



# CREATING THE FUTURE OF LIVING

Annual report and financial statements 2020

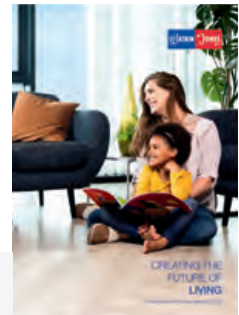


# Watkin Jones is the UK's leading developer and manager of residential for rent.

We have unrivalled experience of developing purpose built student accommodation ("PBSA") across the UK, over more than two decades. We now have a rapidly growing presence in the exciting build to rent ("BtR") market.

Our development operations are complemented by Fresh, our specialist accommodation manager. This gives us an end-to-end solution for the investors who buy our developments and generates invaluable feedback from tenants, helping to ensure our future schemes meet their evolving needs.

We also develop private housing for sale, ranging from starter and executive homes to apartment buildings.



Front cover image:  
The Helm,  
Bournemouth

## OUR PURPOSE

is to create the future of living.

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

We aim to develop places that will be attractive to live in for years to come, which help residents succeed through quality homes and customer service, and which play a meaningful part in fixing the UK's housing shortage. This will generate attractive, long-term returns for our institutional partners, encouraging them to invest more in the burgeoning residential for rent sector.



The Helm,  
Bournemouth

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## FINANCIAL HIGHLIGHTS

A resilient performance despite the challenging conditions caused by COVID-19.

### Revenue

**£354.1 million**

(2019: £374.8 million)

**-5.5%**

### Gross profit

**£75.9 million**

(2019 restated<sup>1</sup>: £80.0 million)

**-5.1%**

### Adjusted operating profit<sup>2</sup>

**£51.7 million**

(2019 restated<sup>1</sup>: £55.6 million)

**-7.1%**

### Operating profit

**£31.2 million**

(2019 restated<sup>1</sup>: £53.0 million)

**-41.1%**

### Adjusted profit before tax<sup>2</sup>

**£45.8 million**

(2019 restated<sup>1</sup>: £50.4 million)

**-9.3%**

### Profit before tax

**£25.3 million**

(2019 restated<sup>1</sup>: £47.9 million)

**-47.1%**

- Solid financial performance, showing the resilience of the business during a challenging period for the UK economy.
- Revenue down 5.5% for the year, primarily as a result of forward sales of developments being deferred due to COVID-19 uncertainty.
- Robust gross margin for the year of 21.4% (FY19: 21.4%).
- Repaid at the start of FY21 all Government financial assistance received to support furloughed staff, totalling £0.8 million.
- Full-year final dividend of 7.35 pence per share proposed, in line with policy of 2.0x cover by adjusted earnings, reflecting strength of financial performance and cash position.
- Strong liquidity position:
  - £134.5 million gross cash at 30 September 2020 (30 September 2019: £115.6 million).
  - £94.8 million net cash at the year end (after deducting loans, but excluding IFRS 16 operating lease liabilities), up from £76.8 million at 30 September 2019.
  - £100.0 million revolving credit facility with HSBC renewed to May 2025, of which £65.0 million was undrawn at 30 September 2020.
- Exceptional costs of £20.5 million, including £14.8 million in relation to remediating cladding on a number of past developments and £5.7 million of additional costs in relation to COVID-19.





St Davids,  
Swansea

Adjusted EBITDA<sup>3</sup>

**£61.3 million**

(2019 restated<sup>1</sup>: £65.0 million)

**-5.8%**

EBITDA<sup>3</sup>

**£40.9 million**

(2019 restated<sup>1</sup>: £62.5 million)

**-34.6%**

Gross cash

**£134.5 million**

(2019: £115.7 million)

**+16.3%**

Adjusted net cash<sup>4</sup>

**£94.8 million**

(2019: £76.8 million)

**+23.4%**

Adjusted basic earnings per share<sup>2</sup>

**14.7 pence**

(2019 restated<sup>1</sup>: 16.1 pence)

**-8.7%**

Basic earnings per share

**8.2 pence**

(2019 restated<sup>1</sup>: 15.2 pence)

**-45.8%**

Dividend per share

**7.35 pence**

(2019: 8.35 pence)

**-12.0%**

Adjusted return on equity<sup>5</sup>

**22.9%**

(2019: 27.3%)

**-4.4 percentage points**

Adjusted performance measures have been provided where appropriate to help users of the annual report gain a clear view of the underlying financial performance of the Group. An explanation of the purpose of the alternative performance measures used and their calculation is provided on page 67.

- IFRS 16 'Leases' was applicable to the Group for the first time for FY20. The Group has adopted the fully retrospective approach in applying the standard, recognising its material impact on the Group's results and statement of financial position. The comparative results for 2019 have therefore been restated according to the transition arrangements set out in the standard. Further details on the nature of the changes to the Group's accounting required by this standard, as well as its main impacts and the adjustments made to restate the comparative figures, are detailed in note 5 to the financial statements.
- Adjusted operating profit, adjusted profit before tax and adjusted basic earnings per share are calculated before the impact of exceptional charges of £20.5 million (FY19: exceptional charge of £2.6 million).
- EBITDA comprises operating profit plus the Group's profit from joint ventures, adding back charges for depreciation and amortisation. Adjusted EBITDA is stated before the exceptional charges noted above.
- Adjusted net cash is stated after deducting loans, but before deducting IFRS 16 operating lease liabilities of £134.4 million at 30 September 2020 (30 September 2019: £137.5 million).
- Adjusted return on equity is calculated as profit after tax, adjusted to exclude exceptional items and the related tax, as a percentage of average total equity for the year.

## BUSINESS HIGHLIGHTS

Further good progress with delivering our strategy.

### Build to rent development



- Exciting progress with BtR strategy, delivering 159-unit scheme in Bournemouth and making good progress on site with developments at Reading, Wembley, Sutton and Stratford, which are all on track for completion in FY21.
- Secured four significant new sites in Birmingham, Bath, Glasgow and Lewisham, London and, subsequent to the year end, a site in Belfast.
- 928 apartments across five sites forward sold for delivery over the period to FY22. Further three sites (722 apartments) currently in negotiation for sale for delivery over the period FY22 to FY23.
- Planning obtained for 538 BtR apartments on schemes in Brighton and Hove and Lewisham, London.
- Total secured development pipeline of 4,466 apartments across 13 sites, for delivery between FY21 and FY25.

Read more

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### Student accommodation development



- Resilient operational performance, with 2,609 beds delivered. Six developments were completed ahead of the academic year despite lockdown restrictions and one scheme subsequent to the year end.
- 2,730 beds across six sites forward sold for delivery in FY21, with a further development (462 beds) in negotiation for forward sale.
- 1,168 beds across four sites forward sold for delivery in FY22, including sites in Bristol, York and Leicester forward sold subsequent to the year end.
- Added prime sites to the pipeline in Bristol, Bath, Edinburgh, Guildford and Manchester.
- Obtained planning for 1,217 PBSA beds across five sites, including an additional 100 beds at Kelaty House, Wembley.
- Signed an on-campus partnership agreement with Cranfield University for delivery in FY21 (415 beds) and FY22 (198 beds).
- Total secured development pipeline of 7,910 student beds across 20 sites, for delivery between FY21 and FY24.

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Duncan House, Stratford

## Accommodation management



- Fresh continued to perform well during the pandemic, as we focused on supporting student and tenant welfare.
- At 30 September 2020, Fresh managed 20,179 student beds and BtR apartments across 66 schemes (30 September 2019: 17,721 beds and apartments, across 64 schemes).
- Nine new PBSA schemes (3,593 beds) mobilised in the year, ready for occupation and management from the start of the 2020/21 academic year.
- Won mandates during the year for the future management of 1,414 PBSA beds.
- Currently appointed to manage 21,790 student beds and BtR apartments by FY23, including expected renewals.
- Began to implement new management system for both BtR and student accommodation, for roll out in FY21.
- Achieved COVID-secure accreditation for the properties Fresh manages and provided significant support to student and residential tenants throughout the pandemic.

Read more

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## Residential



- Good performance against backdrop of COVID-19 pandemic, with 95 sales completions (FY19: 150 completions), including 25 apartments in our developments at Stratford and Bath.
- Completed the 35-apartment development at Trafford Street, Chester, which was forward sold in FY19.
- Strong pick up in sales in the summer months following the lifting of the initial COVID-19 lockdown measures and introduction of temporary stamp duty relief, with 25 sales reserved or exchanged going into FY21.
- Commenced development of a site for 97 homes in Preston, including 34 affordable homes.
- Pilot testing opportunity to combine our residential delivery capability with our proven residential for rent development model in the affordable housing sector.
- Secured, subsequent to the year end, our first affordable homes site for 245 homes in Crewe, with an offer progressing for the forward sale of 159 affordable and BtR homes.

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## OUR RESPONSE TO COVID-19

As the tragic consequences of the COVID-19 pandemic became increasingly apparent, we worked hard to ensure the wellbeing of our employees, tenants and partners, while limiting the impact on our operations.



### Protecting health and safety

In responding to COVID-19, our top priority was to protect the health and safety of our people, tenants and supply chain partners. In particular:

- we put our people first and went beyond Government guidance by closing all of our development sites from 23 March 2020, while we assessed the required changes to working practices;
- we adopted all relevant guidance from the UK Government, Public Health England and the World Health Organization;
- we introduced one-way systems, additional canteen and welfare facilities, infrared thermometers and social distancing rules, enabling us to swiftly remobilise our sites;
- the Group Development and Delivery Director reported weekly to the Executive Committee, keeping them informed of the number of people on site, ensuring that all risk assessments and method statements were in place, and that the Health & Safety Director was satisfied we were complying with all necessary legislation;
- all our office-based staff switched to agile working, to ensure they could continue to work safely from home, quickly enabled by our IT systems;
- Fresh focused on ensuring students and tenants were COVID-secure, introducing new ways of working to protect them and our people from risk of infection, while ensuring we could continue to provide high-quality services and support; and
- the Group received COVID-secure accreditation from the British Safety Council in September 2020, following a complete audit of control measures across the Group and a rigorous review of our management and operational response to the pandemic.

➔ **Section 172:**  
read more  
on page 58



### Focusing on delivery

On-time delivery of our developments is fundamental to our business, particularly PBSA schemes which need to be completed for the start of the new academic year. To maximise our ability to deliver on time, we:

- reprogrammed all of our student schemes due for FY20 delivery, including contingency scenario planning, to develop a unique delivery solution and risk mitigation programme for each site;
- introduced extended hours and weekend working, while rotating shift patterns to ensure our people had sufficient rest;
- worked closely with our supply chain partners, to manage continuity as we ramped up on-site activity; and
- liaised closely with our institutional clients, ensuring transparency about the situation we were managing and our progress.

This enabled us to deliver six of our seven FY20 student schemes ahead of the academic year, with a phased handover of the seventh scheme in Walthamstow, for which two blocks were completed for the new academic year and the third completed subsequent to the year end. We also completed the BtR scheme in Bournemouth as planned.



As the pandemic continues, we remain focused on supporting our employees and customers, and on ensuring that our operational delivery capability is maintained.

## Supporting customers

Recognising the difficulties faced by the students and tenants in the schemes we manage, we:

- waived rent for students in our leased accommodation, who were unable to return for the 2019/20 final term, and allowed other students to stay after the end of term to enable them to manage their travel;
- worked hard to create online communities in all of the schemes we manage, including creative virtual events and encouraging students moving in in September 2020 to take part before their arrival, so they felt part of the community;
- launched our Be wellbeing programme for students and tenants, including social events, fitness classes, opportunities for residents to get to know the Fresh team and their housemates, and providing links to mental health resources; and
- continue to support students through the further difficulties caused by the latest lockdown measures and will respond appropriately as the situation continues to evolve.



## Preserving our financial strength

While the Group is soundly financed and has robust liquidity, the unprecedented nature of the pandemic meant we initially opted to conserve our cash resources as a precautionary measure. This included:

- accessing the Government's Job Retention Scheme for furloughed employees, which at its peak saw 43% of the Group's employees (c.185 people) furloughed. Given our financial strength, at the beginning of FY21 we repaid all of the £0.8 million of financial assistance we received;
- topping up salaries to 80% of base, for employees whose basic salary was above the Government's cap;
- not implementing the annual pay increase from 1 April 2020 and temporarily reducing senior executive base pay and Non-Executive Directors' fees by 20%;
- cutting costs by reducing discretionary spend; and
- suspending the interim dividend, with the subsequent decision taken, in light of the Group's strong operational performance and financial position, to pay a full-year dividend following the publication of the FY20 results.

At the same time, we ensured our supply chain partners were paid as normal, recognising the critical importance of cash flow to these businesses.



## Building the pipeline

While the last few months have been an exceptionally difficult time for everyone, we have kept the business running and continued to secure attractive sites for our BtR and PBSA pipelines at fair prices.

During the second half of the year we secured nine new sites, ahead of our expectations and supporting our future growth potential. We secured a further five sites after the year end, including three under forward sales agreements.



## AT A GLANCE

We have four complementary businesses, which together position us to create the future of living.

### Build to rent development

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

Revenue

**£94.0 million**

(2019: £77.4 million)

### Student accommodation development

We are the UK's leading developer of PBSA, with a reputation for high quality and on-time delivery. We have operated in this sector for over two decades and it currently remains the main contributor to our revenue and profits.

Revenue

**£226.0 million**

(2019: £246.1 million)

### Accommodation management

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

Revenue

**£7.6 million**

(2019: £7.5 million)

### Residential

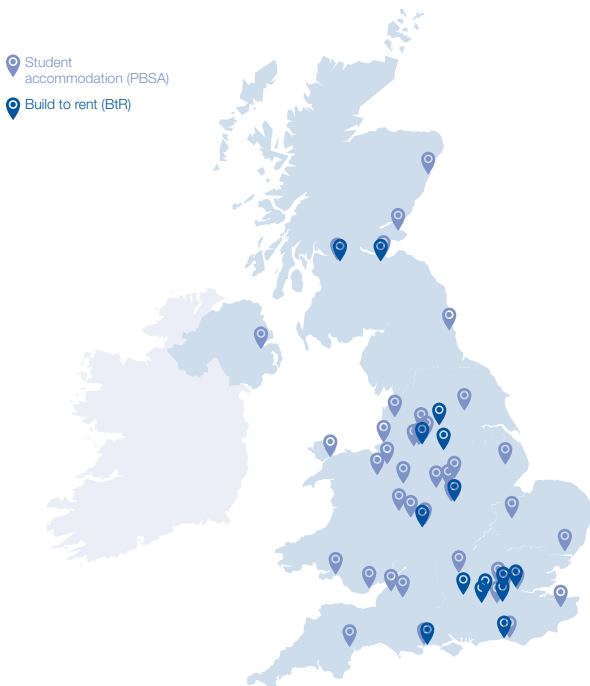
Our residential development business currently builds properties ranging from apartments and starter homes to executive housing. Going forward, we see an opportunity to reposition the business as an affordable housing-led developer.

Revenue

**£26.3 million**

(2019: £34.3 million)

- Student accommodation (PBSA)
- Build to rent (BtR)



Arundel House, Coventry



Barnard Point, Wembley



The Helm, Bournemouth



# INVESTMENT CASE

We have a strong position in growing markets, positioning us for further success.

## Strong track record based on consistent delivery

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



## Attractive markets

Growing consumer demand in the residential for rent market, in both PBSA and BtR, offers the potential for us to grow for the long term. We also see potential in helping the UK to address the shortage of affordable housing.



## Complete solution for investors

Consumer demand 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 enables us to forward sell developments, normally before we start construction. Under the forward sale model, the client purchases the land and then pays for the development works as they progress. This de-risks our development activity and gives us a capital-light business that generates attractive cash flows and high returns. The client also benefits, by acquiring the asset at a modest discount to the cost of a completed scheme, in recognition of the development risk they assume.



## Resilient business with excellent visibility

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



## Competitive advantages

We have strengths that are difficult for others to match, ranging from institutions' desire to work with experienced developers, such as Watkin Jones, to our sourcing, planning and transaction expertise.



## CHAIRMAN'S STATEMENT



“  
**This has been a difficult year for everyone, but Watkin Jones has proved its ability to adapt and respond to the most challenging of times.**”

**Grenville Turner**  
Non-Executive Chairman

**Our operations performed well through the pandemic and we delivered solid financial results, proving the robustness of our business.**



Arundel House,  
Coventry

The resilience of our business was soundly tested this year by the COVID-19 pandemic and I am pleased to say that we have emerged in good shape. This is testament to our strong executive leadership, our ability to adapt our operations quickly and effectively, and the support of our people, supply chain, shareholders and institutional clients.

### Performance

Our operations have performed well through the pandemic and we delivered solid financial results, proving the robustness of our business.

Since the onset of the pandemic, protecting the health and wellbeing of our people, tenants and supply chain partners has been our absolute priority. While Government advice did not require us to close our development sites, we did so from 23 March 2020 until we were sure we could operate them safely. Introducing new working practices on our sites enabled us to deliver six of our seven student schemes ahead of the start of the academic year. For the seventh development, in Walthamstow, we agreed a staged handover with the client, with final completion early in FY21. However, we did incur some extra costs as a result of the disruption to our operations and measures taken to accelerate works, as well as some late delivery damages in relation to Walthamstow.

Build to rent again made a material contribution to our performance, as we completed one development and made further progress with the other schemes on site. The residential business had

a good recovery in sales following the easing of the initial “lockdown” and Fresh continued to perform well, while successfully adapting to operating in a COVID-secure environment.

While the Group is soundly financed and has good liquidity, in a highly uncertain environment at the beginning of the pandemic, we considered it prudent to implement comprehensive cash conservation measures. At the year end, we had a net cash balance of £94.8 million and headroom within our debt facilities of a further £75.0 million, giving us confidence in our financial position.

### Dividends

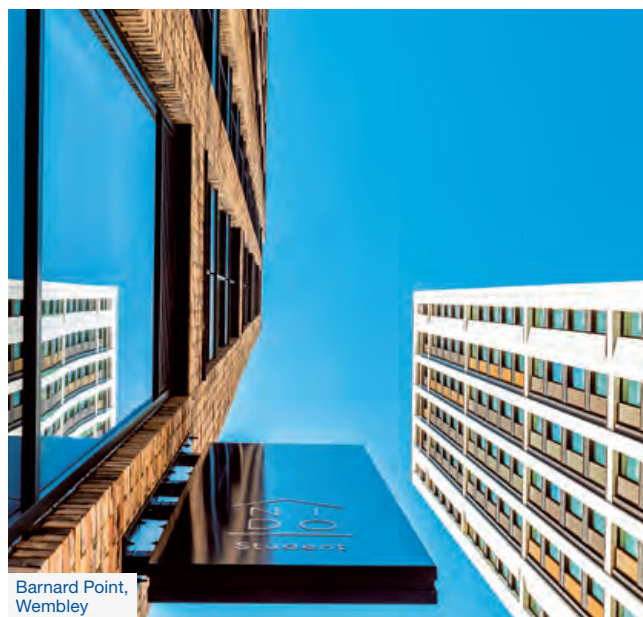
On 1 April 2020, we announced the temporary suspension of dividend payments. The Board did not therefore declare an interim dividend in FY20. However, in light of the Group's performance and our strong cash position, we have resumed our previous dividend policy of paying a dividend 2.0x covered by adjusted earnings. The Board is therefore proposing a full-year dividend of 7.35 pence per share, which will be paid on 26 February 2021 to shareholders on the register on 29 January 2021.

### Board, management and people

I have been hugely impressed by the way our people, throughout the business, have responded to the challenges of COVID-19. Their flexibility, expertise and commitment enabled us to react effectively and in a way that reflects our culture, and I thank them all on the Board's behalf.



Tudor Place,  
Chester



Barnard Point,  
Wembley

The Board has always focused carefully on the Group's culture and how the decisions we make could affect it. As one example, at our quarterly reviews of health and safety performance we always ensure that the health and safety team feels it has the support it needs to make the right decisions and to prioritise protecting people above all else. This in turn helps to reinforce a culture where our people feel valued and respected, and are incentivised to perform.

The Group has strong executive leadership and we have seen the benefits of that this year. One of the Board's responsibilities is to ensure that we have the breadth and depth of leadership we will need in the future, so we can meet our growth objectives. The Board therefore spent time during the year reviewing talent across the Group and considering succession planning. This exercise demonstrated the great strides we have taken with building our leadership pipeline in the last twelve months.

There were no changes to the composition of the Board or its committees during the year. The Directors continue to work well together and we significantly stepped up our formal and informal interactions this year, as we oversaw and supported the Group's response to the pandemic.

## Governance

As I describe in my introduction to corporate governance on page 80, we have continued to evolve and reinforce our corporate governance framework so it remains fit for purpose as the Group grows. One example is the formal and rigorous review of our strategy during the year, supported by an external facilitator. Our discussions considered how we can make a difference in our markets, how we should be structured to best take advantage of the opportunities we see, and the associated risks we face. Since the end of the year, this work has enabled us to approve a new strategy to evolve the residential business into an affordable housing-led developer, under a capital-light partnership model. We intend to carefully trial the new model, through a pilot in the North West. The Board also put considerable focus on risk management during the year, ensuring we have a real understanding of the risks facing the business and the barriers we have in place to limit their potential impact, as well as the costs and consequences of getting it wrong.

As part of our ongoing enhancements to governance, we recruited our first in-house Company Secretary, who will join us in 2021. I want to thank Prism for their excellent support to our company secretarial function.

Environmental, social and governance ("ESG") initiatives are firmly on the Board's agenda, reflecting both the importance of these matters to our stakeholders and their potential to influence the Group's long-term success. The Executive team has worked hard to develop and refine our approach this year and you can find more information on pages 38 to 57. Our decision to be proactive about undertaking remedial cladding works, despite not being legally required to do so, is one example of our determination to do what is right.

## Looking forward

We remain in highly uncertain times, both in terms of the progress of the pandemic and its economic impact. Even so, we are confident in the underlying strength of the UK's higher education sector, in the growing demand for more build to rent properties, and in our ability to adapt to changing circumstances, which will enable us to continue to deliver for our stakeholders.

## Grenville Turner

Non-Executive Chairman

19 January 2021



# Q&A:

## RICHARD SIMPSON

Watkin Jones CEO Richard Simpson shares his views on the impact of COVID-19, progress in build to rent, repositioning the residential business and the importance of managing ESG issues.

“**COVID-19 has reinforced our view that we operate in structurally attractive and resilient sectors.**”

### Q:

**What effect has COVID-19 had on your markets?**

### A:

COVID-19 has reinforced our view that we operate in structurally attractive and resilient sectors. It was inevitable that institutions would be less active during the early part of the pandemic but towards the end of the financial year it was clear that they were starting to invest again and we're pleased to have restarted forward sales since the year end.

Residential for rent looks very attractive to investors, in particular when COVID-19 has had such an impact on the retail and office sectors. The level of consumer demand means the sector offers a defensive income stream and historically it's also been a good hedge against inflation, making it an even better long-term investment.

In terms of consumer demand, lockdown has focused people's minds on where they live and the facilities they have access to. Clean, well-managed BtR properties are very appealing in those circumstances.

In PBSA, there's been an inevitable impact on occupancy in the short term and the current second wave of the pandemic will undoubtedly exacerbate the disruption through the remainder of the 2020/21 academic year. However, there's still strong and growing demand for a UK university education and our firm expectation is that we'll see good demand for PBSA in the coming years.

### Q:

**What effect has the pandemic had on your growth prospects?**

### A:

The pandemic did reduce our revenues in FY20, as it pushed back some of the forward sales we expected to make this year. However, we're better placed than many businesses in that the large majority of those revenues have been delayed rather than lost. That means we should see a good revenue uplift in FY21, both from underlying growth in the business and from forward sales that weren't completed this year.

It's important to note, though, that the full impact will take time to unwind and it's not as simple as adding this year's revenue shortfall to next year. Our development cycle is typically three to four years and the pandemic has delayed key steps in that process, such as gaining planning consent.

That means some of our development pipeline has been delayed by about a year.

### Q:

**Is build to rent progressing as you expected?**

### A:

Absolutely. We've talked for a few years about the exciting opportunities we see in BtR and both our performance so far and our pipeline are really beginning to reflect that. We set out a clear growth strategy last year, which will see us significantly increase how much of our business is BtR. Our expectation was that our revenues from development would be roughly 50:50 PBSA and BtR by FY23 or FY24. Right now, our pipeline is just over 50% BtR and we're really benefiting from getting into this market early.

Ultimately, the BtR market is likely to be much bigger than student accommodation, so it makes sense to push on with our growth plans.





**Richard Simpson**  
Chief Executive Officer

**Q:**

**Why have you decided to enter the affordable housing market?**

**A:**

We are in the process of starting a pilot for this model in the North West region. If it's successful, we see several benefits:

First and foremost, there's a desperate need for more affordable housing in the UK. Every year, the number of new units delivered averages around 100,000 less than is needed. This is a chance for us to make a small contribution to addressing this housing need, which aligns with our objective to make a positive difference to society through the homes we develop. Our intention is for every development to include more affordable units than we'd be required to produce under planning obligations.

The way this market has developed means we can do this in a capital-light way that fits our business model. We can identify sites and then partner with registered providers and institutions to forward sell the affordable housing and BtR elements. Then we can develop private housing on the balance of the site, which makes the financials attractive.

Finally, this strategy makes our existing residential business a core part of a potentially exciting new business stream. The division has always been important to us but it had become less central to the Group as PBSA and BtR have grown. We now have scope to really leverage the skills and experience in that area.

**Q:**

**You've announced a cost to remediate cladding of £15 million. What was your thinking here?**

**A:**

This is about keeping people safe.

We got new guidance from the Government in January about cladding systems that were widely used on high rise residential buildings in the past. For the first time, the guidance talked about the fire risks of high pressure laminate cladding. We immediately checked all the buildings we'd developed and found eight with this cladding.

We feel we have a responsibility to help in making the buildings safe, even though we're not legally liable, and we've been working closely with the building owners concerned. I also think it's in the best interests of the business and shareholders if we keep our reputation for being a responsible partner to our institutional clients.

We'll be looking to recover some of the cost from the subcontractors and consultants we engaged when the cladding was installed, but this is going to take some time.

**Q:**

**You've clearly stepped up your approach to ESG issues generally. Why is this so important to you?**

**A:**

ESG is essential for any business that's going to stay successful. These issues go right to the heart of our business: how we look after and develop our people, the quality of the places we create – which matters to our clients, the people who live there and the communities around them – and our impact on the planet. The framework we've introduced this year will help us to manage these issues strategically, so we future-proof the business. It's part and parcel of creating the future of living.

A lot of the focus on ESG relates to the environmental and social aspects, but I think the governance side is equally important. We aim to be transparent, to manage risk effectively and to continue to develop our governance framework, which is one reason we have recently recruited a Company Secretary.



## CHIEF EXECUTIVE OFFICER'S REVIEW



“  
**This was an exceptionally challenging year, but one which fully demonstrated the quality of the business and its people.**”

**Richard Simpson**  
Chief Executive Officer

**Our people made an outstanding contribution in the year and this enabled us to deliver a strong operational and financial performance.**



The Helm,  
Bournemouth

### Performance

Despite the inevitable disruption from COVID-19 in the second half of the year, we built on our strong first half and delivered a robust financial performance for FY20 as a whole. We also made further strategic progress as the UK's leading developer and manager of residential for rent.

This outcome reflects the outstanding contribution from our people across the Group. I want to thank them all for their hard work and their willingness to innovate, overcome problems and adapt to new ways of working. It also demonstrates the highly defensive nature of residential for rent as an asset class, and the support of our clients, customers, supply chain partners and communities, which we truly appreciate.

Revenue was £354.1 million (FY19: £374.8 million), a reduction of 5.5%, which was primarily due to the delay in some anticipated forward sales in the second half of the year.

Gross profit was £75.9 million (FY19: £80.0 million), while operating profit was £51.7 million (FY19: £55.6 million) before exceptional charges of £20.5 million (FY19: £2.6 million). The exceptional charges mainly relate to the anticipated cost of remediating cladding on past developments (see page 13), as well as additional costs and impairment charges incurred as a result of the pandemic. The pre-exceptional operating margin was 14.6% (FY19: 14.8%).

While the business is soundly financed and has substantial headroom in its banking facilities, we prudently took the early decision that we should conserve cash during the pandemic. This helped us to achieve a strong closing cash balance of £134.5 million (FY19: £115.7 million).

Our rapid response to COVID-19 enabled us to meet the revised delivery schedule for student accommodation we set out at the half-year. This strong operational performance contributed to revenue in the year of £226.0 million for our student accommodation division, compared with £246.1 million in FY19. In total, we delivered 2,609 beds across seven schemes.

For FY21, we have seven schemes with 3,192 beds scheduled for delivery. Of this, six schemes with 2,730 beds have been forward sold, with the remaining scheme in negotiation for sale.

Build to rent development again made a significant contribution to our performance, with revenue of £94.0 million (FY19: £77.4 million). We made good progress with the developments in Reading, Wembley, Sutton and Stratford, which are all moving forward as planned for completion in FY21. We also completed our development in Bournemouth in the year, albeit later than planned due to some issues with on site management and the installation of the cladding system, compounded by the onset of the pandemic.



We have continued to add attractive sites to the pipeline for both BtR and PBSA developments, supporting our growth ambitions in the residential for rent market. We secured nine sites during the second half of the year and a further four sites after our year end, three of which were under forward sales agreements.

Fresh delivered another solid performance, with revenue of £7.6 million (FY19: £7.5 million). Nine new PBSA schemes (3,595 beds) were mobilised in the year, ready for occupation and management from the start of the 2020/21 academic year. At the end of the year, the division had a total of 20,179 student beds and BtR apartments under management across 66 schemes, up from 17,721 units across 64 schemes at the start of the year. Fresh won mandates during the year for the future management of 1,414 PBSA beds and, by FY23, Fresh is currently appointed to manage 21,790 student beds and apartments, including expected renewals.

The residential development business achieved revenues of £26.3 million (FY19: £34.3 million), with a strong pick up in sales following the lifting of the initial COVID-19 “lockdown” measures and introduction of the temporary stamp duty relief.

## Strategy

We continue to successfully implement the growth strategy we set out last year. BtR development will be the biggest contributor to growth in the coming years, and as I discuss on page 12, we expect it to make a comparable contribution to revenues as PBSA by FY23, based on our current pipeline. We have also identified an opportunity for a closely aligned residential development business, which combines affordable housing with our BtR and residential for sale offers. More information can be found on page 13.

Streamlining and investing in our operations is a key pillar of our strategy, helping us to deliver better outcomes for clients and customers while improving our own efficiency. We continued to implement the restructuring I outlined in my report last year, in particular combining three regional student accommodation delivery divisions into one. The development side of the business is now organised around cross-functional hubs, responsible for delivering both PBSA and BtR developments, which supports our ability to leverage our PBSA expertise into the BtR market.

We have created a strategic framework for managing ESG initiatives. As I discuss on page 38, I see being a responsible company as a business imperative. Our ESG framework is set out on pages 40 and 41. In addition, one of the key attractions for us of the affordable housing market is the opportunity to help meet a pressing social need that will make a real difference to people’s lives.

## ESG performance

Health and safety is vitally important to us, in terms of protecting the people and subcontractors who work for us and in ensuring that residents have a safe place to live. This ethos underpinned our careful response to COVID-19, as described on pages 6 and 7, and our decision to remediate cladding on properties we had previously developed, despite having no legal liability to do so.

I am pleased to say that we have continued to improve day-to-day health and safety performance within the business this year. Our incident rate, which is the number of incidents recorded per 100,000 employees, was 128 (FY19: 152), which compares with 2,420 for the wider industry (source: HSE). See page 46 for more information.

Other examples of our commitment to ESG include our decision to ensure that everyone who was furloughed during the early stages of the pandemic would continue to receive 80% of their pay, rather than just the amount covered by Government assistance. In addition, we took the decision that the executive team and the Directors would take a 20% pay cut during the period we received furlough money from the Government. We subsequently repaid the financial assistance we had received once we were certain the business was in sound shape. We appreciate that this affected our profits but we believe that a highly ethical approach to business is best for our clients, investors and society, and is therefore best for shareholders.

I am a firm believer in the importance of culture to long-term business success. The reorganisation of the development and delivery divisions has helped to flatten our structure, empowering our people and making communication and engagement easier and more effective. This structure also gives more transparency about career opportunities, so our people can better see where they can take their careers in Watkin Jones.

The introduction of agile working (see page 44) also supports our culture, by allowing our people to make their own decisions about how and where they work most effectively, while aiding collaboration. This will help us to attract and retain people who will thrive in such an environment, while also allowing us to reap the benefits of a more diverse workforce.

We also continue to work hard to minimise our environmental impact and to ensure we engage effectively with all of our stakeholders. More information can be found on pages 38 to 57.

## Brexit

As I reported last year, we did a significant amount of work in preparing for a range of possible Brexit outcomes. We are pleased to see the agreement of a trade deal with the EU. This will further help ensure our supply chain continuity and we do not believe Brexit will affect the timely delivery of our development schemes.

## Outlook

Institutional forward sale markets started to recover in the final quarter of FY20 and this has enabled us to complete three forward sales of PBSA developments since the year end. These schemes are in Bristol, York and Leicester and total 909 beds for delivery in FY22.

The COVID-related delays to our development cycle will take time to unwind, as I discuss on page 12. However, the resumption of forward sales, the increase in the number of student beds for delivery in FY21 and the scheduled completion of four BtR developments should see us return to growth in the coming year, assuming we do not see further significant disruption to our activities from COVID-19. While the new lockdown in January 2021 requires us to continue supporting our employees and customers, we have safe operating procedures in place to continue our on site developments, and we are closely monitoring the situation.

Our work this year to add attractive new development sites to the pipeline also underpins the visibility of our revenue and earnings in future years. We will continue to secure new sites in the coming months, while being careful to protect our liquidity.

In summary, I am fundamentally optimistic about our business, the dynamics of the sectors we operate in and the strength of investor demand for our product.

## Richard Simpson

Chief Executive Officer

19 January 2021

# MARKET OPPORTUNITY



Alma Court, Canterbury

## Build to rent

### The opportunity

Several factors are creating strong demand for build to rent accommodation, as increasing numbers of people rent their homes for the medium to long term.

There is a long-standing structural supply and demand imbalance in the UK housing market. The Government continues to target 300,000 new dwellings each year, but delivery has often fallen well short. The net housing supply over the last 15 years has averaged around 150,000 dwellings per year. With around 200,000-250,000 additional households being formed in England alone each year, this means there is a significant UK housing deficit. The shortage of new builds contributes to high house prices in parts of the country with strong 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.

Urbanisation is another important factor. 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 locations where we see the greatest potential for BtR are in urban areas with universities, where education leads to employment and the need for housing.

Lifestyles are also changing. People are increasingly getting married and having children later, delaying the point at which they buy a house. Young people in particular often 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.

While COVID-19 did have a short-term impact on the BtR market, as people were prevented from moving during lockdown, the easing of restrictions has seen demand pick up again. The pandemic may ultimately increase demand for BtR, by making high-quality, clean and well-managed accommodation even more attractive, particularly if more people work from home. BtR offers good home working facilities, combined with a sense of community.

With consistently strong demand for housing, the supply of BtR apartments continues to grow and has increased by 20% over the last year, although it remains less than 1% of privately rented homes. The total number of BtR apartments completed, under construction or in the pipeline now amounts to c.172,000 units. At full maturity, the BtR sector could grow to 1.7 million units (source: Savills), providing significant scope for growth.

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.

Institutions are increasingly attracted to BtR assets, which provide high income security with occupancy and rent collection rates typically over 95%. According to Savills, by the end of 2020, investment into the UK's BtR sector had reached c.£15 billion, an increase of c.£4 billion on 2019. New institutions and overseas money continue to enter the market and seek opportunities, whether buying income-producing assets or funding developments, with c.35% of the investment in 2020 coming from new entrants to the market. Conversely, the individual private landlords who dominate ownership of rental homes are exiting the market, following changes to the tax regime and tightening regulations. Large-scale professional BtR landlords are well placed to absorb this change. Using Savills' estimate of 1.7 million units, investment would increase to around £544 billion by 2071, based on the current supply rate of a net 30,000 units being added each year.

### Our response

We are leveraging our PBSA design, planning and delivery expertise and our supply chain, to capitalise on the strong similarities to BtR. Our consumer and institutional knowledge help us to create leading-edge products.

## Key statistics

The UK's population is growing at a rate of **200-250,000** households every year

The Government is targeting **300,000** new dwellings each year

BtR could grow to **1.7 million** units (source: Savills)

Investment into the UK's BtR sector had reached **£15 billion** by the end of 2020



Arundel House, Coventry

## Student accommodation

### The opportunity

The number of full-time students in the UK is a key determinant of demand for PBSA. In 2018/19, there were nearly 1.88 million full-time students and 2.38 million in total, split UK 1.9 million, EU 0.14 million and non-EU 0.34 million.

