



**gleeson**  
builders for generations

MJ Gleeson plc  
Annual Report and Accounts  
**2018**



# BUILDING HOMES CHANGING LIVES

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## FINANCIAL HIGHLIGHTS

Profit before tax

**+12.1%**

2018: £37.0m, 2017: £33.0m

Cash & cash equivalents

**+21.1%**

2018: £41.3m, 2017: £34.1m

Dividend for the year

**+33.3%**

2018: 32.0p, 2017: 24.0p

Operating margin

**18.7%**

2017: 20.6%

Return on capital employed

**26.6%**

2017: 25.4%

Earnings per share

**55.6p**

2017: 48.5p

## AT A GLANCE

MJ Gleeson plc specialises in low-cost house building and strategic land promotion. We have two distinct but complementary businesses: house building on brownfield land in the North of England and strategic land promotion in the South of England.



### Gleeson Homes

**We build and sell low-cost homes to people on low incomes in areas of industrial decline and social and economic deprivation.**

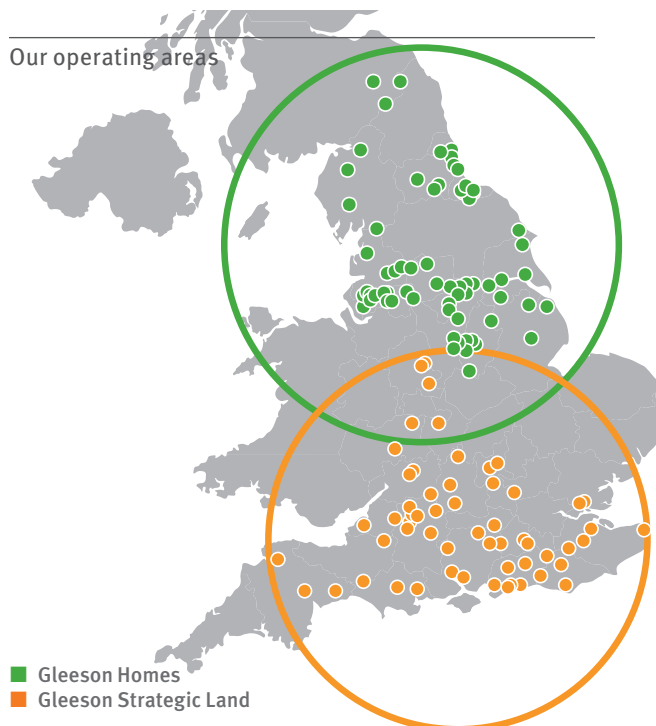
Through establishing strong relationships with local authorities, Gleeson Homes acquires and redevelops sites where there is an obvious need for social and economic regeneration and builds new homes at affordable prices.

We deliver a unique social benefit in helping people to escape from housing poverty caused by the “rent trap” into home ownership and wealth

creation. Our homes are affordable enough to be sold to a couple on the current National Living Wage and mortgage repayments are often less than local council house rents.

We invest in the areas in which we build, ensuring that we leave a thriving community once our developments are complete.

Our operating areas



■ Gleeson Homes  
■ Gleeson Strategic Land





Strategic Land portfolio (plots)

**22,838**

2017: 21,505

# LAND PROMOTION

## Gleeson Strategic Land

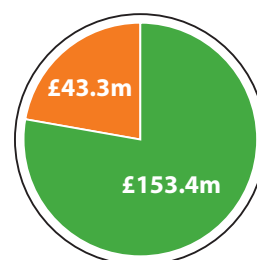
**We are a specialist land promoter that enhances the value of land by securing mainly residential planning consents. We focus on sites in the South of England that are appealing to a wide range of developers.**

Gleeson Strategic Land is a team of highly skilled planning, technical and land specialists who identify development opportunities and work with stakeholders to promote the land through the planning system.

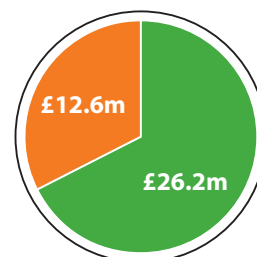
We have a long history of delivering value through securing planning consents that not only achieve best value but ultimately help to deliver attractive residential development in areas where housing shortage is often acute.

We invest intelligently in our land portfolio and work closely with landowners, land agents, local authorities and communities to secure residential planning consents that are sustainable and sensitive to local needs.

Revenue by division



Operating profit by division



■ Gleeson Homes  
■ Gleeson Strategic Land



## CHAIRMAN'S STATEMENT

“I am pleased to report another year of strong growth in profits and cash. Following further investment in new office locations and the strengthening of our central support services, we are comfortably on track to achieve our target of doubling Gleeson Homes volumes to 2,000 units p.a. in the five years from 2017 to 2022.”



**Dermot Gleeson**  
Chairman



Gleeson Homes grew sales by 20.9% to 1,225 units (2017: 1,013 units). Operating profit on unit sales increased by 20.2% and the operating profit for the division was £26.2m (2017: £22.8m including £1.0m from land sales). The continued availability of low-cost land in the North of England allowed the division to increase its land pipeline by 1,264 plots. The proportion of the pipeline that is owned increased from 46% to over 50%.

Gleeson Strategic Land increased operating profit by 5.0% to £12.6m (2017: £12.0m) by continuing to secure attractive residential planning consents and by taking advantage of the strong demand from both medium-sized and large housebuilders for development sites in prime locations.

Group profit before tax increased by 12.1% to £37.0m (2017: £33.0m). Profit for the year attributable to equity holders of the parent company was £30.2m (2017: £26.2m).

Earnings per share grew by 14.6% to 55.6p (2017: 48.5p).

Return on capital employed increased by 120 basis points to 26.6% (2017: 25.4%).

### Market context

Demand for low-cost homes among Gleeson Homes' traditional customers, hard-working families on low incomes, who dream of owning their own homes, remains strong.

Mortgages for such families remain very affordable. The current wide range of mortgage products continues to be supportive of the young first time buyers who make up the vast majority of Gleeson Homes' purchasers.

The Government's recent adjustments to the National Planning Policy Framework (NPPF) should make it easier for Gleeson Homes to secure planning permissions. We are supporters of the Government's Help to Buy scheme. However, we believe that there is a strong case for amending the scheme so that it provides assistance primarily for those who need it most, young people on low incomes.

Gleeson Strategic Land continues to attract multiple bidders for its sales of land in the South of England where demand for greenfield sites remains strong from both medium-sized and large housebuilders.

### Land

For Gleeson Homes the land market remains favourable. The division is one of the few developers building affordable homes on brownfield sites in challenging communities where such sites continue to be available at relatively low cost. Gleeson Homes' land pipeline grew by 1,264 plots and 8 sites to a record high of 149 sites (2017: 141), comprising 12,852 plots owned or conditionally purchased (2017: 11,588). The division will continue to commence building on sites as soon as a fully implementable and satisfactory planning permission is obtained.

Gleeson Strategic Land continues to source highly attractive sites with development potential in the South of England. During the year it obtained planning consent on 7 sites and entered into agreements to promote 4 new sites, potentially providing development opportunities on an additional 3,570 plots. Demand from a wide range of housebuilders for prime sites with planning consent in the South of England remains strong.





Carlisle Park, Swinton, South Yorkshire

### Employees

The average number of employees during the year increased to 480 (2017: 370). The actual number of employees at the year end was 509 (2017: 405).

The Group's strong performance during the year would not have been possible without the expertise and commitment of our employees. On behalf of the Board, I would like to congratulate and thank them very sincerely and very warmly.

### Dividends

Reflecting the Group's strong financial performance and our confidence in the prospects for the current year and beyond, the Board is recommending a final dividend for the year of 23.0 pence per share (2017: 17.5 pence per share). Combined with the interim dividend, this will give a total dividend for the year of 32.0 pence per share (2017: 24.0 pence per share), an increase compared to the previous year of 33.3%.

Subject to shareholder approval at the Annual General Meeting ("AGM"), the final dividend will be paid on 14 December 2018 to shareholders on the register at close of business on 16 November 2018. The ex-dividend date is 15 November 2018. The Board aims to maintain ordinary dividend cover between one and three quarter and two and three quarter times for the foreseeable future.

### Summary

We are on track to achieve our target of doubling Gleeson Homes' sales to 2,000 units p.a. over the five years from 2017 to 2022. We continue to maintain a vigorous approach to cost control, land continues to be available at sensible prices and demand for our low-cost homes remains strong. Meanwhile, Gleeson Strategic Land continues to experience high levels of demand for consented greenfield sites. Against this background, the Board is confident that our unique business model will continue to deliver significant growth in both revenue and profits in the current year and beyond.

### Dermot Gleeson

Chairman

14 September 2018



## BUSINESS MODEL

Our unique business model delivers value for shareholders, customers, communities and our employees. Our business model has two distinct divisions which are complementary in generating long term sustainable value.

### Core activities

## HOUSE > BUILDING

Gleeson Homes



### Land acquisition

#### Successful land buying

We partner with local authorities and private landowners to acquire land in socially and economically deprived areas which will benefit from regeneration and investment.

We have a carefully targeted land buying strategy that has clearly defined and challenging hurdle rates. This ensures that we buy land at sensible prices so that our homes remain affordable.

#### Land pipeline

**12,852** plots  
2017: 11,588 plots

### Planning

#### Attractive developments

Our developments are designed to transform areas that are often blighted by urban neglect and dilapidation. Our sites are landscaped in a way that is attractive, environmentally friendly and sustainable.

We build a range of two, three and four bedroom detached and semi-detached homes that are planned around a well-established specification.

We work with local communities, local authorities and councils to ensure that our planned developments balance the needs of stakeholders, whilst ensuring our homes remain affordable.

## LAND > PROMOTION

Gleeson Strategic Land



#### Land opportunities

We enter into contractual agreements with landowners to promote their land through the planning process where we see an opportunity for sustainable residential or other development in the future.

#### Strategic Land portfolio

**22,838** plots  
2017: 21,505 plots

#### Land promotion

Our team of specialist land surveyors and town planners, along with legal and technical experts, steer the land through the planning system towards achieving a viable and attractive planning consent.

We invest intelligently in the promotion of our sites, a process which can sometimes be long and complex.

#### Planning consents obtained

**7** sites  
2017: 8 sites



## Build

### Tightly controlled costs

We maintain tight control over build and material costs.

We partner with local suppliers and subcontractors wherever possible.

By using suppliers and subcontractors that are local to our sites, we provide jobs and investment to areas that are often most in need.

We ensure that our overhead costs are low by having small and similarly structured management teams in each area and by continuously measuring their relative performance.

## Customers

### Providing affordable homes

We ensure that our homes are affordable and built to the specification that our customers expect. Our average selling price is £125,200 (2017: £122,700).

We offer our customers a range of bespoke financial packages, including a deposit saving scheme, to enable them to become homeowners.

Our developments provide new homes that are affordable to people from the local area. Our buyers are often young, motivated individuals and couples on low incomes who can afford to buy one of our homes and want to escape the burden of renting.

Average selling price

**£125,200**

2017: £122,700

## Output

### Community regeneration

Over the years, Gleeson Homes has played a key role in regenerating many challenging urban areas across the North of England.

We have helped to re-establish local communities and invested in a wide range of projects near to our sites, transforming community facilities and sponsoring over 100 local junior sports teams.

### Shareholder value

Gleeson Homes generated an operating profit of £26.2m (2017: £22.8m).

Homes sold

**1,225** units

2017: 1,013 units



### Stakeholder management

We have a long history of working with a range of mid-tier and large housebuilders to manage the sale of consented land.

By achieving best value for landowners and other stakeholders we ensure that we generate significant returns for ourselves.

Through careful promotion and sale, we provide high quality consented land to developers who ultimately deliver attractive and sustainable residential development in areas where there is a housing need.

### Shareholder value

Gleeson Strategic Land generated an operating profit of £12.6m (2017: £12.0m).



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# STRATEGY

Our strategy is to create sustainable value growth for our stakeholders by delivering an increasing number of affordable homes to people across the North of England and by unlocking the potential of land in the South of England for residential or other development.

## Gleeson Homes

Britain has a well publicised housing crisis. The housing shortage is not being met by the supply of new homes. This is particularly the case for young, first time buyers and people on low incomes who are caught in the “rent trap” and feel increasingly disillusioned by a lack of supply at the lower end of the housing market.

Gleeson Homes has a proven and successful track record in delivering new homes at affordable prices across the North of England. Working alongside local authorities, Gleeson Homes has led the regeneration of many urban communities, enabling people to buy their own home to live and work in their local area. Through careful cost control across our business and targeted land buying, we remain committed to keeping our homes affordable to the sector of the housing market that we serve.

## Targeted growth

In 2017, we set a target of 2,000 unit completions per annum within 5 years. In 2018, we delivered our largest annual volume growth selling 1,225 homes during the year, an increase of 212 units (20.9%) compared with the previous year’s total of 1,013 units.

Demand remains extremely strong and we are comfortably on track towards achieving our 2017 stated target.

## Gleeson Strategic Land

The supply of new homes in the South of England continues to suffer due to a fragmented planning landscape and underlying inertia to new development in many areas.

Gleeson Strategic Land works to obtain planning consent on sites by navigating the complexities of the planning system. This enables us to supply high quality consented land to developers, who can start to deliver new homes for sale typically within 12 to 24 months of a planning consent.

Where residential consent is not a viable option we may seek other types of planning permission such as for commercial use to provide much needed employment land, or care home development to help support the growing elderly population.

## Strategic priorities

### Increase house building footprint

We will increase the number of active developments across the North of England, targeting urban areas that are in need of regeneration.

### Build quality affordable homes

We will build good quality homes to the specification that our customers require. We will ensure that our homes are energy efficient and have low running costs. We will use appropriate construction methods to build efficiently.

We will tightly control build costs and acquire land in line with our defined hurdle rates. Our focus on costs enables us to maintain profitability whilst keeping our average selling prices (“ASPs”) low.

### Increase land pipeline

We will continue to acquire land to support the growth of Gleeson Homes. We will start building as soon as we have an acceptable planning approval.

### Strategic Land promotion

Gleeson Strategic Land will continue to invest in its portfolio of land interests and promote existing and new sites through the planning system to deliver maximum value to its stakeholders.



Key goal:

## Double Gleeson Homes volumes

**2017 – 2022**

In 2017 we announced that we will increase the number of unit completions to 2,000 per annum within 5 years.



2017: 1,013 units



By 2022: 2,000 units

### Progress in 2017/18

Gleeson Homes was active on 65 sites at 30 June 2018 having opened 17 new sites during the year and completed development on 11 sites.

A new pilot office was opened during the year in Northumberland and our pilot office in Scunthorpe became a fully staffed area office. At 30 June 2018, there were 8 area offices and 2 pilot offices.

Volume growth of 212 units (20.9%) to 1,225 units sold during the year led to revenue growth of £22.9m in Gleeson Homes.

In March 2018, MJ Gleeson plc was voted the most sustainable business in the UK at the national PLC Awards. This recognised our sustainable business model and approach to building affordable homes in areas that are most in need of regeneration using cost-effective and environmentally friendly materials.

Our focus on cost control enabled us to broadly maintain operating margin on unit sales at 17.1% (2017: 17.5%) with ASPs remaining sensibly low at £125,200 (2017: £122,700).

Our land pipeline of owned and conditionally purchased plots at 30 June 2018 increased by 10.9%, totalling 12,852 plots, of which 6,377 plots have been purchased subject to planning permission.

On average, we completed the sale of the first house within 15 months of legally completing the purchase of a new site with an acceptable planning permission.

At 30 June 2018, Gleeson Strategic Land had a land portfolio of 61 sites, which can deliver 22,838 plots and 67 acres of commercial land.

During the year, we achieved planning consents on 7 sites and acquired interests in 4 new sites.

### Priorities for 2018/19

**We will continue to open new sites and anticipate an increase to more than 70 sites during the coming year.**

**We will remain on track towards achieving our 2017 stated target of 2,000 unit completions per annum within 5 years.**

**We will continue to use efficient building techniques in order to keep costs low, selling prices affordable and to maintain strong margins.**

**We will continue to use materials such as gravel on driveways, which are environmentally friendly, cost-effective and aid surface water drainage.**

**We will continue to buy land at sensible prices to support the growth of the business in 2018/19 and beyond.**

**We will continue to seek planning permissions for attractive residential developments and will start on sites as soon as we have an acceptable planning permission.**

**We will continue to invest in advancing our Strategic Land portfolio through the planning system to ensure the delivery of sustainable profits and cash flows for 2018/19 and beyond.**

## MARKET OVERVIEW

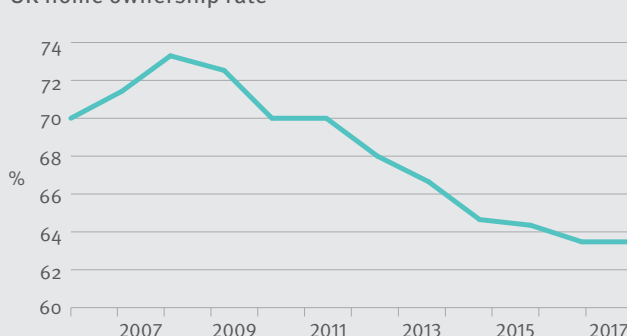
The housing market in the UK is “broken”. Over the last 10 years home ownership has fallen steadily from a peak of around 73% in 2008 to just over 63% in 2017.

At the same time the proportion of households privately renting in England has increased by 121%. This figure is greater in the North and Midlands, with an increase of 212% in the North East<sup>1</sup>.

### The desire to own remains strong

Most people still want to own their own home. Home ownership provides people with stability, financial security and security for their children’s future, with 86% of the population preferring to buy than rent<sup>2</sup>. Owning a property remains the most important milestone in life for many people.

UK home ownership rate

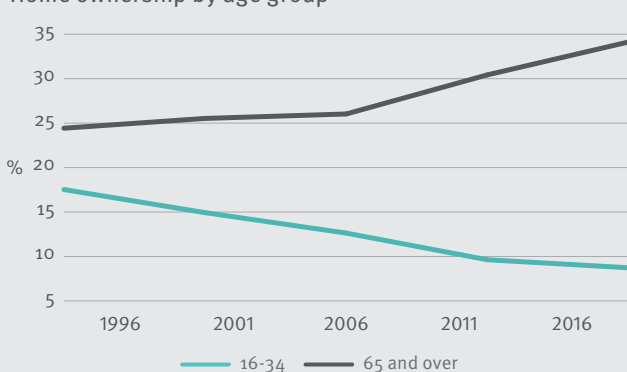


### The age gap is widening

The demographic split of home ownership rates shows that the market is failing younger people, with 16 to 34 year olds becoming less likely to own their home, and over-65 year olds more likely<sup>1</sup>. This gap continues to widen as more young people are forced into a lifetime of renting.

The majority of those renting want to own their own home but are prevented from doing so by rising house prices and the failing supply of new homes.

Home ownership by age group



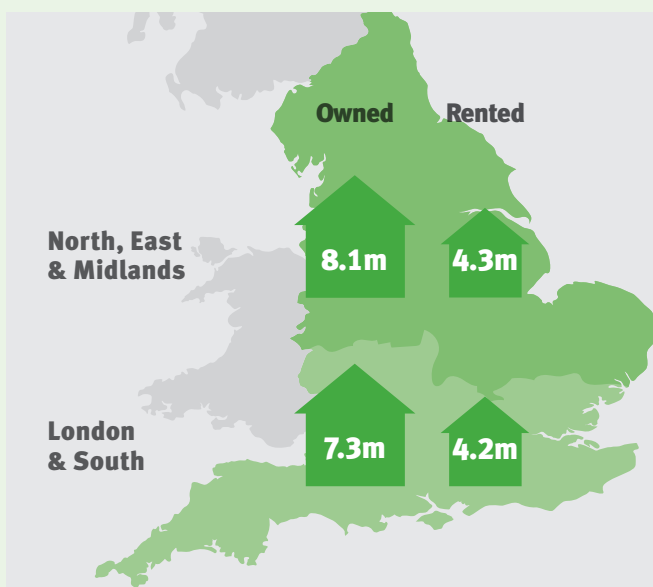
Source: Labour Force Survey, Q4 various years

### 1 in 3 homes are now rented

There are 24 million homes in England. More than half, around 12.4 million, are in the North, Midlands and East of England and around 11.5 million are in London and the South.

One third (8.5 million) of homes across England are now rented with 4.3 million homes rented in the North, Midlands and East and 4.2 million rented in London and the South.

Half of rented homes are owned by Councils or Housing Associations. In the North, Midlands and East of England 2.1 million homes are rented privately and 2.2 million are rented from Councils or Housing Associations.



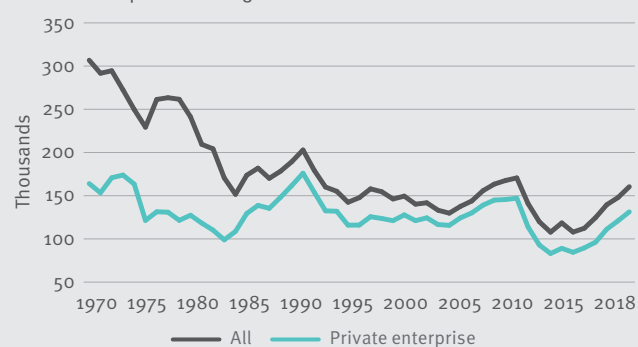


### Too few homes are being built

The house building industry in England built 160,000 new homes last year. The Ministry of Housing, Communities and Local Government estimate between 222,000 and 244,000 new homes per year are needed until 2031. The supply of new homes in the UK is falling a long way short of Government targets and required housing numbers.

### House building

Newbuild completions in England 1970 to 2018



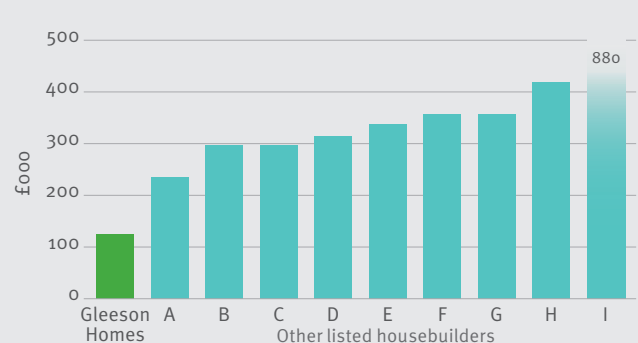
Source: Ministry of Housing, Communities & Local Government

### New homes are built for those that already own

Most of the house building industry builds homes for people who already own a home. The average selling price of a home built by listed housebuilders exceeded £300,000 last year, a price unaffordable to many first time buyers and certainly to those on lower incomes.

### Average price of newbuild homes

Selection of other listed housebuilders 2017



### Too few homes built below £150,000

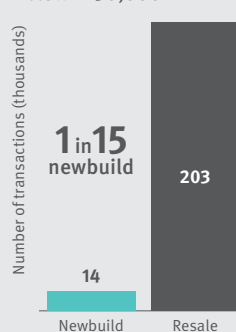
As a whole, the industry is not building enough homes for sale below £150,000. This is where there is large, under-served market demand.

In the North, Midlands and East of England only 6% of homes sold below £150,000 were newbuild compared with 20% of homes over £150,000. This striking ratio highlights the under-supply of affordable homes being built in the North, Midlands and East of England.

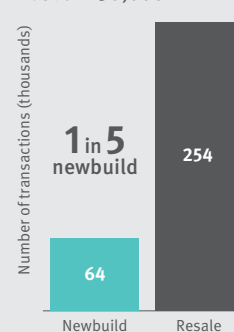
Whilst there are many cheaper terraced houses in the North, Midlands and East of England, lenders often require higher deposits than for newbuild homes, which makes older terraced houses less affordable for many people.

### Housing transaction volumes in the North, Midlands & East of England

Below £150,000



Above £150,000



1 Parliamentary Briefing Paper CBP 7706 June 2017

2 Redfern Review November 2016, British Social Attitudes Survey

## KEY PERFORMANCE INDICATORS

### Gleeson Homes volumes

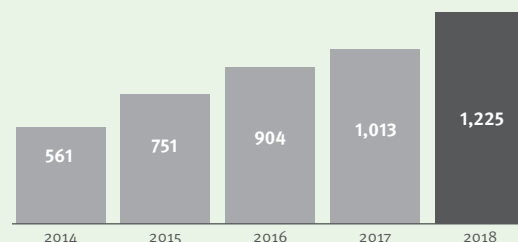
Units (homes) sold continued a strong growth trajectory.

**+20.9%**

2018: 1,225 units

2017: 1,013 units

#### Units sold



### Group revenue

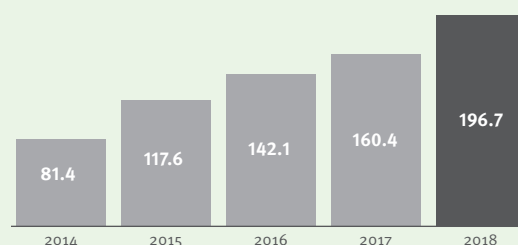
Average Selling Prices ("ASP") grew by a modest amount from £122,700 to £125,200.

**+22.6%**

2018: £196.7m

2017: £160.4m

#### £m



### Group operating profit margin

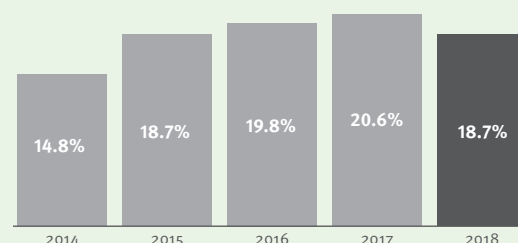
Group operating margin was impacted by the mix of transaction types in Gleeson Strategic Land.

**-190bps**

2018: 18.7%

2017: 20.6%

#### %



### Group profit before tax

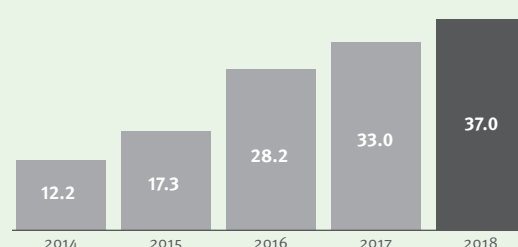
Group profit before tax has more than doubled in the past three years.

**+12.1%**

2018: £37.0m

2017: £33.0m

#### £m



### Group cash balance

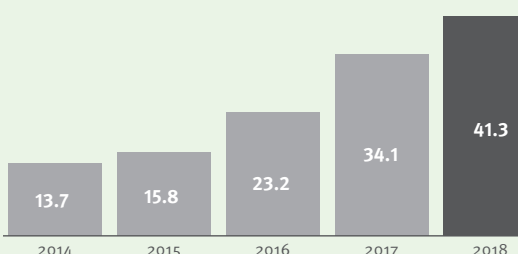
Both divisions contributed to strong cash generation.

**+21.1%**

2018: £41.3m

2017: £34.1m

#### £m



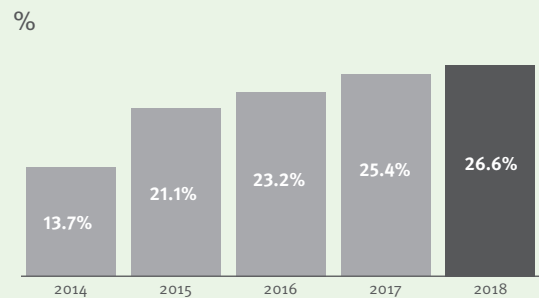


### Group return on capital employed<sup>1</sup>

Strong earnings growth is delivering an increase in the return on capital employed.

## +120bps

2018: 26.6%  
2017: 25.4%

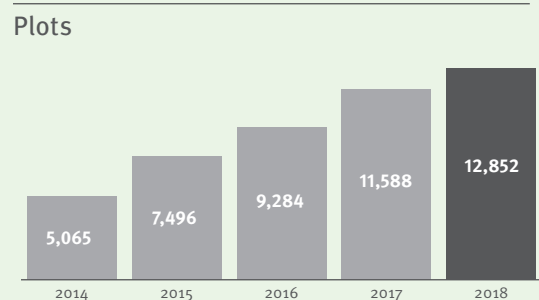


### Gleeson Homes land pipeline

Land continues to be available to buy at sensible prices.

## +10.9%

2018: 12,852 plots  
2017: 11,588 plots

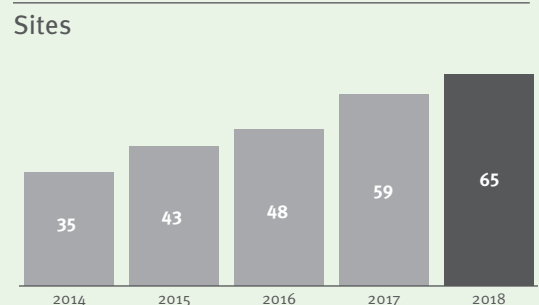


### Gleeson Homes active sites

Gleeson Homes opened 17 sites, completed 11 sites and increased net active sites by 6 sites during the year.

## +10.2%

2018: 65 sites  
2017: 59 sites

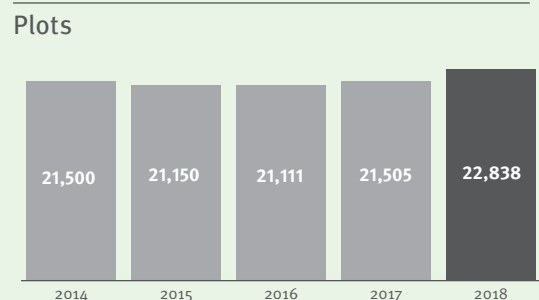


### Gleeson Strategic Land portfolio

Land interests represent over 20 years of sales<sup>2</sup>.

