14 February 2019

MJ GLEESON PLC

Results for the half-year ended 31 December 2018

MJ Gleeson plc, the low-cost housebuilder and strategic land specialist, announces another strong period of performance with profit before tax up 62.8% and an increase in the interim dividend of 27.8% to 11.5p per share.

	H1 18/19	**H1 17/18**	**Change**
Revenue	£118.3m	£77.4m	+52.8%
Profit before tax	£22.3m	£13.7m	+62.8%
Cash balances	£27.8m	£26.7m	+4.1%
ROCE	29.5%	26.0%	+350 bp
EPS	33.2p	20.6p	+61.2%
Dividend per share	11.5p	9.0p	+27.8%

An excellent start to the year and confident in the outlook. On track to deliver results at least in line with expectations for the full year.

Gleeson Homes:

- Unit sales increased 16.5% to 691 units (H1 17/18: 593)
- Average selling price up 2.4% to £127,400 (H1 17/18: £124,400)
- Gross profit increased 17.3% to £27.8m (H1 17/18: £23.7m)
- Operating profit increased 13.8% to £14.0m (H1 17/18: £12.3m)
- Land pipeline of 12,966 plots (June 2018: 12,852 plots)
- 10 area offices (June 2018: 8 area offices & 2 pilot offices)

Gleeson Strategic Land:

- Completed 3 land sales with planning for 483 plots (H1 17/18: 3 land sales, 133 plots)
- Operating profit increased 291% to £9.0m (H1 17/18: £2.3m) due to sales of larger sites
- 9 sites with planning permission (June 2018: 9 sites)

Dermot Gleeson, Chairman of MJ Gleeson, commented:

"The Group has once again delivered an excellent performance, increasing operating profit in both divisions.

"Gleeson Homes' growth plans remain on track.

"We see no signs of customer caution and demand remains robust.

"Land remains available at sensible prices in both existing and new geographic areas. The two pilot offices in Penrith, Cumbria and Ashington, Northumberland have become full area offices, increasing the number of area offices to ten.

"Gleeson Strategic Land completed the same number of site sales as in the first half of the prior year, but the sites sold were significantly larger this half.

"Demand for consented sites remains strong from both large and medium-sized developers.

"Against this background, the Board is confident that the Group will deliver a result for the full year at least in line with expectations."

This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of the company is Stefan Allanson, Chief Financial Officer.

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Enquiries:

MJ Gleeson plc		**Tel: +44 1142 612900**
Jolyon Harrison	Chief Executive Officer	
Stefan Allanson	Chief Financial Officer	
Instinctif Partners		**Tel: +44 20 7457 2020**
Mark Garraway		
James Gray		
N+1 Singer		
Shaun Dobson		**Tel: +44 20 7496 3000**
Rachel Hayes		
Liberum		
Neil Patel		**Tel: +44 20 3100 2222**
Richard Bootle		

CHAIRMAN'S STATEMENT

I am delighted to report an excellent first half performance.

Group profit before tax increased 62.8% to £22.3m (H1 17/18: £13.7m) following strong performances in both Gleeson Homes and Gleeson Strategic Land.

Gleeson Homes

Gleeson Homes builds and sells low-cost homes to people on lower incomes in the Midlands and North of England. Seven out of eight customers are first time buyers who are highly motivated by the desire to own their own home in areas underserved by traditional housebuilders.

During the period the division achieved growth in both volume and profit.

Revenue increased 19.4% to £88.0m (H1 17/18: £73.7m), reflecting a 16.5% rise in the total number of units sold from 593 to 691.

The average selling price ("ASP") for the units sold in the period increased 2.4% to £127,400 (H1 17/18: £124,400) reflecting modest price increases and the effect of plot mix and development mix.

Gross margin on units sold in the period decreased 60 basis points to 31.6% (H1 17/18: 32.2%), as expected, due to cost increases arising from increased build rates and changes in development mix.

Operating margin decreased 70 basis points to 16.0% (H1 17/18: 16.7%) and operating profit increased 13.8% to £14.0m (H1 17/18: £12.3m).