Underlying trends in demand for university places remain positive. Following years of decline, the number of 18 year olds in the UK will grow over the next 20 years, resulting in rising numbers of people of university age each year. UCAS data showed a 2% increase in 18-year-old applicants for 2020/21 and, as of July 2020, a record 40.5% of UK 18 year olds had applied for university.

Non-EU international applications for 2020/21 were a record 89,000, up 10% on 2019/20 and 58% higher over a decade, whilst the number enrolled increased by 9% on the previous year to 44,300 (c.50% of applicants). This suggests sustained appetite for study in the UK, which is the second most popular market after the US.

EU student numbers make up around 6% of the UK student population. While the impact of Brexit on EU student numbers in the UK is unclear, Government policy towards international students has become more positive, recognising their benefits to the economy, supporting our belief that international student numbers will grow overall. As noted above, total international applications for UK university places significantly outweigh the number of places so there is scope for non-EU students to make up any shortfall in EU numbers if it occurs.

While COVID-19 has disrupted the number of UK and international students taking up accommodation for the 2020/21 academic year, the pandemic is only expected to have a short-term effect on occupancy. Students clearly prefer to study away from home at their chosen university and more normal occupancy levels are anticipated for 2021/22. The economic impact of COVID-19 may also increase student numbers by encouraging post-graduate study or retraining, as was seen during the financial crisis.

A notable trend in higher education is the “flight to quality”. With universities charging the same tuition fees and no cap on student numbers, better institutions have grown and lower-quality institutions have struggled. This has clear implications for the location of new PBSA developments.

There is a long-term demand-supply imbalance for PBSA, which is only expected to increase, with the predicted annual increase in the number of students exceeding the supply of new beds.

There are currently around 650,000 PBSA beds in the UK, with privately owned PBSA accounting for more than 50% for the first time in 2019. As of June 2020, around 23,000 new beds were advertised for 2020/21, with around 114,000 beds in the pipeline. However, some developers have postponed schemes due to COVID-19, so fewer will become operational in the short term.

Much PBSA stock is outdated and needs redevelopment, presenting further opportunities. Around one quarter of total PBSA was built pre-1999 and university accommodation is even more dated, with around 50% built pre-1999 and 74% pre-2009 (source: Cushman & Wakefield).

As PBSA has become increasingly established, developers from other sectors have looked to diversify into it. However, the barriers to entry are high and we have recently seen smaller and less specialist developers looking to sell sites, when they have not been able to fund developments.

Institutional investors are attracted to UK PBSA as a mature, stable and income-producing asset class. Investor activity slowed initially in response to COVID-19 but investment has restarted since the summer and new capital continues to explore opportunities. CBRE has noted investors moving to counter-cyclical sectors post-COVID-19, with student accommodation well known for its strong returns and rental growth.

### Our response

We continue to see good growth prospects in PBSA. We intend to target the best locations and develop buildings that meet the current and future needs of students, based on our customer insights.

## Key statistics

Around  
**0.48 million**

students are from outside the UK

EU students represent just  
**c.6%**  
of the student population

An increase of  
**58%**  
over the last decade for non-EU applications

A record  
**40.5%**  
of UK 18 year olds applied to university



## MARKET OPPORTUNITY continued



Tudor Place,  
Chester

### Accommodation management

#### The opportunity

The market for professional accommodation management services continues to grow, as institutional investors seek management partners to work with them to drive the performance of the PBSA and BtR assets they own. Opportunities for accommodation management providers continue to arise as new buildings are completed, as well as a growing secondary market as existing contracts expire and are retendered. Overall growth in the market is directly linked to demand for new student accommodation and BtR developments, as described on the preceding pages. Opportunities to tender to manage PBSA assets remain strong, with opportunities for BtR and similar offers such as co-living starting to increase as these types of assets progress through the development cycle, providing increasing scope for growth in the coming years.

Many of the larger accommodation managers are the in-house arms of owner operators. The pool of pure third party operators remains small, with Fresh being the largest third-party manager of student property in the UK.

Successful operation in the market requires sufficient scale to invest in the infrastructure and the specialist skills required (see the business model on pages 20 to 23 for more information). Approximately 5,000 beds under management is seen as the minimum level, making it difficult for new operators to enter the market. As a result, no notable new entrants have been seen in the student market in recent years. A similar dynamic is expected in the BtR market as it develops.

#### Our response

We will continue to grow our business by demonstrating the value we bring to clients in driving net operating income, achieved by delivering a strong customer proposition underpinned by excellent customer service, which results in high occupancy, rental growth and low tenant churn. We are uniquely positioned with our strong Fresh brand, national infrastructure and excellence in service delivery to become the manager of choice across the residential for rent sector.

**The market for accommodation management services continues to grow, as institutional investors seek professional management for the PBSA and BtR assets they own.**



Caledon Court,  
Aberdeen

Cestria II,  
Chester

## Residential

### The opportunity

As noted in the description of the BtR market on page 16, the structural shortfall in new housing supply creates attractive opportunities for housing developers.

Alongside the demand for private housing to buy, there is also a significant need for more affordable housing. Demand for affordable housing is estimated at 145,000 units per annum but delivery has averaged only 46,000 units per annum since 2013. To help close this gap, traditional registered providers are diversifying their activities, so as to subsidise the provision of affordable housing, and partnering with the private sector to support delivery. At the same time, new private and institutional capital is entering the affordable housing market and the Government is providing grant funding totalling £12.2 billion via Homes England to support the delivery of 180,000 units.

Affordable housing is increasingly delivered as part of mixed-tenure schemes, which incorporate an element of BtR and private housing for sale. This enables the delivery of a meaningful number of affordable units, while the inclusion of the other tenures makes the scheme more economically viable.

The UK housing market is subject to frequent political intervention, in particular as the Government has sought to make purchasing a house more affordable. The Help to Buy scheme provides loans towards deposits for new-build homes or offers a shared-ownership arrangement. However, this scheme is now being wound down and will be withdrawn completely by 2023.

In response to the COVID-19 pandemic, the Government has sought to increase liquidity in the property market by temporarily reducing the level of stamp duty payable until March 2021. During this period, no stamp duty will be payable on the first £500,000 of the purchase price.

The Government is also consulting on proposals for planning reforms, in an attempt to streamline and modernise the planning process and make more land available for development where it is needed.

### Our response

As outlined on page 13, we see an opportunity to pivot our residential housing division to become part of a new business stream, led by affordable housing. If our North West trial of this new model is successful, it has the potential to deliver important social benefits through the provision of much needed affordable homes.

**The UK housing market is subject to frequent political intervention, in particular as the Government has sought to make purchasing a house more affordable.**

Bollin Meadow,  
Macclesfield



## BUSINESS MODEL

By understanding consumer and institutional client demand, and deploying our development and property management expertise in the residential for rent sector, we aim to create the future of living.

### Inputs

#### The 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 our institutional clients and customers.

#### Relationships

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

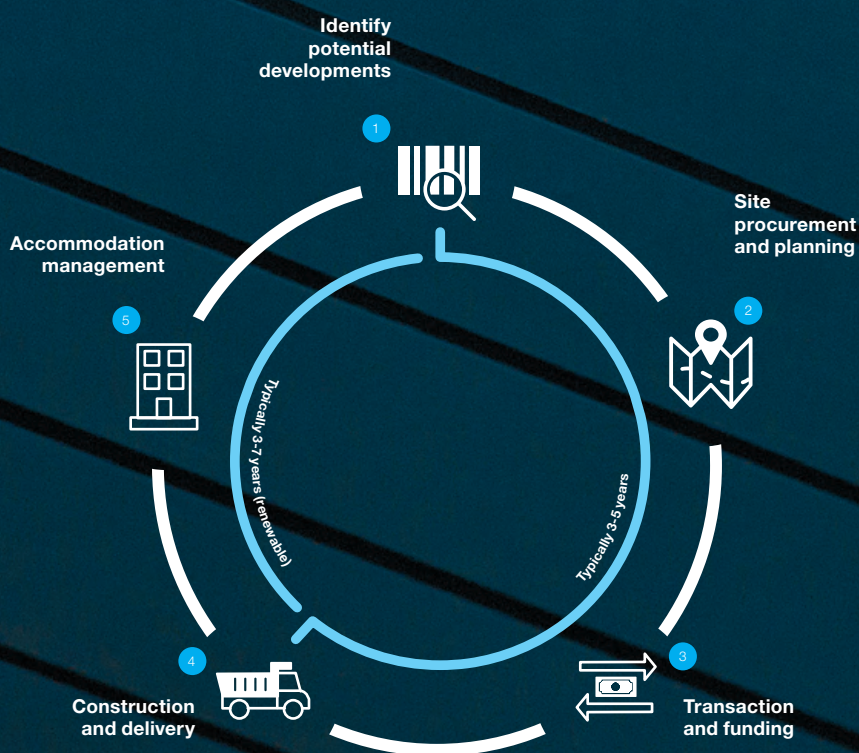
#### Financial resources

We are a well-capitalised business with strong cash generation, giving us the financial resources to fund our growth strategy.

#### Natural resources

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

### Development model



#### Read more about our development model

on pages 22 and 23



Our approach to sustainability is fundamental to our business model – more information can be found on pages 38 to 57.

## Our competitive advantages

### Track record and reputation

Our strong reputation for delivery, built up since we undertook our first PBSA development in 1999, makes us a partner of choice for key investors.

### Scale

Institutions' desire to work with tier 1 developers, such as Watkin Jones, is an important barrier to entry.

### Transferable skills and experience

We organise our development business into hubs, which are cross-functional teams responsible for both PBSA and BtR developments. This enables us to effectively leverage our two decades of experience in PBSA into the newer BtR market.

### Access to consumer insights

Fresh continuously engage with students and BtR tenants, keeping us up to date with the latest trends, so we can design our developments accordingly.

### In-house planning expertise

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.

### Advantages in sourcing sites

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.

### A complete solution

We offer a complete property development and management solution for investors, which combines national scale with local knowledge, differentiating us from our largely regional competitors.

## Returns

### How we generate returns

Forward sales give us excellent visibility of our earnings and cash flow, as we bill the institutional purchaser for the land upfront and then receive stage payments each month during construction. This limits the working capital the business requires. We receive a further lump sum final payment when we complete the property.

Our residential business generates returns from the construction of homes for housing associations and for private sale.

Fresh generates an income stream beyond completion, with contracts setting out a minimum fee and appropriate level of risk sharing with the client, depending on the level of occupancy. The Group also receives some rental income, from six historic leased PBSA and three small BtR assets.

We look to carefully manage our costs and have agreed national rates with key suppliers. Most of the work on our sites is performed by our established chain of subcontractors. We look to place orders for the main subcontract packages when we commence construction, thereby helping to fix our build costs.

This financial model, with its inherent predictability and favourable cash flow characteristics, ensures we can pay suppliers on time and supports attractive dividends to shareholders.

## Outputs

**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.

### For customers

Student and BtR tenants and the occupiers of our homes gain from high-specification homes, excellent service and vibrant communities.

### For our people

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

### For our supply chain

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

### For communities

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

### For government

We contribute to both local and national services through a variety of taxes.

### For shareholders

Shareholders benefit from rising earnings, cash flows and dividends.



## BUSINESS MODEL continued

We have a five-stage development model, supported by our approach to operating responsibly, which we are increasingly embedding in the way we work.

### Our development model in detail



#### 1 Identify potential development sites

The starting point for each development is our insight into what customers want, gained through Fresh. We then use our market knowledge and understanding of institutional client demand to screen different regions, cities and towns across the UK, to decide which locations will most successfully meet the needs of both customers and our clients.

We identify sites through our own staff and our network of agents and other consultants. 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.

**> Sustainability:**  
read more on page 43

- Incorporating stakeholder views
- Bringing brownfield sites back to life



#### 2 Site procurement and planning

We typically reduce risk by acquiring sites subject to receipt of a satisfactory planning consent, although we may occasionally buy sites unconditionally where the margin potential outweighs the additional risk and we are confident that an appropriate planning consent can be obtained. Once a site is secured, our expert in-house teams liaise with the planning authority, helping us to obtain planning permission more quickly than using external resource.

**> Sustainability:**  
read more on page 43

- Strict environmental and social impact assessments
- Robust environmental remedial activity



#### 3 Transaction and funding

We generally aim to sell each scheme to an investor before we start construction, reducing our risk and our working capital requirements. 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.

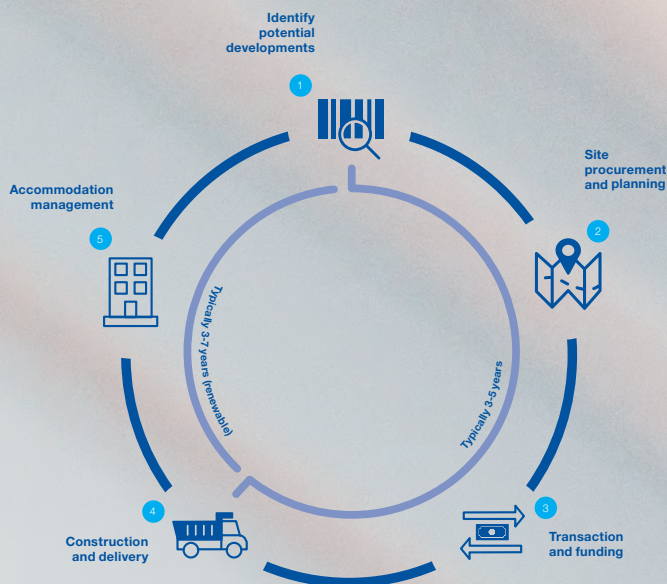
Selling our developments means we do not compete with our institutional clients, encouraging them to share their plans with us. We also look for ways to add value for clients, such as negotiating direct letting arrangements with universities for student accommodation.

**> Sustainability:**  
read more on page 43

- Rigorous adherence to ethical standards and anti-bribery and corruption laws
- Capital-light model supports returns for shareholders

Typically 3-5 years





## 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 or to provide additional operational capacity, while providing project management oversight.

We have long-term relationships with key suppliers and our supply chain often works for us on scheme after scheme, making them experts in our developments. This helps us to deliver to a high standard and improves project sequencing and efficiency.

By staggering our PBSA and BtR developments, we can use the same supply chain for both.

**> Sustainability: read more on page 43**

- Contractor alignment to our values and focus on health and safety
- Emphasis on being an environmentally conscious developer
- Regular community engagement during project delivery



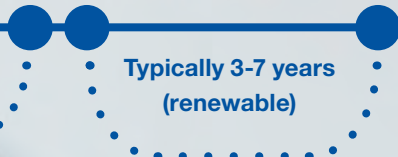
## Accommodation management

Fresh manage both PBSA and BtR schemes and focus on repeat business with institutions, so they can manage portfolios of assets for them.

Fresh has a scalable platform, having invested significantly in systems and processes which are tailored to residential for rent. The required investment, and the need to employ experts across numerous disciplines such as health and safety, marketing, property management, customer experience and finance, means that accommodation managers need significant scale to operate profitably and barriers to entry are high.

**> Sustainability: read more on page 43**

- Strong focus on customer health, safety and wellbeing, and creating communities





## OUR STRATEGY

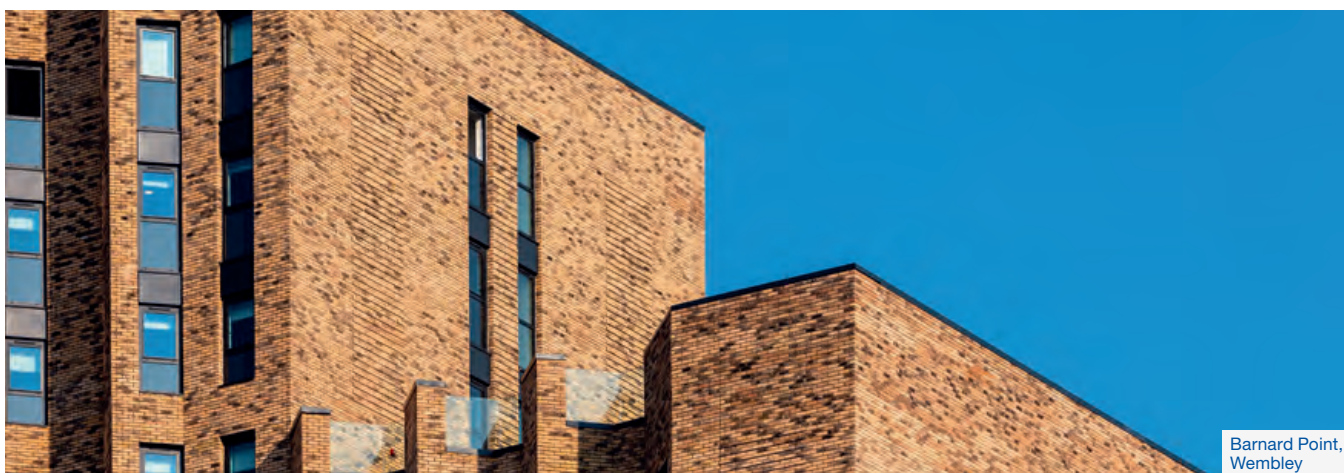
Our strategy is designed to deliver sustainable growth across the Group, while continuing to improve the way we operate and ensure we meet our wider responsibilities.

<p><b>1</b></p> <h3>Growth</h3>	<p><b>Our growth strategy is to:</b></p> <ul style="list-style-type: none"> <li>• continue to leverage our leadership position in student accommodation development;</li> <li>• grow in the BtR market by leveraging our expertise in PBSA, our supply chain and our institutional relationships;</li> <li>• subject to a successful pilot, evolve our residential business into an affordable homes-led developer, replicating our capital-light business model by forward selling under partnerships with registered providers of social housing and institutional BtR investors, whilst including an element of private sale housing to enhance profitability; and</li> <li>• offer institutional-grade letting and management services, so institutions engage us to manage their PBSA and BtR assets.</li> </ul> <p><b>Page 25</b> Strategy in action</p>	<p><b>Link to risk:</b></p> <ul style="list-style-type: none"> <li><a href="#">Economic cycle</a></li> <li><a href="#">Increased competition</a></li> <li><a href="#">Land availability</a></li> <li><a href="#">Liquidity</a></li> </ul>
<p><b>2</b></p> <h3>Operational excellence</h3>	<p><b>We continue to look for ways to enhance our delivery of our developments and accommodation management services, for example by:</b></p> <ul style="list-style-type: none"> <li>• optimising the way the business is structured, to support cross-functional working and empower our teams;</li> <li>• investing in our systems and processes to increase efficiency and effectiveness;</li> <li>• continuing to embed our desired culture throughout the Group; and</li> <li>• adopting technology, for example to support agile working.</li> </ul> <p><b>Page 26</b> Strategy in action</p>	<p><b>Link to risk:</b></p> <ul style="list-style-type: none"> <li><a href="#">Project delivery</a></li> <li><a href="#">Build quality</a></li> <li><a href="#">Capacity, culture and capability</a></li> </ul>
<p><b>3</b></p> <h3>Responsible operations</h3>	<p><b>Our strategic framework for environmental, social and governance (“ESG”) issues incorporates:</b></p> <ul style="list-style-type: none"> <li>• <b>Our future people:</b> creating an engaged and motivated workforce that interacts with honesty and integrity to create long-term value for our stakeholders;</li> <li>• <b>Our future developments:</b> building residential for rent and affordable homes which help to meet the housing need;</li> <li>• <b>Our future places:</b> building environments for a more responsible world, in harmony with our neighbours; and</li> <li>• <b>Our future planet:</b> driving efficient and responsible resource stewardship.</li> </ul> <p><a href="#">More information on our ESG strategic framework can be found on pages 40 and 41</a></p> <p><b>Page 27</b> Strategy in action</p>	<p><b>Link to risk:</b></p> <ul style="list-style-type: none"> <li><a href="#">Health and safety</a></li> <li><a href="#">Failure to comply with legislation</a></li> </ul>

# STRATEGY IN ACTION

## ① Growth

We made good progress with implementing our growth strategy in FY20.

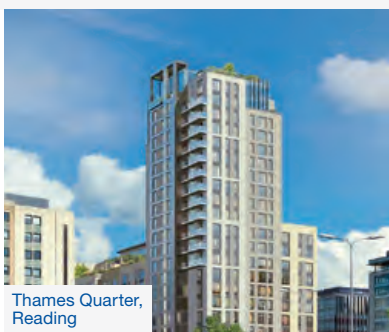


### Progress

- Successfully completed six student developments and one BtR development during the year, with the seventh student scheme completed after the year end.
- Made further progress on site with current BtR and PBSA developments for completion in FY21/22.
- Signed an on-campus partnership agreement with Cranfield University, paving the way for similar university partnerships.
- Secured a total of ten BtR and PBSA sites during the year, including nine in the second half, with a further four secured after the year end, significantly strengthening our near-term and medium-term pipeline to 4,466 BtR apartments and 7,910 PBSA beds.
- Completed three forward sales of PBSA developments since the year end.
- Fresh PBSA beds and BtR apartments under management increased to 20,179 at the start of FY21.
- Agreed the strategy to potentially evolve our residential business into a capital-light, affordable homes-led developer.
- Secured, after the year end, our first affordable homes site for 245 homes in Crewe.

### Priorities in FY21

- Continue to deploy our financial strength cautiously to acquire further sites to add to the development pipeline, in order to realise the growth opportunity to deliver 1,500 BtR apartments and 3,000 PBSA beds per annum by FY25.
- Achieve further forward sales of BtR and PBSA developments to grow contracted revenues, earnings and cash flows.
- Progress planning on sites secured subject to planning
- Make further progress in positioning Fresh to be the leading third-party operator of BtR assets.
- Implement the steps to begin to trial the affordable homes-led development model in the North West.



### Development pipeline

Future value of secured BtR and PBSA pipeline of c.£1.5 billion

### Residential

Agreed strategy for affordable homes-led opportunity

### University partnership

Signed partnership agreement with Cranfield University

### Fresh

Continued growth in units under management

## STRATEGY IN ACTION continued

# ② Operational excellence

We continue to optimise the way we work, so we can deliver enhanced outcomes for our stakeholders.



### Progress

- Successfully responded to the COVID-19 pandemic, rapidly introducing revised working practices on site and reprogramming schemes to support delivery.
- Restructured PBSA delivery teams from three regional divisions into one, operating on the same systems and platforms and under single leadership.
- Undertook a review of delivery options, to facilitate growth through the use of third-party contracting.
- Strengthened compliance function to support delivery of high-quality buildings.
- Continued Brexit preparations to ensure continuity of operations.
- Implemented a new financial system, Summit, in the Watkin Jones development business.
- Began implementing a new management system, Yardi, in Fresh, to support operation of both PBSA and BtR properties.
- Prepared for the introduction of agile working as the new norm post COVID-19 lockdown restrictions.

### Priorities in FY21

- Continue to evolve and embed organisational changes to support effective delivery.
- Increase the capacity of the acquisition and divestment “hubs” and enhance planning expertise to support the growth opportunity.
- Increase the use of third-party contractors to facilitate and help de-risk delivery growth.
- Implement the operational structure and begin house type, specification and construction methodology design to support the move to an affordable housing-led model for the residential business.
- Increase focus on product innovation and design, aided by using insights from Fresh.
- Continue the implementation of Summit into other areas of the Watkin Jones development business, including sub-contract order processing and implementation of automated authority levels.
- Complete the implementation of the Yardi management system in Fresh.
- Implement agile working and embed cultural change to continue to create a dynamic, modern, customer-focused business.



### Operations

Successfully adapted to COVID-19 ways of working

### Brexit

Prepared for a range of outcomes to ensure continuity of operations

### Financial systems

Implemented new financial and management systems

### Culture

Introduced agile working policy



## 3 Responsible operations

During FY20 we developed our ESG framework, to help us meet our responsibilities effectively.



### Progress

- Improved health and safety performance, with incident rate of 128 per 100,000 employees (FY19: 152).
- Established ESG strategic framework.
- Began to work with property owners to remediate cladding.
- Fresh launched Be wellbeing and lifestyle programme.
- Waived final term's rent for students in our leased PBSA properties, who were unable to return after lockdown.
- Engaged with students and universities to support students in navigating COVID-19.
- Surveyed our people to help provide support during lockdown and formulated agile working policy.
- Obtained COVID-secure accreditation for our workplaces and the properties managed by Fresh.
- Appointed employee representatives and introduced an employee forum.
- Rolled out unconscious bias training across the Group.
- Diverted 95% of waste from landfill (FY19: 93%).
- Ensured all developments met or exceeded BREEAM "Very Good" rating.

### Priorities in FY21

- Make continued progress with health and safety, as a top priority.
- Establish ESG priorities and operating objectives.
- Continue to support students and employees through the pandemic.
- Continue to engage closely with our stakeholders, to ensure we understand their issues.
- Continue to remediate cladding, in conjunction with property owners.
- Look to further enhance environmental performance.



### Cladding remediation

Proactively worked with property owners to ensure tenant safety

### Health and safety

Obtained COVID-secure accreditations

### Customers

Fresh launched Be wellbeing lifestyle programme

### Employee engagement

Appointed employee representatives

## 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.

### Financial KPIs:

Gross margin <sup>1</sup> (%)	
<b>21.4%</b>	
FY20	21.4%
FY19	21.4%
FY18	20.6%
FY17	21.8%
FY16	20.6%

#### Purpose

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

#### Definition

Gross profit as a percentage of revenue.

#### Performance

The gross margin was unchanged for FY20 at 21.4%. The achieved margin reflects the higher margin contribution from our PBSA development activities, which increased to 24.0% from 22.3% last year, reflecting the absence of anticipated forward land sales at lower margins in the latter part of the year. The growing contribution from BtR revenues at a margin of 15.8% accounts for the resultant overall margin for the Group being in line with last year. Gross margins across the Group remain consistent and in line with our targets.

Basic EPS (adjusted) <sup>1</sup> (pence)	
<b>14.7p</b>	
FY20	14.7p
FY19	16.1p
FY18	15.1p
FY17	13.0p
FY16	11.9p

#### 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 retracted by 8.7% compared to FY19, reflecting the impact of the COVID-19 disruption on the business and in particular the delay in new forward sales of developments. The five-year performance remains robust, despite the interruption caused by the pandemic.

Cash inflow from operating activities <sup>1</sup> (£m)	
<b>£38.3m</b>	
FY20	£38.3m
FY19	£23.5m
FY18	£59.4m
FY17	£23.8m
FY16	£19.2m

#### Purpose

Demonstrates that our working capital-light, forward sales 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 generated a strong cash flow from our operating activities in the year. The cash inflow from our trading operations, before deducting the cash cost of exceptional items, finance costs and tax payments was £63.5 million, an increase of £24.1 million on the prior year.

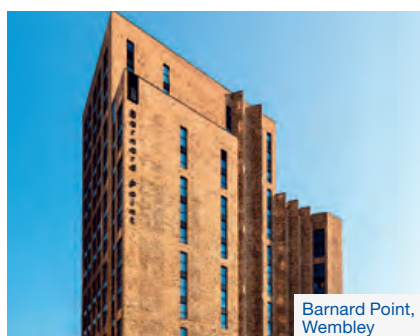
1. The comparative figures for gross margin, basic EPS (adjusted) and cash inflow from operating activities have been restated to take account of the retrospective impact of adopting IFRS 16. Basic EPS (adjusted) is calculated before the impact of exceptional items.



Adjusted measures exclude the impact of exceptional items, to better reflect our underlying performance. The performance measures we currently use to manage our ESG commitments can be found on page 39.

#### Non-financial KPIs:

Secured BtR pipeline (apartments)	Secured PBSA pipeline (beds)	No. of student beds and build to rent units under management
<b>4,466</b>	<b>7,910</b>	<b>20,179</b>
<b>FY20</b> 4,466	<b>FY20</b> 7,910	<b>FY20</b> 20,179
FY19 2,312	FY19 6,670	FY19 17,721
FY18 1,478	FY18 7,534	FY18 15,421
FY17 966	FY17 9,120	FY17 16,617
FY16 322	FY16 8,232	FY16 12,337
<p><b>Purpose</b> Shows our ability to grow our BtR development pipeline, which supports our future revenue and earnings growth.</p> <p><b>Definition</b> The number of BtR apartments expected to be delivered from development sites which are secured.</p> <p><b>Performance</b> Strong growth in the secured BtR development pipeline, with 2,313 apartments added and 159 apartments completed in the period, giving a net increase of 2,154 apartments.</p>	<p><b>Purpose</b> Shows our ability to maintain our PBSA development pipeline, which currently provides the core of our earnings and cash flow.</p> <p><b>Definition</b> The number of PBSA beds which are expected to be delivered from development sites which are secured.</p> <p><b>Performance</b> Achieved a net increase in the PBSA development pipeline of 1,240 student beds, with 3,849 beds added and 2,609 beds completed in the period.</p>	<p><b>Purpose</b> Shows our ability to expand our high-margin accommodation management business, which provides an ongoing regular income and cash flow.</p> <p><b>Definition</b> The number of student beds and build to rent units that Fresh is contracted to manage on behalf of our institutional clients.</p> <p><b>Performance</b> Fresh achieved further good growth in the number of student beds and BtR apartments under management.</p>





# OPERATING REVIEW

BTR

# BUILD TO RENT

## Key statistics



Delivered FY20

**159**

apartments



**1**

scheme

Secured pipeline

**4,466**

apartments

**13**

schemes

Forward sold

**928**

apartments

**5**

schemes



The Helm,  
Bournemouth



The Helm,  
BournemouthSutton Court Road,  
SuttonThe Gateway,  
Sheffield

BtR is an important and growing contributor to the Group's financial performance. Revenues in the year were £94.0 million, up 21.4% from £77.4 million in FY19. This revenue performance reflected the completion in the year of the 159-apartment scheme in Bournemouth, and good progress on site with the forward sold developments in Reading, Wembley, Sutton and Stratford which are due for delivery in FY21. Despite temporary disruption on site resulting from COVID-19, construction is proceeding to plan for all four schemes. The completion of the development in Bournemouth was hampered by on-site management issues and problems with the cladding system, which were further compounded by the initial COVID-19 disruption.

Gross profit for the year was £14.9 million (FY19: £13.8 million), at a margin of 15.8% (FY19: 17.8%). The margin achieved in the year is consistent with our guidance of an average 15% margin for BtR developments in the medium term. The margin in FY19 benefited from a strong contribution from the Reading scheme, which was the main contributor to BtR revenues in that year.

There were no new forward sales in the year, due to a slowdown in institutional client investment activity caused by the COVID-19 related uncertainty. The forward sale market began to recover towards the end of the year and we are currently negotiating on the sale of three developments (722 apartments).

The Group secured four significant new development sites during the year, three of which are subject to planning. These sites are in Birmingham (550 apartments), Bath (343 apartments), Glasgow (779 apartments) and Lewisham, London (322 apartments). Subsequent to the year end a further site was secured subject to planning in Belfast (778 apartments).

We also obtained planning permission for 538 BtR apartments at sites in Brighton and Hove (216 apartments) and Lewisham, London (322 apartments) for delivery in FY23.

The current BtR development pipeline is as shown in the table below:

	Total pipeline	BtR apartments				
		FY21	FY22	FY23	FY24	FY25
Forward sold	928	857	71	—	—	—
Forward sales in negotiation	722	—	184	538	—	—
Sites secured with planning	—	—	—	—	—	—
Sites secured subject to planning	2,816	—	—	—	1,117	1,699
<b>Total secured</b>	<b>4,466</b>	<b>857</b>	<b>255</b>	<b>538</b>	<b>1,117</b>	<b>1,699</b>
Site acquisitions in legals	247	—	—	—	247	—
<b>Total BtR pipeline</b>	<b>4,713</b>	<b>857</b>	<b>255</b>	<b>538</b>	<b>1,364</b>	<b>1,699</b>

The appraised future revenue value to the Group of the above secured development pipeline is c.£900 million, of which c.£90 million is currently forward sold.

# OPERATING REVIEW



# STUDENT ACCOMMODATION

## Key statistics



Delivered FY20

**2,609**  
beds



**7**  
schemes

Secured pipeline

**7,910**  
beds

**20**  
schemes

Forward sold

**3,898**  
beds

**9**  
schemes







Revenues from student accommodation development were £226.0 million (FY19: £246.1 million), a decline of 8.2%. The reduction in revenue was primarily due to a delay in the anticipated forward sale of a scheme which is currently in build in Leicester, for delivery in FY21, and in the forward sale of several other new developments, as the COVID-19 pandemic caused a hiatus in institutional clients' investment activity.

The division recorded a robust gross profit of £54.3 million (FY19: £54.9 million), despite the disruption caused by the pandemic. The gross margin of 24.0% was ahead of the 22.3% for FY19, reflecting the delay to new forward sales of land, which typically attract a lower margin than we achieve on the subsequent works carried out under the development agreement.

As discussed on page 6, we closed all our development sites on 23 March 2020, as we assessed our response to the pandemic and introduced COVID-secure working practices, with close to full working capacity achieved by the end of May. By carefully reprogramming our developments, including appropriate scenario planning, and introducing extended working hours and rotating shift patterns where required, we were able to complete six schemes with 2,256 beds that were due for delivery ahead of the new academic year.

For the seventh scheme due in FY20, a 353-bed development in Walthamstow, we agreed a phased delivery with the

client, with two of the three blocks handed over for the 2020/21 academic year and the third block completed approximately three months later. While we incurred some damages as a result of the late completion, our close working relationship with the client and the efforts we made to recover the delay caused by the COVID-19 disruption and to complete as quickly as possible, enabled us to negotiate an improved position.

The cost of the damages is included in the exceptional COVID-19 cost to the business. In addition, the business incurred exceptional costs relating to the waiver of 2020/21 final term rents due from students who were tenants of the Group's leased student accommodation properties and were unable to return to their accommodation as a result of the first lockdown and due to a further impairment to the carrying value of one of the leased properties, which was already impaired, as a result of lower occupancy due to the pandemic. More information on exceptional items is included in the financial review on pages 60 to 67.

We forward sold one PBSA development in the year, the 348-bed scheme at Wilder Street, Bristol, for delivery in FY21. This follows an option agreement announced in October 2018, which was conditional on full planning consent being achieved. The consideration payable to us for Wilder Street is c.£33.8 million, net of all client funding and acquisition costs, and is payable over FY20 and FY21 as the development works progress.

We also obtained planning for and completed an agreement with DWS to add a further 100 beds to the scheme at Kelaty House in Wembley, for delivery in FY21.

In April, we signed an on-campus partnership agreement with Cranfield University to develop 415 beds for delivery in FY21 and a further 198 beds for FY22. The development value to us is £48.0 million, payable over the period FY20 to FY22. The agreement also contains an option for a second phase of 252 beds. This is a significant addition to our PBSA development pipeline and paves the way for similar university partnerships.

The Group secured a further six PBSA development sites in the year, four of which are subject to planning. These comprised two sites in Edinburgh (644 beds) and sites in Bath (335 beds), Bristol (387 beds), Guildford (375 beds) and Manchester (419 beds).

After our year end we entered into forward sales agreements for three new development sites, for which the clients concerned acquired the land directly. These were in Bristol (291 beds), York (368 beds) and Leicester (250 beds), all for delivery in FY22 and with a total forward sold development value of £65.2 million.

The Group obtained planning for 1,217 beds, comprising the additional 100 beds for the Wembley site, 984 beds for sites in Edinburgh and 133 beds in Exeter.

The current PBSA development pipeline is as shown in the table below:

	PBSA beds					
	Total pipeline	FY21	FY22	FY23	FY24	FY25
Forward sold	3,898	2,730	1,168	—	—	—
Forward sales in negotiation	714	462	—	252	—	—
Sites secured with planning	1,117	—	777	340	—	—
Sites secured subject to planning	2,181	—	—	1,846	335	—
<b>Total secured</b>	<b>7,910</b>	<b>3,192</b>	<b>1,945</b>	<b>2,438</b>	<b>335</b>	<b>—</b>
Site acquisitions in legals	1,998	—	—	662	570	766
<b>Total PBSA pipeline</b>	<b>9,908</b>	<b>3,192</b>	<b>1,945</b>	<b>3,100</b>	<b>905</b>	<b>766</b>

The appraised future revenue value to the Group of the above secured development pipeline is c.£600 million, of which c.£215 million is currently forward sold.