## 22,838

2018: 22,838 plots  
2017: 21,505 plots



<sup>1</sup> Return on capital employed is calculated based on earnings before interest and tax (EBIT) from continuing and discontinued operations before exceptional items expressed as a percentage of the average of opening and closing net assets after deducting deferred tax balances and cash.

<sup>2</sup> Based on an average of the number of plots on sites sold over the last 5 years.

# CHIEF EXECUTIVE'S STATEMENT

“Our unique and resilient business model, combined with our land pipeline and experienced management team, gives me great confidence in continued profitable growth for many years to come.”



**Jolyon Harrison**  
Chief Executive Officer



## Operational performance

Gleeson Homes grew sales volumes by 20.9% to 1,225 units and operating profit by 14.9% to £26.2m. The land pipeline increased by 10.9% to the equivalent of 10.5 years sales at current build rates and active outlets increased by 10.2% to 65 sites. Gleeson Homes always applies for planning permission at the earliest possible date and starts building as soon as implementable permission is received.

Gleeson Strategic Land completed the sale of 10 sites leading to operating profit growing by 5.0% to £12.6m.

A strong cash result for the year saw the Group's cash balance increase by £7.2m to £41.3m and our disciplined approach to investment led to a 120 basis points increase in return on capital employed to 26.6%.

## Gleeson Homes

Demand for low-cost homes in the North of England remains strong, build costs remain under control and land continues to be available at sensible prices.

Two thirds of our customers use the Government's Help to Buy scheme and the highest priced home that used the scheme, at £187,995, is significantly below the current Help to Buy limit of £600,000. The average priced house purchased with Help to Buy was £125,610.

## First time buyers

# 87%

Typical Gleeson Homes buyers are blue-collar workers aged between 18 and 33. This year we sold 85 homes to people aged 21 or under. The real Living Wage, of which we are great supporters, has helped the working-class young to qualify for a mortgage and their ability to earn paid overtime enables them to save a deposit.

Our chosen segment of the market is large, mostly untapped and generally unaffected by the vagaries of politics or the general economy. This is because the outgoings relating to the purchase of one of our homes are often significantly less than renting a council or housing association house. If a young couple want to reduce their outgoings they should buy a Gleeson home.

We have completed the first year of our 5 year plan to double unit sales to 2,000 units p.a. and we are on track to meet this target. To achieve this, we are:

- Growing the pipeline of owned and conditionally purchased sites by acquiring land at attractive hurdle rates in existing and new areas; we now have 149 sites in the pipeline.
- Investing in new office locations; we now have 8 area offices in the North and Midlands and 2 pilot offices in Northumberland (opened during the year) and Cumbria.
- Developing our management team across all levels including Build Managers and Site Managers. We recently promoted two directors to Managing Director and Chief Operations Officer.
- Developing our employee and key subcontractor processes for finding and retaining key people.
- Continuing our unrelenting focus on cost reduction to offset material and employment cost pressures.
- Continuing to listen to our customers to ensure we provide what they need to buy a Gleeson home.

We will continue expanding in an orderly manner and will continue to put the right people in the right places to deliver that expansion.





Stephenson Court, Peterlee, County Durham

**“Helping young people out of housing poverty and the rent trap is very rewarding in every way and our responsible business model endeavours to work with our customers and engage with them to our mutual benefit.”**

### Large & resilient market

Gleeson Homes operates in the fastest growing and most resilient part of the housing market, selling new homes to people on low incomes in the North of England and Midlands.

Our typical buyers are first time buyers presently renting or living with family. More than 4 million homes are currently rented in Gleeson's target geographic market. The vast majority of tenants want to escape the poverty trap of renting and begin wealth creation through home ownership. Gleeson is the only listed housebuilder dedicated to this market and we continue to see high demand when we open new sites.

Unlike other housebuilders, Gleeson Homes is unique, selling 6 out of every 7 homes to first time buyers and therefore without the same exposure to secondary market risks.

Our buyers want to satisfy their dream of home ownership, often buying a home for life. They have a strong work ethic, will always be in work and will buy a Gleeson home if it is well built, located in their desired area and the cost of ownership is less than, or similar to, renting.

Ownership costs for a typical Gleeson home are significantly less than the cost of renting and mortgage availability continues to increase. Mortgage payments for our average buyer take up less than 20% of take-home pay.

Our young buyers are not typically burdened with student debt and can earn overtime so saving for a deposit can be achieved whilst their Gleeson home is being built.

Help to Buy, operated by Homes England, has supported a recovery in the housing market and may soon be amended by the Government. We think it appropriate that changes to Help to Buy should be targeted towards the people who need it most, specifically people on low incomes. We welcome any changes that reduce the ceiling, restrict it to first time buyers, restrict it to people on low incomes, or all three.

There is a great deal of land available in areas in which other housebuilders do not want to build but where potential Gleeson buyers want to live. We are skilled at building high quality homes for sale at affordable prices. Gleeson Homes is uniquely focused on this large segment of the market, with other housebuilders offering a higher priced product that does not meet the needs of lower income customers.

### Gleeson Homes' unique differences

Our house prices are affordable and we sell to people who need a home rather than to those that already own a home. We buy land that other housebuilders do not want, at low cost, and build good quality homes that low-income families can afford in areas that they want to live in.

We don't sell to registered social landlords or private landlords because renting traps people in housing poverty. We don't build flats, we build traditional 2, 3 and 4 bedroom houses with a front garden, back garden and a driveway. We don't sell to landlords because we believe a development of homeowners creates a stronger community and we don't do part-exchange sales and therefore are not exposed to the resale market.

# CHIEF EXECUTIVE'S STATEMENT continued

The Gleeson Homes operating model is highly developed to meet the specific needs of a large and under-served market. We challenge many norms of the traditional house building industry and are not afraid to be different, as illustrated by a selection of metrics below:

Challenging industry norms		
	<b>Gleeson Homes</b>	Other listed housebuilders (Lowest-Highest)
Average selling price (Private sales)	<b>£125,200</b>	£234,000–£880,000
First time buyers (% of private sales)	<b>87%</b>	35%–50%
Renting or living with family (% of total sales)	<b>88%</b>	40% (estimated average)
Buy-to-let sales (% of total sales)	<b>0%</b>	3%–9%
Part-exchange sales (% of private sales)	<b>0%</b>	8%–38%
Flats v houses (Flats as % of total sales)	<b>0%</b>	6%–24%
Sales rate (Sales per site p.a.)	<b>20 p.a.</b>	30–40 p.a.
Average land cost (per plot)	<b>£9,000</b>	£28,000–£71,000
Annual growth (3 year average p.a. growth in volumes)	<b>18%</b>	0%–14%

We deliver amongst the highest gross margins and highest volume growth rates of any listed housebuilder.

Our unique model will continue to create thriving communities and to drive our business forward to our 2,000 units p.a. target and beyond.

## Strategic Land

Operating profit grew 5.0% to £12.6m from 10 transactions completed in the year.

Gleeson Strategic Land is in a strong position with a healthy pipeline of 61 sites which could deliver 22,838 residential plots.

Although most major housebuilders have strong land banks there is always a healthy demand for good quality land from either the large national or mid-range housebuilders looking for replacement sites.

We do not take the risk of purchasing land outright, preferring instead to take out options or similar agreements. This low-risk and low-cost approach has enabled us to invest intelligently in the promotion of sites through the planning process and build up a strong portfolio.

The number and blend of sites already allocated for housing, sites with planning applications submitted and sites with planning consent gives us confidence that the year-on-year flow of transactions will generate financial consistency.

## Current trading & outlook

Demand for low-cost homes in the North is strong. Our traditional buyers are hard-working families on low incomes who just want to get on with their lives and own their own home.

Our homes continue to remain highly affordable despite the recent increase in bank rates and mortgage finance remains readily available.

We have plenty of land on which to build homes, people to build them and a strong management team that can grow the business in a disciplined and profitable way.

The Gleeson Strategic Land portfolio is in a strong position with continuing strong demand from other housebuilders.

The uplift in dividend signals our confidence in continued cash generative growth. We are well on track to meet our target of doubling Gleeson Homes sales volumes to 2,000 units p.a. by 2022.

We are confident the current financial year will be another excellent year for the Group.

## Jolyon Harrison

Chief Executive Officer  
14 September 2018



## Responsible house building

Our business model is founded on a close engagement with our customers and their communities, productive cooperation with local landowners, empowerment of our people and fair treatment of our supply chain to ensure that we are building a “best in class” product.

Our model is unique and is driving growth which mutually benefits our customers, our communities and our shareholders.



### Our commitment to freehold

We believe that wherever possible home ownership should include the land on which it is built. Where this is not possible the homeowner should not be penalised.

Wherever possible we sell our homes as freehold. We only sell homes as leasehold when we do not own the land and this applies to our two developments in Burnley where the Local Authority is still the freeholder and a peppercorn ground rent is payable on these homes.

### Sustainable builders

Our unique approach to business was recognised in March 2018 when we were voted the most sustainable PLC in the UK at the prestigious PLC Awards. The judges valued the responsible approach that we take to building low-cost homes including our use of environmentally friendly materials, such as gravel driveways which have a lower carbon footprint than bonded materials and aid surface water drainage.

### Making it easy for our customers

We make it our priority to make the house buying process fully transparent to our customers:

- We charge a fee of £200 for covering our costs for vetting architects' drawings and giving permissions for extensions and conservatories but we do not charge for minor permissions.
- Householders on certain sites pay third parties to maintain open space areas. These charges are generally around £100 per year per house and are challengeable by residents.
- There are no other “hidden” costs or charges.

We ask our Mortgage Consultants to stay in contact with our customers for at least two years after purchase in order to help them manage their new financial environment.

### Living Wage Foundation

We are the only major housebuilder accredited to the Living Wage Foundation paying our employees the real Living Wage, or higher. The only exception to this is for apprentices, where we pay above the Government's guidance for apprentices.



### The Gleeson Apprenticeship Scheme

Since 2010 the Gleeson Apprenticeship Scheme has trained over 100 young people and we have a record 46 apprentices starting in September this year. The national lack of skilled people such as bricklayers and joiners is adding to the housing crisis. We are recruiting apprentices to help fill the skills shortage through our Apprenticeship Scheme. When they qualify a large number continue to work for us or go on to a third year of their NVQ which can lead to becoming a trainee Site Manager. Our office in Sheffield is a registered CITB training centre which shows that we take training seriously.

### YourWatch®

Our trademarked YourWatch® scheme provides our residents with the anonymity to report their concerns without repercussion via the YourWatch® website. We share information with local police and residents. We work in partnership with local police in many areas to reduce crime and antisocial behaviour. Many of our customers are young single people and YourWatch® is a place where they can air their concerns and receive reassurance that someone is looking out for them.



### The Gleeson Community Sports Foundation

Since the inception of the Foundation six years ago, we have sponsored over 100 junior sports teams by providing brand new kit and funding for teams in and around our developments.

# BUSINESS PERFORMANCE

## Gleeson Homes

### Units sold

**+20.9%**

2018: 1,225 units  
2017: 1,013 units

### Land pipeline

**+10.9%**

2018: 12,852 plots  
2017: 11,588 plots

### Operating profit\*

**+14.9%**

2018: £26.2m  
2017: £22.8m

\* 2018 includes £nil profit on land sales (2017: £1.0m of which £0.4m related to the sale of a legacy property)

1,225 homes were sold during the year, an increase of 20.9% on the prior year's total of 1,013. During the year Gleeson Homes opened 17 new sites and had on average 61 selling outlets open compared to 50 during the prior year. The outlets are located across the North of England<sup>1</sup>. The number of outlets at the end of the year increased to 65 compared to 59 at the prior year end and is expected to increase to over 70 during the course of the current financial year.

The average selling price ("ASP") for the homes sold in the year was £125,200 (2017: £122,700). The increase was influenced by a combination of factors: house price inflation, the mix of site locations and the mix of 2, 3 and 4 bed homes sold. Our aim is to keep ASP increases modest to ensure that our homes remain affordable to our customers.

Gross profit margin on units sold decreased marginally to 32.7% (2017: 33.0%) due to development mix.

The increase in the volume of homes sold and higher ASP has resulted in gross profit on units sold increasing by 22.2% to £50.1m (2017: £41.0m). Gross profit on land sales was £nil (2017: £1.0m) resulting in total gross profit of £50.1m (2017: £42.1m).

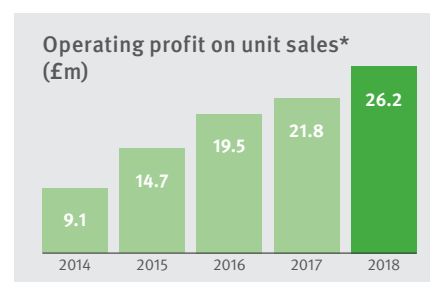
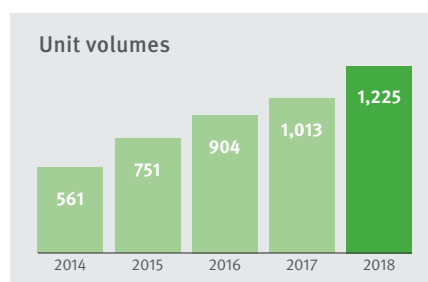
Operating profit on unit sales increased 20.2% to £26.2m (2017: £21.8m). Operating profit on land sales was £nil (2017: £1.0m). Gleeson Homes reported total operating profit of £26.2m (2017: £22.8m). Operating margin on units sold decreased from 17.5% to 17.1% as a result of development mix and investment in overheads to support the business' growth plans.

Gleeson Homes has a large range of bespoke packages to assist customers to become homeowners, including "Save and Build", "First Rung", "Advance to Buy", "Parents Invest" and "Aspire to Own". The Government's Help to Buy Scheme remains popular amongst many of our customers, with 66% of the homes sold in the year utilising this scheme (2017: 66%).

Mortgage availability and affordability continued to be strong during the year as the bank base rate remained at historically low levels. As a result, the ongoing cost of buying a Gleeson home continued to be more affordable than renting and will remain so even in the event of modest increases in borrowing costs.

We are supportive of the revised National Planning Policy Framework published in July 2018 and the definition of Affordable Homes which is consistent with our business model. This will make it easier for planning authorities to provide consent for Gleeson developments.

Gleeson Homes was able to continue to acquire land in the North of England at relatively low cost. This was another busy year of land acquisition which saw the land pipeline grow by 8 sites to a total of 149 at year end; 35 new sites were added to the pipeline, while 27 sites were completed or we did not proceed to purchase. The pipeline grew by 1,264 to stand at 12,852 plots at 30 June 2018. Of these plots 6,475 are owned (2017: 5,320) and 6,377 plots are conditionally purchased (2017: 6,268). In addition to owned and conditionally purchased plots, there are a further 354 (2017: 465) plots which are being actively considered for acquisition but will only proceed to purchase if they meet our strict returns criteria.



<sup>1</sup> Outlets located in Cleveland, County Durham, Derbyshire, East Yorkshire, Lancashire, Lincolnshire, Greater Manchester, Merseyside, Northumberland, North Yorkshire, Nottinghamshire, South Yorkshire, Tyne and Wear and West Yorkshire.







# BUSINESS PERFORMANCE

## Gleeson Strategic Land

### Sites sold

**+2 sites**

2018: 10 sites  
2017: 8 sites

### Land portfolio

**+6.2%**

2018: 22,838 plots  
2017: 21,505 plots

### Operating profit

**+5.0%**

2018: £12.6m  
2017: £12.0m

Revenue from Gleeson Strategic Land grew by 44.8% to £43.3m (2017: £29.9m) as the number of successful land transactions increased to 10 (2017: 8). The sites sold, which totalled 335 acres, have the potential to deliver 1,970 plots (2017: 841 plots) for new housing development plus a 60 bed care home.

Operating profit reflects the value added by Gleeson Strategic Land on land transactions through securing attractive residential planning consents and managing the onward sale to developers. Operating profit increased by 5.0% to £12.6m (2017: £12.0m). This was driven by the increase in the number of transactions during the year.

We continue to see strong demand from a wide range of developers looking to acquire well-located land including both large national and mid-sized housebuilders. The land market, particularly for sites in prime locations in the South of England, remains strong despite the uncertainties caused by Brexit.

At the year end, we had a portfolio totalling 61 sites (2017: 65 sites) with the potential to deliver 22,838 plots (2017: 21,505 plots) plus 67 acres of commercial land (2017: 67 acres). The portfolio comprises 1,552 plots (2017: 1,454 plots) that were wholly or part owned by the Group, 8,754 plots (2017: 10,020 plots) that were held under option, and 12,532 plots (2017: 10,031 plots) that were the subject of promotion agreements.

The portfolio is at varying stages through the planning system and, at 30 June 2018, we had 9 sites (2,089 plots) which were consented or had a resolution to grant; 8 sites which had a planning application submitted and awaiting decision, and 11 sites with applications being worked up prior to submission. The balance of the portfolio consists of sites which are being promoted through the development plan process.

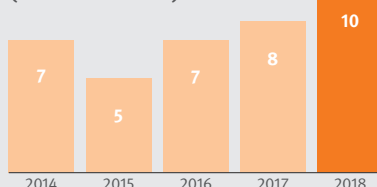
During the year, we secured planning consents for 7 sites, acquired interests in 4 new sites and we split 2 existing sites prior to sale. These activities contributed a further 3,570 plots to the portfolio.

Our Strategic Land team is based in Fleet, Hampshire and the portfolio continues to have a geographic bias towards the South of England<sup>1</sup>. Sites in the portfolio are expected to realise value for stakeholders over the short, medium and long term.

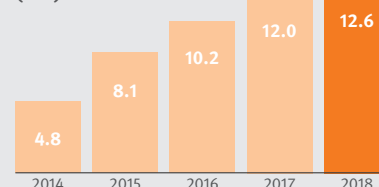
The division continues to be strongly cash generative. We replenish the portfolio with high quality new sites and continue to advance existing sites in the portfolio through the planning process.

Opportunities for new land readily come forward and we use our knowledge and expertise to select and promote those sites where we see the potential for sustainable future development and where we can deliver maximum value for stakeholders.

Site sales  
(number of sites)



Operating profit  
(£m)



<sup>1</sup> Sites are located predominantly in Buckinghamshire, Devon, Dorset, Essex, Hampshire, Hertfordshire, Kent, Oxfordshire, Somerset, Surrey, Sussex and Wiltshire.







# CORPORATE SOCIAL RESPONSIBILITY REPORT

We are now recognised as a leading UK housebuilder of affordable new homes, enabling young first time buyers and people on low incomes to become private homeowners. We are also recognised for our ethical approach to business which carefully considers our role in the community and the environment throughout our business activities.



## The most sustainable PLC in the UK

Our unique approach to business was recognised in March 2018 when we were voted the most sustainable PLC in the UK at the prestigious PLC Awards, winning the accolade over some of the largest companies in the country.

There was no application process for the awards; a nomination panel selected suitable candidates from all public companies in the UK and a voting panel decided the winner.

The judges valued the way that we work with our communities and particularly liked our Community Matters programme including the innovative YourWatch® online neighbourhood alert system. This works more effectively than a traditional Neighbourhood Watch scheme in more socially challenging areas.

The judges were also impressed with our use of sustainable materials such as environmentally friendly gravel on driveways plus our commitment to paying the real Living Wage. We remain the only major UK housebuilder who is accredited by the Living Wage foundation.

## Local jobs for local people

As an example of our commitment to the areas in which we work, we give priority to the employment of local people. For example, we have worked together with Nottingham City Council to employ and train local people. After advertising site-based positions through the Council's job portals we filled key vacancies, and, thanks to Council funding, were able to offer further training so that staff could obtain a qualification.

This local employment initiative was, in part, coordinated by Ghulam Jafferi, a Site Manager on Gleeson Homes' first development in Nottingham. Ghulam grew up and still lives in the local area and understands the importance of providing opportunities to local people.



**“We recognise the importance of providing work opportunities to local people.”**

### The Gleeson Apprenticeship Scheme

Our Apprenticeship Scheme continued to grow this year, with 46 apprentices being taken on in site and office based roles.

The national shortage of skilled trades such as bricklayers and joiners is adding to the housing crisis. We are recruiting apprentices to help fill the skills shortage through our Apprenticeship Scheme.

A large number of these continue to work for us or go on to a third year of their NVQ which can lead to becoming a trainee Site Manager with us. Our office in Sheffield is a registered CITB training centre.

Our office based apprenticeships have also been expanded this year, both across our area offices and at our head office in Sheffield. Local school leavers are invited to join our technical, quantity surveying, land buying or finance departments.

Our Apprenticeship Scheme offers a fantastic opportunity for school leavers or those looking to start a new career in the house building industry. In September 2018, 34 site and 12 office apprentices will start their first year of the apprenticeship programme, 12 site and 5 office apprentices will start their second year and 3 site and 6 office apprentices will start their third year.



North East based apprentice Alex Rioch is “flying the flag” for Gleeson Homes after impressing the judges with his bricklaying skills and winning the Northern Guild of Bricklayers annual competition. Alex’s competition journey continued to the national finals where he was placed 4th in the country.

### The Bloomin’ Great Gleeson Garden Competition

Now in its third year this competition engages with Gleeson homeowners by inviting them to nominate their front garden for a panel of Gleeson staff to choose the winners from the large number of entrants.

The competition encourages buyers to maintain front gardens, enhances street scenes and helps to bring communities together. This year we have paid over £2,000 in prize money to homeowners as part of this competition.



The owner of the garden below at Burnham Walk, Bradford came third in the West Yorkshire area.





### The Gleeson Community Sports Foundation

This year we celebrated the sponsorship of our 100th junior sports team through the Gleeson Community Sports Foundation. Over the last six years we have provided community-led sports teams with over £50,000 worth of sports kit.

This funding is essential to grassroots teams who are coordinated by volunteers and provide support and out of school activities to children at the heart of our communities. From angling to table tennis, the money supplied by the Foundation provides junior sports teams with a brand new kit and enhances team spirit.

Over the past six years we have provided kit for young people participating in all different kinds of activities including:

- Football
- Tennis
- Athletics
- Cricket
- Rugby
- Table tennis
- Angling
- Boxing
- Basketball
- Field hockey
- Roller hockey
- Ice hockey

**“Our grassroots club is run solely by volunteers and gives girls of all backgrounds and ages a chance to get involved.”**

Academy Juniors, Bolton



### YourWatch®

Our unique YourWatch® online neighbourhood alert system continues to grow with over 4,000 homeowners now subscribed.

# YOUR WATCH

We continue to keep residents updated on how to keep their homes and communities safe and also send out alerts when we receive information about incidents occurring on their developments.

When residents on one of our developments sent us reports of youths congregating in the area we worked directly with the police, which led to them adding additional patrols in the area and disbanding the groups causing antisocial behaviour. We also worked with the local schools in the vicinity arranging for our Health and Safety team to visit the pupils and talk about the dangers of playing near to construction sites.

We recognise that transforming difficult and socially challenging areas is not a straightforward matter. We continue to work with local residents, communities and local authorities on creating safe and attractive places to live that transform the lives of residents and build community spirit.

**“We continue to work with local residents, communities and local authorities on creating safe and attractive places to live that transform the lives of residents.”**



**“The centre had been transferred to asset management and without the help from Gleeson Homes to create the café we could have been facing demolition. Virgo’s Pantry now offers parents the chance to sit and have coffee or lunch whilst being able to watch their children play in a safe and secure environment.”**

**Michael Keightley, Facilities Manager at Hemlington Lake & Recreation Centre**

### **The Gleeson Community Challenge**

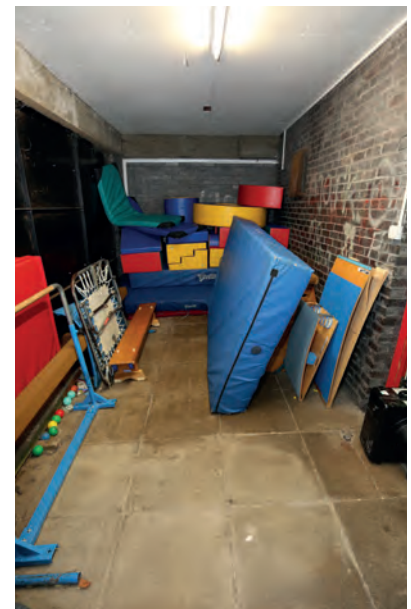
The Gleeson Community Challenge continues to benefit local communities. The competition, which ran across the Yorkshire and Teesside areas this year invited not-for-profit groups to apply for a makeover of their facilities worth up to £20,000.

This year we completed several makeovers that were started in 2017 including the transformation of Hemlington Lake and Recreation Centre. The centre, located in an area of social deprivation, lost most of its funding following Local Authority spending cuts and only remains open thanks to the hard work of the local community. The Community Challenge Makeover renovated a vacant storeroom into a community café offering reasonably priced food and drinks to the centre’s visitors. A local resident now leases the café, providing additional revenue to the centre and the creation of jobs for local people.

**“Thanks to Gleeson Homes I have been given the opportunity to fulfil my lifelong dream of opening a café. To be able to do this working alongside my daughter-in-law and granddaughter is just fantastic!”**

**Sue, Proprietor of Virgo’s Pantry**

**Before**



**After**



# FINANCIAL REVIEW

“The Group delivered another year of strong growth with operating profit up 11.8%, operating cash flow before dividends up 9.6% and return on capital employed rising to 26.6%.”

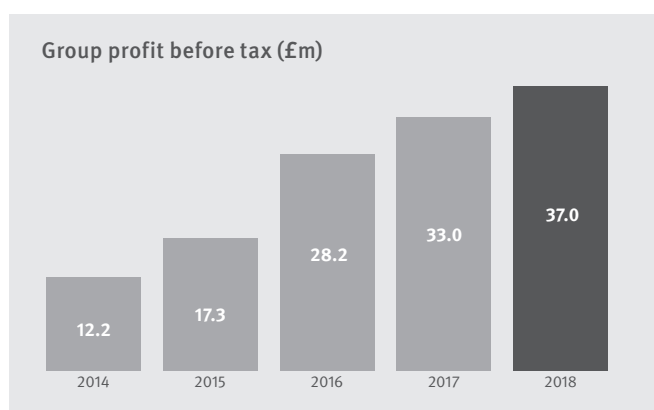


**Stefan Allanson**  
Chief Financial Officer

## Highlights

- Revenue increased by 22.6% to £196.7m
- Profit before tax increased by 12.1% to £37.0m
- Earnings per share increased by 14.6% to 55.6 pence
- Operating cash flow before dividends increased by 9.6% to £21.6m
- Cash balances increased by 21.1% to £41.3m
- Return on capital employed (ROCE) increased by 120 basis points to 26.6%
- Total dividend for the year increased by 33.3% to 32.0 pence per share

## Consolidated income statement



Group revenue increased by 22.6% in the year to £196.7m (2017: £160.4m). The revenue of Gleeson Homes increased by 17.5% to £153.4m (2017: £130.5m) due to an increase in the number of homes sold to 1,225 (2017: 1,013) and an increase in average selling price (“ASP”) to £125,200 (2017: £122,700). ASP increased due to higher selling prices, the mix of site locations and the mix of 2, 3 and 4 bed homes sold.

Revenue for Gleeson Strategic Land increased by £13.4m to £43.3m due to the increased sales activity and the mix of transaction types during the year.

Gross profit for the Group increased by 15.2% to £65.3m (2017: £56.7m). The gross profit of Gleeson Homes increased by 19.0% to £50.1m (2017: £42.1m) includes profit on land sales of £1.0m) due to the increase in both volume and selling prices. The gross profit of Gleeson Strategic Land increased by 3.4% to £15.2m (2017: £14.7m) primarily due to the increase in sites sold during the year.

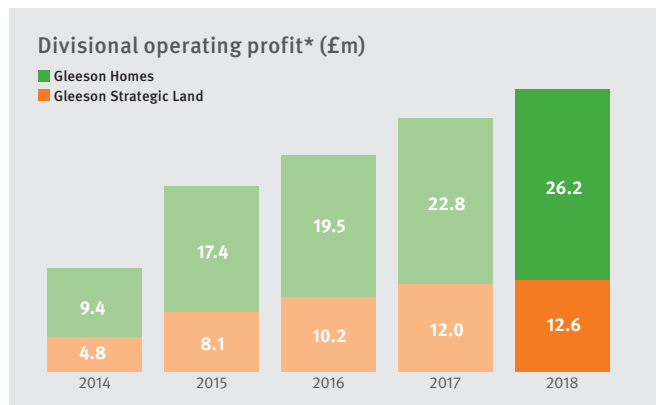
Administrative expenses increased by £4.6m (19.1%) as a result of significant further investment for growth in Gleeson Homes and wages and salary increases. This included investment in a new pilot office that opened during the year in Northumberland, the pilot office in Scunthorpe which became a fully staffed area office and full year costs for the regional office near Nottingham, which opened during the previous year.

In addition, the number of active sales outlets increased to a total of 65 from 59 at the end of the prior year.

Operating profit from continuing operations was £36.9m (2017: £33.0m), an increase of 11.8% over the previous year. Growth in operating profit was driven by strong trading results in both Gleeson Homes and Gleeson Strategic Land.



