MJ GLEESON PLC

14 September 2020

("Gleeson" or "the Group" or "the Company")

Audited results for the year ended 30 June 2020

Gleeson, the low-cost housebuilder and strategic land specialist, announces audited results for the year ended 30 June 2020 ("2020")

- **2020 results reflect Covid-19 impact on historically critical Q4 period**
- **Strong start to 2021 with record order book and work in progress, and high levels of demand**
- **Strong platform for future growth**
- **Board re-affirmed target to reach 2,000 units p.a. in 2022**

	2020	2019	Change
Revenue	£147.2m	£249.9m	-41%
Operating profit	£5.9m	£41.0m	-86%
Profit before tax	£5.6m	£41.2m	-86%
EPS	8.1p	61.0p	-87%
Cash net of borrowings	£16.8m	£30.3m	-45%
ROCE	3.1%	25.9%	-2,280bps
Dividend per share	-	34.5p	N/A

Resilient business model

Gleeson Homes:

- Volumes down 29.9% to 1,072 units sold (2019: 1,529 units)
- Gross profit margin on unit sales 27.8% (2019: 30.1%) due to £2.9m of Covid-19 related costs
- Operating profit down 70.1% to £9.0m (2019: £30.1m)
- Average Selling Price £130,900 (2019: £128,900)
- Land pipeline, including conditionally purchased sites, of 13,801 plots (2019: 13,575 plots)
- Board re-affirmed target to reach 2,000 units p.a. in 2022
- Platform for future growth put in place prior to Covid-19

Gleeson Strategic Land:

- Operating profit of £0.2m (2019: £13.0m)
- Two land sales completed during the year (2019: nine)
- Eleven sites with planning consent or resolution to grant with the potential to deliver 3,855 plots
- Portfolio: 68 sites (2019: 60 sites) with the potential to deliver 23,314 plots (2019: 21,730 plots)
- Demand expected to return during 2021

Resilient financial position

- Gross cash balance £76.8m (2019: £30.3m)
  - £60m bank loans drawn down and proceeds of £16.4m (gross) share placement
  - £10m overdraft facility remained undrawn
  - £6.6m interim dividend cancelled; no final dividend proposed
- Capital prioritised in short term to delivering target of 2,000 homes per annum in 2022
- Dividends to resume as soon as prudent to do so

Dermot Gleeson, Chairman, commented:

"First and foremost, and on behalf of my Board colleagues, I would like to say how grateful we are to our employees, subcontractors, suppliers and customers in helping us to respond quickly to the Covid-19 crisis. These results, whilst a significant reduction on the prior year, reflect their efforts and the overall resilience of the business.

"Our unique business model is focussed on building high-quality, low-cost homes in the North of England and the Midlands and continues to deliver homes to the people who need them most. The majority of our customers are young, first-time buyers and around two-thirds are key workers, who can now benefit from our recently introduced Gleeson Key Worker Priority Programme.

"We are currently seeing strong demand and expect this to continue through the year as the demographics of our customer base and the nature and price point of our product helps to insulate us from the impacts of rising unemployment, the end of the stamp duty holiday and the forthcoming changes to the Help to Buy scheme.

"We have therefore re-affirmed our interim target of delivering 2,000 homes per annum in 2022 and will prioritise investment in the business to achieve it.

"We expect the strategic land market will continue to recover as house builders cautiously scale up their targets for the acquisition of new sites.

"The Board recognises the uncertainties arising from both the continuing pandemic and the UK's withdrawal from the EU. Nonetheless, our balance sheet remains strong and the Board is cautiously optimistic that the Group will see significant growth in the current year and beyond."

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

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Chairman’s Statement

I would like to thank our employees, subcontractors, suppliers and customers for their truly exceptional support in response to the Covid-19 crisis. This has been invaluable in helping us to maintain the continuity of our business.

Gleeson Homes’ sites and sales offices were closed from 25 March 2020 until 14 May 2020 when we commenced a phased restart. This resulted in a 30% drop in the number of completions during the year to 1,072 new homes (2019: 1,529) and also in a reduction in the number of new sites opened.

I am delighted to report that Gleeson Homes has started the new financial year with a record forward order book and a record level of work in progress. The Board has therefore reaffirmed its target that Gleeson Homes will reach 2,000 unit completions per annum in 2022.

Since his appointment as Chief Executive Officer in 2019, James Thomson has focused on ensuring that Gleeson Homes has the platform needed to support our growth ambitions and has overseen significant changes across our organisational, build process and sales structures. We used the period of shutdown to review the division’s processes, resulting in further improvements to both our health and safety regime and our operational efficiency in a number of areas.

Gleeson Strategic Land was also adversely affected by the pandemic, which caused the virtual closure of the land market. However, a number of significant land sales that had been planned for delivery during the final quarter of the year are now expected to complete in the current financial year.

Market

Despite the continuing pandemic, the fundamentals of the housing market remain strong. Demand for affordable new homes remains high and we continue to see selling prices above pre-Covid-19 levels. Mortgage finance continues to be available, supported by historically low interest rates.

Many families living in rented accommodation re-evaluated their housing needs during the lockdown and took the opportunity created by limited spending opportunities to save for a deposit on a home of their own.

Help to Buy continues to assist first-time buyers into home ownership and we welcome the announcement of the Government’s decision to extend the deadline for buyers using the existing scheme to 28 February 2021. The new scheme, which comes into force from 1 April 2021, will be limited to first-time buyers and subject to regional price caps. 84% of our customers are first-time buyers and the selling price of almost all of our houses is below the proposed caps.

Around two-thirds of our customers are key workers and in recognition of the extraordinary contribution they are making we introduced the Gleeson Key Worker Priority Programme, which offers such workers a range of attractive benefits.

The strategic land market is seeing demand returning as medium and large-sized housebuilders seek to replace completed developments with good-quality consented sites.

Our people

We welcomed the support offered to businesses by the Government’s Job Retention Scheme. 456 employees (76%) of our employees were furloughed, all of whom have now returned to work.

The Board and senior management accepted temporary salary reductions ranging from 5% to 30% so that more junior colleagues could continue to receive full or near-full pay. I am very grateful for the commitment to the Company that has been shown by all our employees during what has been an exceptionally challenging period.