# OPERATING REVIEW



## ACCOMMODATION MANAGEMENT

### Key statistics



Student beds and build to rent  
apartments under management

FY20

**17,721**

**64**

schemes

FY21

**20,179**

**66**

schemes







Barnard Point, Wembley



Barnard Point, Wembley



Sharman Court, Sheffield

Fresh generated revenues of £7.6 million, broadly in line with the £7.5 million recorded in FY19. Gross profit was £4.5 million (FY19: £4.6 million), reflecting a margin of 59.8% (FY19: 61.5%). The stable revenue position reflects the fact that Fresh's revenues largely derive from fixed management fees, but with a modest level of variable income based on the level of occupancy revenues achieved. The disruption to student lettings in the final term of the 2020/21 academic year resulted in a small reduction in expected fee income and consequential decrease in the gross margin relative to FY19. The gross margin was, however, in line with our normal target of 60.0%.

At the start of the financial year, Fresh had 17,721 student beds and BtR apartments under management, across 64 schemes. This compared with 15,421 units across 56 schemes a year earlier.

Fresh continued to perform well, mobilising nine new PBSA schemes in the year (3,593 beds) and winning mandates for the future management of 1,414 PBSA beds. At the end of the financial year, Fresh had 20,179 PBSA beds and BtR apartments under management across 66 schemes, and is currently appointed to manage 21,790 beds and apartments by FY23, including expected renewals. Fresh is now the fourth largest operator of student beds in the UK (source: CBRE), up from sixth in 2019, and it remains the largest third-party operator.

Ensuring customers were living in a COVID-secure environment was a key focus for the business from March, with occupancy levels in student accommodation remaining relatively high during lockdown. Around 60% of students were still in residence at the start of lockdown, with more than one third of beds still occupied in June. This required Fresh to develop new ways of working, so customers could continue to receive essential services and support during the pandemic. In September 2020, the Group was awarded COVID-secure accreditation by the British Safety Council, reflecting the rigorous approach adopted by Fresh and the Group's other divisions. The latest lockdown measures will impact students who had planned to return to their accommodation for the start of the 2020/21 spring term. We will continue to respond to the situation as it evolves and to provide them with the necessary support.

At the start of FY20, Fresh launched its Be wellbeing and lifestyle programme, which puts residents at the heart by creating communities that thrive and care for each other, where our residents feel welcomed and connected, and can enjoy a range of tailored activities, events and support.

Adapting the Be programme during the pandemic to provide online communities, support activities and advice has enabled residents to remain connected and feel supported during this difficult period.

The business continues to invest in its infrastructure systems, to support service delivery to both residents and to clients.

The implementation of our new single management platform Yardi is progressing well and will launch in 2021. This will result in a seamless customer journey for residents from the point of initial booking through the whole length of their tenancy. Live data via our new app will enable residents to manage all aspects of their tenancy, as well as connect with our on site teams and their neighbours in a way that is convenient for them.

Yardi will give Fresh a best-in-class control framework and the ability to provide dynamic reporting to clients.

Fresh is also moving to a single consumer brand. The consolidation of the Fresh Student Living and Five Nine Living brands under the new single Fresh brand will be complete in early FY21 and will communicate a clear customer proposition that is relevant to the broader residential for rent market, while also enabling the targeting of specific audiences with relevant messaging and creative concepts.



# OPERATING REVIEW



## RESIDENTIAL

### Key statistics

#### Sales completions

**95**

houses and apartments

#### Pipeline

**745**

houses and apartments



Bollin Meadow,  
Macclesfield

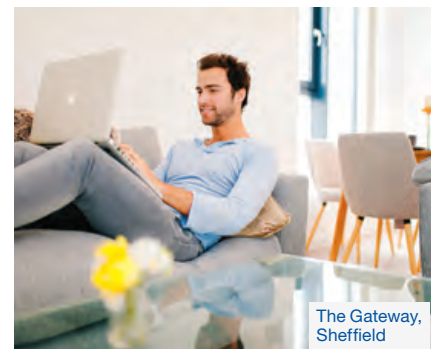




Cestria II, Chester



Bollin Meadow, Macclesfield



The Gateway, Sheffield

The residential business delivered revenues of £26.3 million in FY20, down from £34.3 million in FY19. Overall, the division achieved 95 sales in the year, compared to 150 in FY19. Revenues in the prior year were helped by strong sales from the apartment development at Duncan House, Stratford. Sales in FY20 were inevitably impacted by the initial COVID-19 lockdown in the critical spring period and by the temporary suspension in site build. We did, however, see a good pick up in sales in the summer months, following the easing of the initial lockdown and introduction of the temporary stamp duty relief, and the division entered FY21 with 25 sales exchanged or reserved.

Important contributions to revenue in the year came from:

- a solid performance from the division's operations in the North West, and in particular the development at Macclesfield;
- further sales of apartments at the Duncan House, Stratford, and Riverview Court, Bath developments; and
- the completion of the 35-apartment development at Trafford Street, Chester, which was forward sold in the previous financial year.

Gross profit for the year was £4.0 million (FY19: £7.2 million), representing a margin of 15.4% (FY19: 20.9%). The lower margin reflects the mix of revenues this year, and in particular the contribution in the prior year from the high-margin sales of apartments at Duncan House, Stratford.

We acquired and commenced a development site for 97 homes in Preston during the year and commenced development of a site for 29 homes in Bontnewydd, North Wales.

Subsequent to the year end, we secured our first site under the strategy to pilot the opportunity to reposition the business based on an affordable housing-led partnership model, as discussed on page 13. This site, for 245 units in Crewe, has planning and is targeted to deliver 90 affordable, 69 BtR and 84 private for sale homes, and should start to contribute to revenues from the end of FY21. Offers for the forward sale of the affordable and BtR homes have been received and are progressing into legals.

With the addition of the above site the future pipeline stands at c.745 homes and apartments.

# SUSTAINABILITY

## INTRODUCTION FROM THE CEO



**Developing and managing people’s homes means we have significant responsibilities. We have to keep our people and customers safe, provide homes that are comfortable, high quality and long lasting, and limit our impact on the environment. ”**

**Richard Simpson**  
Chief Executive Officer

Great places to live are good for customers, investors and our shareholders. For students, the accommodation we develop and run is often their first home away from home. Build to rent provides homes for individuals, families and friends, and creates communities. At the same time, environmental, social and governance (“ESG”) issues have rapidly climbed the agenda of both investors and companies, and we firmly support the view that many stakeholders have a legitimate interest in how businesses are run and the impact they have.

During the year, we have therefore created a strategic framework to help us manage the risks and seize the opportunities presented by ESG issues, while continuing to embed responsible business practices in our DNA.

The UN’s Sustainable Development Goals (“SDGs”) were the starting point for this framework. With the help of expert consultants, we reviewed in detail the 169 targets that underpin the UN SDGs, to identify the precise areas where we could have the most positive impact or needed to minimise our footprint. The areas we identified fall within three themes – our people, places and planet – and combine to help us deliver our purpose, to create the future of living. More information on the framework can be found on pages 40 and 41.

We believe our actions this year have demonstrated our commitment to responsible business. Our response to COVID-19, which is described in more detail on pages 6 and 7, looked to protect the interests of all our stakeholders, from our people and subcontractors to customers, shareholders and clients. This commitment came from our executive team, with firm support from the Board.

Our approach to the Government’s revised guidance on cladding, which was released in January 2020, put the safety of tenants first. At the same time, we have continued to rigorously focus on health, safety and our environmental performance, as a core part of how we operate.

The Board and executive team are committed to enhancing our management of ESG issues and we now have a framework in place to help us succeed. I look forward to reporting on our progress next year.

**Richard Simpson**  
Chief Executive Officer

19 January 2021

### SDG framework

**Potential for high positive impact**

➤ See ‘Our future people’ and ‘Our future places’ on pages 44 to 51

**Potential for positive impact**

➤ See ‘Our future people’ on pages 44 to 47

**Responsibility to mitigate potential negative impact**

➤ See ‘Our future people, ‘Our future places’ and ‘Our future planet’ on pages 44 to 53



# ESG PERFORMANCE

Set out below are the metrics we use to monitor key aspects of our ESG performance.

Alma Court,  
Canterbury

## Health and safety

### Incident rate

2020:	2019:
<b>128</b>	<b>152</b>

#### Rationale

The safety of our people and those working for us is our first priority. The incident rate is a standard HSE measure and demonstrates our safety performance by calculating the number of recordable incidents per 100,000 full-time workers over a one-year period.

## Environmental

### CO<sub>2</sub> emissions (kg emissions as % revenue)

2020:	2019:
<b>0.24%</b>	<b>0.30%</b>

#### Rationale

We look to manage and reduce our emissions. We closely monitor our performance and seek to identify opportunities to achieve environmental and potentially economic benefits.

## Social

### Gender diversity

2020:	2019:
<b>M: 56%</b>	M: 55%
<b>F: 44%</b>	F: 45%

#### Rationale

Diversity is an important aspect of our culture and we are committed to equal opportunities when it comes to recruitment, selection and career development.

## Governance

### Non-compliance events against our company policies

2020:	2019:
<b>0</b>	<b>0</b>

#### Rationale

We set high ethical standards for our employees and those we work with. We closely track incidents of non-compliance with company policies and have a zero-tolerance approach to contraventions.



# OUR ESG STRATEGIC FRAMEWORK

## Objective

Creating the future of living

## Theme

### Our Future People:

- To create an engaged and motivated workforce that acts with the highest standards of ethics and integrity, to create long-term value for our stakeholders.



### Our Future Places:

- To develop buildings that are great places to live now and for the long term and that enhance the communities around them.



### Our Future Planet:

- To drive efficient and responsible resource stewardship.



## Focus

- Develop our people and retain the intellectual capital we create within the business, including technical, operational and relationship considerations.
- Support a more inclusive workforce and foster a culture that promotes diversity.
- Deliver high-quality services and developments for our institutional clients (“ICs”).
- Embed responsible and ethically sound business practices.
- Provide a safe and healthy environment for our employees, subcontractors and people living in the communities where we build.

- Meet the expectations of customers and communities, by delivering sustainable places to live that satisfy the requirements for future housing.
- Listen to customer demands and deliver continually improving services and developments.
- Make a positive contribution to society, through our time and capital commitments.
- Integrate our institutional clients’ ESG considerations into acquisition, planning and development processes.
- Engage our supply chain to maintain disciplined and responsible operating practices.

- Reduce the environmental footprint of our development and operating activities.
- Maximise low carbon opportunities in all aspects of our business, through innovation.
- Integrate resource-efficient materials and products into our developments.

For a more in-depth look at our SDG analysis, visit [www.watkinjones.com](http://www.watkinjones.com)



## Performance

- Nine hours of relevant training per employee.
- 13.2% employee turnover.
- Health and safety incident rate of 128.
- Zero non-compliance events.
- 44% of employees are female.

## Highlights

- Held staff conference in November 2019, focusing on: people, the customer, innovation, how we create the future of living and culture of the workplace.
- Diversity and inclusion training rolled out across the Group, from the Board down.
- Worked to further improve our “speak-up” culture.
- Prepared to formally introduce agile working across the Group as the new norm post COVID-19 lockdown restrictions.
- Continued to improve safety performance, reducing our incident rate by 16%.

## 2021 objectives

- Support our people and promote their success.
- Maintain zero non-compliance performance of our policies.
- Drive a zero harm at work agenda.
- Implement agile working policy and continue to embed cultural change to create a more collaborative organisation.
- Design and fit out new Chester office and refurbish London office to create attractive workplaces, aligned to our purpose to create the future of living and providing good collaborative spaces.

- Fresh scored a 93% satisfaction rating.
- £22.1 million tax paid to Government.

- Fresh survey conducted to gather student feedback.
- Engaged with students and universities to support students navigating COVID-19 and waived 2020/21 final term rents amounting to £1.1 million for students of Watkin Jones leased assets who couldn't return because of lockdown.
- Evolving long-term partnerships to drive improvements in responsible sourcing for our developments.
- Introduced a pilot scheme with Scottish Power at our Trafford Street development in Chester that will be entirely powered by renewable energy.
- Introduced target at our new development in Bath to reduce regulated CO<sub>2</sub> emissions by 35%.
- Continued to engage with our institutional clients, with an ever-increasing focus upon effective ESG management throughout the lifecycle of our developments.

- Drive further engagement with our BtR and PBSA occupants to inform our strategy.
- Support our supply chain to know what is expected of them and to meet increasing environmental and social expectations.
- Continue to evolve our approach to community engagement and impact.
- Further align our ESG principles with those of our institutional clients.

- 0.24% actual CO<sub>2</sub> emissions (kg) as a % of revenue.
- 100% of our developments achieved a “B” EPC rating or above.
- 95% of waste diverted from landfill, ahead of target.

- Continued to follow strict procedures in waste disposal and engaged with the right sub-stakeholders to produce a range of environmental reports.
- Ensured all developments met or exceeded BREEAM “Very Good” rating.

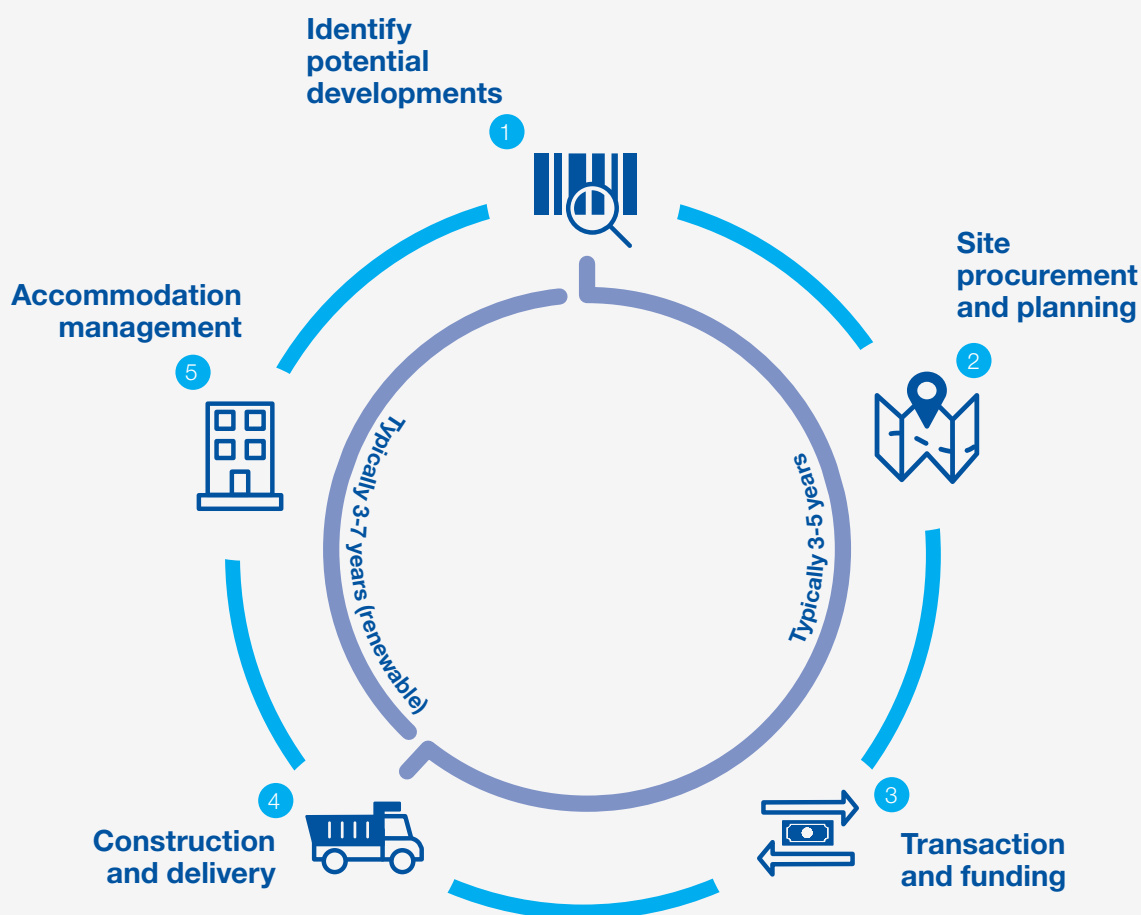
- Achieve further increase in percentage of waste diverted from landfill.
- Seek ways to reduce the carbon/ environmental footprints of our developments through the construction and occupancy lifecycles.

## SUSTAINABILITY continued

# HOW ESG SUPPORTS OUR BUSINESS MODEL

We engage with our stakeholders throughout the development cycle to ensure we get the most out of the resources we have to create the future of living.

### Link to business model



The business model on pages 20 to 23 sets out our five-stage development model. We carefully identify and manage ESG risks and opportunities as a core part of this approach, and engage with our stakeholders (see pages 56 and 57), so we can collaborate and meet their expectations. We constantly seek new ways to improve how we operate and aim to get the most from our tangible and intangible resources.



We collaborate to meet and where possible exceed stakeholder expectations and are constantly seeking ways of improving the way we do things.

1



### Identify potential developments

We incorporate stakeholder views into our selection of potential developments, notably using market insights from customers and institutional clients, as well as taking account of clients' ESG policies.

We often look to bring brownfield sites back to life, supporting community and economic activity.

2



### Site procurement and planning

Our approach to obtaining planning consent includes a strict environmental and social impact assessment. We have highly skilled planning teams, who have defined processes for engaging with the Environment Agency and other stakeholders involved in the approvals process. We undertake detailed planning and execution of remedial activity on brownfield sites, considering all the environmental sensitivities of the area.

Our approach to planning is informed by the regulatory environment and we seek to exceed regulatory requirements where possible, to meet BREEAM "Very Good" or above.

3



### Transaction and funding

We take a disciplined approach to securing transactions and funding, ensuring we follow our anti-bribery and corruption processes and setting high ethical standards, as we engage with leading institutional clients.

Our capital-light business model ensures robust working capital management, supporting value creation for shareholders.

4



### Construction and delivery

We look to develop strong relationships with our supply chain partners, and select suppliers and subcontractors who share our values and focus on health and safety. Robust management processes and regular and systematic engagement ensures alignment with our Group policies.

We are an environmentally conscious developer, with a well-defined environmental

policy that governs the development and construction process. Waste management, recycling and reuse are a key focus. We aim to use energy-efficient materials across developments to exceed current regulations.

During the delivery process, we engage with the community so they understand what we are doing and the benefits of each scheme to community members.

5



### Accommodation management

We gather feedback from customers, to inform our service delivery and future developments. We prioritise the safety of our customers, and look to support their wellbeing through our recently launched Be wellbeing programme.

Creating communities within the developments is an important part of our approach, both in their design and through organising events and using social channels.

# SUSTAINABILITY continued

## OUR FUTURE PEOPLE



### Responsibility and management

Since investing in our human resources (“HR”) function in 2019, which included recruiting our first Group HR Director, we have continued to harmonise and standardise our people processes. In November 2019, we moved to an organisational base structure, which supports efficient lines of communication and a single approach to controlling our business continuity.

We have a wide range of policies relating to how we manage our people. These cover maternity, paternity and adoption leave, equality and diversity, employee privacy, dignity at work, equal opportunities, pensions and grievance procedures. Throughout the COVID-19 pandemic, we focused on modernising our policies to accommodate more work-life balance and flexibility, as well as to protect the health and safety of our people and subcontractors (see below).

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, annual staff conference and our employee representatives (see page 45) also give people the opportunity to provide feedback about the operation of our policies.

Throughout the pandemic we have been working to ensure that risk assessments, procedures and practical measures are in place to ensure all our sites and offices are COVID-19 secure. These procedures and measures are constantly being reviewed. We achieved the British Safety Council COVID-19 Secure Statement following an in-depth audit of our policies, procedures and measures put in place.

### Recruitment and retention

As a growing business with developments across the UK, we actively seek to recruit from labour markets close to our sites. This approach recognises the importance of work-life balance and has increased our ability to attract and retain talent. Our employee turnover for FY20 was 13.2%, compared to our target of 15%.

During the year, we launched careers websites, designed to improve the candidate experience and make it easier to apply for vacancies.

### Diversity and inclusion

The Group HR Director presented a diversity and inclusion (“D&I”) plan to the Board in July 2020. The first phase of the plan included securing sponsorship from the Board and raising awareness around the business of the meaning of D&I and equality. We have begun to roll out D&I training about unconscious bias across the Group, including the Board, and have looked to improve our speak-up culture and generate more-inclusive feedback for our leadership.

As part of the organisational redesign during the year, we included a D&I section in the application process for new roles. This was the first time we have scored people’s insights into D&I issues.

An important workstream during the year was to prepare for the formal launch of agile working. While this is relevant to all our people, we believe a key benefit will be in helping us to attract and retain a more diverse workforce, by opening up employment opportunities to people who need more flexibility in how or where they work.

We have allocated all our people to one of four categories, ranging from people who need to be at one of our locations to do their work effectively (such as site or office support staff) to people who can work from a variety of locations, depending on the requirements of their role. At the same time, we are moving away from set hours of work each day, giving our people more flexibility to choose when they work, provided they reach their contracted hours. We are also providing our people with the right technology to support agile working and we are creating better offices, designed to provide good collaborative work spaces.

### Gender diversity

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

	2020		2019	
	Men	Women	Men	Women
Board	4	1	4	1
Senior management	47	11	49	17
Other employees	355	310	329	300
<b>Total</b>	<b>406</b>	<b>322</b>	<b>382</b>	<b>318</b>

Construction has traditionally been a male-dominated industry. While the growth of Fresh is helping to bring more women into the Group, including in senior roles, the gender and ethnic diversity of our workforce is not good enough and we are committed to improving it.





The Helm,  
Bournemouth

## Watkin Jones working from home employee survey

We undertook a working from home survey during the initial COVID-19 lockdown to understand our employees' views and how we could better support them.

How easy have you found it to adapt to working from home?

Easy or very easy:

**74%**

Are you enjoying working from home?

Like it or love it:

**61%**

Do you feel you have been more or less productive working from home?

More productive:

**57%**

### Engaging with our people

We conduct an employee survey every two years, with the last one taking place in summer 2019. The feedback prompted a number of changes, such as increases to our paternity and adoption leave policy. This year, we conducted a Group-wide survey to find out how working from home in response to COVID-19 had affected our people and their ability to work effectively. This identified that 88% of our people felt that offering flexible working made an employer more attractive, with just 4% disagreeing. This survey has helped to inform our approach to agile working (see diversity and inclusion on page 44).

Around 300 employees attended our staff conference in November 2019, which included an afternoon dedicated to innovation and creating the future of living. Attendees were divided into five hubs, to discuss:

1. People
2. The customer
3. Innovation
4. How we create the future of living
5. The culture of the workplace

The output from this has informed our strategy and led to workstreams such as a review of rewards and benefits.

Towards the end of FY20, we appointed employee representatives, who will come together as a forum to support consultation with our people and to enable employees to feed back to the executive team. We will support the representatives with training, to help them be effective.

# SUSTAINABILITY continued

## OUR FUTURE PEOPLE continued



Team building activity

### Health and safety

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.

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 hold 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. All sites must have a team talk with contractors on health, safety and environment (“HSE”) topics each week. These are reviewed at the weekly health and safety meetings.

During the year, the Group’s internal auditor, KPMG, audited health and safety across the business. This concluded that we had a comprehensive approach to health and safety, as well as identifying a number of areas for further improvement.

We are currently setting up a best practice hub for HSE. This will help us to share best practice across the Group, using a tablet-based system called Field View. The system allows our people to enter best practice ideas, with immediate distribution to the rest of the business.

In addition, we have been running a campaign throughout the year to ensure dropped object prevention plans are in place on all our sites and that they are regularly reviewed, to prevent injury and damage from dropped objects when working at height.

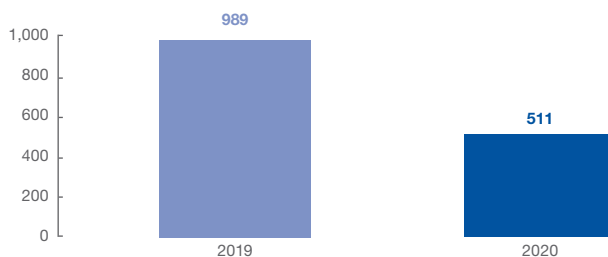
Welfare issues are an important focus for Watkin Jones. In particular, we have carried out a significant amount of training on mental health first aid and aim for each site or office to have at least one mental health first aider.

### Health and safety performance

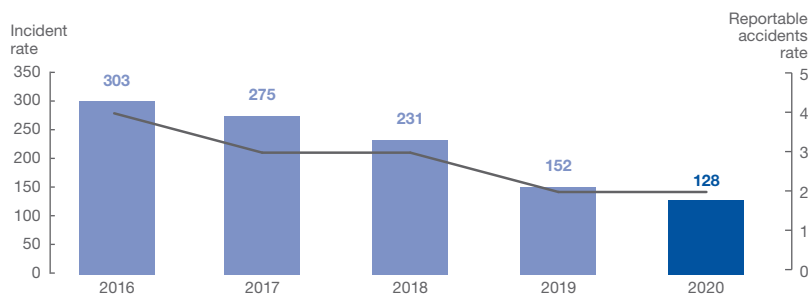
Our incident rate, which is a standard Health and Safety Executive reporting metric, was 128 per 100,000 employees for FY20, compared with 152 for FY19. There were no material health and safety events during the year and two reportable accidents. Our incident rate is 5.29% of the national incident rate for the construction industry. Our lost time productivity is 0.76%.

Throughout 2020, we have been targeting manual handling incidents and we are pleased that we have reduced manual handling incident rates by just over 48% compared to last year.

### Manual handling incidents



### Incident rate and reportable accidents rate



■ Incident rate: This is an HSE standard reporting metric, being the number of recorded incidents multiplied by 100,000 divided by the average number of full-time employees.  
 — Reportable accidents rate: This is the absolute number of accidents reported by the Group to HSE in accordance with the RIDDOR regulations.





### Training and development

We recognise the importance of learning and development, particularly in respect of developing our future leaders. We set training targets for our people and have full training records for everyone. We are currently looking at defining the minimum and desirable training levels, to match against job specifications.

### 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 responsibility and management section on page 44. 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 overseeing 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.

## SUSTAINABILITY continued

### OUR FUTURE PLACES



Arundel House, Coventry

#### Responsibility and management

We aim to create places that will be attractive to live in for years to come, which help residents succeed in life through quality homes and the customer service they receive, and which play a part in fixing the UK's housing shortage.

We supplement our in-house planning and design expertise with insights from customers, gained through Fresh, and through understanding the needs of our institutional clients. This helps us to find the rights sites and then to design and deliver places that support our vision and provide the best experience for the people who live there.

All proposals for new sites must be approved by our Investment Committee before they go ahead. Our delivery teams look to develop buildings to high standards and free from defects, and we aim to find new and innovative ways to work and to share that knowledge across the business, so we consistently produce better outcomes.

Through Fresh we create engaged communities and help to provide an exceptional living experience for residents. Our teams aim to provide best in class customer service and through our Be wellbeing and lifestyle programme we deliver engaging events, both online and in person, and support residents wellbeing through a range of activities and services.

#### Managing our 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. Any new contractor we work with goes through a rigorous pre-qualification process, including obtaining references and details of their qualifications and accreditations. The evaluation also considers their quality, HSE and financial performance.



Arundel House, Coventry



Avon Studios,  
Bath

We are proud that many of our subcontractors have grown alongside Watkin Jones over the last 20 years, reflecting the strength of our relationships. At the same time, we continually push our suppliers to improve.



As part of this, our compliance department uses Field View to record any defects and communicate them directly to the supply chain. This improves efficiency and ensures accountability.

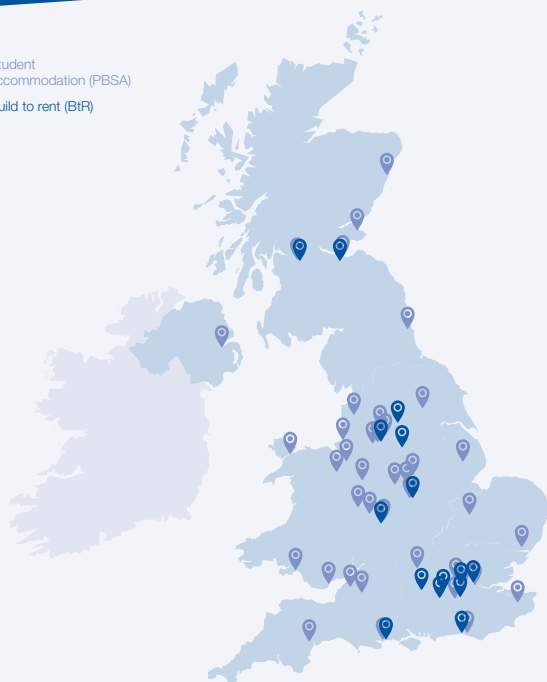
### Ensuring fire safety

The fire safety of the buildings we develop is paramount. 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. We use external consultants to vet our detailing and employ accredited subcontractors on fire protection to undertake their own independent surveys of the work. We are also further enhancing the robustness of our processes, for example by using Field View to store photographs and videos showing the installation of fire protection.

In January 2020, the Government issued updated guidance on the suitability of certain cladding systems which had previously been widely used on high rise residential buildings. For the first time, the guidance expressly covered high pressure laminate cladding. Following the issue of the guidance we carried out a review of the properties we have previously developed to identify those where some cladding remediation might be required and, without accepting liability, have worked proactively with the owners of the properties concerned to ensure the continued safety of tenants. More information on our approach to rectifying cladding issues can be found on page 13.

## Our impact on the UK

-  Student accommodation (PBSA)
-  Build to rent (BTR)



Number of residential units delivered

**2,821**

Number of WJ employees

**705**

Number of suppliers

**1,470**

Total supply chain spend<sup>1</sup>

**£255.0 million**

Total contribution to UK Treasury directly and indirectly

**£22.1 million**

1. The CBI state that for every £1 spent within the construction space nearly £3 of value is created for the UK economy (<https://www.cbi.org.uk/media-centre/articles/fixing-foundations-of-uk-construction-business-model-can-unleash-sectors-full-potential-cbi/>)

## SUSTAINABILITY continued

## OUR FUTURE PLACES continued



Alma Court,  
Canterbury

### Engaging with our communities

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.

We look to build and maintain strong relationships with the communities around our sites. This includes ensuring we work within the planning guidance hours and noise limits we are given. Our policy is to register all of our development sites under the Considerate Constructors Scheme. Each site has an administrator who keeps the local community informed through a monthly newsletter covering, for example, how the scheme has progressed and our planned works for the next month or eight weeks. When areas of the building are completed, we often invite members of the community in to discuss what we are doing and show them around, helping to show our desire to be good neighbours.

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 FY20 the fund made donations to a range of charities and schools.

We also recognise the importance of encouraging young people to consider a career within our industry. We visit local schools and colleges to discuss careers available and invite students to tour our developments to gain an insight into our work.



Barnard Point,  
Wembley





## Case study

### Enhancing community facilities

Through our development activities we can enhance the facilities available to local communities.

As part of our student accommodation development in Coventry, which we completed in FY20, we demolished the outdated Boys and Girls Youth and Sports Social Club building on the site and replaced it with a new facility comprising sports hall, boxing gym, activity room and café, as well as a rooftop sports area.

The new Club facility attracted over 600 young people following its opening and has made a significant contribution to the wellbeing of young people in the Coventry area.

## Case study

### Improving community safety

Ensuring that our developments contribute to improving local safety and reducing anti-social behaviour is an important part of any new project design.

At our new student accommodation site in Birmingham, we are working with the Canals and Rivers Trust to provide additional safety along the canal tow path which is used by local residents and will be a route for future students living in the development to walk to and from the University of Birmingham.

Various measures are being considered alongside the opening up of overgrown spaces, including installation of lighting and provision of CCTV.

## Case study

### Listening to our student customers

Fresh continuously engage with students, seeking feedback through surveys and focus groups to enable us to shape our service and design our developments accordingly.

Using feedback from c.14,000 of our residents who completed the National Housing Survey, we identified that the most important features when choosing a room are the facilities within the room for study, and in particular the size and configuration of the desk and type and quality of lighting.

By analysing the results of the survey we have been able to determine the optimum desk layout and size, and the lighting configuration, and these requirements are now being incorporated into the design of our future schemes.

# SUSTAINABILITY continued

## OUR FUTURE PLANET



Tudor Place, Chester

### Responsibility and management

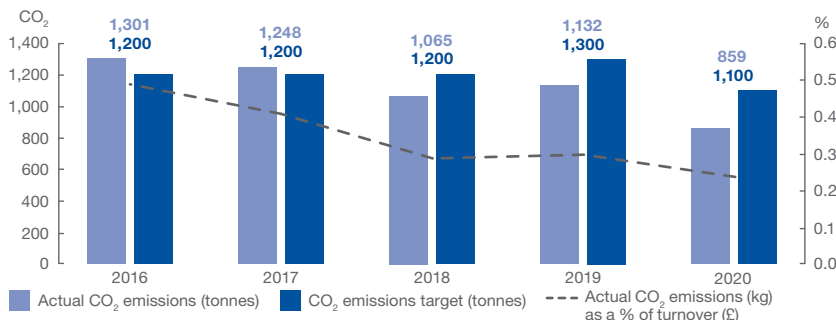
Improving the environmental performance of both our business and the buildings we develop is important for our long-term success. We recognise the potential impact of climate change on society generally and on our operations, for example through storms and flooding affecting construction on site. Our institutional clients are also increasingly aware of their environmental responsibilities. Our buildings are usually constructed to high BREEAM standards and the increasing focus on energy efficiency helps to underpin demand for our products, as they replace older and less energy-efficient buildings.

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.

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.

### CO<sub>2</sub> emissions

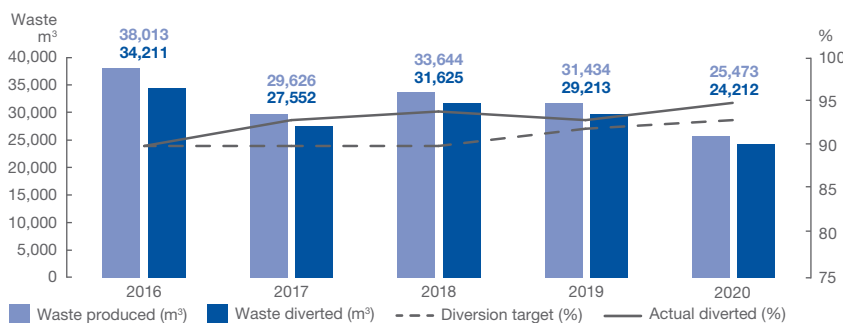


As an ISO 14001 accredited company, our environmental policy and waste monitoring procedures are well established throughout the Group and we are regularly audited by the British Standards Institute to ensure we comply. Our internal experts and advisers ensure we keep abreast of regulatory developments.

### Improving our environmental impact

The Group uses a range of measures to ensure energy resources are used responsibly. We design our buildings using the principles of high insulation and low air leakage, and use options including combined heating and power energy supplies, photovoltaic cells and air source heat pumps, to keep energy use as low as possible. We monitor our own energy use across our offices and sites and set targets to improve efficiency. We use fuel-efficient vehicles and plant, and low energy options such as LED lighting and energy-efficient cooling and heating systems.

### Waste diverted from landfill







Our water use is continually monitored, so we can investigate and address any increase. We use water-efficient components in our offices and temporary facilities on sites, and look to use water recycling technology where possible. Our buildings are designed in accordance with BREEAM Wat 01 and we produce a water strategy, with the aim of reducing the consumption of potable water for sanitary use in new buildings.

Bathroom Pods are fitted with dual flush toilet cisterns, aerated basin taps and “Eco” seven-litre per minute shower heads all fully compliant with BREEAM water-saving efficiency design standards. We also install leak detection systems and surface water attenuation (“SUDs”) on some of our projects.

We commission ecological appraisals, to ensure we do not have a negative effect on the surrounding habitats.

An environmental impact report for each project details specific measures to protect the surrounding environment. Emissions to water are controlled on site through management of the site’s surface water and by providing a wildlife corridor between rivers and canals and the building site.

We monitor waste management on site and carry out duty-of-care checks on our own and our contractors’ waste carriers and environmental permits. Regular waste management inspections of skips, including their contents, ensure waste is placed in the correct skips. We recycle timber on site and segregate and divert timber waste for recycling away from landfill sites. We only use sustainable sources for our timber used on sites.

## Case study Reducing energy waste with instant hot water

We continually look to innovate and improve the environmental footprint of our developments, which in turn helps to future-proof our business. For example, our 35-apartment build to rent scheme in Chester has the UK’s first instantaneous hot water (“IHW”) system using a 400-volt electricity supply, provided from renewable energy sources in partnership with Scottish Power.

IHW systems replace traditional, larger floor-standing cylinders, to improve sustainability and maximise the internal space available for customers. IHW systems heat water instantly as it is required, rather than storing hot water in a tank, which leads to waste through heat loss. The reduction in energy waste amounts to as much as 0.23 tonnes of CO<sub>2</sub> per year per home and a £60 saving for bill payers annually.