## Operating profit by division



\* Gleeson Homes operating profit includes profit on land sales of £nil in 2018; £1.0m in 2017; £nil in 2016; £2.7m in 2015; and £0.3m in 2014

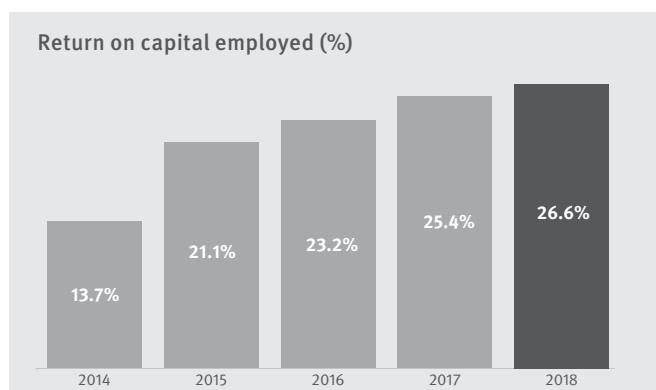
Operating profit for Gleeson Homes increased by 14.9% to £26.2m (2017: £22.8m). Excluding land sales, operating profit for Gleeson Homes increased by 20.2%.

Operating profit for Gleeson Strategic Land increased by 5.0% to £12.6m as a result of the increase in transactions during the year to 10 (2017: 8).

Discontinued operations incurred a loss of £0.3m during the year (2017: £0.3m). This related to the costs of Gleeson Construction Services Limited, whose only activity is limited to resolving claims from the legacy businesses that were sold in 2005 and 2006. The level of claims has now reduced to an insignificant level.

## Return on capital employed

Return on capital employed increased by 120 basis points to 26.6% (2017: 25.4%) reflecting stronger earnings and disciplined investment in capital employed, which increased from £132.3m to £143.1m.



## Financing

Finance income of £0.4m (2017: £0.3m) consists primarily of the unwinding of discounts on deferred receivables on land sales

and shared equity receivables. Interest earned on unwinding of discounts was higher than the prior year as a result of carrying more deferred receivables during the year.

Finance expenses of £0.3m (2017: £0.2m) consist of interest payable on bank loans and overdrafts, bank charges and interest and unwinding of discounts relating to deferred payables on land purchases.

## Tax

A tax charge for continuing operations of £6.5m (2017: £6.5m) has been recorded reflecting a reduced effective rate of tax of 17.8% (2017: 20.0%) driven largely by the tax benefit on vesting of share awards during the year.

Deferred tax assets relating to unused tax losses have been recognised to the extent that it is probable that taxable profits will be available against which the asset can be utilised. The Group now has £21.2m (2017: £26.7m) of gross tax losses, of which £12.3m (2017: £17.8m) are recognised in calculating the deferred tax asset.

The deferred tax asset recorded within the consolidated statement of financial position totals £3.7m (2017: £5.0m).

## Profit for the year

The profit for the year attributable to equity holders was £30.2m (2017: £26.2m).

## Earnings per share

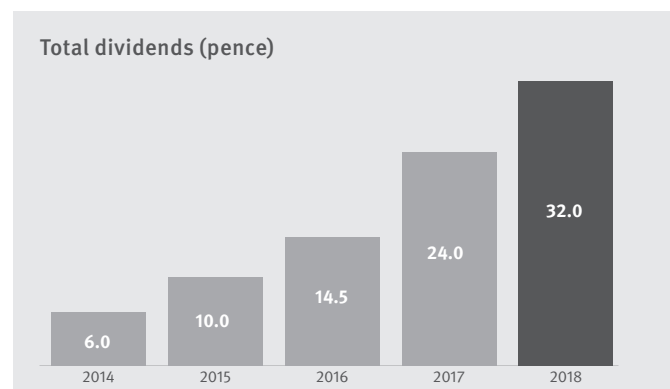
Reported basic earnings per share increased by 14.6% to 55.6 pence (2017: 48.5 pence).

## Final dividend

Reflecting the financial strength of the Company as well as our confidence in the short-term outlook, the Board has proposed a final dividend of 23.0 pence per share (2017: 17.5 pence per share).

Combined with the interim dividend, the dividend for the full year totals 32.0 pence representing an increase of 33.3% on the prior year (2017: 24.0 pence per share).

The Board aims to maintain ordinary dividend cover between 1.75 times and 2.75 times in line with the policy set at the half year.



# FINANCIAL REVIEW continued

## Statement of financial position

During the year to 30 June 2018, shareholders' funds increased by 9.7% to £188.1m (2017: £171.4m). Net assets per share increased to 345 pence, an increase of 8.8% year on year (2017: 317 pence).

In the year, non-current assets increased by 43.4% to £30.4m (2017: £21.2m). The main reason for the change is the increase in deferred receivables of £10.9m offset by a £0.7m reduction in shared equity receivables and a decrease in deferred tax assets of £1.3m.

Current assets increased by 9.2% to £212.4m (2017: £194.5m), with inventories increasing by £17.9m to £160.5m, trade and other receivables decreasing by £7.3m to £10.6m and cash balances increasing by £7.2m to £41.3m.

Total liabilities increased by 23.2% to £54.7m (2017: £44.4m). This was mainly due to trade and other payables of £51.6m (2017: £41.6m) being £10.0m higher due to an increase in deferred land payables in Gleeson Strategic Land.

## Cash flow

The Group generated £21.6m (2017: £19.7m) of cash in the year before the payment of dividends of £14.4m (2017: £8.9m), resulting in a net cash balance at 30 June 2018 of £41.3m (2017: £34.1m).

Operating cash flows before working capital movements, generated £38.6m (2017: £34.1m). Investment in working capital of £11.4m (2017: £10.0m) resulted in cash generated from operating activities of £27.2m (2017: £24.1m).

Tax and interest payments amounted to £5.3m (2017: £4.6m).

Cash outflows from investing activities totalled £0.3m (2017: £0.2m inflow). Net cash outflows from financing activities totalled £14.4m (2017: £8.9m), including £14.4m (2017: £8.9m) on dividend payments.

## Treasury risk management

The Group's cash balances are centrally pooled and invested, ensuring the best available returns are achieved whilst retaining sufficient liquidity for the Group's operations. The Group deposits funds only with financial institutions which have a minimum credit rating of A. As the Group operates wholly within the UK, there is no requirement for currency risk management.

## Bank facilities

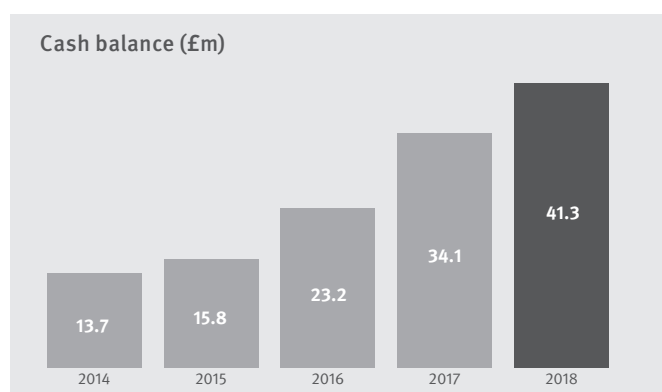
During the year, the Group extended its £20m bank borrowing facility with Lloyds Bank plc for a further three years to 18 March 2021. The facility includes an uncommitted accordion option that could increase the facility limit to £40.0m. The facility provides the Group with additional flexibility and was undrawn throughout the year and at the balance sheet date.

## Pension

The Group contributes to a defined contribution pension scheme. A charge of £0.7m (2017: £0.6m) was recorded in the consolidated income statement for pension contributions. The Group has no exposure to defined benefit pension plans.

## Stefan Allanson

Chief Financial Officer  
14 September 2018





Paul, Lindsey, Norah – Carrwood Park, Tyersal, West Yorkshire



# OPERATING RISK STATEMENT

The Group operates a system of internal control and risk management procedures in order to identify, monitor and control the Group's material risks. These risks include but are not limited to the following:

Risk	Description of risk	Mitigation
<b>Economic environment</b> The impact of economic fragility and uncertainty in the market.  The risk has increased with uncertainty around the terms of UK exit from the EU as the deadline for withdrawal approaches. Demand for low-cost homes remains strong.	Any uncertainty in the wider economy, including interest rate rises, could affect buyer confidence and the demand for new houses. This could have a negative impact on revenues, profits, cash generation and the carrying value of the Group's assets.	<ul style="list-style-type: none"> <li>• Sites are selected to meet the needs of the local community.</li> <li>• Prices and incentives are regularly reviewed.</li> <li>• Lead indicators of the housing market, such as visitors to sites and reservation rates are closely monitored.</li> <li>• A cautious approach to funding is maintained.</li> <li>• Gleeson Strategic Land sites are actively marketed to a wide range of housebuilders.</li> </ul>
<b>Mortgage availability</b> The limited availability of mortgages for house buyers.  The risk has not changed during the year.	The availability of mortgage finance, particularly the deposit requirements for first time buyers, is crucial to customer demand. Restrictions on mortgages granted could reduce demand for new homes and strategic land and impact the Group's revenues and profits.	<ul style="list-style-type: none"> <li>• Gleeson Homes provides a range of customer assistance packages.</li> <li>• We continually innovate to find additional ways to assist customers to buy a home.</li> <li>• We work with key lenders to ensure products are appropriate and available.</li> <li>• Help to Buy continues to provide support to new buyers.</li> </ul>
<b>Land</b> An inability to source sufficient land at an acceptable cost to meet the Group's business needs.  The risk has not changed during the year. Land in the North, Midlands and East of England remains available at relatively low cost. The Group has strengthened its land buying team during the year.	Gleeson Homes needs to acquire consented land at sensible prices and in appropriate areas in the North, Midlands and East of England in order to construct and sell homes to deliver profit. Gleeson Strategic Land needs to acquire interests in land in the South of England so that it can promote the land through the planning system and subsequently sell it in order to deliver profit.	<ul style="list-style-type: none"> <li>• We have a clearly defined strategy and geographic focus.</li> <li>• There is a formal appraisal process and rigorous adherence to margin requirements and rates of return.</li> </ul>
<b>Planning policy and regulations</b> The potentially damaging uncertainties in the planning regime may affect the Group's ability to secure planning consents on a timely basis.  The risk has not changed during the year.	Increased complexity in some aspects of the planning process may slow down, or increase the cost of, the delivery of consented land for development or sale and so impact on the Group's revenues and profits.	<ul style="list-style-type: none"> <li>• We have a very high level of in-house expertise devoted to monitoring and complying with planning regulations and to achieving implementable planning consents.</li> <li>• We consult with central government, parliament and local authorities, both directly and via industry bodies, in order to understand proposed changes to regulations and to highlight potential issues.</li> <li>• The new National Planning Policy Framework (NPPF) supports our business model and should assist the planning application process.</li> </ul>
<b>People</b> An inability to attract, develop or retain good people.  The development of management capabilities as the Gleeson Homes business continues to expand.  The lack of senior level succession plans.  The risk has not changed during the year. The Group has strengthened its Human Resources team during the year.	<p>The loss of key staff or the failure to attract, develop and retain people with the right skills may have a detrimental impact on the business.</p> <p>The lack of development of Gleeson Homes management could restrict profitable and sustainable growth.</p> <p>The lack of leadership arising from the sudden loss of senior management.</p>	<ul style="list-style-type: none"> <li>• We have established a leadership development programme covering senior and mid-level management.</li> <li>• We have established an ongoing succession planning process.</li> <li>• We have programmes that appropriately reward the achievement of performance targets.</li> <li>• The Group encourages employee share ownership.</li> <li>• Our Apprenticeship Scheme enables us to identify and secure the loyalty of talented individuals at an early age.</li> <li>• We perform regular performance and development reviews.</li> <li>• We monitor staff turnover and benchmark remuneration against competitors.</li> </ul>
<b>Build costs</b> An inability to secure materials and skilled labour on a timely basis at suitable prices.  The risk has increased with raw material cost inflation and rising labour costs, together with shortages of certain subcontractors becoming more of a factor for all UK housebuilders.	Shortages or increased cost of materials or skilled labour, the failure of key suppliers, or the inability to secure supplies upon appropriate credit terms could increase costs and delay construction.	<ul style="list-style-type: none"> <li>• The Group has multiple suppliers for both labour contracts and material supplies.</li> <li>• The Group seeks to partner with the supply chain and has systems in place to monitor and control their performance.</li> <li>• Where appropriate, Group purchasing arrangements are in place to ensure the supply of materials at competitive prices.</li> <li>• A dedicated subcontractor procurement programme is employed to optimise the sourcing of scarce subcontractor resource.</li> </ul>

Risk	Description of risk	Mitigation
<b>Health &amp; Safety</b> A failure to prevent unsafe practices within our construction activities, causing injury or death.  The risk has not changed during the year.	Health & Safety breaches can result in injuries to employees, subcontractors or site visitors, delays in construction, additional cost, reputational damage, criminal prosecution or civil litigation.	<ul style="list-style-type: none"> <li>Our documented policies and procedures are regularly reviewed and modified in order to ensure continuous improvement.</li> <li>Dedicated Health &amp; Safety personnel ensure implementation and adherence to these policies and procedures.</li> <li>Performance is reviewed both by local management and the Board.</li> </ul>
<b>Latent defects / uninsured loss</b> Financial losses may arise from latent defects that may arise on completed projects during the liability period.  The risk has not changed during the year.	The Group may be exposed to latent defects which occur during the liability period on completed construction contracts that have not been transferred to the purchaser of the relevant construction business. Although subcontractors will normally resolve such defects, the Group will become liable if the subcontractor is no longer trading, potentially resulting in additional cost.	<ul style="list-style-type: none"> <li>We have experienced personnel, dedicated to dealing with such claims.</li> <li>Insurance policies are in place to minimise Group liabilities, wherever possible.</li> <li>The provisions relating to completed contracts are reviewed on a regular basis.</li> <li>The Company has segregated the continuing businesses of the Group from the Group's legacy building contracting and engineering businesses.</li> </ul>
<b>Corporate liquidity</b> The Group needs appropriate banking facilities for its short-term liquidity and long-term funding needs.  The risk has not changed during the year.	<p>The Group may be unable to meet short-term liabilities as a result of failure to manage liquidity.</p> <p>Lack of liquidity may also limit the Group's ability to take advantage of business opportunities as they become available and consequently a possible impediment to future growth.</p>	<ul style="list-style-type: none"> <li>The Group maintains strong financial disciplines.</li> <li>Cash generation is controlled by robust budgeting, forecasting and cash management disciplines.</li> <li>The Executive Directors maintain regular contact with investors and lenders to ensure adequate bank facilities are in place with appropriate covenants and headroom.</li> <li>The Group has extended its borrowing facilities for a further three years to March 2021.</li> </ul>
<b>Financial irregularity / non-compliance</b> The Group could suffer loss from significant fraud, the misrepresentation of financial results or non-compliance with laws and regulations. This includes the failure to operate appropriate controls to ensure compliance with relevant tax legislation.  The risk has not changed during the year.	Negative publicity could have an adverse effect on the Group's reputation and the Group could experience lower confidence levels from customers and suppliers. Failure to comply with legislation could result in penalties and interest being levied on the Group.	<ul style="list-style-type: none"> <li>The Group has financial and management controls designed to segregate duties and minimise opportunities for fraud.</li> <li>Financial reporting processes are the subject of rigorous and timely management reviews.</li> <li>Staff training is conducted on compliance with laws and regulations including relevant tax legislation.</li> </ul>
<b>Credit risk</b> The Group could suffer loss as a result of default from customers.  The risk has not changed during the year.	The Group has exposure to receivables on deferred payment terms, particularly on certain land sales.	<ul style="list-style-type: none"> <li>Credit risk assessments are performed on all customers buying land on deferred terms.</li> <li>The Group maintains security over the majority of land sold on deferred terms.</li> </ul>
<b>Information technology</b> Failure of information management systems, loss of data or cyber attack.  The risk has not changed during the year.	The Group could suffer operational inefficiencies or penalties as a result of a loss of data or system failure or as a result of cyber attack.	<ul style="list-style-type: none"> <li>Industry standard systems are managed by a central IT team with outsourced support.</li> <li>Contingency plans are in place and regularly tested.</li> <li>The majority of data is held in secure externally managed servers.</li> </ul>

### STRATEGIC REPORT APPROVAL STATEMENT

The Strategic Report, contained in pages 4 to 31 has been approved by the Board of Directors and is signed on its behalf by:

**Jolyon Harrison**  
Chief Executive Officer  
14 September 2018





Homelands Park, Crook, County Durham





## Governance Report

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## BOARD OF DIRECTORS



**Colin Dearlove**  
BA, FCMA, CGMA  
Non-Executive Director



Appointed to the Board in December 2007. Colin held a number of senior finance positions at Barratt Developments plc with the most recent being Group Finance Director from 1992 until his retirement in 2006. He is the Senior Independent Director, Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.

**Stefan Allanson**  
ACMA, FCT  
Chief Financial Officer and  
Company Secretary







Appointed to the Board in July 2015. Stefan joined the Group in June 2015 as Chief Financial Officer designate from Keepmoat Limited where he held the Deputy Chief Financial Officer role. Stefan qualified as an accountant in 1994, following which he held senior finance roles at Honda Motor Co Limited, BTP plc, TheSkillsMarket Limited, The Vita Group Limited and Tianhe Chemicals.

**Jolyon Harrison**  
FCIOB, FloD, FCMI  
Chief Executive Officer



Appointed to the Board in July 2010 and appointed Chief Executive Officer on 1 July 2012. Jolyon has more than 50 years of house building experience, most recently as founder and Chairman of Pelham Construction/North Country Homes Group and prior to that as Managing Director of Shepherd Homes and Chairman of York Housing Association. Currently Chairman of JDP Rooflines Limited and MSP Technologies Limited. He has been Chairman of the Yorkshire region of the Home Builders Federation for 25 years. Formerly a member of the North East Housing Board and a Council member of the National House Building Council.

### Committee membership

-  Audit Committee
-  Remuneration Committee
-  Nomination Committee
-  Disclosure Committee
-  Committee Chairman





**Dermot Gleeson**  
MA (Cantab)  
Chairman



Joined the Board in 1975. Dermot was appointed Chief Executive in 1988 and Chairman in 1994. He relinquished the post of Chief Executive in 1998. Previously employed in the Conservative Party Research Department, the European Commission and Midland Bank International Limited. Formerly a Trustee of the British Broadcasting Corporation, Chairman of the Major Contractors Group, a Board Member of the Housing Corporation, a Director of the Construction Industry Training Board and a Trustee of the Institute of Cancer Research. He is Chairman of the Nomination Committee.

**Christopher Mills**  
Non-Executive Director

Appointed to the Board in January 2009. Founder of Harwood Capital Management Group and formerly Chief Investment Officer of J O Hambro Capital Management Limited from 1993 to 2011. He is also Chief Executive and Investment Manager of North Atlantic Smaller Companies Investment Trust PLC, a UK listed investment trust. Christopher is a director of several publicly quoted companies, including Catalyst Media Group plc, Bioquell plc and Goals Soccer Centres plc.

**Ross Ancell**  
FCA(ANZ)  
Non-Executive Director



Appointed to the Board in October 2006. Ross is Chairman of Churngold Construction Holdings Limited and Independent Non-Executive Director of Galaxy Entertainment Group Limited (listed in Hong Kong). Ross is a Fellow of Chartered Accountants Australia and New Zealand. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

## CHAIRMAN'S INTRODUCTION



“I am pleased to introduce this report which describes how the Group manages its approach to governance and the evolving requirements of the Code.”

**Dermot Gleeson**  
Chairman

As a premium listed company on the London Stock Exchange, the Group is subject to the 2016 revision of the UK Corporate Governance Code (the “Code”). The Board believes that compliance with the Code assists it to provide the Group with effective leadership and to embed good governance into the values, ethics and culture of the business.

The Board continues to take governance very seriously and, amongst its other actions during the year, has evaluated the impact of the revisions to the Code, which will apply to the Company’s financial year commencing 1 July 2019. The Board recognises that this will require us to make changes, particularly with respect to the Board’s composition and the roles of individual Directors. The Nomination Committee is currently considering how best to progress this process. Although there have been no changes to the Board in the year to 30 June 2018, we will be taking steps over the coming year to address the requirements of the new Code.

As Chairman, I am responsible for the leadership of the Board and for ensuring that it fulfils its responsibilities to all of the Group’s stakeholders. The Board remains committed to ensuring that its dialogue continues to be robust and challenging. The Board also seeks to have constructive dialogue with external stakeholders and take account of shareholder feedback.

This report contains further details of the Group’s governance arrangements, together with the narrative reporting variously required by the Code, the Listing Rules and the Disclosure and Transparency Rules.

**Dermot Gleeson**  
Chairman  
14 September 2018



# GOVERNANCE REPORT

## Governance statement

During the period under review, the Company, as a premium listed company, was subject to the 2016 edition of the UK Corporate Governance Code issued by the Financial Reporting Council (FRC). The Code recognises that not all of its provisions are necessarily relevant to smaller listed companies and the Code states that departures from its provisions should not be automatically treated as breaches of the Code. The Directors believe that the Code is correctly applied as and where relevant to the Company and are satisfied that in areas of departure from the Code the departure is for good reason.

Further explanations of how the main principles and the supporting principles have been applied are set out on page 40.

## Board composition

At the date of this report, the Board comprises six Directors, four of whom are Non-Executive. All Directors served throughout the year to 30 June 2018. The Directors' biographies are set out on pages 34 and 35.

The Board believes it maintains an appropriate balance of Executive and independent Non-Executive Directors given the size and nature of the business. In addition, the Board considers that it has a suitable balance of skills, knowledge and experience in order for it to discharge its duties and responsibilities effectively. This includes a combination of backgrounds and experiences which enable it to function effectively and have dialogue that is both constructive and challenging.

All of the Directors have access to the advice and services of the Company Secretary and may, in furtherance of their duties, take independent advice at the Company's expense. Training is arranged as required to update and refresh their skills and knowledge.

On joining the Board, arrangements are made for all new Directors to meet their colleagues and other senior management, to ensure an adequate induction to the Group. On resignation, any concerns raised by an outgoing Director are circulated by the Chairman to the remaining members of the Board.

## Board effectiveness

The roles of the Chairman, Dermot Gleeson, and the Chief Executive Officer, Jolyon Harrison, are clearly defined and they act in accordance with the main and supporting principles of the Code.

The Chairman is responsible for leadership of the Board and ensuring its effectiveness. This role includes ensuring that the Directors receive accurate, timely and clear information; facilitating the contribution of the Non-Executive Directors; and ensuring constructive relations between the Executive and Non-Executive Directors.

The Chairman is in regular contact with the Chief Executive Officer to discuss current matters and has visited Group operations outside the Board meeting calendar to meet divisional directors and managers.

## Board independence

During the year, Ross Ancell and Colin Dearlove were the Board's independent Non-Executive Directors and fulfilled the requirement that a "smaller company", as defined by the Code, should have two such directors. Colin Dearlove is the Senior Independent Non-Executive Director.

Ross Ancell will have completed twelve years of service and Colin Dearlove eleven years of service on the Board at the date of the 2018 AGM on 6 December 2018. The Board greatly values both Ross Ancell's and Colin Dearlove's expertise and understanding of the Group's operations and strategy. Whilst we recognise that their period of service could call into question their independence, the Executive Board remains strongly convinced that both Ross Ancell and Colin Dearlove are independent of character and judgement, and their reappointment is in the interests of the Group and its shareholders.

Both Ross Ancell and Colin Dearlove have provided assurances to the Board of their continued independence and that there are no circumstances which are likely to affect, or could appear to affect, their judgement. We have talked extensively to our largest shareholders and they are supportive of the Board's assessment that Ross Ancell and Colin Dearlove should continue to be regarded as independent Non-Executive Directors.

Neither Dermot Gleeson, Chairman, who has previously been Executive Chairman and, prior to that, has held the post of Chairman and Chief Executive, nor Christopher Mills, who represents a major shareholder, Harwood Capital LLP, are considered to be "independent" within the definition of that term contained in the Code.

Dermot Gleeson has been connected with the Company for a long period and the Board greatly values his experience of the Group. The Board remains fully satisfied that he continues to perform effectively as a Non-Executive Director and as Chairman.

## Board diversity

We believe that it is in the interests of our shareholders that appointments to the Board are made on the basis of merit. We are unreservedly opposed to discrimination on the grounds of race, gender, sexual orientation, disability, age, religion or beliefs.

We also believe that there are substantial benefits to be had from having a Board composed of a diverse range of individuals, who are able to contribute to our deliberations from different perspectives. This is a matter to which the Nomination Committee gives consideration in its annual review of the Board's composition.

For vacant board positions, the Nomination Committee agrees a role description and a detailed specification of the kind of person for whom it is looking. The latter sets out the objective criteria against which the suitability of candidates will be assessed, including knowledge, experience, measurable skills and personal qualities. Care is taken to ensure that the criteria effectively prevent all forms of unfair discrimination influencing the selection process.

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## GOVERNANCE REPORT continued

Vacancies are extensively advertised. In addition, the Board normally appoints an executive search firm to help it to reach the widest possible pool of eligible candidates and to identify the individuals best qualified for the role.

The Board selects at least three of its directors to act as a panel for the purpose of overseeing the selection process and it is committed to ensuring that everyone involved in the selection of candidates is fully aware of the UK's equality legislation and the Board's diversity policy.

### Key actions of the Board

The Board is responsible to shareholders for the success of the Group. Its role is to set the strategic and financial framework within which the Group operates, to monitor and review the performance of each of the divisions and to ensure that the risks faced by the Group are effectively managed. To facilitate this, the Board and its Committees are provided with relevant and timely information in advance of all meetings and when otherwise required.

Due to the size and structure of the Group, all significant decisions are taken at Board level. There is a formal schedule of matters that are reserved for a decision of the Board or its Committees; these include the approval of:

- strategy and financial policy;
- banking arrangements and any changes to them;
- interim and annual financial statements;
- risk management and internal control policy;
- major capital expenditure;
- acquisition of land;
- acquisitions and disposals;
- Board structure and composition;
- terms of reference of the Board's sub-committees;
- entering into or amending pension arrangements;
- approval of contractual arrangements which fall outside authority delegated to Executive Directors;
- dividend policy; and
- pledging security over assets and providing parent company guarantees.

All these matters were reviewed by the Board at various times during the year. In addition, the Board receives updates on governance, regulatory and legal matters at various points in the year to assist the Board in maintaining compliance with the legislative requirements and best practice.

During the year, the Board reviewed the proposed revisions to the UK Corporate Governance Code, which was subsequently published by the FRC in July 2018 and will apply to the Company's financial year commencing 1 July 2019.

The new 2018 Code focuses on principles and how these are applied by the Company so that it articulates what actions have been taken by the Board and the resulting outcomes. The Board has carefully considered the requirements of the new Code and recognises that it may require a number of actions to be taken in order to comply fully with the principles set out.

This would include, but is not limited to:

- the appointment of a director from the workforce, a formal workforce advisory panel or a designated non-executive director;
- a review of Board member independence, in particular given that a non-executive director would not be considered independent if that director is or has been; an employee of the Company or Group within the last five years, represents a significant shareholder, or has served on the Board for more than nine years;
- a review of the Nomination and Remuneration Committees' composition; terms of reference, and both the activities undertaken and the reporting of such activities to shareholders; and
- an annual evaluation of the performance of the Board, the Chairman and individual directors which is externally facilitated at least every three years.

Given the timing of issue of the new 2018 Code and extent of the requirements, the Board has not taken any final decisions as to its application but will be taking steps over the coming year in response to the new Code.

### Board and Committee meetings

During the year, the Board met on six occasions. Board packs, which include a formal agenda, are circulated in advance of such meetings. Attendance by individual Directors at scheduled Board meetings and by members at scheduled Committee meetings was as set out adjacent.

The main purpose of these meetings is to permit the Board to receive regular reports on the performance of the Group and address a wide range of key issues, including health and safety, operational performance, risk management and corporate strategy. Additional Board meetings may be convened from time to time in response to specific circumstances.

During the course of the year, the Non-Executive Directors met without the Executive Directors present, both with and without the Chairman being present.

The minutes of all meetings of the Board and of each of its Committees are recorded by the Company Secretary. As well as recording the decisions taken, the minutes reflect any queries raised by the Directors and record any unresolved concerns.



**Attendance by individual Directors at scheduled Board meetings**

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Disclosure Committee
Number of scheduled meetings <sup>^</sup>	6	4	2	2	2
<b>Attendance</b>					
Dermot Gleeson	6	n	n	2	n
Ross Ancell	6	4	2	2	n
Colin Dearlove	6	4	2	2	n
Christopher Mills	5	n	n	n	n
Jolyon Harrison	6	4 <sup>v</sup>	2 <sup>v</sup>	2 <sup>v</sup>	2
Stefan Allanson	6	4 <sup>v</sup>	2 <sup>v</sup>	2 <sup>v</sup>	2

<sup>^</sup> Includes the scheduled Board and Committee meetings that were held on 3 July 2018 in respect of the year ended 30 June 2018

<sup>n</sup> Not a member of this Committee

<sup>v</sup> Whilst not a member of this Committee, the Director was in attendance at meetings

**Board evaluation**

During the year, under the leadership of the Chairman, the Board undertook an evaluation of its own performance. This was based on completion of a detailed questionnaire and individual discussions between the Chairman and the Directors. Being a smaller listed company, it was not considered necessary to have this year's Board evaluation externally facilitated. Colin Dearlove, as the Senior Independent Director, conducted an evaluation of the Chairman's performance in conjunction with his Non-Executive Director colleagues and with input from the Executive Directors. The outcome and conclusions reached from the conduct of these evaluations were discussed by the Board at its Board Meeting in September 2018. It was concluded that the Board, its Committees and the Chairman continued to perform effectively.

