Henry Boot

Henry Boot PLC
Annual Report and Financial Statements
for the year ended 31 December 2019

Stock Code: BOOT.L

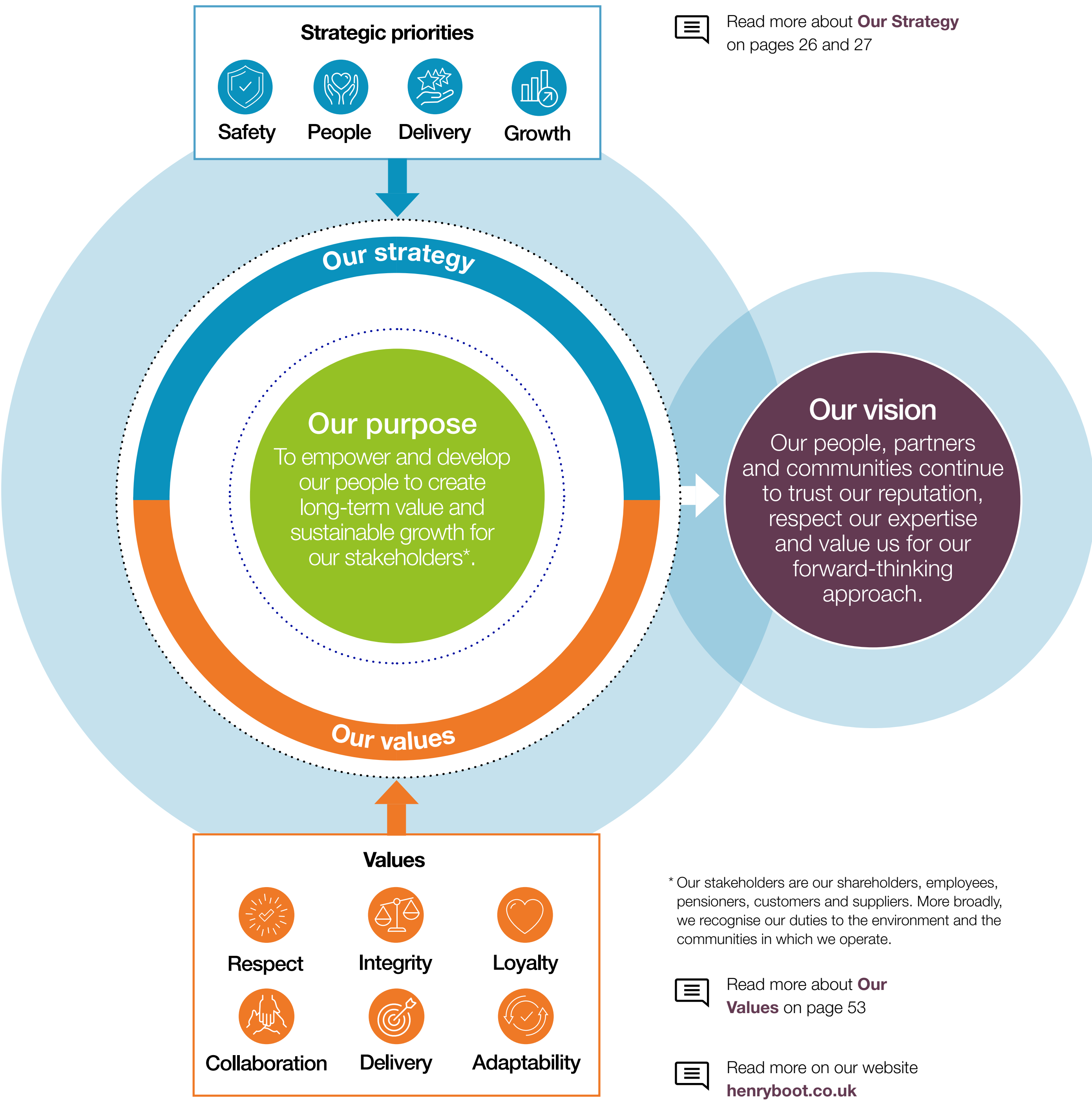
Safety People Delivery Growth


# OUR PEOPLE CREATE LONG-TERM VALUE

# WELCOME TO THE HENRY BOOT PLC ANNUAL REPORT 2019

# WE ARE A PURPOSE-LED ORGANISATION

Empowering and developing our people sits at the core of our being. This focus shapes our values and behaviours and is also a key aspect of our strategic priorities. Being purpose-led enables us to create long-term value for our stakeholders and ultimately achieve our vision.




Read more about **Our Strategy** on pages 26 and 27

* Our stakeholders are our shareholders, employees, pensioners, customers and suppliers. More broadly, we recognise our duties to the environment and the communities in which we operate.

Read more about **Our Values** on page 53

Read more on our website **henryboot.co.uk**

## IN THIS ANNUAL REPORT

### BUSINESS OVERVIEW



### STRATEGIC REPORT



### OUR GOVERNANCE



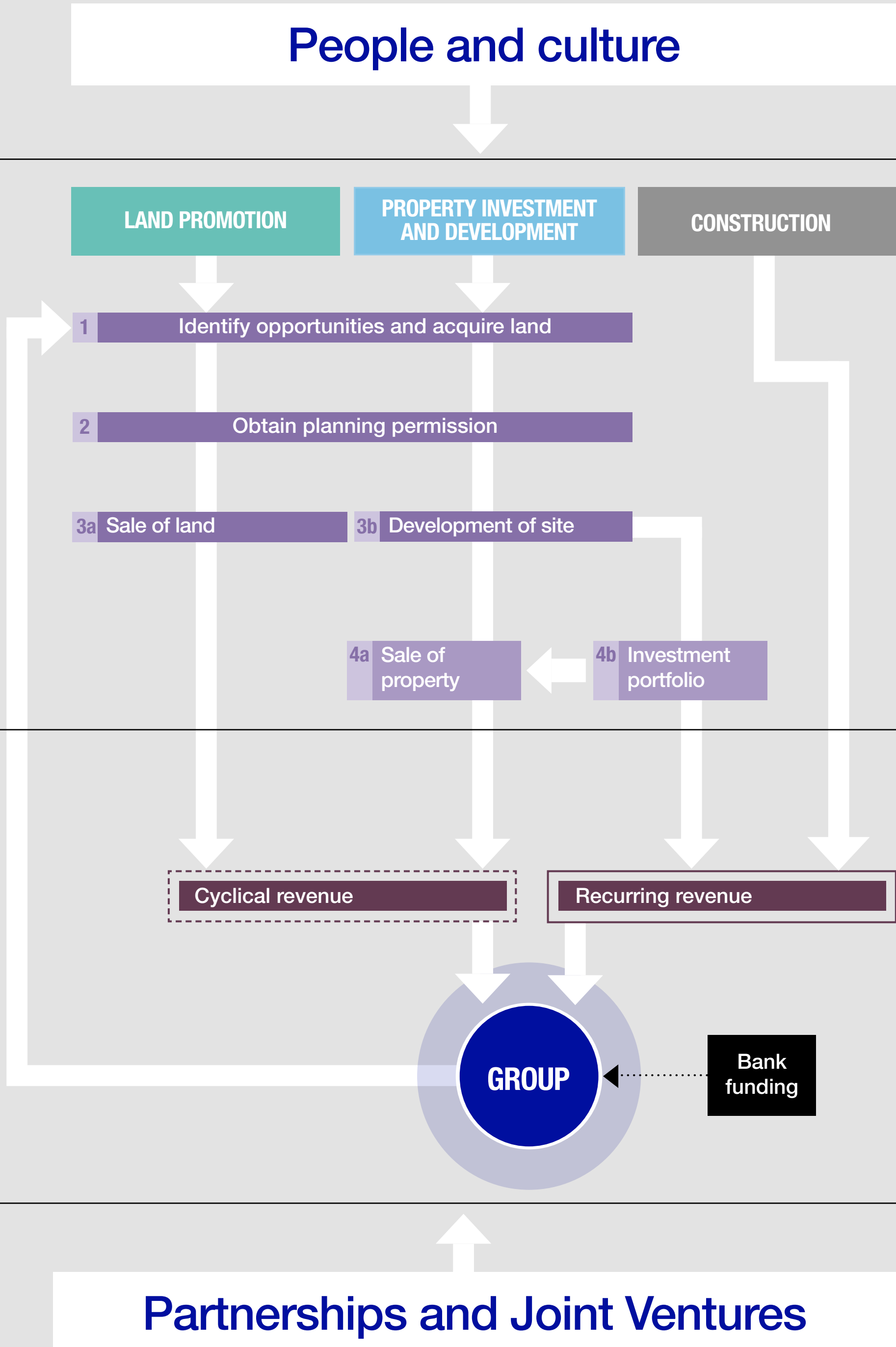
### FINANCIAL STATEMENTS



### SHAREHOLDER INFORMATION



# WHAT WE DO



## THE HENRY BOOT WAY

Our commitment to being a sustainable business underpins everything that we do and this ethos is fully integrated into our day-to-day operations.

Read more about **Our people** on pages 54 and 55

## CORE OPERATING MODEL

We have been in business for over 130 years and we are valued for our expertise and forward-thinking approach. The business model describes how our three business segments successfully operate for the combined benefit of the Group.

Read more about **How we operate** on page 18 to 21

Watch the **Business model video** at **www.henryboot.co.uk/about-us/business-model**

## CAPITAL STRUCTURE AND FINANCIAL STRENGTH

We reinvest the cash generated from these activities into strategic land and property development. Our financial structure allows us to invest in the more profitable areas of the business (strategic land and property development) to maximise the value generated while maintaining prudent gearing levels. The property investment portfolio of Henry Boot Developments generates a sizeable amount of rental income each year which allows us to borrow against the investment portfolio at attractive rates.

## OPPORTUNITIES

We actively seek out new ways of working to ensure we can continue to increase our opportunity pipeline.

# HOW WE WILL GROW

## STRATEGIC PRIORITIES

### Safety

We aim to be the safest place to work in our markets.

### People

We intend to recruit and retain employees who are empowered to deliver the growing business we aspire to be.

### Delivery

We aim to invest appropriately in all our business segments to achieve short-term delivery.

### Growth

We aim to grow net assets, increasing opportunity for the long term.

Read more about **our Strategy Review** on pages 38 to 41

# CREATING VALUE FOR OUR STAKEHOLDERS

Read about **Health and Safety** on page 57

## Our industry

Protecting the health, safety and welfare of stakeholders is a core priority for our industry. We operate above and beyond the required standards and strive to uphold these across all the Group's operations.

## Our people

We invest in our people to develop their skills, expertise and individual potential to help sustain a valuable talent pool for now and the future.

Read more about **Our people** on page 54

Read about **how the Board engages with our people** on page 76

Read about our work in the **Community** on page 58

## Our communities

We do not just operate within a community, we work in close partnership to create and develop thriving projects that will last for generations.

## Our shareholders

We focus on creating long-term shareholder value through strategic investment and developing opportunities that generate robust, reliable earnings.

Read about our **Investment case** on page 13

Read more about **Shareholder engagement** on page 77

# LIVING OUR VISION

# TECA ABERDEEN

### The Event Complex Aberdeen (TECA)

We completed the £333m TECA development in 2019. The development brought a new 15,000 capacity arena and leisure facilities to Aberdeen.

### Link to strategy

Delivery

### Generating value for Aberdeen

With 48,000 sq m of flexible event space the facility, benefiting from excellent transport links through the neighbouring Aberdeen International Airport and city bypass, is expected to contribute an additional 4.5m visitors, £113m of visitor spend and £63m net Gross Value Added to the Scottish economy over 10 years. It will also result in the creation of 352 full-time equivalent permanent positions by year 10 of operations.

**£333m**
Development

**48,000 sq m**
Flexible event space

"This has been a huge investment by the council and I'm sure it is something that will make people in the city very proud."

**Douglas Lumsden**
Council Co-leader

# LIVING OUR VISION

# GLASS WORKS BARNSLEY

### The Glass Works project

In 2016 we commenced construction work on the Glass Works, a Barnsley Town Centre regeneration scheme. The now complete Phase 1 saw a new market and library delivered to the centre. We now have been appointed contractor on Phase 2 of the scheme, which will bring Barnsley centre a 100,000 sq ft retail space, 25,000 sq ft of cafés and restaurants, with a new 13 screen multiplex cinema and ten pin bowling.

### Link to strategy

Delivery

### Generating value for Barnsley

To date, we have supported over 100 local training, employment and community projects with over £250,000 worth of funding. We have established the Barnsley Construction Skills Village and Better Barnsley bond initiatives – both with the aim of leaving a legacy beyond the completion of the project.

**£42m**

Phase 1 Contract Value

**£88m**

Phase 2 Contract Value

**Henry Boot have already delivered fantastic results, so we are pleased to have them on board for the next phase of the scheme. Their commitment to not only the project but the local community is outstanding and they have made a significant impact in terms of employment and educational opportunities.**

**Steve Houghton**
Leader of Barnsley Council

# COVID-19 Update

Henry Boot performed strongly throughout 2019, which we are pleased to outline in this announcement. However, it is clear that the COVID-19 pandemic is having a material impact on the Group. Therefore, we believe it is important to provide an update on the unprecedented decisions and actions taken, which have all been driven by our three main priorities:

- The safety and welfare of our people, our customers, our supply chain, and the communities in which we operate
- Operational responses to the latest Government guidance, together with feedback from our people, customers and supply chain
- The long-term financial stability of the Group

## 1. Safety and welfare

In February, a Committee was formed to develop a COVID-19 action plan and to monitor the impact on our Group. The Committee has been agile to meet the needs created by this period of extreme uncertainty, meeting almost daily since mid-March, with the action plan being constantly refreshed to reflect changing circumstances.

Our office network is closed, and since the lockdown, our people who can work remotely are doing so.

At the end of March, we paused work on our construction sites and closed our plant sales centres, except where essential work or supplies were being delivered to vital NHS sites. This allowed us to carry out a review that ensured we are compliant with new government guidelines, had the ability to gain feedback from customers and suppliers, and crucially, that our people remained safe.

## 2. Operations

Following our review and the pause in construction activity, all of our construction sites and plant sales centres are now open, adhering to the strict precautions, which have naturally affected our output and efficiency. The position is similar in the sites being operated by our development business. However, all recently completed developments are either pre-sold or let, and nearly all our committed developments are also pre-funded or pre-let. Our jointly owned Leeds-based housebuilder is also operating on all of its sites and, following the change in the Government's guidelines, has reopened its show homes.

The reduced activity affecting construction, housebuilding and plant hire has meant we are utilising the Government's Coronavirus Job Retention Scheme. A minority of our workforce have been furloughed and their pay has been topped up to 100% by the Group. In recent weeks, we have started to reduce the number of people furloughed as we adapt to new working ways and productivity increases.

Our land promotion business continues to operate remotely, identifying and promoting strategic land over the long term. There are several contracted sales due to complete in the near future, and the majority of these are with the UK's major housebuilders.

## 3. Financial stability

The Group retains a very strong financial base, with a robust balance sheet, and net cash at 30 April 2020 of £45m (31 December 2019: £27m). In addition, we retain a secured, committed, undrawn banking facility of £75m. This facility is subject to a restriction relating to the value of investment property and deferred income and, at 30 April 2020, £51m of this facility was available to the Group.

In assessing the Group's going concern and viability, we have considered the potential impact of the COVID-19 pandemic on the Group, and the effect of both a three-month and six-month UK lockdown. This assumes that no activity is undertaken during 2020 unless it is already contracted, followed by a short to medium-term recovery of the economy. Based on this assessment we believe the Group will have adequate resources, liquidity and available bank facilities to continue in operational existence for the foreseeable future.

We have also sought to reduce variable costs, and to preserve cash, where possible. This includes making the following key decisions:

- Paying a reduced final dividend in recognition of the performance for the year ended 31 December 2019 of 1.3p so that the full year dividend payment for 2019 is 5.0p (56% of the 9.0p paid for FY2018)
- Aligning the remuneration of our people with shareholders with only half of all awarded bonuses, in relation to the FY2019, across the Group being paid
- The Board's executive and non-executive directors have taken a 20% reduction in salary and fees from 1 April
- Measures taken to actively manage cash and curtail both capital and revenue expenditure

As noted in our operations update on 3 April 2020, the Group is currently unable to quantify the impact of COVID-19 on its financial and trading performance for the current year. As a result, we have suspended all existing financial guidance until clarity returns.

There is no doubt that the COVID-19 pandemic is having a material effect on our current operations, but we are on track in our plan to safeguard our people together with maintaining operational capabilities and to preserve our financial resources.