This year we launched our “Vision, Mission and Values” initiative in which our employees sought, very successfully, to articulate and embed the key values that they believe should drive the Company’s behaviour. The detailed outcome of this important exercise is set out in the Annual Report which is subject to approval by shareholders at the AGM.

The results of our latest employee survey show that the level of employee engagement and satisfaction with the Company is very high.

Board composition

We were delighted to appoint James Thomson as permanent Chief Executive Officer on 2 December 2019.

Andrew Coppel, CBE and Fiona Goldsmith joined the Board as Non-Executive Directors on 1 October 2019. Ross Ancell and Colin Dearlove stepped down as Non-Executive Directors on 30 June 2020. I would like to thank Ross and Colin for the many years during which they served the Company with great distinction.

Leanne Johnson was appointed Head of Legal and Company Secretary on 25 March 2020.

The Board has decided to initiate a search for an additional independent Non-Executive Director.

Ensuring financial resilience

As soon as the impact of Covid-19 became apparent, the Board took swift action to reinforce the Group's financial position. In April we successfully completed a share placing to raise £16.4m (gross) in proceeds. We also took the decision to draw down £60m of the available £70m bank facility, agree to have waived and reset certain bank covenants, and to cancel the previously declared interim dividend to retain £6.6m. A further £10m overdraft facility remains undrawn and available. These actions meant that the Group finished the year with a cash balance of £76.8m. The Group's cash balance, net of borrowings, at 30 June 2020 was £16.8m (2019: £30.3m).

Whilst the Board is confident that the Group will see significant growth in the current year, our priority is to ensure the continued resilience of the business and to meet its interim target of delivering 2,000 homes per annum in 2022.

The Board has therefore taken the prudent decision not to propose a final dividend (2019: 23.0 pence per share) but, in line with its capital allocation policy, is committed to resuming dividend payments on a progressive basis as soon as it is prudent to do so.

Outlook and summary

Our unique business model is focussed on building high-quality, low-cost homes in the North of England and the Midlands and continues to deliver homes to the people who need them most. The majority of our customers are young, first-time buyers and around two-thirds are key workers, who can now benefit from our recently introduced Gleeson Key Worker Priority Programme.

We are currently seeing strong demand and expect this to continue through the year as the demographics of our customer base and the nature and price point of our product helps to insulate us from the impacts of rising unemployment, the end of the stamp duty holiday and the forthcoming changes to the Help to Buy scheme.

We have therefore reaffirmed our interim target of delivering 2,000 homes per annum in 2022.

We expect the strategic land market will continue to recover as house builders cautiously scale up their targets for the acquisition of new sites.

The Board recognises the uncertainties arising from both the continuing pandemic and the UK's withdrawal from the EU. Nonetheless, the Board is cautiously optimistic that the Group will resume its pre-Covid trajectory and deliver significant growth in the current year and beyond.

Dermot Gleeson
Chairman
13 September 2020

Chief Executive's Statement

The last 12 months represent my first full year at Gleeson and it is a business that I am passionate about.

Prior to lockdown, we had been focused on ensuring that the business had the platform in place to deliver our growth ambitions.

Consequently, it has been a year that has seen significant change in the organisational structure of the business to support our growth ambitions. Combined with the investment in safety, people and sites, this has given us the confidence, despite the disruptions caused by the pandemic, that we remain on track to meet the aim of delivering 2,000 homes a year in 2022.

Our ambition is to maintain growth well beyond 2022, driven by the underlying structural need for low-cost quality homes for first-time buyers – one that is driven by household formation, the aspiration to, and recognised benefits of, home ownership as well as the simple fact that it is substantially cheaper to buy a Gleeson home than to rent a similar property.

The last four months of the financial year, typically our strongest selling period, required us to focus on responding to Covid-19. In dealing with the impact of the pandemic, our first priority has been to protect our employees, subcontractors, suppliers, customers and the communities in which we operate.

For that reason, we took the decision in March to implement a controlled shutdown of all our sites and sales offices and placed 76% of employees on furlough, utilising the Government's Job Retention Scheme to protect jobs. Trading during the final quarter of the year, usually our strongest quarter, was almost entirely "lost" resulting in Gleeson Homes full year completions falling 29.9% to 1,072 (2019: 1,529) and Gleeson Strategic Land completing the sale of only two sites during the year.

Over the period of shutdown we took the opportunity to replan build programmes across all sites, prepare for new site openings and implement robust Covid-secure working practices. We recommenced build activity in May 2020 on a gradual, phased basis, with initial on-site activity in late May and June focused on site infrastructure and other groundworks ahead of returning to plot build activity on some sites from mid-June. All sites are now fully build active and all sales offices are open with strong interest seen from customers.

Strategic Land, which had been expecting to complete a number of significant land sales in the final quarter, did not complete any further sales. Whilst these sales have been delayed, we expect these will all still proceed to completion in this financial year as land activity picks back up.

Trading results

The impact of the shutdown and loss of fourth quarter completions meant that operating profit for Gleeson Homes fell by 70.1% to £9.0m (2019: £30.1m).

Average selling prices at £130,900 were up 1.6% driven by 3.3% higher underlying prices offset by changes in bed and site mix. Gross margin on units decreased to 27.8% (2019: 30.1%) due to the impact of Covid-19. Strategic Land had anticipated completing most of its transactions during the final quarter of the year. House building customers paused the purchase of sites during the final quarter and, as a result, the division was broadly break-even with an operating profit of £0.2m (2019: £13.0m).

Group profit before tax for the year fell by 86.4% to £5.6m (2019: £41.2m).

The business took swift action to protect cash at the start of the Covid-19 pandemic, including cancellation of the interim dividend, pausing build activity and land acquisition, cutting discretionary expenditure, furloughing 76% of staff, a freeze on recruitment and senior managers and directors volunteering to accept significant temporary pay cuts. The Group also drew down £60m of loans from its £70m committed bank facility and raised a further £16.4m of gross funds from a successful share placing in April 2020.

As a result, the business started the new financial year with a strong balance sheet and £76.8m of cash. This will support our growth ambitions and we expect to open a significant number of new sites in the year ahead.

Key Performance Indicators

Gleeson Homes volumes	2016	2017	2018	2019	2020
Unit volumes	904	1,013	1,225	1,529	1,072

Units (homes) sold were heavily impacted by Covid-19.