**Risk management and internal control**

The Directors acknowledge their responsibility for the Group's risk management procedures and systems of internal controls and for reviewing their effectiveness. Further details on the Group's risk management procedures and systems of internal controls and how the Board and Audit Committee review their effectiveness are included in the Audit Committee Report on pages 48 to 52.

It should be recognised that all such systems and procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, rather than absolute, assurance against material misstatement or loss. Risk management and internal control within the Group's operating units is delegated to the management responsible for the operating unit, with the Board retaining ultimate responsibility.

The Group operates internal controls that ensure that the Group's financial statements are reconciled to the underlying financial ledgers. A review of the consolidated accounts and financial statements is completed by management to ensure that the financial performance and position of the Group are appropriately reflected.

During the year being reported, and in making this statement, the Board carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten the Group's business model, future performance, solvency and/or liquidity.

The Board is of the view that there is an adequate ongoing process for identifying, evaluating and managing the Group's significant risks, which satisfies the internal control guidance for Directors detailed in provision C.2.1 of the Code. This process takes the form of a formal risk management policy supported by financial and management controls that are operated Group-wide and which are subject to both internal review by the Chief Financial Officer and internal auditor and external review as part of the statutory audit carried out by the auditors.

**Shareholder relations**

There is ongoing dialogue with institutional shareholders, including presentations following the publication of the interim and year end results and, as appropriate, at other times during the year. Feedback from these meetings is provided to the Board.

The Board also welcomes the interest of private investors and believes that, in addition to the Annual Report and the Company's website, the AGM is an ideal forum at which to communicate with investors and encourage their participation. At the AGM, the Chairman, together with the Chairmen of the Audit, Remuneration, Disclosure and Nomination Committees, will be available to answer any relevant questions.

For investor relations the Company uses the MJ Gleeson plc website at [www.mjgleesonplc.com](http://www.mjgleesonplc.com). Our website includes statutory documents and communications to shareholders, such as the Annual Report and financial statements, and the interim report.

# GOVERNANCE REPORT continued

## Compliance statement

The Company has complied with the main principles of the 2016 edition of the UK Corporate Governance Code applicable to all premium listed companies. The following provisions are those where the Company is not strictly in compliance with the Code but where the Directors believe that it remains appropriate and justified, and which do not compromise the standards of good governance applied by the Board.

### A.3.1, B.1.1

As covered under “Board independence”; the Chairman, Dermot Gleeson, has previously been Executive Chairman and, prior to that, held the post of Chairman and Chief Executive. The Board has considered the guidance set out in the Code and believes that it is in the Company’s best interests that Dermot Gleeson be retained as Chairman.

### B.1.1

As covered under “Board independence”; Ross Ancell and Colin Dearlove have both served on the board for more than nine years from the date of their first election. The Board is satisfied that they remain independent in character and judgement and there are no relationships or circumstances which otherwise affect, or could appear to affect, their independence.

Christopher Mills represents a major shareholder, Harwood Capital LLP and is, therefore, not considered to be “independent” within the definition of that term contained in the Code.

### B.6.3

As covered under “Board evaluation”; the performance of the Chairman is appraised by both the Non-Executive and Executive Directors. As MJ Gleeson plc is a smaller listed company, it is felt that this is the most appropriate approach.

## Nomination Committee

The Nomination Committee is a Board sub-committee consisting entirely of Non-Executive Directors. The members of the Nomination Committee are Dermot Gleeson (Chairman), Ross Ancell and Colin Dearlove.

The principal responsibility of the Nomination Committee is to consider succession planning and appropriate appointments to the Board and to senior management, so as to maintain an appropriate balance of skills, knowledge and experience within the Company. The Nomination Committee’s formal terms of reference, which are reviewed annually, are available on the Company’s website and require it to:

- regularly review the structure, size and composition of the Board and to make recommendations regarding any adjustments that are considered to be necessary;
- identify and nominate for consideration candidates for any Board vacancies that may arise;
- put in place plans for succession, in particular to the Chairman and Chief Executive Officer; and
- make recommendations regarding the continued service (or not) of the Executive and Non-Executive Directors.

All Board appointments and reappointments are considered by the Nomination Committee.

The Nomination Committee met on two scheduled occasions during the year to 30 June 2018. The main activities undertaken by the Nomination Committee during the year included:

- reviewing the structure, size and composition of the Board including the skills that may be required in an additional independent non-executive director;
- reviewing leadership development and succession planning in the Group including scrutinising the development plans of individuals who have been identified as potential CEO successors or candidates for the role of MD of the Homes division;
- reviewing and approving the Group’s diversity policy for publication; and
- reviewing the terms of reference of the Nomination Committee such that these remain appropriate.

## Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of the Chairman and the Executive Directors. The members of the Remuneration Committee are Ross Ancell (Chairman) and Colin Dearlove.

The Remuneration Committee met on a number of occasions during the year to 30 June 2018, including two scheduled meetings, to consider and approve the remuneration of the Chairman and the Executive Directors.

Further details of the remuneration policy and the package for each Director serving during the year to 30 June 2018 are set out in the Remuneration Report on pages 54 to 69.

## Disclosure Committee

The Disclosure Committee was set up by the Board in September 2016 to comply with the requirements of the Market Abuse Regulation (MAR), which came into effect on 3 July 2016.

The members of the Disclosure Committee are Jolyon Harrison (Chairman) and Stefan Allanson. Other Directors, executives and external advisers may attend by invitation as appropriate. The Disclosure Committee’s formal terms of reference, which are reviewed annually, are available on the Company’s website and require it to:

- draw up and maintain procedures, systems and controls for the identification, treatment and disclosure of inside information and to comply with other disclosure obligations falling on the Company under the Listing Rules and MAR;
- implement, monitor compliance and review the adequacy of the Company’s disclosure policy, including where appropriate arranging for the dissemination of guidelines and training; and
- ensure that all regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company under any legal or regulatory requirement are scrutinised in order to ensure that they comply with applicable requirements.



The Disclosure Committee met on two occasions during the year to 30 June 2018. The main activities undertaken by the Disclosure Committee during the year included:

- reviewing the regulatory announcements of the Group to ensure that these complied with the Company's disclosure policy;
- reviewing the list of insiders and any significant changes together with agreeing dates for closed trading periods;
- confirming that there have no instances of actual or potential inside information not being disclosed or being disclosed late to the market;
- reviewing the Company's disclosure and media policy;
- reviewing disclosure items, the advice received and conclusions around any items of non-disclosure; and
- reviewing the terms of reference of the Disclosure Committee such that these remain appropriate.

### Audit Committee

The Audit Committee is a Board sub-committee consisting entirely of Non-Executive Directors. The members of the Committee are Colin Dearlove (Chairman) and Ross Ancell. The Chairman invites the Chief Executive Officer and the Chief Financial Officer and other senior management to attend, along with the Group's internal and external auditors, when required.

The Audit Committee met on a number of occasions during the year to 30 June 2018, including four scheduled meetings, with both members being in attendance for all meetings.

A full report from the Audit Committee is presented separately on pages 48 to 52 and forms part of the Governance Report.

### Viability statement

In accordance with provision C2.2 of the 2016 revision of the UK Corporate Governance Code, the Directors have assessed the longer term viability of the Company and the Group over a longer period than the 12 months required by the "going concern" principle.

The Directors conducted their assessment over a period of three years to 30 June 2021, which is in line with the Group's financial budget review period and the operational period of a number of the Group's housing developments. This has enabled a meaningful assessment of viability to be undertaken, utilising detailed financial budgets which incorporate individual site cash flow forecasts.

In making its assessment, the Directors have considered the business risks facing the Group and how the Group mitigates such risks, which are summarised on pages 30 and 31 of the Strategic Report.

The majority of risks in Gleeson Homes are operational in nature, and hence these risks are already taken into account in the individual site cash flow forecasts. The Directors have considered sensitivities to the individual site cash flow forecasts prepared based on realistically possible changes to principal assumptions such as forecast selling prices, build costs, the number of completions, and gross margins. Additionally the Directors have considered further measures which may need to be taken to mitigate the impact of macroeconomic and industry wide risks, including the ability of the Group to curtail investment expenditure in new land purchases and defer new site starts.

For Gleeson Strategic Land, the Directors have considered the impact of delays to the completion of land sales and reduction in land selling prices. The business model is such that it has the flexibility to reduce expenditure on progressing new and existing sites and to continue to realise cash from consented land albeit at lower levels of profitability.

Furthermore, a core principle of the Group is to maintain a cautious approach to debt funding, reflecting the inherent cyclical nature of the UK property market.

Based on the results of this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.





Jessica, Simba, Avery – Fretson Park, Sheffield



# DIRECTORS' REPORT

The Directors have the pleasure of presenting the Annual Report and the audited financial statements for the year ended 30 June 2018.

## Strategic report

We present a review of the business during the year to 30 June 2018 and of the position of the Group at the end of the financial year together with a description of the principal risks and uncertainties faced by the Group in the Strategic Report on pages 4 to 31.

## Governance statement

The Disclosure Guidance and Transparency Rules require certain information to be included in a governance statement in the Directors' Report. Information that fulfils the requirements of the governance statement can be found in the Governance Report on pages 36 to 41.

## Results and dividends

The results of the Group are set out in the consolidated income statement on page 78. The subsidiary companies affecting the profit or net assets of the Group in the year are listed in note 13 to the financial statements.

An interim dividend of 9.0 pence per share was paid to shareholders on 6 April 2018 (2016: 6.5 pence). The Board proposes to pay, subject to shareholder approval at the 2018 AGM, a final dividend of 23.0 pence per share (2017: 17.5 pence) in respect of the 2018 financial year on 14 December 2018 to shareholders on the register at the close of business on 16 November 2018. On this basis, the total dividend for the year will be 32.0 pence per share (2017: 24.0 pence).

## Business review

The review of the development and performance of the business of the Group during the year and the future outlook of the Group is set out in the Chairman's Statement on pages 4 and 5, the Chief Executive's Statement on pages 14 to 16 and the Business Performance reviews on pages 18 to 21.

The key performance indicators are set out in the Strategic Report on pages 12 and 13. The Group's policy in respect of financial instruments is set out within the Accounting Policies on pages 83 to 86 and details of credit risk, capital risk management, liquidity risk and interest rate risk are given in note 16 to the financial statements.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 4 to 31. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 26 to 28.

The Group meets its day-to-day working capital requirements through its own cash resources and a bank borrowing facility, which was entered into in March 2016 and extended during the year to March 2021. At 30 June 2018, the Group had a cash balance of £41.3m (2017: £34.1m) and the bank borrowing facility was undrawn (2017: undrawn).

As part of their regular going concern review the Directors specifically address all of the risk areas that they consider material to the assessment of liquidity and going concern.

This report is also discussed with the external auditors. Based on this analysis and an assessment of potential cash risks, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for at least twelve months from the date of the financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

## Political and charitable donations

The Company made no political donations in the year or in the previous year. Charitable donations during the year totalled £2,000 (2017: £2,000).

## Directors and Directors' interests

The Directors of the Company and their biographical details are shown on pages 34 and 35. There have been no changes to Directors of the Company during the year.

Details of any related party transactions with Directors of the Company are shown in note 27 to the financial statements.

The beneficial and non-beneficial interests of the Directors and their connected persons in the shares of the Company at 30 June 2018 and as at the date of this report are disclosed in the Remuneration Report on page 65. Details of the interests of the Executive Directors in share options and awards of shares can be found on page 65 within the same report.

## Appointment and replacement of Directors

The Company's Articles of Association (the "Articles") provide that at each AGM at least one third of the Directors shall retire from office and shall be eligible for reappointment. However, the Board has determined that all Directors will be subject to annual re-election by shareholders and will do so at the next AGM of the Company to be held on 6 December 2018. Of the Directors standing for re-election, Jolyon Harrison and Stefan Allanson hold service contracts that may be terminated by the Group with a notice period of one year.

## Directors' indemnity

Directors risk personal liability under civil and criminal law for many aspects of the Company's main business decisions. As a consequence the Directors could face a range of penalties including fines and/or imprisonment. In keeping with normal market practice, the Company believes that it is prudent and in the best interests of the Company to protect the individuals concerned from the consequences of innocent error or omission.

The Company obtains Directors and Officers' liability insurance in order to indemnify Directors and other senior officers of the Company and its subsidiaries. This insurance policy does not provide cover where the Director or officer has acted fraudulently or dishonestly.

In addition, subject to the provisions of and to the extent permitted by relevant statutes, under the Articles, the Directors and other officers throughout the year, and at the date of approval of these financial statements, were indemnified out of the assets of the Company against liabilities incurred by them in the course of carrying out their duties or the exercise of their powers.

# DIRECTORS' REPORT continued

## Share capital

The Company has one class of share in issue, being ordinary shares with a nominal value of 2 pence each, with no right to fixed income.

The Company has issued share capital of 54,587,753 ordinary shares, with a nominal value of £1.1m. Further details are given in note 24 to the financial statements.

## Substantial shareholdings

At 31 August 2018, the shareholdings noted below, representing 3% or more of the issued share capital, had been notified to the Company.

Name of Shareholder	Number of shares	Proportion of total
Funds managed by Harwood Capital LLP	6,109,640	11.19%
Schroder Investment Management Limited	4,815,781	8.82%
Royal London Asset Management	2,744,314	5.03%
Mrs J C Cooper & spouse*	2,352,315	4.31%
Standard Life Aberdeen plc	2,238,029	4.10%
JP Morgan Asset Management	1,998,400	3.66%
BlackRock Investment Management (UK)	1,968,021	3.61%
Jolyon Harrison (CEO)	1,895,985	3.47%

\* of which 542,800 shares are held in discretionary trusts of which Mrs J C Cooper is a Trustee.

## Employees

We are committed to ensuring that all employees, potential recruits and other stakeholders are treated fairly and equitably. The principles of equality and diversity are important to us and advancement is based upon individual skills and aptitude irrespective of race, gender, sexual orientation, disability, age, religion or beliefs. Full consideration is given to the diverse needs of our employees and potential recruits and we are fully compliant with all current legislation.

The Group is committed to upholding basic human rights within its business. The Group generates all its revenue from operations within the United Kingdom and its supply chain is sourced from within the United Kingdom. Our supplier acceptance processes ensure we comply with national regulations and legislation. Our culture is aimed at ensuring that employees can grow to their full potential. We seek to improve employee retention by providing benefits that employees want including a Group stakeholder pension (including life assurance arrangements), private medical insurance, childcare vouchers and income replacement (PHI) arrangements. Employee share ownership continues to be encouraged through participation in the Group Share Purchase Plan.

We are committed to developing our employees in order that they can maximise their career potential and our aim is to provide rewarding career opportunities in an environment where equality of opportunity is paramount. Our policy for selection and promotion is based on an assessment of an individual's ability and experiences; we consider all applicants on their merits and have processes and procedures in place to ensure that individuals with disabilities are given fair consideration.

Every effort is made by the Group to retain and support employees who become disabled whilst in the employment of the Group.

At 30 June 2018 the Group employed the following number of people (excluding Non-Executive Directors):

	Female		Male		Total Number
	Number	%	Number	%	
Executive team	0	0%	2	100%	2
Senior management	3	14%	18	86%	21
Other employees	150	31%	336	69%	486
<b>Total</b>	<b>153</b>	<b>30%</b>	<b>356</b>	<b>70%</b>	<b>509</b>

## Employee involvement

The Group regularly provides its employees with information on matters of concern to them. We consult with our employees in order to ensure that their views can be taken into account when making decisions. We use our internal website "Gleegle" to disseminate information and engage with our employees via manager briefings.

## Health & Safety

The health and safety of our employees and others is paramount. There were seven reportable injuries in the year and no dangerous occurrences under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR").

The overall Accident Incidence Rate ("AIR") was 248 (2017: 203). These trends are constantly reviewed and a number of steps have been taken to address the increase in the AIR as the level of the construction activity grows significantly.

## Greenhouse gas emissions

Our greenhouse gas emissions for the year ended 30 June 2018 are calculated in accordance with the requirements of the Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard. Emissions have been calculated using the UK Government's CHG Conversion Factors for Company Reporting: 2018 and 2017 respectively.

	Tonnes CO <sub>2</sub> e 2018	Tonnes CO <sub>2</sub> e 2017
Scope 1: Emissions from combustion of fuel	2,910	2,147
Scope 2: Electricity, heat, steam and cooling purchased for own use	264	481
<b>Total emissions</b>	<b>3,174</b>	<b>2,628</b>
Emissions per £m revenue	16.13	16.39



### Shareholder additional information

Under Section 992 of the Companies Act 2006, the Company is required to disclose certain additional information where not covered elsewhere in this Annual Report:

#### ***Rights and obligations attaching to shares***

Subject to the Companies Act 2006 and other shareholders' rights, any share may be issued with such rights and restrictions as the Company may by ordinary resolution decide or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board of Directors ("the Board") for the time being of the Company may decide. Subject to the Companies Act 2006, the Articles and any resolution of the Company, the Board may deal with any unissued shares as it may decide.

#### ***Amendment to the Articles of Association***

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

#### ***Voting***

Under and subject to the provisions of the Articles and subject to any special rights or restrictions as to voting attached to any shares, on a show of hands, every shareholder present in person shall have one vote and on a poll every shareholder who was present in person or by proxy shall have one vote for every share of which they are the holder. Under the Companies Act 2006, shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting or class meeting.

#### ***Restrictions on voting***

A shareholder shall not be entitled to vote at any general meeting or class meeting in respect of any shares held by them unless all calls and other sums presently payable by them in respect of that share have been paid.

#### ***Deadlines for voting rights***

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 6 December 2018 are set out in the Notice of the AGM.

#### ***Dividends and distributions***

The Company may, by ordinary resolution, declare a dividend to be paid to the shareholders but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends and also any fixed rate dividend whenever the financial position of the Company justifies its payment in the opinion of the Board.

#### ***Winding up***

Under the Articles, if the Company is in liquidation, the liquidator may, with the sanction of a special resolution of the Company and any other authority required by law:

- divide among the shareholders in specie the whole or any part of the assets of the Company and, for that purpose, value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders; or
- vest the whole or any part of the assets in trustees upon such trusts for the benefit of shareholders as the liquidator with the like sanction shall think fit.

#### ***Variation of rights***

The Articles specify that the special rights attached to any class of shares may, either with the consent in writing of holders of three fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of such holders (but not otherwise), be modified or abrogated.

#### ***Transfer of shares***

Under and subject to the restrictions in the Articles, any shareholder may transfer all or any of their shares in certificated form by transfer in writing in any usual form or in any other form which the Board may approve. The Board may, save in certain circumstances, refuse to register any transfer of a certificated share not fully paid up. The Board may also refuse to register any transfer of certificated shares unless it is:

- in respect of only one class of shares;
- in favour of no more than four transferees;
- duly stamped or exempt from stamp duty;
- delivered to the office or at such other place as the Board may decide for registration; and
- accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to show the right of the intending transferor to transfer the shares.

#### ***Repurchase of shares***

Subject to the provisions of the Companies Acts and to any rights conferred on the holders of any class of shares, the Company may purchase all or any of its shares of any class, including any redeemable shares.

#### ***Appointment and replacement of Directors***

The Directors shall not, unless otherwise determined by an ordinary resolution of the Company, be less than three or more than fifteen in number. Directors may be appointed by the Company by ordinary resolution or by the Board.

A Director appointed by the Board shall retire from office at the next AGM of the Company but shall then be eligible for reappointment. The Board may appoint one or more Directors to hold any office or employment with the Company for such period (subject to the Companies Act requirements) and on such terms as it may decide and may revoke or terminate any such appointment. At each AGM any Director who has been appointed by the Board since the previous AGM and any Director selected to retire by rotation shall retire from office. At each AGM, one third of the Directors are required to retire by rotation or, if the number is not an integral multiple of three, the number nearest to one third but not exceeding one-third. In addition, any Director who has been a Director at the preceding two AGMs is required to retire by rotation, provided that they were not appointed or reappointed at either such AGM or ceased to be a Director and been reappointed since either such AGM. Notwithstanding this, the Board has determined that all Directors will be subject to annual re-election by shareholders at each AGM.

The Company may, by ordinary resolution of which special notice has been given in accordance with the Companies Act, remove any Director before their period of office has expired notwithstanding anything in the Articles or in any agreement between that Director and the Company.

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## DIRECTORS' REPORT continued

A Director may also be removed from office by the service of a notice to that effect signed by or on behalf of all the other Directors, being not less than three in number.

### ***Powers of the Directors***

The business of the Company shall be managed by the Board which may exercise all the powers of the Company, subject to the provisions of the Articles and any ordinary resolution of the Company. The Articles specify that the Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertakings, property and assets and uncalled capital and to issue debentures and other securities, subject to the provisions of the Articles.

### ***Takeovers and significant agreements***

The Company is party to the following significant agreements that take effect, alter or terminate on a change of control of the Company following a takeover bid:

- the Company's share schemes and plans;
- the Company's payment guarantee bonds except with prior written consent from the bond provider; and
- the revolving credit facility whereby upon a "change of control" all amounts become due and payable.

### ***Information rights***

Beneficial owners of shares who have been nominated by the registered holder of those shares to enjoy information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares, rather than to the Company's registrars, Link Asset Services, or to the Company directly.

### **Auditor**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the next AGM on 6 December 2018.

### **Disclosure of information to Auditor**

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Annual General Meeting**

The Notice of the AGM to be held on 6 December 2018, together with details of the Resolutions to be considered, will be sent out in a separate circular.

### **Deadlines for voting rights**

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM will be set out in the Notice of the AGM.

By order of the Board

### **Stefan Allanson**

Company Secretary  
14 September 2018







# AUDIT COMMITTEE REPORT



**Colin Dearlove**  
Chairman of the Audit Committee

“I am pleased to introduce the Audit Committee report which describes the work of the Committee this year in supporting the Board to fulfil its responsibilities.”

## **Statement from the Chairman of the Audit Committee**

I am pleased to introduce the Audit Committee report for the financial year ended 30 June 2018 which has been another busy year for the Committee. The Committee continues to play an important role in supporting the Board in a wide range of areas including corporate governance, risk management, financial reporting and control.

During the year, the Committee undertook all of its regular activities including receiving and reviewing the Annual Report and regulatory announcements made by the Company, examining going concern and viability, internal and external audit findings, internal controls and their effectiveness and the impact of new accounting standards on the Group.

In addition, the Committee completed a number of other actions during the year including reviewing progress of the Group with regards to compliance with the General Data Protection Regulation (“GDPR”) and the new Data Protection Act, which became law in May 2018. The Committee also undertook reviews of how gross margin is applied on a site-by-site basis, assessed Group credit risk, inventory recovery, legacy matters, and reviewed and approved an updated version of the Group accounting policies manual.

The Committee serves to ensure that the relevant codes and regulations are adhered to and that the business continues to operate in a well-controlled and financially responsible manner.

**Colin Dearlove**  
Chairman, Audit Committee  
14 September 2018

### Audit Committee membership

The Audit Committee is a Board sub-committee consisting entirely of Non-Executive Directors. The members of the Committee are Colin Dearlove (Chairman) and Ross Ancell.

Colin Dearlove, as Chairman of the Committee, has relevant financial experience as, formerly, Group Finance Director of Barratt Developments plc. Ross Ancell also has recent relevant financial experience as Chairman of Churngold Construction Holdings Limited. The biographies and qualifications of the members are shown on pages 34 and 35. The Board has determined that the Audit Committee has competence relevant to the sector in which the Company operates.

The Chairman routinely invites the CEO and the CFO and other senior management to attend meetings of the Committee, along with the Group's internal and external auditors, when required. The Committee also meets with the Group's internal and external auditors without the presence of the Company's management.

### Responsibilities & terms of reference

The role of the Committee is to:

- monitor the integrity of the financial statements of the Company and any formal announcements relating to its financial performance, including any significant financial reporting judgements;
- review and monitor the effectiveness of the Company's internal controls and risk management systems;
- review and monitor the effectiveness of the Company's internal audit function including approval of the annual internal audit plan;
- review the Company's procedures for detecting fraud, preventing bribery and ensuring there are appropriate whistleblowing procedures in place;
- oversee the relationship with the external auditor including their appointment, independence and objectivity and the effectiveness of the external audit process;
- develop the policy on the supply of external audit services by the external auditor, taking into account relevant ethical guidance.

Following a review by the Committee at its meeting in July 2018 the terms of reference of the Committee were updated to include clarification of the Committee's responsibility regarding reviewing the effectiveness of internal controls and risk management in relation to the Group's tax affairs and other minor amendments.

The Committee's updated terms of reference can be found at [www.mjgleesonplc.com](http://www.mjgleesonplc.com)

### Activities during the year

The Committee met on four occasions during the year to 30 June 2018, with both members being in attendance for all meetings. Scheduled Committee meetings generally take place prior to Board meetings and the Committee Chairman provides the Board with a report on the activity of the Committee and the matters of particular relevance to the Board in the conduct of their work. The key activities undertaken by the Committee during the year were:

### Financial reporting

The Committee reviewed the integrity of the Annual Report and formal announcements relating to the Group's financial performance. Since the date of the last annual report, the Committee has reviewed:

- the draft interim results for the 6 months to December 2017 which were reviewed by the Committee at its meeting in February 2018; and
- the draft 2018 Annual Report and preliminary announcement which were reviewed by the Committee at its meeting in September 2018.

At the request of the Board, the Committee considered whether the 2018 Annual Report taken as a whole is fair, balanced and understandable and whether it provides the necessary information for shareholders to assess the Company's performance, business model and strategy. In doing so, the Committee received comments from management and the external auditors at its meeting in September 2018. It also reviewed the annual compliance procedures and management returns that support the Group's financial reporting governance framework and risk management process for the financial year ended 30 June 2018.

The Committee was satisfied that, taken as a whole, the 2018 Annual Report is fair, balanced and understandable and provides sufficient information for shareholders to assess the Company's performance, business model and strategy. The Committee recommended as such to the Board.

### Going concern and viability reporting

The Committee examined the financial forecasts for the Group including scenarios to model the impact of potential downturns in the housing and strategic land markets. These were examined by the Committee in conjunction with both its review of the Annual Report and interim announcement. The Committee satisfied itself, and subsequently the Board, that the going concern basis of preparation continues to be appropriate in the context of the Group's funding and liquidity position.

In accordance with the provisions of the Code, the Committee considered the time period over which it could reasonably assess the Group's ability to continue to trade, taking into account the Group's financial budget review period and operational forecasts. It concluded that this should remain a three-year period as explained on page 41. The Committee received detailed financial analysis based on the Group's latest budgets with sensitivities applied over a three-year period and determined that there was a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due. The Committee recommended statements to this effect to the Board to approve for inclusion in the Annual Report.

The viability statement is shown on page 41 of the Governance Report with further explanation of the timespan and variables considered.



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# AUDIT COMMITTEE REPORT continued

## ***Credit risk monitoring***

The Group carries a number of deferred receivables in relation to land sales. At each of the meetings where the Committee considered going concern and viability, the Committee also separately examined the significant balances due, the level of security held and the performance of the counterparty to date. The Committee satisfied itself that the level of credit risk faced by the Group remains low overall.

## ***Profit recognition***

At its meetings in September 2017 and February 2018, the Committee reviewed the processes, controls and assumptions for recognising margin on development sites including three particular areas: cost inflation, selling prices and contingencies.

As described under “Significant issues considered during the year”, the Committee satisfied itself that the associated processes and controls have continued to operate effectively across the Group and the assumptions applied by management in relation to profit recognition are appropriate.

## ***Work in progress***

At each of its meetings during the year, the Committee reviewed reports from the Group’s internal auditor on the carrying value and recoverability of land and work in progress on selected Gleeson Homes sites. The Committee also received reports on the recoverability and carrying value of work in progress in Gleeson Strategic Land.

As described under “Significant issues considered during the year”, the Committee satisfied itself that the carrying value of land and work in progress remained appropriate.

## ***General data protection regulation (“GDPR”)***

At its meeting in November 2017, the Committee examined the impact and readiness of the Group for GDPR which became effective in May 2018. The findings were based on a significant audit of data held by the Group that was conducted by management with support from a specialist third party GDPR adviser. The Committee was then updated on the measures taken by the Group to address the requirements of GDPR, including publishing of new privacy notices on the Company’s website.

## ***Tax affairs of the Group***

At its meeting in November 2017, the Committee received guidance from the Group’s tax advisers on the Senior Accounting Officer (“SAO”) regime which applies when the Group’s aggregate annual turnover exceeds £200m. Management have begun preparations including the assessment of tax risks across the Group, which form part of the Group’s risk register, and examining the effectiveness of controls relating specifically to the tax affairs of the Group.

## ***Corporate criminal offence (“CCO”)***

At the Board meeting in May 2018, the Board reviewed the Group’s CCO risk register and policy. The Board delegated responsibility for ongoing review and monitoring of CCO risks to the Audit Committee. The CCO risk register and actions undertaken by the Group will be reviewed by the Committee every six months at its meetings in February and September.

## ***Review of legacy matters***

The Committee received and reviewed reports on claims associated with the legacy business, being the contracting and engineering businesses sold more than 10 years ago. Whilst the level of claims has reduced to an insignificant level, the Committee, in conjunction with the CFO, continues to monitor the status of claims and any liabilities.

## ***Group accounting policies manual***

At its meeting in February 2018, the Committee reviewed and approved an updated version of the Group accounting policies manual. This included accounting treatments in relation to new standards, principally IFRS 9 “Financial instruments”, IFRS 15 “Revenue from contracts with customers” and IFRS 16 “Leases”. Other than these updates, there were no material changes to the accounting policies being applied by the Group.