During the period, 69% (H1 17/18: 63%) of unit sales benefited from the Government's Help to Buy scheme. In addition, our own bespoke purchaser assistance packages continued to prove attractive.

At 31 December 2018, we were selling from 67 sites, an increase of eight sites on the corresponding period last year. We expect to open a significant number of sites during the coming months and anticipate that the number of active selling sites will be approaching 70 by June 2019.

The pipeline of owned plots increased during the period by a net 488 plots to 6,963 plots. The total pipeline of owned and conditionally purchased plots increased by 114 plots to 12,966 plots on 144 sites at December 2018 (June 2018: 12,852 plots on 149 sites). During the period 12 new sites were added to the pipeline, while 13 sites were either completed or did not proceed to purchase and 4 sites were either merged with existing sites or sold.

Demand for our low-cost homes remains strong; we are actively sourcing sites in existing and new areas within our target geographic regions.

In July 2017 we announced our intention to double completions to 2,000 units per annum within five years. We are confident that we will achieve this.

Gleeson Strategic Land

Gleeson Strategic Land, our land promotion business, continued to see strong demand from medium and large housebuilders for good quality residential sites in the South of England.

The division recorded the sale of three sites (H1 17/18: three sites), with planning consent for the residential development of a total of 483 plots (H1 17/18: 133 plots).

Revenue increased £26.6m to £30.3m (H1 17/18: £3.7m), reflecting the larger size of the three sites sold.

Gross profit increased £7.2m to £10.3m (H1 17/18: £3.1m). Operating profit increased £6.7m to £9.0m (H1 17/18: £2.3m).

There are currently nine sites in the portfolio with either planning permission or a resolution to grant permission for a total of 2,432 plots (H1 17/18: 11 sites, 2,461 plots). Seven of these sites, which will deliver 1,454 plots, are currently being progressed for sale (H1 17/18: eight sites, 1,593 plots).

There are a further nine sites where the division is currently awaiting either the determination of a planning application or the outcome of a planning appeal.

The Strategic Land portfolio continues to be replenished. Two further sites, with the potential to deliver a total of 345 plots, were secured in the period and we anticipate that a number of new site agreements will be signed shortly.

At 31 December 2018 the portfolio, in which the Group has a beneficial interest of 76%, comprised 60 sites (30 June 2018: 61 sites), with the potential to generate a total of more than 22,400 plots.

Dividend and Dividend Timetable

In light of these strong results and our confidence in the future, the Board is declaring an interim dividend of 11.5 pence per share, an increase of 27.8% over the prior year (H1 17/18: 9.0 pence per share).

The interim dividend will be paid on 5 April 2019 to shareholders on the register at close of business on 8 March 2019. The ex-entitlement date will be 7 March 2019.

The Board aims to maintain a progressive dividend policy in which the interim dividend represents one third of the total dividend and earnings covers the total dividend between 1.75 times and 2.75 times.

Summary & Outlook

The Group has once again delivered an excellent performance, increasing operating profit in both divisions.

Gleeson Homes' growth plans remain on track.

We see no signs of customer caution and demand remains robust.

Land remains available at sensible prices in both existing and new geographic areas. The two pilot offices in Penrith, Cumbria and Ashington, Northumberland have become full area offices, increasing the number of area offices to ten.

Gleeson Strategic Land completed the same number of site sales as in the first half of the prior year, but the sites sold were significantly larger this half.

Demand for consented sites remains strong from both large and medium-sized developers.

Against this background, the Board is confident that the Group will deliver a result for the full year at least in line with expectations.

Financial Overview

Income Statement

Group revenue increased 52.8% to £118.3m (H1 17/18: £77.4m), with revenue growth in both Gleeson Homes and Gleeson Strategic Land.

Group gross profit increased 42.0% to £38.2m (H1 17/18: £26.9m).

The Group's operating profit increased 63.2% to £22.2m (H1 17/18: £13.6m). Net interest income of £0.1m (H1 17/18: £0.1m) resulted in profit before tax increasing 62.8% to £22.3m (H1 17/18: £13.7m).