We have always been clear that we are a long-term business, and as such we operate in markets that are dictated by long-term trends:

- The demand for residential development and the land needed to provide much-needed housing
- The development of manufacturing and logistics assets, and urban development concentrated on offices and residential
- Construction with a bias to public sector investment in areas such as hospitals, education and urban regeneration

We believe these long-term trends and markets are sustainable and we are determined in our strategy to make sure we play our part in them in the future.

Pictured: Woodcote Grove, Epsom – A new sustainable Headquarters for Atkins PLC

# Chairman's Statement

# STRONG POSITION FOR THE FUTURE

## JAMIE BOOT

Chairman

I am pleased to report that Henry Boot achieved another strong set of results with profit before tax of £49.1m, which was slightly higher than the previous year (2018: £48.6m). Earnings per share were 28.3p (2018: 28.3p), covering the proposed dividend over 5.6 times. NAV per share increased to 239p (2018: 227p) and we finished the year, having sold the majority of the mixed-use retail- focused assets in our investment portfolio, with £27.0m in net cash. This was a significant achievement considering the level of political and economic uncertainty that affected the UK retail real estate markets during 2019. It also means that we have a strong cash positive balance sheet to withstand the impacts of the COVID-19 pandemic that we are all now experiencing.

Once again, Hallam Land – our land promotion business – performed exceptionally well, selling over 3,400 plots on 22 sites as the leading UK housing developers traded well and replenished land banks with quality sites in good locations. Hallam Land increased its site portfolio to over 14,800 acres, and goes into 2020 with planning permission for over 14,700 plots available to sell, all held at cost with no planning gain value recognition until sale completion, and a further 10,600 plots applied for and within the planning process.

Henry Boot Developments (HBD) – our property investment and development business – successfully concluded The Event Complex Aberdeen (TECA) on time and on budget. This £333m project was the largest we have delivered, and it was great to see it used for the BBC's 'Sports Personality of the Year' programme. Currently, we are committed to deliver 763,000 sq ft of manufacturing and logistics accommodation, and 717 residential units, all of which have either been pre-sold or pre-let. The majority of these residential units are within our Kampus PRS scheme in the centre of Manchester, which has been pre-funded. With a development pipeline of c£1.3bn, we have ample opportunities for the future.

Stonebridge Homes – our jointly owned Leeds-based housebuilder – achieved 159 unit sales (2018: 145 sales). Planning delays continue to affect the speed at which we are able to grow output, and we are looking to secure our first site in the North East, which is a natural extension to our existing geographic focus.

Henry Boot Construction had a successful year; revenue from construction activity was £89.7m (2018: £70.9m), and although COVID-19 will cause significant disruption, we have a strong order book with the added opportunity within the Partnership Homes market, following the acquisition of Starfish Commercial in 2019. Banner Plant had a more difficult year, having incurred a bad debt when one of its largest customers failed, although the team replaced most of the activity lost with this customer during 2019. Road Link A69 continued to perform profitably, to expectations and in line with the previous year.

### Dividend

The Board has considered the financial position of the Company, and its ability to withstand the uncertain economic conditions created by COVID-19, very carefully. Notwithstanding our relatively strong position, we believe that it is important in these uncertain times, and for the long-term success of the business, to preserve cash. The Board has therefore concluded that we should recommend a reduced final dividend of 1.3p which, together with the 3.7p interim dividend, gives a total of 5.0p (2018: 9.0p) for the year. We recognise the importance of dividends to all shareholders and, rest assured, we will keep returns to all stakeholders under review as the impacts of the crisis unfold. Payment of the final dividend is subject to shareholder approval at the Annual General Meeting (AGM) and will be paid on 6 July 2020 to shareholders on the register on 12 June 2020.

### Our People

Our success in 2019 has, once again, been delivered against a backdrop of political and economic uncertainty, which impacts on the confidence that clients and customers require in order to make positive decisions. In those circumstances, our people have performed

tremendously well to overcome the challenges and deliver a better result than 2018. On behalf of the Board and all stakeholders, I thank all our people for their efforts throughout 2019. Whilst COVID-19 will materially affect the Group's results in 2020, I am sure that with skillful management and the resolute contribution of everyone in our Group, we will overcome the unprecedented challenges that will arise, seeking out new opportunities along the way. I would also like to take this opportunity to welcome Tim Roberts as our new Chief Executive Officer and thank John Sutcliffe for his service to the Group as Finance Director and Chief Executive Officer. John's time with Henry Boot has been extremely valued and I wish him all the best in his retirement endeavours.

## Outlook

We made significant strategic progress in 2019, achieving a strong financial performance and, significantly, we disposed of most of our mixed-use retail-focused assets. As a result, we ended the year with a strong cash positive balance sheet. Trading in the new year had started well, with a number of commercial and housing developments on track, strategic land transactions confirmed and a strong committed construction order book. Against this, there is no doubt that the COVID-19 pandemic will cause a significant social and economic impact. Our short-term priority is the welfare of our colleagues, the continued robustness of our financial position, and continuing to serve our customers and other stakeholders. With positive cashflow, a short-term focus on managing our cash reserves, and contingency planning in place, we have readied ourselves to come through the pandemic. We are a long-term business, therefore, our ambition for the business remains unchanged. With our new Chief Executive Officer driving the business forward, we will continue to empower our people, with both the financial and technical resources to add to the pipeline of land, housing, construction and commercial development opportunities, delivering sustainable growth and value creation for all stakeholders.

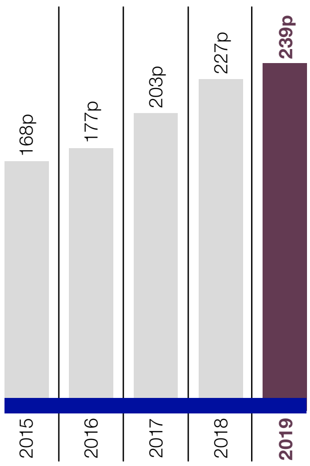
**Jamie Boot**
Chairman

“With positive cashflow, a short-term focus on managing our cash reserves, and contingency planning in place, we have readied ourselves to come through the pandemic.”

**Jamie Boot**
Chairman

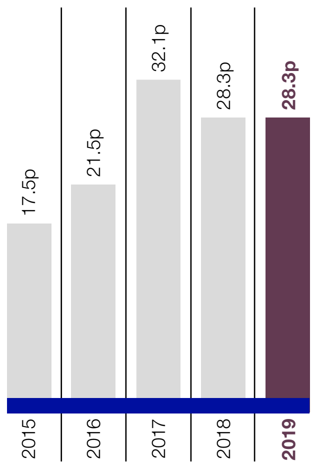
### Net asset value per ordinary share

**239p**



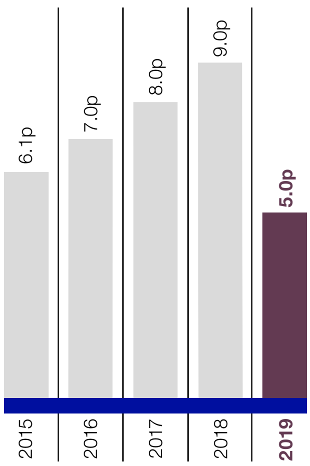

### Earnings per ordinary share

**28.3p**




### Dividends per ordinary share

**5.0p**




Read the **Highlights** on page 12

Read our **Governance report** on page 72

# Group at a Glance

# EXPERTISE EXPERIENCE AGILITY

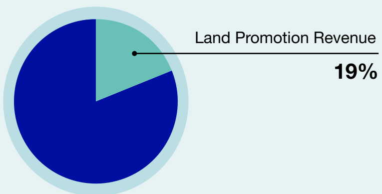
## LAND PROMOTION

### Hallam Land Management Limited

**Hallam Land Management**
The strategic land and planning promotion arm of the Henry Boot Group. Since 1990 we have been acquiring, promoting and developing land with an outstanding record in achieving planning permission.

**Key sectors:**
- Housing
- Sustainable communities
- Business parks

### Percentage of Group revenue




Cyclical revenue

## PROPERTY INVESTMENT AND DEVELOPMENT

### Henry Boot Development Limited

**Henry Boot Developments**
Trading as HBD, one of the most progressive property companies in the UK with its considerable experience and impressive reputation in all sectors of property development. Currently the company has a commercial development pipeline of over £1.3bn.

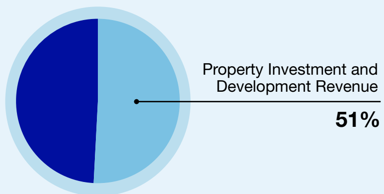
**Key sectors:**
- Industrial, leisure, and commercial development
- Urban generation
- Development partnerships
- Residential development

### Stonebridge Homes Limited

**Stonebridge Homes**
A jointly owned company (controlled by Henry Boot PLC) in the north of England, which develops family homes that combine care, consideration and attention to detail.

**Key sectors:**
- Residential development

### Percentage of Group revenue




Cyclical revenue Recurring revenue

Pictured: Butterfield Business Park, Luton – JV with landowners with potential to provide 650,000 sq ft. of high quality light manufacturing and distribution.

## CONSTRUCTION

| Henry Boot Construction Limited | Banner Plant Limited | Road Link (A69) Limited |
| --- | --- | --- |

**Henry Boot Construction**
Specialising in serving both public and private clients in all construction and civil engineering sectors, in which we have strong partnering relationships.

**Key sectors:**
- Housing
- Civil engineering
- Health, sports and leisure
- Commercial/retail
- Industrial
- Custodial
- Education

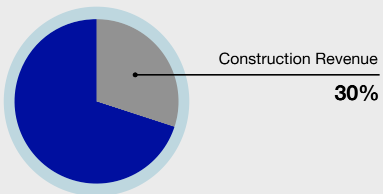
**Banner Plant**
Offering a wide range of construction equipment and services for sale and hire in plant, temporary accommodation, power tools, powered access, big air compressors and serviced toilets.

The range of products continues to evolve to meet customer requirements in modern health and safety legislation. Primarily, supply areas stretch from Yorkshire in the north to the East Midlands and Birmingham in the south.

**Road Link (A69)**
Road Link has a 30-year contract (six years remaining) with Highways England to operate and maintain the A69 trunk road between Carlisle and Newcastle upon Tyne.

Works include road resurfacing, bridge repairs, winter preparation and routine maintenance. Highways England pays Road Link (A69) a shadow toll, which is a fee based upon the number of vehicles using the road and mileage travelled by those vehicles.

### Percentage of Group revenue




Recurring revenue

### Type of revenue stream:

**Recurring Revenue:** This revenue stream is regular and stable which allows the Group to maintain long-term bank funding relationships.

**Cyclical Revenue:** This revenue stream is dependent on each economic cycle. These profits, in good years, contribute significantly to the Group's stable profits overall.

Read more about our **Business model** on page 18 to 21

Read more about **Our strategy** on page 26 and 27

# 2019 Highlights

### What we achieved in 2019

Once again we delivered another strong set of results. Despite the political uncertainty during the year we increased profit before tax, grew net assets and finished the year in a cash positive position.

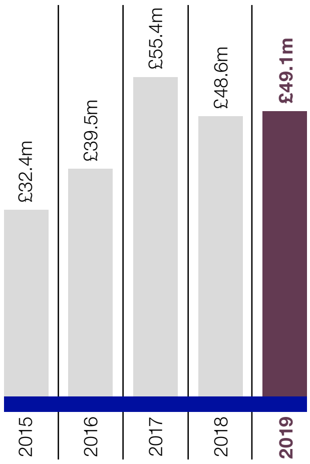
**Darren Littlewood**
Group Finance Director

Read the **Financial Review** on page 34

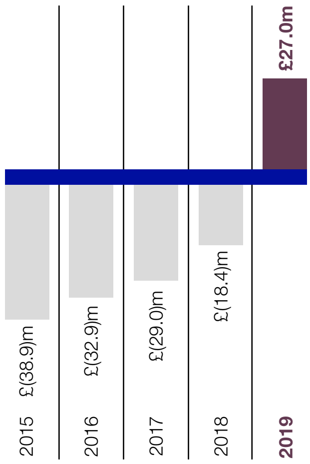
Read the **Segmental Reviews** on page 28 to 33

## Financial highlights

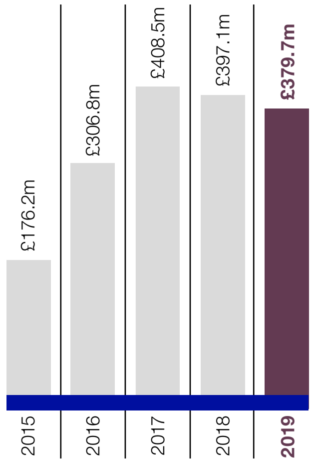
### Profit before tax
**£49.1m**



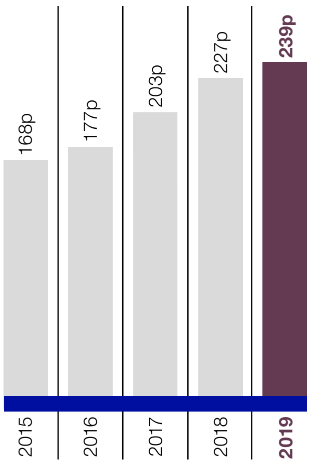

### Net cash (debt)
**£27.0m**



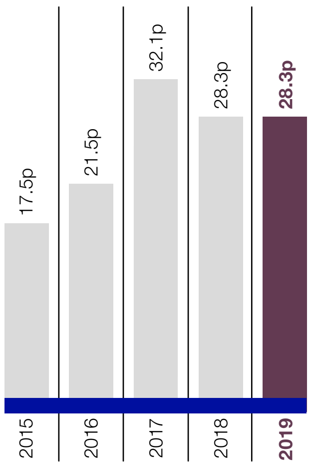

### Group revenue
**£379.7m**



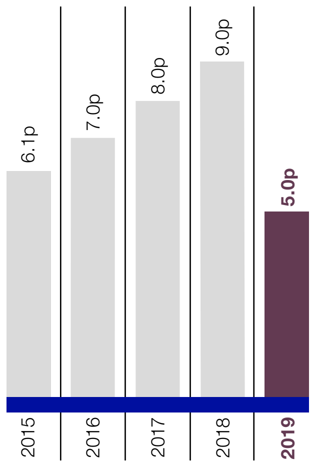

### Net asset value per ordinary share
**239p**




### Earnings per ordinary share
**28.3p**




### Dividends per ordinary share
**5.0p**




## Operational highlights

- The Group performed well against the uncertain political backdrop
- Successfully delivered the £333m TECA scheme, in Aberdeen, on time and on budget
- Strategic land increased its profit to £31.8m, by successfully selling 3,427 plots
- Successfully implemented a strategic rationalisation of our investment property portfolio, disposing of approximately £67m primarily with a retail focus
- Our jointly owned house builder Stonebridge Homes achieved 159 sales
- Henry Boot Construction completed Phase 1 of the £44m Glass Works in Barnsley Town centre and has now begun on Phase 2 which is an £88m retail and leisure regeneration scheme

# Investment Case

# KEY GROWTH DRIVERS

## Good financial track record over the long term

- Providing **reliable earnings** through cyclical markets with good visibility from the opportunities under control.
- **Prudent debt levels** and a disciplined approach to risk management
- **Trading profit** produced within our three business segments: Land Promotion, Property Investment and Development, and Construction

## A long-established and efficient capital structure

- Reinvestment of cash generated in the construction segment into strategic land and commercial development assets to **enhance returns to shareholders**
- We aim to **provide dividend growth** while maintaining at least three times dividend cover to allow for investment in future opportunities, without diluting existing shareholders by raising new equity capital

## Delivering residential communities

- Just under **15,000 acres of strategic land** on 188 sites throughout the UK
- Our strategic land business has the scope to deliver **60,000 to 70,000 housing units** over the next 10 to 20 years, with **14,713 secured planning permission** plots
- Given the well-documented housing shortages and the Government's desire for more housing delivery, **our land portfolio is well positioned** to help deliver these much needed houses

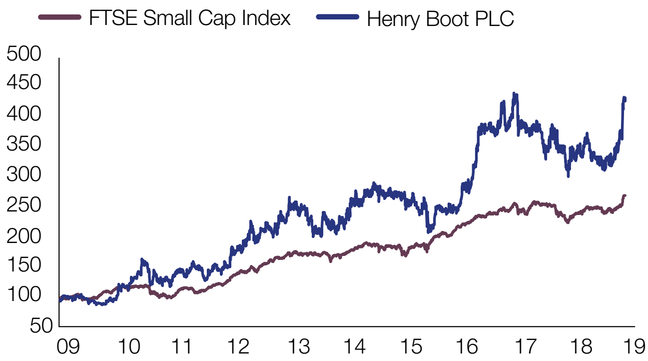
## Delivering commercial opportunity

- A commercial **development pipeline of £1.3bn plus** of Gross Development Value, in addition to over £300m to be delivered over the next three years
- A small but quickly growing jointly owned housebuilder with a **land portfolio of over 1,000 units** and a medium-term planned output of 250 unit sales

## Shareholder returns

- Our long-term strategic aim is to **create shareholder value** through land promotion, property development and construction
- **Strong organic growth drivers** and capital allocation across our three business segments
- Great track record of total shareholder return (TSR). In the past twenty years the company has a compound annual growth rate (CAGR) of 15% Vs. an average 5% of the All Share Index

### 10 year TSR performance



# STRATEGIC REPORT

## SAFETY

To provide a safe place to work in all of the markets we operate in.