## ***Review of the Group’s risk register***

The Committee reviewed the Group’s risk register at each of its meetings during the year such that, as the operational, political and economic environment changes, the Committee understands the risks faced by the Group and how these are addressed. This enables the Committee and the Board to ensure that the major risks facing the Group are monitored and that appropriate controls and mitigations are in place. As a result, the Committee and the Board understand and manage the balance of risks in the business.

## ***IT risk review***

At its meeting in November 2017, the Committee reviewed the results of a Group IT risk assessment which included third party testing of its IT infrastructure, network security, and vulnerability to potential cyber attack. The Group maintains its IT systems and infrastructure in line with industry standards and continues to take action to address any vulnerabilities identified as its IT environment evolves.

## ***Internal audit plan and findings***

The Committee set the internal audit plan for the year ended 30 June 2018 at its meeting in June 2017. As covered under “Internal audit”, the Committee received and reviewed reports from the internal auditor throughout the year on internal audits conducted across the business.

## ***Other activities***

During the year, the Committee also reviewed reports on site overages in Gleeson Homes, the subcontractor administration process and the format of key control questionnaires and compliance returns that divisional management are required to complete annually.

## ***Significant issues considered during the year***

The significant issues considered by the Committee during the year are those that present a risk of material misstatement to the Group’s financial statements being:

## ***Carrying value of land and work in progress***

The most significant asset carried by the Group is inventory, which includes work in progress and land. The Group carries inventories at the lower of cost and net realisable value, which is dependent on estimates of total build or land promotion costs and future selling prices. There is, therefore, a risk that land and work in progress is held at a value in excess of the lower of cost and net realisable value.

In addition, the allocation of inventories to cost of sales on the sale of individual homes is dependent on the estimates of total build costs and future selling prices for each site as a whole. These estimates, therefore, impact on the timing and amount of profit margin recognised on sales of individual homes.

The Committee monitors the effectiveness of internal controls exercised over the key processes employed by the Group in site development activities and the forecasting of future costs, revenues and profits.

The Committee receives regular reports regarding sales of homes and the costs and possible future costs relating to individual sites. As covered under “Activities during the year”, the Committee reviewed the assumptions applied by management supporting the profit margin to be recognised on the sale of individual homes and concluded that they remain appropriate.

As covered under “Activities during the year”, the Committee also receives regular reports on the carrying value of land and work in progress in Gleeson Homes and Gleeson Strategic Land. The Committee reviewed these reports and debated them with the internal auditor and with management. The Committee satisfied itself that the carrying value of land and work in progress across the Group remained appropriate.

### Effectiveness of internal controls and risk management systems

The Committee is responsible for reviewing and monitoring the effectiveness of internal controls and risk management systems on behalf of the Board. The Group’s system of internal control includes the following processes:

- The Board and management committees meet regularly to monitor performance against key performance indicators which include cash management and financial and operational measures. A variety of financial and non-financial reports are produced to facilitate this review process.
- The Board has established defined lines of authority to ensure that significant decisions are taken at an appropriate level.
- The Group employs individuals of appropriate calibre and provides any training that is necessary to enable them to perform their role effectively. Key objectives and opportunities for improvement are identified through annual performance and development reviews.
- Each division has defined procedures and controls to identify and minimise business, operational and financial risks. These procedures include segregation of duties, provision of regular performance information and exception reports, approval procedures for key transactions and the maintenance of proper records. Compliance with these procedures and controls is certified annually by management to the Committee.
- The Group’s programme of insurance covers the major risks to the Group’s assets and business and is reviewed annually.
- Authorities are in place that require divisional management to refer all investment and divestment decisions that exceed prescribed limits to either the Group Capital Committee or the Board for approval.

Regular reviews are undertaken in order to identify any changes in procedure that may be required in the light of changing circumstances.

The effectiveness of the overall internal control framework and risk management process is monitored by both the Audit Committee and the Board. As part of this, the Committee reviews the annual compliance returns completed by each divisional management team which confirm that key financial controls have been in operation throughout the year and that an effective control environment has been maintained.

Each divisional management team also completes an annual risk assessment. The results of this are reviewed by the Committee and risks identified are incorporated into the Group risk register. The Operating Risk Statement on pages 30 and 31 sets out details of various risks that the business may face and how it mitigates them.

The Committee has satisfied itself that an appropriate system of internal controls and risk management processes have been maintained throughout the year to safeguard shareholder interests as well as the Group’s assets in accordance with the requirements of the Code.

### Whistleblowing arrangements

The Company has operated a whistleblowing arrangement throughout the year whereby all employees of the Group are able, via an independent external third party, to confidentially report any malpractice or matters of concern they have regarding the actions of employees, management and Directors and any breaches of the Company’s anti-bribery and corruption policy.

The Committee reviews the output of malpractice reporting every six months at its meetings in February and September.

### Anti-bribery and corruption policy

The Company values its long-standing reputation for ethical behaviour and integrity. Conducting its business with a zero tolerance approach to all forms of corruption is central to these values, the Group’s image and reputation. The Company policy sets out the standards expected of all Group employees in relation to anti-bribery and corruption and the Board has overall responsibility for ensuring this policy complies with the Group’s legal and ethical obligations and that everyone in the organisation complies with it.

This policy is also relevant for third parties who perform services for or on behalf of the Group. The Group expects those persons to adhere to this policy or have in place equivalent policies and procedures to combat bribery and corruption.

The Committee reviews a report on the registers of gifts and hospitality given or received by Directors and employees of the Group every six months at its meetings in February and September.

### Internal audit

The Committee is responsible for reviewing and approving the annual internal audit plan. This continues to cover a broad scope of activities across the Group focused on areas of risk and management judgement.

During the year, the Committee received eighteen reports from the internal auditor on the findings of internal audits conducted throughout the business, together with proposed recommendations to rectify any issues identified. The findings of these reports were actively debated by the Committee with the internal auditor and with management.



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## AUDIT COMMITTEE REPORT continued

The Committee reviewed the effectiveness of the internal audit function and concluded that it has operated effectively and provided a suitable level of independent scrutiny across the operations of the Group.

### External audit

PricewaterhouseCoopers LLP were reappointed as the Company's auditor following approval by shareholders at the AGM on 7 December 2017.

At its meeting in February 2018, PricewaterhouseCoopers LLP provided their audit strategy memorandum for the Committee, identifying their assessment of key risks in the Group's financial reporting. For the 2018 financial year, as in prior years, the primary risk identified was in relation to the carrying value of land and work in progress.

The Committee formulates and oversees the Group's policy on monitoring external auditor objectivity and independence in relation to non-audit services. As a result of the EU Audit Reforms Regulations (as amended 11 June 2016) the auditor is excluded from undertaking a range of work on behalf of the Group to ensure that the nature of non-audit services performed or fee income earned relative to the audit fees does not compromise and is not seen to compromise the auditor's independence, objectivity or integrity.

For the year to 30 June 2018, there were no non-audit fees paid to the external auditor, PricewaterhouseCoopers LLP. Details of the audit fees incurred are disclosed in note 4 to the financial statements.

The Committee assesses the effectiveness of the external audit process annually with the auditor and with management. The Committee holds private meetings with the auditor on an annual basis. Matters discussed include the auditor's assessment of business risks and management activity thereon, the transparency and openness of interactions with management and confirmation that there has been no restriction in scope placed on them by management.

The Committee ensures that the auditor has exercised its professional scepticism. The Committee has reviewed and is satisfied with the performance of PricewaterhouseCoopers LLP. The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the next AGM of the Company on 6 December 2018.







# REMUNERATION COMMITTEE REPORT



“I am pleased to have the opportunity to set out the Group’s remuneration strategy and the way it has been implemented during the year.”

**Ross Ancell**

Chairman of the Remuneration Committee

## Statement from the Chairman of the Remuneration Committee

Dear Shareholder,

I am pleased to introduce this report and set out how the Group’s Remuneration Policy has been applied during the year. There have been no changes to the Remuneration Policy since it was approved by shareholders at the December 2016 AGM, however, details of the policy are included in this report.

Our Remuneration Report is split into three parts:

- this letter, which provides an introduction to the remuneration report;
- a copy of the Group’s Remuneration Policy that was approved by shareholders at the December 2016 AGM; and
- the Annual Report on Remuneration, which describes how the policy was implemented in the year to June 2018 and the plans for the year to June 2019.

## Context to the Committee decisions

The Group delivered another set of strong results during the year with profit before tax from continuing operations increasing by 12.1% to £37.0m. Cash generation has been strong with cash flow before dividends increasing by 9.6% to £21.6m enabling total dividends to increase by 33.3% to 32 pence per share.

## 2018 Executive remuneration outcomes

During the financial year the Committee undertook its annual review of the Executive Directors’ base salaries and agreed the performance targets for the annual bonus for 2018.

## Annual bonus

The Group continued to perform well during the year to 30 June 2018. The performance condition for two thirds of the CEO’s annual bonus and the whole of the CFO’s annual bonus was the achievement of Group profit before tax for both continuing and discontinued operations of between £33.5m and £36.5m. The Group achieved profit before tax for both continuing and discontinued operations of £36.8m, which is an increase of 12.2% against the previous year.

The performance condition for one third of the CEO’s annual bonus was the achievement of strategic performance targets set by the Committee at its meeting in September 2017. These targets were focused on succession planning with specific actions to be undertaken by the CEO during the year.

The Committee reviewed the performance of the CEO against these strategic performance targets at its meeting in September 2018 and agreed that the targets set for the year to 30 June 2018 had been met.

Accordingly, annual bonus payments for 2018 will be made at 100% of the base salary for the CEO and 100% of base salary for the CFO, both to be paid in cash.

## Long term incentive plans (LTIP)

Vesting of the September 2014 long term incentive plan award for the CEO, which matured in September 2017, was based upon a three year performance condition which ended on 30 June 2017. The performance condition was the total shareholder return (“TSR” defined as the average share price measured over the three months prior to the end of the performance period plus cumulative dividends over the measurement period) achieving £6.00 per share by 30 June 2017. The performance condition was met in full and accordingly 100% of the award, being 290,769 shares, vested to the CEO on 1 October 2017.

The September 2015 long term incentive award for the CEO and CFO achieved the three year performance condition which ended on 30 June 2018. The performance condition was based on the TSR achieving £6.15 per share by 30 June 2018. The performance condition was met in full and accordingly 100% of the award, being 250,737 shares to the CEO and 28,421 shares to the CFO, will vest in full on 30 September 2018.

The Committee granted further conditional share awards on 26 September 2017. These were based on 300% of base salary for the CEO, being 221,538 share awards, and 150% of base salary for the CFO, being 69,231 share awards. These will vest in whole or in part on 30 June 2020 if the performance conditions have been met and are subject to a two-year holding period following the performance period. The performance condition is based on the TSR achieving £8.00 per share by 30 June 2020.

## 2019 Executive remuneration decisions

The focus of the remuneration policy for the Executive Directors continues to have a significant proportion of remuneration be performance-related and linked closely to the Group’s long term strategy.

Reflecting investor feedback on our previous approach to retrospectively disclose LTIP targets, the Committee has taken the decision to disclose these targets if they have been set by the date of publishing the Annual Report. This approach has been



adopted immediately and the targets for the 2018 LTIP awards are disclosed in the following sections. Greater clarity has also been provided in respect of the non-financial measures of the CEO's annual bonus in response to investor feedback.

#### **Base salary**

In line with the average base salary increase to salaried employees and in recognition of the strong performance of the Group and progress towards its long term strategy, the Committee increased the base salary of the CEO by 5.2% to £505,000 from 1 July 2018. This increase follows an increase of 20% in the previous year.

Similarly, the Committee increased the base salary of the CFO by 5.0% to £315,000 from 1 July 2018. This increase follows an increase of 20% in the previous year.

#### **Annual bonus**

The maximum amount payable under the annual bonus scheme will be 110% of base salary for the CEO and 100% of base salary for the CFO. For the CEO, two thirds of the award will be based on profit targets and one third on personal or strategic performance targets. For the CFO, the performance condition remains wholly linked to profit targets.

At its meeting in September 2018, the Committee agreed that the performance condition for two thirds of the CEO's annual bonus and the whole of the CFO's annual bonus is set on the achievement of Group profit before tax. The Committee is satisfied that this has been set at a level that presents a very stretching target.

The performance condition for one third of the CEO's annual bonus is based on progress against strategic performance targets. At its meeting in September 2018, the Committee agreed these targets will again focus on succession planning with specific actions to be undertaken by the CEO during the current financial year.

#### **Long term incentive plans (LTIP)**

The Committee intends to grant further conditional share awards at 150% of base salary for the CFO. As in previous years the award will be conditional on the TSR measured over a period of three financial years and will be subject to a two-year holding period following the performance period. The performance condition is based on the TSR achieving a target of £10.00 per share by 30 June 2021.

In line with the letter from the Remuneration Committee that accompanied the 2016 AGM resolutions, there will be no grant of share awards to the CEO in the financial year to 30 June 2019. This was to reflect the adoption of the one-off CEO award.

#### **One-off CEO award**

As approved by shareholders at the December 2016 AGM, the one-off CEO award of £3.0m is payable on achievement of the earlier of:

- achieving a total shareholder return of £10.00 per share at 30 June 2019 or cessation if earlier, measured over an average of 180 days up to 30 June 2019; or
- a change of control or substantial exit prior to 30 June 2019 provided that the event is deemed by the Committee to have delivered value to shareholders.

Consequently, the one-off CEO award is in its final year of measurement in the year to 30 June 2019. At the date of this report, no amounts have been accrued in respect of the one-off CEO award.

#### **Gender pay gap**

Gender pay has been extensively reported on in the press recently and, during the year, the Committee reviewed and debated the gender pay statistics for the Group. This shows that the Group's median gender pay gap is around 0.7% versus the national average of 18.4%.

Whilst this shows that the Group is performing better than the national average and most other housebuilders, the Committee is committed to making sure that the Group continues to reduce its gender pay gap. The Group is currently looking at different ways to recruit more females into apprenticeship roles and to develop and promote existing female staff into roles that have traditionally been male occupied.

The Group's gender pay report is published on its website and can be found at [www.mjgleesonplc.com](http://www.mjgleesonplc.com)

#### **Real Living Wage**

The Group is proud to be the only major housebuilder to be accredited by the Living Wage Foundation. It pays all of its employees the real Living Wage or higher with the only exception being for apprentices, where it pays above the Government's guidelines for apprentices.

The Committee looks closely at market data when it comes to approving employee pay and rewards to ensure that these remain competitive and enable the Group to attract and retain good quality staff.

#### **Ross Ansell**

Chairman, Remuneration Committee  
14 September 2018

# REMUNERATION POLICY REPORT

This part of the report sets out the remuneration policy for the Group and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy has been developed taking into account the principles of the UK Corporate Governance Code and the views of our major shareholders and describes the policy that was approved by shareholders at the AGM on 8 December 2016.

## Policy overview

In setting the remuneration policy for the Executive Directors, the Committee takes into account the following general principles:

- to attract, retain and motivate the best possible person for each position, while aligning remuneration with shareholder interests;
- to ensure that the remuneration packages are simple and fair in design so that they are valued by participants;
- to ensure that the fixed element of remuneration (salary, pension and other benefits) is determined in line with market rates, taking account of individual performance and experience, and that a significant proportion of the total remuneration package is determined by performance;
- to recognise the importance of rewarding exceptional performance (but not under-performance) in both the short and long term;
- to set carefully all targets and associated sliding scale ranges to ensure that performance is incrementally rewarded and that executives are not inadvertently motivated to take inappropriate business risks (including environmental, social, health, safety and governance risks); and
- to provide a significant proportion of performance linked pay in shares allowing executives to build significant shareholdings in the business, thereby, aligning the executive's interests with those of the Company's shareholders.

## Components of Directors' remuneration

The key elements of the remuneration package for each Director are set out in the table below:

Element	BASE SALARY
<b>Purpose and link to strategy</b>	Provides a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Group's strategy.
<b>Operation</b>	<p>Salaries are normally reviewed annually.</p> <p>Salary levels are set with reference to:</p> <ul style="list-style-type: none"> <li>• personal performance</li> <li>• inflation and earnings forecasts</li> <li>• increases elsewhere in the Group</li> <li>• Company performance</li> <li>• state of the marketplace generally</li> <li>• similar roles in the workforce generally</li> </ul> <p>The Committee may on occasion recognise a change in circumstances such as assumed additional responsibility or an increase in the scale or scope of the role.</p> <p>Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.</p> <p>There are no provisions for recovery or withholding of payment.</p>
<b>Maximum opportunity</b>	<p>The Committee ensures that maximum salary levels are positioned in line with companies of a similar size and complexity.</p> <p>Salary increases for Executive Directors will take into account the increase in salaries for all employees.</p> <p>The Company will set out in the section headed Annual Report on Remuneration, in the following financial year, the salaries for that year for each of the Executive Directors.</p>
<b>Performance targets</b>	N/A



Element	BENEFITS
<b>Purpose and link to strategy</b>	Provides a benefits package in line with practice relative to comparators to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy.
<b>Operation</b>	<p>The Company provides cash benefits and benefits in kind to Executive Directors. These include but are not limited to:</p> <ul style="list-style-type: none"> <li>• Company car or cash equivalent</li> <li>• private fuel</li> <li>• private medical insurance – family cover</li> <li>• life insurance</li> <li>• permanent health insurance</li> <li>• annual health check</li> <li>• holiday and sick pay</li> <li>• professional subscriptions</li> <li>• reimbursement of expenses incurred on Group matters</li> </ul> <p>The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment.</p> <p>There are no provisions for recovery or withholding of payment.</p>
<b>Maximum opportunity</b>	<p>The value of benefits is based on the underlying cost to the Group and individual circumstances.</p> <p>There is no prescribed maximum but benefits are in line with market practice.</p>
<b>Performance targets</b>	N/A
Element	PENSION
<b>Purpose and link to strategy</b>	Provides a pension provision in line with practice relative to comparators to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy.
<b>Operation</b>	<p>The Company will contribute to the Group's defined contribution pension scheme, or to personal pension arrangements at the request of the individual. The Company contributes at an agreed percentage of salary.</p> <p>The Company may also consider a cash alternative (e.g. where a Director has reached the HMRC's lifetime or annual allowance limit).</p> <p>Other than basic salary, no element of the Directors' remuneration is pensionable. Salary supplements are not included in base salary to calculate other benefits and incentive opportunities.</p> <p>There are no provisions for recovery or withholding of payment.</p>
<b>Maximum opportunity</b>	<p>The maximum Company contribution or pension allowance is 25% of salary.</p> <p>Directors who are members of the pension scheme may elect to exchange part of their salary in return for pension contributions.</p>
<b>Performance targets</b>	N/A

## REMUNERATION POLICY REPORT continued

Element	ANNUAL BONUS
<b>Purpose and link to strategy</b>	To incentivise the achievement of key financial and strategic targets for the forthcoming year without encouraging excessive risk taking.
<b>Operation</b>	<p>The Committee will determine the bonus to be delivered following the end of the relevant financial year.</p> <p>The Company will set out in the section headed Annual Report on Remuneration the nature of the targets and details of the performance conditions, weightings and their level of satisfaction for the year being reported.</p> <p>Normally payable in cash, but Executive Directors may elect to have their bonus payable in shares.</p> <p>Performance targets are reviewed annually by the Committee and can include financial and non-financial targets.</p> <p>The Committee has the discretion to override the formulaic outturn of the bonus to determine the appropriate level of bonus payable where it believes the outcome is not truly reflective of performance and to ensure fairness to both shareholders and participants.</p> <p>Malus and Clawback provisions apply.</p> <p>The circumstances in which the Malus clause may apply include: material errors or misstatements in the audited financial statements of the Group or any Group company; discovery of errors, inaccuracies or misleading information used to achieve targets, conditions, bonus or share awards; fraud or gross misconduct; and events or behaviour leading to censure by a regulatory authority or leading to significant reputational damage.</p> <p>Clawback trigger events include: material errors or misstatements in the audited financial statements of the Group or any Group company; discovery of errors, inaccuracies or misleading information used to achieve targets, conditions, bonus or share awards; fraud or gross misconduct; and events or behaviour leading to censure by a regulatory authority or leading to significant reputational damage.</p>
<b>Maximum opportunity</b>	<p>Maximum opportunity of 150% of base salary.</p> <p>Percentage of bonus maximum earned for levels of performance:</p> <p>Threshold: 0%</p> <p>Maximum: 100%</p>
<b>Performance targets</b>	<p>An award under the annual bonus is subject to satisfying financial and strategic/operational performance/personal performance conditions and targets measured over a period of one financial year.</p> <p>A minimum of two thirds of the bonus shall be based on financial performance measures.</p> <p>The Committee will determine the bonus to be delivered following the end of the relevant financial year.</p> <p>The Company will set out in the section headed Annual Report on Remuneration, the performance targets for that year for each of the Executive Directors.</p> <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> <li>change the performance measures and targets and the weighting attached to the performance measures and targets part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and</li> <li>make downward or upward adjustments to the amount of bonus earned resulting from the application of the performance measures, if the Committee believe that the bonus outcomes are not a fair and accurate reflection of business performance.</li> </ul> <p>Any adjustments or discretion applied by the Committee will be fully disclosed in the Annual Report on Remuneration.</p> <p>The financial targets incorporate an appropriate sliding scale range around a challenging target.</p>

Element	LONG TERM INCENTIVE PLAN ("LTIP")
<b>Purpose and link to strategy</b>	<p>The purpose of the LTIP is to incentivise and reward Executive Directors in relation to long term performance and achievement of Company strategy.</p> <p>This will better align Executive Directors' interests with the long-term interests of the Company and act as a retention mechanism.</p> <p>The award is designed to incentivise Executive Directors to maximise Total Shareholder Return ("TSR") by successfully delivering the Company's strategy and to share in the resulting increase in total shareholder value.</p>
<b>Operation</b>	<p>Awards are granted to Executive Directors in the form of a conditional share award, nil cost option or restricted share award.</p> <p>These will vest at the end of a measurement period subject to:</p> <ul style="list-style-type: none"> <li>the Executive Director's continued employment at the date of vesting; and</li> <li>satisfaction of the performance conditions.</li> </ul> <p>Performance targets are reviewed by the Committee for each new award.</p> <p>Details of the performance conditions for grants made in the year are set out in the Annual Report on Remuneration.</p> <p>Amounts equivalent to any dividends or shareholder distributions may be made in respect of awards at vesting, if the Committee so determines.</p> <p>Vested shares will be subject to a two-year holding period, during which participants cannot sell their vested LTIP awards (other than to cover Income Tax and NIC).</p> <p>Malus and Clawback provisions apply.</p> <p>The circumstances in which the Malus clause may apply include: material errors or misstatements in the audited financial statements of the Group or any Group company; discovery of errors, inaccuracies or misleading information used to achieve targets, conditions, bonus or share awards; fraud or gross misconduct; and events or behaviour leading to censure by a regulatory authority or leading to significant reputational damage.</p> <p>Clawback trigger events include: material errors or misstatements in the audited financial statements of the Group or any Group company; discovery of errors, inaccuracies or misleading information used to achieve targets, conditions, bonus or share awards; fraud or gross misconduct; and events or behaviour leading to censure by a regulatory authority or leading to significant reputational damage.</p>
<b>Maximum opportunity</b>	<p>Awards of up to 300% of base salary for the Chief Executive Officer and 200% for other Directors.</p> <p>20% of the award will vest for threshold performance.</p> <p>100% of the award will vest for maximum performance. There is straight line vesting between these points.</p>
<b>Performance targets</b>	<p>The performance condition for LTIP awards is absolute TSR and a fairness test, which would consider the underlying financial performance of the Company, including, but not limited to, the profitability of the Company and shareholder value creation including the ability of shareholders to access this value creation through the liquidity of the shares.</p> <p>The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.</p> <p>No material change will be made to the type of performance conditions without prior major shareholder consultation.</p> <p>In exceptional circumstances the Committee retains the discretion to:</p> <ul style="list-style-type: none"> <li>vary, substitute or waive the performance conditions applying to LTIP Awards if the Board considers it appropriate and that the new performance conditions are deemed reasonable and are not materially less difficult to satisfy than the original conditions; and</li> <li>make downward or upward adjustments to the amount vesting under the LTIP resulting from the application of the performance measures if they believe that the outcomes are not a fair and accurate reflection of business performance.</li> </ul>



## REMUNERATION POLICY REPORT continued

### Element HMRC APPROVED ALL-EMPLOYEE SCHEME

<b>Purpose and link to strategy</b>	The HMRC approved all-employee scheme has been designed to encourage all employees to become shareholders in the Company and thereby align their interests with shareholders.
<b>Operation</b>	The Company operates an all employee scheme in which the Executive Directors are eligible to participate (which is in line with HMRC legislation and is open to all eligible staff).
<b>Maximum opportunity</b>	The maximums set by legislation from time to time.
<b>Performance targets</b>	N/A

### Remuneration policy for Non-Executive Directors

#### Element FEES FOR NON-EXECUTIVE DIRECTORS

<b>Purpose and link to strategy</b>	Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chairman with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.
<b>Operation</b>	<p>Fees for Non-Executive Directors are determined by the Chairman and the Executive Directors.</p> <p>Fees for the Chairman are set by the Remuneration Committee. Fees are set at levels with reference to sector, FTSE Small Cap and general Non-Executive Director benchmarking data as appropriate.</p> <p>Fees are paid in cash and are not performance related. Non-Executive Directors are paid an annual fee and additional fees are paid to the Chairmen of the Audit, Remuneration and Nomination Committees to reflect the additional responsibilities.</p> <p>The Chairman is part of the Group private health scheme. There are no other benefits or incentive schemes for Non-Executive Directors.</p>
<b>Maximum opportunity</b>	<p>There is no prescribed maximum annual increase. In general the level of fee increase for the Non-Executive Directors and the Chairman will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.</p> <p>The Company will set out in the section headed Annual Report on Remuneration the fees for that year.</p> <p>The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these.</p>
<b>Performance targets</b>	N/A

### Selection of performance measures and target setting

In the selection of performance measures the Committee takes into account the Group's strategic objectives and short and long-term business priorities. The performance measures selected reward the delivery of stretching financial performance and the creation of shareholder value.

The performance targets chosen are set in accordance with the Group's operating plan and are reviewed annually to ensure they are sufficiently stretching. In selecting the targets the Committee also takes into account analysts' forecasts, economic conditions and the Committee's expectation of performance over the relevant period.

### Remuneration policy for the broader employee population

The executive remuneration framework set out in this report follows similar principles as that applied to the Group's senior leadership team to ensure our senior management team is rewarded on a consistent basis. Any differences that exist arise either because of the Remuneration Committee's assessment of business need or commercial necessity. The principles that underpin our executive remuneration philosophy also cascade throughout the organisation, although quantum will vary by level and the provision of certain components of remuneration (such as benefits, allowances and long-term incentives) will vary by seniority.

### How the Committee will use its discretion

Incentive plans, including annual bonus and LTIP, will be operated in line with the rules of each scheme or plan together with any relevant laws and regulations. However, it is important that the Committee retains appropriate discretion (as is customary) over the administration and operation of the incentive plans.

Discretion will include, but is not limited to, the following in relation to incentive schemes:

- who is invited to participate or receive grants of awards;
- the size and timing of award grants or payments;
- discretion required when changes or adjustments are required in special circumstances (e.g. change of control, rights issues, special corporate or dividend events, or change in business strategy);
- the annual review of performance measures and targets for the annual bonus and incentive schemes (including LTIP) from year to year;
- the determination of vesting (or payment), and the treatment of leavers and vesting for leavers;
- the annual review of performance measures and weighting, and targets for incentive plans over time; and
- as permitted by HMRC and other regulations, in respect of Sharesave and any Share Incentive Plans.

In relation to incentive schemes including annual bonus and LTIP, the Committee may adjust performance measures and/or targets if these have ceased to be appropriate provided that such adjusted measures or targets will not be materially less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in future Remuneration Reports and may, as appropriate, be the subject of consultation with the Company's major shareholders.

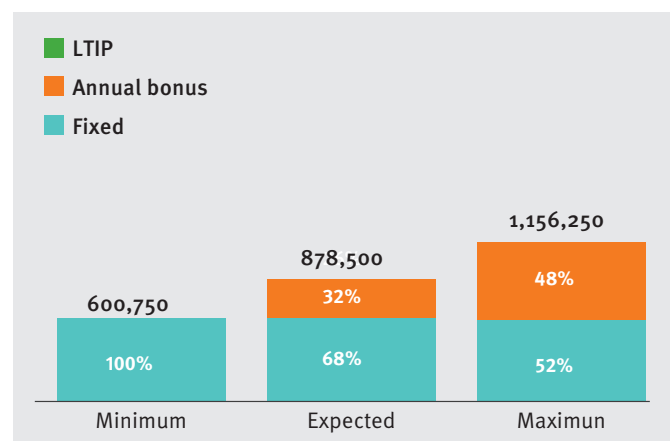
### Legacy arrangements

For the avoidance of doubt, in approving the Policy report, authority is given to the Company to honour any commitments entered into with current and former Directors that have been disclosed previously to shareholders. It is also part of this policy that we will honour payments or awards crystallising after the effective date of this policy but arising from commitments entered into prior to the effective date of the new policy, or at a time when the relevant individual was not a Director of the Company. The Company will also have the authority to meet any claims against the Company arising as a result of a Director's termination.