The tax charge for the period was £4.0m (H1 17/18: £2.4m) reflecting an effective rate of 18.0% (H1 17/18: 17.4%). The profit after tax from continuing operations was £18.3m (H1 17/18: £11.3m). Discontinued operations recorded a loss of £0.1m (H1 17/18: £0.2m loss). The profit for the period attributable to equity holders was £18.1m (H1 17/18: £11.2m).

Balance Sheet, Cash Flow & Return on Capital Employed

Total shareholders' equity stood at £194.3m at 31 December 2018 compared to £173.7m at 31 December 2017. This equates to net assets per share of 355.9 pence (31 December 2017: 318.3 pence).

Return on capital employed increased by 350 basis points to 29.5% due to the significant increase in Gleeson Strategic Land profit during the period.

Cash outflows from operating and investing activities reduced by £3.1m to £1.0m outflow (H1 17/18: £2.1m inflow) due to increased build activity in Gleeson Homes.

The Group's net cash balance at 31 December 2018 was £27.8m (31 December 2017: £26.7m).

Risks and Uncertainties

The Group is subject to a number of risks and uncertainties as part of its activities. The Board regularly considers these and seeks to ensure that appropriate processes are in place to identify, control, and monitor these risks. The directors consider that the principal risks and uncertainties facing the Group are those outlined on pages 30 to 31 of the Annual Report and Accounts for the year ended 30 June 2018.

Dermot Gleeson
Chairman

Condensed Consolidated Income Statement

for the six months to 31 December 2018

	Note	**Unaudited Six months to 31 December 2018 £000**	Unaudited Six months to 31 December 2017 £000	Audited Year to 30 June 2018 £000
Continuing operations				
Revenue		**118,349**	77,398	196,741
Cost of sales		**(80,189)**	(50,527)	(131,474)
Gross profit		**38,160**	26,871	65,267
Administrative expenses		**(16,123)**	(13,334)	(28,670)
Other operating income		**150**	112	257
Operating profit		**22,187**	13,649	36,854
Finance income		**460**	180	418
Finance expenses		**(368)**	(96)	(253)
Profit before tax		**22,279**	13,733	37,019
Tax	*3*	**(4,008)**	(2,387)	(6,526)
Profit for the period from continuing operations		**18,271**	11,346	30,493
Discontinued operations				
Loss for the period from discontinued operations (net of tax)		**(145)**	(157)	(257)
Profit for the period		**18,126**	11,189	30,236

Earnings per share from continuing and discontinued operations

	Note	**2018**	2017	30 June 2018
Basic	*5*	**33.22 p**	20.61 p	55.55 p
Diluted	*5*	**32.85 p**	20.34 p	54.69 p

Earnings per share from continuing operations

	Note	**2018**	2017	30 June 2018
Basic	*5*	**33.48 p**	20.90 p	56.02 p
Diluted	*5*	**33.11 p**	20.62 p	55.15 p

Condensed Consolidated Statement of Comprehensive Income
for the six months to 31 December 2018

	Unaudited Six months to 31 December 2018 £000	Unaudited Six months to 31 December 2017 £000	Audited Year to 30 June 2018 £000
Profit for the period	**18,126**	11,189	30,236
Other comprehensive income/(expense)			
Items that may be subsequently reclassified to profit or loss			
Change in value of shared equity receivables at fair value through OCI	**76**	11	31
Deferred tax on share-based payments	**(11)**	181	(237)
Other comprehensive income/(expense) for the period, net of tax	**65**	192	(206)
Total comprehensive income for the period	**18,191**	11,381	30,030