## Case study Targeting an “Excellent” rating in Bath

At our student accommodation development in Bath, we are planning a range of significant environmental enhancements. These include targeting a 35% reduction in regulated CO<sub>2</sub> emissions, compared to the targets set in the Building Regulations. We will employ highly efficient air source heat pumps for hot water production and roof-mounted photovoltaic panels to generate renewable energy.

The development will be car free, promoting more sustainable travel, with cycle storage provided for every resident. The building will have biodiverse green roofs and the site will benefit from a significant increase in the quality and quantity of planting and landscaping. We will also restore and revitalise the existing stream, with improved planting, biodiversity, water and wildlife habitats. Overall, our target is to achieve a BREEAM “Excellent” rating for this development.

## SUSTAINABILITY ACCOUNTING STANDARDS BOARD

In our commitment to transparency and sharing relevant and material ESG information, we have elected to report to the Home Builders SASB industry standard.

<b>Land use and ecological impacts</b>	Number of (1) lots and (2) homes delivered on redevelopment sites		<b>Locations</b>	<b>Units</b>
		<b>BtR</b>	1	159 apartments
		<b>PBSA</b>	7	2,606 student beds
		<b>Homes</b>	2 brownfield sites	50 houses and apartments
			1 greenfield site	6 houses
	Number of (1) lots and (2) homes delivered in regions with High or Extremely High Baseline Water Stress	Two PBSA sites fell within a High/Extremely High Baseline Water Stress Area: <ul style="list-style-type: none"> <li>• Forest Road, Walthamstow – 353 student beds; and</li> <li>• Albion Way, Wembley – 283 student beds.</li> </ul>		
	Total amount of monetary losses as a result of legal proceedings associated with environmental regulations	We have had no legal proceedings brought against Watkin Jones and therefore suffered zero losses.		
	Discussion of process to integrate environmental considerations into site selection, site design, and site development and construction	Our environmental policy statement 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. We conduct environmental impact assessments during our site procurement and planning development phase. The expectations of our institutional clients, which is codified in their relevant policy documentation, also informs our diligence processes.		
<b>Workforce health and safety</b>	(1) Incident rate and (2) reportable accidents	<b>Incident rate</b>	128 per 100,000 employees	152
		<b>Reportable accidents</b>	2	2
<b>Design for resource efficiency</b>	(1) Number of homes that obtained a certified HERS® Index Score and (2) average score	100% of our developments achieved a “B” EPC rating or above.		
	Percentage of installed water fixtures certified to WaterSense® specifications	100% of properties are fitted with equivalent UK water efficiency standard fixtures.		
	Number of homes delivered certified to a third-party multi-attribute green building standard	100% of our developments met a “Very Good” BREEAM Standard or above.		
	Description of risks and opportunities related to incorporating resource efficiency into home design, and how benefits are communicated to customers	See Our Future Places on pages 48 to 51 and Our Future Planet on pages 52 and 53 to understand how we think sustainably in our developments and how we engage with our stakeholders.		





<b>Community impacts of new developments</b>	Description of how proximity and access to infrastructure, services, and economic centres affect site selection and development decisions	We consider how each development will be used by the occupants from the moment we consider a location for investment. Proximity to university campuses, amenities and other services is a key component to our development process, as outlined in our business model on pages 20 to 23.	
	Number of (1) lots and (2) homes delivered on infill sites	<b>BtR</b>	1 site 159 apartments
		<b>PBSA</b>	7 sites 2,606 student beds
		<b>Homes</b>	2 sites 50 houses and apartments
	(1) Number of homes delivered in compact developments and (2) average density	<b>BtR</b> – average – 159 apartments / site area 0.91 ha = 174.7 dph <sup>1</sup> <b>PBSA</b> – average – 2,606 student beds / site area 2.04 ha = 1,277.5 dph <sup>1</sup> <b>Homes</b> – average – 247 houses and apartments / site area 8.02 ha = 30.8 dph <sup>1</sup> (Homes density is based on the total number of permitted units, not the number of units completed in FY20)	
<b>Climate change adaptation</b>	Number of lots located in 100-year flood zones	None	
	Description of climate change risk exposure analysis, degree of systematic portfolio exposure, and strategies for mitigating risks	We integrate climate risk analysis and activities into the preparation and execution of each of our developments. Our sustainability policy and ISO 14001 accredited environmental management systems codify and operationalise our approach to both physical and transitional climate-related risk management. As a business, we continue to assess our approach to managing climate risk.	
<b>Activity metric</b>	Number of controlled lots	<b>BtR</b> – c.4,466 apartments <b>PBSA</b> – c.7,910 student beds <b>Homes</b> – c.745 houses and apartments	
	Number of homes delivered	<b>BtR</b> – 159 apartments <b>PBSA</b> – 2,606 student beds <b>Homes</b> – 56 houses and apartments	
	Number of active selling communities	<b>BtR</b> – 174 apartments <b>PBSA</b> – 0 student beds <b>Homes</b> – 17 apartments	

1. Dwellings per hectare.

## ENGAGING OUR STAKEHOLDERS

We have a 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.

Employees	Institutional clients	Customers
<p>Watkin Jones employs around 700 people, across numerous disciplines. Having a highly engaged and motivated workforce is central to achieving our growth plans.</p>	<p>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 Fresh to manage assets on their behalf.</p>	<p>We are responsible for managing over 20,000 student beds and BtR apartments. Delivering high-quality service to these customers is key to ensuring they have an excellent experience of living in the developments we manage, helps to ensure high levels of occupancy for our institutional clients and contributes to rental growth.</p>
<p><b>Interests</b></p> <p>Our people's interests include:</p> <ul style="list-style-type: none"> <li>labour standards;</li> <li>learning and development;</li> <li>career opportunities;</li> <li>reward and benefits;</li> <li>workplace culture, whether at home, office or development site;</li> <li>health, safety and wellbeing;</li> <li>internal communication and collaboration;</li> <li>feeling valued for their work; and</li> <li>the Group's strategic direction and success.</li> </ul>	<p><b>Interests</b></p> <p>Our institutional clients' interests include:</p> <ul style="list-style-type: none"> <li>the location, specification and quality of our developments, including sensitivity to ESG issues;</li> <li>integration of ESG management processes into the development and construction phases;</li> <li>future-proofing through innovative design and development;</li> <li>on-time delivery of completed developments;</li> <li>quality of customer service;</li> <li>the safety and wellbeing of tenants; and</li> <li>financial returns from completed developments, including occupancy levels and net rental performance.</li> </ul>	<p><b>Interests</b></p> <p>Our customers' interests include:</p> <ul style="list-style-type: none"> <li>the location, specification and quality of their homes;</li> <li>the sense of community within their buildings;</li> <li>on-site facilities, including internet connectivity;</li> <li>customer service levels, including how friendly and knowledgeable our staff are; and</li> <li>value for money.</li> </ul>
<p><b>How we engage</b></p> <p>Our employee engagement activities are described in the Our Future People section on pages 44 to 47.</p>	<p><b>How we engage</b></p> <p>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.</p> <p>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.</p>	<p><b>How we engage</b></p> <p>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.</p>



## 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.

### Interests

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.

### How we engage

Our process for selecting and managing our supply chain partners is described on page 48.

Our quantity surveyors and procurement specialists have primary responsibility for liaising with the supply chain.

## 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.

### Interests

Our shareholders' interests include:

- financial and operational performance;
- our development pipeline and growth plans;
- strategy;
- market trends;
- climate resilience;
- Board and management;
- sustainability and responsible business;
- corporate governance;
- management pay and incentives; and
- dividend policy.

### How we engage

Our interactions with our shareholders are set out on page 83.

## 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.

### Interests

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 (noise, water usage and air quality during the construction phase); and
- support for community causes.

### How we engage

The way in which we engage with communities is described on page 50.

## SECTION 172 STATEMENT

The Group's long-term success depends on our ability to consider and create value for our stakeholders.

### Section 172(1) statement

The Board always considers the interests of all its stakeholders, including shareholders. This is about doing the right thing, which in turn ensures we comply with Section 172(1) of the Companies Act 2006.

The Group's stakeholder engagement activities, which are set out on pages 56 and 57, help to inform the Board's decisions, by ensuring the Directors are aware of stakeholders' interests.

In addition, every significant new project and investment must have a business case that explicitly addresses stakeholders' interests.

Set out below are the matters the Board is required to take into account under s172(1):

Matter	Response
<p>a) The likely consequence of any decision in the long term.</p>	<p>The Group works through a multi-year development cycle (see pages 42 and 43) and operates in markets driven by long-term demographic and social trends (see pages 16 to 19). The Board is therefore required to consider the long-term implications of its decisions, for example when reviewing and approving the Group's strategy.</p>
<p>b) The interests of the company's employees.</p>	<p>The Board is closely aligned to the Group's culture and has a rigorous focus on key issues affecting employees, such as health and safety. The newly introduced employee forum will provide a two-way feedback mechanism between employees and the Executive Directors (see page 45).</p>
<p>c) The need to foster the company's business relationships with suppliers, customers and others.</p>	<p>The Group is reliant on its ability to deliver consistently for institutional clients and customers, supported by its supply chain partners. The Board therefore takes a close interest in the Company's relationships with these groups, through reports and presentations from the Executive Directors and other members of the leadership team. See stakeholder engagement on pages 56 and 57.</p>
<p>d) The impact of the company's operations on the community and environment.</p>	<p>The newly introduced ESG strategy gives the Group a solid foundation from which to manage its environmental impact and community relations.</p>
<p>e) The desirability of the company maintaining a reputation for high standards of business conduct.</p>	<p>The Group relies heavily on its reputation and the Board therefore prioritises taking constructive action to resolve issues when they arise. The Group's actions on remediating cladding (see page 13) and waiving rents for certain students in its leased accommodation (see page 41) demonstrate this in action. The Group also has robust policies and controls in relation to protecting human rights and preventing bribery and corruption.</p>
<p>f) The need to act fairly between members of the company.</p>	<p>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 Executive Directors are required to build up a shareholding of 200% of salary, helping to align their interests with shareholders as a group.</p>



# HOW STAKEHOLDERS INFLUENCE KEY BOARD DECISIONS

We specifically consider stakeholders' interests when assessing all significant new projects and investments.

## Case study

### Public consultation: build to rent scheme in Brighton and Hove

#### Engagement with our stakeholders

Throughout the planning process for our Hove Gardens BtR scheme, a series of meetings were held with the local ward councillors and the Hove Station Neighbourhood Forum. Our public exhibition in February 2020 was well attended and allowed the project team to spend several hours chatting directly with local people, listening to their views and aspirations for the site.

Improvements made to the scheme design as a result of the engagement include:

- new community space – 341m<sup>2</sup> of proposed commercial space amended to accommodate potential community use;
- changes to facade design – increased use of glazing to make the tower appear lighter and more elegant; and

- public realm landscaping – significantly increased landscaping around the site, with additional trees, planting and public seating.

#### Our approach

Our approach to community engagement was acknowledged by the Hove Station Neighbourhood Forum in its written support for the scheme: **“The improvements to the original scheme have been significantly influenced by Watkin Jones’ willingness to acknowledge the need to go beyond a conventional public exhibition-led approach and engage more fully with the Neighbourhood Forum and local ward councillors.”**

Several members of the Planning Committee made specific reference to the strength of our community engagement, and we believe that ultimately this was key to the positive decision taken by the committee in approving our application.

### Examples of how our Board decisions during the year have considered our stakeholders' interests

Board meeting	Matter discussed	Board action and stakeholder considerations
3 October 2019	Brexit planning	The detailed work done on Brexit planning was considered, with particular reference to our supply chain engagement.
8 January 2020	Anti-bribery and corruption policy	Our updated anti-bribery and corruption policy was reviewed and approved, noting the importance of this to all our stakeholders.
31 March 2020	COVID-19	The Group's initial response to COVID-19 was thoroughly considered and approved, including our approach to enhanced health and safety measures and cash conservation.
31 March 2020	Cladding review	The Board considered and approved the approach with regard to the remediation of cladding on previously developed buildings, in light of the latest government guidance, agreeing that a proactive approach should be taken in the interest of tenant safety.
13 May 2020	Health and safety	The Board considered a detailed review of our health and safety arrangements in the context of COVID-19, to ensure the wellbeing of employees, tenants and the supply chain, clients and communities with whom we engage.
23 September 2020	ESG	The ESG framework for the Group was considered, noting its significant importance to the Group as a responsible developer and manager of residential property, for the benefit of all our stakeholders.
23 September 2020	Culture and ways of working	Proposals for agile working were considered, including feedback from our employees on their experience of home working during the pandemic, together with our office strategy. These will play an important part in providing more flexibility to our employees in the way they work and in creating a dynamic and collaborative culture.
23 September 2020	Lewisham BtR site	The Board considered and approved the entering into of contracts for the purchase of a BtR site in Lewisham. Specific stakeholder matters were noted in approving the acquisition, including the level of community engagement, the sustainability benefits in terms of the minimum targeted BREEAM 'very good' rating, as well as the social and community benefits of developing a significant BtR site in this location, which would also include affordable homes.
Various	Directors' remuneration	As a consequence of the COVID-19 pandemic, the Remuneration Committee met more regularly to consider Directors' remuneration, making appropriate adjustments, in the interests of our shareholders and employees. Further details are set out in the Directors' remuneration report on pages 90 to 95.

## FINANCIAL REVIEW



“  
**The Group delivered a solid financial performance during the year, despite the impact of the COVID-19 pandemic.**”

**Philip Byrom**  
 Chief Financial Officer

**The Group remains well capitalised, with significant liquidity and substantial headroom within its banking facilities, supporting future growth.**



Byrom Point,  
 Liverpool

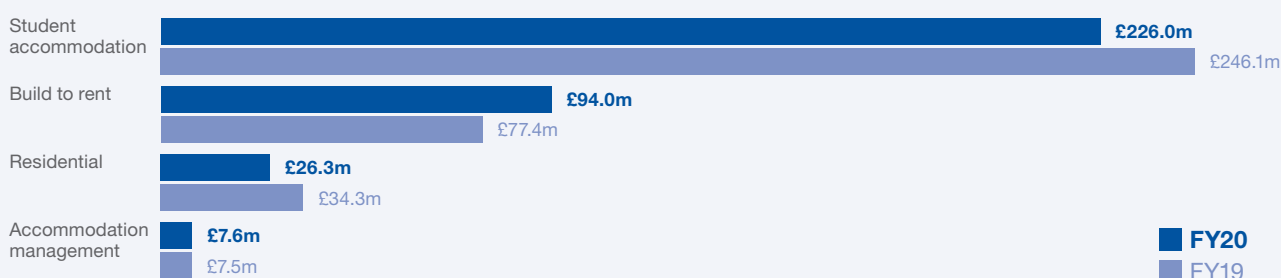
### Highlights

	FY20 £m	FY19 £m	Change
Revenue	354.1	374.8	-5.5%
Gross profit	75.9	80.0	-5.1%
Administrative expenses	(24.2)	(24.4)	-0.7%
Operating profit before exceptional items	51.7	55.6	-7.1%
Exceptional costs	(20.5)	(2.6)	
Operating profit	31.2	53.0	-41.1%
Share of profit in joint ventures	0.2	0.3	
Net finance costs	(6.1)	(5.4)	
Profit before tax from continuing operations	25.3	47.9	-47.1%
Income tax expense	(4.2)	(9.1)	
Profit for the year	21.1	38.8	-45.7%
Basic earnings per share from continuing operations	8.2p	15.2p	-45.8%
Adjusted basic earnings per share	14.7p	16.1p	-8.7%
Dividend per share	7.35p	8.35p	-12.0%

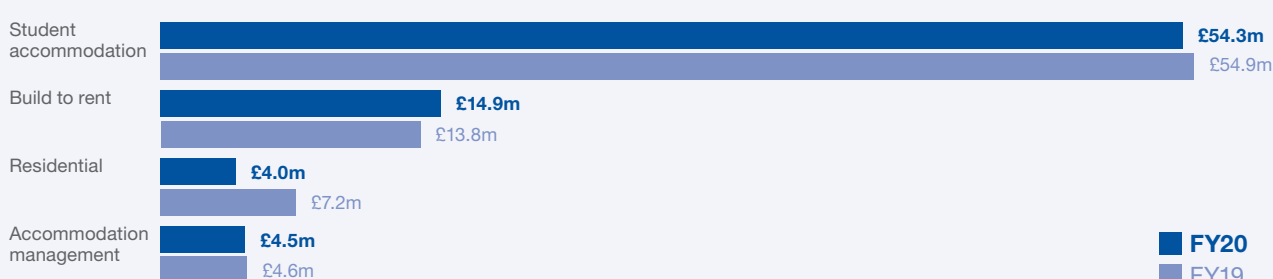
Comparative figures for FY19 have been restated as necessary for the adoption of IFRS 16 'Leases', as described later in this section.



## Revenue by operating segment



## Gross profit by operating segment



### Revenue

Revenue was £354.1 million, down 5.5% from £374.8 million in FY19. The reduction was primarily the result of delays to forward sales of developments as a result of COVID-19, which slowed institutional clients' activity during the second half of the year, as well as lower residential sales.

Revenues from student accommodation development were £226.0 million (FY19: £246.1 million). The reduction in the year was mainly due to a delay in the forward sale of our scheme in Leicester, which is currently in build for delivery in FY21, as well as delays in the forward sale of other new developments.

BtR development revenues increased 21.4% in the year to £94.0 million (FY19: £77.4 million), reflecting the completion of the development in Bournemouth and continued progress with the schemes in build at Reading, Wembley, Sutton and Stratford. BtR revenues were, however, also impacted by the delay in the forward sale of new developments.

Accommodation management revenues earned by Fresh were £7.6 million, against £7.5 million in FY19. Despite the disruption to student occupancy in the second half of FY20 as a result of the pandemic, the consistent revenue performance reflects the fixed management fee income earned by Fresh, with only a modest level of fees being variable based on the level of occupancy revenues achieved.

The latter did, however, suppress Fresh's revenues when considering that the number of student beds and apartments under management at the start of FY20 (17,721) was 14.9% higher than at the start of FY19 (15,421).

The residential business delivered revenues of £26.3 million, compared to £34.3 million for FY19. The division experienced a good recovery in sales following the relaxation of the initial COVID-19 lockdown measures and introduction of the temporary stamp duty relief, but its revenue performance was inevitably impacted by the disruption to its important spring selling period and by the temporary closure to its sites, which delayed the build completion of some homes into FY21.

There were no significant revenues in the year generated by developing commercial property alongside PBSA and BtR developments. This activity produced revenue of £9.5 million in the previous year.

## FINANCIAL REVIEW continued

### Gross profit

Gross profit was £75.9 million (FY19: £80.0 million), reflecting a gross margin consistent with last year of 21.4% (FY19: 21.4%). Whilst we had a shift in the revenue mix towards BtR, which is at a lower margin than PBSA, the maintained gross margin was primarily attributable to a stronger margin achieved in the year on our student accommodation development activities.

The gross profit from our PBSA development activities was £54.3 million (FY19: £54.9 million) at a margin of 24.0% (FY19: 22.3%). The improvement in the margin reflects the absence of new forward land sales in the second half of the year, which would otherwise have added to revenues but would have reduced the gross margin. We typically earn a low or nil margin on the land sale element of new forward sales, which under IFRS 15 'Revenue from Contracts with Customers' is accounted for separately from the revenues due under the agreement to carry out the development works. This means that we typically earn a lower margin in the year in which the land sale occurs, followed by higher margins in the following years as the development works are undertaken.

BtR development generated a gross profit of £14.9 million (FY19: £13.8 million), resulting in a gross margin of 15.8% (FY19: 17.8%). The margin achieved in the year was broadly in line with our expectation of generating a 15% margin from our BtR development activities in the medium term, with the slight improvement reflecting the absence of anticipated new forward land sales in the second half of the year, which as noted for PBSA above, are typically at low or nil margin. The gross margin in FY19 benefited from a strong contribution from the development at Reading, which accounted for a higher proportion of BtR revenues in that year.

Fresh continued to generate a highly attractive level of profitability, with gross profit of £4.5 million (FY19: £4.6 million) equating to a gross margin of 59.8% (FY19: 61.5%). The slight drop in margin reflects the impact of the modest reduction in variable fee income as a result of the disruption to student occupancy in the second half of the year.

Gross profit for the residential business was £4.0 million, versus £7.2 million in FY19. The reduction in the gross margin from 20.9% in FY19 to 15.4% in FY20 was primarily due to a change in mix, with the prior year benefiting from higher margin sales from developments completed in that year.

### Administrative expenses

Administrative expenses were £24.2 million in FY20, a slight reduction on the £24.4 million for FY19. As a result of COVID-19, we took precautionary measures to reduce spend across a number of areas, for example suspending the 1 April pay review, reducing the salaries for the Executive Committee and the fees for the Non-Executive Directors by 20% during the period April – June 2020 and cutting back on discretionary expenditure, including on consultancy costs. The Group's profit performance this year also resulted in a reduction in the cost of the bonus accrual of c.£1.3 million. These cost reductions offset increases in our headcount in the year, with the average number of management and administrative personnel increasing by seven to 116, inflationary cost increases and higher insurance costs as a result of a more challenging insurance market.

### Operating profit before exceptional items

Operating profit before exceptional items was £51.7 million (FY19: £55.6 million). The operating margin was 14.6% (FY19: 14.8%), reflecting the maintained gross margin and holding of administrative expenses.

### Exceptional items

The Group incurred a number of exceptional costs during the year, totalling £20.5 million (FY19: £2.6 million). The largest component was a provision of £14.8 million in respect of remedial works relating to cladding, as discussed on page 13. Of this, £4.9 million was utilised in the year, with the remainder expected to be incurred over the next two financial years.

In addition, we incurred exceptional charges totalling £5.7 million as a result of the COVID-19 pandemic:

- £2.7 million relating to the additional direct costs incurred on site as a result of additional health and safety measures and the implementation of accelerated working practices, to make up for construction delays caused by COVID-19, as well as the cost of damages arising from the late completion of the Walthamstow PBSA scheme;
- £1.1 million for waiving the final 2019/20 rent instalments for students living in the Group's leased student accommodation assets, who left their accommodation prior to 23 March 2020 and were unable to return; and
- £1.9 million in respect of an impairment to one of the student accommodation leased investment property assets, as a result of the reduction in student occupancy for the 2020/21 academic year due to the pandemic.

Exceptional costs in FY19 totalled £2.6 million. This related to the cost of compensating our CEO, Richard Simpson, for forfeiting outstanding incentives he held in respect of his former employer.

### Share of profit in joint ventures

The Group's share of profit in joint ventures was £0.2 million (FY19: £0.3 million). These relate to the balance of profits arising in relation to PBSA developments completed in Belfast in prior years.

### Finance costs

Our finance costs are primarily the finance cost of capitalised leases under IFRS 16. Finance costs also include 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 £6.1 million (FY19: £5.4 million), of which £5.1 million was in respect of capitalised leases (FY19: £5.2 million).

### Profit before tax

Profit before tax for the year amounted to £25.3 million (FY19: £47.9 million). Adjusted profit before tax, which excludes the impact of exceptional items, was £45.8 million (FY19: £50.4 million).



## Taxation

The corporation tax charge was £4.2 million (FY19: £9.1 million). The effective tax rate of 16.7% (FY19: 18.9%) was less than the UK corporation tax rate of 19%. The lower tax rate was primarily due to a prior year tax credit relating to the taxation of distributions from the Curlew Student Fund, which had already been taxed at source, and the higher proportionate benefit relative to the lower profit of specific tax allowances, including land remediation expenditure.

Information on our tax strategy can be found in the Investor section of our website, [www.watkinjonesplc.com](http://www.watkinjonesplc.com).

## Earnings per share

Basic earnings per share from continuing operations was 8.2 pence (FY19: 15.2 pence). Adjusted basic earnings per share, which excludes the impact of the exceptional items discussed above, was 14.7 pence (FY19: 16.1 pence).

## Dividends

On 1 April 2020, we announced that we were suspending the interim dividend, as a result of the economic uncertainty and disruption caused by COVID-19. However, given the Group's subsequent operational performance, the strength of our financial position and the Board's confidence in the outlook, the Board has proposed a final dividend of 7.35 pence per share. The dividend is 2.0x covered by adjusted earnings, in line with our dividend policy.

At 30 September 2020, the Company had distributable reserves of £100.8 million available to pay dividends.

## 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 34.6% to £40.9 million (FY19: £62.5 million). Adjusted EBITDA, which excludes exceptional items, was £61.3 million (FY19: £65.0 million), representing an adjusted EBITDA margin of 17.3% (FY19: 17.4%).

## Statement of financial position

At 30 September 2020, non-current assets amounted to £134.7 million (FY19: £142.7 million), with the most significant item being the carrying value of the leased student accommodation investment properties amounting to £104.6 million (FY19: £110.2 million), which arises following the adoption of IFRS 16 (see "Implementation of IFRS 16 'Leases'" below). Right-of-use assets relating to office and car leases amount to £4.8 million (FY19: £5.9 million). The reduction in the balances in the year reflect the depreciation and impairment charges. Intangible assets relating to Fresh amounted to £13.3 million, reduced by the amortisation charge of £0.6 million in the year, and are supported by the future cash flows for the business.

Inventory and work in progress was £125.7 million, down from £134.2 million at 30 September 2019. The reduction was mainly attributable to the residential sales in the year, notably from the apartment developments at Stratford and Bath and the housing development in Macclesfield, which resulted in a reduction in residential stock and work in progress of £12.3 million. PBSA and BtR inventory and work in progress was largely unchanged from last year as we realised cash from the sale of the Liverpool Road, Chester PBSA development and the forward sale of the Wilder Street, Bristol land site, but spent similar amounts on the PBSA and BtR developments in build in Leicester and on the acquisition of a new BtR site in Glasgow.

Contract assets were £41.5 million at the year end (30 September 2019: £25.6 million). These contract assets are mainly the final payment balances which will be received on the completion in FY21 of the forward sold developments currently in build, of which £30.6 million related to the developments in build in Reading, Sutton and Wembley.

Trade and other receivables at 30 September 2020 stood at £23.5 million (FY19: £13.9 million), with the increase mainly in respect of certified and retention balances that will be payable on the developments in build.

Contract liabilities and trade and other payables amounted to £106.3 million at 30 September 2020 (30 September 2019: £86.5 million), with the increase of £19.8 million due to a higher value of subcontract and supplier liabilities (£72.4 million) compared to a year ago (£50.7 million), reflecting the value of work performed in the final months of the year on the developments completed at the end of FY20 and those in build for FY21.

Our corporation tax liability was reduced to £0.8 million at 30 September 2020, from £7.0 million at 30 September 2019, reflecting our quarterly payments on account during the year.

The provision for cladding remedial works of £9.9 million has been split between current liabilities (£6.3 million) and non-current liabilities (£3.6 million), based on our anticipated expenditure over the next two years.

Interest-bearing loans and borrowings stood at £39.7 million at 30 September 2020, net of debt arrangement fees of £0.9 million, compared to £38.8 million at 30 September 2019 (see "Bank facilities" on page 65).

## Implementation of IFRS 16 'Leases'

The Group has applied IFRS 16 'Leases' for the first time in FY20. This standard affects the Group's six historic student accommodation sale and leaseback properties, as well as leases for the rental of office space and motor vehicles. The new standard creates investment property (leased) assets for the student accommodation leases, right-of-use assets for the office and motor vehicle leases and a liability for future lease payments.

We have adopted the fully retrospective approach in applying the standard, recognising its material impact on the Group's results and statement of financial position. As noted earlier, the comparative results for FY19 and the statement of financial position at 30 September 2019 have therefore been restated according to the transition arrangements set out in the standard.

## FINANCIAL REVIEW continued

### Implementation of IFRS 16 'Leases' continued

The investment property (leased) assets recognised at 30 September 2020 amount to £104.6 million (30 September 2019: £110.2 million), net of impairment charges of £5.7 million (30 September 2019: £3.5 million). The impairment charge at 30 September 2019 was previously classified as an onerous lease provision.

The right-of-use assets recognised at 30 September 2020 amount to £4.8 million (30 September 2019: £5.9 million).

Corresponding lease liabilities of £134.4 million have been recognised (30 September 2019: £137.5 million), of which £128.1 million (30 September 2019: £131.3 million) is non-current and reflects the remaining length of the PBSA leases, varying between six and 32 years. The two leases with the longest remaining terms, Dunaskin Mill, Glasgow, and New Bridewell, Bristol, which are profitable, account for £75.9 million of the total lease liabilities.

The difference between the right-of-use assets and lease liabilities at 30 September 2019 of £21.3 million, net of a deferred tax asset of £3.5 million, the reclassification of the onerous lease

provision of £3.5 million and previously prepaid lease rental payments of £0.6 million, is reflected in a reduction in retained earnings of £14.9 million at that date.

In our interim financial statements for the six months ended 31 March 2020, the student accommodation leased assets were included as right-of-use assets. However, the interaction of IAS 40 'Investment property' with IFRS 16 requires that leased assets on which rental income is received are classified as investment property. The leased student accommodation assets have therefore been reclassified as investment property (leased) in accordance with IAS 40.

The Group's income statements for FY20 and FY19 have been impacted as follows:

	FY20			FY19		
	Pre IFRS 16 £m	IFRS 16 Impact £m	IFRS 16 Reported £m	Pre IFRS 16 £m	IFRS 16 Impact £m	IFRS 16 Reported £m
<b>Gross profit</b>	<b>72.5</b>	<b>3.4</b>	<b>75.9</b>	76.8	3.2	80.0
Administrative expenses	(24.3)	0.1	(24.2)	(24.5)	0.1	(24.4)
<b>Operating profit before exceptional items</b>	<b>48.2</b>	<b>3.5</b>	<b>51.7</b>	52.3	3.3	55.6
Exceptional costs	(20.5)	—	(20.5)	(2.6)	—	(2.6)
<b>Operating profit</b>	<b>27.7</b>	<b>3.5</b>	<b>31.2</b>	49.7	3.3	53.0
Share of profit in joint ventures	0.2	—	0.2	0.3	—	0.3
Net finance charges	(1.0)	(5.1)	(6.1)	(0.3)	(5.1)	(5.4)
<b>Profit before tax</b>	<b>26.9</b>	<b>(1.6)</b>	<b>25.3</b>	49.7	(1.8)	47.9
<b>Adjusted EBITDA</b>	<b>49.9</b>	<b>11.4</b>	<b>61.3</b>	53.9	11.1	65.0

Further details on the nature of the changes to the Group's accounting required by this standard, as well as its main impacts and the adjustments made to restate the comparative figures, are provided in note 5 to the financial statements.

### Cash flows

In a typical year, the Group's cash balance peaks around the year end, as we receive the final payments on student accommodation developments completing ahead of the new academic year.

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. The cash balance at the year end is therefore important for funding our day-to-day cash requirements and puts the Group in a strong position when bidding for new sites to grow the future development pipeline.

The Group's net cash flow from operating activities was £38.3 million (FY19: £23.5 million), reflecting a strong cash flow from the Group's trading operations in the year. The cash flow from operating activities, before deducting the cash cost of exceptional items, finance costs and tax payments, was £63.5 million (FY19: £39.4 million). The working capital balance was relatively unchanged, decreasing by £2.1 million in the year, compared to an increase of £26.2 million in FY19.

Finance costs paid totalled £6.5 million (FY19: £5.7 million), including the finance charges on the capitalised lease liabilities of £5.1 million (FY19: £5.2 million) for which the capital repayments amounted to £6.1 million (FY19: £5.9 million).

Dividends paid in the year amounted to £14.3 million (FY19: £20.1 million) and corporation tax payments totalled £10.0 million (FY19: £9.8 million).

At the year end, we had a gross cash balance of £134.5 million and loans of £39.7 million, resulting in a net cash position of £94.8 million. At 30 September 2019, we had gross cash of £115.6 million, loans of £38.8 million and net cash of £76.8 million.



Net cash balances are stated before deducting the operating lease liabilities of £134.4 million (30 September 2019: £137.5 million), arising as a result of applying IFRS 16. We believe the net cash balance before deducting operating lease liabilities is a more relevant measure for the Group. The lease liabilities relate primarily to several historic student accommodation sale and leaseback properties, for which the lease rental liabilities are expected to be substantially covered by the future net student rental incomes to be received, in the absence of the short-term disruption caused by COVID-19.

### Bank facilities

During the year, we renewed our RCF with HSBC for five years to May 2025, while increasing the facility from £60.0 million to £100.0 million on the same terms. At the year end, we had drawn £35.0 million against the RCF, giving unused headroom within the facility of £65.0 million. We have also maintained an overdraft facility of £10.0 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 £5.0 million (30 September 2019: £5.5 million).

### Going concern

We have undertaken a thorough review of the Group's ability to continue to trade as a going concern for the period to 31 January 2022 (the "forecast period"). This review has been undertaken taking into consideration the following matters:

#### Liquidity

At 30 September 2020, the Group had a robust liquidity position, with cash and available headroom in its banking facilities totalling £209.5 million, as set out below.

	£m
Cash balances	134.5
RCF headroom	65.0
Overdraft facility	10.0
<b>Total cash and available facilities</b>	<b>209.5</b>

	FY20 £m	FY19 <sup>1</sup> £m
Continuing operations		
Operating profit before exceptional items	51.7	55.6
Exceptional items	(8.7)	(0.4)
Depreciation and amortisation	9.4	9.2
Impairment of leased student accommodation property (non-exceptional)	0.3	0.8
(Increase)/decrease in working capital	2.1	(26.2)
Finance costs paid	(6.5)	(5.7)
Tax paid	(10.0)	(9.8)
Net cash inflow from operating activities	38.3	23.5
Purchase of fixed assets	(0.2)	(0.3)
Cash flow from joint venture interests	0.8	—
Cash flow from other financial assets	—	0.2
Dividends paid	(14.3)	(20.1)
Payment of lease liabilities	(6.1)	(5.9)
Cash flow from borrowings	0.4	11.6
Increase in cash	18.9	9.0
Cash at beginning of year	115.6	106.6
Cash at end of year	134.5	115.6
Less: borrowings	(39.7)	(38.8)
<b>Net cash before deducting lease liabilities</b>	<b>94.8</b>	<b>76.8</b>
Less: lease liabilities	(134.4)	(137.5)
Net debt	(39.6)	(60.7)

1. Restated for the impact of IFRS 16.

Strong liquidity has been maintained through the first quarter of FY21, providing the Group with a good level of cash and available banking facilities for the year ahead.

As noted above, the RCF is committed and has a five-year term to May 2025. All financial covenants under the facility were comfortably met at 30 September 2020 and will continue to be met through the forecast period.

#### Business model

Our forward sale business model, is by definition, capital-light. By forward selling the majority of our BtR and PBSA developments, we receive payment for the land either at the same time as or shortly after we complete the purchase, and before we commit to any significant development expenditure. Once forward sold, we receive payment for the development works as they progress.

By being in control of our development pipeline we are able to ensure that we only commit construction expenditure to developments that are either forward sold or to undertake a modest level of enabling works. In certain circumstances we may decide to continue construction activities beyond the initial enabling phase, without a forward sale agreement in place, but we take this decision based on our available liquidity and can suspend the works should it prove necessary. This greatly limits our exposure to development expenditure which is not covered by cash income.

Sites are normally secured on a subject to satisfactory planning basis, which gives us time to manage the cash requirements and to market them for forward sale. We also take a cautious approach to managing our land acquisition programme to ensure that we have sufficient liquidity available to complete the acquisition of the sites without any new forward sales being secured.

## FINANCIAL REVIEW continued

### Going concern continued

The Fresh business receives a regular contractual monthly fixed fee income from its multiple clients and the short to medium-term risk to its revenue stream is low.

For our residential business, which is currently relatively small and only has a few sites in build, we manage our development expenditure so that, other than for infrastructure works, we only commit expenditure where it is supported by a forward sales position.

We also receive rental income from tenants on our leased PBSA assets and operational BtR assets. The level of rental income received, whilst reduced in the short term for the PBSA assets as a result of COVID-19, is relatively small in the context of the Group's revenues as a whole.

Our business model and approach to cash management therefore provides a high degree of resilience.

### Counterparty risk

Our clients are predominantly blue-chip institutional funds and the risk of default is low. The funds for a forward sold development are normally specifically allocated by the client or backed by committed debt funding.

For forward sold developments our cash income remains ahead of our development expenditure through the life of the development, such that if we were exposed to a client payment default, we could suspend the works, thereby limiting any cash exposure.

Fresh has many clients and these are mostly institutional funds with low default risk.

### Base case cash forecast

We have prepared a base case cash forecast for the forecast period, based on our current business plan and trading assumptions for the year, including a lower level of revenue from the leased PBSA assets as a result of COVID-19.

This is strongly supported by our forward sold pipeline of six PBSA developments and four BtR developments for delivery in FY21, as well as Fresh's contracted income and the reserved/exchanged sales for our residential business. Our currently secured cash flow, derived from our forward sold developments and other contracted income, net of overheads and tax, results in a modest cash utilisation over the forecast period, with the result that our liquidity position is strongly maintained.