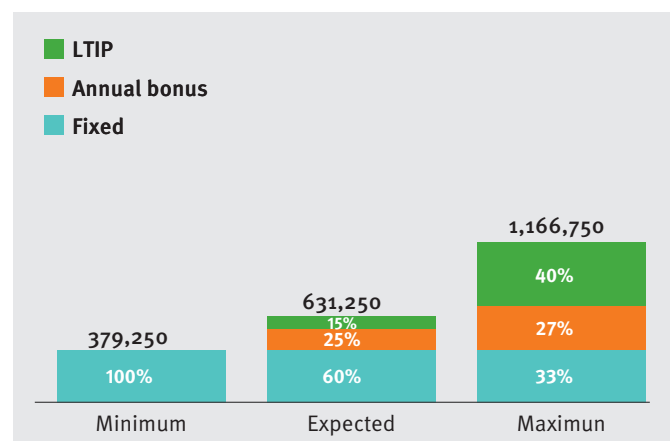
### Illustration of the application of Remuneration Policy

The charts below illustrate how the policy will be applied for the CEO and CFO for the year to 30 June 2019 onwards for three indicative levels of performance – minimum, expected and maximum:

#### Chief Executive Officer



#### Chief Financial Officer



Note: The chart illustrating the future remuneration packages of the CEO excludes the one-off CEO award of £3.0m granted in 2016 as it is a one-off award and does not form part of the recurring remuneration.

# REMUNERATION POLICY REPORT continued

For the purpose of this analysis, the following assumptions have been made:

- fixed elements comprise base salary, pension and other benefits. As an example, for the Chief Executive Officer, fixed elements comprise salary of £505,000, pension of £75,750 and benefits of £20,000;
- base salary levels applying on 1 July 2018;
- benefit levels are assumed to be similar to the year ended 30 June 2018;
- there will be no grant of LTIP awards for the CEO in the year to 30 June 2019;
- minimum performance assumes no award under the annual bonus and no vesting is achieved under the LTIP for the CFO;
- expected performance assumes 50% of the potential maximum annual bonus is earned and threshold vesting at 20% of the award for the LTIP for the CFO;
- maximum performance assumes full bonus pay out and full vesting under the LTIP for the CFO;
- share price movement has been excluded from the above analysis.

Note the one-off CEO award of £3.0m granted in 2016 and conditional on achieving significant shareholder value has not been included in the CEO's scenario chart as it is a one-off award and does not form part of the recurring remuneration. This will vest on 30 June 2019 subject to the performance conditions being met.

## Service agreements and policy in respect of loss of office

All Executive Directors' service agreements are terminable on 12 months notice. In circumstances of termination on notice, the Committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The Committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the Director on garden leave for the notice period.

The dates of the Executive Directors' service agreements who served during the year are:

Executive Director	Date of service agreement
Jolyon Harrison	01/07/12
Stefan Allanson	29/06/15

## Base salary, pension and benefits

In case of payment in lieu of notice or garden leave, base salary, employer pension contributions and employee benefits will be paid for the period of notice served on garden leave or paid in lieu of notice.

## Annual bonus

Where an Executive Director's employment is terminated after the end of a financial year but before the bonus payment is made, the Executive Director may be eligible for a bonus award for that financial year subject to an assessment based on financial and personal performance achieved over the period.

Where an Executive Director's employment is terminated during a financial year, a pro-rata bonus award for the period worked in that financial year may be payable subject to an assessment based on financial and personal performance.

There is no payment in the event of gross misconduct, wilful neglect or certain other specified circumstances.

## Long Term Incentive Plan

Awards under the Long Term Incentive Plan will be determined by the Plan rules which contain discretionary "good" leaver provisions for designated reasons (i.e. participants who leave early on account of injury, disability, death, a sale of their employer or business in which they were employed, statutory redundancy, retirement or any other reason at the discretion of the Committee). In these circumstances a participant's awards will not be forfeited on cessation of employment and instead will vest on the normal vesting date. In exceptional circumstances, the Committee may decide that the participant's awards will vest early on the date of cessation of employment. In either case, the extent to which the awards will vest depends on the extent to which the performance conditions have been satisfied and a pro rata reduction of the awards will be applied by reference to the time of cessation (although the Committee has discretion to dis-apply time pro rating if the circumstances warrant it). A two-year holding period will apply in respect of shares that vest in the event of cessation of employment. "Bad" leavers forfeit their awards on cessation of employment.

In the event of a change of control or substantial exit awards will be tested against the relevant performance targets at the date of relevant event. If deemed appropriate, the Committee has discretion to determine whether or not vesting of an award shall be reduced on a pro rata basis to take account of the period of time that has elapsed from the grant date to the date of the relevant event.

## One-off CEO award

For a "good" leaver, the award will be tested against the relevant performance targets on cessation of employment and the level of vesting determined. A "bad" leaver will forfeit their award on cessation of employment.

In the event of change of control or substantial exit within 3 years of grant which is deemed by the Committee to have delivered value to shareholders, the award will vest in full. If the Committee deems that a change of control or substantial event has not delivered value to shareholders, then the award will be forfeited.



### Chairman and other Non-Executive Directors' terms of engagement

The Chairman and the Non-Executive Directors are not employees; they have letters of appointment which set out their duties and responsibilities. The dates of each Non-Executive Directors' original appointment are as follows:

Non-Executive Director	Date of original appointment	Expiry of current term
Dermot Gleeson	27/11/75	30/09/18
Ross Ancell	01/10/06	30/09/18
Colin Dearlove	03/12/07	30/09/18
Christopher Mills	01/01/09	30/09/18

All Non-Executive Directors have specific terms of engagement being an initial period of three years which thereafter may be extended on an annual basis, subject to re-election at each AGM. The appointment of the Chairman may be terminated on six months' notice and the appointment of the other Non-Executive Directors may be terminated on one month's notice.

### Recruitment policy

The remuneration of a new Executive Director will include salary, benefits, pension and participation in the annual bonus and LTIP schemes normally in accordance with the policy for Executive Directors' remuneration. Salaries for new hires will be set to reflect their skills and experience and the market rate for the role.

If it is considered appropriate to appoint a new Director on a below market salary (for example, to allow them to gain experience in the role) their salary may be increased to a market level by way of a series of above inflation increases over two to three years.

Although it is not the Company's policy to provide buy-outs as a matter of course, the Committee may offer additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the Group (and therefore shareholders). Any such payments would be based solely on remuneration lost when leaving the former employer and would reflect the delivery mechanism, time horizons and performance requirement attaching to that remuneration. The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buy-out within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms on grant, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the first AGM following their appointment.

The Committee may also agree that the Company will compensate Executives, both internal and external, for certain relocation expenses as appropriate.

### Statement of consideration of employment conditions elsewhere in the Group

The Committee does not consult with employees on Directors' remuneration but regularly reviews the remuneration of staff throughout the Group to ensure that it is attuned to general pay and conditions when considering the remuneration of Executive pay. For example, in determining salary increases for the Executive Directors the Committee looks at salary increases across the Group.

The Committee is proud of its commitment that all employees are paid no less than the real Living Wage set by the Living Wage Foundation and to disclose the number of higher paid employees in the Group:

### Employees (excluding Board Directors) by pay category

Pay category (base salary)	No. of employees at 30 June 2018
Exceeding £200,000 p.a.	0
Exceeding £100,000 p.a.	11
Above the real Living Wage, below £100,000 p.a.	400
At the real Living Wage	54
Above the Government's guidance for apprentices, but below the real Living Wage	42
Below the real Living Wage	0
<b>Total employees</b>	<b>507</b>

### Statement of consideration of shareholder views

The Committee consults with major shareholders and their representative bodies on remuneration matters, particularly if any material changes are proposed to the remuneration policy. In these instances the Committee seeks feedback from investors and develops and considers its proposals in light of this feedback.

# ANNUAL REPORT ON REMUNERATION

The Remuneration Committee's Annual Report on Remuneration for the year ended 30 June 2018 is set out below, including remuneration for the year ended 30 June 2018 and the proposed implementation of the approved Remuneration Policy for 2019.

The auditor is required to report on the following information up to and including the table on Directors' interest in shares under the Long Term Incentive Plan.

## Single total figure of remuneration for each Director for the year ended 30 June 2018

	2018						2017					
	Salary & fees £000	Benefits £000	Annual bonus £000	Value of LTIP award vesting <sup>1</sup> £000	Pension £000	Total £000	Salary & fees £000	Benefits £000	Annual bonus £000	Value of LTIP award vesting <sup>1</sup> £000	Pension £000	Total £000
<b>Chairman</b>												
Dermot Gleeson	120	1	–	–	–	121	110	1	–	–	–	111
<b>Executive Directors</b>												
Jolyon Harrison	480	18	480	1,873	72	2,923	400	19	400	1,937	60	2,816
Stefan Allanson	300	17	300	212	45	874	250	16	250	–	37	553
<b>Non-Executive Directors</b>												
Ross Ancell	56	–	–	–	–	56	50	–	–	–	–	50
Colin Dearlove	56	–	–	–	–	56	50	–	–	–	–	50
Christopher Mills	45	–	–	–	–	45	40	–	–	–	–	40
	<b>1,057</b>	<b>36</b>	<b>780</b>	<b>2,085</b>	<b>117</b>	<b>4,075</b>	<b>900</b>	<b>36</b>	<b>650</b>	<b>1,937</b>	<b>97</b>	<b>3,620</b>

1 LTIP represents the value of the LTIP awards which vest in respect of a performance period ending in the relevant financial year. The 2017 column has been restated to show the value of 2014 LTIP awards that met the performance conditions at the measurement date of 30 June 2017, rather than those which had vested during the year as previously disclosed. The 2018 column includes the value of the 2015 LTIP awards which will vest in full in September 2018, and has been calculated using the average share price over the last three months of the financial year.

During the year no Director waived his entitlement to any emoluments.

## Notes to the single total figure of remuneration

### Taxable benefits provided to Executive Directors

The main benefits available to the Executive Directors during the year to 30 June 2018 (and their associated values) were: car allowance of £13,000 for Jolyon Harrison and £13,000 for Stefan Allanson; car fuel of £3,523 for Jolyon Harrison and £3,137 for Stefan Allanson; and private medical insurance of £1,436 for Jolyon Harrison and £748 for Stefan Allanson. This package of benefits is unchanged from 2017.

### Determination of annual bonus

The CEO's annual performance-related bonus for the year to 30 June 2018 was based two-thirds upon achieving a profit related target and one third upon achieving a strategic performance target. The CFO's annual performance-related bonus for the year to 30 June 2018 was based wholly upon achieving a profit related target.

The profit related target for both the CEO and CFO was the Group's profit before tax, for both continuing and discontinued operations in the year to 30 June 2018, with the following target figures and straight line vesting between the relevant target figures.

Target	Profit measure £m	Bonus achievable as percentage of salary
Threshold	33.5	0%
Target	36.5	100%

The profit measure achieved for the year to 30 June 2018 was £36.8m, as per the basis of calculation above. Accordingly, the profit target was met for the year.

The performance condition for one third of the CEO's annual bonus was the achievement of strategic performance targets set by the Committee at its meeting in September 2017. These strategic performance targets were centred on succession planning with specific actions to be undertaken by the CEO during the year.

The Group is now in its second successful year of a leadership development programme that is being externally led and, in July 2018, a new MD for the Homes division and a COO for the Homes division were internally appointed.

The Committee reviewed the performance of the CEO against the strategic performance targets at its meeting in September 2018 and agreed that the targets set for the year to 30 June 2018 had been met.

As a result, the annual bonus payments for 2018 will be made, in cash, at 100% of base salary for the CEO and 100% of base salary for the CFO.

#### Long Term Incentive Plan

The LTIP delivers shares to the Executive Directors subject to performance targets being reached. The performance target is based on total shareholder return ("TSR") which is defined as the average share price measured over the three months prior to the end of the performance period plus cumulative dividends over the measurement period.

At 30 June 2017, the September 2014 long term incentive plan award for the CEO achieved the three year performance condition. The performance condition was the TSR achieving £6.00 per share by 30 June 2017. The performance condition was met in full and accordingly 100% of the award, being 290,769 shares, vested to the CEO on 1 October 2017.

At 30 June 2018, the September 2015 long term incentive award for the CEO and CFO achieved the three year performance condition. The performance condition was based on the TSR achieving £6.15 per share by 30 June 2018. The performance condition was met in full and accordingly 100% of the award, being 250,737 shares to the CEO and 28,421 shares to the CFO, will vest in full on 30 September 2018.

#### Pension

The Executive Directors are eligible to participate in the MJ Gleeson Group Pension Plan, a defined contribution arrangement and both Executive Directors are members of the Plan. The CEO received pension contributions of 15% of salary (2018: £72,000) and the CFO received pension contributions of 15% of salary (2018: £45,000).

#### Directors' shareholdings and share interests

The share interests of the Directors serving during the year and of their connected persons in the ordinary share capital of the Company are as shown below:

Director	30 June 2018	30 June 2017
Dermot Gleeson	1,086,821	1,086,821
Jolyon Harrison	1,895,933	1,734,126
Stefan Allanson	16,453	16,073
Ross Ancell	–	–
Colin Dearlove	–	–
Christopher Mills <sup>1</sup>	6,109,640 <sup>1</sup>	10,055,000 <sup>1</sup>

<sup>1</sup> Shares are held by funds managed by Harwood Capital LLP of which Christopher Mills is a Member/Director.

None of the shares held are subject to performance conditions. There are no share ownership requirements for the Directors.

#### Directors' interest in shares under the Long Term Incentive Plan

Director	Scheme	30 June 2017	Granted during year	Exercised during year	Lapsed in year	Share price at date of grant of award	Total interests outstanding at 30 June 2018	Shares vested but not exercised	Date from which share may be exercised
J Harrison	PSP 2014	290,769	–	290,769	–	£3.90	–	–	N/A
	PSP 2015	250,737	–	–	–	£4.82	250,737	–	30/09/18
	LTIP 2016	210,526	–	–	–	£5.70	210,526	–	30/06/19
	LTIP 2017	–	221,538	–	–	£6.50	221,538	–	30/06/20
S Allanson	PSP 2015	28,421	–	–	–	£4.82	28,421	–	30/09/18
	LTIP 2016	65,789	–	–	–	£5.70	65,789	–	30/06/19
	LTIP 2017	–	69,231	–	–	£6.50	69,231	–	30/06/20

The middle market price on 30 June 2018 was £7.94 and the range during the year to 30 June 2018 was between £6.05 and £8.10.



# ANNUAL REPORT ON REMUNERATION continued

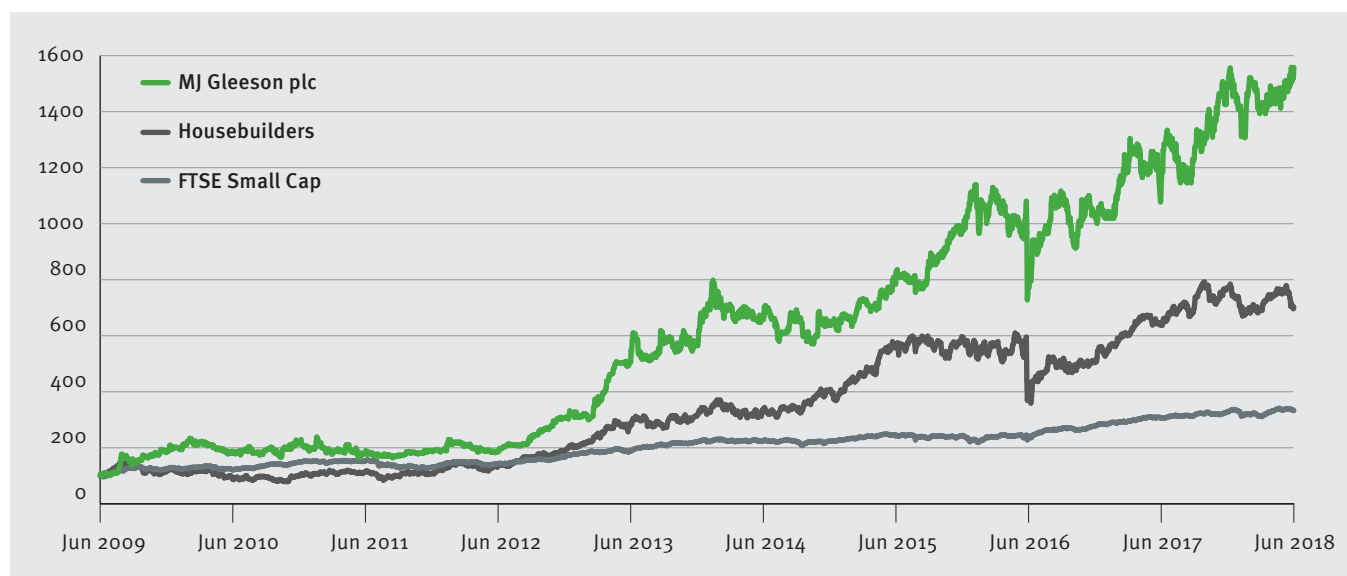
The Committee granted further conditional share awards on 26 September 2017. These were based on 300% of base salary for the CEO, being 221,538 share awards, and 150% of base salary for the CFO, being 69,231 share awards. These will vest in whole or in part on 30 June 2020 if the performance conditions have been met and are subject to a two-year holding period following the performance period. The performance condition is based on the TSR as shown below:

September 2017 LTIP awards	Number of shares awarded	Threshold award at £7.20, 20% of award made £	Maximum award at £8.00, 100% of award made £
Jolyon Harrison	221,538	319,015	1,772,304
Stefan Allanson	69,231	99,693	553,848

## Total Shareholder Return performance

We have compared the Company's total shareholder return performance over the last nine years with the total shareholder return for the FTSE Small Cap Index, of which the Company is a member, and a comparator index of listed housebuilders. The comparator group consists of a group of listed housebuilders comprising Barratt Developments, Bellway, Bovis Homes, Crest Nicholson, Persimmon, Redrow, Taylor Wimpey and Telford Homes.

### MJ Gleeson plc Total Shareholder Return ("TSR") comparison to peer group and index 30 June 2009 to 30 June 2018



## Chief Executive Officer's remuneration 2011 to 2018

Year	Chief Executive Officer	Single figure of total remuneration £	Annual bonus paid against maximum opportunity	LTIP awards vesting against maximum opportunity
2018	Jolyon Harrison	2,922,759	100%	100%
2017 <sup>3</sup>	Jolyon Harrison	2,815,860	100%	100%
2016 <sup>3</sup>	Jolyon Harrison	873,174	100%	— <sup>1</sup>
2015 <sup>3</sup>	Jolyon Harrison	2,917,271	100%	100%
2014	Jolyon Harrison	793,107	100%	— <sup>1</sup>
2013 <sup>3</sup>	Jolyon Harrison <sup>2</sup>	1,614,646	81%	100%
2012	N/A <sup>4</sup>	—	—	—
2011	Chris Holt	416,608	0%	— <sup>1</sup>

1 No LTIP met their performance conditions for vesting.

2 Jolyon Harrison appointed Chief Executive Officer from 1 July 2012.

3 The single figure of total remuneration has been restated to show the value of LTIP awards that had met their performance conditions at each year end measurement date, rather than the value of awards vesting during each year as previously reported.

4 No Chief Executive Officer held office during 2012.

### Chief Executive Officer's change in remuneration

Set out below is a comparison of the change in remuneration of the CEO from 30 June 2017 to 30 June 2018, compared to the change in remuneration of the Group's salaried employees, excluding Executive Directors.

	Percentage change from 2017 to 2018		
	Annual salary	Bonus	Value of taxable benefits
Chief Executive Officer	20.0%	20.0%	(6.4)%
Average of salaried employees	4.3%	(3.0)%	(7.5)%

### Relative importance of spend on pay

Set out below is the amount spent on remuneration for all employees of the Group (including Executive Directors) and the total amounts paid in distributions to shareholders over the year.

	2018 £m	2017 £m	Difference in spend £m	Difference as percentage
Remuneration for all employees	26.2	20.3	5.9	29.1%
Total distributions paid	14.4	8.9	5.5	61.8%

### Implementation of the Policy for the year to 30 June 2019

#### Executive Directors

##### Base salaries

After taking into consideration the increases to Group employees' salaries on 1 July 2018 (monthly paid employees received an average 5.2% base salary increase), the Committee has awarded salary increases of 5.2% to the CEO and 5% to the CFO from 1 July 2018.

	Base salary from 1 July 2018 £	Base salary for the year to 30 June 2018 £
Jolyon Harrison	505,000	480,000
Stefan Allanson	315,000	300,000

##### Annual bonus

The maximum bonus that can be earned in the year will be 110% of base salary for the CEO and 100% of base salary for the CFO. This is in line with last year for the CFO and an increase of 10% for the CEO. This was agreed by the Committee at its meeting in September 2018 following a review of external benchmarking data.

At its meeting in September 2018, the Committee agreed that the performance condition for two thirds of the CEO's annual bonus and the whole of the CFO's annual bonus is set on the achievement of Group profit before tax for both continuing and discontinued operations for the year to 30 June 2019. Whilst disclosure of the target is considered to be commercially sensitive, the Committee are satisfied this has been set at a level that presents a very stretching target. It is the intention that the target will be disclosed in the 2019 Annual Report on Remuneration.

The performance condition for one third of the CEO's annual bonus is based on progress against strategic performance targets. At its meeting in September 2018, the Committee agreed these targets will again focus on succession planning with specific actions to be undertaken by the CEO during the current financial year.

##### Long Term Incentive Plan (LTIP)

The Committee proposes to make an award to the CFO in the year to 30 June 2019, in line with the policy approved by shareholders at the 2016 AGM. This award is expected to be at 150% of salary for the CFO.

The performance measures will include an absolute TSR target and a fairness test which would consider the underlying financial performance of the Company, including, but not limited to, the profitability of the Company and shareholder value creation including the ability of shareholders to access this value creation through the liquidity of the shares. The performance condition is based on the TSR achieving a target of £10.00 per share by 30 June 2021.

In line with the letter from the Remuneration Committee that accompanied the 2016 AGM resolutions, there will be no grant of share awards to the CEO in the financial year to 30 June 2019. This was to reflect the adoption of the one-off CEO award.

##### Pension

There are no changes to pension benefits for 2019 other than to increase in line with salary; current arrangements are set out on page 65. Executive Directors may opt to receive a cash allowance in lieu of pension payments in line with the policy approved by shareholders at the 2016 AGM.

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# ANNUAL REPORT ON REMUNERATION continued

## ***Chairman and Non-Executive Directors fees***

The Committee has agreed that the Chairman's fee for 2019 should increase by £5,000, to £125,000 with effect from 1 July 2018 which includes the additional fee of £10,500 for chairing the Nomination Committee. This increase was made to reflect the increase in workload as the Group grows and as governance requirements develop. An external benchmarking exercise was also performed.

The Board as a whole determine the fees for the Non-Executive Directors. The fees for the Non-Executive Directors increased by £2,250 to £47,250 plus an additional, unchanged, fee of £10,500 for chairing a Board Committee. The increase was made again to reflect the increasing workload as the Group grows and following an external benchmarking exercise.

## **The Remuneration Committee**

During the year under review the Committee was chaired by Ross Ancell. The other committee member is Colin Dearlove. Both of the Directors are independent Non-Executive Directors and they have no personal financial interest in matters to be decided, no potential conflicts of interest arising from cross directorships and no day-to-day involvement in running the business.

Biographical details of the members of the Committee are shown on pages 34 and 35, and details of their attendance at the meetings of the Committee during the year ended 30 June 2018 are shown on page 39.

## ***Role and responsibilities of the Remuneration Committee***

The Committee's primary purpose is to make recommendations to the Board on the Group's framework for executive remuneration. The Board has also delegated responsibility to the Committee for determining the remuneration, benefits and contractual arrangements of the Chairman and the Executive Directors. No individual is involved in deciding their own remuneration.

The Committee has written terms of reference, which are available on the MJ Gleeson plc section of its website at [www.mjgleesonplc.com](http://www.mjgleesonplc.com), and its responsibilities include:

- recommending to the Board the policy for Executive and senior management remuneration;
- agreeing the terms and conditions of employment for Executive Directors, including their annual remuneration and pension arrangements, and reviewing such provisions for senior management;
- agreeing the measures and targets for any performance related bonus and share schemes;
- agreeing the remuneration of the Chairman of the Board;
- ensuring that, on termination, contractual terms and payments made are fair both to the Company and the individual so that failure is not rewarded; and
- agreeing the terms of reference of any remuneration consultants that it appoints.

## ***Activities during the year***

The Committee met on three occasions during the year, two of which were scheduled meetings. Papers were circulated in advance of each meeting for all matters considered. The main activities undertaken by the Committee during the year included:

- reviewing and approving the remuneration outcomes of the Executive Directors and senior management for the year ended 30 June 2017 and assessing the fairness of these remuneration outcomes;
- agreeing performance targets for the remuneration of the Executive Directors and senior management for the financial year ended 30 June 2018 and monitoring progress against these targets during the year;
- agreeing proposals for remuneration of the Executive and Non-Executive Directors and application of the Remuneration policy for the year ending 30 June 2019;
- reviewing share awards vesting under the 2014 LTIP grant including the application of discretion to amend the outturn of these awards where appropriate;
- reviewing and approving proposals for staff pay and bonuses including examining benchmarking data and market information from third party advisers;
- reviewing and approving gender pay reporting for the Group;
- appointing remuneration consultants, Ernst & Young LLP who were appointed by the Committee after the year end to advise on technical remuneration and reporting matters; and
- reviewing the terms of reference of the Committee such that these remain appropriate.

## ***Remuneration Committee – Support and Advice***

The Committee is supported by the Human Resources Director, Beth Broughton, and the Company Secretary, Stefan Allanson. The Company also took advice from Ernst & Young LLP who were appointed after the year end. The Committee is satisfied that the appointment of Ernst & Young LLP is in accordance with the Company's policy on the provision of non-audit services to the Group and the external advice received is independent.



### Statement of voting at the Annual General Meeting

At the Annual General Meeting held on 7 December 2017, votes cast by proxy and at the meetings in respect of the Remuneration Report are shown in the table below.

The Board and Remuneration Committee have taken into account shareholder feedback both before and after the AGM. In respect of votes cast against the Remuneration Report, the Committee has actively engaged with shareholders and taken their views into account in preparing the 2018 Remuneration Report. This includes disclosing the measurement targets for the LTIP awards in the year in which the awards are made, rather than retrospectively, and providing greater clarity in respect of the non-financial measures of the CEO's annual bonus.

The Committee has also taken the views of shareholders into account when implementing the remuneration policy for the year to 30 June 2019, in particular in setting the base salaries for the Executive Directors. The Committee has sought to balance the expectations of shareholders with the need to motivate and incentivise the Executive Directors to deliver the Group's strategy, with due consideration to the base salary increases of the wider workforce.

	Votes in favour		Votes against		Total votes cast	Votes withheld
	No.	%	No.	%		
2017 AGM: Approval of the Directors' Remuneration Report	30,875,696	77.05%	9,197,719	22.95%	40,073,415	6,385

## FINANCIAL STATEMENTS







## Financial Statements

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# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Board of Directors confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

**Jolyon Harrison**  
Director

**Stefan Allanson**  
Director  
14 September 2018

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MJ GLEESON PLC

## Report on the audit of the financial statements

### Opinion

In our opinion, MJ Gleeson plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2018 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- 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, included within the Report and Accounts (the "Annual Report"), which comprise: the consolidated income statement; the consolidated statement of comprehensive income; the statement of financial position; the statement of changes in equity; the statement of cash flows; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We have provided no non-audit services to the Group or the Company in the period from 1 July 2017 to 30 June 2018.

## Our audit approach

### Overview



- Overall Group materiality: £1,850,900 (2017: £1,650,000), based on 5% of profit before tax.
- Overall Company materiality: £1,503,000 (2017: £1,567,500), based on 1% of total assets.
- The reporting units where we performed audit work accounted for 100% of the Group's profit before tax and 100% of the Group's total assets.
- Carrying value of land and work in progress.

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MJ GLEESON PLC continued

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<b>Carrying value of land and work in progress</b> We focused upon this area because the value of the Group's land and work in progress represent a significant proportion of assets in the Group statement of financial position.  Further, determining the carrying value of land and work in progress requires a high degree of judgement.  For work in progress in Gleeson Homes, the key judgements include forecasting future costs to complete and selling prices which can be affected by market conditions and unexpected events, whilst land valuations in the segment require provision assessments to take place to ensure that net realisable values are not below cost.  In Gleeson Strategic Land, the valuation of work in progress requires judgement regarding the future viability of each project. Based upon this assessment, it may be necessary to record provisions to determine the final carrying value of work in progress for each site.	<p>For land and work in progress in Gleeson Homes, we:</p> <ul style="list-style-type: none"><li>Assessed the adequacy of controls over site valuations, including costs to complete, sales prices and the authorisation and recording of costs, including testing of controls over the allocation of costs to the correct sites.</li><li>Visited a sample of sites to confirm the existence and condition of the work in progress, and also to evaluate the reasonableness of the assessment of stage of completion.</li><li>Sample tested and agreed certain costs incurred during the year included within land and work in progress to supporting evidence as well as reviewing the proportion of that expenditure recognised as a cost of sale in the year in respect of units sold.</li><li>Tested the percentage completion of units across a sample of sites and checked that forecasts have been appropriately updated for expected costs and selling prices to completion. We also assessed the level of gross margins achieved against those recorded previously and future forecasts.</li><li>Assessed the historical accuracy of management's forecasting.</li><li>Discussed a sample of sites with management in order to assess the reasonableness of net realisable values and corroborated the explanations received back to supporting documentation.</li><li>Performed an independent assessment of cost accruals and build contingency via enquiry and corroboration to supporting evidence.</li></ul> <p>For work in progress in Gleeson Strategic Land, we:</p> <ul style="list-style-type: none"><li>Tested a sample of costs incurred during the year.</li><li>Tested the transfer from work in progress to cost of sales for those sites sold during the year.</li><li>Discussed and challenged the status of a sample of projects with management and corroborated explanations received.</li><li>Recalculated the provision made by management against year-end work in progress by applying the Group's provisioning methodology.</li></ul> <p>Based on the procedures performed we did not identify any material adjustments to the carrying value of the Group's land and work in progress at year end.</p>

We determined that there were no key audit matters applicable to the Company to communicate in our report.

