000	30 September 2018 £'000
Fixed assets			
Investments	41	**258,086**	255,859
Current liabilities			
Trade and other payables	42	**(53,475)**	(33,362)
Total liabilities		**(53,475)**	(33,362)
Net assets		**204,611**	222,497
Capital and reserves			
Share capital	43	**2,553**	2,553
Share premium		**84,612**	84,612
Share-based payment reserve		**2,311**	84
Retained earnings		**115,135**	135,248
Total equity		**204,611**	222,497

The notes on pages 117 and 118 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 13 January 2020 and signed on its behalf by:

Richard Simpson
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

for the period ended 30 September 2019

	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2018	2,553	84,612	84	135,248	222,497
Dividend paid	—	—	—	**(20,113)**	**(20,113)**
Share-based payments	—	—	**2,227**	—	**2,227**
Balance as at 30 September 2019	**2,553**	**84,612**	**2,311**	**115,135**	**204,611**

	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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 September 2019

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.

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.

	2019 £'000	2018 £'000
Wages and salaries	**1,566**	1,283
Employee incentive – long-term incentive plans	**2,083**	20
Social security costs	**475**	172
Pension costs	**82**	58
	4,206	1,533

The above amounts for the year ended 30 September 2019 include the exceptional costs of £2,576,000 in compensating Richard Simpson for the forfeiture of his incentive awards on leaving his former employer (note 8). These include an amount of £362,000 included in "Wages and salaries" in respect of his forfeit 2018 bonus and an amount of £1,902,000 included in "Employee incentive – long-term incentive plans" in respect of his forfeit 2015-2017 share awards. The employer's national insurance charge on those amounts of £312,000 has been included in "Social security costs".

40. Dividends

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the year		
Interim dividend paid in June 2019 of 2.75 pence (June 2018: 2.47 pence)	**7,018**	6,304
Final dividend paid in February 2019 of 5.13 pence (February 2018: 4.4 pence)	**13,095**	11,232
	20,113	17,536

The final dividend proposed for the year ended 30 September 2019 is 5.6 pence per ordinary share. This dividend was declared after 30 September 2019 and as such the liability of £14,320,438 has not been recognised at that date. At 30 September 2019, the Company had distributable reserves available of £115,135,000 (30 September 2018: £135,248,000).

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued
for the year ended 30 September 2019

41. Investments in subsidiaries

	Subsidiary undertakings £'000
Cost	
1 October 2018	255,859
Capital contribution relating to share-based payments	**2,227**
30 September 2019	**258,086**

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

	2019 £'000	2018 £'000
Financial liabilities		
Group undertakings	**53,475**	33,362

43. Allotted and issued share capital

	2019 £'000	2018 £'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. The cost for the year ending 30 September 2019 of the awards granted has been recharged to Watkin Jones & Son Limited.

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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 13 January 2020, the Company's issued share capital consists of 255,722,099 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 13 January 2020, the percentage of the Company's issued share capital that is not in public hands is 22.6%.

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
CGU	cash-generating unit
CST	Curlew Student Trust
CST2	Curlew Student Trust 2
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
FVOCI	fair value through other comprehensive income
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 13 February 2020 at the offices of Buchanan, 107 Cheapside, London EC2V 6DN.

Final dividend

The final dividend will be paid on 28 February 2020 to shareholders on the register at the close of business on 24 January 2020. The shares will go ex-dividend on 23 January 2020.

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Watkin Jones plc Annual report and financial statements 2019