Gleeson Homes land pipeline	2016	2017	2018	2019	2020
Plots	9,284	11,588	12,852	13,575	13,801

Land continues to be available to buy at sensible prices.

Gleeson Homes active build sites	2016	2017	2018	2019	2020
Active sites	48	59	65	69	71

Gleeson Homes opened 12 sites, completed 10 sites and increased net active sites by 2 sites during the year.

Gleeson Strategic Land portfolio	2016	2017	2018	2019	2020
Plots	21,111	21,505	22,838	21,730	23,314

Strategic Land's portfolio represents over 12 years of normal sales activity.

Operations

Gleeson Homes strengthened its operational structure during the year by recruiting and appointing Mark Knight as Managing Director of the business. It also appointed three existing and highly experienced directors to newly created Divisional Managing Director roles for each of its newly created divisions covering the North West, the North East and Yorkshire & Midlands.

We have also invested in our Commercial, Customer Care, Marketing, HR and IT functions to strengthen the business and ensure it grows sustainably towards, and beyond, our target of 2,000 homes in 2022 which will represent a doubling of the number of homes delivered by the business in five years.

The investment that we are making in our sites is transforming their look and feel and enhancing the customer experience. Our sites, sales offices and show homes are looking better than ever.

I am pleased with the steps we have taken this year to further strengthen the business and I believe that we will emerge from this pandemic in many ways stronger than we were 12 months ago.

Quality

Buying a house is the single biggest financial transaction in most people's lives and we want our customers to be delighted with their new Gleeson home and with their experience of buying from us.

For that reason, we have invested in our Customer Care team, introduced virtual tours of our show homes, launched our new Gleeson Homes customer website, enhanced the My Gleeson portal and implemented the new Gleeson Quality Charter. This is about embedding quality across the business and into everything that we do, so we deliver what our customers want and expect from us.

We have also partnered with In-house Research, an independent customer research company, to gather feedback from our customers. Our goal is to be "five star" wherever we operate and to ensure we deliver a quality home to our customers, getting it right first time, on time. Our customer recommendation scores at 88% puts us in line with the HBF "four star" rating. Our objective is to be "five star" by the end of this year.

Sustainability

Our vision is "Building Homes. Changing Lives" and I am proud of Gleeson Homes' mission: "Changing lives by building affordable, quality homes. Where they are needed, for the people who need them the most". Our vision, mission and values were developed by colleagues across the business and embody what we do every day.

At the heart of what we do is build homes that are genuinely affordable and provide our customers with the opportunity for wealth creation through home ownership. It is substantially cheaper to buy a Gleeson home than rent with a typical three-bed Gleeson home costing as little as £76 per week with a Help to Buy mortgage compared to renting a three-bed home which costs around £138 per week in the private rental market.

A working couple on the Minimum Wage can buy a home on any Gleeson Homes development site. As a result, we believe 100% of Gleeson Homes turnover is aligned with achieving "access for all to adequate, safe and affordable housing". This is the first target of the UN's Sustainable Development Goal 11: "Sustainable Cities & Communities".

The majority of our sites are on brownfield land, often in areas of deprivation and in need of regeneration. We improve the communities in which we operate and provide the opportunity for our customers to escape the "rent trap", create wealth and have the security of owning their own home.

Our belief is that everyone who is involved in or affected by our activities has the right to remain free from harm and return home safe, every day. That is why we launched our HomeSafe brand this year: "HomeSafe – everyone, every day". It is fundamental to ensuring that not only do we meet our legal and moral health and safety duties, but that we strive to go above and beyond these standards.

We are fully committed to sustainability, and social responsibility has always been at the heart of our business. We have prepared our first report on sustainability in the pages of this year's Annual Report to demonstrate our significant ongoing commitment to this important area that is now attracting greater investor interest.

Trading and outlook

Whilst the business has been challenged this year by the Covid-19 pandemic, I remain confident that we will achieve our ambition of delivering 2,000 new homes per year in 2022. We started the new financial year with a strong forward order book up 52% on prior year and work in progress up 55% as measured in terms of unit equivalents built. Reservation rates have picked up significantly post lockdown and selling prices on new reservations are above pre-Covid levels. Build rates per site are increasing and we expect to return to pre-Covid levels of build activity by January 2021.

Whilst there remains uncertainty in the short term in relation to both Covid-19 and the UK's exit from the EU, particularly in terms of unemployment, house prices and mortgage availability, the market fundamentals for our homes remain strong. These are driven by 200,000 new households which are formed each year, many of which are young people, leaving home and having families of their own and the lack of supply of affordable new homes for first-time buyers. Two-thirds of customer reservations since May 2020 are from key workers who are those that are keeping us all safe, fed and healthy at this unprecedented time.

Our Strategic Land business enters the new financial year with a strong pipeline and, as the industry picks back up, the demand for consented land is expected to return.

As a result, we maintain our focus on strong growth in the current financial year and beyond.

James Thomson
Chief Executive Officer
13 September 2020

Gleeson Homes – Business Performance

Gleeson Homes enters the new financial year in a strong position with a forward order book of £145.3m on 1,033 units, work in progress well advanced and a healthy pipeline of land opportunities.

	2020	2019
Units sold	1,072	1,529
Average selling price	£130,900	£128,900
Operating profit	£9.0m	£30.1m

	2016	2017	2018	2019	2020
Unit volumes	904	1,013	1,225	1,529	1,072

Land Pipeline (plots)	**2016**	**2017**	**2018**	**2019**	**2020**
Owned	4,357	5,320	6,475	6,525	6,849
Awaiting completion	4,927	6,268	6,377	7,050	6,952
Total	**9,284**	**11,588**	**12,852**	**13,575**	**13,801**

Performance in the year was heavily impacted by the Covid-19 pandemic, with the division completing the sale of 1,072 homes, a reduction of 29.9% compared to the previous year (1,529 homes).

However, we enter the new financial year with our strongest ever forward sales position of £145.3m on 1,033 units (2019: £87.6m on 677 units) and work in progress, as measured in terms of unit equivalents built, up 55% on the prior year.