Condensed Consolidated Statement of Financial Position
at 31 December 2018

	Unaudited 31 December 2018 £000	Unaudited 31 December 2017* £000	Audited 30 June 2018* £000
Non-current assets			
Plant and equipment	**1,897**	1,708	1,737
Investment properties	**258**	258	258
Trade and other receivables	**24,597**	13,053	24,626
Deferred tax assets	**2,632**	4,909	3,731
	29,384	19,928	30,352
Current assets			
Inventories	**178,992**	150,379	160,517
Trade and other receivables	**21,300**	13,021	10,602
Cash and cash equivalents	**27,827**	26,684	41,314
	228,119	190,084	212,433
Total assets	**257,503**	210,012	242,785
Non-current liabilities			
Trade and other payables	**(9,759)**	(402)	(9,176)
Provisions	**(110)**	(110)	(110)
	(9,869)	(512)	(9,286)
Current liabilities			
Trade and other payables	**(50,358)**	(33,554)	(42,441)
Provisions	**(49)**	(99)	(49)
UK corporation tax	**(2,954)**	(2,116)	(2,910)
	(53,361)	(35,769)	(45,400)
Total liabilities	**(63,230)**	(36,281)	(54,686)
Net assets	**194,273**	173,731	188,099
Equity			
Share capital	**1,092**	1,091	1,092
Retained earnings	**193,181**	172,640	187,007
Total equity	**194,273**	173,731	188,099

* Retained earnings have been restated for 31 December 2017 and 30 June 2018 as a result of changes in accounting standards. See Note 10 for further information.

Condensed Consolidated Statement of Changes in Equity

for the six months to 31 December 2018

	Note	**Share capital £000**	**Retained earnings* £000**	**Total equity £000**
At 1 July 2017 (audited)		1,082	170,289	171,371
Total comprehensive income for the period				
Profit for the period		-	11,189	11,189
Other comprehensive income		-	192	192
Total comprehensive income for the period		-	11,381	11,381
Transactions with owners, recorded directly in equity				
Contributions and distributions to owners				
Share issue		9	-	9
Sale of own shares		-	25	25
Share-based payments		-	476	476
Dividends	*4*	-	(9,531)	(9,531)
Transactions with owners, recorded directly in equity		9	(9,030)	(9,021)
At 31 December 2017 (unaudited)		1,091	172,640	173,731
Total comprehensive income for the period				
Profit for the period		-	19,047	19,047
Other comprehensive income/(expense)		-	(398)	(398)
Total comprehensive income for the period		-	18,649	18,649
Transactions with owners, recorded directly in equity				
Contributions and distributions to owners				
Share issue		1	-	1
Sale of own shares		-	70	70
Share-based payments		-	550	550
Dividends	*4*	-	(4,902)	(4,902)
Transactions with owners, recorded directly in equity		1	(4,282)	(4,281)
At 30 June 2018 (audited)		**1,092**	**187,007**	**188,099**
Total comprehensive income for the period				
Profit for the period		**-**	**18,126**	**18,126**
Other comprehensive income/(expense)		**-**	**65**	**65**
Total comprehensive income for the period		**-**	**18,191**	**18,191**
Transactions with owners, recorded directly in equity				
Contributions and distributions to owners				
Sale of own shares		**-**	**51**	**51**
Share-based payments		**-**	**487**	**487**
Dividends	*4*	**-**	**(12,555)**	**(12,555)**
Transactions with owners, recorded directly in equity		**-**	**(12,017)**	**(12,017)**
At 31 December 2018 (unaudited)		**1,092**	**193,181**	**194,273**

* Retained earnings have been restated for 1 July 2017, 31 December 2017 and 30 June 2018 as a result of changes in accounting standards. See Note 10 for further information.