In addition to the secured cash flow, the base case forecast assumes a number of new forward sales and further house sales, which if achieved will result in a further strengthening of our liquidity position, after allowing for dividend payments. We currently have under offer and are progressing sales of three BtR schemes and one PBSA scheme, which will underpin the additional forward sales assumptions in the forecast.

### Risk analysis

In addition to the base case forecast and though considered unlikely, we have considered the following possible significant downside risks as a consequence of the pandemic:

- counterparty risk – whilst the majority of our clients are not considered to present a default risk, we have identified two which we consider could be more vulnerable in the event of further sustained disruption;
- suspension of the forward sale markets, resulting from a significant economic downturn or market uncertainty – this is our most significant risk as it would greatly limit our ability to achieve any further forward sales and would potentially mean that we have to complete on secured site acquisitions without a subsequent forward sale in place; and
- collapse of the housing market – in this scenario we have considered the possibility of a significant reduction in future house sales.

We have run various model scenarios to assess the possible impact of the above risks, including a worst case downside scenario assuming the following:

- default by the two identified counterparty risks;
- no further forward sales are achieved, other than those currently under offer, as a result of a freeze in the sales markets;
- only 50% of further house sales are achieved beyond those currently reserved/exchanged; and
- we continue to complete the acquisition of our secured sites in line with the current target programmes, with limited mitigating actions being taken.

In the worst case downside scenario we have included for the payment of our FY20 full-year proposed dividend in line with our policy.

The cash forecast prepared under the above worst case downside scenario illustrates that adequate liquidity is maintained through the forecast period.

### Conclusion

Based on the thorough review and robust downside forecasting undertaken, and having not identified any material uncertainties that may cast any significant doubt, the Board is satisfied that the Group will be able to continue to trade for the period to 31 January 2022 and has therefore adopted the going concern basis in preparing the financial statements.

### Philip Byrom

Chief Financial Officer

19 January 2021

This strategic report, which includes the statement of alternative performance measures on page 67 and the review of principal risks and uncertainties on pages 68 to 77, has been approved by the Board and signed on its behalf:

### Richard Simpson

Chief Executive Officer

19 January 2021



## Alternative performance measures (“APMs”)

We use APMs as part of our financial reporting, alongside statutory reporting measures. These APMs are provided for the following reasons:

- 1) To present users of the annual report with a clear view of what we consider to be the results of our underlying operations, enabling consistent comparisons over time and making it easier for users of the report to identify trends.
- 2) To provide additional information to users of the annual report about our financial position.
- 3) To show the performance measures used by the Board in determining dividend payments.
- 4) To show the performance measures that are linked to remuneration for the Executive Directors.

The following APMs appear in this annual report. Definitions of all of these APMs can be found on page 3:

	Reason for use	Reconciliation		
		FY20 £'000	FY19 Restated <sup>1</sup> £'000	
Adjusted operating profit	1	Operating profit	31,230	53,024
		Add: Exceptional costs	20,437	2,576
		<b>Adjusted operating profit</b>	<b>51,667</b>	<b>55,600</b>
Adjusted profit before tax	1	Profit before tax	25,314	47,864
		Add: Exceptional items	20,437	2,576
		<b>Adjusted profit before tax</b>	<b>45,751</b>	<b>50,440</b>
Adjusted basic earnings per share	1, 3	Profit for the year	21,092	38,823
		Add: Exceptional items	20,437	2,576
		Less: Tax on exceptional items	(3,883)	(255)
		<b>Adjusted profit for the year</b>	<b>37,646</b>	<b>41,144</b>
		Weighted average number of shares	255,795,659	255,382,181
		<b>Adjusted basic earnings per share</b>	<b>14.717 pence</b>	16.111 pence
EBITDA	1	Operating profit	31,230	53,024
		Add: Share of profit in joint ventures	199	286
		Add: Depreciation	8,863	8,595
		Add: Amortisation	560	559
		<b>EBITDA</b>	<b>40,852</b>	<b>62,464</b>
Adjusted EBITDA	1, 4	EBITDA	40,852	62,464
		Add: Exceptional items	20,437	2,576
		<b>Adjusted EBITDA</b>	<b>61,289</b>	<b>65,040</b>
Adjusted net cash	2	Net debt	(39,607)	(60,675)
		Add: Lease liabilities	134,453	137,522
		<b>Adjusted net cash</b>	<b>94,846</b>	<b>76,847</b>
Adjusted return on equity	1	Profit for the year	21,092	38,823
		Add: Exceptional items	20,437	2,576
		Less: Tax on exceptional items	(3,883)	(255)
		<b>Adjusted profit for the year</b>	<b>37,646</b>	<b>41,144</b>
		Total equity at 1 October	161,095	140,090
Total equity at 30 September	167,838	161,095		
Average total equity	164,467	150,593		
		<b>Adjusted return on equity</b>	<b>22.9%</b>	27.3%

1. Restated for the impact of IFRS 16.

## 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; and
- 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 framework 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.

In December 2020 the Group's strategic risk register was reviewed at a special joint meeting of the Board and Audit Committee. The conclusion of this meeting was that while there have been improvements in the Group's corporate risk management, there are still areas in which management should focus further in 2021. In particular, the focus of the risk register will be shifted to events rather than causes. Risk management will then focus on identifying barriers that are aimed at preventing an event occurring and reducing the harmful impact if such an event happens.

### 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 set out in this section, together with the assessed risk appetite.

The Group's principal risks set out in this section and the effectiveness of the controls and procedures in place to mitigate against them have been evaluated where applicable taking into account the impacts of COVID-19. Principal risk 02 – 'Major nationwide business interruption/lockdown' specifically considers the risk to the business of a COVID-19 type occurrence.



### 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 in the medium term. 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.

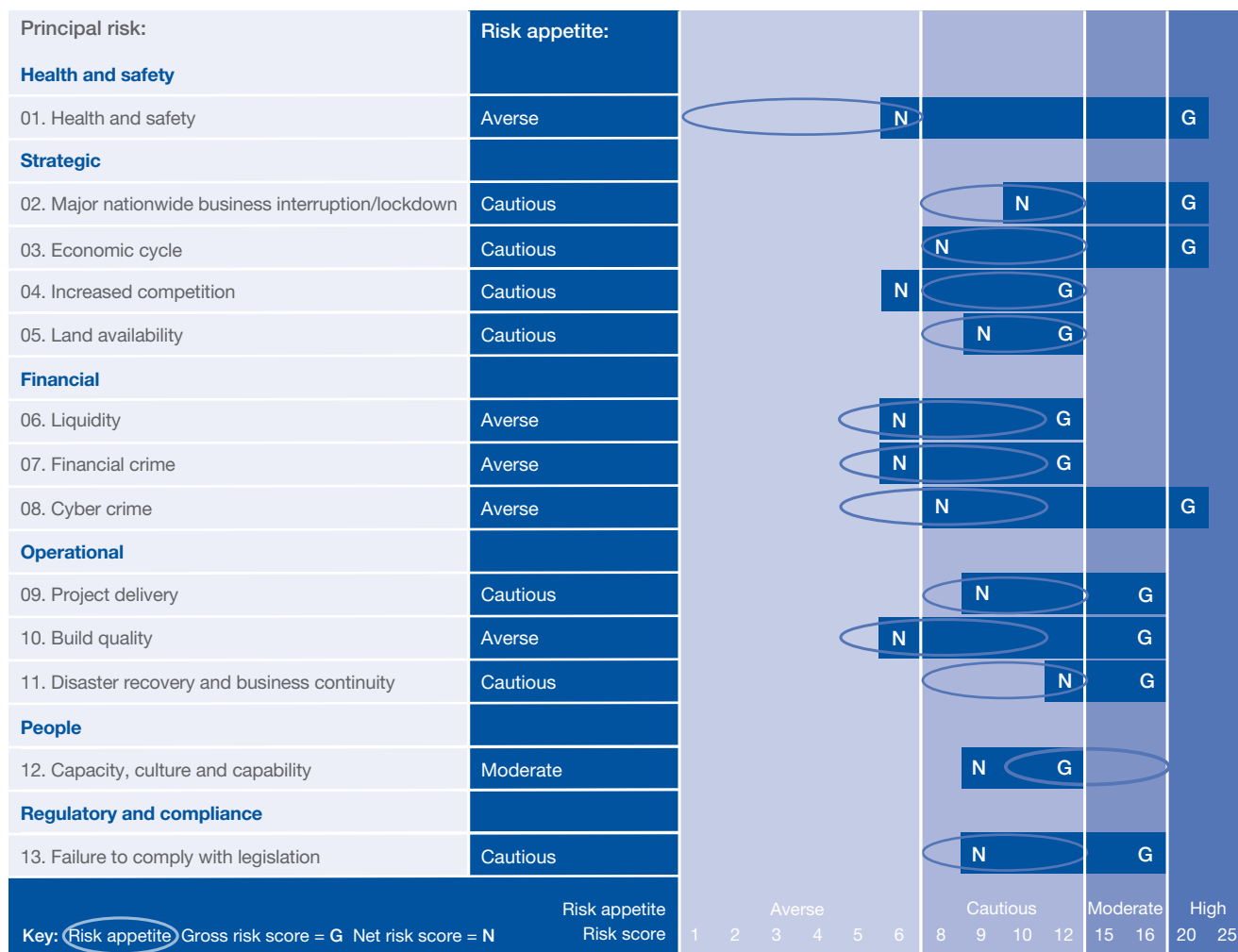
The principal risks and risk appetite have been assessed using the following scoring matrix.

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 70 to 77.





# RISK MANAGEMENT AND PRINCIPAL RISKS continued

Risk	Impact	Risk assessment		
		Gross	Net	
<b>Health and safety</b>				
<p><b>01. Health and safety</b></p> <p>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 a serious incident or fatality.</p> <p>Link to business model:</p> 	<p>A major on-site health and safety incident could result in significant personal injuries/fatalities, fines or financial cost, increased insurance renewal premiums, damage to reputation and potential project delay.</p>	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>5</p> <p>4</p> <p>20</p>	<p>2</p> <p>3</p> <p>6</p>
<b>Strategic</b>				
<p><b>02. Major nationwide business interruption/ lockdown</b></p> <p>Link to business model:</p> 	<p>National lockdowns lead to a sharp deterioration in economic activity and would create challenges in terms of both the Group's short-term business activities and its medium-term prospects, dependent on the severity of the economic impact of lockdown measures on the Group's key markets.</p>	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>5</p> <p>4</p> <p>20</p>	<p>5</p> <p>2</p> <p>10</p>
<p><b>03. Economic cycle</b></p> <p>Changes in the political/economic cycle could have an impact on the real estate market and investor confidence.</p> <p>Link to business model:</p> 	<p>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.</p>	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>5</p> <p>4</p> <p>20</p>	<p>4</p> <p>2</p> <p>8</p>

**Key**

 Identify potential developments

 Site procurement and planning

 Transaction and funding






 Construction and delivery

 Accommodation management



Within risk appetite?	Mitigation
Yes	<ul style="list-style-type: none"> <li>• Health and safety is a top priority at Board and Executive Committee level, with regular reporting on findings and recommendations.</li> <li>• The Group has a rigorous health and safety management framework in place supported by well-established policies and procedures.</li> <li>• The Group has an established health and safety department which regularly conducts health and safety audits across all of its sites.</li> <li>• In light of the increased health and safety risks presented by the COVID-19 pandemic, the British Safety Council were asked to audit the control measures in place across the Group and awarded it COVID-secure accreditation.</li> <li>• The Group engages with its insurers to help ensure it maintains best practice.</li> </ul>
Yes	<ul style="list-style-type: none"> <li>• Continuity plans and our IT infrastructure enable all non-site staff to work from home to allow the continuity of their functions in the absence of access to the Group's offices.</li> <li>• Regular monitoring of the latest government guidance enables the Group to respond quickly to directives in relation to its construction and accommodation management activities.</li> <li>• The Group monitors its liquidity carefully and seeks to maintain sufficient liquidity through cash balances and debt facilities to allow it to absorb the short to medium-term financial impacts of business interruption.</li> </ul>
Yes	<ul style="list-style-type: none"> <li>• Our strategy is to focus on our core BtR and PBSA markets, which remain fundamentally attractive and are generally seen by institutional investors as resilient during times of broader market uncertainty.</li> <li>• The Executive Committee approves market and city target locations annually.</li> <li>• Our Investment Committee approval process ensures rigorous review of site acquisitions, including the downside risk of movements in development values.</li> <li>• Site acquisitions above £15 million are subject to approval by the Board, who consider the papers reviewed by the Investment Committee.</li> <li>• 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.</li> <li>• By forward selling our developments we operate a working capital-light model, which limits the call on the Group's own cash.</li> <li>• Through focusing on its core BtR and PBSA markets the Group operates in markets that management have analysed and assessed as having significant unsatisfied demand, reducing the risk of them becoming less attractive to investors.</li> </ul>

# RISK MANAGEMENT AND PRINCIPAL RISKS continued

Risk	Impact	Risk assessment		
		Gross	Net	
<b>Strategic</b>				
<p><b>04. Increased competition</b></p> <p>The PBSA and build to rent markets are attractive, which could encourage new entrants and result in increased competition.</p> <p>Link to business model:</p>  	<p>Increased competition could increase land prices or make it harder to secure attractive sites. More developments would be brought to market, with a potential reduction in demand for Watkin Jones' schemes.</p>	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>4</p> <p>3</p> <p><b>12</b></p>	<p>3</p> <p>2</p> <p><b>6</b></p>
<p><b>05. Land availability</b></p> <p>The market for acquiring land is very competitive, which could lead to difficulties in securing new sites for development. There is also a risk that the planning environment may become more onerous, making it more difficult to secure the planning consents we require.</p> <p>Link to business model:</p> 	<p>An inadequate supply of available land or delays in the planning process 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.</p>	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>3</p> <p>4</p> <p><b>12</b></p>	<p>3</p> <p>3</p> <p><b>9</b></p>
<b>Financial</b>				
<p><b>06. Liquidity</b></p> <p>Cash flow constraints could mean that the Group is unable to meet its financial commitments or source new land opportunities.</p> <p>Link to business model:</p>  	<p>At its most extreme the absence of sufficient liquidity could lead to business failure.</p> <p>More moderate liquidity constraints could limit the Group's ability to secure the new sites required to support its growth strategy, limiting its capacity to grow earnings.</p>	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>3</p> <p>4</p> <p><b>12</b></p>	<p>2</p> <p>3</p> <p><b>6</b></p>
<p><b>07. Financial crime</b></p> <p>The Group may be unable to prevent or detect financial crime.</p> <p>Link to business model:</p> <p>None</p>	<p>Financial crime could lead to financial loss, breach of regulations, regulatory censure/fines and loss of reputation.</p>	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>3</p> <p>4</p> <p><b>12</b></p>	<p>3</p> <p>2</p> <p><b>6</b></p>

## Key



Identify potential developments



Site procurement and planning



Transaction and funding



Construction and delivery







Accommodation management

Within risk appetite?	Mitigation
Yes	<ul style="list-style-type: none"> <li>The Group has developed the services 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.</li> <li>Watkin Jones is recognised as a “tier 1” developer, which is typically a requirement for institutional funds to engage on a forward sale basis.</li> <li>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.</li> <li>Our target sectors continue to demonstrate significant imbalances between supply and demand which should provide headroom for the Group to expand its activities.</li> <li>The Group’s management team monitors the competitive landscape in order to identify and respond to changes.</li> </ul>
Yes	<ul style="list-style-type: none"> <li>The Group has an established land sourcing capability and where possible targets off-market opportunities, which helps mitigate against any increased competition for land.</li> <li>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.</li> <li>Our site evaluation and approval process incorporates macro and micro market analysis and viability assessments to ensure that the Group’s land sourcing is targeted in the right locations.</li> <li>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.</li> <li>We have an established national planning resource which appraises each BtR and PBSA 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.</li> <li>We cross-check our internal planning appraisals with local external consultants to further ensure local planning policy and design considerations are considered.</li> </ul>
Yes	<ul style="list-style-type: none"> <li>Our business model of forward selling developments helps to reduce the Group’s cash requirements significantly.</li> <li>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.</li> <li>Regular cash flow forecasts are prepared, which are reviewed by the Chief Financial Officer.</li> <li>The Group held cash of £134.5 million at 30 September 2020 and had available headroom in its banking facilities of £75.0 million, comprising £65.0 million in its revolving credit facility and a £10 million overdraft facility, providing significant liquidity.</li> </ul>
Yes	<ul style="list-style-type: none"> <li>We operate layers of authorisation checks within the Group’s business processes, in accordance with a delegated authorities matrix.</li> <li>We ensure segregation of duties within our ordering, approvals and payments processes.</li> <li>We determine development prices on a negotiated basis, providing little opportunity for price-fixing.</li> <li>Senior management takes an active role in reviewing transactions and ensuring that procedures are followed.</li> </ul>





# RISK MANAGEMENT AND PRINCIPAL RISKS continued


Risk	Impact	Risk assessment		
		Gross	Net	
<b>Financial</b>				
<p><b>08. Cyber crime</b></p> <p>The Group may be unable to prevent, detect or respond to a cyber attack.</p> <p>Link to business model:</p> 	A cyber attack could lead to financial loss, breach of regulations, regulatory censure/fines and loss of reputation.	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>5</p> <p>4</p> <p><b>20</b></p>	<p>2</p> <p>4</p> <p><b>8</b></p>
<b>Operational</b>				
<p><b>09. Project delivery</b></p> <p>The Group could materially fail to complete one or more developments on time.</p> <p>Link to business model:</p> 	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.	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>4</p> <p>4</p> <p><b>16</b></p>	<p>3</p> <p>3</p> <p><b>9</b></p>
<p><b>10. Build quality</b></p> <p>The Group could deliver poor build quality.</p> <p>Link to business model:</p> 	Poor build quality or a failure to engage properly with clients could result in costly legal claims being brought against the Group and a loss of reputation. This risk is particularly pertinent in respect of cladding and fire protection works since the Grenfell disaster.	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>4</p> <p>4</p> <p><b>16</b></p>	<p>3</p> <p>2</p> <p><b>6</b></p>
<p><b>11. Disaster recovery and business continuity</b></p> <p>There is a risk that business continuity is not maintained in response to a disaster or other business continuity event.</p> <p>Link to business model:</p> 	Failing to maintain business continuity could lead to financial loss, a delay to the delivery of schemes or loss of personnel and reputation.	<p>Likelihood</p> <p>Impact</p> <p><b>Risk score</b></p>	<p>4</p> <p>4</p> <p><b>16</b></p>	<p>3</p> <p>4</p> <p><b>12</b></p>

**Key**

 Identify potential developments

 Site procurement and planning



 Transaction and funding

 Construction and delivery

 Accommodation management


Within risk appetite?	Mitigation
Yes	<ul style="list-style-type: none"> <li>• A Data Protection Management Group has been formed to monitor and develop the Group's cyber security measures.</li> <li>• The Group has achieved the Cyber Essentials certification.</li> <li>• We undertake data information security training annually.</li> <li>• We undertake information security control monitoring over IT access permissions.</li> <li>• We maintain daily incremental server backups.</li> <li>• We undertake vulnerability scanning and external penetration testing.</li> </ul>
Yes	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• As a complete developer of BtR and PBSA, 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.</li> <li>• Project delivery is carefully monitored by operational senior management and through project status reporting at operational and Executive Committee meetings.</li> <li>• Projects identified as at risk are subject to review by senior operational management, who have the knowledge to consider acceleration options.</li> </ul>
Yes	<ul style="list-style-type: none"> <li>• The Group utilises project delivery software to provide quality assurance over the standards of its construction works. Reports and statistics on quality assurance are reviewed at monthly project review meetings with senior management.</li> <li>• The Group adopts a very risk-averse approach when specifying the cladding for its new developments, utilising cladding materials with a fire retardant standard of A2 or better, and constructs its developments to the highest fire safety standards.</li> <li>• Where potential cladding remedial works have been identified, the Group is working closely with the property owners concerned in order to ensure the safety of tenants.</li> </ul>
Yes	<ul style="list-style-type: none"> <li>• The Group's activities are geographically dispersed and there is no dependence on a single location.</li> <li>• A business disaster recovery plan is in place for the Group's key information systems.</li> <li>• A business continuity plan has been developed and successfully tested by the COVID-19 pandemic.</li> <li>• There are system data backup routines in operation with most data hosted off-site using cloud-based platforms.</li> </ul>


# RISK MANAGEMENT AND PRINCIPAL RISKS continued

Risk	Impact	Risk assessment	
		Gross	Net
<b>People</b>			
<p><b>12. Capacity, culture and capability</b></p> <p>The Group may find it difficult to recruit and retain employees with the right capabilities.</p> <p>Link to business model:</p> 	<p>The Group's employees are critical to its performance. Cultural limitations and the failure to identify, retain and motivate people will restrict the Group's growth plans and could result in development margins being eroded.</p>	<p>Likelihood 4</p> <p>Impact 3</p> <hr/> <p>Risk score 12</p>	<p>3</p> <p>3</p> <hr/> <p>9</p>
<b>Regulatory and compliance</b>			
<p><b>13. Failure to comply with legislation</b></p> <p>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.</p> <p>Link to business model:</p> 	<p>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 a serious incident or fatality.</p>	<p>Likelihood 4</p> <p>Impact 4</p> <hr/> <p>Risk score 16</p>	<p>3</p> <p>3</p> <hr/> <p>9</p>

**Key**

 Identify potential developments

 Site procurement and planning

 Transaction and funding

 Construction and delivery

 Accommodation management



**Within risk appetite?****Mitigation**

Yes

- The Group has an established human resources function with frameworks in place for recruitment, training and performance review.
- An agile working policy was introduced during FY20 to permanently embed the positive elements of flexible working practices introduced in response to the COVID-19 pandemic.
- The Group has appointed a Head of Learning & Leadership Development who is charged with focusing on talent management and associated training.
- The Group seeks to remain competitive in its remuneration levels and employment terms.

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 proactive 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.

## BOARD OF DIRECTORS

The Board has a wide range of appropriate skills and experience, supporting robust debate and decision-making.



**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.

### 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; Vice Chairman of the English National Ballet; and Non-Executive Director of Rightmove plc, St James's Place plc, Sainsbury's Bank plc, Realogy, Zoopla Property Group plc and the Department for Communities and Local Government.



**Richard Simpson**  
Chief Executive Officer  
Appointed to the Board: 2 January 2019

### Skills and experience

- Extensive experience working in property development and student accommodation, including as Group Property Director at The Unite Group plc immediately 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.

### Other current appointments

N/A

### 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 and  
Company Secretary  
Appointed to the Board: 16 March 2016

### Skills and experience

- Eighteen 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.

### Other current appointments

N/A

### Past appointments

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



### Simon Laffin

Independent Non-Executive Director  
Appointed to the Board: 26 February 2016

#### Skills and experience

- Experienced chairman, executive and non-executive director in large and small, public and private companies, including acting as audit committee chair.
- Experienced in retail, property, FMCG, financing, restructuring and private equity in the UK, Europe, 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 International; Non-Executive Director and member of the Audit and Supervisory Committee of Dentsu Group Inc.

#### Past appointments

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



### Liz Reilly

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

#### Skills and experience

- Around 20 years of executive experience at large UK businesses, including J Sainsbury plc and FCC Environment.
- Developed knowledge of the real estate sector during eight years 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 Environment (previously the Waste Recycling Group).



## CHAIRMAN'S INTRODUCTION



“  
**The Group's governance framework continued to strengthen during the year.**”

**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

The Group's business and strategy continues to evolve, in particular as build to rent development becomes increasingly important to us. At the same time, there were important changes in the year to the way the business is structured, supporting better decision-making and helping to empower our teams (see page 24). It is essential that our corporate governance structures and processes also continue to adapt, so they remain fit for purpose.

During the year, the Board therefore continued to develop our approach to key areas, such as our risk framework and internal controls. We also refined delegated authorities, to ensure an appropriate balance between making efficient decisions and appropriate oversight. In addition, the Board has increased its focus on ESG matters and looked at how they should be embedded in our decision frameworks. For example, the Group has begun to include sustainability judgements when considering potential new sites.

Not surprisingly, the Board met more frequently during lockdown to consider and support the Group's response to COVID-19. The Audit and Remuneration Committees also stepped up their meeting schedule and there have been more regular informal conversations between me and our CEO, Richard Simpson, and with the Non-Executive Board members.

The Board has also received more presentations from members of the senior team, enhancing our insight into their work and helping us to identify areas we should consider. For example, during the year we introduced new approval processes for developments. We also continued to challenge and stress test our general governance environment and key issues for the future of the business, such as talent management and succession planning. As a result of all of this work, the Group's governance framework continued to strengthen during the year.

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. The Board follows the principles set out in the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). There are no significant areas where our governance structures and practices differ from the QCA Code's expectations. 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>.

**Grenville Turner**  
Non-Executive Chairman

19 January 2021

# CORPORATE GOVERNANCE

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

## The Board

The Board comprises the Non-Executive Chairman, two Executive Directors and two independent Non-Executive Directors. Biographies of the Directors can be found on pages 78 and 79.

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. Non-Executive appointments run for an initial term of three years from the date of appointment and continue thereafter, subject to three months' notice by either side.

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. 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 and Philip Byrom are 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	11/11	7/7	8/8	4/4
Richard Simpson	11/11	—/—	—/—	—/—
Philip Byrom	11/11	—/—	—/—	—/—
Simon Laffin	11/11	7/7	8/8	4/4
Liz Reilly	11/11	7/7	8/8	4/4

## CORPORATE GOVERNANCE continued

### 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 Cossec. 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 84 to 95.

### 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

Towards the end of the previous financial year, the Board underwent an external evaluation, conducted by Campbell Tickell. The findings were presented to the Board at its meeting in October 2019 and the conclusions were outlined in the annual report for FY19.

The evaluation identified a number of areas for the Board to address in FY20. Progress in each of these areas is shown below:

Area to address	Progress in FY20
Consider longer-term arrangements for company secretarial support.	The Company has appointed a Company Secretary who will join the Company in 2021.
Continue to improve risk management and audit processes.	We have continued to evolve our processes in these areas. See the Audit Committee report on pages 84 to 87 for more information.
Keep the Board’s diversity and mix of skills under review.	The Nomination Committee has continued to review the Board’s composition during the year. See pages 88 and 89 for more information.

The Board considered the need for an evaluation exercise during FY20 and concluded that the priority should be to continue to focus on the Group’s response to COVID-19. The Board therefore intends to undertake its next evaluation during FY22.



### 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 84 to 87.

### 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. Regular virtual meetings have been held during the COVID-19 pandemic. 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 virtually at 10.30am on 19 February 2021. 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](http://www.watkinjonesplc.com).



Capital Markets Day held in November 2019



Employee conference held in November 2019

# AUDIT COMMITTEE REPORT



“  
**The Committee considered a wide range of matters during the year, including the continued effectiveness of the Company’s key controls following the move to remote working as a result of COVID-19.**”

**Simon Laffin**  
Chairman of the Audit Committee

## Committee members

**Simon Laffin (Chairman)**  
Independent Non-Executive Director

**Grenville Turner**  
Non-Executive Chairman

**Liz Reilly**  
Independent Non-Executive Director

Additional attendees, as invited:  
Ernst & Young, KPMG,  
Richard Simpson,  
Philip Byrom,  
Oliver Worrall (Deputy CFO)  
and other executives as required

### Committee responsibilities

The Audit 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.

The Committee meets at least once a year. In FY20 it met seven times.

### Dear Shareholder

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

#### Strategic risk management

The Company has a strategic risk register and has identified its risk appetite. This was reviewed again at a special joint meeting of the Board and Audit Committee in December 2020. The Board recognises that the Company has made great strides in improving its corporate risk management, but there is still much work to do. In particular, the risks are now being focused more on events rather than causes. For example, this means that we will look at a reduction in investor demand for our developments and forced remote working from whatever cause, rather than looking at a pandemic risk on its own. The risk management will then identify multiple barriers that are aimed at preventing such a risk and reducing the harmful impact if such an event happens, as well as monitoring the success of such barriers.

The Company has a Risk Committee of senior executives, that works with internal audit. The minutes of the Risk Committee and reports of the internal auditor are tabled at Audit Committee meetings. The Company’s risk register is summarised on pages 70 to 77.

#### Interim results review

The accounting treatment of cladding remedial works was reviewed, with particular focus on when and if a constructive obligation had been created, which would need providing for in the interim results. Following discussion, it was agreed that no constructive obligation had as yet been incurred, as the outcome of discussions with the property owners concerned was not known, although the pre-close update had indicated that the potential cost to the Group could be significant. A provision was then subsequently made at the full year, once the outcome of negotiations with property owners was clearer and a constructive obligation had arisen.

## The Audit Committee's risk assessment

**Revenue recognition:** This is always presumed as a significant risk. The specific issue on this for Watkin Jones is recognition of long-term contract revenue. The auditor explained the work that they undertake to verify revenue and they noted no significant issues with the recognition.

**Management override:** This is another presumed risk. The Audit Committee looked to the Company's internal controls and the external audit for assurance that this risk is controlled. The auditor concluded that 'the control environment is effective and helps to reduce the likelihood of a material misstatement affecting the financial statements'.

### 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, and this is audited by EY, with no significant issues.

### Final year-end audit report

The Committee met with EY and reviewed their report on the year-end results (see pages 99 to 103). Careful consideration was given to:

- reporting materiality, which was set by the auditor at 5% of underlying profit before tax and one-off items, which equates to £2.3 million. In practice, they apply a lower 'performance materiality' of £1.7 million as a basis for their detailed work, and report to the Committee all audit differences that they find over £110,000;
- significant accounting estimates and judgements:
  - IFRS 16 was applied this year for the first time with the full retrospective method being used. The incremental borrowing rate, used to value the assets, was agreed with the auditor and applied to the individual properties;
  - impairment testing for leased investment properties. This refers to six legacy student accommodation assets that were sold and leased back. In previous years, before the application of IFRS 16, any impairment would have been classified as an onerous lease provision. An impairment charge was made in the year in respect of one of the leased assets, primarily as a result of the lower student occupancy in the 2020/21 academic year as a result of COVID-19 and taking into account students not being able to return to their accommodation in January 2021. No further impairment was required;
  - intangible assets relating to Fresh of £3.3 million in customer relationships and £9.7 million in goodwill. There was significant headroom; and
- cladding provision. A charge of £14.8 million was made in the year for rectification works that will be needed on cladding, with a remaining provision of £9.9 million carried forward at the year end. This was calculated for each affected building;
- quality of earnings. The non-underlying items were reviewed to ensure that the quality of earnings is maintained;
- 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 comfortable 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
- the Committee noted that all reporting requirements for an AIM-listed business are being complied with.



Arundel House, Coventry



# AUDIT COMMITTEE REPORT continued

## Effectiveness of the external auditor

After last year's audit, the Committee and the finance team reviewed the performance of the auditor, looking at the audit scope, the cost effectiveness and the general performance and concluded that 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. This was Jamie Dixon's second year as the Audit Partner and, in the opinion of the Committee, he and his team are very effective and diligent in that role. The Committee discussed the situation with the Wirecard audit in Germany and asked whether EY's audit of Watkin Jones could be impacted by any fallout from this. We received assurances from Mr Dixon that this was not a risk. The Committee also noted the FRC annual Audit Quality Inspection Report on EY.

The Committee approved an 8% increase in audit fees, reflecting the general market-wide restoration of margins being driven by UK audit firms, following the Competition and Markets Authority review into the audit market and increased pressure on audit firms from regulators and government.

EY has been the external auditor for the Company for over 20 years, including the last five years in which we have been listed on the AIM market. Our policy is that the external audit should be tendered at least once every ten years. The Committee had planned to hold a tender for the external audit in 2020. However, with the disruption caused by the COVID-19 pandemic, the Committee decided that it would be prudent to delay by a year, particularly noting the difficulty that an incoming auditor would have with travel and work restrictions in place.

The Committee will not invite the incumbent auditor to bid, as it feels that, notwithstanding the excellent service received, the spirit of the new audit rotation rules dictates a change after such a long period. KPMG would be ineligible as it currently provides internal audit services. At least one non-Big Four firm will be invited to tender, and will be considered on a level playing field with any of the Big Four that also participate. Shareholders will be updated following the conclusion of the tender process, once the outcome has been approved by the Board.

## Other matters considered by the Committee

**Health and safety:** A review of the Company's health and safety procedures and controls was presented to the Committee, with no significant changes to either required.

### 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.

### Going concern statements:

The Committee reviewed this statement and several different scenarios of cash flow over the next year. The Company limits cash outflows on development projects before forward selling them. This tends to give positive cash flow from fairly early on in a development. These characteristics and the ability of the Company to stop work on any new developments underlines the relatively low cash risk. The Committee debated possible downside scenarios and how the Board would react to various circumstances. It noted how the Board had reacted to the COVID-19 lockdown in 2020 in deferring land purchases and stopping the interim dividend. The Committee recommended the Board accept the going concern statement.

**Dividends:** The Committee reviewed whether the interim dividend should be paid given the pandemic uncertainty and the use by the Company of government furlough payments. It recommended to the Board that the interim dividend should be deferred until the economic position was more certain. In November, following the repayment to the government of all money received as pandemic support, the Board indicated to shareholders that it intended to pay a final dividend in line with the stated policy of a 2.0x dividend cover, provided that the economic situation does not worsen significantly. In January 2021, the Audit Committee reviewed the proposed final dividend, the capacity of the Company to pay such a dividend from distributable reserves and its appropriateness, and recommended it to the Board.

## Weighted Average Cost of Capital

("WACC"): The rate and its calculation was reviewed with both EY and our sponsor, Peel Hunt, and approved.

**Treasury policy and hedging:** The treasury policy was updated, reviewed and approved. In particular, hedging was discussed. The Committee agreed that the Company should identify its interest risk appetite (effectively the value at risk from a foreseeable change in interest rates), and use hedging only to keep its risk within these parameters. At present, the Company has no financial hedges in place.

## Business continuity planning ("BCP"):

Consultants were employed to assist the Company in preparing business continuity plans. The lockdown and subsequent working from home fully tested the BCP, which proved its worth as the business was able to migrate to remote working with very few problems. An external consultancy was brought in to review the resilience and reliability of outsourced IT providers. The result was encouraging, and no significant issues arose.

**COVID-19:** The Committee requested that management and internal audit review any further risks arising from remote working and other consequences of the pandemic. The business has continued to operate satisfactorily through the pandemic and various lockdowns, as previously prepared contingency plans broadly worked as intended.

**UK Bribery Act:** Compliance with this legislation was reviewed by the Committee and no instances of any breaches were found. The Committee reviewed the gifts and hospitality policy as well as specific instances. It noted that such activity was much reduced in this pandemic year. It concluded that there are sufficient mitigations in place to make a risk of inappropriate acts to be low.

**Performance metrics:** These were once again assessed for their relevance, appropriateness and completeness for assessing performance against our strategy. No change was deemed necessary.

**Whistleblowing:** The Committee noted that the third-party whistleblowing service from Expolink has moved to Navex Global, as the latter has now acquired the former. There was no reason for this to impact the service received by the Company. There were a small number of whistleblowing reports during the year, which were fully and impartially investigated.

**Internal audit:** Our internal audit is provided by KPMG. The Committee reviewed their performance and concluded that they served the Company well. Management felt that some of the reports gave an overly critical impression of processes, but the Committee felt that it was appropriate for internal audit reports to focus on weaknesses and risk, rather than attempt a balanced overall appraisal. Some internal audit reviews were delayed due to the pandemic, and new timings were agreed with the Committee. One report into IT security highlighted insufficient controls on access rights and this was addressed. Another looked at accounts payable and concluded that controls were effective, but that there were too many manual interventions required. This will be reduced as the Company is now implementing a new accounts payable system.

**Staff annual bonus:** The Committee approved the payment of the staff annual bonus, which is based on forecast Group profit for the year, in December before the accounts were signed off. This is a legacy scheme, which is widely regarded as a Christmas bonus, and management believes that it is important to pay it in December rather than wait until January when the accounts are approved. The Committee received an interim update from the external auditor and from management indicating that the audit was advanced and progressing well. With one change, the Committee approved the profit estimate for use in this bonus. The impact of any likely error in the profit forecast on the bonus is unlikely to be material, given the size of the bonus scheme and that this scheme is not open to senior executives or Directors (whose bonus scheme is approved only after the accounts have been finalised).

### Financial experience on the Committee

The Committee believes that it works well. It noted that the Company Chairman was a member of the Audit Committee. Although this may not be considered best practice, the Committee, noting that there are only two independent Non-Executive Directors and that Mr Turner demonstrates the highest standards of integrity and independence, believes that it is in the best interests of shareholders for him to play a full role on the Committee.