We opened 12 new build sites during the year and closed the year with 71 active build sites (2019: 69), of which 65 were actively selling (2019: 69). Our average active build and sales sites were 68 and 65 respectively (2019: 65 and 65). Our sales outlets are located across the North of England and the Midlands, with plans to expand our geographical reach. The business plans to open 25 sites during the new financial year, which would be a record number, and expects to have 80 active build sites by 30 June 2021.

The average selling price ("ASP") for homes sold in the year was £130,900 (2019: £128,900). The increase was influenced by a combination of factors: house price inflation, mix of site locations and the mix of two-, three- and four-bed homes sold. Our aim is to ensure that our selling prices remain affordable for young first-time buyers and low-income families.

Gross profit margin on homes sold decreased to 27.8% (2019: 30.1%) due to costs associated with responding to Covid-19.

The reduction in the volume of homes sold resulted in gross profit decreasing by 34.1% to £39.1m, which included £0.1m in relation to land sales (2019: £59.3m, £nil land sales), and operating profit decreasing by 70.1% to £9.0m, including £0.1m in relation to land sales (2019: £30.1m, £nil land sales). Operating margin decreased from 15.3% to 6.4%.

We continue to acquire land at sensible prices. The pipeline grew by 226 plots to stand at 13,801 plots at 30 June 2020. Of these plots 6,849 are owned (2019: 6,525) and 6,952 plots are conditionally purchased (2019: 7,050). The number of sites in the land pipeline totalled 149 at year end, being five sites higher than the prior year end; 27 new sites were added to the pipeline, while 22 sites were completed or did not proceed to purchase. In addition to owned and conditionally purchased plots, there are a further 798 (2019: 473) plots which are being actively considered for acquisition but will only proceed if they meet our strict criteria.

The Government's Help to Buy scheme remains popular with many of our customers, with 66% of the homes sold during the year utilising the scheme (2019: 68%). We also continue to provide our own range of bespoke packages to assist potential customers to become homeowners and recently launched our Key Worker Priority Programme, providing a range of benefits to show our support for key workers looking to purchase a new home.

Gleeson Strategic Land – Business Performance

Whilst the financial performance of the division was severely impacted by the Covid-19 crisis, we have continued to invest sensibly in our land portfolio and advance existing sites through the planning system. The business comes into the new financial year with a strong pipeline of sites ready for sale.

	2020	**2019**
Plots sold	195	1,755
Land portfolio (plots)	23,314	21,730
Operating profit	£0.2m	£13.0m

Land Portfolio (sites)	**2020**	**2019**
Planning consented	11	9
Planning submitted	7	6
Allocated sites	9	8
Not allocated	41	37
Total	**68**	**60**

Land portfolio (plots)	**2020**	**2019**
Freehold	770	770
Held under option	7,760	8,553
Promotion agreement	14,784	12,407
Total	**23,314**	**21,730**

Revenue from Gleeson Strategic Land fell to £6.3m (2019: £52.9m) generated from the sale of two small sites during the year. The sites sold totalled 26 acres with the potential to deliver 195 plots.

A number of large transactions were delayed as a result of the Covid-19 pandemic and are now expected to complete in the new financial year. As a result, operating profit of £0.2m was significantly down on the previous year (2019: £13.0m).

As the land market takes tentative steps towards recovery, we are seeing demand returning with enquiries from a broad range of housebuilders. The land market, particularly for sites in prime locations in the South of England, is expected to recover strongly.

At 30 June 2020, we had a portfolio totalling 68 sites (2019: 60 sites) with the potential to deliver 23,314 plots (2019: 21,730 plots) plus 44 acres of commercial land (2019: 44 acres). During the year, we secured planning permissions for five sites and acquired interests in nine new sites. These new sites contributed a further 1,888 plots to the portfolio.

Despite the impact of Covid-19, we continue to see opportunities to add well-located, strategic sites to the portfolio where we see potential for future residential development and where we can deliver maximum value for stakeholders.

Our Strategic Land team is based in Fleet, Hampshire and the portfolio continues to have a geographic bias towards the South of England. Sites in the portfolio are expected to realise value over the short, medium and long term driven by the planning context of each individual site.

Financial Review

Despite the significant challenge surrounding the Covid-19 pandemic, we responded swiftly and decisively to protect value and ensure that we have the working capital needed to finance our growth plans.

Key Performance Indicators

Divisional operating profit*	2016	2017	2018	2019	2020
Gleeson Homes	£19.5m	£22.8m	£26.2m	£30.1m	£9.0m
Gleeson Strategic Land	£10.2m	£12.0m	£12.6m	£13.0m	£0.2m

* Gleeson Homes operating profit includes profit on land sales of £0.1m in 2020, £nil in 2019; £nil in 2018; £1.0m in 2017; and £nil in 2016.

	2016	2017	2018	2019	2020
Group profit before tax	£28.2m	£33.0m	£37.0m	£41.2m	£5.6m
Total dividend	14.5p	24.0p	32.0p	34.5p	nil
Cash balance	£23.2m	£34.1m	£41.3m	£30.3m	£76.8m
Return on capital employed*	23.2%	25.4%	26.6%	25.9%	3.1%
Normalised earnings per share	42.6p	48.5p	55.6p	61.0p	8.1p

* 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 net of borrowings.

Covid-19 impacted results

As a result of the Covid-19 pandemic, the results for the Group are significantly below those reported for the previous financial year. Revenue reduced by 41.1% to £147.2m (2019: £249.9m).

Gleeson Homes revenue fell 28.5% to £140.9m (2019: £197.0m) with its final quarter of completions almost entirely wiped out. As a result, there was a 29.9% decrease in the number of homes sold to 1,072 (2019: 1,529). Selling prices, however, held up strongly with an increase to average selling price ("ASP") for the year to £130,900 (2019: £128,900).

Gleeson Strategic Land sold only two small sites during the year generating revenue of £6.3m (2019: £52.9m). The land sales that were planned in the final quarter are now expected to complete in the new financial year.