Condensed Consolidated Statement of Cash Flow

for the six months to 31 December 2018

	Unaudited Six months to 31 December 2018 £000	Unaudited Six months to 31 December 2017 £000	Audited Year to 30 June 2018 £000
Operating activities			
Profit before tax from continuing operations	**22,279**	13,733	37,019
Loss before tax from discontinued operations	**(145)**	(157)	(217)
	22,134	13,576	36,802
Depreciation of plant and equipment	**508**	469	971
Share-based payments	**487**	476	1,026
Profit on redemption of shared equity receivables	**(119)**	(71)	(167)
Loss on disposal of plant and equipment	**24**	22	152
Finance income	**(460)**	(180)	(418)
Finance expenses	**368**	96	253
Operating cash flows before movements in working capital	**22,942**	14,388	38,619
Increase in inventories	**(18,475)**	(7,828)	(17,967)
(Increase) / decrease in receivables	**(13,198)**	6,105	(3,247)
Increase / (decrease) in payables	**10,837**	(7,702)	9,855
Cash generated from operating activities	**2,106**	4,963	27,260
Tax paid	**(2,877)**	(2,531)	(5,156)
Interest paid	**(211)**	(66)	(172)
Net cash flow (deficit) / surplus from operating activities	**(982)**	2,366	21,932
Investing activities			
Proceeds from redemption of shared equity receivables	**599**	431	960
Proceeds from disposal of investment properties	**-**	45	45
Interest received	**91**	4	29
Purchase of plant and equipment	**(691)**	(717)	(1,376)
Net cash flow deficit from investing activities	**(1)**	(237)	(342)
Financing activities			
Proceeds from issue of shares	**-**	9	10
Sale of own shares	**51**	25	95
Dividends paid	**(12,555)**	(9,531)	(14,433)
Net cash flow deficit from financing activities	**(12,504)**	(9,497)	(14,328)
Net (decrease) / increase in cash and cash equivalents	**(13,487)**	(7,368)	7,262
Cash and cash equivalents at beginning of period	**41,314**	34,052	34,052
Cash and cash equivalents at end of period	**27,827**	26,684	41,314

Notes to the Condensed Consolidated Financial Statements
for the six months to 31 December 2018

1. Basis of preparation and accounting policies

The Interim Report of the Group for the six months ended 31 December 2018 has been prepared in accordance with IAS 34 "Interim Financial Reporting", International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee (“IFRC IC”) interpretations as adopted for use in the European Union ("EU") and in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The Interim Report does not constitute financial statements as defined in Section 434 of the Companies Act 2006 and is neither audited nor reviewed. It should be read in conjunction with the Annual Report and Accounts for the year ended 30 June 2018, which is available either on request from the Group’s registered office, 6 Europa Court, Sheffield Business Park, Sheffield, S9 1XE, or can be downloaded from the corporate website www.mjgleesonplc.com.

The comparative figures for the financial year ended 30 June 2018 are not the Group’s statutory accounts for that financial year. Those accounts have been reported on by the Company’s auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters which the auditor drew attention to by way of emphasis without qualifying their report and (iii) did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

The preparation of condensed half-yearly financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may subsequently differ from these estimates. In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 30 June 2018.

Except as described below, the accounting policies, method of computation, and presentation adopted are consistent with those of the Annual Report and Accounts for the year ended 30 June 2018, as described in those financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2018:

- IFRS 2 (Amended) “Share-based payments”
- IFRS 9 “Financial instruments”
- IFRS 15 “Revenue from contracts with customers”
- Annual improvements issued 2014 – 2016

Note 10 sets out the impact of IFRS 9 “Financial instruments” and IFRS 15 “Revenue from contracts with customers”. The remaining standards and amendments have had no material impact on the financial statements as explained in Note 1 to the Group’s Annual Report and Accounts for the year ended 30 June 2018.

Going concern

The Directors have, at the time of approving the interim accounts, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least twelve months from the date of approval of the Interim Report. Thus they continue to adopt the going concern basis of accounting in preparing the Interim Report.