**The Directors present the Group Strategic Report for the year ended 31 December 2019.**

This report sets out how Henry Boot continues to create consistent value through the promotion of new land opportunities, the development of and investment in high quality property assets, and construction activities.

The Strategic Report on pages 16 to 61 has been approved by the Board and signed on its behalf by

**Tim Roberts**
Chief Executive Officer

20 May 2020

**Darren Littlewood**
Group Finance Director

20 May 2020

# Chief Executive Officer Update

## JOHN SUTCLIFFE

In my final update to stakeholders, I am very pleased to report that the Group has produced another resilient financial performance. The economic and political backdrop was tricky throughout the year; however, our very capable people navigated through those challenges and delivered results slightly ahead of last year and broadly in line with expectations.

Highlights in the year include the following. The completion of TECA, our largest ever project, on time and budget during the year. The strategic disposal of the major retail biased investment property assets, which reduced rental income and profit slightly but generated cash, and the Group ended the year with net funds of £27m. Finally, Hallam Land replaced the politically delayed sale of a major scheme at Didcot by re-phasing other sales.

The Board conducted a very thorough succession process researching widely, considering our vision, values and culture to identify and appoint my replacement, Tim Roberts. As I hand over, it is a pleasure to welcome Tim to Henry Boot; I am sure he will continue to positively develop and grow the business over the coming years.

Looking back over the last 14 years as Finance Director and latterly Chief Executive of Henry Boot, I am proud of the resilience and scale we have built into the Balance Sheet. We have built a safe working environment, good job security, career progression and leadership development opportunity for our people, with our vision, values and long-standing culture to the fore. For stakeholders, we have achieved this resilience without issuing large tranches of equity, but by reinvesting profits, more than doubling dividends and adding significantly to NAV per share. The COVID-19 pandemic is a challenge that no business had envisaged and it will have an unprecedented impact on our activities.

Watch the CEO's interview at
**henryboot.annualreport2019.com**

However, we have more than doubled the strategic land acreage and the potential commercial development portfolio is now valued at over £1.3bn, on numerous sites across the UK. These opportunities have been assembled without debt and I am pleased, given the situation we are in, to be able to hand over a business in good shape, with strong financial foundations allowing Tim the flexibility to consider the best ways to grow the business in the future.

It has been an honour to serve on the Board of Henry Boot and I feel very proud of the business we have helped to build to date. I have worked with a fantastic team of skilled and committed colleagues who rarely fail to deliver great outcomes to difficult commercial challenges. I wish the Board, all stakeholders and all those colleagues every success in the future. I will watch with keen interest as the business goes from strength to strength.

**John Sutcliffe**
Chief Executive Officer
(to 1 Jan 2020)

“I feel very proud of the business we have helped to build to date. I have worked with a fantastic team of skilled and committed colleagues who rarely fail to deliver great outcomes to difficult commercial challenges.”

**John Sutcliffe**
Chief Executive Officer

# TIM ROBERTS

At the time of writing we are all facing a dominant challenge in COVID-19. We are fortunate in that I take over the leadership of Henry Boot from John Sutcliffe in a considered and planned manner, and find the business operating well and in robust financial shape. This puts us in a position to withstand the economic and social disruptions that the UK will face. As our COVID-19 update stated, we have made decisions that have been driven by three main priorities:

- the welfare of our people, customers and the communities in which we operate;
- operational responses to Government guidance together with feedback from our customers and supply chain;
- the long-term financial stability of the Group.

In line with our strategic priorities, safety and people, we promptly closed our offices, sites and sales centres (except where were working on vital NHS projects), with many people carrying on working from home. The reduced activity has meant a proportion of our workforce has been furloughed but made the decision that pay be topped up to 100%.

The pause on construction sites has allowed us to review our procedures and on selective sites we have recently resumed work, adhering to strict precautions and at reduced output. This also applies for our development business, although our measured approach to risk means all recently completed development is either pre-sold or let, and nearly all committed development is pre-funded or pre-let. Though our land promotion business will be affected in the short term by the pause in the housing market, they will operate remotely identifying and promoting land to create long-term value.

Financially we ended the year in a strong financial position with £27.0m of net cash and no gearing, and at 30 April that had grown to £45m. In order to manage our cash flow and maintain financial stability, we have scaled back on capital expenditure, reduced our final dividend, fully aligned to a reduced payment of all awarded bonuses in relation to 2019 – which as John has set out was a good year – and the Board has agreed to a reduction in salary and fees.

I have joined a successful, long-term business, and I look forward to shaping its strategy and leading a team which has extensive operational skills in key markets such as residential, manufacturing and logistics and urban development. I believe these are sustainable markets and as a team we are determined to make sure we have the financial resources and organisation capacity to operate profitably in them in the future.

Again, my thanks to John, and I look forward to working with the Board, my colleagues and all our various stakeholders to realise our long-term ambitions in better times.

**Tim Roberts**
Chief Executive Officer
(from 1 Jan 2020)

> “I have joined a successful, long-term business, and I look forward to shaping its strategy and leading a team which has extensive operational skills”

**Tim Roberts**
Chief Executive Officer

# Business Model

01

## KEY RESOURCES AND RELATIONSHIPS

### Our people are at the heart of what we achieve

Henry Boot recognises that our people are a fundamental aspect to the success and sustainability of the Group. It is their expertise that executes our business model successfully and delivers the value created by the business to our stakeholders.

### Group strategy framework

In 2018, we developed our Group Strategy framework to ensure there was an overarching and consistent business plan in place. The business model we operate requires our subsidiaries to have their own individual strategies, but the centralised strategy framework allows flexibility in their different operational markets. This provides the boundaries needed to ensure there is clear alignment between implementing our operations and creating value.

### The 'Henry Boot Way'

Our culture and behaviour is guided by The 'Henry Boot Way'. This allows us to create and sustain an open culture, where our people can grow and thrive, upholding the standards that are so important to all of us. It inspires excellence in everything we do for our customers, our colleagues and aims to provide satisfaction for all our stakeholders.

Read more about **'The Henry Boot Way'** on page 53

### Effective governance

We align our dynamic business model with robust governance systems to ensure we operate transparently and openly. We set ourselves very high standards and strictly follow best practice in all of our operations.

Read the **Governance Report** on page 72

02

## GROUP OPERATING MODEL

### 1 Identify opportunities and acquire land

**Land promotion** acquires mainly agricultural land. **Property investment and development** acquires mainly brownfield land. Both then promote it for its highest value use.

### 2 Obtain planning permission

Gaining planning permission on land adds immense value to its worth. **Hallam Land Management** promotes land for residential and commercial consent. **Henry Boot Developments** promotes land for commercial development. **Stonebridge Homes** promotes land for residential development.

### 3a Sale of land

Once **Hallam Land Management** obtains planning permission on a site, it is sold to a developer, sometimes after infrastructure has been installed. The amount of capital required to achieve planning permission on a section of land is a very small proportion of the total capital required for the whole building process, from acquisition of land without planning permission through to completion of construction. This means that **Hallam Land Management** is focused on maximising the most profitable section of the housebuilding process for the lowest amount of working capital.

### 3b Development of site

Unlike **Hallam Land Management**, when **Henry Boot Developments** and **Stonebridge Homes** gain planning permission for a site, they will develop it themselves.

### 4a Sale of property

Once a property is developed, it may be immediately sold, generating significant revenue. Properties may be retained by the business to form part of the investment portfolio and may be sold at a later time.

### 4b Investment portfolio

A number of the finished property developments are retained and managed by the **Property Investment and Development** segment. The property investment portfolio of **Henry Boot Developments** is worth over £60m, having disposed of a number of assets in 2019, and generates rental income each year.

### Construction

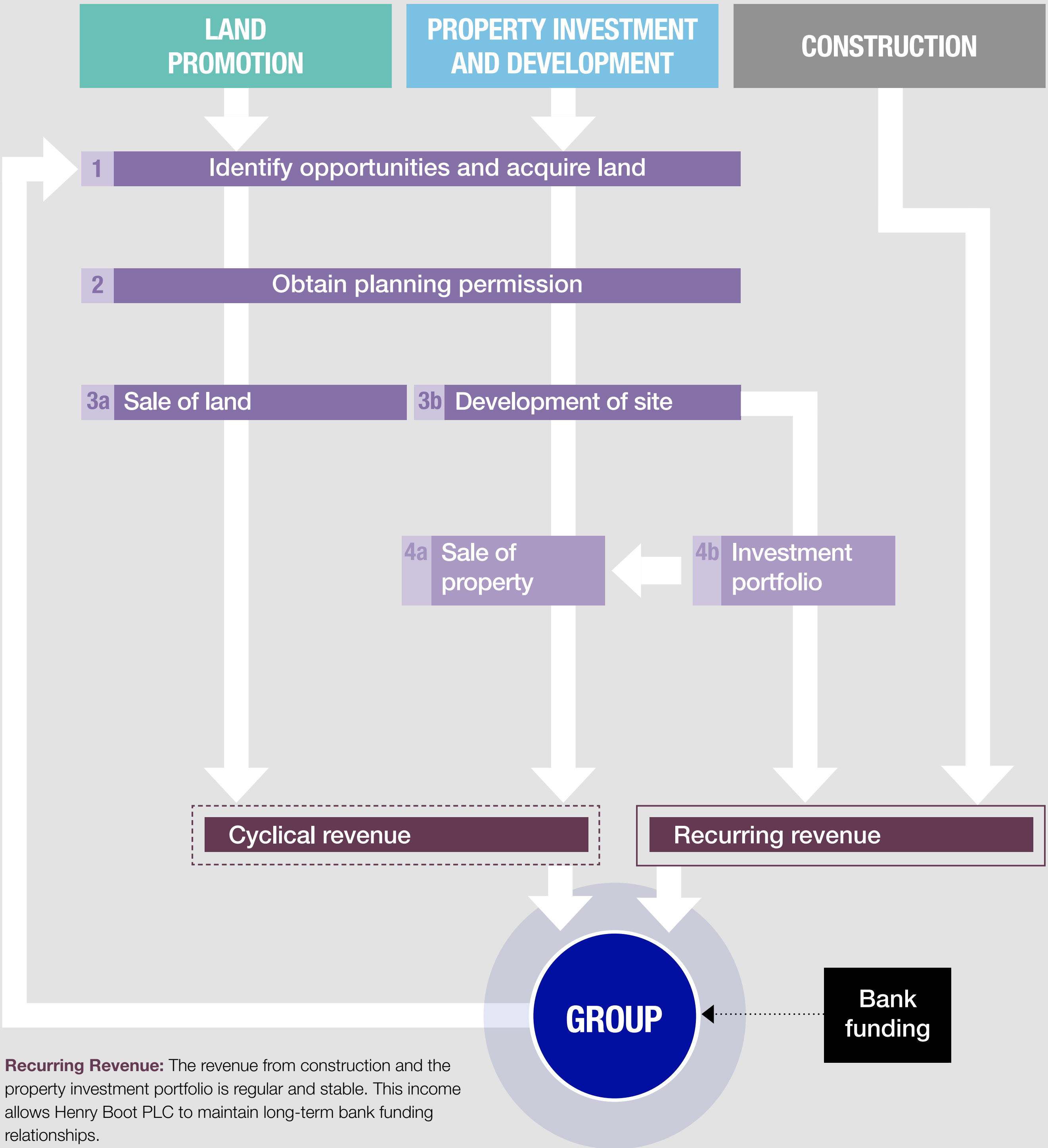
**Henry Boot Construction** is a contractor specialising in servicing both public and private clients in all construction and civil engineering sectors.

**Banner Plant** offers a wide range of services, and a high quality inventory of equipment for hire and sale, such as temporary accommodation, powered access equipment, tools and non-man operated plant.

**Road Link (A69)** has a contract with Highways England to operate and maintain the A69 truck road between Carlisle and Newcastle upon Tyne. Highways England pays Road Link a fee based on the number of vehicles using the road and the mileage travelled.

03

## BUSINESS MODEL




**Recurring Revenue:** The revenue from construction and the property investment portfolio is regular and stable. This income allows Henry Boot PLC to maintain long-term bank funding relationships.

**Cyclical Revenue:** Sale of land and property developments generates cyclical revenue. These activities are riskier and give varying amounts of profit through each economic cycle. These profits, in good years, contribute significantly to the stable profits from construction and property investment.

Watch the **Business Model video** at **www.henryboot.co.uk/about-us/business-model**

04

# OUR EXPERTISE

## LAND PROMOTION

### Hallam Land Management

- Identifying land with future potential.
- The use of agency and option agreements, as opposed to buying all land outright, means less expenditure on each asset, allowing us to maximise the number of land opportunities that we are promoting at any one time.
- As investment is spread over many assets, this reduces the overall risk of involvement in the planning process and maximises the probability of making a return on the capital invested.
- Taking land through the complexities of the planning system.

## PROPERTY INVESTMENT AND DEVELOPMENT

### Henry Boot Developments and Stonebridge Homes

- Acquiring and developing brownfield land or under-performing property assets.
- Operating in diverse sectors to maximise development opportunities.
- Developing partnership arrangements.
- Ability to self-fund or source pre-funding opens up opportunities. The businesses can commit to long-term projects, such as complex multi-site regeneration schemes.

## CONSTRUCTION

### Henry Boot Construction, Banner Plant and Road Link (A69)

- Project delivery in both the public and private sector, on time and within budget.
- Creating trusted relationships and repeat business.
- Supplying a wide range of plant equipment efficiently.

## GROUP

- As a result of our financial structure, we invest in the more profitable areas of the business (strategic land and property development) to maximise the value generated while maintaining prudent gearing levels.

05

# OUR VALUE GENERATION


### Our people

Our employees deliver the core activities of our business model. We invest a significant amount of time and resource in their training and development to ensure they are empowered in their roles. We apply the same methods and dedication when we are recruiting to ensure we attract the highest calibre of people within the Group.

Read more on **Our People** on page 54

### Communities

We have offices in ten locations across the UK but we have projects which extend our community impact across the country. Wherever we operate it is fundamental to us that we develop strong relationships and partnerships with our communities. This could be by using the local supply chain on projects or volunteering our skill set to a local charity.

### Customers

We are committed to maintaining our long-standing track record of customer satisfaction. We continue to listen, understand and adapt how we can improve upon what we deliver, so we are able to further enhance the competitive advantage our Group brings to its customers.

### Shareholders

Our priority is to protect the sustainability of our Group for our shareholders. By operating transparently and responsibly, we are able to create added value for our shareholders, providing updates on performance and changes to the strategic direction of the Group.

Read about our **Corporate Responsibility** on page 51

# Business Model

# OUR COMPETITIVE ADVANTAGES

## 'The Henry Boot Way'

Our culture, 'The Henry Boot Way', means that we have a unique and cohesive approach to doing business. We started 'The One Henry Boot Project' so we could capture what The 'Henry Boot Way' is about. We have defined three core elements of The Henry Boot Way: Our Purpose, Our Vision and Our Values.

## Capital structure

The property investment portfolio of Henry Boot Developments generates rental income each year, which allows us to borrow against the investment portfolio at attractive rates. The Construction segment is self-funded and cash generative. We reinvest the cash generated from these activities into strategic land and property development. The revenues generated from the sale of land and property development is not regular recurring income, and it would not be possible to directly fund these activities through borrowings. Our financial structure allows us to invest in these more profitable areas of the business to maximise the value generated while maintaining prudent gearing levels.

## Our relationships

Creating lasting relationships with clients, partners and customers is fundamental to the way we do business. We ensure landowners are guided through the planning system, work with key property advisers to become aware of potential opportunities and deliver on time to create repeat business in each of the Group's segments. Our reputation and success are built on the relationships we create, and we take great care to ensure we build on these for the future.

## Diversified businesses

The Group's three business segments operate across the whole property value chain. Each segment is involved in multiple sectors – residential, leisure, retail, industrial, office and civil engineering – which means that we are not overly exposed to one area of the market. This enables us to weather economic fluctuations and deliver on our key objective of maximising stakeholder value.