Gross profit for the Group fell by 46.1% to £40.4m (2019: £75.0m). The gross profit of Gleeson Homes decreased by 34.1% to £39.1m (2019: £59.3m). Gross profit margin also reduced, as expected, from 30.1% to 27.8%. The impact of Covid-19 related costs and provisions totalled £2.9m. This includes non-productive site overhead costs incurred during the controlled closure and lockdown period which would otherwise have been added to work in progress; additional costs incurred due to extended site durations resulting from reduced productivity levels impacting site margins; and increased provisions for abortive land bid costs on sites not yet owned which may no longer be viable to purchase as a result of heightened uncertainty and additional costs associated with operating under Covid-19 guidelines. The gross profit achieved on sales in Gleeson Strategic Land was £1.3m (2019: £15.7m).

Administrative expenses increased by £0.2m (0.5%) in the year as investment to support the underlying growth of the business continued. This investment was partially offset by £1.4m furlough grant income under the Government's Job Retention Scheme during the months of April to June 2020.

Operating profit from continuing operations was £5.9m (2019: £41.0m), a reduction of 85.6% on the previous year. Gleeson Homes contributed £9.0m (2019: £30.1m) and Gleeson Strategic Land contributed £0.2m (2019: £13.0m), with Group overheads being £3.3m.

Net finance expenses of £0.4m (2019: £0.2m income) consisted of finance expenses of £1.1m (2019: £0.7m) being interest payable on bank facilities, bank charges and the unwinding of discounts on deferred payables partly offset by finance income of £0.7m (2019: £0.9m) consisting of the unwinding of discounts on deferred receivables on land sales and shared equity receivables.

As a result, the Group delivered profit before tax of £5.6m (2019: £41.2m).

Tax

A total tax charge, including discontinued operations, of £0.7m (2019: £7.7m) has been recorded, reflecting an effective rate of tax of 14.1% (2019: 18.8%). This reflects a lower profit before tax, the use of Land Remediation Relief available to the Group and the impact of the change in the tax rate from 17% to 19% on the value of deferred tax assets.

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 £12.7m (2019: £13.0m) of gross tax losses, of which £3.8m (2019: £4.1m) are recognised in calculating the deferred tax asset. The deferred tax asset recorded within the consolidated statement of financial position totals £2.2m (2019: £2.7m).

Discontinued operations

Discontinued operations incurred a loss after tax of £0.3m during the year (2019: £0.3m). This related to the costs of Gleeson Construction Services Limited, whose 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.

Profit for the year

The profit after tax for the year was £4.5m (2019: £33.3m).

Earnings per share

Reported basic earnings per share from continuing and discontinued operations decreased by 86.7% to 8.1 pence (2019: 61.0 pence).

Return on capital employed

Return on capital employed reduced to 3.1% (2019: 25.9%) reflecting significantly lower returns this year due to the impact of Covid-19.

Dividends

In response to the Covid-19 crisis, the Board took the decision in March 2020 to cancel the interim dividend of 12.0 pence per share (2019: 11.5 pence per share). The interim dividend would have equated to £6.6m.

As a result of the ongoing uncertainty and the impact of Covid-19, the Board has also taken the decision not to propose a final dividend for the year (2019: 23.0 pence per share) but, in line with its capital allocation policy, is committed to resuming dividend payments on a progressive basis as soon as it is prudent to do so.

Despite the remaining uncertainties and the impact of Covid-19 on this year's result, the Board maintains its interim target that Gleeson Homes will deliver 2,000 homes per annum in 2022. The Group, as a whole, expects to return to delivering significant growth in the current year and beyond.

Statement of financial position

During the year to 30 June 2020, shareholders' funds increased by 4.3% to £212.6m (2019: £203.9m). Net assets per share decreased to 366 pence, a reduction of 2.1% year on year (2019: 374 pence).

In the year, non-current assets decreased by 7.7% to £20.3m (2019: £22.0m). Property, plant and equipment balances increased in the year mainly due to the recognition of right-of-use assets under IFRS 16 "Leases", but this increase was more than offset by the reduction in long-term debtors (£4.6m) and deferred tax assets (£0.5m).

Current assets increased by 16.4% to £301.7m (2019: £259.2m), with inventories increasing by £33.2m to £216.3m and trade and other receivables decreasing by £37.5m to £8.3m. Cash balances of £76.8m include the funds received from drawing down £60m of the Group's £70m committed bank facility in March 2020, which remained drawn at 30 June 2020.

Total liabilities increased by 41.5% to £109.4m (2019: £77.3m). Trade payables are significantly lower than in the previous year at £25.4m (2019: £49.3m) reflecting the reduced level of build activity during May and June. In addition, £3.1m of lease liabilities have been recognised under IFRS 16 (2019: £nil).

Cash flow

The Group's cash outflow before financing activities was £15.9m, compared to cash generated in 2019 of £7.8m.

In March 2020, in response to the Covid-19 crisis, the Group drew down £60m from its £70m committed bank facility. In April 2020, the Group undertook a successful share placing to add a further £15.9m, net of costs, to cash reserves.

After payment of the final dividend for 2019 (£12.6m) in December 2019, the Group generated £46.5m of cash flow.

Bank facilities

In October 2019, the Group increased its bank facility from £40m to £70m and extended its maturity to October 2024. Of the facility, £60m was fully drawn at the balance sheet date with the £10m of overdraft facility remaining unutilised and available.

As set out in note 1 of the financial information on pages 18 and 19, the bank facilities contain two covenants that are aligned to profit generation on a 12-month rolling basis. As a result of the financial modelling and risks to profitability against budget, the Group has sought and agreed a waiver for certain covenant test dates in the next 12 months. In their place a liquidity covenant has been introduced.