2. Segmental analysis

The Group is organised into the following two operating divisions under the control of the Executive Board, which is identified as the Chief Operating Decision Maker as defined under IFRS 8 "Operating segments":

- Gleeson Homes
- Gleeson Strategic Land

All of the Group's operations are carried out entirely within the United Kingdom. Segment information about the Group's operations is presented below:

	Note	**Unaudited Six months to 31 December 2018 £000**	Unaudited Six months to 31 December 2017 £000	Audited Year to 30 June 2018 £000
Revenue				
Continuing activities:				
Gleeson Homes		**88,042**	73,747	153,397
Gleeson Strategic Land		**30,307**	3,651	43,344
Total revenue		**118,349**	77,398	196,741
Profit on activities				
Gleeson Homes		**14,046**	12,348	26,165
Gleeson Strategic Land		**9,019**	2,259	12,633
		23,065	14,607	38,798
Group activities		**(878)**	(958)	(1,944)
Finance income		**460**	180	418
Finance expenses		**(368)**	(96)	(253)
Profit before tax		**22,279**	13,733	37,019
Tax	3	**(4,008)**	(2,387)	(6,526)
Profit for the period from continuing operations		**18,271**	11,346	30,493
Loss for the period from discontinued operations (net of tax)		**(145)**	(157)	(257)
Profit for the period		**18,126**	11,189	30,236

The revenue in the Gleeson Homes segment relates to the sale of residential properties and land. All revenue for the Gleeson Strategic Land segment is in relation to the sale of land.

Balance sheet analysis of business segments:

	Unaudited 31 December 2018		
	Assets £000	**Liabilities £000**	**Net assets £000**
Gleeson Homes	**162,821**	**(32,214)**	**130,607**
Gleeson Strategic Land	**66,393**	**(28,907)**	**37,486**
Group activities / discontinued operations	**462**	**(2,109)**	**(1,647)**
Net cash	**27,827**	**-**	**27,827**
	257,503	**(63,230)**	**194,273**

	Unaudited 31 December 2017		
	Assets £000	Liabilities £000	Net assets £000
Gleeson Homes	134,029	(30,294)	103,735
Gleeson Strategic Land	48,442	(3,446)	44,996
Group activities / discontinued operations	857	(2,541)	(1,684)
Net cash	26,684	-	26,684
	210,012	(36,281)	173,731

2. Segmental analysis *(cont.)*

	Audited 30 June 2018		
	Assets	Liabilities	Net assets
	£000	£000	£000
Gleeson Homes	147,634	(33,895)	113,739
Gleeson Strategic Land	53,391	(18,412)	34,979
Group activities / discontinued operations	446	(2,379)	(1,933)
Net cash	41,314	-	41,314
	242,785	(54,686)	188,099

3. Tax

The results for the six months to 31 December 2018 include a tax charge of 18.0% of profit before tax (31 December 2017: 17.4%; 30 June 2018: 17.8%), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period.

Reductions in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) were substantively enacted into law before the balance sheet date.

4. Dividends

	Unaudited Six months to 31 December 2018 £000	Unaudited Six months to 31 December 2017 £000	Audited Year to 30 June 2018 £000
Amounts recognised as distributions to equity holders:			
Final dividend for the year ended 30 June 2017 of 17.5p per share	**-**	9,531	9,531
Interim dividend for the year ended 30 June 2018 of 9.0p per share	**-**	-	4,902
Final dividend for the year ended 30 June 2018 of 23.0p per share	**12,555**	-	-
	12,555	9,531	14,433

On 13 February 2019 the Board approved an interim dividend of 11.5 pence per share at an estimated total cost of £6,300,000. The dividend has not been included as a liability as at 31 December 2018.

5. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	**Unaudited Six months to 31 December 2018 £000**	Unaudited Six months to 31 December 2017 £000	Audited Year to 30 June 2018 £000
Profit from continuing operations	**18,271**	11,346	30,493
Loss from discontinued operations	**(145)**	(157)	(257)
Earnings for the purposes of basic and diluted earnings per share	**18,126**	11,189	30,236

5. Earnings per share *(cont.)*

Number of shares	**31 December 2018 No. 000**	31 December 2017 No. 000	30 June 2018 No. 000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**54,566**	54,300	54,428
Effect of dilutive potential ordinary shares:			
Share-based payments	**611**	712	862
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**55,177**	55,012	55,290

Continuing operations	**Six months to 31 December 2018 pence**	Six months to 31 December 2017 pence	Year to 30 June 2018 pence
Basic	**33.48**	20.90	56.02
Diluted	**33.11**	20.62	55.15

Continuing and discontinued operations

Basic	**33.22**	20.61	55.55
Diluted	**32.85**	20.34	54.69

6. Financial instruments

The fair value of the Group's financial assets and liabilities are not materially different from the carrying values. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments. Following the implementation of IFRS 9 "Financial instruments" shared equity receivables are now measured at fair value through other comprehensive income (FVOCI) as set out in Note 10.