# Market Review

Pictured: New Lubbesthorpe – It was designed to be a sustainable new community that created an attractive new living and working environment. It will be a compact, diverse, mixed-use and sustainable community of sufficient scale to support local facilities including shops, schools and places to work.

## LAND PROMOTION

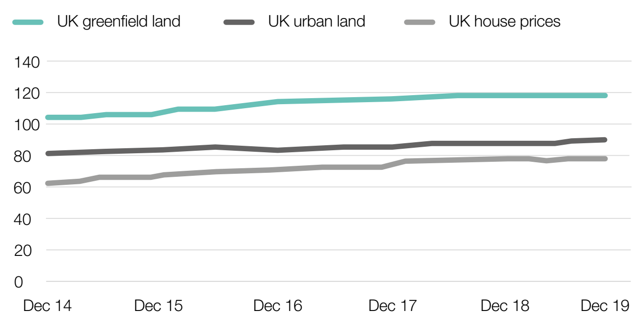
The market has evolved significantly since we entered it. Strategic land was the domain of House Builders 30 years ago, securing Option Agreements with landowners allowing them the right to acquire land at a percentage of market value, once planning consent was secured. Over the last 20 years the market has seen a wider acceptance of Planning Promotion Agreements, similar to options but requiring a sale of the freehold land with planning consent in the open market, with a percentage of the receipt being paid to the promoter, as their return. This evolution, coupled with the introduction, within the planning process, of the 5-year land supply test in the last decade liberating planning approvals more swiftly, has facilitated growth in the number of strategic land developers, and we now operate in a more competitive marketplace.

The housing market in 2019 remained resilient and land prices were stable, despite the UK's planned exit from the EU. Sales in the new homes sector, as opposed to second-hand homes, were maintained. with the underlying market for our land remaining strong. However, the planning process remains very protracted and expensive and accordingly sites in valuable market areas continue to be the most sought after.

### Our response

Despite this strong competition as evidenced in 2019, our performance continues to be strong within the market. Operating from 6 offices nationwide, our planning expertise is recognised across the country. We have maintained our approach of securing sites that exceed 150 plots, and that will deliver a consent in a 5 to 10-year time horizon, enabling us to maintain margins and returns. Additionally, the strong financial position of the Group, and Hallam itself, ensures that we have flexibility to make more capital-intensive freehold land purchases and not rely solely on promotion and option agreements.

### Annual Land value growth




Source: Savills Research

Hallam Land Management is now a mature business with a project portfolio numbering 188 sites at various stages in the promotion process. With the UK political uncertainty removed in late 2019, we saw some evidence of Central Government taking positive action to push their housing agenda. Whilst this should assist our planning negotiations with local authorities COVID-19 has caused a degree of operational disruption to the planning system. The outbreak of COVID-19 will have a significant impact on 2020 although, we do have a number of contracts already exchanged for completion in the year and, we remain confident that our Land Promotion business is well placed to deliver solid results in the future.

Pictured: Markham Vale – A prime new speculative industrial/warehouse unit, with 55,000 sq ft inc offices.

# PROPERTY INVESTMENT AND DEVELOPMENT

The overriding sentiment that existed within the UK property market throughout 2019 was one of uncertainty. The ever-present issues of the UK's planned exit from the EU and the likely potential of a General Election and possible change in Government dominated the year. This, in turn, had a significant effect on the UK property market. Occupiers and investors spent the majority of 2019 waiting for more political clarity prior to committing to new agreements, property acquisitions or property investments. Running in parallel to this uncertainty has been a continuation of evolution of the different property sectors we work in.

The retail sector continues to face huge challenges with out of town and secondary shopping centres experiencing a year on year reduction in footfall and sales. CVAs and/or administrations are becoming more commonplace as the success and scale of online shopping continues to increase. This in turn has impacted on occupier and investor demand.

Demand for offices in the big 6 regional centres has continued to remain strong. The flexible working space providers had a significant influence over the total amount of office space take-up in 2019 and it will be interesting to see if this sub-sector's growth continues in 2020.

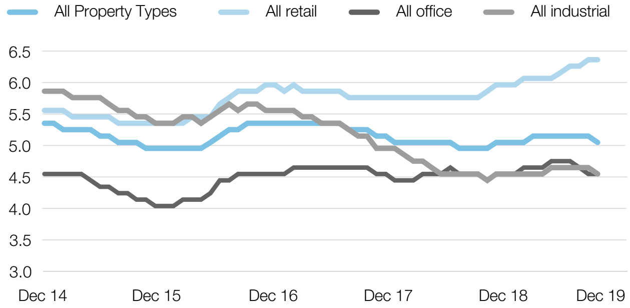
As has been the case for several years, the industrial sector continues to perform well with record rents and exit yields being achieved in most regions around the UK. We believe that occupier demand and investor appetite in this sector will continue for the medium to long term.

Alternatives, such as the build to rent residential sector, continue to perform strongly and are taking a larger share of the investment market due to the assets typically having long-term, index linked leases which provide a good hedge for pension scheme liabilities, in addition to providing diversification.

### Our response

With the General Election concluded we are seeing signs that the uncertainly placed on the market is lifting. Our jointly owned house building business, Stonebridge Homes, looks to be in a decent position to be able to deliver homes in 2020. In particular, the start of the year saw the UK housing market pick up and with the land bank adding more secured permissions in 2019, we are well placed to support current market conditions.

### Net yields %




Source: IPD/JLL

HBD is also well placed to work in the property sectors and geographic locations where demand and growth is forecast to continue. Our development pipeline, which as at 1 January 2020 shows a Gross Development Value (GDV) of £1.3bn, largely consists of manufacturing and logistic sites, city centre regeneration projects and city centre residential schemes (both build to rent and private for sale). While we will be careful not to overexpose ourselves to one sector or region, and we are mindful of the impact COVID-19 will have on the current year, we are in a very good position to be able to deliver robust commercial development returns from the opportunities available to us.

# Market Review

Pictured: University of Hull's £16 million sporting hub, which includes a new international sports arena, sports pavilion and a state-of-the-art gym.

## CONSTRUCTION

Generally, throughout 2019 our secured workload and healthy balance sheet will allow us to deliver in the short term and continue to win work for the future. Construction output continued to fall, with a weakness in demand as a result of the ongoing political uncertainty, the UK's planned exit from the EU and resultant low levels of economic growth. Against this background, Henry Boot Construction has seen a reduced number of opportunities, increased competitiveness and a tightening of margins. Our plant hire business, which is intrinsically linked to the performance of the UK Construction market, also saw reduced orders in 2019, particularly in Civil Engineering.

We anticipate that there will be increased public sector spending in 2020 on housing, schools, hospitals, prisons and infrastructure. We have also seen a regular pipeline of activity for new primary and secondary schools through the Department for Education (DfE) and the Leeds Local Enterprise Partnership (LEP) framework.

Private Rented and Build to Rent schemes are starting to emerge in our operational area. In addition, our major project The Barnsley Glass Works retail and leisure scheme, is a game changer for the town and is bucking the national trend on investment in retail.

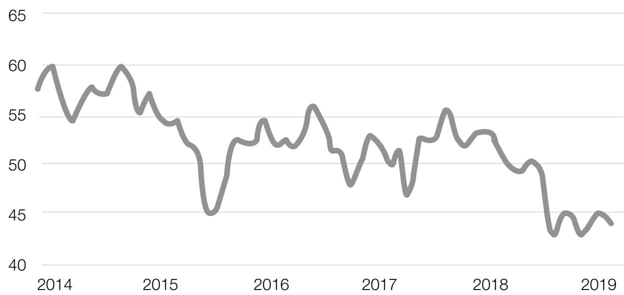
There has been significant industry debate in the year surrounding reducing carbon emissions, emerging digital technologies, social value outputs and modern methods of construction and our future strategic objectives are being aligned to these themes.

The industry has seen the loss of several significant construction companies in 2019 and there is now increased scrutiny from clients on the financial strength of construction companies given the low margins and risks associated with the delivery of complex projects. Consequently, we believe that our strong balance sheet will become a more compelling offer to clients.

### Our response

We started 2020 with a healthy orderbook and are now actively identifying and developing future business opportunities, which our plant hire business could also benefit from.

### United Kingdom Construction Purchasing Manager's Index




Source: Trading Economics – United Kingdom Construction PMI.

Moving forward we anticipate a continued commitment to public sector spending, which complements our position on several public sector strategic frameworks including DfE, Ministry of Justice and more recently Crown Commercial Services

We are also seeing additional private sector clients emerge with a move away from traditional models of procurement to a more direct negotiated approach. This provides opportunities through collaboration to minimise the risks involved in open procurement, design and construction leading to greater certainty of out-turn cost.

We are monitoring the COVID-19 outbreak closely and continue to work in line with Government guidelines, albeit at a reduced level of productivity


### Operating nationally

With a total of 13 offices across the UK we are well positioned to capitalise on new opportunities in all of our business operations.

**Link to strategic priorities:**

### A growing land portfolio

Hallam Land Management and Stonebridge Homes both look set to support an improved UK housing market. Their land portfolios have a strong track record of growing and replenishing in line with market conditions.

**Link to strategic priorities:**

### Diverse range of development projects

To reduce the risk from market volatility, we actively seek to diversify our development project range. Currently, the projects forecast in our development pipeline has a focus on industrial, logistics and urban generation.

**Link to strategic priorities:**

### £1.3bn GDV Development Pipeline

Our property development pipeline provides lots of opportunity and places us in a good position to be able to deliver robust commercial development returns in the future.

**Link to strategic priorities:**

### Reputation to deliver work

We have a long-standing reputation of delivering work throughout all of the companies within our Group. This reputation is a key asset to the business securing repeat and future work.

**Link to strategic priorities:**


### Build to rent schemes

Due to the lack of UK housing, build to rent schemes have performed strongly and are taking a larger share of the investment market. This is not new to our operations, but we expect to see this opportunity of work grow for both property development and construction.

**Link to strategic priorities:**

### Increase in public sector spend

Our construction business sits on a number of key northern public sector frameworks. This puts us in a good position to benefit from the anticipated increase in public sector investment throughout the north of the country.

**Link to strategic priorities:**

### Office space opportunity

While retail development has declined, we have seen an increase in demand for office space, particularly in the six largest Regional centres in the UK. This emerging opportunity is one that we will explore to diversify our project range.

**Link to strategic priorities:**

Read more about **Our Strategic Priorities** on pages 26 and 27

# Our Strategy

# FORMULATE
# IMPLEMENT
# MONITOR

## Group strategic priorities

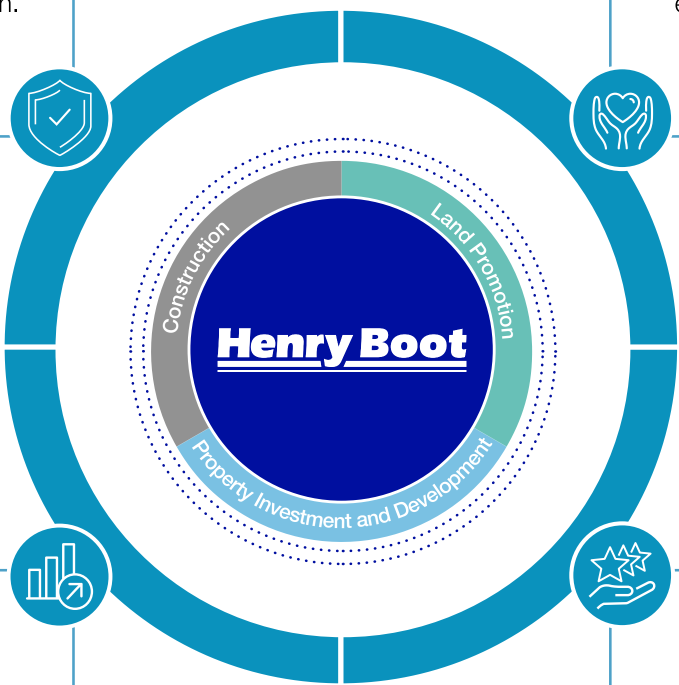
Our Group Strategic Priorities are outlined in the framework below. These key priorities were formed after reviewing the strategic direction of the business while focusing on our Purpose and Vision. They allow our subsidiary companies' individual strategies to be flexible and adapt to the markets we operate in providing a consistent approach to the Group's overarching strategy.

### SAFETY

To provide a safe place to work in all of the markets we operate in.

### PEOPLE

Recruit and retain employees who are empowered to deliver the growing business we aspire to be.




### GROWTH

To grow net assets, increasing opportunity for the long term.

### DELIVERY

Invest in all our business segments to achieve short-term delivery.

Pictured: Brookfield Garth, Hampsthwaite – A development consisting of 36 new homes, which will be fully complete by the end of 2020.

### Subsidiary strategic priorities

Each business segment defines its own strategy within the framework set by Henry Boot PLC. As the business model explains, while our six primary subsidiaries will work together and share best practice on projects, they also operate autonomously. This requires them to have formulated their individual strategies within the boundaries set. However, Strategic Priorities, Safety and People, will be Group led to ensure consistency across all of our businesses

## LAND PROMOTION

To source and promote land through the complexities of the UK Planning System for the highest use value. Through land ownership, or via agency and option agreements, the business conveys land, which has gained planning permission, primarily to the UK's major housebuilders. A focus on growing and replenishing the portfolio will also be maintained. The two key factors impacting this business segment are the demand for houses in the UK and the Planning System. To achieve its purpose the business must appreciate and consider how these factors affect its sites.

- Gain planning permission and convey land to UK housebuilders increasing Hallam Land's business performance in the next 12 months.

  **Link to strategic priorities:**

- To replenish and grow the strategic land portfolio.

  **Link to strategic priorities:**

- Seek out new investment opportunities, which would also increase future returns.

  **Link to strategic priorities:**

## PROPERTY INVESTMENT AND DEVELOPMENT

To obtain, develop and invest in a diverse range of property sector opportunities, while flexibly adapting to customers' needs within the market. With regional offices throughout the UK, the business is very close to the local markets when seeking out future development pipeline opportunities. Our joint venture housebuilding company aims to continue to increase housing delivery and to grow its land portfolio to fuel longer-term activity.

- Quickly adapt to arising market changes while ensuring delivery of our existing committed development pipeline.

  **Link to strategic priorities:**

- To deliver £150m GDV from our development opportunity pipeline annually.

  **Link to strategic priorities:**

- Increase housebuilder output to 250 units per annum by 2021.

  **Link to strategic priorities:**

- To grow the investment portfolio to £120m.

  **Link to strategic priorities:**

## CONSTRUCTION

To compete for and win construction contract work in both the public and private sectors, with a specific focus on securing larger value contracts. With very tight construction margins it is important to continue to grow our client base and to secure repeat business opportunities. Our Plant Hire business aims to continue providing a high quality service and seek out new depot locations to increase network coverage.

- Continue to bid and win construction work with an appropriate profit margin.

  **Link to strategic priorities:**

- Grow revenues within the Construction subsidiary by concentrating on larger scale contracts.

  **Link to strategic priorities:**

- To take pride and care in the service we provide to our customers and clients.

  **Link to strategic priorities:**

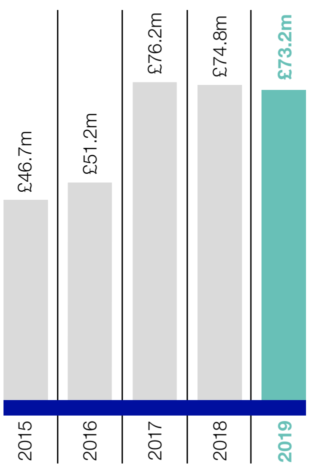
# Segmental Review

## LAND PROMOTION

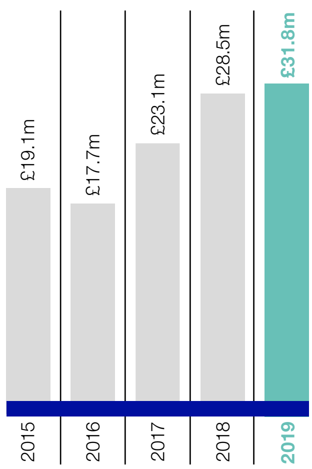
**NICK DUCKWORTH**
Hallam Land Management Limited

Hallam Land Management had another very strong year despite the previously mentioned uncertain backdrop during 2019. Our UK housebuilder customers saw continued strong demand for new homes and were keen to replenish their land banks in good market areas. We secured £31.8m profit for the year (2018: £28.5m) from selling 3,427 plots. Despite sales achieved in the year, our consented portfolio was 14,713 plots at the year end (2018: 16,489 plots) and we had 10,665 plots subject of planning applications (2018: 11,929 plots).