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

A copy of the Committee's terms of reference is available on the Company's website [www.watkinjonesplc.com/investors/corporate-governance](http://www.watkinjonesplc.com/investors/corporate-governance).

### Simon Laffin

Chairman of the Audit Committee

19 January 2021



Arundel House,  
Coventry

# NOMINATION COMMITTEE REPORT



“  
**The Committee met its objectives for the year, as it reviewed talent and succession planning for the Group’s leadership and considered the composition of the Board.**”

**Grenville Turner**  
 Chairman of the Nomination Committee

## Committee members

**Grenville Turner (Chairman)**  
 Non-Executive Chairman

**Simon Laffin**  
 Independent Non-Executive Director

**Liz Reilly**  
 Independent Non-Executive Director

**Additional attendees, as invited:**  
 Richard Simpson,  
 Jackie Kelly (HRD)  
 and other executives as required

### 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 FY20, the Committee met four times.

### Dear Shareholder

This report explains the work of the Nomination Committee during the financial year. Committee membership was unchanged in the period.

The Nomination Committee set itself two priorities for FY20, as outlined in last year’s report. These were to:

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

### Senior leadership resource

The Group has a clear growth strategy and it is essential that we have the right leadership in place to manage that planned growth. At its March 2020 meeting, the Board received a presentation from the Human Resources Director on talent and succession planning. This enabled us to consider the depth of leadership across the business, to ensure we have suitable successors and understand where we may need to look externally for candidates.

The exercise demonstrated our considerable progress over the last twelve months with strengthening and deepening the Group’s leadership and gave the Board comfort that the business has the management resources it needs. This reflects the work done by Richard Simpson and the team, as they considered the necessary leadership and management structures when developing the Group’s strategy last year.

### Board succession planning

Following the external evaluation of the Board at the end of FY19, the Nomination Committee has continued to consider the Board’s composition and the need to identify potential Non-Executive appointments. The Committee recognises that the Board is relatively small, with only three Non-Executive Directors. This limits the opportunity to increase diversity on the Board and also means all of the Non-Executive Directors are members of each of the Board’s committees.

We therefore believe it may be beneficial to increase the size of the Board over time. However, the Board members continue to work well together and we have not identified any specific additional skills or experience that the Board requires in the short term. As a result, we have no current plans to recruit additional Non-Executive Directors but we will continue to keep this under review.



### 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. 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.

During the year, the Board increased its use of external speakers at its meetings, particularly in support of strategy discussions. The Board also benefited from more frequent presentations from within the business. In addition, the Directors received formal update training on the Market Abuse Regulations and attended unconscious bias training, which is being rolled out across the business.

### 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 44 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 FY21

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

- the management structure and resource requirements for the residential division, to support its proposed transition into being an affordable housing-led developer;
- the effective induction into the business of our new Company Secretary; and
- succession planning for the CEO of Fresh, following Rebecca Hopewell's notice that she will retire at the end of May 2021.

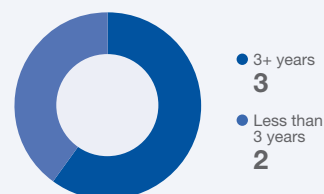
### Grenville Turner

Chairman of the Nomination Committee

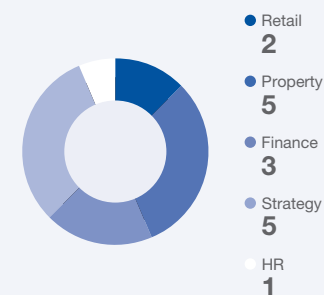
19 January 2021

## Diversity of the Board

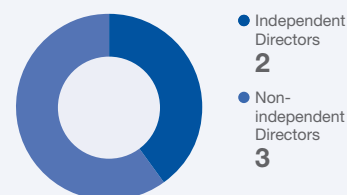
### Tenure



### Experience



### Independence



Barnard Point,  
Wembley

## DIRECTORS' REMUNERATION 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

### Committee members

**Liz Reilly (Chair)**  
Independent Non-Executive Director

**Simon Laffin**  
Independent Non-Executive Director

**Grenville Turner**  
Non-Executive Chairman

Additional attendees, as invited:  
FIT Remuneration Consultants LLP,  
Richard Simpson,  
Philip Byrom,  
Jackie Kelly (HRD)

#### 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 of the Chairman and the members of the Executive Committee.

The Committee meets at least once a year. In FY20, it met eight times.

### The Remuneration Committee

#### Activities during the year

- Reviewed fees for the Chairman and remuneration for the Executive Directors and Executive Committee in light of COVID-19, with appropriate reductions/freezes applied;
- Reviewed the FY19 Directors' remuneration report prior to its approval by the Board and subsequent approval by shareholders at the 2020 AGM;
- Reviewed performance against the FY19 annual bonus plan targets and resulting awards and agreed the metrics and targets for the FY20 bonus plan;
- Reviewed LTIP award levels and performance metrics/targets for the 2020 LTIP awards; and
- Agreed the vesting in respect of Richard Simpson's Buyout Awards which vested during FY20.

#### Advisers to the Committee

FIT Remuneration Consultants LLP provide advice to the Committee as and when required in respect of remuneration quantum and structure and developments in governance and best practice more generally. FIT is a member and signatory of the Remuneration Consultants Group and voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK, details of which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com).

## Annual Statement

### Dear Shareholder

This report sets out the Group's remuneration policy for the Directors and explains how this policy was applied during the year. There were no changes during FY20 to our remuneration policy, which is designed to incentivise and fairly reward our Executive Directors and the other members of the Executive Committee.

In view of the exceptional circumstances brought about by COVID-19 and to ensure that its consequences for the implementation of our remuneration policy were properly considered, the Committee met eight times in FY20.

### Performance and reward for FY20

Despite the challenges faced as a result of COVID-19, the Company delivered a strong second half to the year, successfully completing seven schemes, making excellent progress in growing our development pipeline and starting to see evidence that institutional investors are beginning to recover their appetite for forward funding developments in both BtR and PBSA. However, the Board remains mindful of the continued disruption and hardship from the COVID-19 pandemic, and so, along with ensuring the wellbeing of our employees, customers and partners, we have repaid all government financial assistance that we received this year and intend to pay a full-year dividend for FY20 in line with our policy of 2.0x cover.

In respect of remuneration against the backdrop of the challenges faced and performance delivered:

- the normal 1 April 2020 pay review for Executive Directors was postponed and the salaries of the Executive Directors and the fees of the Non-Executive Directors were reduced by 20% during the period April to June 2020;
- no adjustments were made to the annual bonus targets, notwithstanding that COVID-19 has had a significant impact on the financial performance for the year. As such, annual bonus awards for Richard Simpson and Philip Byrom were approved at 23.0% of salary, payable in respect of the personal performance element of their awards only; and
- the impact of COVID-19 on the Company's earnings per share ("EPS") and total shareholder return ("TSR") will mean that the share awards granted to Richard Simpson in February 2019 and to Philip Byrom in May 2018 will lapse in full.

Further details of the remuneration decisions in respect of FY20 are set out in the annual report on remuneration overleaf.

### Implementing the remuneration policy for FY21

Other than a workforce-aligned base salary increase for the Executive Directors from 1 October 2020, there will be no changes to the implementation of the remuneration policy for FY21. Annual bonus potential will continue to be capped at 100% of salary based on profit and personal targets and LTIP awards are expected to be granted at normal award levels subject to EPS growth and absolute TSR targets. That said, the Committee will continue to keep the remuneration policy and the way it is operated under review to ensure it delivers the desired outcomes.

### Liz Reilly

Chair of the Remuneration Committee

19 January 2021



St Davids,  
Swansea



## DIRECTORS' REMUNERATION REPORT continued

### Remuneration policy report

This section sets out the current Directors' remuneration policy. The Remuneration Committee considers the remuneration policy annually to ensure that it continues to underpin the Group's strategy. The main aim of the Group's policy for Executive Directors is to align their interests with the Group's growth strategy and long-term creation of sustainable shareholder value.

#### Summary of Directors' remuneration policy

Component	Purpose and link to strategy	Operation	Maximum	Performance
<b>Base salary</b>	To provide a competitive base salary to attract, motivate and retain Directors with the experience and capabilities to achieve the strategic aims.	Reviewed annually after considering 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.	n/a	n/a
<b>Benefits</b>	To provide a market-competitive benefits package.	Offered in line with market practice, and may include a car allowance, private medical, income protection and death in service insurance.	n/a	n/a
<b>Pension</b>	To provide an appropriate level of retirement benefit.	Executive Directors are eligible to participate in the Group's personal pension plan and may elect to receive all or part of the pension contribution in cash, provided there is no difference in cost to the Company.	20% of base salary	n/a
<b>Annual bonus</b>	To reward performance against annual targets which support the strategic direction of the Group.	Awards are based on annual performance and are normally payable in cash.	100% of salary	Sliding scale financial and/or personal/strategic targets.
<b>LTIP</b>	To drive and reward the achievement of longer-term objectives, support retention and promote share ownership for Executive Directors.	Conditional shares and/or nil cost or nominal cost share options. Vesting is normally subject to the achievement of challenging performance conditions, normally over a period of three years. Dividend equivalents may be awarded to the extent awards vest. Awards may be subject to malus/clawback provisions at the discretion of the Committee.	200% of salary	Performance metrics will be linked to financial and/or share price and/or strategic performance.
<b>Shareholding guidelines</b>	To promote share ownership for Executive Directors.	Executive Directors are expected to build a shareholding in the Group over time by retaining at least 50% of the net-of-tax LTIP awards which vest.	200% of salary	n/a
<b>Non-Executive Directors</b>	The Committee determines the Chairman's fee and fees for the Non-Executive Directors are agreed by the Chairman and Chief Executive.	Fees are reviewed annually taking into account the level of responsibility and relevant experience. Fees may include a basic fee and additional fees for further responsibilities. Fees are paid in cash. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed.	n/a	n/a

## Annual report on remuneration

### Implementation of the remuneration policy for FY21

In respect of the implementation of the remuneration policy for FY21:

- Executive Director base salary levels were increased by 2.0% in line with the general workforce increase from 1 October 2020 (with 1 October now replacing 1 April as the normal salary review date). No salary increases were awarded as at 1 April 2020 in light of the uncertainty surrounding COVID-19 at that time. As such, current salary levels for Richard Simpson and Philip Byrom are £382,500 and £262,650 respectively. No changes will be made to benefit or pension provision;

- annual bonus will continue to be capped at 100% of basic salary with three-quarters of the annual bonus relating to adjusted profit before tax targets and one quarter to achieving personal targets;
- LTIP awards are expected to be granted during FY21 to Richard Simpson and Philip Byrom over shares equal to 200% and 100% of salary respectively. Performance targets will continue to be based on sliding scale EPS growth and absolute TSR;
- shareholding guidelines of 200% of salary will continue to apply; and
- the fees for the Non-Executive Directors were increased by 2.0% from 1 October 2020. As such, current fees for Grenville Turner, Simon Laffin and Liz Reilly are £131,325, £54,631 and £54,631 respectively.

### Implementation of the remuneration policy for FY20

During the year, the Directors received the following emoluments:

	Basic salary/fee		Annual bonus		Pension contribution		Benefits in kind		Total	
	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19
Richard Simpson <sup>1</sup>	359,375	281,250	86,250	219,883	75,000	56,250	16,419	11,457	537,044	568,840
Philip Byrom	246,771	253,750	59,225	195,846	25,750	25,375	23,279	25,008	355,025	499,979
Grenville Turner	122,313	126,875	—	—	—	—	—	—	122,313	126,875
Simon Laffin	50,882	52,780	—	—	—	—	—	—	50,882	52,780
Liz Reilly <sup>2</sup>	50,882	37,247	—	—	—	—	—	—	50,882	37,247
Former Director <sup>3</sup>	—	87,500	—	—	—	8,750	—	4,822	—	101,072

1. Appointed to the Board on 2 January 2019.

2. Appointed to the Board on 21 January 2019.

3. Mark Watkin Jones stepped down from the Board on 15 January 2019.

### Annual bonus for FY20

The Executive Directors' annual bonuses for FY20 were based on sliding scale EBITDA and personal/strategic targets. These measures were selected to incentivise delivery of the plan for the year, as well as ensuring future performance through measures related, for example, to the development pipeline.

While the COVID-19 pandemic has had a significant impact on the Group's financial performance in FY20, no changes were made to bonus performance targets to ensure that the management team remained appropriately aligned to shareholders throughout the year.

While the threshold EBITDA target for FY20 was not met as a result of COVID-19, after consideration of the performance of the Executive Directors (and noting the repayment of government support and intention to pay a full year dividend), bonuses of 23.0% of salary were awarded to Richard Simpson and Philip Byrom based on their performance against personal targets.

# DIRECTORS' REMUNERATION REPORT continued

## Annual report on remuneration continued

### LTIP awards vesting in the year

Richard Simpson's 2017 Buyout Award granted on 8 February 2019 vested on 10 April 2020 at 97.1% of the maximum and was exercised in August 2020. As previously announced, the award was granted in respect of Richard Simpson's 2017 Unite LTIP awards which lapsed on cessation of his employment with Unite and vesting was based on the vesting percentage of the original award as published in the Unite Annual Report. Details of the vesting are as follows:

Shares granted subject to 2017 Buyout Award	Performance vested shares <sup>1</sup>	Dividend equivalent shares	Vested shares <sup>2</sup> (including dividend equivalents)
438,765	426,041	15,319	441,360

1. The 2017 Buyout Award was subject to the outcome of the performance conditions applicable to the Unite 2017 LTIP which vested as to 97.1%, as per the Unite Annual Report.
2. The pre-tax gain made on the vested shares amounted to £638,206, based on the Company's share price on the exercise date.

In respect of the share awards granted to Richard Simpson (2018 Buyout Award) and Philip Byrom (LTIP) on 8 February 2019 and 31 May 2018 respectively, threshold levels of EPS and TSR performance measured over the three years to 30 September 2020 have not been met. As such, these awards will lapse in full. Richard Simpson's 2018 Buyout Award was the last of the buyout awards issued to him in respect of his forfeit Unite LTIP awards.

### LTIP awards granted in the year

The following LTIP awards were granted to the Executive Directors on 22 June 2020:

	Basis of award	Number of shares under award
Richard Simpson	200% of salary	460,009
Philip Byrom	100% of salary	157,936

The awards have an exercise price of one penny per share and become exercisable after three years from the date of grant, subject to continued employment and the Company's earnings per share and share price performance as follows:

EPS (50% of awards)	<ul style="list-style-type: none"> <li>• 0% of this part of an award vesting for FY22 EPS of 17.42p, increasing pro-rata to</li> <li>• 30% of this part of an award vesting for FY22 EPS of 18.06p, increasing pro-rata to</li> <li>• 60% of this part of an award vesting for FY22 EPS of 19.01p, increasing pro-rata to</li> <li>• 100% of this part of an award vesting for FY22 EPS of 22.17p or more</li> </ul>
TSR (50% of awards)	<ul style="list-style-type: none"> <li>• 0% of this part of an award vesting for a share price of 200p, increasing pro-rata to</li> <li>• 60% of this part of an award vesting for a share price of 250p, increasing pro-rata to</li> <li>• 100% of this part of an award vesting for a share price of 300p</li> <li>• based on the average share price in the final month of the performance period, as adjusted for dividends</li> </ul>

In addition to assessing the performance conditions, the Remuneration Committee has the discretion to reduce the 2020 LTIP awards at vesting to ensure that all relevant factors are taken into account, including any windfall gains.



## Outstanding share awards

The share awards outstanding for the Executive Directors at 30 September 2020 and as at the date of this report were as follows:

Award type	Richard Simpson				Philip Byrom		
	2017 Buyout Award	2018 Buyout Award	LTIP	LTIP	LTIP	LTIP	LTIP
Exercise price	1p	1p	1p	1p	1p	1p	1p
Date of grant	8 February 2019	8 February 2019	31 May 2019	22 June 2020	31 May 2018	31 May 2019	22 June 2020
Date of vesting	10 April 2020	10 April 2021	31 May 2022	22 June 2023	31 May 2021	31 May 2022	22 June 2023
Interest at 1 October 2019	438,765	344,201	342,309	—	115,955	117,526	—
Granted in the year	—	—	—	460,009	—	—	157,936
Dividend equivalents	15,319	—	—	—	—	—	—
Lapsed	(12,724)	—	—	—	—	—	—
Exercised in the year <sup>1</sup>	(441,360)	—	—	—	—	—	—
Interest at 30 September 2020	—	344,201	342,309	460,009	115,955	117,526	157,936
Performance period for TSR and EPS targets	—	1 October 2017 to 30 September 2020	1 October 2018 to 30 September 2021	EPS: 1 October 2019 to 30 September 2022, TSR: three years from grant date	1 October 2017 to 30 September 2020	1 October 2018 to 30 September 2021	EPS: 1 October 2019 to 30 September 2022, TSR: three years from grant date

1. See details of vesting in section above.

## Directors' interests in the Company's shares

At 30 September 2020 and as at the date of this report, the Directors had the following interests in the Company's shares:

	Number of shares
Richard Simpson	516,987
Philip Byrom	2,600,000
Grenville Turner	340,900
Simon Laffin	152,749
Liz Reilly	20,000
<b>Total</b>	<b>3,630,636</b>

### Liz Reilly

Chair of the Remuneration Committee

19 January 2021

## DIRECTORS' REPORT

The corporate governance disclosures on pages 81 to 83 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 1 to 77.

### Review of business

The strategic report on pages 1 to 77 provides a review of the business, the Group's trading for the year ended 30 September 2020, key performance indicators and an indication of future developments and risks.

### Result and dividend

The Group's profit for the year was £21.1 million (FY19: £38.8 million). More information about the Group's financial performance can be found in the financial review on pages 60 to 67 and in the financial statements on pages 104 to 151.

The Board has recommended a final dividend for the year of 7.35 pence per share. More information about dividends can be found in the Chairman's statement on pages 10 and 11 and in the financial review on pages 60 to 67.

### Directors

The Company's Directors during the year were:

- Grenville Turner;
- Richard Simpson;
- Philip Byrom;
- Simon Laffin; and
- Liz Reilly.

The Directors' biographies can be found on pages 78 and 79. 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 81 to 83.

### Substantial shareholdings

Based on the share register analysis as at 15 December 2020, 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	15.19
Octopus Investments	25,607,179	10.00
M&G Investments	25,116,984	9.81
JP Morgan Asset Management	14,405,511	5.62
Polar Capital	13,641,972	5.33
Franklin Templeton Investments	8,000,000	3.12
Close Brothers	7,676,424	3.00

### Directors' interests

The Directors' interests in the Company's shares are set out in the Directors' remuneration report on page 95.

### 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 2020, the Company's issued share capital was £2,561,634, divided into 256,163,459 ordinary shares of one pence each.

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

### Political donations

The Company made no political donations during the year.

### Engagement with employees, suppliers, customers and other stakeholders

Information on the Group's engagement with its key stakeholders, which are its employees, clients, customers, supply chain, shareholders and communities, can be found on pages 56 and 57 in the strategic report.

### 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.

In view of the fact that EY has been the auditor for over 20 years and in line with our policy that the external audit should be tendered at least once every ten years, it is the Directors' intention to hold a tender for the external audit in 2021 and to appoint a new auditor for the FY22 audit. EY will not be invited to participate in the tender process in line with the intention of the audit rotation rules.

### Going concern

After making enquiries and as more fully explained in the going concern review on page 65 and 66, 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 19 January 2021.

### Philip Byrom

Chief Financial Officer

19 January 2021



## 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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 statement of financial position as at 30 September 2020	Statement of financial position as at 30 September 2020
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 the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Basis for opinion

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

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

## Conclusions relating to going concern

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

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

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"><li>• Revenue recognition</li><li>• Carrying value of land and work in progress</li><li>• Going concern</li></ul>
Audit scope	<ul style="list-style-type: none"><li>• The Group operates solely in the United Kingdom. We performed an audit of the complete financial information of all the Group companies.</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Overall Group materiality of £2.3 million which represents 5% of pre-tax income (before separately disclosed items).</li></ul>

## INDEPENDENT AUDITOR'S REPORT continued

to the members of Watkin Jones plc

### Key audit matters

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

Risk	Our response to the risk
<p><b>1) Revenue recognition (Revenue – 2020: £354 million, 2019: £375 million)</b>  <a href="#">Refer to the Audit Committee report (page 85); Accounting policies (page 110); and notes 6 and 7 of the consolidated financial statements (pages 123 to 125)</a></p> <p>The Group's main revenue stream comes from long-term contracts (2020: £303 million, 2019: £315 million). In line with IFRS 15, revenue and margin are recognised in line with the five-step model to account for revenue.</p> <p>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.</p> <p>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.</p> <p>Revenue from residential sales of £26 million (2019: £34 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.</p> <p>Accommodation management revenue of £8 million (2019: £7 million) and rental income of £17 million (2019: £19 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.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul> <p>In relation to long-term contract revenue:</p> <ul style="list-style-type: none"> <li>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;</li> <li>for all developments where revenue in excess of £167,000 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;</li> <li>to test costs to complete 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;</li> <li>for a sample of costs incurred during the year, we verified that they had been allocated to the appropriate development;</li> <li>for all developments not fully constructed pre-year end, we challenged management over the forecast costs to complete, stage of completion, the total budgeted costs and confirmed the percentage used to assess stage of completion through our discussions with management specialists; and</li> <li>we reconciled management's internal 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.</li> </ul> <p>In relation to residential sales:</p> <ul style="list-style-type: none"> <li>we selected a sample of residential sales made in September 2020 and October 2020 and corroborated the date of sale and value to the legal completion documentation and cash receipt.</li> </ul> <p>In relation to accommodation management revenue/rental income:</p> <ul style="list-style-type: none"> <li>we selected a sample of sales invoices raised in September 2020 and October 2020 and recalculated the revenue recognised and deferred at year end by reference to the service contract; and</li> <li>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.</li> </ul> <p>The whole Group was subject to full scope audit procedures over revenue.</p>

### 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
<p><b>2) Carrying value of inventory and work in progress 2020: £125 million (2019: £135 million) split between land of £53 million (2019: £56 million) and work in progress of £72 million (2019: £79 million).</b></p> <p><a href="#">Refer to the Audit Committee report (page 85); Accounting policies (page 111); and note 21 of the consolidated financial statements (page 137)</a></p> <p>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.</p> <p>There is therefore a risk that the carrying values of the land and work in progress balances reported within inventories are overstated.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>we evaluated the design and implementation of controls and tested controls over the carrying value of land and work in progress;</li> <li>for land and work in progress developments held at 30 September 2020 with a carrying value in excess of £167,000, we: <ul style="list-style-type: none"> <li>compared the assumptions made regarding selling prices to market data and corroborated the explanations for any differences;</li> <li>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; and</li> <li>verified a sample of costs incurred in the year to purchase invoice.</li> </ul> </li> </ul> <p>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.</p> <p>The whole Group was subject to full scope audit procedures over the carrying value of land and work in progress.</p>

### 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 2020 is appropriate.

### 3) Going concern

[Refer to the financial review \(page 66\) and Accounting policies \(page 108\)](#)

Given the unprecedented impact of COVID-19 on businesses and the macro-economic environment, accurate forecasting of prospective financial information and the development of future scenarios is challenging. Key assumptions include future sales, the risk of default of counterparties and the operational impact of COVID-19. Going concern is key area of audit focus for which COVID-19 has heightened the risk.

Management have prepared their forecasts to reflect the impact of COVID-19, which serves as the base case for the going concern assessment. A further downside scenario has been run by management based on the principal risks and uncertainties facing the Group and their potential impact on forward sales.

We have documented and evaluated the process followed by management to prepare the forecasts.

We checked the arithmetical accuracy of management's model and assessed the reasonableness of the key assumptions used within the scenarios and validated to supporting documentation where appropriate.

We verified the cash starting position and confirmed the availability of the RCF and overdraft facilities by comparing to the underlying agreements.

We reperformed management's forecast covenant compliance calculations to check for breaches of each covenant throughout the going concern period under the base case and various scenarios presented. We checked the terms of the covenants to underlying loan documentation.

We also considered the results of the scenarios presented by management, and their downside case, to determine the impact of fluctuations in key assumptions on the available liquidity and covenant calculations. The audit engagement partner and senior members of the team increased their time directing and supervising the audit procedures on going concern and understanding the forecasted scenarios presented by management. We also considered the mitigating actions identified by management that had not been factored into the model such as suspension of discretionary land spend on future sites.

We reviewed the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern until 31 January 2022.

### Key observations communicated to the Audit Committee

As a result of procedures performed, we concur with management that a material uncertainty does not exist and that the going concern assumption adopted in the 2020 financial statements is appropriate. We also consider that management has appropriately reflected the going concern assumption within the financial statement disclosures.

## INDEPENDENT AUDITOR'S REPORT continued

to the members of Watkin Jones plc

### 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.

#### Changes from the prior year

There have been no changes in our scope compared to the prior year.

#### Impact of COVID-19 pandemic

As a result of the COVID-19 outbreak and resulting lockdown restrictions, we have modified our audit strategy to allow for the year-end audit to be performed remotely. This approach was supported through the use of EY software collaboration platforms for the secure and timely delivery of requested evidence.

We have also revisited our procedures in respect of the Directors' going concern assessment, taking into account the nature of the Group, its business model and related risks. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including the consistency of cash flow forecasts, the key assumptions with the scenarios modelled and the available sources of liquidity.

#### 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 £2.3 million (2019: £2.6 million), which is 5% (2019: 5%) of pre-tax income (before separately disclosed items). We believe that pre-tax income before separately disclosed items provides us with a key performance measure of management and is what the users of financial statements are most interested in. We consider the exclusion of exceptional items appropriate given their non-recurring nature and given that these items are also excluded from management's financial KPIs. We determined materiality for the parent company to be £7.6 million (2019: £8.2 million) which is 4% (2019: 4%) of equity using a capital-based performance measure.

<b>Starting basis</b>	<ul style="list-style-type: none"> <li>• Profit before tax</li> <li>• £25.3 million</li> </ul>
<b>Adjustments</b>	<ul style="list-style-type: none"> <li>• Separately disclosed items</li> <li>• £20.5 million</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>• Totals £45.8 million pre-tax income (before separately disclosed items)</li> <li>• Materiality of £2.3 million (5% of materiality basis)</li> </ul>

#### 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% (2019: 75%) of our planning materiality, namely £1.7 million (2019: £1.9 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. Performance materiality for the parent company was set at 75% (2019: 75%) of our planning materiality which was £5.7 million (2019: £6.1 million).

#### 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 £0.11 million (2019: £0.13 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. For the parent company this was set at £0.38 million (5% of planning materiality (2019: £0.41 million, 5% of planning materiality).

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 set out on pages 1 to 97, 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 98, 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

19 January 2021



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 30 September 2020

		Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
	Notes		
<b>Continuing operations</b>			
Revenue	6	354,121	374,785
Cost of sales		(278,205)	(294,752)
<b>Gross profit</b>		<b>75,916</b>	80,033
Administrative expenses		(24,249)	(24,433)
<b>Operating profit before exceptional items</b>		<b>51,667</b>	55,600
Exceptional costs	8	(20,437)	(2,576)
<b>Operating profit</b>	9	<b>31,230</b>	53,024
Share of profit in joint ventures	20	199	286
Finance income		251	428
Finance costs	12	(6,366)	(5,874)
<b>Profit before tax</b>		<b>25,314</b>	47,864
Income tax expense	13	(4,222)	(9,041)
<b>Profit for the year attributable to ordinary equity holders of the parent</b>		<b>21,092</b>	38,823
<b>Other comprehensive income</b>			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Net loss on equity instruments designated at fair value through other comprehensive income		(6)	(2)
<b>Total comprehensive income for the year attributable to ordinary equity holders of the parent</b>		<b>21,086</b>	38,821
		Pence	Pence
<b>Earnings per share for the year attributable to ordinary equity holders of the parent</b>			
Basic earnings per share	14	8.246	15.202
Diluted earnings per share	14	8.234	15.175
Adjusted proforma basic earnings per share (excluding exceptional costs)	14	14.717	16.111
Adjusted proforma diluted earnings per share (excluding exceptional costs)	14	14.696	16.082

The notes on pages 108 to 147 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 September 2020

	Notes	30 September 2020 £'000	30 September 2019 Restated (note 5) £'000	30 September 2018 Restated (note 5) £'000
<b>Non-current assets</b>				
Intangible assets	16	13,284	13,844	14,403
Investment property (leased)	17	104,623	110,224	117,483
Right-of-use assets	17	4,763	5,930	7,013
Property, plant and equipment	18	4,376	4,966	4,809
Investment in joint ventures	20	3,243	2,794	2,558
Deferred tax asset	28	3,313	3,836	3,155
Other financial assets	29	1,133	1,139	1,350
		<b>134,735</b>	<b>142,733</b>	<b>150,771</b>
<b>Current assets</b>				
Inventory and work in progress	21	125,660	134,226	132,778
Contract assets	22	41,522	25,578	8,758
Trade and other receivables	23	23,518	13,850	17,499
Cash and cash equivalents	24	134,513	115,652	106,640
		<b>325,213</b>	<b>289,306</b>	<b>265,675</b>
<b>Total assets</b>		<b>459,948</b>	<b>432,039</b>	<b>416,446</b>
<b>Current liabilities</b>				
Trade and other payables	25	(97,300)	(81,368)	(84,014)
Contract liabilities	22	(8,967)	(5,164)	(14,314)
Provisions	27	(6,277)	—	—
Interest-bearing loans and borrowings	26	(711)	(1,324)	(1,605)
Lease liabilities	17	(6,310)	(6,192)	(5,770)
Current tax liabilities		(819)	(7,043)	(7,204)
		<b>(120,384)</b>	<b>(101,091)</b>	<b>(112,907)</b>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	26	(38,956)	(37,481)	(24,877)
Lease liabilities	17	(128,143)	(131,330)	(137,522)
Deferred tax liabilities	28	(1,040)	(1,042)	(1,050)
Provisions	27	(3,587)	—	—
		<b>(171,726)</b>	<b>(169,853)</b>	<b>(163,449)</b>
<b>Total liabilities</b>		<b>(292,110)</b>	<b>(270,944)</b>	<b>(276,356)</b>
<b>Net assets</b>		<b>167,838</b>	<b>161,095</b>	<b>140,090</b>
<b>Equity</b>				
Share capital	31	2,562	2,553	2,553
Share premium		84,612	84,612	84,612
Merger reserve		(75,383)	(75,383)	(75,383)
Fair value reserve of financial assets at FVOCI		428	434	436
Share-based payment reserve	32	2,348	2,311	84
Retained earnings		153,271	146,568	127,788
<b>Total equity</b>		<b>167,838</b>	<b>161,095</b>	<b>140,090</b>

The notes on pages 108 to 147 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 19 January 2021 and signed on its behalf by:

**Richard Simpson**

Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 30 September 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Fair value reserve of financial assets at FVOCI £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
As at 30 September 2018	2,553	84,612	(75,383)	436	84	141,217	153,519
Effect of initial application of IFRS 16 (note 5)	—	—	—	—	—	(13,429)	(13,429)
As at 30 September 2018 (restated)	2,553	84,612	(75,383)	436	84	127,788	140,090
Profit for the year (restated)	—	—	—	—	—	38,823	38,823
Other comprehensive income	—	—	—	(2)	—	—	(2)
<b>Total comprehensive income (restated)</b>	—	—	—	(2)	—	38,823	38,821
Share-based payments	—	—	—	—	2,208	—	2,208
Deferred tax credited directly to equity (note 28)	—	—	—	—	19	70	89
Dividend paid (note 15)	—	—	—	—	—	(20,113)	(20,113)
<b>Balance at 30 September 2019 (restated)</b>	<b>2,553</b>	<b>84,612</b>	<b>(75,383)</b>	<b>434</b>	<b>2,311</b>	<b>146,568</b>	<b>161,095</b>
Profit for the year	—	—	—	—	—	21,092	21,092
Other comprehensive income	—	—	—	(6)	—	—	(6)
<b>Total comprehensive income</b>	—	—	—	(6)	—	21,092	21,086
Share-based payments	—	—	—	—	37	—	37
Deferred tax debited directly to equity (note 28)	—	—	—	—	—	(70)	(70)
Issue of shares	9	—	—	—	—	—	9
Dividend paid (note 15)	—	—	—	—	—	(14,319)	(14,319)
<b>Balance at 30 September 2020</b>	<b>2,562</b>	<b>84,612</b>	<b>(75,383)</b>	<b>428</b>	<b>2,348</b>	<b>153,271</b>	<b>167,838</b>

The notes on pages 108 to 147 are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2020

	Notes	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
<b>Cash flows from operating activities</b>			
Cash inflow from operations	33	54,868	38,943
Interest received		245	428
Interest paid		(6,792)	(6,090)
Tax paid		(10,035)	(9,769)
<b>Net cash inflow from operating activities</b>		<b>38,286</b>	<b>23,512</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(317)	(361)
Proceeds on disposal of property, plant and equipment		69	87
Cash flow from joint venture interests		812	—
Cash distribution received from other financial assets	29	—	209
<b>Net cash inflow from investing activities</b>		<b>564</b>	<b>(65)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	15	(14,319)	(20,113)
Proceeds from exercise of share options		9	—
Payment of principal portion of lease liabilities		(6,089)	(5,953)
Payment of capital element of other interest-bearing loans		(1,034)	(1,307)
Drawdown of RCF		20,843	46,244
Repayment of bank loans		(18,499)	(33,306)
Bank loan arrangement fees		(900)	—
<b>Net cash outflow from financing activities</b>		<b>(19,989)</b>	<b>(14,435)</b>
<b>Net increase in cash</b>		<b>18,861</b>	<b>9,012</b>
Cash and cash equivalents at 1 October 2019 and 1 October 2018		115,652	106,640
<b>Cash and cash equivalents at 30 September 2020 and 30 September 2019</b>		<b>134,513</b>	<b>115,652</b>

The notes on pages 108 to 147 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2020

## 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 7-9 Swallow Street, London, England, W1B 4DE.

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 2020 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 was reflected against a merger reserve.

### 3.2 Going concern

The Directors have undertaken a thorough review of the Group’s ability to continue to trade as a going concern for the period to 31 January 2022 (the “forecast period”). This review has been undertaken taking into consideration the following matters.

#### Liquidity

At 30 September 2020, the Group had a robust liquidity position, with cash and available headroom in its banking facilities totalling £209.5 million, as set out below.

	£m
Cash balances	134.5
RCF headroom	65.0
Overdraft facility	10.0
<b>Total cash and available facilities</b>	<b>209.5</b>

Strong liquidity has been maintained through the first quarter of the year ending 30 September 2021, providing the Group with a good level of cash and available banking facilities for the year ahead.

The Group’s revolving credit facility (“RCF”) is committed and has a five-year term to May 2025.

All financial covenants under the facility were comfortably met at 30 September 2020 and will continue to be met through the forecast period.

#### Business model

Our forward sale business model is by definition, capital-light. By forward selling the majority of our build to rent (“BtR”) and purpose built student accommodation (“PBSA”) developments, we receive payment for the land either at the same time as or shortly after we complete the purchase, and before we commit to any significant development expenditure. Once forward sold, we receive payment for the development works as they progress. By being in control of our development pipeline we are able to ensure that we only commit construction expenditure to developments that are either forward sold or to undertake a modest level of enabling works. In certain circumstances we may decide to continue construction activities beyond the initial enabling phase, without a forward sale agreement in place, but we take this decision based on our available liquidity and can suspend the works should it prove necessary. This greatly limits our exposure to development expenditure which is not covered by cash income.

Sites are normally secured on a subject to satisfactory planning basis, which gives us time to manage the cash requirements and to market them for forward sale. We also take a cautious approach to managing our land acquisition programme to ensure that we have sufficient liquidity available to complete the acquisition of the sites without any new forward sales being secured.

The Fresh business receives a regular contractual monthly fixed fee income from its multiple clients and the short to medium-term risk to its revenue stream is low.

For our residential business, which is currently relatively small and only has a few sites in build, we manage our development expenditure so that, other than for infrastructure works, we only commit expenditure where it is supported by a forward sales position.

We also receive rental income from tenants on our leased PBSA assets and operational BtR assets. The level of rental income received, whilst reduced in the short term for the PBSA assets as a result of COVID-19, is relatively small in the context of the Group’s revenues as a whole.

Our business model and approach to cash management therefore provides a high degree of resilience.

### Counterparty risk

The Group's clients are predominantly blue-chip institutional funds and the risk of default is low. The funds for a forward sold development are normally specifically allocated by the client or backed by committed debt funding.

For forward sold developments our cash income remains ahead of our development expenditure through the life of the development, such that if we were exposed to a client payment default, we could suspend the works, thereby limiting any cash exposure.

Fresh has many clients and these are mostly institutional funds with low default risk.