Shared equity receivables at FVOCI

	Unaudited 31 December 2018 Level 3 £000	Unaudited 31 December 2017 Level 3 £000	Audited 30 June 2018 Level 3 £000
Balance at start of period	**4,997**	5,669	5,669
Redemptions	**(415)**	(325)	(703)
Unwind of discount (finance income)	**40**	46	90
Fair value movement recognised in other comprehensive income	**10**	(24)	(59)
Balance at end of period	**4,632**	5,366	4,997

Shared equity receivables at FVOCI represent shared equity loans advanced to customers and secured by way of a second charge on the property sold. They are carried at fair value which is determined by discounting forecast cash flows for the residual period of the contract. The difference between the nominal value and the initial fair value is credited over the deferred term to finance income, with the financial asset increasing to its full cash settlement value on the anticipated receipt date.

Redemptions in the period of shared equity receivables carried at £415,000 (H1 17/18: £325,000) generated a profit on redemption of £119,000 (H1 17/18: £71,000) which has been recognised in other operating income in the consolidated income statement.

6. Financial instruments *(cont.)*

In addition, a net change in value of shared equity receivables at FVOCI of £76,000 (H1 17/18: £11,000) has been recognised in other comprehensive income. This is made up as follows:

	Unaudited 31 December 2018 £000	Unaudited 31 December 2017 £000	Audited 30 June 2018 £000
Fair value movement recognised in other comprehensive income	**10**	(24)	(59)
Fair value reclassified to profit and loss	**66**	35	90
Total movement recognised in other comprehensive income	**76**	11	31

Forecast cash flows are determined using inputs based on current market conditions and the Group's historic experience of actual cash flows resulting from such arrangements. These inputs are by nature estimates and as such the fair value has been classified as Level 3 under the fair value hierarchy laid out in IFRS 13 "Fair value measurement". There have been no transfers between fair value levels in the period.

Significant unobservable inputs into the fair value measurement calculation include regional house price movements based on the Group's actual experience of regional house pricing and management forecasts of future movements, the anticipated period to redemption of loans which remain outstanding and a discount rate based on current observed market interest rates offered to private individuals on secured second loans.

The key assumptions applied in calculating fair value as at the balance sheet date were:

- Forecast regional house price inflation: 2.0%
- Average period to redemption: 5.5 years
- Discount rate: 8%

The sensitivity analysis of changes to each of the key assumptions applied in calculating fair value, whilst holding all other assumptions constant, is as follows:

Change in assumption	**Increase / (decrease) in fair value £000**
Forecast regional house price inflation – increase by 1%	252
Average period to redemption – increase by 1 year	(257)
Discount rate – decrease by 1%	240

7. Group pension scheme

The Group operates a defined contribution pension plan. The assets of the pension plan are held separately from those of the Group in funds under the control of the trustees.

The total pension cost charged to the consolidated income statement in the six months to 31 December 2018 of £431,000 (six months to 31 December 2017: £326,000; year to 30 June 2018: £741,000) represents contributions payable to the defined contribution pension plan by the Group at rates specified in the plan rules. At 31 December 2018, contributions of £114,000 (31 December 2017: £84,000; 30 June 2018: £90,000) due in respect of the current reporting period had not been paid over to the pension plan. Since the period end, this amount has been paid.

8. Related party transactions

On 7 December 2017, the Group entered into a conditional agreement to purchase an area of land from Jolyon Harrison, CEO, for £98,750. The land, if purchased, will form part of a new Gleeson Homes site being developed in the ordinary course of business. The price paid by the Group was supported by an independent valuation and approved by the Board.