Total revenue
**£73.2m**




Profit before tax
**£31.8m**




As our strategic land portfolio is held as inventory, accounting policy requires these assets to be held at the lower of cost or net realisable value. In accordance with this policy, no uplift in value can be recognised within our accounts relating to any of the 14,713 plots over which planning permission has been secured. Any increase in value created from securing planning permission over these assets will therefore only be recognised on disposal.

During the year, we sold 22 residential sites across all regions of the UK and, unusually for Hallam, these sales did not include any large site disposals. However, we continued to dispose of land at Market Harborough, selling 118 plots, leaving a further 118 contracted in this favourable market area, for disposal in 2020. In addition, we sold land at Buckingham for a Premier Inn, Beefeater public house and Costa Coffee drive thru.

The Company also secured a total of 1,651 units in new planning consents (or consents subject to Section 106 Agreement (S106)) during the year, including at Bathgate (180 plots), Burdiehouse (115 plots), Derby (100 plots), Doncaster (650 plots), Hamstreet (80 plots), Pagham (300 plots), and Worcester (450 plots). At the end of 2019, the Company benefited from 2,348 acres (2018: 2,599 acres) of land with planning consent (or consent subject to S106), with total land interests of 14,898 acres (2018: 14,325 acres) across freehold, option and planning promotion agreements.

Changes in the make-up of local government, arising from the local elections last year, created uncertainty in several places, with new administrations seeking to go against decisions previously agreed, with little central government governance. This occurred at Didcot in Oxfordshire, where we were unable to unlock, and dispose of, a 2,182 plot scheme and local centre with planning permission to the west of the town. In the post-general election political climate, we hope to finally secure this outline planning consent during 2020.

A major project that progressed very well during 2019 was at Eastern Green, Coventry, where we have reached agreement with the Housing Infrastructure Fund who will commit funding to deliver a grade separated junction to access the site from the A45. We expect this 2,625 plot site, including 15ha of commercial development, a primary school and a local centre, to secure a planning consent (subject to the signing of a S106) during 2020, allowing the infrastructure works to commence towards the end of the year.

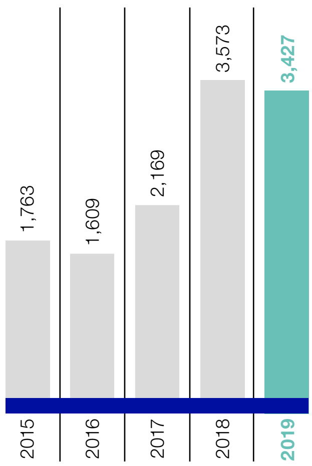
**Pictured: Doncaster – Edenthorpe, 79 acres was signed under Option in 2013. Following a successful planning appeal 650 dwellings were granted consent in 2019.**

Steady progress continued during the year at our longstanding projects at Cranbrook (the new community near Exeter) and Kingsdown, Bridgwater. We contracted to sell 315 plots at Cranbrook to Taylor Wimpey; at Bridgwater, 142 plots were sold to Persimmon. Both projects continue to perform well, and at Bridgwater we are now working on re-planning some of the commercial land to deliver further residential plots. At Cranbrook, we are in negotiation with a national food retailer to provide a store in the town centre.

2020 started well with 1,268 plots exchanged for sale across 2020 and 2021. Our major house building customers, re-invigorated by the general election result, continued to replenish land banks in the early part of 2020. With a reduction in the number of successful planning appeals made by our competitors, we have also seen renewed interest and stiffer competition for our consented sites. COVID-19 will have a significant impact on 2020 although, we have a number of transactions already completed or unconditionally exchanged with major house builders for completion in 2020 and, we remain confident that our land promotion business is well placed to deliver solid results in the future.

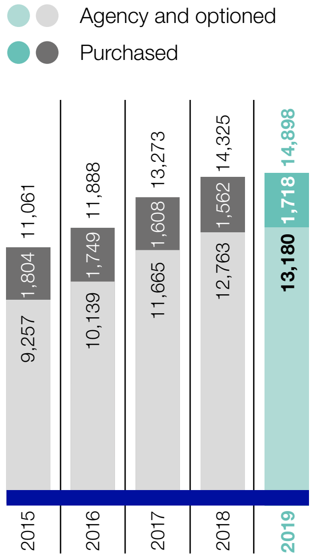
## Plots sold

**3,427**



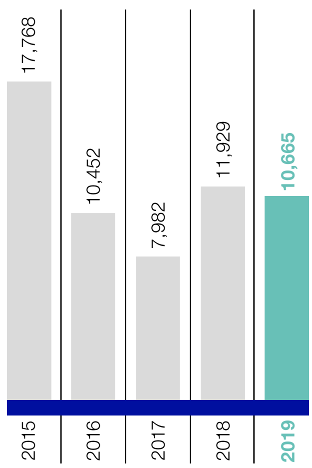

## Land portfolio (acres)

**14,898**



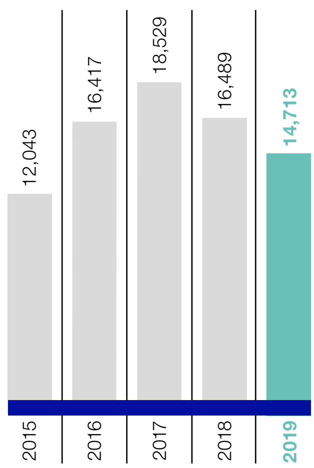

## Plots in planning process

**10,665**




## Plots with planning permission

**14,713**



# Segmental Review

## PROPERTY INVESTMENT AND DEVELOPMENT

**EDWARD HUTCHINSON**
Henry Boot Developments Limited

**DARREN STUBBS**
Stonebridge Homes Limited

The property investment and development segment achieved profits of £13.4m (2018: £15.9m) on revenue of £192.2m (2018: £221.5m) and which included six completed schemes with GDV of £407m (1.15m sq ft).

The property investment and development segment achieved profits of £13.4m (2018: £15.9m) on revenue of £192.2m (2018: £221.5m) and which included six completed schemes with GDV of £407m (1.15m sq ft). These included the successful completion and handover of TECA to Aberdeen City Council (ACC) in August. This £333m project was delivered on time and on budget, and was the culmination of outstanding teamwork from all project stakeholders since Henry Boot Developments' selection as ACC's preferred development partner in 2013. We also saw the completion of a new 92,613 sq ft purpose-built office for Atkins in Epsom. We are proud of the finished building, which achieved a BREEAM Excellent rating, and has already been put forward for several regional property awards.

Other building completions achieved in the year include Markham Vale, where we delivered a 55,000 sq ft design and build unit for Protec, together with a 55,000 sq ft speculative unit. In addition, we finished the development of 10 speculative units, comprising a total of 83,000 sq ft, at Butterfield Business Park, Luton. As at 31 December 2019, approximately 50% of the combined speculative space at Markham Vale and Luton was occupied and we will continue marketing the remainder of the space either for sale or to let.

2019 saw us successfully implement a strategic rationalisation of our investment portfolio. The sale of residual land holdings at Hull, Rotherham and Tamworth completed, resulting in a cumulative receipt of £1.3m. Sales of long-term investments also completed at The Mall in Bromley, The Axis in Nottingham, Carver Street in Sheffield, and Recticel, Stoke-on-Trent. The sale of these – largely retail-focused assets – created a cash receipt of approximately £60m, and whilst this reduces rental income and profit in the year, this allows us to rebalance the make-up of the investment portfolio in accordance with our forward-looking investment strategy. Our strategy will be to reinvest these proceeds by either retaining completed developments in locations that we think will improve, or to buy investments that have redevelopment or significant refurbishment angles.

As we look ahead to 2020, we are currently developing a further nine schemes with a GDV of £315m, some 763,000 sq ft of industrial space and 717 urban residential units. All these developments are pre-sold, pre-let or under offer. On our largest scheme in progress, Kampus in Manchester, we expect to complete construction works and launch this jointly owned scheme to the market in 2021. Kampus comprises

### Committed Schemes

| Scheme | GDV (£m) | Share of GDV (£m) | Commercial (sq ft) | Residential (Units) | Status |
|---|---|---|---|---|---|
| **Industrial** | | | | | |
| Luton, Eden Foods | 10 | 10 | 73,528 | – | Pre-let |
| Markham Vale, Aver | 23 | 23 | 297,018 | – | Conditional contract to forward fund |
| Pool, MKM | 4 | 4 | 15,000 | – | Pre-let |
| Southend, IPECO | 13 | 13 | 121,815 | – | Sold under forward funding contract |
| Sunderland, Faltec | 12 | 12 | 124,441 | – | Sold under forward funding contract |
| Sunderland, CESAM | 17 | 17 | 131,622 | – | Sold under forward funding contract |
| | 79 | 79 | 763,424 | – | |
| **Residential** | | | | | |
| Manchester, Kampus | 216 | 11 | 44,000 | 533 | Sold under forward funding contract |
| Skipton, Bellway | 14 | 14 | – | 184 | Sold under conditional contract |
| | 230 | 25 | 44,000 | 717 | |
| **Retail** | | | | | |
| Huyton, Aldi | 6 | 3 | 18,750 | – | Pre-let |
| **Total for year** | **315** | **107** | **826,174** | **717** | |

Pictured: Kampus – £216M urban regeneration project to create a new garden neighbourhood in Manchester City Centre

533 build to rent residential apartments together with 44,000 sq ft of retail and leisure space in 20 units. Manufacturing and logistics development continues at Airport Business Park, Southend, where we are delivering a 121,815 sq ft unit for IPECO, together with associated infrastructure works. At the International Advanced Manufacturing Park (IAMP), Sunderland, where we completed the 131,622 sq ft Centre of Excellence in Sustainable Advanced Manufacturing (CESAM) building and a 124,441 sq ft building for Faltec in the first quarter of 2020.

Furthermore, we have many more opportunities within the development pipeline with a potential GDV of c£1.3bn, around 70% of which is either manufacturing or logistics space, with the rest dominated by urban office and residential development. During 2020, we anticipate exchanging contracts to allow design and build construction at our sites at Melton Road, Leicester, Markham Vale and Wakefield Hub to commence, albeit later than anticipated due to the impact of COVID-19. We also hope to obtain planning consents and possibly commence construction of speculative unit schemes at our manufacturing and logistics parks at Preston East, Butterfield Business Park in Luton, and the Airport Business Park in Southend. Decisions will be made on whether to progress these schemes, in the light of occupier demand at the time.

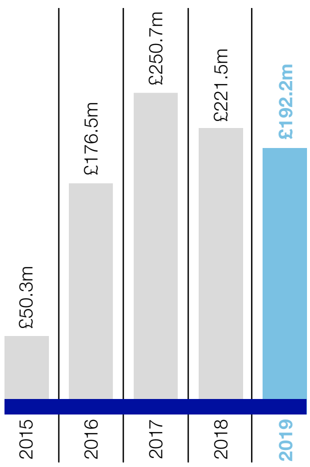
Various other projects, such as Plymouth House in Bath (offices), Cornwall House in Birmingham (residential), Cloverhill in Aberdeen (residential) and, the joint venture, Island site in Manchester (offices) will progress through the design stage during 2020, and we look forward to these schemes contributing profits in 2021 and beyond.

Our jointly owned housebuilder, Stonebridge Homes, achieved 159 sales in 2019 (2018: 145 sales) and carried over eight reservations into 2020. Our 2020 target is made up from the existing active sites with the expectation of two new sites that enter our delivery programme in early 2020. We anticipated that we would be able to deliver units from several more land bank sites in 2020, but delays in the planning process, compounded by COVID-19, will push delivery into 2021 and beyond. 2020, with the obvious caveat of COVID-19, had started well.

During 2019 we have added 222 units to the land bank with planning permission, increasing it to 601 units (2018: 379 units). Longer term secured sites, subject to obtaining planning permission, equate to 422 units (2018: 489 units). We hope to secure our first site in the North East, a natural extension outside the Yorkshire region, in 2020. The growth in the land bank now provides a fantastic opportunity for the business to achieve its key strategic objective of becoming a sustainable, multi-regional, premium housebuilding business.

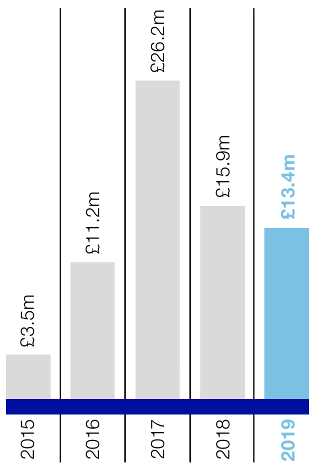
**Total revenue**

**£192.2m**




**Profit before tax**

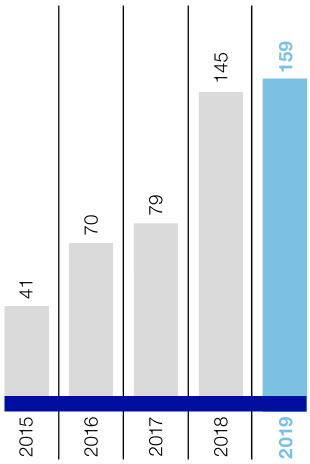
**£13.4m**




**Plots sold**

(Stonebridge Homes Limited)

**159**



# Segmental Review

## CONSTRUCTION

**GILES BOOT**

Banner Plant Limited

**SIMON CARR**

Henry Boot Construction Limited

**TREVOR WALKER**

Road Link (A69) Limited

The construction segment achieved combined profits of £9.4m (2018: £9.2m) and was marginally ahead of our expectations in terms of both turnover and profit margin.

In the commercial sector, we completed Phase 1 of the £44m Glass Works Barnsley town centre regeneration and we are now well underway with the £88m Glass Works Phase 2 retail and leisure centre, which will continue into 2021. We recently completed a complex of industrial units at Butterfields Business Park in Luton, and a 55,000 sq ft unit at Markham Vale in Derbyshire for HBD.

Following the successful completion of the Grade II refurbishment of St George's Hall in Bradford, we are working to transform the existing Opera North facilities in Leeds city centre, for completion in 2021.

We have also seen an increase in multi-storey housing opportunities coming to market and are currently involved in developing the design for a 364 apartment PRS scheme in Sheffield, for which we hope to be on site in early 2021.

We remain active in the education sector where we have successfully completed the new £10m sports development for the University of Hull, and works continue on the Royce Institute for the University of Sheffield and Brookfield Campus for the University of Leicester. We delivered a new £5m extension to Longcroft School, Beverley, and have recently commenced on site with the Axis Academy at Crewe through the DfE Framework. Furthermore, we commenced our first scheme for Leeds Local Education Partnership at Beeston Park Primary School.

Works have begun on a three-year prison refurbishment scheme, and on two court re-roofing schemes, for the Ministry of Justice. We have several other projects in the pipeline, which we hope to progress from project award to delivery on site.

In the health sector, we continue to be a framework delivery partner for the Sheffield Teaching Hospitals NHS Foundation Trust where we are refurbishing operating theatres at the Royal Hallamshire Hospital and creating a new link bridge at Weston Park Hospital in Sheffield.

The civil engineering sector continues to deliver opportunities with infrastructure works completed at Leeds Skelton Lake Services, a road bridge installed for a new housing development in Chesterfield, and enabling works carried out for a major project at the University of Leeds.

We acquired a place on several high-profile public and private sector frameworks during 2019 to complement our existing framework activity including Crown Commercial Services (CCS), Pagabo and Procure Partnerships. We secured our first project on the Pagabo framework for a works department at Caenby Corner in Lincolnshire.

Recognising the importance and current underprovision in the affordable housing market, we acquired Starfish Commercial in December 2019 and are currently integrating it into our construction business. We consider this to be an important market moving forward with this small acquisition helping to support our growth aspirations in this area. Starfish Commercial works with housing associations, local authorities and house builders to deliver affordable and social housing units, often through framework arrangements. It is currently building homes on sites in Scunthorpe, Leeds, Nottingham, and Sheffield and is a joint venture partner with Magenta Living providing affordable new-build housing in North West England and Wales.

Pictured: Glass Works – Phase 2, which will bring 100,000 sq ft of retail and leisure and 25,000 sq ft of cafés and restaurants.

Although we have started the year relatively well, and already have 88% of our order book for 2020 secured and are aware of opportunities to win work for 2021 and beyond, clearly COVID-19 will cause delays and a reduction in output on all our active sites.