Pension

The Group contributes to a defined contribution pension scheme. A charge of £1.0m (2019: £1.0m) 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
13 September 2020

AUDITED CONSOLIDATED INCOME STATEMENT
for the year ended 30 June 2020

	2020 £000	2019 £000
Continuing operations		
Revenue	**147,181**	249,899
Cost of sales	**(106,744)**	(174,936)
Gross profit	**40,437**	74,963
Impairment losses	**(257)**	-
Administrative expenses	**(34,533)**	(34,256)
Other operating income	**282**	292
Operating profit	**5,929**	40,999
Finance income	**708**	906
Finance expenses	**(1,071)**	(693)
Profit before tax	**5,566**	41,212
Tax	**(758)**	(7,648)
Profit for the year from continuing operations	**4,808**	33,564
Discontinued operations		
Loss for the year from discontinued operations (net of tax)	**(289)**	(297)
Profit for the year attributable to the equity holders of the parent	**4,519**	33,267
Earnings per share from continuing and discontinued operations		
Basic	**8.13 p**	60.97 p
Diluted	**8.04 p**	59.84 p
Earnings per share from continuing operations		
Basic	**8.65 p**	61.51 p
Diluted	**8.55 p**	60.37 p

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2020

	2020	2019
	£000	£000
Profit for the year	**4,519**	33,267
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Change in value of shared equity receivables at fair value	**13**	131
Movement in tax on share-based payments taken directly to equity	**265**	240
Other comprehensive income for the year, net of tax	**278**	371
Total comprehensive income for the year	**4,797**	33,638

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2020

	2020 £000	2019 £000
Non-current assets		
Property, plant and equipment	**5,913**	2,343
Investment properties	**-**	257
Trade and other receivables	**12,238**	16,759
Deferred tax assets	**2,176**	2,659
	20,327	22,018
Current assets		
Inventories	**216,336**	183,121
Trade and other receivables	**8,328**	45,795
Cash and cash equivalents	**76,807**	30,306
UK corporation tax	**253**	-
	301,724	259,222
Total assets	**322,051**	281,240
Non-current liabilities		
Trade and other payables	**(11,866)**	(8,774)
Provisions	**(200)**	(130)
	(12,066)	(8,904)
Current liabilities		
Loans and borrowings	**(60,000)**	-
Trade and other payables	**(37,365)**	(65,068)
Provisions	**(15)**	-
UK corporation tax	**-**	(3,372)
	(97,380)	(68,440)
Total liabilities	**(109,446)**	(77,344)
Net assets	**212,605**	203,896
Equity		
Share capital	**1,161**	1,092
Share premium	**15,843**	-
Retained earnings	**195,601**	202,804
Total equity	**212,605**	203,896

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2020

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 July 2018	1,092	-	187,007	188,099
Total comprehensive income for the year				
Profit for the year	-	-	33,267	33,267
Other comprehensive income	-	-	371	371
Total comprehensive income for the year	-	-	33,638	33,638
Transactions with owners, recorded directly in equity				
Contributions and distributions to owners				
Sale of own shares	-	-	32	32
Share-based payments	-	-	960	960
Dividends	-	-	(18,833)	(18,833)
Transactions with owners, recorded directly in equity	-	-	(17,841)	(17,841)
At 30 June 2019	**1,092**	**-**	**202,804**	**203,896**
Adjustment on adoption of IFRS 16 on 1 July 2019	-	-	(87)	**(87)**
Total comprehensive income for the year				
Profit for the year	**-**	**-**	**4,519**	**4,519**
Other comprehensive income	**-**	**-**	**278**	**278**
Total comprehensive income for the year	**-**	**-**	**4,797**	**4,797**
Transactions with owners, recorded directly in equity				
Contributions and distributions to owners				
Share issue	**69**	**15,843**	**-**	**15,912**
Purchase of own shares	**-**	**-**	**(63)**	**(63)**
Share-based payments	**-**	**-**	**717**	**717**
Dividends	**-**	**-**	**(12,567)**	**(12,567)**
Transactions with owners, recorded directly in equity	**69**	**15,843**	**(11,913)**	**3,999**
At 30 June 2020	**1,161**	**15,843**	**195,601**	**212,605**

AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2020

	2020	2019
	£000	£000
Operating activities		
Profit before tax from continuing operations	**5,566**	41,212
Loss before tax from discontinued operations	**(307)**	(264)
	5,259	40,948
Depreciation of property, plant and equipment	**2,289**	1,108
Share-based payments	**717**	960
Profit on redemption of shared equity receivables	**(223)**	(226)
Loss on disposal of property, plant and equipment	**254**	152
Impairment of investment properties	**257**	-
Finance income	**(708)**	(906)
Finance expenses	**1,071**	693
Operating cash flows before movements in working capital	**8,916**	42,729
Increase in inventories	**(33,215)**	(22,604)
Decrease/(increase) in receivables	**42,207**	(27,133)
(Decrease)/increase in payables	**(28,236)**	21,820
Cash (used)/generated in operating activities	**(10,328)**	14,812
Tax received	**-**	37
Tax paid	**(3,596)**	(5,944)
Finance costs paid	**(728)**	(314)
Net cash flow (deficit)/surplus from operating activities	**(14,652)**	8,591
Investing activities		
Proceeds from disposal of shared equity receivables	**1,065**	995
Proceeds from disposal of investment properties	**-**	1
Interest received	**64**	72
Purchase of property, plant and equipment	**(2,410)**	(1,866)
Net cash flow deficit from investing activities	**(1,281)**	(798)
Financing activities		
Increase in loans and borrowings	**60,000**	-
Net proceeds from issue of shares	**15,912**	-
(Purchase)/sale of own shares	**(63)**	32
Dividends paid	**(12,567)**	(18,833)
Principal element of lease payments	**(848)**	-
Net cash flow surplus/(deficit) from financing activities	**62,434**	(18,801)
Net increase/(decrease) in cash and cash equivalents	**46,501**	(11,008)
Cash and cash equivalents at beginning of year	**30,306**	41,314
Cash and cash equivalents at end of year	**76,807**	30,306

NOTES TO THE FINANCIAL INFORMATION
for the year ended 30 June 2020

1. Accounting policies

Statement of compliance
The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (“IFRS”) and IFRS Interpretations Committee (“IFRS IC”) interpretations as adopted by the European Union.

Notes on the preliminary statement
The financial information set out above does not constitute the Group’s statutory accounts for the years ended 30 June 2020 or 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies, and those for 2020 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Cautionary statement
This Report contains certain forward-looking statements with respect to the financial condition, results, operations and business of MJ Gleeson plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Report should be construed as a profit forecast.

Directors' liability
Neither the Company nor the Directors accept any liability to any person in relation to this Report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

Basis of preparation
The accounting policies adopted in the preparation of these accounts are consistent with those described in the Annual Report and Accounts for the year ended 30 June 2019 with the exception of the accounting policy for leases. This policy has been updated following the implementation of IFRS 16 "Leases". Further details can be found in Note 8.