8. Related party transactions *(cont.)*

Other than disclosed above, there have been no material changes to the related party arrangements as reported in note 27 of the Annual Report and Accounts for the year ended 30 June 2018.

9. Seasonality

Reservations in Gleeson Homes are largely unaffected by seasonal variations and tend to be driven more by the timing of site openings than by seasonality. However, the number of completions in the second half of the financial year tends to be higher than the first half.

There is no seasonality in the Gleeson Strategic Land division.

10. Adoption of new accounting standards

IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments" applied to the Group from 1 July 2018, replacing IAS 39 "Financial instruments: recognition and measurement". The new standard requires that financial assets that are within the scope of IFRS 9 are measured at amortised cost, fair value through profit and loss ("FVTPL") or fair value through other comprehensive income ("FVOCI").

The majority of the Group's financial assets and liabilities continue to be accounted for on the same basis under IFRS 9 as they were under IAS 39. The exception to this is the Group's shared equity portfolio. These were previously held under IAS 39 as Available for Sale Financial Assets. This classification is not available under IFRS 9 and the assets have been reclassified as FVOCI. The Available for Sale Reserve that was previously classified separately in equity has been reclassified as part of retained earnings.

Changes in fair value are recognised initially in Other Comprehensive Income ("OCI"). When the asset is derecognised or reclassified, changes in fair value previously recognised in OCI and accumulated in equity are reclassified to profit and loss on a basis that always results in an asset measured at FVOCI having the same effect on profit and loss as if it were measured at amortised cost.

Impairment of financial assets

IFRS 9 also requires that an expected credit loss model, rather than an incurred credit loss model, is applied. This requires the assessment of the expected credit loss on each class of financial asset at each reporting date.

The main class of financial asset held by the Group is trade and other receivables, principally receivables for land sold on deferred terms. As the period for deferment is short and security is held, the risk of loss to the Group is considered to be sufficiently mitigated and credit risk is considered low. The Group also has financial assets in the form of shared equity receivables as set out in Note 6. These are measured at fair value through OCI and the assessment of fair value includes consideration of credit risk across the portfolio. Other receivables include completion monies for house sales which exist only for short periods of time and mainly relate to the Help to Buy scheme, exposing the Group to limited credit risk. Hence, the application of the credit risk model has had no material impact on the interim financial statements.

10. Adoption of new accounting standards *(cont.)*

The effect of implementing IFRS 9 is as follows:

	31 December 2018 £000	31 December 2017 £000	30 June 2018 £000
Retained earnings (pre-IFRS 9)	**193,762**	173,317	187,664
Available for sale reserve now classified as part of retained earnings	**(581)**	(677)	(657)
Retained earnings (post-IFRS 9)	**193,181**	172,640	187,007

IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" applied to the Group from 1 July 2018 replacing IAS 18 "Revenue and related interpretations". The standard has been adopted using the modified retrospective approach. There is no impact on retained earnings in prior years nor on the profit in the current period, as the timing of revenue recognition has not changed under IFRS 15.

- In respect of house sales, the performance obligation is satisfied on the transfer of control of the home to the customer. This occurs on legal completion.
- In respect of land sales, the performance obligation is satisfied on the transfer of control of the land to the buyer. The relevant facts and circumstances are considered to determine when control has transferred, which is either when contracts to sell are completed and title has passed or when unconditional contracts to sell are exchanged.

Elements of variable consideration, such as overages, are recognised where these are highly probable. This has had no impact on the interim financial statements.

Statement of Directors’ responsibility
for the six months to 31 December 2018

The Directors confirm that, to the best of our knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 “Interim financial reporting” as adopted by the European Union;
b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties’ transactions and changes therein).

The Board

The Board of Directors of MJ Gleeson plc at 30 June 2018 and their respective responsibilities can be found on pages 34 and 35 of the MJ Gleeson plc Annual Report and Accounts 2018. There have been no changes since that date.

By order of the Board,

Stefan Allanson
Chief Financial Officer
13 February 2019