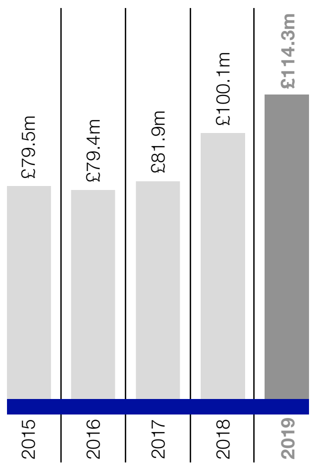
Banner Plant Hire saw a slight reduction in its results during 2019, caused by difficulties experienced by a large customer who ultimately failed post-year end, causing a bad debt cost of £0.2m. We continued to operate in a highly competitive plant hire market, with pressure on hire rates. The fundamentals of the business remain sound, capital investment in new plant was 12% of the hire fleet. Redundant plant disposals produced strong returns and cash inflows were ahead of plan.

Apprenticeships represent 8% of our workforce and that programme continues to have our full commitment. Looking to 2020, the quality of the plant fleet, and efficient customer service, will help support the business as it deals with the impacts of COVID-19.

Road Link (A69) that runs the A69 between Newcastle and Carlisle under a Design, Build, Finance and Operate agreement, completed another successful year in line with expectations. The contract has six years to run until the hand-back to Highways England occurs.

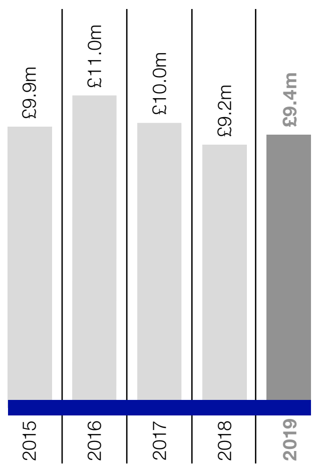
Total revenue

**£114.3m**




Profit before tax

**£9.4m**




# Group Finance Director's Review

# DELIVERING SUSTAINABLE RESULTS

## DARREN LITTLEWOOD

Group Finance Director

### What we did in 2019

- Delivered another solid set of results despite the political uncertainty
- Increased profit before tax to £49.1m
- Grew net asset value per share by 5% to 239p
- Disposed of £67m of investment property
- Ended the year with net cash of £27.0m

The Group has again delivered a solid result and with significant cash generation ended the year with net cash. UK housebuilders continued to trade well and as a result, their appetite for good quality residential development land remained high, resulting in an 11% profit increase within our land promotion segment. The completion of The Event Complex Aberdeen (TECA) and strategic employment sites coming online at Sunderland, Luton and Southend-on-Sea helped our property investment and development segment achieve its results for the year, albeit the prior year did benefit from a full year's contribution from the TECA project.

Having disposed of £64.1m of completed Investment Property, mainly comprised of mixed-use retail-focused properties, we will look to reinvest at the appropriate time in property with potential for future development, focused in the Industrial and Residential sectors. Where possible, we will look to selectively retain assets delivered from our £1.3bn pipeline of opportunities. We continue to take a long-term approach to land promotion, and with over 14,000 residential plots with planning permission, we estimate that we have over four years of sales in stock working towards disposal.

While COVID-19 will have a significant impact in 2020, we commenced the year with £107m committed property development work, all of which is either pre-let, pre-sold or under offer, and we have several land sales already exchanged awaiting completion. Our construction business has a strong order book, now focusing on opportunities for 2021 and beyond.

### Consolidated Statement of Comprehensive Income

Revenue decreased 4% to £379.7m (2018: £397.1m) resulting from lower activity within the property investment and development segment arising from the completion of the £333m TECA project delivered in August, on time and on budget, offset by an increased level of activity within Construction as we continue the delivery of The Glass Works Phase 2, an £88m town centre redevelopment scheme for Barnsley Metropolitan Borough Council. Gross profit increased 4% to £81.0m (2018: £78.0m) and reflects a gross profit margin of 21% (2018: 20%). Administrative expenses increased by £5.6m (2018: £1.4m), resulting from the continued expansion of Stonebridge Homes, a modest level of wage inflation linked to employee retention and the acquisition of Starfish commercial, a small affordable housebuilder.

Pension expenses decreased by £1.5m (2018: increase of £1.6m) as the prior year included a one-off provision of £1.5m relating to Guaranteed Minimum Pensions.

Property revaluation gains of £2.4m (2018: loss of £0.1m) where the net effect of uplifts of £5.6m (2018: £2.9m) in the fair value of certain existing completed investment properties, largely in the industrial and mixed-use categories, offset by the recognition of valuation deficits of £3.2m (2018: £3.0m) on a number of other properties, most notably retail-focused mixed-use assets.

Overall, operating profits decreased by 1% to £48.9m (2018: £49.2m) and, after adjusting for net finance costs and our share of profits from joint ventures and associates, we delivered a profit before tax of £49.1m (2018: £48.6m).

The segmental result analysis shows that property investment and development produced a reduced operating profit of £16.4m (2018: £20.1m) arising from the final half year's activity on The Event

## Summary financial performance

| | 2019 £'m | 2018 £'m | Change % |
|---|---|---|---|
| **Total revenue** | | | |
| Property investment and development | 192.2 | 221.6 | -13 |
| Land promotion | 73.2 | 74.8 | -2 |
| Construction | 114.3 | 100.7 | +14 |
| | 379.7 | 397.1 | -4 |
| **Operating profit/(loss)** | | | |
| Property investment and development | 16.4 | 20.1 | -18 |
| Land promotion | 31.0 | 27.9 | +11 |
| Construction | 9.0 | 8.9 | +1 |
| Group overheads | (7.5) | (7.7) | +3 |
| | 48.9 | 49.2 | -1 |
| Net finance cost | (1.2) | (1.4) | +14 |
| Share profit of joint ventures and associates | 1.4 | 0.8 | +75 |
| **Profit for the year** | 49.1 | 48.6 | +1 |

Complex Aberdeen and contributions from our Markham Vale, Luton and Sunderland industrial developments, offset by £1.5m loss of rent on investment property sales. Land promotion operating profit increased 11% to £31.0m (2018: £27.9m) as we disposed of 3,427 residential plots during the year (2018: 3,573). Construction segment operating profits remained broadly consistent at £9.0m (2018: £8.9m). The nature of deal-driven property and land promotion businesses, dependent upon demand from the major UK housebuilders and reliant on the UK planning regime, is demonstrated in the movements within our mix of business streams. We continue to show how the benefits of a broad-based operating model brings stability in what are highly fluid business environments. While we maintain a significant pipeline of property development and consented residential plots, the variable timing of the completion of deals in these areas does give rise to financial results which can vary significantly depending upon when contracts are ultimately concluded. We mitigate this through the blend of businesses within the Group and our business model which, over the longer term, will ultimately see the blended growth of the Group delivered.

### Tax

The tax charge for the year was £9.6m (effective rate of tax: 20%) (2018: £8.2m and effective tax rate: 17%) and is higher than the standard rate due to capital gains on the sale of certain investment properties. We currently have a £2.1m unrecognised deferred tax asset (2018: £3.5m), which can be utilised to offset future capital gains if they arise. Current taxation on profit for the year was £9.2m (2018: £8.2m), broadly in line with the standard rate of corporation tax. Deferred tax was £0.4m (2018: £0.1m).

### Earnings per share and dividends

Basic earnings per share were consistent at 28.3p (2018: 28.3p), and, in light of the COVID-19 pandemic, total dividend for the year decreased to 5.00p, 56% of FY2018 (2018: 9.00p), with the proposed final dividend reducing by 78% to 1.30p (2018: 5.80p), payable on 6 July 2020 to shareholders on the register as at 12 June 2020. The ex-dividend date is 11 June 2020.

### Return on capital employed ('ROCE')

Slightly lower operating profit in the year saw a reduced ROCE(1) of 13.9% in 2019 (2018: 14.9%). While we routinely review our strategic target rate of return, we continue to believe that a target return of 12–15% is appropriate for our current operating model. We will continue to monitor this important performance measure over the business cycle, given the potential for market conditions to change quickly.

(1) ROCE is calculated as operating profit divided by total assets less current liabilities.

### Finance and gearing

Net finance costs reduced to £1.2m (2018: £1.4m), helped by financing returns from investments in associates. We saw a significant shift from having net debt to net cash in 2019 as we disposed of £67m of Investment Property and collected several deferred land sale receipts. Average borrowing rates were broadly similar to those of the previous year. We anticipate that interest costs will remain low through 2020 and the redeployment of our current net funds during the course of the year will be subject to close monitoring in light of COVID-19 and our aim to preserve cash. We note the recent reduction in interest rates during 2020, although this will not result in a material change to our borrowing costs. We continue to carefully invest in both our land and property development assets as we recycle capital into future opportunities and development activity.

Interest cover, expressed as the ratio of operating profit (excluding the valuation movement on investment properties and disposal profits) to net interest (excluding interest received on other loans and receivables), was 33 times (2018: 33 times). No interest incurred in either year has been capitalised into the cost of assets.

Our agreed banking facilities remained at £72m throughout the year and were renewed following the year end on 23 January 2020 with a revised facility level of £75m, along with an accordion facility of £30m, which can be called upon at the Group's request. This facility is subject to a restriction relating to the value of investment property and deferred income and, at 30 April 2020, £51m of this facility was available to the Group. The new facility with Barclays Bank PLC, HSBC UK Bank plc and National Westminster Bank Plc runs for three years and includes two one-year extensions, allowing the Group to extend the facility to 23 January 2025, on the same terms, subject to agreement by the banks.

2019 year end net cash was £27.0m (2018: net debt £18.4m) resulting in the Group having no gearing on a net cash basis (2018: net assets £302.3m; gearing 6%). Total year-end net cash includes £2.9m (2018: £3.6m) of Homes and Communities Agency (HCA) funding, which is repayable from the future sale of residential units. All bank borrowings continue to be from facilities linked to floating rates or short-term fixed commitments. Throughout the year we operated comfortably within the facility covenants and continue to do so.

# Group Finance Director's Review

## Cash flow summary

| | 2019<br>£'m | 2018<br>£'m |
|---|---|---|
| Operating profit | 48.9 | 49.2 |
| Depreciation and other non-cash items | 2.6 | 4.8 |
| Net movement on equipment held for hire | (2.3) | (3.3) |
| Movement in working capital | (27.7) | (28.4) |
| Cash generated from operations | 21.5 | 22.3 |
| Acquisition of subsidiary | (0.2) | – |
| Net capital disposals | 52.9 | 13.4 |
| Net interest and tax | (9.3) | (11.3) |
| Dividends | (15.1) | (13.6) |
| Other | (4.4) | (0.2) |
| Change in net cash/debt | 45.4 | 10.6 |
| Net debt brought forward | (18.4) | (29.0) |
| Net cash/(debt) carried forward | 27.0 | (18.4) |

During 2019, cash generated from operations amounted to £21.5m (2018: £22.3m) after net investment in equipment held for hire of £2.3m (2018: £3.3m), and after a net investment in working capital of £27.7m (2018: £28.4m). Our investment in working capital arises from the continued growth in our house building land portfolio and increased receivables on deferred receipts relating to strategic land sales offset by lower levels of contracting activity.

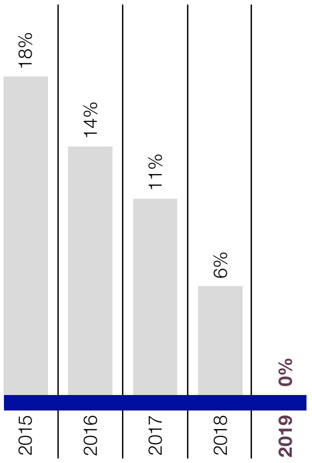
Net capital disposals of £52.9m (2018: disposals £13.4m) arose from sales of investment property and property, plant and equipment of £69.0m (2018: £20.1m), which were offset by new investment in property development and plant hire assets of £16.1m (2018: £6.7m).

Dividends paid, including those to non-controlling interests, totalled £15.1m (2018: £13.6m), with those paid to equity shareholders of £12.6m (2018: £11.1m) increasing by 13%.

After net interest and tax of £9.3m (2018: £11.3m), the overall reduction in net debt was £45.4m (2018: £10.6m), resulting in net cash of £27.0m (2018: net debt £18.4m).

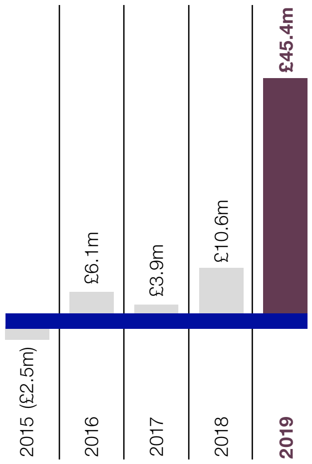
### Gearing levels

–




### Change in net cash/debt

£45.4m




## Statement of financial position summary

| | 2019<br>£'m | 2018<br>£'m |
|---|---|---|
| Investment properties and assets classified as held for sale | 70.0 | 121.0 |
| Intangible assets | 6.8 | 5.1 |
| Property, plant and equipment, including right-of-use assets | 28.1 | 26.2 |
| Investment in joint ventures and associates | 6.6 | 6.7 |
| | 111.5 | 159.0 |
| Inventories | 169.7 | 155.0 |
| Receivables | 127.1 | 114.9 |
| Payables | (98.5) | (95.0) |
| Other | 4.7 | 3.5 |
| Net operating assets | 314.5 | 337.4 |
| Net cash/(debt) | 27.0 | (18.4) |
| Retirement benefit obligations | (23.0) | (16.7) |
| Net assets | 318.5 | 302.3 |

Investment properties reduced in value to £70.0m (2018: £121.0m), following the disposal of our mixed-use properties in Bromley, Nottingham and Sheffield, all of which had a retail focus, and an industrial unit in Stoke.

Intangible assets reflect the Group's investment in Road Link (A69) of £3.9m (2018: £4.2m) and goodwill of £2.9m (2018: £0.9m). The treatment of the Road Link investment as an intangible asset is a requirement of IFRIC 12, and arises because the underlying road asset reverts to Highways England at the end of the concession period in 2026. Goodwill in the year arises on the acquisition of Starfish Commercial Limited, a small affordable house-builder acquired by our Construction business.

Property, plant and equipment comprises Group occupied buildings valued at £7.5m (2018: £7.9m) and plant equipment and vehicles with a net book value of £20.6m (2018: £18.3m), including £6.1m now classified as right-of-use assets under IFRS 16. Property, plant and equipment, along with right-of-use assets, have increased following new additions of £6.7m (2018: £5.8m), offset by the depreciation charge for the year.

The new lease accounting standard, IFRS 16, became effective from 1 January 2019. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets of £6.1m and lease liabilities of £4.6m being brought onto the Group's balance sheet. The impact on the consolidated statement of comprehensive income has been to reduce operating lease costs by £0.6m, and increase depreciation by £0.5m and finance charges by £0.1m. The Group adopted IFRS 16 using the modified retrospective approach and therefore has not restated the prior year.

Investments in joint ventures and associates decreased to £6.6m (2018: £6.7m) as we continue to undertake property development projects with other parties where we feel there is a mutual benefit. We anticipate that these opportunities will continue to increase as we finalise several schemes with interested parties partnering with us to utilise our development expertise.

Inventories were £169.7m (2018: £155.0m) and saw an increase in our house-builder land and work in progress to £36.3m (2018: £22.5m) as we continue to invest in land, and carried nine stock properties into 2020. Strategic land inventory reduced to £101.7m (2018: £107.9m) as we disposed of land directly owned replacing it with land held under agency agreements at a lower capital cost. Inventories are held at the lower of cost or net realisable value, in accordance with our accounting policy and, as such, no uplift in value created from securing planning permission is recognised within our accounts until disposal. Property development work in progress increased to £31.7m (2018: £24.6m) as we invest in commercial development work in progress.

Receivables increased to £127.1m (2018: £114.9m) due to increased deferred land sales offset by a reduction in construction contract receivables following the completion of the TECA project. Deferred payment receivables remain a function of the number and size of strategic land development schemes sold, and levels of construction contract activity undertaken.

Payables increased to £98.5m (2018: £95.0m) with trade and other payables and provisions broadly in line with the prior year, contract liabilities increasing to £9.9m (2018: £2.8m), due to payments received for work not yet undertaken, and current tax liabilities increasing to £4.7m (2018: £3.9m).

Net cash included cash and cash equivalents of £42.3m (2018: £10.9m) and borrowings of £10.7m (2018: £29.3m). In total, net cash increased to £27.0m (2018: net debt £18.4m).

At 31 December 2019, the IAS 19 pension deficit relating to retirement benefit obligations was £23.0m, compared with £16.7m at 31 December 2018, adversely affected by a reduction in the discount rate applied to future liabilities to 2.0% (2018: 2.8%). The pension scheme's assets continue to be invested globally, with high-quality asset managers, in a broad range of assets. The pension scheme Trustees regularly consider the merits of both the managers and asset allocations and, along with the Company, review the returns achieved by the asset portfolio against the manager benchmarks. They then make changes, as the Trustee considers appropriate, in conjunction with investment advice from ISIO (formerly KPMG Pension Advisors).