### Base case cash forecast

We have prepared a base case cash forecast for the forecast period, based on our current business plan and trading assumptions for the year, including a lower level of revenue from the leased PBSA assets as a result of COVID-19. This is strongly supported by our forward sold pipeline of six PBSA developments and four BtR developments for delivery in FY21, as well as Fresh's contracted income and the reserved/exchanged sales for our residential business. Our currently secured cash flow, derived from our forward sold developments and other contracted income, net of overheads and tax, results in a modest cash utilisation over the forecast period, with the result that our liquidity position is strongly maintained.

In addition to the secured cash flow, the base case forecast assumes a number of new forward sales and further house sales, which if achieved will result in a further strengthening of our liquidity position, after allowing for dividend payments. We currently have under offer and are progressing sales of three BtR schemes and one PBSA scheme, which will underpin the additional forward sales assumptions in the forecast.

### Risk analysis

In addition to the base-case forecast and though considered unlikely, we have considered the following possible significant downside risks as a consequence of the pandemic:

- counterparty risk – whilst the majority of our clients are not considered to present a default risk, we have identified two which we consider could be more vulnerable in the event of further sustained disruption;

- suspension of the forward sale markets, resulting from a significant economic downturn or market uncertainty – this is our most significant risk as it would greatly limit our ability to achieve any further forward sales and would potentially mean that we have to complete on secured site acquisitions without a subsequent forward sale in place; and
- collapse of the housing market – in this scenario we have considered the possibility of a significant reduction in future house sales.

We have run various model scenarios to assess the possible impact of the above risks, including a worst case downside scenario assuming the following:

- default by the two identified counterparty risks;
- no further forward sales are achieved other than those currently under offer, as a result of a freeze in the sales markets;
- only 50% of further house sales are achieved beyond those currently reserved/exchanged; and
- we continue to complete the acquisition of our secured sites in line with the current target programmes, with limited mitigating actions being taken.

In the worst case downside scenario, we have included for the payment of our FY20 full-year proposed dividend in line with our policy. The cash forecast prepared under the above worst case scenario illustrates that adequate liquidity is maintained through the forecast period.

### Conclusion

Based on the thorough review and robust downside forecasting undertaken, and having not identified any material uncertainties that may cast any significant doubt, the Board is satisfied that the Group will be able to continue to trade for the period to 31 January 2022 and has therefore adopted the going concern basis in preparing the financial statements.

### 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 re-assessment 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued

for the year ended 30 September 2020

**3. Accounting policies** continued**3.4 Investments in joint ventures**

continued

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.

**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 within administrative expenses 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 non-financial assets

At each reporting period, the Group reviews the carrying amounts of its non-financial 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 3. Accounting policies continued

#### 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. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

#### 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.

#### 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 32.

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.

Where awards are linked to non-market performance conditions, no expense is recognised if the performance conditions are not met and/or service conditions are not 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 Group assesses at contract inception whether a contract is, or contains, a lease.

#### Group as a lessee

##### Investment property (leased)

The Group has entered into a number of student accommodation sale and leaseback arrangements for which the associated right-of-use assets are classified as investment property (leased). Investment property (leased) is measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of the investment property (leased) includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Investment property (leased) is depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

- Investment property (leased): 15 to 35 years

Investment property (leased) is also subject to impairment in accordance with accounting policy 3.10.

##### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office properties: 5 to 25 years
- Motor vehicles: 3 years

The right-of-use assets are also subject to impairment in accordance with accounting policy 3.10.

#### Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in lease term, a change in lease payments resulting from a change in an index or rate used to determine such lease payments, or a change in the assessment of an option to purchase the underlying asset.

#### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment for a term of twelve months or less. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 3. Accounting policies continued

#### 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 and it is considered unlikely that they are to be repeated.

### 4. 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.

#### 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.

### Impairment of investment property (leased)

As described in note 3.10, the Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The Group treats each of its student accommodation leaseback arrangements as a separate cash-generating unit for impairment testing. Where there is evidence of impairment, the value in use for its student accommodation investment property (leased) assets is calculated using estimates of the future economic benefits that will be derived from the operations of each property which is discounted using an estimated discount rate reflecting the market assessment of risk that would be applied to each asset. This estimate of value in use is then compared to the net book value of the investment property (leased) to determine whether an impairment provision is required. Further details are included in note 17.

#### Incremental borrowing rate

As described in note 3.18, when initially recognising the lease liability and asset values in relation to investment property (leased) assets, an incremental borrowing rate ("IBR") must be determined and used to discount the expected lease payments. Due to the long length of the sale and leaseback arrangements the Group has entered for six student accommodation properties, the IBR has a significant financial impact. The IBRs for these six leaseback arrangements have been estimated using yield curve data published by Standard and Poor's for bonds with a term that matches the lease length and for a credit rating which is deemed appropriate for the Group.

#### Cladding provision

The Group has made a provision for fire safety recladding works the Group has committed to undertake on its past developments. This provision was calculated based on the estimated cost for each affected building after deducting customer contributions. Further details are set out in note 27.

## 5. New standards and interpretations

### New standards and interpretations adopted for the first time during the financial year ended 30 September 2020

#### IFRS 16 'Leases'

In the current year, the Group has applied IFRS 16 'Leases' for the first time. The date of the initial application of IFRS 16 for the Group is 1 October 2019. IFRS 16 replaces IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a lease'.

IFRS 16 introduces new or amended requirements in respect of lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of an investment property (leased) asset or a right-of-use asset and a lease liability at commencement of all leases, except for short-term leases and leases of low-value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of the Group's approach to the transition to IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16.

#### Approach to the transition to IFRS 16

The Group has chosen to apply IFRS 16 retrospectively at the date of initial application, as if it had already been effective at the commencement date of the existing lease contracts. 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 – have been used. The Group has elected to only apply IFRS 16 to contracts previously identified as a lease under IAS 17. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements from IAS 17. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

#### Impact of lessee accounting

IFRS 16 has changed how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. The accounting for these leases upon the initial adoption of the standard is as follows:

- recognise investment property (leased) or 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 lease's incremental borrowing rate. Depreciation has been recognised in relation to these assets 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 lease's incremental borrowing rate. The discount has been 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; and
- the difference between the right-of-use assets, lease liabilities and prepaid or accrued lease payments has resulted in an adjustment to equity at 1 October 2018 relative to that previously reported.

Subsequent treatment is as follows:

- to recognise depreciation of investment property (leased) and right-of-use assets in the consolidated statement of comprehensive income;
- the lease liability is unwound each year, with the discount unwind recognised as an interest expense; and
- to 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.

The application of IFRS 16 has generated 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 results 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 has increased significantly as the costs associated with these leases will now be recognised as depreciation and interest. The following tables set out the adjustments recognised as at the date of initial application of IFRS 16.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 5. New standards and interpretations continued

#### Statement of comprehensive income for the year ended 30 September 2019

	As reported £'000	IFRS 16 adjustment £'000	As restated £'000
<b>Continuing operations</b>			
Revenue	374,785	—	374,785
Cost of sales	(298,020)	3,268	(294,752)
<b>Gross profit</b>	76,765	3,268	80,033
Administrative expenses	(24,472)	39	(24,433)
<b>Operating profit before exceptional items</b>	52,293	3,307	55,600
Exceptional costs	(2,576)	—	(2,576)
<b>Operating profit</b>	49,717	3,307	53,024
Share of profit in joint ventures	286	—	286
Finance income	428	—	428
Finance costs	(695)	(5,179)	(5,874)
<b>Profit before tax</b>	49,736	(1,872)	47,864
Income tax expense	(9,436)	395	(9,041)
<b>Profit for the year attributable to ordinary equity holders of the parent</b>	40,300	(1,477)	38,823
<b>Earnings per share for the year attributable to ordinary equity holders of the parent</b>			
Basic earnings per share	15.780	(0.578)	15.202
Diluted earnings per share	15.740	(0.565)	15.175
Adjusted proforma basic earnings per share (excluding exceptional costs)	16.689	(0.578)	16.111
Adjusted proforma diluted earnings per share (excluding exceptional costs)	16.646	(0.564)	16.082

The application of IFRS 16 resulted in an increase in operating profit of £3.3 million due to lease payments no longer being recognised in the statement of comprehensive income and replaced by depreciation and interest costs. This has led to a net reduction in cost of sales and administrative expenses. An increased interest expense, in comparison to IAS 17, was recognised in respect of interest on lease liabilities of £5.2 million with overall profit for the year attributable to ordinary equity holders of the parent reduced by £1.5 million.

## Statement of comprehensive income for the year ended 30 September 2020

	Pre IFRS 16 £'000	IFRS 16 adjustment £'000	As reported £'000
<b>Continuing operations</b>			
Revenue	354,121	—	354,121
Cost of sales	(281,669)	3,464	(278,205)
<b>Gross profit</b>	72,452	3,464	75,916
Administrative expenses	(24,306)	57	(24,249)
<b>Operating profit before exceptional items</b>	48,146	3,521	51,667
Exceptional costs	(20,437)	—	(20,437)
<b>Operating profit</b>	27,709	3,521	31,230
Share of profit in joint ventures	199	—	199
Finance income	251	—	251
Finance costs	(1,263)	(5,103)	(6,366)
<b>Profit before tax</b>	26,896	(1,582)	25,314
Income tax expense	(4,523)	301	(4,222)
<b>Profit for the year attributable to ordinary equity holders of the parent</b>	22,373	(1,281)	21,092
<b>Earnings per share for the year attributable to ordinary equity holders of the parent</b>			
Basic earnings per share	8.746	(0.500)	8.246
Diluted earnings per share	8.734	(0.500)	8.234
Adjusted proforma basic earnings per share (excluding exceptional costs)	15.218	(0.501)	14.717
Adjusted proforma diluted earnings per share (excluding exceptional costs)	15.196	(0.500)	14.696

The application of IFRS 16 resulted in an increase in operating profit of £3.5 million due to lease payments no longer being recognised in the statement of comprehensive income and replaced by depreciation and interest costs. This has led to a net reduction in cost of sales and administrative expenses. An increased interest expense, in comparison to IAS 17, was recognised in respect of interest on lease liabilities of £5.1 million with overall profit for the year attributable to ordinary equity holders of the parent reduced by £1.3 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 5. New standards and interpretations continued

#### Statement of financial position at 30 September 2018

	As reported £'000	IFRS 16 adjustment £'000	As restated £'000
<b>Non-current assets</b>			
Intangible assets	14,403	—	14,403
Investment property (leased)	—	117,483	117,483
Right-of-use assets	—	7,013	7,013
Property, plant and equipment	4,809	—	4,809
Investment in joint ventures	2,558	—	2,558
Deferred tax asset	42	3,113	3,155
Other financial assets	1,350	—	1,350
	23,162	127,609	150,771
<b>Current assets</b>			
Inventory and work in progress	132,778	—	132,778
Contract assets	8,758	—	8,758
Trade and other receivables	18,209	(710)	17,499
Cash and cash equivalents	106,640	—	106,640
	266,385	(710)	265,675
<b>Total assets</b>	289,547	126,899	416,446
<b>Current liabilities</b>			
Trade and other payables	(84,308)	294	(84,014)
Contract liabilities	(14,314)	—	(14,314)
Provisions	(1,068)	1,068	—
Interest-bearing loans and borrowings	(1,605)	—	(1,605)
Lease liabilities	—	(5,770)	(5,770)
Current tax liabilities	(7,204)	—	(7,204)
	(108,499)	(4,408)	(112,907)
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	(24,877)	—	(24,877)
Lease liabilities	—	(137,522)	(137,522)
Deferred tax liabilities	(1,050)	—	(1,050)
Provisions	(1,602)	1,602	—
	(27,529)	(135,920)	(163,449)
<b>Total liabilities</b>	(136,028)	(140,328)	(276,356)
<b>Net assets</b>	153,519	(13,429)	140,090
<b>Equity</b>			
Share capital	2,553	—	2,553
Share premium	84,612	—	84,612
Merger reserve	(75,383)	—	(75,383)
Fair value reserve of financial assets at FVOCI	436	—	436
Share-based payment reserve	84	—	84
Retained earnings	141,217	(13,429)	127,788
<b>Total equity</b>	153,519	(13,429)	140,090

On 1 October 2018, £117.5 million was recognised in the statement of financial position as investment property (leased) assets in respect of student leaseback arrangements and £7.0 million as right-of-use assets in respect of office properties and motor vehicles. In addition, a lease liability of £143.3 million was recognised in respect of these assets. Trade and other receivables reduced by £0.7 million due to the reclassification of prepayments from receivables to lease liabilities. Provisions reduced by £2.7 million due to the reclassification of these provisions to investment property (leased) assets as impairment provisions. Deferred tax assets totalling £3.1 million were recognised in relation to the future tax benefit from these adjustments.

The net difference of £13.4 million has been recognised as a reduction in retained earnings.



## Statement of financial position at 30 September 2019

	As reported £'000	IFRS 16 adjustment £'000	As restated £'000
<b>Non-current assets</b>			
Intangible assets	13,844	—	13,844
Investment property (leased)	—	110,224	110,224
Right-of-use assets	—	5,930	5,930
Property, plant and equipment	4,966	—	4,966
Investment in joint ventures	2,794	—	2,794
Deferred tax asset	290	3,546	3,836
Other financial assets	1,139	—	1,139
	23,033	119,700	142,733
<b>Current assets</b>			
Inventory and work in progress	134,226	—	134,226
Contract assets	25,578	—	25,578
Trade and other receivables	14,443	(593)	13,850
Cash and cash equivalents	115,652	—	115,652
	289,899	(593)	289,306
<b>Total assets</b>	312,932	119,107	432,039
<b>Current liabilities</b>			
Trade and other payables	(81,407)	39	(81,368)
Contract liabilities	(5,164)	—	(5,164)
Provisions	(863)	863	—
Interest-bearing loans and borrowings	(1,324)	—	(1,324)
Lease liabilities	—	(6,192)	(6,192)
Current tax liabilities	(7,056)	13	(7,043)
	(95,814)	(5,277)	(101,091)
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	(37,481)	—	(37,481)
Lease liabilities	—	(131,330)	(131,330)
Deferred tax liabilities	(1,042)	—	(1,042)
Provisions	(2,594)	2,594	—
	(41,117)	(128,736)	(169,853)
<b>Total liabilities</b>	(136,931)	(134,013)	(270,944)
<b>Net assets</b>	176,001	(14,906)	161,095
<b>Equity</b>			
Share capital	2,553	—	2,553
Share premium	84,612	—	84,612
Merger reserve	(75,383)	—	(75,383)
Fair value reserve of financial assets at FVOCI	434	—	434
Share-based payment reserve	2,311	—	2,311
Retained earnings	161,474	(14,906)	146,568
<b>Total equity</b>	176,001	(14,906)	161,095

On 1 October 2019, £110.2 million was recognised in the statement of financial position as investment property (leased) assets in respect of student leaseback arrangements and £5.9 million as right-of-use assets in respect of office properties and motor vehicles. In addition, a lease liability of £137.5 million was recognised in respect of these assets. Trade and other receivables reduced by £0.6 million due to the reclassification of prepayments from receivables to lease liabilities. Provisions reduced by £3.5 million due to the reclassification of these provisions to investment property (leased) assets as impairment provisions. Deferred tax assets totalling £3.5 million were recognised in relation to the future tax benefit from these adjustments.

The net difference of £14.9 million has been recognised as a reduction in retained earnings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 5. New standards and interpretations continued

#### Statement of financial position at 30 September 2020

	Pre IFRS 16 £'000	IFRS 16 adjustment £'000	As reported £'000
<b>Non-current assets</b>			
Intangible assets	13,284	—	13,284
Investment property (leased)	—	104,623	104,623
Right-of-use assets	—	4,763	4,763
Property, plant and equipment	4,376	—	4,376
Investment in joint ventures	3,243	—	3,243
Deferred tax asset	251	3,062	3,313
Other financial assets	1,133	—	1,133
	22,287	112,448	134,735
<b>Current assets</b>			
Inventory and work in progress	125,660	—	125,660
Contract assets	41,522	—	41,522
Trade and other receivables	24,250	(732)	23,518
Cash and cash equivalents	134,513	—	134,513
	325,945	(732)	325,213
<b>Total assets</b>	348,232	111,716	459,948
<b>Current liabilities</b>			
Trade and other payables	(97,761)	461	(97,300)
Contract liabilities	(8,967)	—	(8,967)
Provisions	(9,208)	2,931	(6,277)
Interest-bearing loans and borrowings	(711)	—	(711)
Lease liabilities	—	(6,310)	(6,310)
Current tax liabilities	(819)	—	(819)
	(117,466)	(2,918)	(120,384)
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	(38,956)	—	(38,956)
Lease liabilities	—	(128,143)	(128,143)
Deferred tax liabilities	(1,040)	—	(1,040)
Provisions	(6,691)	3,104	(3,587)
	(46,687)	(125,039)	(171,726)
<b>Total liabilities</b>	(164,153)	(127,957)	(292,110)
<b>Net assets</b>	184,079	(16,241)	167,838
<b>Equity</b>			
Share capital	2,562	—	2,562
Share premium	84,612	—	84,612
Merger reserve	(75,383)	—	(75,383)
Fair value reserve of financial assets at FVOCI	428	—	428
Share-based payment reserve	2,348	—	2,348
Retained earnings	169,512	(16,241)	153,271
<b>Total equity</b>	184,079	(16,241)	167,838

On 30 September 2020, £104.6 million was recognised in the statement of financial position as investment property (leased) assets in respect of student leaseback arrangements and £4.8 million as right-of-use assets in respect of office properties and motor vehicles. In addition, a lease liability of £134.4 million was recognised in respect of these assets. Trade and other receivables reduced by £0.7 million due to the reclassification of prepayments from receivables to lease liabilities. Provisions reduced by £6.0 million due to the reclassification of these provisions to investment property (leased) assets as impairment provisions. Deferred tax assets totalling £3.1 million were recognised in relation to the future tax benefit from these adjustments.

The net difference of £16.2 million has been recognised as a reduction in retained earnings.

## Statement of cash flows for the year ended 30 September 2019

	As reported £'000	IFRS 16 adjustment £'000	As restated £'000
<b>Cash flows from operating activities</b>			
Cash inflow from operations	27,811	11,132	38,943
Interest received	428	—	428
Interest paid	(911)	(5,179)	(6,090)
Tax paid	(9,769)	—	(9,769)
<b>Net cash inflow from operating activities</b>	<b>17,559</b>	<b>5,953</b>	<b>23,512</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	(361)	—	(361)
Proceeds on disposal of property, plant and equipment	87	—	87
Cash distribution received from other financial assets	209	—	209
<b>Net cash inflow from investing activities</b>	<b>(65)</b>	<b>—</b>	<b>(65)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	(20,113)	—	(20,113)
Payment of principal portion of lease liabilities	—	(5,953)	(5,953)
Payment of capital element of other interest-bearing loans	(1,307)	—	(1,307)
Drawdown of RCF	46,244	—	46,244
Repayment of bank loans	(33,306)	—	(33,306)
<b>Net cash outflow from financing activities</b>	<b>(8,482)</b>	<b>(5,953)</b>	<b>(14,435)</b>
<b>Net increase in cash</b>	<b>9,012</b>	<b>—</b>	<b>9,012</b>
Cash and cash equivalents at 1 October 2019 and 1 October 2018	106,640	—	106,640
<b>Cash and cash equivalents at 30 September 2020 and 30 September 2019</b>	<b>115,652</b>	<b>—</b>	<b>115,652</b>

The application of IFRS 16 resulted in an increase in the cash inflow from operations of £11.1 million due to the reclassification of operating lease payments as interest paid and payment of lease liabilities. Interest paid has increased by £5.2 million and the payment of lease liabilities by £5.9 million.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 5. New standards and interpretations continued

#### Statement of cash flows for the year ended 30 September 2020

	Pre IFRS 16 £'000	IFRS 16 adjustment £'000	As reported £'000
<b>Cash flows from operating activities</b>			
Cash inflow from operations	43,676	11,192	54,868
Interest received	245	—	245
Interest paid	(1,689)	(5,103)	(6,792)
Tax paid	(10,035)	—	(10,035)
<b>Net cash inflow from operating activities</b>	<b>32,197</b>	<b>6,089</b>	<b>38,286</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	(317)	—	(317)
Proceeds on disposal of property, plant and equipment	69	—	69
Cash flow from joint venture interests	812	—	812
Cash distribution received from other financial assets	—	—	—
<b>Net cash inflow from investing activities</b>	<b>564</b>	<b>—</b>	<b>564</b>
<b>Cash flows from financing activities</b>			
Dividends paid	(14,319)	—	(14,319)
Proceeds from exercise of share options	9	—	9
Payment of principal portion of lease liabilities	—	(6,089)	(6,089)
Payment of capital element of other interest-bearing loans	(1,034)	—	(1,034)
Drawdown of RCF	20,843	—	20,843
Repayment of bank loans	(18,499)	—	(18,499)
Bank loan arrangement fees	(900)	—	(900)
<b>Net cash outflow from financing activities</b>	<b>(13,900)</b>	<b>(6,089)</b>	<b>(19,989)</b>
<b>Net increase in cash</b>	<b>18,861</b>	<b>—</b>	<b>18,861</b>
Cash and cash equivalents at 1 October 2019	115,652	—	115,652
<b>Cash and cash equivalents at 30 September 2020</b>	<b>134,513</b>	<b>—</b>	<b>134,513</b>

The application of IFRS 16 resulted in an increase in the cash inflow from operations of £11.2 million due to the reclassification of operating lease payments as interest paid and payment of lease liabilities. Interest paid has increased by £5.1 million and the payment of lease liabilities by £6.1 million.

#### 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. These standards are not expected to have a significant impact on the Group's consolidated financial statements.

Standard or interpretation	Effective for accounting periods beginning on or after
Amendments to IFRS 3 'Business Combinations'	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	1 January 2020
IFRS 17 'Insurance contracts'	1 January 2023

## 6. Disaggregated revenue information

Year ended 30 September 2020	Student accommodation £'000	Build to rent £'000	Residential £'000	Accommodation management £'000	Corporate £'000	Total £'000
<b>Type of goods or service</b>						
Construction contracts or development agreements	181,248	92,618	—	—	250	274,116
Sale of land	5,558	—	—	—	—	5,558
Sale of completed property	23,502	—	26,268	—	—	49,770
Rental income	15,718	1,373	—	—	—	17,091
Accommodation management	—	—	—	7,586	—	7,586
<b>Total revenue from contracts with customers</b>	<b>226,026</b>	<b>93,991</b>	<b>26,268</b>	<b>7,586</b>	<b>250</b>	<b>354,121</b>
<b>Timing of revenue recognition</b>						
Goods transferred at a point in time	29,060	—	20,961	—	—	50,021
Services transferred over time	196,966	93,991	5,307	7,586	250	304,100
<b>Total revenue from contracts with customers</b>	<b>226,026</b>	<b>93,991</b>	<b>26,268</b>	<b>7,586</b>	<b>250</b>	<b>354,121</b>

Year ended 30 September 2019	Student accommodation £'000	Build to rent (Restated) £'000	Residential (Restated) £'000	Accommodation management £'000	Corporate £'000	Total £'000
<b>Type of goods or service</b>						
Construction contracts or development agreements	183,779	29,894	—	—	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
<b>Total revenue from contracts with customers</b>	<b>246,116</b>	<b>77,429</b>	<b>34,278</b>	<b>7,460</b>	<b>9,502</b>	<b>374,785</b>
<b>Timing of revenue recognition</b>						
Goods transferred at a point in time	44,687	46,312	34,278	—	8,808	134,085
Services transferred over time	201,429	31,117	—	7,460	694	240,700
<b>Total revenue from contracts with customers</b>	<b>246,116</b>	<b>77,429</b>	<b>34,278</b>	<b>7,460</b>	<b>9,502</b>	<b>374,785</b>

The prior year comparative information has been restated so that it is consistent with the internal reporting provided to the chief operating decision-maker. Revenue of £3,786,000 relating to construction contracts or development agreements has been transferred from the residential to the build to rent segment.

Sales to three individual customers accounted for greater than 10% of the total revenue, representing revenue of £166,581,000, with £114,887,000 reported under the student accommodation segment and £51,694,000 reported under the build to rent segment (2019: Sales to three individual customers accounted for greater than 10% of the total revenue, representing revenue of £174,731,000 with £105,042,000 reported under the student accommodation segment and £69,689,000 reported under the build to rent segment). Sales to the Group's largest customer totalled £69,860,000, to the second largest customer these totalled £59,759,000 and to the third largest customer £36,962,000 (2019: £69,689,000 to the largest customer, £67,079,000 to the second largest customer and £37,963,000 to the third largest customer).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 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:

- Student accommodation – the development of purpose built student accommodation;
- Build to rent – the development of build to rent accommodation;
- Residential – the development of traditional residential property; and
- 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 2020	Student accommodation £'000	Build to rent £'000	Residential £'000	Accommodation management £'000	Corporate £'000	Total £'000
Segmental revenue	226,026	93,991	26,268	7,586	250	354,121
Segmental gross profit	54,285	14,884	4,042	4,540	(1,835)	75,916
Administration expenses	–	–	–	(3,432)	(20,817)	(24,249)
Exceptional costs	–	–	–	–	(20,437)	(20,437)
Share of operating profit in joint ventures	199	–	–	–	–	199
Finance income	–	–	–	–	251	251
Finance costs	–	–	–	–	(6,366)	(6,366)
Profit/(loss) before tax	54,484	14,884	4,042	1,108	(49,204)	25,314
Taxation	–	–	–	–	(4,222)	(4,222)
<b>Continuing profit/(loss) for the year</b>	<b>54,484</b>	<b>14,884</b>	<b>4,042</b>	<b>1,108</b>	<b>(53,426)</b>	<b>21,092</b>
<b>Profit for the year attributable to ordinary equity shareholders of the parent</b>						<b>21,092</b>
Inventory and work in progress (note 21)	30,706	53,964	30,656	–	10,334	125,660



Year ended 30 September 2019	Student accommodation £'000	Build to rent (Restated) £'000	Residential (Restated) £'000	Accommodation management £'000	Corporate £'000	Total Restated (note 5) £'000
Segmental revenue	246,116	77,429	34,278	7,460	9,502	374,785
Segmental gross profit	54,850	13,783	7,158	4,586	(344)	80,033
Administration expenses	—	—	—	(3,167)	(21,266)	(24,433)
Exceptional costs	—	—	—	—	(2,576)	(2,576)
Share of operating profit in joint ventures	286	—	—	—	—	286
Finance income	—	—	—	—	428	428
Finance costs	—	—	—	—	(5,874)	(5,874)
Profit/(loss) before tax	55,136	13,783	7,158	1,419	(29,632)	47,864
Taxation	—	—	—	—	(9,041)	(9,041)
<b>Continuing profit/(loss) for the year</b>	<b>55,136</b>	<b>13,783</b>	<b>7,158</b>	<b>1,419</b>	<b>(38,673)</b>	<b>38,823</b>
<b>Profit for the year attributable to ordinary equity shareholders of the parent</b>						<b>38,823</b>
Inventory and work in progress (note 21)	40,268	38,608	45,153	—	10,197	134,226

As stated in note 6, the prior year comparative information has been restated so that it is presented in a way which is consistent with the internal reporting provided to the chief operating decision-maker. Revenue of £3,786,000 and gross profit of £555,000 has been transferred from the residential to the build to rent segment.

## 8. Exceptional costs

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
<b>COVID-19 costs</b>		
COVID-19 additional costs of on-site working and in completing developments	(2,659)	—
Waiver of academic year 2019/20 final term rents due on leased student accommodation assets due to lockdown measures	(1,086)	—
Impairment of the right-of-use carrying value of leased student accommodation assets due to reduced 2020/21 student occupancy	(1,892)	—
<b>Total COVID-19 costs</b>	<b>(5,637)</b>	<b>—</b>
Fire safety recladding works	(14,800)	—
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)
<b>Total exceptional costs</b>	<b>(20,437)</b>	<b>(2,576)</b>

During the year a total impairment charge of £2,241,000 was recognised in relation to the carrying value of leased student accommodation assets (note 17). £1,892,000 of this impairment charge has been treated as an exceptional item due to the impact of reduced student occupancy during the 2020/21 academic year as a result of the COVID-19 pandemic. This element of the total charge has been estimated by comparing the final impairment calculations to a calculation of the impairment charge using the income forecasts for 2020/21 prepared prior to the pandemic.

All of the exceptional costs in the year have been treated as allowable deductions for corporation tax purposes (2019: £1,341,000 of the £2,576,000 exceptional costs were treated as allowable deductions).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 9. Total operating profit

This is stated after charging/(crediting):

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
Audit services to the parent company	126	77
Audit services to the subsidiaries	124	124
Loss on foreign exchange	—	18
Amortisation of intangible assets	560	559
Depreciation:		
Property, plant and equipment	998	835
Investment property (leased)	6,522	6,473
Right-of-use assets	1,343	1,287
Profit on disposal of property, plant and equipment	(24)	(43)
	<b>9,649</b>	<b>9,330</b>

### 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 2020	Year ended 30 September 2019
Construction	260	243
Accommodation management	329	474
Management and administration	116	109
	<b>705</b>	<b>826</b>

The aggregate payroll costs of these persons were as follows:

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Wages and salaries	23,529	21,566
Employee incentive – long-term incentive plans (note 32)	37	2,227
Social security costs	3,060	2,814
Defined contribution pension costs	805	690
	<b>27,431</b>	<b>27,297</b>

### 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 £805,000 (2019: £690,000). There are £49,000 unpaid contributions at the end of the year (2019: £51,000).

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 (2019: £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 2020 £'000	Year ended 30 September 2019 £'000
Wages and salaries	2,446	3,910
Compensation for loss of office	380	—
Employee incentive – long-term incentive plans (note 32)	25	2,215
Social security costs	573	865
Pension costs	209	213
	<b>3,633</b>	<b>7,203</b>

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 2020 £'000	Year ended 30 September 2019 £'000
Wages and salaries	1,015	1,566
Employee incentive – long-term incentive plans (note 32)	53	2,083
Social security costs	270	475
Pension costs	101	82
	<b>1,439</b>	<b>4,206</b>
Highest paid Director:		
Emoluments	462	874
Employee incentive – long-term incentive plans	52	2,040
Pension costs	75	56

The above amounts for the year ended 30 September 2019 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 8.

During the year ended 30 September 2020, Richard Simpson exercised 441,360 share options at a gain of £638,206 (2019: 453,224 share options at a gain of £933,641), based on the Company's share price on the exercise date.

## 12. Finance costs

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
Finance charges	1,263	665
Interest on lease liabilities (note 17)	5,103	5,179
Other interest payable	—	30
	<b>6,366</b>	<b>5,874</b>

During the year the Group has capitalised interest payable on bank loans of £465,000 (2019: £216,000) in development land and work in progress.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 13. Income taxes

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
<b>Current income tax</b>		
UK corporation tax on profits for the year	4,076	9,426
Adjustments in respect of prior periods	(305)	183
<b>Total current tax</b>	<b>3,771</b>	<b>9,609</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	455	(644)
Adjustments in respect of prior year	(10)	76
Effect of tax rate change on opening balance	6	—
<b>Total deferred tax</b>	<b>451</b>	<b>(568)</b>
<b>Total tax expense</b>	<b>4,222</b>	<b>9,041</b>

#### Reconciliation of total tax expense

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
<b>Profit before tax</b>	<b>25,314</b>	<b>47,864</b>
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	4,810	9,094
Expenses not deductible	288	282
Income not taxable	(53)	(79)
Other differences	(508)	(513)
Prior period adjustment	(315)	257
<b>At the effective rate of tax of 16.7% (2019: 18.9%)</b>	<b>4,222</b>	<b>9,041</b>
<b>Income tax expense reported in the statement of profit or loss</b>	<b>4,222</b>	<b>9,041</b>

## 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.

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

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
Profit for the year attributable to ordinary equity holders of the parent	21,092	38,823
Add back exceptional costs for the year (note 8)	20,437	2,576
Less corporation tax benefit from exceptional costs for the year	(3,883)	(255)
Adjusted profit for the year attributable to ordinary equity holders of the parent (excluding exceptional costs after tax)	37,646	41,144
	Number of shares	Number of shares
Weighted average number of ordinary shares for basic earnings per share	255,795,659	255,382,181
Adjustment for the effects of dilutive potential ordinary shares	367,800	658,650
Weighted average number for diluted earnings per share	256,163,459	256,040,831
	Pence	Pence
<b>Basic earnings per share</b>		
Basic profit for the year attributable to ordinary equity holders of the parent	8.246	15.202
<b>Adjusted proforma basic earnings per share (excluding exceptional costs after tax)</b>		
Adjusted profit for the year attributable to ordinary equity holders of the parent	14.717	16.111
<b>Diluted earnings per share</b>		
Basic profit for the year attributable to diluted equity holders of the parent	8.234	15.175
<b>Adjusted proforma diluted earnings per share (excluding exceptional costs after tax)</b>		
Adjusted profit for the year attributable to diluted equity holders of the parent	14.696	16.082

## 15. Dividends

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Interim dividend paid in June 2020 of nil pence (June 2019: 2.75 pence)	—	7,018
Final dividend paid in February 2020 of 5.6 pence (February 2019: 5.13 pence)	14,319	13,095
	14,319	20,113

The interim dividend that would have been paid in June 2020 was suspended as a precautionary measure whilst the impact of COVID-19 on the business was assessed.

The final dividend proposed for the year ended 30 September 2020 is 7.35 pence per ordinary share. This dividend was declared after 30 September 2020 and as such the liability of £18,828,000 has not been recognised at that date. At 30 September 2020, the Company had distributable reserves available of £100,816,000 (30 September 2019: £115,135,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 16. Intangible assets

	Customer relationships £'000	Brand £'000	Goodwill £'000	Total £'000
<b>Cost</b>				
At 1 October 2018, 30 September 2019 and 30 September 2020	5,604	499	9,744	15,847
<b>Amortisation</b>				
At 1 October 2018	1,315	129	—	1,444
Amortisation for the year	509	50	—	559
At 30 September 2019	1,824	179	—	2,003
Amortisation for the year	510	50	—	560
At 30 September 2020	2,334	229	—	2,563
<b>Net book value</b>				
As at 30 September 2020	3,270	270	9,744	13,284
As at 30 September 2019	3,780	320	9,744	13,844

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 2020, 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 five-year period, with future cash flows discounted at a rate of 5.05% (2019: 7.00%) to reflect the time value of money. Cash flows beyond the five-year period are extrapolated using a 3% growth rate, which is seen as the long-term average growth rate for the business.

The following are the key assumptions used in projecting the cash flows as at 30 September 2020:

- contracted management agreements in place are renewed in line with past experience;
- new management agreements are secured to deliver the budgeted units under management for the CGU for the five-year period ending 30 September 2025. Units under management are forecast to remain at 20,000 in FY21 and FY22 to reflect the disruption caused by COVID-19 before increasing to 22,500 in FY23, 26,500 in FY24 and 31,000 in FY25. 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;
- 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 2.5% per annum.

The following are the key assumptions used in projecting the cash flows as at 30 September 2019:

- 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. Leases

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Investment property (leased) £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
At 30 September 2018	158,231	9,411	1,577	169,219
Additions	—	—	372	372
Disposals	—	—	(352)	(352)
At 30 September 2019	158,231	9,411	1,597	169,239
Additions/adjustment	3,162	—	313	3,475
Disposals	—	—	(478)	(478)
<b>At 30 September 2020</b>	<b>161,393</b>	<b>9,411</b>	<b>1,432</b>	<b>172,236</b>
<b>Depreciation</b>				
At 30 September 2018	38,077	3,412	563	42,052
Charge for the year	6,473	791	496	7,760
Disposals	—	—	(184)	(184)
At 30 September 2019	44,550	4,203	875	49,628
Charge for the year	6,522	791	552	7,865
Disposals	—	—	(341)	(341)
<b>At 30 September 2020</b>	<b>51,072</b>	<b>4,994</b>	<b>1,086</b>	<b>57,152</b>
<b>Impairment</b>				
At 30 September 2018	2,671	—	—	2,671
Charge for the year	786	—	—	786
At 30 September 2019	3,457	—	—	3,457
Charge for the year	2,241	—	—	2,241
<b>At 30 September 2020</b>	<b>5,698</b>	<b>—</b>	<b>—</b>	<b>5,698</b>
<b>Net book value</b>				
<b>At 30 September 2020</b>	<b>104,623</b>	<b>4,417</b>	<b>346</b>	<b>109,386</b>
At 30 September 2019	110,224	5,208	722	116,154
At 30 September 2018	117,483	5,999	1,014	124,496

Investment property (leased) assets relate to the Group's six student leaseback arrangements. Each of the six leaseback arrangements are considered to be a separate CGU. The Directors consider an impairment indication to exist if there is a shortfall between the annual net rental income generated by each property and the annual headlease payment due under each lease. The Directors have reviewed the carrying value of four of these leases where there is an indication of impairment and compared them to their respective recoverable amounts. An impairment charge totalling £2,241,000 (2019: £786,000) has been recognised in respect of one of the Group's sale and leaseback arrangements – Europa, Liverpool, because the recoverable amount was less than the depreciated carrying value of the asset. £1,892,000 (2019: £Nil) of this impairment charge has been recognised as an exceptional item in the consolidated statement of comprehensive income and £349,000 (2019: £786,000) has been recognised within student accommodation cost of sales.