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is organised into two main operating divisions being Gleeson Homes and Gleeson Strategic Land.

The Group financial statements are a consolidation of the 8 reporting units within these two business lines and the Group's centralised functions.

Of the Group's 8 reporting units, we identified 8 which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics.

This, together with additional procedures performed on the Group's centralised functions, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

All work was performed by the Group audit team.



### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Overall materiality</b>	£1,850,900 (2017: £1,650,000).	£1,503,000 (2017: £1,567,500).
<b>How we determined it</b>	5% of profit before tax.	1% of total assets.
<b>Rationale for benchmark applied</b>	The key objective of the Group is to deliver profitable growth to increase long-term shareholder value. As a result, we believe profit before tax is the primary measure used by the shareholders in assessing the performance of the Group and is therefore the appropriate benchmark to use in setting materiality.	The key objective of the Parent Company is to hold investments in the various Group companies. As a result, we believe total assets is the primary measure used by the shareholders in assessing the performance of the Parent Company and is therefore the appropriate benchmark to use in setting materiality.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £67,500 and £1,308,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £92,545 (Group audit) (2017: £82,500) and £75,150 (Parent Company audit) (2017: £82,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MJ GLEESON PLC continued

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## **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

## **The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group**

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 39 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 41 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

## **Other Code Provisions**

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 72, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy, is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 48 to 52 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

## **Directors' Remuneration**

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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## **Responsibilities for the financial statements and the audit**

### **Responsibilities of the Directors for the financial statements**

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual Report and the financial statements set out on page 72, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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's and the 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 Company or to cease operations, or have no realistic alternative but to do so.

**Auditors' 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 auditors' 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting****Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

**Appointment**

Following the recommendation of the Audit Committee, we were appointed by the Directors on 14 November 2016 to audit the financial statements for the year ended 30 June 2017 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 30 June 2017 to 30 June 2018.

**Ian Marsden (Senior Statutory Auditor)**

**for and on behalf of PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

Leeds

14 September 2018



# CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2018

	Note	2018 £000	2017 £000
<b>Continuing operations</b>			
Revenue	2	196,741	160,384
Cost of sales		(131,474)	(103,674)
<b>Gross profit</b>		65,267	56,710
Administrative expenses		(28,670)	(24,051)
Other operating income	5	257	304
<b>Operating profit</b>		36,854	32,963
Finance income	7	418	251
Finance expenses	7	(253)	(202)
<b>Profit before tax</b>		37,019	33,012
Tax	8	(6,526)	(6,488)
<b>Profit for the year from continuing operations</b>		30,493	26,524
<b>Discontinued operations</b>			
Loss for the year from discontinued operations (net of tax)	3	(257)	(310)
<b>Profit for the year</b>		30,236	26,214
<b>Earnings per share from continuing and discontinued operations</b>			
Basic	10	55.55 p	48.49 p
Diluted	10	54.69 p	47.75 p
<b>Earnings per share from continuing operations</b>			
Basic	10	56.02 p	49.06 p
Diluted	10	55.15 p	48.31 p

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Note	2018 £000	2017 £000
<b>Profit for the year</b>		30,236	26,214
<b>Other comprehensive (expense)/income</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Change in value of available for sale financial assets	16	31	(104)
Movement in deferred tax on share-based payments taken directly to equity	20	(237)	665
<b>Other comprehensive (expense)/income for the year, net of tax</b>		(206)	561
<b>Total comprehensive income for the year</b>		30,030	26,775

The notes on pages 83 to 103 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

at 30 June 2018

	Note	Group		Company	
		2018 £000	2017 £000	2018 £000	2017 £000
<b>Non-current assets</b>					
Plant and equipment	11	1,737	1,484	–	1
Investment properties	12	258	303	–	–
Investments in subsidiaries	13	–	–	100,800	100,800
Trade and other receivables	15	24,626	14,427	–	–
Deferred tax assets	20	3,731	5,001	127	202
		<b>30,352</b>	<b>21,215</b>	<b>100,927</b>	<b>101,003</b>
<b>Current assets</b>					
Inventories	14	160,517	142,550	–	–
Trade and other receivables	15	10,602	17,925	38,291	46,154
Cash and cash equivalents	22	41,314	34,052	8,474	17,247
UK corporation tax		–	–	2,625	3,858
		<b>212,433</b>	<b>194,527</b>	<b>49,390</b>	<b>67,259</b>
<b>Total assets</b>		<b>242,785</b>	<b>215,742</b>	<b>150,317</b>	<b>168,262</b>
<b>Non-current liabilities</b>					
Trade and other payables	17	(9,176)	(703)	–	–
Provisions	18	(110)	(110)	–	–
		<b>(9,286)</b>	<b>(813)</b>	<b>–</b>	<b>–</b>
<b>Current liabilities</b>					
Trade and other payables	17	(42,441)	(40,924)	(66,707)	(69,145)
Provisions	18	(49)	(101)	–	–
UK corporation tax		(2,910)	(2,533)	–	–
		<b>(45,400)</b>	<b>(43,558)</b>	<b>(66,707)</b>	<b>(69,145)</b>
<b>Total liabilities</b>		<b>(54,686)</b>	<b>(44,371)</b>	<b>(66,707)</b>	<b>(69,145)</b>
<b>Net assets</b>		<b>188,099</b>	<b>171,371</b>	<b>83,610</b>	<b>99,117</b>
<b>Equity</b>					
Share capital	24	1,092	1,082	1,092	1,082
Available for sale reserve		(657)	(688)	–	–
Retained earnings		187,664	170,977	82,518	98,035
<b>Total equity</b>		<b>188,099</b>	<b>171,371</b>	<b>83,610</b>	<b>99,117</b>

## Retained earnings of the Company

The loss of the Company in the financial year amounted to £2,090,000 (2017: £675,000).

The financial statements on pages 78 to 103 were approved by the Board of Directors on 14 September 2018 and signed on its behalf by:

**Jolyon Harrison**  
Director

**Stefan Allanson**  
Director

**Registration number: 9268016**

The notes on pages 83 to 103 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Note	Share capital £000	Share premium account £000	Available for sale reserve £000	Retained earnings £000	Total equity £000
<b>Group</b>						
<b>At 1 July 2016</b>		1,082	23	(584)	152,384	152,905
<b>Total comprehensive income for the year</b>						
Profit for the year		–	–	–	26,214	26,214
Other comprehensive income		–	–	(104)	665	561
<b>Total comprehensive income for the year</b>		–	–	(104)	26,879	26,775
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions and distributions to owners</b>						
Adjustment to share premium		–	(23)	–	–	(23)
Purchase of own shares		–	–	–	(22)	(22)
Share-based payments	25	–	–	–	660	660
Dividends	9	–	–	–	(8,924)	(8,924)
<b>Transactions with owners, recorded directly in equity</b>		–	(23)	–	(8,286)	(8,309)
<b>At 30 June 2017</b>		1,082	–	(688)	170,977	171,371
<b>Total comprehensive income for the year</b>						
Profit for the year		–	–	–	30,236	30,236
Other comprehensive expense		–	–	31	(237)	(206)
<b>Total comprehensive income for the year</b>		–	–	31	29,999	30,030
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions and distributions to owners</b>						
Share issue	24	10	–	–	–	10
Sale of own shares		–	–	–	95	95
Share-based payments	25	–	–	–	1,026	1,026
Dividends	9	–	–	–	(14,433)	(14,433)
<b>Transactions with owners, recorded directly in equity</b>		10	–	–	(13,312)	(13,302)
<b>At 30 June 2018</b>		1,092	–	(657)	187,664	188,099



	Note	Share capital £000	Share premium account £000	Available for sale reserve £000	Retained earnings £000	Total equity £000
<b>Company</b>						
<b>At 1 July 2016</b>		1,082	23	–	106,947	108,052
<b>Total comprehensive expense for the year</b>						
Loss for the year		–	–	–	(675)	(675)
Other comprehensive income		–	–	–	55	55
<b>Total comprehensive expense for the year</b>		–	–	–	(620)	(620)
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions and distributions to owners</b>						
Adjustment to share premium		–	(23)	–	–	(23)
Purchase of own shares		–	–	–	(28)	(28)
Share-based payments	25	–	–	–	660	660
Dividends	9	–	–	–	(8,924)	(8,924)
<b>Transactions with owners, recorded directly in equity</b>		–	(23)	–	(8,292)	(8,315)
<b>At 30 June 2017</b>		1,082	–	–	98,035	99,117
<b>Total comprehensive expense for the year</b>						
Loss for the year		–	–	–	(2,090)	(2,090)
Other comprehensive income		–	–	–	3	3
<b>Total comprehensive expense for the year</b>		–	–	–	(2,087)	(2,087)
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions and distributions to owners</b>						
Share issue	24	10	–	–	–	10
Purchase of own shares		–	–	–	(23)	(23)
Share-based payments	25	–	–	–	1,026	1,026
Dividends	9	–	–	–	(14,433)	(14,433)
<b>Transactions with owners, recorded directly in equity</b>		10	–	–	(13,430)	(13,420)
<b>At 30 June 2018</b>		1,092	–	–	82,518	83,610

# STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Note	Group		Company	
		2018 £000	2017 £000	2018 £000	2017 £000
<b>Operating activities</b>					
Profit/(loss) before tax from continuing operations		<b>37,019</b>	33,012	<b>(2,012)</b>	(857)
Loss before tax from discontinued operations	3	<b>(217)</b>	(228)	–	–
		<b>36,802</b>	32,784	<b>(2,012)</b>	(857)
Depreciation of plant and equipment	11	<b>971</b>	818	<b>1</b>	4
Share-based payments		<b>1,026</b>	660	<b>1,026</b>	660
Profit on sale of available for sale financial assets		<b>(167)</b>	(216)	–	–
Loss on disposal of plant and equipment	11	<b>152</b>	147	–	–
Loss on sale of investment properties		–	9	–	–
Finance income	7	<b>(418)</b>	(251)	<b>(97)</b>	(445)
Finance expenses	7	<b>253</b>	202	<b>165</b>	135
<b>Operating cash flows before movements in working capital</b>		<b>38,619</b>	34,153	<b>(917)</b>	(503)
Increase in inventories		<b>(17,967)</b>	(28,312)	–	–
(Increase)/decrease in receivables		<b>(3,247)</b>	3,650	<b>140</b>	(126)
Increase/(decrease) in payables		<b>9,855</b>	14,633	<b>(65)</b>	(753)
Decrease in amounts due from subsidiary undertakings		–	–	<b>7,722</b>	23,555
Increase in amounts due to subsidiary undertakings		–	–	<b>3,920</b>	46,797
<b>Cash generated in operating activities</b>		<b>27,260</b>	24,124	<b>10,800</b>	68,970
Tax paid		<b>(5,156)</b>	(4,426)	<b>(5,156)</b>	(4,426)
Interest paid		<b>(172)</b>	(135)	<b>(165)</b>	(135)
<b>Net cash flow surplus from operating activities</b>		<b>21,932</b>	19,563	<b>5,479</b>	64,409
<b>Investing activities</b>					
Proceeds from disposal of available for sale financial assets		<b>960</b>	1,154	–	–
Proceeds from disposal of investment properties		<b>45</b>	194	–	–
Proceeds from disposal of plant and equipment		–	5	–	–
Interest received		<b>29</b>	18	<b>194</b>	431
Purchase of plant and equipment	11	<b>(1,376)</b>	(1,180)	–	–
Investments in subsidiaries		–	–	–	(40,000)
<b>Net cash flow (deficit)/surplus from investing activities</b>		<b>(342)</b>	191	<b>194</b>	(39,569)
<b>Financing activities</b>					
Proceeds from issue of shares		<b>10</b>	–	<b>10</b>	–
Sale/(purchase) of own shares		<b>95</b>	(22)	<b>(23)</b>	(28)
Dividends paid	9	<b>(14,433)</b>	(8,924)	<b>(14,433)</b>	(8,924)
<b>Net cash flow deficit from financing activities</b>		<b>(14,328)</b>	(8,946)	<b>(14,446)</b>	(8,952)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,262</b>	10,808	<b>(8,773)</b>	15,888
<b>Cash and cash equivalents at beginning of year</b>		<b>34,052</b>	23,244	<b>17,247</b>	1,359
<b>Cash and cash equivalents at end of year</b>	22	<b>41,314</b>	34,052	<b>8,474</b>	17,247

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

## 1 Accounting policies

MJ Gleeson plc (the “Company”) is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom. The address of the registered office is 6 Europa Court, Sheffield Business Park, Sheffield, S9 1XE.

### *Basis of preparation*

The consolidated financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and IFRS Interpretations Committee (“IFRS IC”) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements. Assets and liabilities in the financial statements have been valued at historic cost except where otherwise indicated in these accounting policies.

The Company has taken advantage of section 408 of the Companies Act 2006 and consequently a statement of comprehensive income of the Company is not presented as part of these financial statements.

### *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary undertakings (together referred to as the “Group”). Joint ventures are accounted for using the equity method of accounting.

### *Going concern*

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the date of the financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

### *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### *Revenue recognition*

Revenue represents the fair value received and receivable in respect of the sale of homes and land net of VAT and discounts. Revenue is recognised as follows:

- Revenue from homes sales is recognised when contracts to sell are completed and title has passed.
- Revenue from land sales is recognised at the earlier of when contracts to sell are completed and title has passed or when unconditional contracts to sell are exchanged.

### *Segment reporting*

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components, and for which discrete financial information is available. All operating segments’ operating results are reviewed regularly by the Executive Directors to make decisions about resources to be allocated to the segment and to assess its performance. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire plant and equipment.

### *Impairment: Financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

### *Impairment: Non-financial assets*

The carrying amounts of the Group’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.



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# NOTES TO THE FINANCIAL STATEMENTS continued

## for the year ended 30 June 2018

### 1 Accounting policies continued

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

#### **Finance income and expenses**

Finance income comprises interest income on bank deposits and the unwinding of discounts on deferred receipts. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest and fees on bank facilities, and the unwinding of discounts on deferred payments. Interest expense is recognised in the consolidated income statement using the effective interest method.

#### **Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight line method, on the following basis:

Plant and equipment: between 3 and 6 years

Depreciation of these assets is charged to the consolidated income statement.

#### **Leasing**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight line basis over the period of the lease.

#### **Investments**

Investments are stated at cost less impairment.

#### **Investment properties**

Investment properties, which are ground rent properties held to earn rentals and/or for capital appreciation, are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise.

#### **Inventories**

Inventories are valued at the lower of cost and net realisable value and are subject to regular impairment reviews. Inventories comprise all direct costs incurred in bringing the individual inventories to their present state at the reporting date, including direct materials, direct labour costs and related overheads, less the value of any impairment losses.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Deferred land purchases are included in inventories at their net present value.

#### **Available for sale financial assets**

Available for sale financial assets due after more than one year, which represent receivables in respect of shared equity properties, are recorded at fair value, being the amount receivable by the Group discounted to present day values. The difference between the amount receivable by the Group 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. Credit risk is accounted for in determining fair values and appropriate discount factors are applied. The Group holds a second charge over property sold under shared equity schemes. Changes in the fair value of available for sale financial assets are recognised in other comprehensive income. Interest calculated using the effective interest method, dividends, and impairment losses on available for sale financial assets are recognised in the consolidated income statement.

#### **Trade receivables**

Trade receivables are measured at initial recognition at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value.

## 1 Accounting policies *continued*

### **Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of or has been abandoned. Discontinued operations are presented in the consolidated income statement (including the comparative period) as a single line entry recording the gain or loss of the discontinued operation.

### **Trade and other payables**

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

### **Tax**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided on temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the values used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

### **Employee benefits**

#### **Defined contribution pension plans**

Obligations for contributions to defined contribution pension schemes are charged to the consolidated income statement in the period to which the contributions relate.

### **Share options**

Share option schemes allow employees to acquire shares in the ultimate Parent Company. The fair value of options granted is recognised as an employee expense, with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using generally accepted option pricing models, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is due only to share prices not achieving the threshold for vesting. These awards are granted by the ultimate Parent Company and the cost of the share-based award relating to each subsidiary is calculated, based on an appropriate apportionment, at the date of grant and recharged through intercompany.

### **Own shares held by Employee Benefit Trusts**

The Group has elected to treat the Employee Benefit Trusts ("EBT") as separate legal entities and as subsidiaries of the Company. Any loan made to the EBT is accounted for as an intercompany loan with the Company. These shares are not treasury shares as defined by the London Stock Exchange.

### **Dividends**

Dividends are recorded in the financial statements when paid. Final dividends are recorded in the financial statements in the period in which they receive shareholder approval.

### **Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The 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.

The key judgement and sources of estimation uncertainty at the balance sheet date are:

#### **Inventories (land and work in progress)**

Inventories are stated at the lower of cost and net realisable value. The assessment of net realisable value is performed on a site-by-site basis taking into account an estimation of costs to complete and remaining revenues. These are carried out at regular intervals throughout the year, during which site development costs are allocated between units built in the current year and those to be built in future years. These assessments include a degree of inherent uncertainty when estimating the profitability of a site and in assessing any impairment provisions which may be required.

# NOTES TO THE FINANCIAL STATEMENTS continued

## for the year ended 30 June 2018

### 1 Accounting policies continued

#### Available for sale financial assets (shared equity)

The valuation of available for sale financial assets is made in the light of current market conditions, expected house price inflation, cost of money and the expected time to realisation of the assets and is therefore subject to a degree of inherent uncertainty.

#### Deferred tax

Deferred tax is only recognised on tax losses when it is probable the losses will be utilised in full in future years. The judgement to recognise the deferred tax asset is dependent upon taxable profits arising in the same company as the losses originally arose and the Group's expectations regarding future profitability including site revenue and cost forecasts for future years which contain a degree of inherent uncertainty.

#### Adoption of new and revised standards

For the year ended 30 June 2018, the Group has applied the following new and revised standards that were mandatorily effective for an accounting period beginning on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or the amounts reported in these financial statements.

IAS 7 (Amended)	"Statement on cash flows"
IAS 12 (Amended)	"Income taxes"
Annual improvements	Annual improvements 2014 – 2016 – IFRS 12

#### Standards not yet applied

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. The following have not been adopted by the Company in preparing the financial statements for the year ended 30 June 2018:

Standard		Effective for periods beginning on or after
Annual improvements	Issued 2014 – 2016	1 January 2018
IFRS 2 (Amended)	"Share-based payments" (issued June 2016)	1 January 2018
IFRS 9	"Financial instruments" (issued July 2014)	1 January 2018
IFRS 15	"Revenue from contracts with customers" (issued May 2014)	1 January 2018
IFRS 15 (Amended)	"Revenue from contracts with customers" (issued April 2016)	1 January 2018
IFRS 16	"Leases" (issued January 2016)	1 January 2019
IFRS 9 (Amended)	"Financial instruments" (issued October 2017)	1 January 2019
Annual improvements	Issued 2015 – 2017 (issued December 2017)*	1 January 2019

\* Not yet endorsed by the EU

IFRS 9 introduces new requirements on the classification and measurement of financial assets and liabilities. The new standard will not have a material impact on the Group; the new Standard will require the available for sale reserve that is currently classified separately in equity to be reclassified as part of retained earnings with changes in fair value recognised through other comprehensive income. There will be no impact on the Company as a result of the new Standard.

IFRS 15 sets out new revenue recognition criteria with particular regard to performance obligations and, whilst this may have an impact on the timing of revenue recognition of certain non-core revenue items, it will not materially impact the results of the Company and Group. If the new Standard was to be applied at the balance sheet date, it would have £nil impact on the results of the Group and the Company for the year.

IFRS 16 will introduce a "right-of-use asset" and a lease liability representing future lease payments to the statement of financial position in respect of leases to which the Company and the Group is a party. This will not have a material net impact on the reported equity of the Company and the Group. If the new Standard was to be applied at the balance sheet date, the total assets of the Group would increase by £2.6m and total liabilities would increase by £2.7m. Consequently, the net impact would be a decrease in net assets of £0.1m. There would be £nil impact on the Company's statement of financial position. There will be no impact on cash flows of the Group and the Company as a result of the new Standard.

Enhanced disclosures will be required for both IFRS 15 and IFRS 16 and these will be included in the relevant financial statements to which the Standards are effective.

The application of the remaining standards and interpretations not yet applied is not expected to have a material impact on the Company and Group's financial performance or position, or give rise to additional disclosures in the financial statements.



## 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	2018 £000	2017 £000
<b>Revenue</b>			
<b>Continuing activities:</b>			
Gleeson Homes		153,397	130,492
Gleeson Strategic Land		43,344	29,892
		<b>196,741</b>	160,384
<b>Discontinued activities</b>	3	–	–
<b>Total revenue</b>		<b>196,741</b>	160,384
<b>Profit on activities</b>			
Gleeson Homes		26,165	22,760
Gleeson Strategic Land		12,633	12,040
		<b>38,798</b>	34,800
Administrative expenses		(1,944)	(1,837)
Finance income		418	251
Finance expenses		(253)	(202)
Profit before tax		37,019	33,012
Tax		(6,526)	(6,488)
<b>Profit for the year from continuing operations</b>		<b>30,493</b>	26,524
Loss for the year from discontinued operations (net of tax)	3	(257)	(310)
<b>Profit for the year</b>		<b>30,236</b>	26,214

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.

Revenue of £20,530,000 was derived from a single external customer. This revenue was attributable to the Gleeson Strategic Land segment.

Balance sheet analysis of business segments:

	2018			2017		
	Assets £000	Liabilities £000	Net assets £000	Assets £000	Liabilities £000	Net assets £000
Gleeson Homes	147,634	(33,895)	113,739	133,785	(34,482)	99,303
Gleeson Strategic Land	53,391	(18,412)	34,979	47,085	(7,217)	39,868
Group activities/discontinued operations	446	(2,379)	(1,933)	820	(2,672)	(1,852)
Net cash	41,314	–	41,314	34,052	–	34,052
	<b>242,785</b>	<b>(54,686)</b>	<b>188,099</b>	215,742	(44,371)	171,371

Other information:

	2018		2017	
	Capital additions £000	Depreciation £000	Capital additions £000	Depreciation £000
<b>Continuing operations:</b>				
Gleeson Homes	1,367	965	1,175	811
Gleeson Strategic Land	9	5	5	3
Group activities	–	1	–	4
	<b>1,376</b>	<b>971</b>	1,180	818

# NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

## 3 Discontinued operations

The activity of Gleeson Construction Services Limited now only relates to remedial works and the division is classified as discontinued.

	2018 £000	2017 £000
Revenue	–	–
Cost of sales	–	–
Gross loss	–	–
Administrative expenses	(217)	(228)
Operating loss	(217)	(228)
Loss before tax	(217)	(228)
Tax	(40)	(82)
Loss for the year from discontinued operations	(257)	(310)

The cash flow statement includes the following relating to the operating loss on discontinued operations:

	2018 £000	2017 £000
Operating activities	(321)	(441)

## 4 Expenses and auditors' remuneration

Profit for the year is stated after charging:

	Note	2018 £000	2017 £000
Staff costs	6	26,182	20,294
Depreciation of plant and equipment	11	971	818
Loss on sale of investment properties		–	9
Loss on disposal of plant and equipment	11	152	147
Operating lease expenses	21	543	717
Auditors' remuneration:			
Audit of these financial statements		69	66
Audit of financial statements of subsidiaries pursuant to legislation		14	13
Other services		–	50

## 5 Other operating income

	Note	2018 £000	2017 £000
Profit on sale of available for sale financial assets	16	167	216
Other operating income		90	88
		257	304

Note 16 discloses further information in relation to available for sale financial assets, which are receivables in respect of shared equity properties.

## 6 Staff costs

	Note	Group		Company	
		2018 £000	2017 £000	2018 £000	2017 £000
Wages and salaries		<b>21,255</b>	16,584	<b>1,102</b>	1,880
Share-based payments	25	<b>1,026</b>	660	<b>165</b>	76
Social security costs		<b>3,160</b>	2,426	<b>230</b>	295
Other pension costs	19	<b>741</b>	624	<b>62</b>	53
		<b>26,182</b>	20,294	<b>1,559</b>	2,304

The monthly average number of employees (including Directors) during the year was:

	Group	
	2018 No.	2017 No.
Gleeson Homes	<b>463</b>	355
Gleeson Strategic Land	<b>11</b>	9
Group activities	<b>6</b>	6
	<b>480</b>	370

The monthly average number of Company employees (including Directors) during the year was 6 (2017: 6).

### Directors' remuneration

Full details of the Directors' remuneration is provided in the audited part of the Remuneration Report on pages 54 to 69.

## 7 Finance income and expenses

	2018 £000	2017 £000
<b>Finance income</b>		
Interest on bank deposits	<b>18</b>	14
Unwinding of discount on long-term receivables	<b>396</b>	236
Other interest	<b>4</b>	1
	<b>418</b>	251
<b>Finance expenses</b>		
Bank charges	<b>(165)</b>	(135)
Unwinding of discount on long-term payables	<b>(83)</b>	(67)
Other external interest	<b>(5)</b>	–
	<b>(253)</b>	(202)
<b>Net finance income</b>	<b>165</b>	49



# NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

## 8 Tax

	Note	Group					
		Continuing operations		Discontinued operations		Total	
		2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
<b>Current tax</b>							
Current year expense		<b>5,569</b>	6,184	–	–	<b>5,569</b>	6,184
Adjustment in respect of prior years		<b>(36)</b>	155	–	–	<b>(36)</b>	155
Current tax expense for the year		<b>5,533</b>	6,339	–	–	<b>5,533</b>	6,339
<b>Deferred tax</b>							
Current year expense	20	<b>1,003</b>	88	<b>45</b>	48	<b>1,048</b>	136
Adjustment in respect of prior years	20	<b>(33)</b>	–	–	–	<b>(33)</b>	–
Impact of rate change	20	<b>23</b>	61	<b>(5)</b>	34	<b>18</b>	95
Deferred tax expense for the year		<b>993</b>	149	<b>40</b>	82	<b>1,033</b>	231
<b>Total tax charge</b>		<b>6,526</b>	6,488	<b>40</b>	82	<b>6,566</b>	6,570

Reductions in the UK corporation tax rate from 20% to 19%, effective from 1 April 2017, were substantively enacted on 26 October 2015. Corporation tax has been calculated at 17.8% of assessable profit for the year (2017: 20.0%).

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	Note	2018		2017	
		£000	%	£000	%
Profit before tax from continuing operations		<b>37,019</b>		33,012	
Loss before tax from discontinued operations	3	<b>(217)</b>		(228)	
Profit before tax		<b>36,802</b>		32,784	
Profit before tax multiplied by the standard rate of UK corporation tax 19% (2017: 19.75%)		<b>6,992</b>	<b>19.0</b>	6,475	19.7
Tax effect of:					
Expenses not deductible for tax purposes		<b>10</b>	<b>0.0</b>	37	0.1
Relief for share-based payments		<b>(385)</b>	<b>(1.0)</b>	(95)	(0.3)
Land remediation relief		–	–	(75)	(0.2)
Impact of rate differences		<b>18</b>	<b>0.0</b>	73	0.2
Adjustments in respect of prior years – current tax		<b>(36)</b>	<b>(0.1)</b>	155	0.5
Adjustments in respect of prior years – deferred tax	20	<b>(33)</b>	<b>(0.1)</b>	–	–
Total tax charge and effective tax rate for the year		<b>6,566</b>	<b>17.8</b>	6,570	20.0

## 9 Dividends

	2018 £000	2017 £000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 30 June 2018 of 9.0p (2017: 6.5p) per share	<b>4,902</b>	3,516
Final dividend for the year ended 30 June 2017 of 17.5p (2016: 10.0p) per share	<b>9,531</b>	5,408
	<b>14,433</b>	8,924

The proposed final dividend for the year ended 30 June 2018 of 23.0p per share (2017: 17.5p) brings the total dividend for the year to 32.0p (2017: 24.0p).

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. The total estimated final dividend to be paid is £12,619,000.