Overall, the net assets of the Group increased by 5% to £318.5m (2018: £302.3m) from retained profits offset by the increase in retirement benefit obligations and distributions to shareholders. Net asset value per share increased 5% to 239p (2018: 227p) as we continue to re-invest for the future through retained earnings.

**Darren Littlewood**
Group Finance Director

20 May 2020

# Strategy Review

# A YEAR OF SOLID PROGRESS

| Strategic Priority/Objective | Performance in 2019 | Link to key performance indicators | Link to key risks | Aims for 2020 |
|---|---|---|---|---|
| **Safety** | | | | |
| **Priority:** To be the safest place to work in all of the markets we operate in.<br>**Objective:** Continual review of our systems, ongoing training and development, adoption of best practice and keeping abreast of change.<br>Read more about **Health and Safety** on page 57 | 2019 saw a slight increase to our Accident Frequency Rate (AFR) score; however, this was still in line with our competitors and the standards set by the industry. We continued to provide training and development to all our stakeholders to ensure our workplace is a safe and healthy working environment. | 6 7 | 1 2 4 14 | To reaffirm our strong health and safety systems across the Group and to constantly raise awareness of safe working practices to minimise risk. This will be especially important in light of COVID-19 and the new working practices evolving from the CLC. |
| **People** | | | | |
| **Priority:** Recruit and retain employees who are empowered to deliver the growing business we aspire to be.<br>**Objective:** Offer a wide range of long-term career and development opportunities which attract new and retain existing employees.<br>Read more about **Our People** on pages 54 to 56 | The Group increased its headcount to 566, following the acquisition of Starfish Commercial Limited, and in line with overall growth plans of the business. 2019 also saw the completion of the Senior Leadership Development Programme, which was launched to strengthen succession planning and further develop leadership capabilities. In total there were also 1,864 personal development days, which reflects our commitment to developing and nurturing our employees. | 6 7 8 9 10 | 3 4 13 14 | 2020 will see the launch of the Leadership Development programme, which is aimed at identifying and developing our leaders for the future. A review of our diversity and inclusion strategy will be undertaken this year, to ensure we continue to offer fair opportunities to current employees and those in the recruitment process. |

| Strategic Priority/Objective | Performance in 2019 | Link to key performance indicators | Link to key risks | Aims for 2020 |
|---|---|---|---|---|
| **Delivery** | | | | |
| **Priority:** Invest in all our business segments to achieve short-term delivery.<br>**Objective:** Maintaining a maximum gearing level of 30%, utilising available capital efficiently. | Having disposed of a significant amount of investment property the Group ended the year in a net cash position and therefore with nil gearing. | 4 5 | 3 5 13 14 | We intend to retain a number of self built property developments within our investment property portfolio and will look to acquire other opportunistic assets should they arise. We will maintain our policy of operating within prudent levels of gearing as we do so. |
| **Priority:** Gain planning permission and convey land to UK housebuilders increasing Hallam Land's business performance in the next 12 months.<br>**Objective:** To dispose of an annually increasing number of residential plots while market conditions are supportive. | Land promotion Profit Before Tax increased by 12% in 2019, despite there being a 4% decrease in the number of plots sold throughout the year. This was due to being able to sell plots in good market areas such as Market Harborough. | L1 L5 L6 | 3 5 11 12 13 14 | We enter 2020 positively with 1,268 plots already exchanged for sale. While we were hopeful that the conclusion of the General Election would remove much uncertainty in the market we are closely monitoring the impact of COVID-19 which will have a significant impact on land sales this year. |
| **Priority:** Quickly adapt to arising market changes while ensuring delivery of our existing committed development pipeline.<br>**Objective:** To pre-fund and pre-sell our development opportunities to mitigate risk and secure delivery. | In 2019 the percentage of pre-sold and pre-funded decreased to 95%. This was as a result of our decision to undertake a small speculative development of 10 industrial units at our Butterfield Business Park site in Luton. | D1 D2 D5 | 3 5 9 10 14 | We aim to always mitigate our risk by pre-funding and pre-letting our development opportunities; however, if we deem a speculative development to be appropriately risk/reward balanced then we will consider the opportunity. |
| **Priority:** Continue to bid for and win construction work in the North and Midlands.<br>**Objective:** Constantly monitor the customers and markets in which we operate, to compete effectively and appropriately balance our workflows within these markets. | Construction saw another increase in their turnover, which in turn improved the year-end profit. This was achieved by the conclusion of key projects, such as Phase 1 of the £42m Glass Works, and by operating in a wide range of markets. | C1 C2 | 3 5 8 13 14 | Constructions orderbook for 2020 is already at 88% of full year expectation, although the full impact of COVID-19 on this is not yet known. We also acquired Starfish Commercial towards the end of 2019 to help us move into the affordable housing market and grow turnover levels in this expanding market. |
| **Priority:** To take pride and care in the service we provided to our customers and clients.<br>**Objective:** To maintain a high level of service and delivery, while tracking the performance measurements in place to review levels of customer satisfaction. | In 2019 we scored 8.78 out of 10 for 'how satisfied the client was with the service of the main contractor'. While the KPI data published by Constructing Excellence has now concluded, we have continued to benchmark our performance against existing data. This score places us 22% over the Constructing Excellence Mean score. | C1 C2 C4 | 1 4 8 14 | Continue to provide a high level of service to all of our clients. Look to raise the standards and performance scores above those achieved last year. |

# Strategy Review

| Strategic Priority/Objective | Performance in 2019 | Link to key performance indicators | Link to key risks | Aims for 2020 |
|---|---|---|---|---|
| **Growth** | | | | |
| **Priority:** To grow net assets, increasing opportunity for the long term.<br>**Objective:** Target a dividend cover of over 3 times to grow net assets and profitability through reinvestment in strategic land and development opportunities | Dividend cover for 2019 of 5.66 times results from a heavily discounted final dividend compared to original management expectation. This arises from the uncertainty caused from the outbreak of COVID-19 and the requirement for us to take a cautious approach to retain cash at the current time to ensure that we are well placed to deal with the uncertainty surrounding the current situation. | 1 2 3 | 3 14 | We continue to monitor the current situation closely but at this time remain focused on careful cash management. As we emerge from this unprecedented event we will reassess our ability to pay dividends compared to our requirement to ensure that the business retains sufficient working capital. As was the case in 2009 following the financial crisis, we hope to be able to continue to maintain a level of dividend distributions until such time as clarity of the future returns. |
| **Priority:** To replenish and grow the strategic land portfolio.<br>**Objective:** To increase the scale and investment in land acres and plots over time, with a focus on increasing our investment in owned land in those parts of the country which create the highest returns on capital employed. | We saw a decrease of 11% in the total number of plots with planning permission and in the planning process, partly due to the timing of the General Election but generally as local authority 5 year land supplies become full and the timing of planning application submissions becomes more strategic. However, we did see an increase to our directly owned land acres and our land portfolio acreage grew by a further 4%, which places us in a good position to continue to be able to grow the number of opportunities available to us to promote through the planning system. | L2 L3 L4 | 3 5 11 12 13 14 | To increase the conversion rate of plots with planning permission and continue to grow the number of acres in the land portfolio. |
| **Priority:** Seek out new investment opportunities which would also increase future returns.<br>**Objective:** Explore new investment opportunities, such as logistics and distribution, with the primary focus remaining on residential and mixed use opportunities. | Residential markets continue to be the main source of our trade. We continue to explore new opportunities and maintain a stable amount of employment and industrial acres of land in our portfolio. During 2019 we disposed of land at Buckingham for a premier inn, Beefeater Public House and Costa Coffee drive-through in addition to our normal residential sales. | L2 | 3 5 11 12 13 14 | Take an active focus to researching and acquiring new opportunities that diversify our land sale opportunities. |

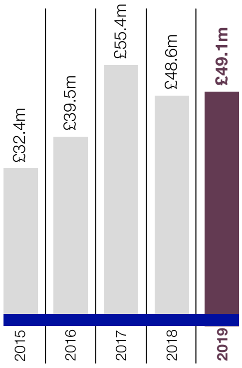
| Strategic Priority/Objective | Performance in 2019 | Link to key performance indicators | Link to key risks | Aims for 2020 |
|---|---|---|---|---|
| **Growth** | | | | |
| **Priority:** To deliver £150m GDV from our development opportunity pipeline annually. **Objective:** To deliver at least one long-term strategic employment/industrial site from each of our regional bases. | We made good progress during 2019 towards achieving our objective. New sites at Sunderland and Luton became active in 2019 to join our long-standing site at Markham Vale in Derbyshire. | D3 D4 | 3 5 6 11 13 14 | We hope to see sites in Leicester and Southend-on-Sea start to deliver, in addition to those already delivering results. |
| **Priority:** Increase housebuilder output to 250 units per annum by 2021. **Objective:** Invest in our housebuilding residential land portfolio to ensure we have sites available to deliver quality in design and build while providing a first-class customer experience. | The number of plots in our jointly owned land portfolio increased by 35% during 2019 to ensure we are able to continue to grow in line with our strategy. We also managed to increase the number of units sold to 159. | D6 D7 | 3 4 5 12 13 14 | Following a pick-up in the UK housing market at the start of the year we are closely monitoring the impact of COVID-19 on this part of the business. It is crucial to continue replenishing our land portfolio so that we can increase the number of units sold as we move forward; however, we also need to carefully consider the impact of COVID-19 on current year sales in relation to the timing of land acquisitions for future delivery. |
| **Priority:** To grow the investment portfolio to £120m. **Objective:** Focus on investing in the most appropriate sectors for new development to minimise the risk and maximise the return. | HBD sold over 50% of its completed investment portfolio during 2019. This was mainly to rebalance the portfolio, as a large proportion was placed in the mixed-use category but with a focus on the leisure and retail sectors. | D1 D2 | 5 9 10 14 | To work towards rebuilding the portfolio back to previous levels. While doing this to remain considerate towards the sectors we invest in, to ensure we maintain a balanced and risk weighted portfolio of investments. |
| **Priority:** Grow revenues within the Construction subsidiary by concentrating on larger scale contracts. **Objective:** To actively pursue contract values of between £5m and £15m to benefit from improving economies of scale. | Our average contract size tendered increased significantly during 2019. This was as a result of winning the Glass Works Phase II contract, an £88m town centre redevelopment scheme for Barnsley Council. | C1 C3 | 3 5 8 13 14 | Due to the substantial increase in 2019, we expect the average contract size tendered in 2020 to decrease. However, we increasingly continue to tender for contracts in excess of £10m. |

# Key Performance Indicators

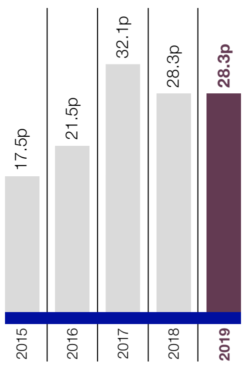
In line with the Group's strategy, further review and development of our KPIs took place to ensure that there is transparency and a clear understanding of how the Group's performance is measured. This year we have refined our financial and non-financial KPIs, and present new segmental KPIs, which specifically track the performance against their strategic objectives.

## Financial KPIs

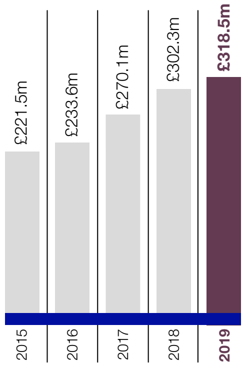
### 1 Profit before tax



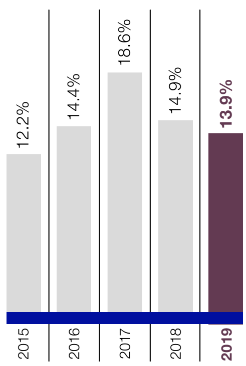

### 2 Earnings per ordinary share



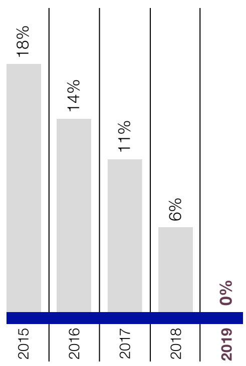

### 3 Net assets




### 4 Return on capital employed

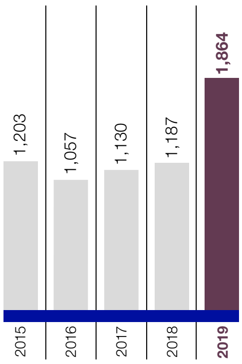



### 5 Gearing levels

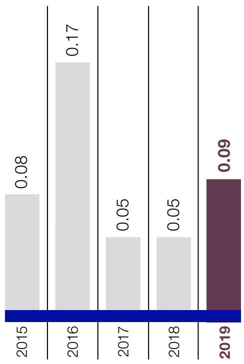



## Non-financial KPIs

### 6 Personal development days

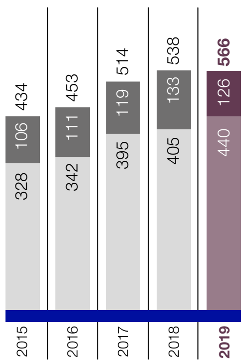



### 7 Accident frequency rate

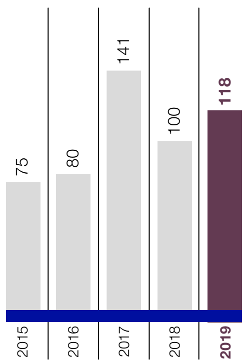



### 8 Employee profile

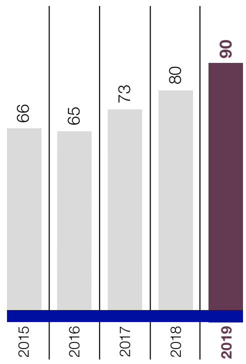
Female
Male




### 9 Employee intake




### 10 Employee turnover



## Operational segmental KPIs

### Land Promotion

| | | | |
|---|---|---|---|
| L1 Profit before tax ↑ 12% £31.8m | L2 Land portfolio ↑ 4% 14,898 acres | L3 Plots with planning permission ↓ 11% 14,713 | L4 Plots submitted for planning permission ↓ 11% 10,665 |
| L5 Profit per plot ↑ 6% £10,000 | L6 Plots sold ↓ 4% 3,427 | | |

Read the **Land Promotion Review** on page 28

### Property Investment and Development

| | | | |
|---|---|---|---|
| D1 Total revenue ↓ 13% £192.2m | D2 Profit before tax ↓ 16% £13.4m | D3 Committed GDV ↓ 75% £107m | D4 Total pipeline GDV ↓ 27% £1,251m |
| D5 Proportion of pre-sold/ forward funded ↓ 8% 91.2% | D6 Number of plots sold (SH) ↑ 10% 159 plots | D7 Number of plots in portfolio (SH) ↑ 18% 1,023 plots | |

Read the **Property Investment and Development Review** on page 30

### Construction

| | | | |
|---|---|---|---|
| C1 Total revenue ↑ 14% £114.3m | C2 Profit before tax ↑ 2% £9.4m | C3 Average contract size won ↑ 288% £15m | C4 Constructing excellence – service score ↓ 3% 8.78 |

Read the **Construction Review** on page 32

# Risks and Uncertainties

# MANAGING OUR RISK

Effective risk management is essential to the achievement of our key priorities and strategic initiatives. Risk management controls are integrated across all levels of our business and operations.

## Overview

As a Group, Henry Boot takes a cautious approach to risk, we aim to be the safest place to work in the markets in which we operate, to maintain financial strength through effective cash management and invest prudently in pursuit of our strategic priorities.

The Group operates a system of internal control for risk management within a structured framework. The long-term success of the Group depends on the continual review, assessment and control of the key business risks and emerging risks it faces.

While there is a formal process in place for reporting risks on an annual basis, the process of risk identification, assessment and response is continuous and therefore, if required, risks can be reported to the Group's Board outside of the annual process, should events dictate that this is necessary and appropriate.

## Risk appetite

The Group's risk appetite and tolerance levels are reviewed annually as part of the strategy review process and guide the actions we take in executing our strategy. The Group has no appetite for safety related risk or undue financial exposure and will not pursue additional income generating or cost saving initiatives unless returns are in line with our targeted return on capital.

## Risk management framework

The principal components of the Group's risk management framework comprise the risk strategy, risk appetite and tolerance statement, risk registers and the risk heat map. Although the process of risk identification, assessment and response is continuous and embedded within the day-to-day operations of each business segment, it is consolidated, reported and reviewed at varying levels throughout the Group on an annual basis as part of the strategy review process. The Board reviews all principal risks including consideration of how risk exposures have changed during the period and any emerging risks arising from risk registers.