Going concern
During the year, the Group took a number of actions in response to the Covid-19 pandemic in order to protect liquidity. This included cancellation of the interim dividend, pausing build activity and land acquisition, cutting discretionary spend, and implementing temporary pay cuts.

The Group also took the prudent step of fully drawing its unutilised £60m revolving credit facility, which remained fully drawn at year end resulting in a cash balance of £76.8m. In addition, the Group has a £10m overdraft facility which remained unutilised. In April 2020, the Group also completed a successful placing of shares that raised £15.9m after fees.

Current forecasts are based on the latest three-year budget approved by the Board in July 2020. This incorporated the impact of Covid-19 on current operations and reflected a cautious view on recovery with a corresponding impact on volumes and selling prices.

These forecasts were then subject to a range of sensitivities including a severe but plausible scenario together with the likely effectiveness of mitigating actions. The assessment considered the impact of a number of realistically possible, but severe and prolonged, changes to principal assumptions including:
- second Covid-19 lockdown during which time minimal activity occurs;
- reduction in Gleeson Homes volumes of approximately 20%;
- reduction in Gleeson Homes selling prices by 7.5%; and
- prolonged impact on the timing of Gleeson Strategic Land transactions and land values.

Under these sensitivities, after taking mitigating actions, the Group continues to have a sufficient level of liquidity to continue in operation and meet its liabilities as they fall due.

The Group's bank facilities contain a covenant relating to the ratio of EBIT (Earnings Before Interest and Tax) on a 12-month rolling basis to interest costs (interest cover) together with a covenant relating to the ratio of net debt to EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) on a 12-month rolling basis.

As a result of the financial modelling and risks to profitability against the budget, the Group has sought and agreed a waiver for certain covenant test dates in the next 12 months. In their place a liquidity covenant has been introduced.

Based on the results of the analysis undertaken and the covenant waiver agreed with the bank, the Directors have a reasonable expectation that the Company and the Group have adequate resources available to continue in operation for the foreseeable future and operate in compliance with their bank facilities. As such the financial statements for the Company and the Group have been prepared on a going concern basis.

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:

	2020	2019
	£000	£000
Revenue		
Continuing activities:		
Gleeson Homes	**140,860**	197,034
Gleeson Strategic Land	**6,321**	52,865
Total revenue	**147,181**	249,899
Divisional operating profit		
Gleeson Homes	**8,960**	30,068
Gleeson Strategic Land	**229**	13,013
	9,189	43,081
Group administrative expenses	**(3,260)**	(2,082)
Finance income	**708**	906
Finance expenses	**(1,071)**	(693)
Profit before tax	**5,566**	41,212
Tax	**(758)**	(7,648)
Profit for the year from continuing operations	**4,808**	33,564
Loss for the year from discontinued operations (net of tax)	**(289)**	(297)
Profit for the year	**4,519**	**33,267**

The revenue in the Gleeson Homes segment primarily relates to the sale of residential properties. In addition, within revenue for Gleeson Homes is £510,000 relating to land sales (2019: £nil). All revenue for the Gleeson Strategic Land segment is in relation to the sale of land interests. There are no revenues relating to Group activities.

No single customer accounts for more than 10% of revenue (2019: £26,521,000 from one single customer).

Balance sheet analysis of business segments:

	2020 Assets	**2020 Liabilities**	**2020 Net assets**	2019 Assets	2019 Liabilities	2019 Net assets
	£000	**£000**	**£000**	£000	£000	£000
Gleeson Homes	**198,201**	**(37,082)**	**161,119**	171,608	(41,755)	129,853
Gleeson Strategic Land	**45,902**	**(9,831)**	**36,071**	78,861	(33,520)	45,341
Group activities/discontinued operations	**1,141**	**(2,533)**	**(1,392)**	465	(2,069)	(1,604)
Net cash/(borrowings)	**76,807**	**(60,000)**	**16,807**	30,306	-	30,306
	322,051	**(109,446)**	**212,605**	281,240	(77,344)	203,896

3. Tax

	Continuing operations		Discontinued operations		Total	
	2020	2019	**2020**	2019	**2020**	2019
	£000	£000	**£000**	£000	**£000**	£000
Current tax:						
Current year expense	**647**	6,397	**-**	-	**647**	6,397
Adjustment in respect of prior years	**91**	(28)	**-**	-	**91**	(28)
Current tax expense for the year	**738**	6,369	**-**	-	**738**	6,369
Deferred tax:						
Current year (income)/expense	**(7)**	1,350	**-**	37	**(7)**	1,387
Adjustment in respect of prior years	**113**	(118)	**-**	-	**113**	(118)
Impact of rate change	**(86)**	47	**(18)**	(4)	**(104)**	43
Deferred tax expense/(credit) for the year	**20**	1,279	**(18)**	33	**2**	1,312
Total tax charge/(credit)	**758**	7,648	**(18)**	33	**740**	7,681

Corporation tax has been calculated at 14.1% of assessable profit for the year (2019: 18.8%). The applicable UK corporation tax rate is 19%, which has been effective from 1 April 2017.

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

	2020	2019
	£000	£000
Profit before tax on continuing operations	**5,566**	41,212
Loss before tax from discontinued operations	**(307)**	(264)
Profit before tax	**5,259**	40,948

	2020	2019
Profit before tax multiplied by the standard rate of UK corporation tax 19% (2019: 19%)	**999**	7,780
Tax effect of:		
Expenses not deductible for tax purposes	**7**	4
Relief for share-based payments	**7**	-
Non-qualifying depreciation	**19**	-
Land remediation relief	**(182)**	-
Impact of change in tax rate	**(105)**	-
Impact of rate differences	**-**	43
Adjustments in respect of prior years – current tax	**(118)**	(28)
Adjustments in respect of prior years – deferred tax	**113**	(118)
Total tax charge for the year	**740**	7,681

Tax recognised directly in equity	**2020**	2019
	£000	£000
Current tax related to equity-settled share-based payments	**767**	-
Deferred tax related to equity-settled share-based payments	**(502)**	240
Total tax recognised directly in other comprehensive income	**265**	240

4. Dividends

	2020	2019
	£000	£000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 30 June 2020 of £nil (2019: 11.5p) per share	**-**	6,278
Final dividend for the year ended 30 June 2019 of 23.0p (2018: 23.0p) per share	**12,567**	12,555
	12,567	18,833

There are no dividends paid or proposed for the year ended 30 June 2020 (2019: 34.5p).