## 10 Earnings per share

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

Earnings	2018 £000	2017 £000
Profit from continuing operations	<b>30,493</b>	26,524
Loss from discontinued operations	<b>(257)</b>	(310)
Profit for the purposes of basic and diluted earnings per share	<b>30,236</b>	26,214
Number of shares	2018 No. 000	2017 No. 000
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>54,428</b>	54,066
Effect of dilutive potential ordinary shares:		
Share-based payments	<b>862</b>	834
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>55,290</b>	54,900
Continuing operations	2018 p	2017 p
Basic earnings per share	<b>56.02</b>	49.06
Diluted earnings per share	<b>55.15</b>	48.31
Discontinued operations	2018 p	2017 p
Basic loss per share	<b>(0.47)</b>	(0.57)
Diluted loss per share	<b>(0.46)</b>	(0.56)
Continuing and discontinued operations	2018 p	2017 p
Basic earnings per share	<b>55.55</b>	48.49
Diluted earnings per share	<b>54.69</b>	47.75

# NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

## 11 Plant and equipment

	Group Plant and equipment £000	Company Plant and equipment £000
<b>Cost or valuation</b>		
At 1 July 2016	4,106	14
Additions	1,180	–
Disposals	(332)	–
At 30 June 2017	4,954	14
Additions	1,376	–
Disposals	(938)	–
<b>At 30 June 2018</b>	<b>5,392</b>	<b>14</b>
<b>Accumulated depreciation</b>		
At 1 July 2016	2,832	9
Charge for the year	818	4
Disposals	(180)	–
At 30 June 2017	3,470	13
Charge for the year	971	1
Disposals	(786)	–
<b>At 30 June 2018</b>	<b>3,655</b>	<b>14</b>
<b>Net book value</b>		
At 30 June 2016	1,274	5
At 30 June 2017	1,484	1
<b>At 30 June 2018</b>	<b>1,737</b>	<b>–</b>

The Group has recorded a depreciation charge of £971,000 (2017: £818,000), of which £231,000 (2017: £136,000) has been charged in cost of sales and £740,000 (2017: £682,000) in administrative expenses.

The Company has recorded a depreciation charge of £1,000 (2017: £4,000), which has been charged in administrative expenses.

## 12 Investment properties

	Group £000
At 1 July 2016	506
Disposals	(203)
At 30 June 2017	303
Disposals	(45)
<b>At 30 June 2018</b>	<b>258</b>

Investment properties, which comprise a legacy portfolio of ground rent properties, are stated at fair value based on valuation by the Directors.



### 13 Investments in subsidiaries

Company  
£000

#### Cost

At 1 July 2016	60,800
Additions	40,000
At 30 June 2017	100,800
Additions	–
<b>At 30 June 2018</b>	<b>100,800</b>

On 28 April 2017, the Group completed an internal reorganisation and the entire issued share capital of Gleeson Strategic Land Limited was transferred to MJ Gleeson plc from Gleeson Developments Limited in consideration of £20,000,000. On the same date, a further investment of £20,000,000 was made by the Company in Gleeson Strategic Land Limited and certain trade and assets were transferred from Gleeson Developments Limited to Gleeson Strategic Land Limited at book value. No gains or losses arose on these transactions.

#### Principal subsidiary undertakings

The following are the principal subsidiary undertakings of MJ Gleeson plc. MJ Gleeson plc owns 100% of the ordinary share capital of the subsidiaries, all of which are incorporated in England. The registered address for all subsidiary undertakings of MJ Gleeson plc is 6 Europa Court, Sheffield Business Park, Sheffield, S9 1XE.

All subsidiaries are registered in England and Wales and operate in the United Kingdom.

	Principal activity
Gleeson Developments Limited	House building
Gleeson Regeneration Limited	House building
Gleeson Developments (North East) Limited	House building
Gleeson Strategic Land Limited	Strategic land trading
Gleeson Strategic Land (Fleet) Limited <sup>1</sup>	Strategic land trading

1 Shares held by Gleeson Strategic Land Limited.

The following are the other subsidiary companies of MJ Gleeson plc:

	Principal activity
MJ Gleeson Group Limited	Intermediate holding company
Gleeson Construction Services Limited <sup>2</sup>	In run off – Construction services
Colroy Limited <sup>3</sup>	Dormant
Haredon Developments Limited <sup>3</sup>	Dormant
Gleeson Capital Solutions Limited	Dormant
Gleeson Classic Homes Limited <sup>1</sup>	Dormant
Gleeson Homes (Southern) Limited <sup>1</sup>	Dormant
Gleeson Housing Developments Limited <sup>1</sup>	Dormant
Gleeson PFI Investments Limited	Dormant
Gleeson Properties Limited	Dormant
Gleeson Properties (Kingley) Limited <sup>3</sup>	Dormant
Gleeson Properties (Petersfield) Limited <sup>3</sup>	Dormant
Gleeson Services Limited	Dormant
KW Cannock Properties Limited	Dormant
MJ Gleeson (International) Limited	Dormant
MJG (Management) Limited	Dormant
Oakmill Properties Limited <sup>3</sup>	Dormant
Sindale Properties Limited <sup>1</sup>	Dormant

1 Shares held by Gleeson Developments Limited.

2 Shares held by MJ Gleeson Group Limited.

3 Shares held by Gleeson Properties Limited.

# NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

## 14 Inventories

	Group	
	2018 £000	2017 £000
Land held for development	72,329	64,064
Work in progress	88,188	78,486
	<b>160,517</b>	<b>142,550</b>

Net realisable value provisions held against inventories at 30 June 2018 were £2,325,000 (2017: £2,421,000).

The cost of inventories recognised as an expense in cost of sales was £132,278,000 (2017: £103,813,000).

### Company

The Company held no inventories at 30 June 2018 (2017: £nil).

## 15 Trade and other receivables

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade receivables	29,631	24,590	4	2
VAT recoverable	–	1,535	15	43
Prepayments and accrued income	600	558	5	120
Available for sale financial assets	4,997	5,669	–	–
Amount due from subsidiary undertakings	–	–	38,267	45,989
	<b>35,228</b>	<b>32,352</b>	<b>38,291</b>	<b>46,154</b>
Non-current	24,626	14,427	–	–
Current	10,602	17,925	38,291	46,154
	<b>35,228</b>	<b>32,352</b>	<b>38,291</b>	<b>46,154</b>

The Directors consider that the carrying amount of trade and other receivables approximates their fair value and includes an allowance for impairment of trade receivables estimated by the Group's management based on prior experience and their assessment of specific circumstances.

Available for sale financial assets due after more than one year represent receivables in respect of shared equity properties.

See note 16 for reference to credit risk associated with trade receivables and further disclosures in respect of available for sale financial assets.

Amounts due from subsidiary undertakings are unsecured, repayable on demand, and incur interest of 0% to 1% plus Bank of England base rate.

## 16 Financial instruments

### Risk exposure

The Company operates a central treasury function providing services to the Group. The treasury function arranges loans and funding, invests any surplus liquidity and manages financial risk. The treasury function is not a profit centre and no speculative trades are permitted or executed. It operates within specific policies, agreed by the Board, to control and monitor financial risk within the Group. Prudent and controlled use of financial instruments is permitted where appropriate.

### Cash and cash equivalents

Cash and cash equivalents comprises cash and demand deposits held by the Group and the Company. The carrying amount of these assets equals their fair value.

### Credit risk

The Group's principal financial assets are trade and other receivables and investments.

The Group's and Company's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the statement of financial position are net of allowance for doubtful debts, estimated by the Group's management based on prior experience and their assessment of specific circumstances.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

## 16 Financial instruments continued

At 30 June 2018, the Group's most significant credit risk was to a listed housebuilder and amounted to £23,471,000 (2017: £11,186,000) of the trade and other receivables carrying amount, with the deferred receivables secured by way of first legal charge over the land. The Group's remaining credit risk is spread over a large number of counterparties and customers.

### Trade receivables ageing

The ageing of gross trade receivables at the reporting date was:

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Not past due	25,732	24,513	4	2
Past due 0–30 days	1,060	–	–	–
Past due 31–120 days	–	8	–	–
Past due 121–365 days	2,784	29	–	–
Past due more than one year	123	108	–	–
	29,699	24,658	4	2

All trade receivables are from UK customers.

Trade receivables past due more than one year are largely retentions within the Gleeson Homes division. The amounts due are included at expected realisable value.

Included in trade receivables not past due are £19,629,000 (2017: £8,758,000) receivables due in more than one year.

In addition to the above, the Company has intercompany receivables which are repayable on demand.

The movement in the allowance for impairment of trade receivables during the year was as follows:

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Balance at 1 July	68	19	–	–
Impairment loss recognised	–	49	–	–
Balance at 30 June	68	68	–	–

### Market risk

The Group has no significant exposure to currency risk or equity risk.

### Interest rate risk

The Group closely monitors its exposure to variations in interest rates but has limited exposure. At the year end, the Group had no debt or other material interest bearing financial liabilities.

A 1% increase in interest rates would improve the annual income of the Group and Company by £413,000 (2017: £340,000) based on the cash balance at the year end. A 1% decrease would cause income to fall by the same amount.

### Liquidity risk

The Group renewed a £20,000,000 three year credit facility with Lloyds Bank plc on 19 June 2018, extending the expiry date to March 2021. All banking is conducted with Lloyds Bank plc. As at 30 June 2018 the Group had not drawn on the facility.

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date:

	2018		2017	
	Effective interest rate %	Due within one year £000	Effective interest rate %	Due within one year £000
Bank balances	0.25	41,314	0.00	34,052



# NOTES TO THE FINANCIAL STATEMENTS continued

## for the year ended 30 June 2018

### 16 Financial instruments continued

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

#### Non-derivative financial liabilities

Group	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
<b>As at 30 June 2018</b>							
Trade and other payables	(51,617)	(52,260)	(36,332)	(6,108)	(4,560)	(5,260)	–
	<b>(51,617)</b>	<b>(52,260)</b>	<b>(36,332)</b>	<b>(6,108)</b>	<b>(4,560)</b>	<b>(5,260)</b>	<b>–</b>
<b>As at 30 June 2017</b>							
Trade and other payables	(41,627)	(41,627)	(36,668)	(4,256)	(703)	–	–
	<b>(41,627)</b>	<b>(41,627)</b>	<b>(36,668)</b>	<b>(4,256)</b>	<b>(703)</b>	<b>–</b>	<b>–</b>

The non-derivative financial liabilities of the Company in the current and prior year are predominantly intercompany balances which are payable on demand. The external balances are payable within six months.

#### Exposure to currency risk

The Group has no direct exposure to foreign currency risk.

#### Fair values

The fair values 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.

#### Available for sale financial assets

	Group	
	2018 £000	2017 £000
Balance at 1 July	5,669	6,611
Redemptions	(703)	(902)
Unwind of discount (finance income)	90	100
Fair value movement recognised in other comprehensive income	(59)	(140)
Balance at 30 June	<b>4,997</b>	5,669

Available for sale financial assets 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 year of shared equity loans carried at fair value of £703,000 (2017: £902,000) generated a profit on redemption of £167,000 (2017: £216,000) which has been recognised in other operating income in the consolidated income statement.

In addition, a net change in the value of available for sale financial assets of £31,000 (2017: £104,000) has been recognised in other comprehensive income. This is made up as follows:

	Group	
	2018 £000	2017 £000
Fair value movement recognised in other comprehensive income	(59)	(140)
Fair value recycled through profit and loss	90	36
Total movement recognised in other comprehensive income	<b>31</b>	(104)

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 financial year.

## 16 Financial instruments continued

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%	272
Average period to redemption – increase by 1 year	(278)
Discount rate – decrease by 1%	259

## Capital risk management

In line with the disclosure requirements of IAS 1 “Presentation of financial statements” the Group regards its capital as being the equity as shown in the statement of changes in equity.

Note 24 to the financial statements provides details regarding the Company's share capital movements in the year.

The primary objective of the Group's capital management is to ensure that it maintains investor, creditor and market confidence and to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders and issue or return capital to shareholders.

Neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements.

## 17 Trade and other payables

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade payables	33,142	23,635	126	180
Other taxation and social security	1,149	877	90	136
VAT payable	1,927	–	–	–
Accruals and deferred income	15,399	17,115	698	665
Amount due to subsidiary undertakings	–	–	65,793	68,164
	<b>51,617</b>	<b>41,627</b>	<b>66,707</b>	<b>69,145</b>
Non-current	9,176	703	–	–
Current	42,441	40,924	66,707	69,145
	<b>51,617</b>	<b>41,627</b>	<b>66,707</b>	<b>69,145</b>

Amounts due to subsidiary undertakings are unsecured, repayable on demand, and incur interest of 0% to 1% plus Bank of England base rate.

# NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

## 18 Provisions

	Group		
	Dilapidations £000	Onerous leases £000	Total £000
At 1 July 2016	201	10	211
Provisions made during the year	10	–	10
Provisions used during the year	–	(10)	(10)
At 30 June 2017	211	–	211
Provisions released during the year	(52)	–	(52)
<b>At 30 June 2018</b>	<b>159</b>	<b>–</b>	<b>159</b>
		<b>2018 £000</b>	<b>2017 £000</b>
Non-current		<b>110</b>	110
Current		<b>49</b>	101
		<b>159</b>	211

### Dilapidations

The dilapidations provision covers the Group's leased estate. The expected provision needed at the end of each lease is recognised straight line over the term of the lease.

### Onerous leases

Where the rent receivable on the properties is less than the rent payable, a provision based on present value of the net cost is made to cover the expected shortfall.

### Company

At 30 June 2018, the Company did not have any provisions (2017: £nil).

## 19 Employee benefits

### Defined contribution pension plan

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.

### Group

The total pension cost charged to the consolidated income statement of £741,000 (2017: £624,000) represents contributions payable to the defined contribution pension plan by the Group at rates specified in the plan rules. At 30 June 2018, contributions of £90,000 (2017: £77,000) due in respect of the current reporting period had not been paid over to the pension plan. Since the year end, this amount has been paid.

### Company

The total pension cost charged to the income statement of £62,000 (2017: £53,000) represents contributions payable to the defined contribution pension plan by the Company at rates specified in the plan rules.



## 20 Deferred tax

### Group

The deferred tax assets recognised by the Group and movements thereon during the current and prior year are as follows:

	Plant and equipment £000	Losses £000	Short-term timing differences £000	Shared-based payments £000	Total £000
At 1 July 2016	466	3,844	257	–	4,567
Adjustment in respect of prior year	–	19	(19)	–	–
(Charge)/credit to income	(22)	(461)	2	345	(136)
Credit to equity	–	–	–	665	665
Impact of rate change	(49)	(20)	(26)	–	(95)
At 30 June 2017	395	3,382	214	1,010	5,001
Adjustment in respect of prior year	4	60	(1)	(30)	33
(Charge)/credit to income	43	(1,096)	(61)	66	(1,048)
Charge to equity	–	–	–	(237)	(237)
Impact of rate change	(2)	(15)	6	(7)	(18)
<b>At 30 June 2018</b>	<b>440</b>	<b>2,331</b>	<b>158</b>	<b>802</b>	<b>3,731</b>

Reductions in the UK corporation tax rate, to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020, were substantively enacted into law before the balance sheet date. In the opinion of the Directors, some timing differences are expected to reverse prior to 1 April 2020, and some after 1 April 2020. Therefore deferred tax has been provided at a mixed rate between 19% and 17% for relevant timing differences on a company by company basis to arrive at the consolidated position. If all of the deferred tax balances were restated at a rate of 17% rather than 19%, the total deferred tax asset would reduce by £424,000 to £3,307,000.

At the balance sheet date, the Group has gross tax losses of £21,215,000 (2017: £26,674,000) of which £12,349,000 (2017: £17,808,000) have been recognised as a deferred tax asset. The Group has unrecognised tax losses of £8,866,000 (2017: £8,866,000) available for offset against future profits. Losses may be carried forward indefinitely against future taxable trading profits.

Of the total deferred tax asset, £2,287,000 (2017: £2,049,000) is expected to be recovered within 12 months of the balance sheet date.

### Company

The deferred tax assets recognised by the Company and movements thereon during the current and prior year are as follows:

	Plant and equipment £000	Short-term timing differences £000	Shared-based payments £000	Total £000
At 1 July 2016	15	–	–	15
Adjustment in respect of prior year	(13)	141	–	128
Credit/(charge) to income	–	(10)	29	19
Credit to equity	–	–	56	56
Impact of rate change	–	(16)	–	(16)
At 30 June 2017	2	115	85	202
Adjustment in respect of prior year	–	(114)	3	(111)
Credit to income	–	–	37	37
Credit to equity	–	–	3	3
Impact of rate change	–	–	(4)	(4)
<b>At 30 June 2018</b>	<b>2</b>	<b>1</b>	<b>124</b>	<b>127</b>

# NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

## 21 Operating leases

### Operating leases – lessee

	Group	
	2018 £000	2017 £000
Minimum lease payments under non-cancellable operating leases recognised as an expense for the year	543	717
	<b>543</b>	<b>717</b>

At the balance sheet date, the Group has outstanding commitments for minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group	
	2018 £000	2017 £000
Within one year	577	521
Within two to five years	1,499	1,426
After five years	960	1,285
	<b>3,036</b>	<b>3,232</b>

Land and building lease terms vary between one to ten years, depending on market conditions.

The Company had no minimum lease payments under non-cancellable operating leases.

### Operating leases – lessor

	Group	
	2018 £000	2017 £000
Minimum rental income under operating leases recognised for the year	–	192

The total rental income related to properties which the Group previously occupied as operating lease lessees and were sublet.

At the balance sheet date, the Group had no minimum rent receivables under non-cancellable operating leases (2017: £nil).

## 22 Cash and cash equivalents

	Group £000	Company £000
At 1 July 2016	23,244	1,359
Cashflow	10,808	15,888
At 30 June 2017	34,052	17,247
Cashflow	7,262	(8,773)
<b>At 30 June 2018</b>	<b>41,314</b>	<b>8,474</b>

Cash and cash equivalents comprise cash at bank and demand deposits.

### Bank guarantees

The Company, together with certain other companies in the Group, has given cross guarantees in respect of the bank facilities available to Group undertakings in the normal course of business. At 30 June 2018, borrowings covered by these guarantees amount to £nil (2017: £nil).

## 23 Bonds and securities

### Group and Company

At 30 June 2018, the Group had bonds and securities of £22,537,000 (2017: £10,931,000) provided by financial institutions in support of ongoing contracts.

The Directors have determined that the Group and Company require no specific provision for bonds, securities or guarantees for subsidiary companies.

## 24 Share capital

### Group and Company

	2018		2017	
	Number 000	£000	Number 000	£000
Issued and fully paid ordinary shares:				
At 1 July	54,120	1,082	54,120	1,082
Shares issued during year	467	10	–	–
At 30 June	54,588	1,092	54,120	1,082

### Ordinary shares

The Company has one class of ordinary share which carries no rights to fixed income. All issued shares are fully paid.

The number of ordinary shares of 2p in issue at 30 June 2018 was 54,587,753 (2017: 54,120,495).

At 30 June 2018, the Employee Benefit Trusts (“EBT”) held 28,000 shares (2017: 50,000) at a cost of £219,000 (2017: £308,000) which have not yet vested unconditionally. The shares are held in the EBT for the purpose of satisfying matched share awards that have been granted under the employee share ownership plans. Of these ordinary shares, the right to dividend has been waived on none of these shares (2017: nil).

All shares issued during the year were the result of share options being exercised; details of share options are given in note 25.



# NOTES TO THE FINANCIAL STATEMENTS continued

## for the year ended 30 June 2018

### 25 Share-based payments

During the year to 30 June 2018, the Group had six share-based payment arrangements in operation. A summary of the share-based payment arrangements are shown below:

	Contractual life	Vesting conditions	Settlement basis
Share purchase plan	Rolling scheme	The Group matches shares purchased by employees on a 1 for 3 basis. The shares purchased by the employees are immediately exercisable. The Group matching shares are only exercisable after 3 years.	Equity
Performance share plan (PSP) September 2014	36 months	For Executive Directors and senior executives the award vested in whole on the third anniversary of the date of grant on 1 October 2017 as the performance condition was met. The performance condition was based on the total shareholder return for the three financial years from 1 July 2014 to 30 June 2017.	Equity
Performance share plan (PSP) September 2015	36 months	For the Executive Directors the award will vest in whole or in part on the third anniversary of the date of grant of 30 September 2015 if the performance condition has been met. The performance condition is based on the total shareholder return for the three financial years from 1 July 2015 to 30 June 2018.	Equity
Performance share plan (PSP) October 2016	36 months	For a senior executive the award will vest in whole or in part on or after the third anniversary of the date of grant if the performance condition has been met. The performance condition is based on the total shareholder return for the three financial years from 1 July 2016 to 30 June 2019.	Equity
Long Term Incentive Plan (LTIP) December 2016	31 months	For the Executive Directors the award will vest in whole or in part on 30 June 2019 if the performance condition has been met. The performance condition is based on the total shareholder return for the three financial years from 1 July 2016 to 30 June 2019.	Equity
Long Term Incentive Plan (LTIP) September 2017	33 months	For Executive Directors and senior executives the award will vest in whole or in part on 30 June 2020 if the performance condition has been met. The performance condition is based on the total shareholder return for the three financial years from 1 July 2017 to 30 June 2020.	Equity

Fair value is used to measure the value of the outstanding options.

#### Share purchase plan

The fair value of each share granted in the share purchase plan is equal to the share price at the date of the grant. Shares are granted on a monthly basis.

#### Performance share plan/long term incentive plan

The fair value per option has been calculated using a modified Monte Carlo model. The inputs into the model at each grant date and the estimated fair value were as follows:

Date of grant	PSP 30/09/14	PSP 30/09/15	PSP 04/10/16	LTIP 12/12/16	LTIP 26/09/17
The model inputs were:					
Share price at grant date	£3.90	£4.82	£5.95	£5.70	£6.50
Total shareholder return target	£6.00	£6.15	£6.50	£6.50	£8.00
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00
Expected volatility	32%	32%	30%	30%	36%
Expected dividends	2.00%	2.00%	3.20%	n/a*	n/a*
Expected life	3 years	3 years	3 years	31 months	33 months
Risk-free interest rate	1.27%	0.76%	0.30%	0.60%	0.50%
Fair value of one option	£1.44	£2.37	£3.15	£2.95	£3.40

\* Awards made under the LTIP allows, on vesting, for an additional award of shares to be made to the option holder equivalent to the dividends paid over the vesting period on the underlying shares.

## 25 Share-based payments continued

Expected volatility was determined by calculating the historical volatility of the Company's share price; volatility was measured over the previous 3 years.

Further details of the option plans are as follows:

Date of grant	Share purchase plans		PSP 30/09/14 No. of shares	PSP 30/09/15 No. of shares	PSP 04/10/16 No. of shares	LTIP 12/12/16 No. of shares	LTIP 26/09/17 No. of shares
	MJ Gleeson Group plan No. of shares	MJ Gleeson Group 2014 plan No. of shares					
Outstanding at 1 July 2016	47,246	9,782	487,066	279,158	–	–	–
Granted in the year	–	6,378	–	–	14,000	276,315	–
Forfeited	(40)	(51)	(19,808)	–	–	–	–
Exercised	(8,280)	(1,309)	–	–	–	–	–
Outstanding at 30 June 2017	38,926	14,800	467,258	279,158	14,000	276,315	–
Granted in the year	–	5,701	–	–	–	–	409,793
Forfeited	(4)	(26)	–	–	–	–	–
Exercised	(11,707)	(743)	(467,258)	–	–	–	–
<b>Outstanding at 30 June 2018</b>	<b>27,215</b>	<b>19,732</b>	<b>–</b>	<b>279,158</b>	<b>14,000</b>	<b>276,315</b>	<b>409,793</b>
Remaining contractual life	Rolling scheme	Rolling scheme	nil	3 months	15 months	12 months	24 months
Weighted average exercise price	–	–	–	–	–	–	–
Weighted average share price at date of exercise – current year	£7.21	£6.37	n/a	n/a	n/a	n/a	n/a
Weighted average share price at date of exercise – prior year	£5.76	£5.68	n/a	n/a	n/a	n/a	n/a

The total share-based payment cost charged to the consolidated income statement was £1,026,000 (2017: £660,000).

## 26 Capital commitments

At 30 June 2018, the Group had capital commitments of £nil (2017: £49,000). The Company had no capital commitments (2017: £nil).

## 27 Related party transactions

### Identity of related parties

The Group has a related party relationship with its joint ventures and key management personnel. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

### Transactions with key management personnel

The Group's key management personnel are the Executive and Non-Executive Directors, as identified in the Remuneration Report on pages 54 to 69, and certain other senior managers.

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.

In the year, the Group purchased cladding materials from a company, JDP Contracting Services Limited, in which Jolyon Harrison is a Director. During the current year the Group purchased £38,000 (2017: £29,000) of goods from the company. The terms were at normal market rates and payment terms. There were no guarantees provided. The amount owed to JDP Contracting Services Limited at 30 June 2018 was £3,000 (2017: £7,000). Jolyon Harrison did not receive any remuneration from JDP Contracting Services Limited.

Other than disclosed above, there were no other transactions with key management personnel in either the current or prior year.

### Identity of related parties with which the Company has transacted

The Company receives charges from various suppliers in respect of services for the whole Group. The Company allocates and consequently invoices these charges to subsidiaries.

	Administrative expenses		Receivables outstanding		Payables outstanding	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Subsidiaries	<b>727</b>	7,330	<b>38,267</b>	45,989	<b>65,793</b>	68,164
	<b>727</b>	7,330	<b>38,267</b>	45,989	<b>65,793</b>	68,164



## OTHER INFORMATION



### Other Information

- |     |                     |     |                                    |
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## FIVE YEAR REVIEW

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Revenue	<b>196,741</b>	160,384	142,065	117,588	81,442
Reinstatement of inventories and contract provisions	–	–	–	–	800
Exceptional restructuring costs	–	–	–	(1,236)	–
Operating profit	<b>36,854</b>	32,963	28,166	22,046	12,064
Provision for diminution in value of investments	–	–	–	(4,896)	–
Net finance income	<b>165</b>	49	72	113	96
Profit before tax	<b>37,019</b>	33,012	28,238	17,263	12,160
Tax (charge)/credit	<b>(6,526)</b>	(6,488)	(4,934)	(4,848)	5,499
Profit after tax	<b>30,493</b>	26,524	23,304	12,415	17,659
Discontinued operations	<b>(257)</b>	(310)	(345)	(207)	(231)
Profit for the year	<b>30,236</b>	26,214	22,959	12,208	17,428
Total assets	<b>242,785</b>	215,742	180,640	168,592	152,577
Total liabilities	<b>(54,686)</b>	(44,371)	(27,735)	(32,063)	(24,486)
Net assets	<b>188,099</b>	171,371	152,905	136,529	128,091
	pence	pence	pence	pence	pence
Total dividend per share for the year	<b>32.0</b>	24.0	14.5	10.0	6.0
Earnings per share from continuing operations	<b>56.0</b>	49.1	43.2	23.2	33.4
Earnings per share – normalised*	<b>55.6</b>	48.5	42.6	34.2	17.2
Net assets per share	<b>345</b>	317	283	254	241

\* Normalised earnings per share include discontinued operations and exclude the impact of exceptional costs.



## FURTHER INFORMATION

### Corporate Directory

#### Registered office

MJ Gleeson plc  
6 Europa Court  
Sheffield Business Park  
Sheffield S9 1XE

#### Registered number

9268016  
Incorporated in England and Wales

#### Company secretary

Stefan Allanson

#### WEBSITE

[www.mjgleesonplc.com](http://www.mjgleesonplc.com)

#### Auditor

PricewaterhouseCoopers LLP  
Central Square  
29 Wellington Street  
Leeds LS1 4DL

#### Bankers

Lloyds Bank plc  
14 Church Street  
Sheffield S1 1HP

#### Solicitors

Simmons & Simmons  
City Point  
One Ropemaker Street  
London EC2Y 9SS

#### Stockbrokers and finance advisers

N+1 Singer  
One Bartholemew Lane  
London EC2N 2AX

Liberum Capital Limited  
Ropemaker Place, Level 12  
25 Ropemaker Street  
London EC2Y 9LY

#### Registrars and transfer office

Link Asset Services  
The Registry  
34 Beckenham Road, Beckenham  
Kent BR3 4TU

### Shareholder Information

#### Shareholder enquiries

Any shareholder with enquiries should, in the first instance, contact our registrars using the address provided in the Corporate Directory.

#### Share price information

London Stock Exchange  
Symbol: GLE

#### Investor relations

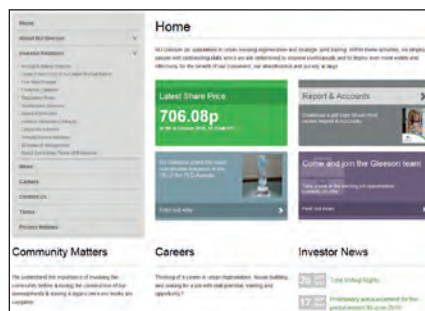
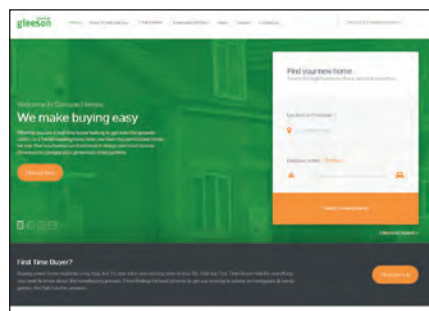
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Sheffield S9 1XE  
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Tel: 0114 261 2900 Fax: 0114 261 2939

### Financial Calendar

Financial year end	30 June 2018
Full year results announced	17 September 2018
Ex-dividend date for final dividend	15 November 2018
Record date for final dividend	16 November 2018
Annual General Meeting	6 December 2018
Final dividend payment	14 December 2018

### Information Regarding Our Websites

For more information on our homes, investor relations and career opportunities please visit [www.mjgleeson.com](http://www.mjgleeson.com).





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## THANK YOU!

We would like to thank our employees who are essential to our success.

Their skill and dedication has been invaluable in making Gleeson what it is today.

### **MJ Gleeson plc**

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Sheffield S9 1XE

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