The recoverable amount for each CGU has been calculated as its value in use. The valuation technique used is a discounted cash flow. Due to the bespoke nature of these arrangements these valuations are also considered to represent the fair value of each of the investment property (leased) assets. The key inputs into the valuation are gross rental income, operating costs, lease term and an estimated discount rate reflecting the market assessment of risk that would be applied to each asset. The estimated discount rates for each property are included in the next table. A key assumption in the valuation calculation as at 30 September 2020 is that occupancy levels will return to those at the start of the 2019/20 academic year by the 2021/22 academic year.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 17. Leases continued

	Impairment charge/(reversal) £'000		Discount rate (yields)	Lease termination date	Fair value in use £'000	
	Year ended 30 September 2020	Year ended 30 September 2019			Year ended 30 September 2020	Year ended 30 September 2019
Collegelands, Glasgow	—	(229)	5.5%	6 September 2026	14,244	17,220
Europa, Liverpool	2,241	993	6.5%	18 March 2030	12,462	18,172
Optima, Loughborough	—	153	6.0%	18 March 2030	2,182	2,375
Glassyard Building, London	—	(131)	5.0%	10 September 2034	11,177	11,551
Dunaskin Mill, Glasgow	—	—	5.5%	5 September 2051	53,059	53,084
New Bridewell, Bristol	—	—	5.5%	12 March 2052	56,964	56,913
<b>Total</b>	<b>2,241</b>	<b>786</b>			<b>150,088</b>	<b>159,315</b>

Set out below are the carrying amounts of lease liabilities and movements during the period:

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
At the start of the period	137,522	143,292
Additions	3,475	372
Disposals	(455)	(189)
Accretion of interest	5,103	5,179
Payments	(11,192)	(11,132)
<b>At the end of the period</b>	<b>134,453</b>	<b>137,522</b>
Current	6,310	6,192
Non-current	128,143	131,330

#### Lease liability maturity analysis

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Year one	11,041	11,302
Year two	10,880	10,638
Year three	10,781	10,758
Year four	10,707	10,948
Year five	10,909	11,117
Onwards	150,554	159,372
	<b>204,872</b>	<b>214,135</b>

#### Total commitments – Group as lessor

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Non-cancellable operating lease rentals are receivable as follows:		
Within one year	12,436	14,846
Later than one year and less than five years	573	3,586
After five years	780	917
	<b>13,789</b>	<b>19,349</b>

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.

## 18. Property, plant and equipment

	Plant and machinery £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>			
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
Additions	452	—	452
Disposals	(387)	—	(387)
<b>At 30 September 2020</b>	<b>8,848</b>	<b>157</b>	<b>9,005</b>
<b>Depreciation</b>			
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
Charge for the year	998	—	998
Disposals	(343)	—	(343)
<b>At 30 September 2020</b>	<b>4,474</b>	<b>155</b>	<b>4,629</b>
<b>Net book value</b>			
<b>At 30 September 2020</b>	<b>4,374</b>	<b>2</b>	<b>4,376</b>
At 30 September 2019	4,964	2	4,966
At 30 September 2018	4,807	2	4,809

### Plant and machinery

The carrying value of plant and machinery subject to security under other interest-bearing loan agreements at 30 September 2020 was £835,000 (2019: £3,037,000). Additions during the year include £273,000 (2019: £709,000) of plant and machinery financed using other interest-bearing loan agreements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued

for the year ended 30 September 2020

**19. Subsidiaries**

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

Name	Class of shares	Nature of business
Anderson Wharf (Student) Limited <sup>5</sup>	Ordinary	Property developer
Bailey Lane Student Limited <sup>5</sup>	Ordinary	Property developer
Blackhorse Lane Student Limited <sup>5</sup>	Ordinary	Property developer
Bridge Road Bath Limited <sup>1, 5</sup>	Ordinary	Property developer
Bridge Street Student Limited <sup>5</sup>	Ordinary	Property developer
Christchurch Road Bournemouth Limited <sup>5</sup>	Ordinary	Property developer
Conington Road Lewisham Limited <sup>1, 5</sup>	Ordinary	Property developer
Crown Place Woking Limited <sup>5</sup>	Ordinary	Property developer
Customhouse Student Limited <sup>5</sup>	Ordinary	Property developer
Duncan House Developments Limited <sup>5</sup>	Ordinary	Property developer
Ellen Street Hove Limited <sup>5</sup>	Ordinary	Property developer
Elliot Road Selly Oak Limited <sup>5</sup>	Ordinary	Property developer
Fairleague Limited <sup>5</sup>	Ordinary	Property developer
Forest Road Student Limited <sup>5</sup>	Ordinary	Property developer
Gas Lane Bristol Limited <sup>1, 5</sup>	Ordinary	Property developer
Gladstone Road Exeter Limited <sup>5</sup>	Ordinary	Property developer
Goldcharm Residential Limited <sup>5</sup>	Ordinary	Property developer
Gorgie Road Edinburgh Limited <sup>1, 5</sup>	Ordinary	Property developer
Gorse Stacks Development Limited <sup>6</sup>	Ordinary	Property developer
Harefield Road Uxbridge Limited <sup>5</sup>	Ordinary	Property developer
Heol Santes Helen Limited <sup>5</sup>	Ordinary	Property developer
Holdenhurst Road Bournemouth Limited <sup>5</sup>	Ordinary	Property developer
Hunter Street Chester Limited <sup>5</sup>	Ordinary	Property developer
India Street Edinburgh Limited <sup>1, 5</sup>	Ordinary	Property developer
Iona Street Glasgow Limited <sup>5</sup>	Ordinary	Property developer
Kelaty House Wembley Limited <sup>5</sup>	Ordinary	Property developer
Kyle Street Student Limited <sup>5</sup>	Ordinary	Property developer
Liverpool Road Chester Limited <sup>5</sup>	Ordinary	Property developer
Logie Green Development Limited <sup>5</sup>	Ordinary	Property developer
Lower Bristol Road Bath Limited <sup>5</sup>	Ordinary	Property developer
Military Road Canterbury Limited <sup>5</sup>	Ordinary	Property developer
New Mart Road Limited <sup>1, 5</sup>	Ordinary	Property developer
Omega Centre Bath Limited <sup>5</sup>	Ordinary	Property developer
Olympic Way Belfast Limited <sup>1, 5</sup>	Ordinary	Property developer
Oxford House Bournemouth Limited <sup>5</sup>	Ordinary	Property developer
Pirrie Belfast Limited <sup>1, 5</sup>	Ordinary	Property developer
Pittodrie Street Aberdeen Limited <sup>5</sup>	Ordinary	Property developer
Quarter House Studios Limited <sup>5</sup>	Ordinary	Property developer
Rockingham Street Student Limited <sup>5</sup>	Ordinary	Property developer
Sherlock Street Birmingham Limited <sup>5</sup>	Ordinary	Property developer
Spiritbond Stockwell Green Limited <sup>5</sup>	Ordinary	Property developer
St Mungo Avenue Glasgow Limited <sup>5</sup>	Ordinary	Property developer
Stylegood Limited <sup>5</sup>	Ordinary	Property developer
Superscheme Limited <sup>5</sup>	Ordinary	Property developer
Sutton Court Road Limited <sup>5</sup>	Ordinary	Property developer
Trafford Street Chester Limited <sup>5</sup>	Ordinary	Property developer
Victoria Park Bath Limited <sup>5</sup>	Ordinary	Property developer

Name	Class of shares	Nature of business
Walnut Tree Close Guildford Limited <sup>1,5</sup>	Ordinary	Property developer
Watkin Jones & Son Limited <sup>4</sup>	Ordinary	Property developer
Westfield Avenue Edinburgh Limited <sup>1,5</sup>	Ordinary	Property developer
Wilmslow Road Manchester Limited <sup>1,5</sup>	Ordinary	Property developer
Wisedeed Limited <sup>5</sup>	Ordinary	Property developer
Fresh Property Group Ltd <sup>9</sup>	Ordinary	Accommodation management
Fresh Property Group Ireland Limited <sup>10</sup>	Ordinary	Accommodation management
Five Nine Living Limited <sup>9</sup>	Ordinary	Accommodation management
DR (Student) Limited <sup>5</sup>	Ordinary	Holding company
Fresh Property Group Holdings Ltd <sup>5</sup>	Ordinary	Holding company
Watkin Jones Group Limited <sup>2</sup>	Ordinary	Holding company
Watkin Jones Holdings Limited <sup>3</sup>	Ordinary	Holding company
Newmark Developments Limited <sup>5</sup>	Ordinary	Holding company and property development services
Watkin Jones AM Limited <sup>5</sup>	Ordinary	Property fund asset manager
Saxonhenge Limited <sup>5</sup>	Ordinary	Leasing of aeroplane
Darley Student Accommodation Limited <sup>7</sup>	Ordinary	Property letting
Dunaskin Student Limited <sup>5</sup>	Ordinary	Property letting
Finefashion Limited <sup>5</sup>	Ordinary	Property letting
Goldcharm Student Lettings Limited <sup>5</sup>	Ordinary	Property letting
Lucas Student Lettings Limited <sup>5</sup>	Ordinary	Property letting
New Bridewell Limited <sup>5</sup>	Ordinary	Property letting
New Bridewell 1 Limited <sup>8</sup>	Ordinary	Property letting
New Bridewell 2 Limited <sup>8</sup>	Ordinary	Property letting
Nicelook Limited <sup>5</sup>	Ordinary	Property letting
Polarpeak Limited <sup>5</sup>	Ordinary	Property letting
Qualityoffer Limited <sup>5</sup>	Ordinary	Property letting
Scarlet P Limited <sup>5</sup>	Ordinary	Property letting
Swiftmatch Limited <sup>5</sup>	Ordinary	Property letting
Extralap Limited <sup>6</sup>	Ordinary	Dormant
Extraneat Limited <sup>5</sup>	Ordinary	Dormant
Between Towns Road Oxford Limited <sup>5</sup>	Ordinary	Dormant
Garthdee Road Aberdeen Limited <sup>5</sup>	Ordinary	Dormant
Market Street Newcastle Limited <sup>5</sup>	Ordinary	Dormant
Quarterhouse Studios Limited <sup>5</sup>	Ordinary	Dormant
WJ Developments (Residential) Limited <sup>5</sup>	Ordinary	Dormant

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

All of the Group's subsidiaries have the same registered office address of 21-22 Llandygai Industrial Estate, Llandygai, Bangor, Gwynedd, LL57 4YH; 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 20. Joint ventures

At 30 September 2020, 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 <sup>1</sup>	Ordinary	50%	30 September	Property development
Lacuna Academy Street Limited <sup>1</sup>	Ordinary	50%	31 March	Property development
Lacuna Belfast Limited <sup>1</sup>	Ordinary	50%	31 March	Property development
Lacuna Dublin Road Limited <sup>1</sup>	Ordinary	50%	31 March	Property development
Lacuna WJ Limited <sup>1</sup>	Ordinary	50%	31 March	Property development
Spiritbond Finsbury Park Limited <sup>1</sup>	Ordinary	50%	30 September	Dormant
Spiritbond Elephant & Castle Limited <sup>1</sup>	Ordinary	50%	30 September	Dormant
Freshers PBSH Chester (General Partner) Limited <sup>1</sup>	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	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
30 September 2020						
Revenue	2,900	—	135	263	714	4,012
Operating profit/(loss)	476	(178)	126	(72)	199	551
Finance income/(expense)	—	—	—	—	—	—
Profit/(loss) before tax	476	(178)	126	(72)	199	551
Income tax gain/(expense)	(83)	—	(24)	14	(38)	(131)
<b>Profit/(loss) for the year</b>	<b>393</b>	<b>(178)</b>	<b>102</b>	<b>(58)</b>	<b>161</b>	<b>420</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>393</b>	<b>(178)</b>	<b>102</b>	<b>(58)</b>	<b>161</b>	<b>420</b>
<b>Group share of profit/(loss) for the year</b>	<b>196</b>	<b>(89)</b>	<b>51</b>	<b>(29)</b>	<b>70</b>	<b>199</b>
Current assets, including cash and cash equivalents	437	457	2,786	3,464	746	7,890
Non-current assets	—	—	—	—	—	—
Current liabilities, including financial liabilities	(85)	(179)	(2)	(89)	(1,031)	(1,386)
Non-current liabilities, including financial liabilities	—	—	—	—	—	—
<b>Equity</b>	<b>352</b>	<b>278</b>	<b>2,784</b>	<b>3,375</b>	<b>(285)</b>	<b>6,504</b>
Remove joint venture partners' share of net assets	(176)	(139)	(1,404)	(1,688)	146	(3,261)
<b>Group's carrying amount of the investment</b>	<b>176</b>	<b>139</b>	<b>1,380</b>	<b>1,687</b>	<b>(139)</b>	<b>3,243</b>

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)
<b>Profit/(loss) for the year</b>	<b>(22)</b>	<b>(2)</b>	<b>455</b>	<b>48</b>	<b>(6)</b>	<b>473</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>(22)</b>	<b>(2)</b>	<b>455</b>	<b>48</b>	<b>(6)</b>	<b>473</b>
<b>Group share of profit/(loss) for the year</b>	<b>(11)</b>	<b>(2)</b>	<b>228</b>	<b>74</b>	<b>(3)</b>	<b>286</b>
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	—	—	—	—	—	—
<b>Equity</b>	<b>(41)</b>	<b>457</b>	<b>2,658</b>	<b>3,432</b>	<b>(924)</b>	<b>5,582</b>
Remove joint venture partners' share of net assets	21	(228)	(1,329)	(1,716)	464	(2,788)
<b>Group's carrying amount of the investment</b>	<b>(20)</b>	<b>229</b>	<b>1,329</b>	<b>1,716</b>	<b>(460)</b>	<b>2,794</b>

## 21. Inventory and work in progress

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
Development land	53,326	55,605
Stock and work in progress	72,334	78,621
<b>Total inventories at the lower of cost and net realisable value</b>	<b>125,660</b>	<b>134,226</b>

Total costs incurred during the year were £251,361,000 (2019: £295,146,000), of which £38,991,000 are included in inventory and work in progress (2019: £55,209,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 22. Contract assets and liabilities

#### (a) Current contract assets

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
<b>At 1 October</b>	<b>25,578</b>	8,758
Transferred to receivables	<b>(8,683)</b>	(4,238)
Balance remaining in relation to contract assets at the start of the year	<b>16,895</b>	4,520
Increase relating to services provided in the year	<b>24,627</b>	21,058
<b>At 30 September</b>	<b>41,522</b>	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 2020 £'000	Year ended 30 September 2019 £'000
<b>At 1 October</b>	<b>5,164</b>	14,314
Revenue recognised in the year that was included in contract liabilities at the beginning of the year	<b>(965)</b>	(11,529)
Contract liabilities repaid	<b>(4,199)</b>	(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	<b>8,967</b>	5,164
<b>At 30 September</b>	<b>8,967</b>	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 2021 £'000	Year ending 30 September 2022 £'000	Year ending 30 September 2023 £'000	Total £'000
Construction contracts	233,267	12,775	—	246,022

The following table includes revenue expected to be recognised in the future related to performance obligations that were unsatisfied or partially satisfied at 30 September 2019 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

## 23. Trade and other receivables

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
Trade receivables	16,243	7,902
Less: provision for impairment of receivables	—	—
Trade receivables – net	16,243	7,902
Prepayments and other receivables	2,146	1,843
Equity instruments designated at fair value through OCI	366	521
Receivable from related parties (note 37)	1	1
Receivable from joint ventures (note 37)	471	1,588
Refundable land deposits paid	4,291	1,995
<b>Total trade and other receivables</b>	<b>23,518</b>	<b>13,850</b>

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 2020 £'000	Year ended 30 September 2019 £'000
Neither past due nor impaired	16,129	7,858
Past due but not impaired:		
Not more than three months	—	28
Greater than three months	114	16
	<b>16,243</b>	<b>7,902</b>

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 2020 and 2019, trade receivables that were neither past due nor impaired related to a number of debtors for whom there is no recent history of default. The other classes of trade and other receivables do not contain impaired assets.

## 24. Cash and cash equivalents

Cash at bank and in hand as at 30 September 2020 includes £814,225 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 2019: £1,853,000). 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 2020

### 25. Trade and other payables: current

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
Trade payables	72,354	50,894
Deferred income	3,790	10,566
Taxes and social security costs	1,963	6,147
Payable to related parties (note 37)	27	22
Payable to joint ventures (note 37)	3,304	3,359
Accruals	12,137	8,519
Other payables	3,725	1,861
<b>Total trade and other payables</b>	<b>97,300</b>	<b>81,368</b>

### 26. Interest-bearing loans and borrowings

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
<b>Current</b>		
Svenska Handelsbanken AB five-year term loan	499	457
HSBC Bank plc RCF arrangement fees	(200)	(116)
Other interest-bearing loans	412	983
	<b>711</b>	<b>1,324</b>
<b>Non-current</b>		
Svenska Handelsbanken AB five-year term loan	4,484	5,025
HSBC Bank plc RCF	34,978	32,135
HSBC Bank plc RCF arrangement fees	(725)	(88)
Other interest-bearing loans	219	409
	<b>38,956</b>	<b>37,481</b>

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

During the year, the Group agreed an increase in the amounts available under its five-year revolving credit facility ("RCF") from £60.0 million to £100.0 million. The maturity date of the facility is 15 May 2025. At 30 September 2020, the Group had undrawn borrowing facilities of £75.0 million (2019: £37.9 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, Omega Centre Bath Limited, Ellen Street Hove Limited and Goldcharm Residential 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.

## 27. Provisions

	Cladding provision £'000
<b>Current</b>	
At 30 September 2019 – restated (note 5)	—
Arising during the year	11,213
Utilised	(4,936)
<b>At 30 September 2020</b>	<b>6,277</b>
<b>Non-current</b>	
At 30 September 2019 – restated (note 5)	—
Arising during the year	3,587
<b>At 30 September 2020</b>	<b>3,587</b>

In response to the revised government guidance, issued in January 2020, on the suitability of certain cladding solutions used on high-rise residential buildings, the Group has agreed to work with the owners of 14 of its previously developed PBSA schemes to remediate or replace cladding and to share the costs. A provision has been made for the Group's anticipated contribution toward these fire safety recladding works. The cost of the works relating to the non-current amount of the provision is expected to be incurred in the year ending 30 September 2022.

## 28. Deferred tax

The movement on the deferred tax account is shown below:

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 Restated (note 5) £'000
At the start of the period	2,794	2,156
Included directly in equity	(70)	70
Statement of comprehensive income (debit)/credit	(451)	568
<b>At the end of the period</b>	<b>2,273</b>	<b>2,794</b>
Comprising:		
Deferred tax asset	3,313	3,836
Deferred tax liability	(1,040)	(1,042)
<b>At the end of the period</b>	<b>2,273</b>	<b>2,794</b>

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 2019	2,862	(68)	2,794
Statement of comprehensive income debit	(451)	—	(451)
Included directly in equity	(70)	—	(70)
<b>At 30 September 2020</b>	<b>2,341</b>	<b>(68)</b>	<b>2,273</b>
	Short-term timing differences £'000	Accelerated capital allowances £'000	Total £'000
At 1 October 2018 (restated)	2,385	(229)	2,156
Statement of comprehensive income credit (restated)	407	161	568
Included directly in equity (restated)	70	—	70
At 30 September 2019 (restated)	2,862	(68)	2,794

Deferred tax debited directly to equity of £70,000 (2019: credited to equity of £70,000) relates to the share scheme movement in Watkin Jones & Son Limited.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 29. Other financial assets and liabilities

#### Other financial assets

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
<b>Financial instruments at fair value</b>		
Equity instruments designated at fair value through other comprehensive income	1,133	1,139
Other financial assets	1,133	1,139

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 made an investment 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 aligned to its role as preferred property manager for the fund.

Fresh Property Group Ltd subsequently made a carried interest investment of £350,000 in CST2 on its establishment, aligned to its role as preferred property manager for CST2.

The Group received no distributions against the carrying value of its investments in CST or CST2 in the year ending September 2020 (2019: £209,000).

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

30 September 2020	Units	Price £	Value £'000
<b>Curlew Student Trust</b>			
Units held by Watkin Jones & Son Limited	1,689,991	0.4267	721
Carried interest investment held by Fresh Property Group Ltd			62
<b>Curlew Student Trust 2</b>			
Carried interest investment held by Fresh Property Group Ltd			350
<b>Group's carrying amount of the investment</b>			<b>1,133</b>

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

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).

### 30. 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 at 30 September 2020, the Group had no material exposure to interest rate movements. The Group renewed its RCF facility with HSBC for a further five years on 15 May 2020. The amount available under this facility was increased to £100.0 million which means that the Group could potentially be exposed to increased interest rate risk in the future. The Group has a treasury and hedging policy under which it determines the value at risk that it is willing to accept from a foreseeable movement in interest rates. Interest rate hedging contracts will only be used to keep its interest rate risk exposure within these parameters and there were no hedging contracts utilised during the year ending 30 September 2020 (2019: none).

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	
	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
0.5% change in interest rate		
Impact on profit before tax	195	120

#### 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 2020 and 30 September 2019:

	On demand £'000	Less than one year £'000	Between one and five years £'000	More than five years £'000	Total £'000
<b>Liquidity risk – 30 September 2020</b>					
Interest-bearing loans and borrowings	—	911	39,681	—	40,592
Trade and other payables	—	97,300	—	—	97,300
	—	98,211	39,681	—	137,892
		Less than one year (Restated) £'000	Between one and five years £'000	More than five years £'000	Total £'000
<b>Liquidity risk – 30 September 2019</b>					
Interest-bearing loans and borrowings	—	1,440	37,569	—	39,009
Trade and other payables	—	81,368	—	—	81,368
	—	82,808	37,569	—	120,377



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 September 2020

### 30. Financial risk management continued

#### 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.

Our customers are predominantly blue-chip institutional funds and the risk of default on the trade receivables they owe the Group is low. In many cases, the funds for a forward sold development are ring-fenced, placed in escrow, or backed by committed debt funding which reduces the risk of default. Credit evaluations are performed for all customers. Management has policies and procedures in place to monitor the Group's exposure to credit risk and the payment performance of the Group's customers. At the year end there were no significant concentrations of risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

#### Capital management policy

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

### 31. Share capital

	Year ended 30 September 2020 £'000	Year ended 30 September 2019 £'000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of one pence each	2,562	2,553

The number of ordinary shares in issue at 30 September 2020 was 256,163,459 (30 September 2019: 255,722,099).

### 32. 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 Directors' remuneration report on pages 90 to 95. The aggregate total awards granted under the Plan are as follows:

	Year ended 30 September 2020 Number	Year ended 30 September 2019 Number
Share awards granted		
<b>At 1 October</b>	<b>2,185,940</b>	494,058
Granted in the year	1,372,003	2,219,126
Exercised in the year (exercise price one pence per share)	(441,360)	(453,224)
Lapsed in the year	(125,300)	(74,020)
<b>At 30 September</b>	<b>2,991,283</b>	2,185,940

The weighted average share price at the date of exercise for the awards exercised during the year was: 145.6 pence (2019: 207.0 pence).

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 2020 and 2019:

	2020 LTIP	2019 LTIP	R Simpson 2018 buyout	2018 LTIP
Share price at grant	160.4 pence	215.5 pence	230.0 pence	218.5 pence
Exercise price	One pence	One pence	One pence	One pence
Expected term (years)	Three	Three	Three	Three
Expected volatility (%)	32.9	26.4	27.0	27.0
Risk-free interest rate (%)	-0.06	0.56	0.71	0.65
Are dividend equivalents receivable for the award holder?	Yes	Yes	Yes	Yes

The total number of shares granted subject to the 2019 buyout awards of Richard Simpson’s Unite LTIPs for 2015 were fixed as the Unite Group plc performance targets to which they were linked had already been achieved. The fair value of these awards was 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 (%)	27.0
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 vested 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%	100.0%	Return Index data from Thomson Reuters DataStream with growth measured to February 2019
<b>Total expected vesting</b>	<b>83.5%</b>	<b>84.76%</b>	

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 2020, the amount charged to the statement of comprehensive income and credited to share-based payment reserve was £37,000 (30 September 2019: £2,227,000).

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

	Year ended 30 September 2020 £'000	Year ended 30 September Restated (note 5) £'000
Profit before tax	25,314	47,864
Depreciation of leased investment properties and right-of-use assets	7,865	7,760
Depreciation of plant and equipment	998	835
Impairment of leased investment properties	2,241	786
Amortisation of intangible assets	560	559
(Profit) on sale of plant and equipment	(24)	(42)
Finance income	(245)	(428)
Finance costs	6,366	5,874
Share of profit in joint ventures	(199)	(286)
Decrease/(increase) in inventory and work in progress	8,566	(1,948)
Interest capitalised in development land, inventory and work in progress	465	216
(Increase)/decrease in contract assets	(15,944)	(16,820)
(Increase)/decrease in trade and other receivables	(10,786)	4,089
Increase/(decrease) in contract liabilities	3,803	(9,150)
Increase/(decrease) in trade and other payables	15,987	(2,593)
Provision for fire safety cladding works	9,864	—
Increase in share-based payment reserve	37	2,227
<b>Net cash inflow from operating activities</b>	<b>54,868</b>	<b>38,943</b>

#### Major non-cash transactions

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

### 34. Analysis of net cash/(debt)

	At beginning of year £'000	Cash flow £'000	Other movements £'000	At end of year £'000
<b>30 September 2020</b>				
Cash at bank and in hand	115,652	18,861	—	134,513
Other interest-bearing loans	(1,392)	1,034	(273)	(631)
Bank loans	(37,413)	(1,444)	(179)	(39,036)
<b>Net cash before deducting lease liabilities</b>	<b>76,847</b>	<b>18,451</b>	<b>(452)</b>	<b>94,846</b>
Lease liabilities (note 17)	(137,522)	6,089	(3,020)	(134,453)
<b>Net debt</b>	<b>(60,675)</b>	<b>24,540</b>	<b>(3,472)</b>	<b>(39,607)</b>

	At beginning of year £'000	Cash flow £'000	Other movements £'000	At end of year £'000
<b>30 September 2019 – restated (note 5)</b>				
Cash at bank and in hand	106,640	9,012	—	115,652
Other interest-bearing loans	(2,023)	1,307	(676)	(1,392)
Bank loans	(24,459)	(12,938)	(16)	(37,413)
<b>Net cash before deducting lease liabilities</b>	<b>80,158</b>	<b>(2,619)</b>	<b>(692)</b>	<b>76,847</b>
Lease liabilities (note 17)	(143,292)	5,953	(183)	(137,522)
<b>Net debt</b>	<b>(63,134)</b>	<b>3,334</b>	<b>(875)</b>	<b>(60,675)</b>

Cash at bank and in hand as at 30 September 2020 includes £814,225 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 2019: £1,853,000). Non-cash movements relate to the acquisition of property, plant and equipment under other interest-bearing loans, the amortisation of bank loan arrangement fees and changes to the calculation of the value of lease liabilities as a result of movements in the rent inflation rates assumed.

### 35. Capital and other financial commitments

The Group had no material capital commitments at 30 September 2020 or 30 September 2019.

### 36. Contingent liabilities

The Group has contingent liabilities of £537,000 (2019: £605,000) 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 £34,978,000 (2019: £32,135,000).

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

### 37. Related party transactions

The Group processed payroll costs on behalf of Carlton (North Wales) Limited and its subsidiary companies of £Nil (2019: £199,000). No amount was owed to or from Carlton (North Wales) Limited and its subsidiary companies at the balance sheet date.

The Group paid rent and service charges to Planehouse Limited and its subsidiary companies amounting to £316,000 (2019: £316,000) and processed payroll costs on behalf of the Company of £Nil (2019: £101,000). No amount was owed to or from Planehouse Limited and its subsidiary companies at the balance sheet date.

Carlton (North Wales) Limited and Planehouse Limited are owned by Watkin Jones family trusts. Certain of the trusts controlled by the Watkin Jones family are shareholders in the Company. Mark Watkin Jones has a potential beneficial interest in the family trusts and was a Director of the Company until 15 January 2019.

The Group provided services to the Watkin Jones & Son Limited Directors' Pension Scheme, in which Mark Watkin Jones and other members of the Watkin Jones family have an interest, amounting to £Nil (2019: £36,000).

During the year the Group paid an amount of £16,800 to Richard Simpson (2019: £Nil) to cover the costs of a corporate hospitality event which he hosted.

As referred to in note 29, 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 £Nil (2019: £209,000). The fair value of the units held in CST by Watkin Jones & Son Limited at 30 September 2020 amounted to £721,000 (2019: £718,000) and the fair values of the carried interest investments in CST and CST2 held by Fresh Property Group Ltd amounted to £62,000 (2019: £71,000) and £350,000 (2019: £350,000) respectively.

Under a joint venture agreement the Group was owed £466,000 at 30 September 2020 by Deiniol Developments Limited (2019: £716,000). The Group owns 50% of the share capital in Deiniol Developments Limited.

The Group has a 50% interest in Lacuna Belfast Limited. The Group made payments of £5,000 to Lacuna Belfast Limited during the year (2019: received payments of £230,000 from Lacuna Belfast Limited). At the balance sheet date, £194,000 was owed to Lacuna Belfast Limited (2019: £199,000).

The Group has a 50% interest in Lacuna Dublin Road Limited. The Group received payments of £62,000 from Lacuna Dublin Road Limited during the year (2019: £180,000). At the balance sheet date, £1,308,000 was owed to Lacuna Dublin Road Limited (2019: £1,246,000).

The Group has a 50% interest in Lacuna WJ Limited. During the year, the Group charged development fees to Lacuna WJ Limited amounting to £Nil (2019: £60,000). The Group made payments of £280,000 to Lacuna WJ Limited during the year (2019: received payments of £280,000). At the balance sheet date, £1,695,000 (2019: £1,975,000) was owed to Lacuna WJ Limited.

The Group has a 50% interest in Lacuna Academy Street Limited. During the year, the Group charged development fees to Lacuna Academy Street of £250,000 (2019: £Nil). The Company has made payments during the year to Lacuna Academy Street Limited of £44,000 and received payments of £1,379,000 (2019: made payments of £116,000), following a sale of the land held by the company. At the balance sheet date, £168,000 was owed to Lacuna Academy Street Limited (2019: £868,000 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 2020

	Notes	30 September 2020 £'000	30 September 2019 £'000
<b>Fixed assets</b>			
Investments	41	258,123	258,086
<b>Current liabilities</b>			
Trade and other payables	42	(67,785)	(53,475)
<b>Total liabilities</b>		<b>(67,785)</b>	<b>(53,475)</b>
<b>Net assets</b>		<b>190,338</b>	<b>204,611</b>
<b>Equity</b>			
Share capital	43	2,562	2,553
Share premium		84,612	84,612
Share-based payment reserve		2,348	2,311
Retained earnings		100,816	115,135
<b>Total equity</b>		<b>190,338</b>	<b>204,611</b>

The notes on pages 150 to 151 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 19 January 2021 and signed on its behalf by:

**Richard Simpson**

Director

## COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2020

	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2019	2,553	84,612	2,311	115,135	204,611
Dividend paid (note 40)	—	—	—	(14,319)	(14,319)
Issue of shares	9	—	—	—	9
Share-based payments	—	—	37	—	37
<b>Balance as at 30 September 2020</b>	<b>2,562</b>	<b>84,612</b>	<b>2,348</b>	<b>100,816</b>	<b>190,338</b>

	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 (note 40)	—	—	—	(20,113)	(20,113)
Share-based payments	—	—	2,227	—	2,227
<b>Balance as at 30 September 2019</b>	<b>2,553</b>	<b>84,612</b>	<b>2,311</b>	<b>115,135</b>	<b>204,611</b>

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 30 September 2020

### 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 7-9 Swallow Street, London W1B 4DE.

#### 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-settled 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 Directors’ remuneration report and summarised below. All employee costs incurred by the Company are recharged to Watkin Jones & Son Limited, the Company’s principal trading subsidiary.

	2020 £’000	2019 £’000
Wages and salaries	1,015	1,566
Employee incentive – long-term incentive plans	53	2,083
Social security costs	270	475
Pension costs	101	82
	<b>1,439</b>	<b>4,206</b>

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

	2020 £'000	2019 £'000
<b>Amounts recognised as distributions to equity holders in the year</b>		
Interim dividend paid in June 2020 of nil pence (June 2019: 2.75 pence)	—	7,018
Final dividend paid in February 2020 of 5.6 pence (February 2019: 5.13 pence)	<b>14,319</b>	13,095
	<b>14,319</b>	20,113

The interim dividend that would have been paid in June 2020 was suspended, due to the impact of COVID-19 on the business.

The final dividend proposed for the year ended 30 September 2020 is 7.35 pence per ordinary share. This dividend was declared after 30 September 2020 and as such the liability of £18,828,000 has not been recognised at that date. At 30 September 2020, the Company had distributable reserves available of £100,816,000 (30 September 2019: £115,135,000).

#### 41. Investments in subsidiaries

	Subsidiary undertakings £'000
<b>Cost</b>	
1 October 2019	258,086
Capital contribution relating to share-based payments	37
<b>30 September 2020</b>	<b>258,123</b>

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

#### 42. Trade and other payables: current

	2020 £'000	2019 £'000
<b>Financial liabilities</b>		
Group undertakings	<b>67,785</b>	53,475

#### 43. Allotted and issued share capital

	2020 £'000	2019 £'000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of one pence each	<b>2,562</b>	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 32 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 2020 of the awards granted has been recharged to Watkin Jones & Son Limited.



## ADVISERS

### Nominated adviser and broker

Peel Hunt LLP  
Moor House  
120 London Wall  
London EC2Y 5ET

### Joint broker

Jefferies Hoare Govett  
Vintners Place  
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London EC4V 3BJ

### Auditor and reporting accountants

Ernst & Young LLP  
2 St Peter's Square  
Manchester M2 3EY

### Solicitors to the Company

DLA Piper UK LLP  
Victoria Square House  
Victoria Square  
Birmingham B2 4DL

### Company registrars

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

### Financial PR

Buchanan  
107 Cheapside  
London EC2V 6DN

### Company secretarial services

Prism Cosec  
42-50 Hersham Road  
Walton-on-Thames  
Surrey KT12 1RZ

## SHAREHOLDER INFORMATION

### Country of incorporation and main country of operation

Watkin Jones plc is incorporated in England and Wales. The Company operates in the UK.

### Number of securities in issue

As of 19 January 2021, the Company's issued share capital consists of 256,163,459 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 19 January 2021, the percentage of the Company's issued share capital that is not in public hands is 22.4%.

### 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: 7-9 Swallow Street, London W1B 4DE.  
Registered in England and Wales (company number 9791105).

## GLOSSARY

<b>AGM</b>	Annual General Meeting	<b>Fresh or FPG</b>	Fresh Property Group
<b>APM</b>	alternative performance measures	<b>FVOCI</b>	fair value through other comprehensive income
<b>AIM</b>	Alternative Investment Market	<b>GDPR</b>	General Data Protection Regulation
<b>BTR</b>	build to rent	<b>HSE</b>	health, safety and environment
<b>CGU</b>	cash-generating unit	<b>IFRS</b>	International Financial Reporting Standards
<b>CST</b>	Curlew Student Trust	<b>IPO</b>	initial public offering
<b>CST2</b>	Curlew Student Trust 2	<b>OCI</b>	other comprehensive income
<b>EBITDA</b>	earnings before income tax, depreciation and amortisation	<b>PBSA</b>	purpose built student accommodation
<b>EIR</b>	effective interest rate	<b>RCF</b>	revolving credit facility
<b>EPS</b>	earnings per share	<b>SDGs</b>	UN's Sustainable Development Goals
<b>EY</b>	Ernst & Young LLP	<b>TSR</b>	total shareholder return

## FINANCIAL CALENDAR

### Annual General Meeting (“AGM”)

The Company’s AGM will be held virtually at 10.30am on 19 February 2021. The Notice of meeting is available on the Group’s website [www.watkinjonesplc.com](http://www.watkinjonesplc.com).

### Final dividend

The final dividend will be paid on 26 February 2021 to shareholders on the register at the close of business on 29 January 2021. The shares will go ex-dividend on 28 January 2021.



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