5. Earnings per share

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

	2020	2019
Earnings	**£000**	£000
Profit from continuing operations	**4,808**	33,564
Loss from discontinued operations	**(289)**	(297)
Profit for the purposes of basic and diluted earnings per share	**4,519**	33,267

	2020	2019
	No. 000	No. 000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**55,583**	54,566
Effect of dilutive potential ordinary shares:		
- share-based payments	**625**	1,027
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**56,208**	55,593

	2020	2019
	p	p
Continuing operations		
Basic earnings per share	**8.65**	61.51
Diluted earnings per share	**8.55**	60.37
Continuing and discontinued operations		
Basic earnings per share	**8.13**	60.97
Diluted earnings per share	**8.04**	59.84

6. Financial instruments

The fair values of the Group's financial assets and liabilities are not materially different from the carrying values. Shared equity receivables are measured at fair value through other comprehensive income ("FVOCI"). The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Shared equity receivables at FVOCI

	Group	
	2020	2019
	£000	£000
Balance at 1 July	**4,436**	4,997
Redemptions	**(793)**	(679)
Unwind of discount (finance income)	**61**	77
Fair value movement recognised in other comprehensive income	**(36)**	41
Balance at 30 June	**3,668**	4,436

Shared equity receivables 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 £793,000 (2019: £679,000) generated a profit on redemption of £223,000 (2019: £226,000) which has been recognised in other operating income in the consolidated income statement.

In addition, a net change in the value of shared equity receivables of £13,000 (2019: £131,000) has been recognised in other comprehensive income. This is made up as follows:

	Group	
	2020	2019
	£000	£000
Fair value movement recognised in other comprehensive income	**(36)**	41
Fair value recycled through profit and loss	**49**	90
Total movement recognised in other comprehensive income	**13**	131

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.

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 years
- Discount rate: 8%

6. Financial instruments *(cont.)*

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	**2020 Increase / (decrease) in fair value £000**	2019 Increase / (decrease) in fair value £000
Forecast regional house price inflation – increase by 1%	181	218
Average period to redemption – increase by 1 year	(204)	(246)
Discount rate – decrease by 1%	173	208

7. Related party transactions

In the prior year, the Group entered into a conditional agreement to purchase an area of land from Hampton Investment Properties Ltd ("HIPL") for £1,200,000. HIPL is a company in which North Atlantic Smaller Companies Investment Trust plc (“NASCIT”), which is a substantial shareholder in the Company, holds a majority interest. In addition, Christopher Mills, a Non-Executive Director of the Company, is considered a related party by virtue of his interest in and directorship of NASCIT and his position as a Director of HIPL. The land, if purchased, will form part of a new Gleeson Homes site being developed in the ordinary course of business. Approval of this purchase was granted by the majority of shareholders at the AGM in December 2019.

As announced during the year, a settlement agreement was reached with the former Chief Executive Officer, Jolyon Harrison, on the terms of his departure.

Other than disclosed above, there were no other transactions with key management personnel in either the current or prior year.

8. Adoption of new accounting standards

IFRS 16 "Leases"

IFRS 16 “Leases” applied to the Group from 1 July 2019, replacing IAS 17 “Leases” and IFRIC 4 “Determining whether an arrangement contains a lease”. The new standard has been adopted using the modified retrospective approach, under which the cumulative effect of the initial application is recognised in retained earnings at 1 July 2019. Comparative information has not been restated.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. These liabilities are initially measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to lease liabilities on 1 July 2019 was between 3.0% and 3.5%

In applying IFRS 16 for the first time, the Group has used a number of practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The accounting for leases with a remaining lease term of less than 12 months from the date of initial application as short-term leases.
- The exclusion of initial direct costs from the measurement of right-of-use assets at the date of initial application.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- The election to not separate non-lease components (e.g. maintenance) from lease components on specific classes of assets, namely vehicles.

The impact on transition to IFRS 16 at 1 July 2019 was that the Group recognised an additional £3,419,000 of right-of-use assets and £3,527,000 of lease liabilities. Additionally, a deferred tax asset of £21,000 was recognised and the net difference of £87,000 has been recognised in retained earnings.

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

A reconciliation between operating lease commitments previously reported in the financial statements for the year ended 30 June 2019 discounted at the Group's incremental borrowing rate and the lease liabilities recognised in the balance sheet on initial application of IFRS 16 is shown below.

Reconciliation of operating lease commitments disclosure and IFRS 16 lease liabilities	**£000**
Operating lease commitments at 30 June 2019 as previously reported	**4,261**
Discounted at the Group's incremental borrowings rate at 1 July 2019	**(527)**
Leases agreed but not yet commenced	**(191)**
Other*	**(16)**
Total lease liabilities as at 1 July 2019	**3,527**

*Primarily attributable to short-life leases that do not meet the criteria for capitalisation under the practical expedients detailed above.

	30 June 2020 **£000**
Impact of IFRS 16 on consolidated income statement	
Depreciation	
- Property	**(475)**
- Plant and equipment	**(286)**
	(761)
Interest expenses included as finance cost	**(119)**
	(880)

Statements of Directors' Responsibilities

The Statement of Directors' Responsibilities is made in respect of the full Annual Report and the financial statements not the extracts from the financial statements required to be set out in the Announcement.

The 2020 Annual Report and Accounts comply with the United Kingdom's Financial Conduct Authority Disclosure Guidance and Transparency Rules in respect of the requirement to produce an annual financial report.

We confirm that to the best of our knowledge:

- the Company financial statements, contained in the 2020 Annual Report and 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 Company;
- the Group financial statements, contained in the 2020 Annual Report and 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, contained in the 2020 Annual Report and financial statements, 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.

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

By order of the Board

James Thomson
Chief Executive Officer
13 September 2020

Stefan Allanson
Chief Financial Officer

The 2020 Annual Report and financial statements is to be published on the Company's website at www.mjgleesonplc.com and sent out to those shareholders who have elected to continue to receive paper communications. Copies will be available from The Company Secretary, 6 Europa Court, Sheffield Business Park, Sheffield, S9 1XE.