The methodology used is to initially assess the gross (or inherent) risk. This is essentially the worst case scenario, being the product of the impact together with the likelihood of the risk materialising if there are no controls in place to manage, mitigate or monitor the risk. The key benefit of assessing the gross risk is that it highlights the potential risk exposure if controls were to fail completely or not be in place at all. Both impact and likelihood are scored on a rating of one to five, using a scoring matrix.

The Board has ultimate responsibility for risk management, internal controls and review. Part of the Audit and Risk Committee's role is to ensure that the Group's risk management framework and processes, on which the Board relies, are working effectively.

## COVID-19

Since the year end COVID-19 has emerged as a new principal risk to the Group. We have taken immediate action to review the impact of the pandemic and to establish mitigation processes to protect the Group and its people. One principal action taken by the Board was to establish a committee that meets daily to review current events and ensure business continuity planning.

Further detail on our response to COVID-19 can be found on page 06 of the annual report with the financial impact considered in the going concern and viability section on page 49.

**RISK GOVERNANCE**
Establish risk appetite and strategy

**RISK IDENTIFICATION AND ASSESSMENT**
Identify and evaluate risk

**RISK RESPONSE AND REPORTING**
Review, report and revise

**The Board**
Oversight of all risk management within the Group is undertaken at the highest level by the Board of Henry Boot PLC, which is delegated in general terms to the Audit and Risk Committee.

The Board of Henry Boot PLC will keep under review any of the top ranked risks across all subsidiaries at each Board meeting throughout the year, and will reflect once a year on any substantial shifts within these risks within that year.

**The Audit and Risk Committee**
Reviews the adequacy and effectiveness of the Group's internal controls and risk management systems.

Monitors and reviews internal and external audit.

**Subsidiary Boards and PLC departments**
Each subsidiary and PLC department have a nominated individual responsible for reviewing the risks within that subsidiary/department on an annual basis. In general, this will be the Managing Directors (for subsidiaries) and the heads of department (for the PLC), with input from other relevant designated employees as applicable.

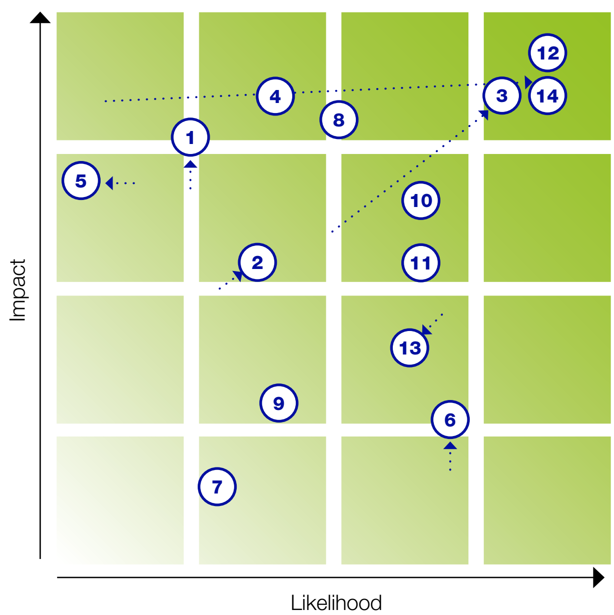
**INTERNAL AUDIT (THIRD PARTY)**

## Risk heat map

The risk heat map illustrates the 14 principal risks identified by the Board as having a potential material impact on the Group. The risks have been plotted by the Group Board/Audit and Risk Committee based on a common understanding of the risk appetite of the Group. The risks are presented gross (before taking account of mitigating actions).

Movements from the prior year's ranking are indicated by the arrows.

1. Safety
2. Environmental & climate change
3. Economic
4. People & culture
5. Funding
6. Cyber
7. Pensions
8. Construction contracts
9. Property assets
10. Property development
11. Land sourcing
12. Land demand
13. Political
14. Pandemic



# Our Risks

To enable stakeholders to appreciate what the business considers are the main operational risks, they are presented in detail below.

## Group risks

| Risk and description | Change during the year | Link to Group strategic priorities | Mitigation |
|---|---|---|---|
| **1 Safety**<br>Inherent risk within all of our businesses but most notably within construction activity | ↑ Align systems and processes of newly acquired subsidiary | Safety | • Priority consideration at all Group and subsidiary Board meetings<br>• Robust training, policies, procedures and monitoring<br>• Construction operation is OHSAS 18001 approved Health and Safety management system<br>• Internal independent Health and Safety department conducts regular random inspections<br>• Routine Director, senior manager or independent health and safety inspections<br>• Regular externally operated mock incidents |
| **2 Environmental and climate change**<br>The Group is inextricably linked to the property sector, and environmental considerations are paramount to our success. The legal, financial and reputational damage which can occur from not being compliant all carry significant risk to the Group | ↑ Growing relevance and impact of climate change | Safety | • The interaction with the environment and the agencies that have an overarching responsibility has to be positive at all times in order to meet our obligations<br>• Construction environmental risk is managed through the operation of an ISO 14001 approved environmental management system<br>• Internal design helps mitigate environmental planning issues<br>• Record of awards given in respect of good safety and environmental performance<br>• Environmental Impact Assessments are carried out for all construction activities. These detail the action required to eliminate or reduce environmental impacts |
| **3 Economic**<br>The Group operates solely in the UK and is closely allied to the real estate, housebuilding and construction sectors. A strong economy with strong tenant demand is vital to create long-term growth in rental and asset values, while at the same time creating a healthy market for the construction and plant hire divisions | ↑ Macroeconomic uncertainty | People, Delivery, Growth | • Strong Statement of Financial Position with no gearing and a long-term shareholder base means that we can ride out short-term economic fluctuations<br>• Different business streams increase the probability that not all of them are in recession at the same time<br>• The City recognises the Group is a cyclical business and understands performance will be affected by economic cycles<br>• Directors and shareholders share a common goal of less aggressive leveraging than some competitors<br>• Banking partners continue to be supportive |

**Key**

**Change during the year**

↑ Increased ↓ Decreased – No change

**Group strategic priorities**

Safety Delivery People Growth

Read about **Our strategy** on page 26

| Risk and description | Change during the year | Link to Group strategic priorities | Mitigation |
|---|---|---|---|
| **4** **People and culture** Attraction and retention of the highest calibre people with the appropriate experience is crucial to our long-term growth in the highly competitive labour markets in which the Group works | – | | • This risk is increased when unemployment falls and labour markets contract<br>• Long-term employment records indicate that good people stay within the Group<br>• The Group encourages equity ownership<br>• Proven record of sharing profits with staff<br>• Succession planning is an inherent part of management process |
| **5** **Funding** The lack of readily available funding to either the Group or third parties to undertake property transactions can have a significant impact on the marketplace in which we operate | ↓ Group now cash positive with renewed facilities | | • The Group has agreed three-year facilities with its banking partners, which run to January 2023 and are backed by investment property assets<br>• A good level of interest from the banks in tendering for the renewed facilities in 2019, facility renewed January 2020.<br>• Detailed cash requirements are forecast up to 15 months in advance, and reviewed and revised monthly<br>• As a PLC, access to equity funding is available should this be required |
| **6** **Cyber** Unauthorised access to systems, hacking, malware and distributed denial of service could all lead to data loss, business disruption, reputational damage or financial loss | ↑ Growing global risk and increased use of virtual servers | | • Employee awareness updates distributed routinely<br>• Use of software and security products and regular updates thereof<br>• Detailed disaster recovery plans<br>• External vulnerability and threat management reviews<br>• Internal mock attacks carried out |
| **7** **Pension** The Group operates a defined benefit pension scheme that is closed to new members. While the Trustees have a prudent approach to the mix of both return-seeking and fixed-interest assets, times of economic instability can have an impact on those asset values with the result that the reported pension deficit increases. Furthermore, the relationship between implied inflation and long-term gilt yields has a major impact on the pension deficit and the business has little control over those variables | – | | • Operation of Trustee approved Recovery Plan<br>• While pension schemes are a long-term commitment, regulations require the Group to respond to deficits in the short term<br>• The move out of gilts provides a cushion should interest rates rise<br>• Risk mitigated by move to quoted investments including pooled diversified growth funds<br>• Treat pension scheme as any other business segment to be managed<br>• Strong working relationship maintained between Company sponsor and pension Trustees<br>• Use good quality external firms for actuarial and investment advice |

# Our Risks

## Segmental risks

| Risk and description | Change during the year | Link to Group strategic priorities | Mitigation |
|---|---|---|---|
| **8**<br>**Construction contracts**<br>Changes in terms and conditions of standard contracts exposing the Company to major financial and design liability risks | – | | • Preliminary commercial appraisal<br>• Directors closely involved<br>• Standard position set out in guide for staff<br>• Experienced legal and commercial management<br>• Project-specific tender risk register<br>• Use of PCSAs help to mitigate cost and risk |
| **9**<br>**Property assets**<br>Not developing marketable assets for both tenants and the investment market on time and cost-effectively | – | | • Monthly performance meetings<br>• Defined appraisal process<br>• Monitoring of property market trends<br>• Highly experienced development team<br>• Flexible to market trends in development requirements<br>• Diverse range of sites within the portfolio and over £1.3bn pipeline of future opportunities |
| **10**<br>**Property development**<br>Construction and tenant risk which is not matched by commensurate returns on development projects. Tenants not taking up new lettings due to economic uncertainty | – | | • Construction projects, including returns and cash flows, are monitored monthly by subsidiary company management teams<br>• Seek high level of pre-lets prior to authorising development<br>• Development subject to a 'hurdle' profit rate<br>• Shared risk with landowners where applicable |
| **11**<br>**Land sourcing**<br>The inability to source, acquire and promote land would have a detrimental effect on the Group's strategic land portfolio and income stream | – | | • Monthly operational meetings detail land owned or under control, new opportunities and status of planning<br>• Acquisitions are subject to a formal appraisal process, which must exceed the Group-defined rate of return, and is subject to approval by the Group's Executive Directors<br>• Land portfolio of 14,325 acres with aspiration to grow further<br>• Finance available to support speculative land purchases<br>• Well respected name within the industry that demonstrates success<br>• Housebuilder land portfolio at 1,172 residential plots |

### Key

**Change during the year**

↑ Increased ↓ Decreased – No change

**Group strategic priorities**

Safety

Delivery

People

Growth

Read about **Our Strategy Review** on page 38

| Risk and description | Change during the year | Link to Group strategic priorities | Mitigation |
|---|---|---|---|
| **12**<br>**Land demand**<br>A dramatic change in housebuilder funding sentiment and demand for housing can have a marked change on the demand and pricing profile for land | – | | • The Group's policy is to only progress land that is deemed to be of high quality and in prime locations<br>• The business is long-term and is not seriously affected by short-term events, or economic cycles<br>• We recognise cyclicality in our long-term plans and operate with a relatively low level of debt<br>• Greenfield land is probably the most sought-after land to build upon<br>• Long-term demographics show a growing trend; therefore, demand for land will follow<br>• Housebuilders do have very good land portfolios and can be picky regarding what they buy and will target prime locations |
| **13**<br>**Political**<br>Political decisions, events or conditions can have a significant impact on the Group. Changes in government or government policy towards planning policies could impact on the speed of the planning consent process or the value of sites | ↑<br>Increased certainty around policy and planning following election of majority government | | • The Group's highly skilled in-house technical and planning teams monitor changes in the market and in the planning process, and react accordingly to ensure that planning consents are achieved in a cost-effective and timely manner<br>• Large land portfolio can help smooth short-term fluctuations<br>• A high profit margin can be achieved when successful<br>• No revaluations are taken on land through the planning process, which reduced valuation risk in a downturn. Therefore, though profits may be smaller if site values fall, the Group should still achieve a good profit margin on sale |
| **14**<br>**Pandemic**<br>Outbreak of pandemic resulting in health and safety risk to stakeholders and reduced ability to undertake activity. | ↑<br>Outbreak of COVID-19 | | • A high level of employees within HBD, Hallam Land Management and PLC can work from home<br>• Reduced levels of construction activity can continue following Government guidelines<br>• Strong balance sheet supports ability to wait for recovery<br>• Significant cash generation when investing activity is stopped |

## Going concern

Having undertaken a going concern review, the Directors have considered the Group's principal risk areas, including the potential impact of the COVID-19 pandemic, that they consider material to the assessment of going concern.

Following the recent outbreak of the COVID-19 pandemic the Directors have further considered its potential impact on the Group. They have stress tested the effect of both a three-month and six-month UK lock down during which time minimal activity occurs. After this no activity is undertaken during 2020 unless it is already contracted, followed by a medium term recovery of the economy thereafter. These models assume that no capital expenditure is incurred other than that already committed and further investment in all our business activities is curtailed. All discretionary spend including recruitment is paused and dividends and employee bonuses are reduced. Having started 2020 in a £27m net cash position, a position which has been improved upon over the first part of 2020 with c£45m net cash held by the Group and available facilities not drawn down of £51m at 30 April 2020, the Directors have concluded that the Group is able to suspend expenditure, allowing it to retain cash and position itself well to face a recovery, although the impact of doing so on the profit and loss account is damaging.

The Company meets its day-to-day working capital requirements through a secured loan facility (see note 25 of the Financial Statements). The facility was renewed on the 23 January 2020, at a level of £75m, for a period of three years. The renewed facility

# Our Risks

includes an accordion to increase the facility by up to £30m, which can be requested by the Company at a time of its choosing. None of the modelling undertaken by the Directors gives rise to any breach of bank facility covenants. However, as one of the covenants references the loan to value ratio of the investment property portfolio the full facility would not be available to the Group unless re-investment in the portfolio was undertaken. The facilities also contain a covenant relating to the ratio of EBIT (Earnings Before Interest and Tax) on a 12-month rolling basis to senior facility finance costs. Our most severe downside modelling, which reflects a near 55% reduction in revenue levels from our pre COVID-19 budget for 2020, demonstrates headroom over this covenant throughout the forecast period to the end of June 2021. Should a breach of this covenant occur management would need to obtain a waiver from the group's bankers in order for the borrowing facilities to continue to be available. However, in the most severe downside scenario, no borrowing against the facility is envisaged, principally as a result of the mitigating actions referred to above. The Directors have therefore concluded that this does not cause the Group any issue with Going Concern.

At the time of approving the Financial Statements the Directors expect that the Company and the Group will have adequate resources, liquidity and available bank facilities to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

## Viability statement

### Introduction

The business model and strategy of Henry Boot PLC can be found on pages 18 to 21 and pages 26 and 27 in the Strategic Report. These documents outline the long-term business model and are central to the understanding of how the Group operates. We have operated the current business model successfully since 2004 and have a 134-year unbroken trading history. By their nature the Group's activities tend to be very long-term, especially in the land promotion business and increasingly within property development. The Group's strategy and experience in all the markets in which we operate has been built up over many years. Over the last ten years, the Group has reported an average profit before tax of £32m per annum, added over £141m to net assets (an increase of some 80%) and paid 63.25p per share in dividends, all from the trading segments it now operates, and at no stage in the last economic downturn, between 2008 and 2010, did the company make a trading loss.

### The assessment processes

The Group's prospects are assessed through an annual budgeting process led by the main Board Executive Directors and the Boards of the individual subsidiaries. A detailed annual budget is agreed prior to the commencement of the current financial year and reforecasting takes place each month throughout the financial year within each business and consolidated at a Group level. The two succeeding years are also forecast, using predominantly known and controlled opportunities, to assess the longer-term viability of the Group. As a largely deal-driven business, it is considered inappropriate to attempt to forecast further out via an extrapolation of years one to three, albeit asset trading and development is central to the Group's long-term strategy. Furthermore, our strategic land promotion business commenced 2020 with 14,713 plots with planning permission which, at this year's disposal rate of 3,427 plots would imply that we have over four years of sales already in hand. It is also anticipated that the property development pipeline of over £1.3bn GDV will be delivered over a period extending beyond 5 years. Stress testing of these forecasts, including scenario testing relating to the COVID-19 pandemic where a 3 month and 6-month UK lock down have been modelled as described in the Going Concern statement on page 49. Our modelling assumes that the vast majority of deferred land sale debtors falling due in 2020 of £18.0m as at 30 April 2020 will continue to be received during the period either directly from the debtors themselves or via the use of avalised promissory notes which management consider a well-established settlement method facilitated by UK banks. These models highlight that as economic conditions worsen and construction activity, developments and land sales do not happen as envisaged, deferred land sale receipts, reduced investment and tight cost control sees the Group retain cash in the short to medium term, although profitability would be significantly lower if the aforementioned mitigating actions were required to preserve cash.

### Assessment of viability

The long-term strategy: the annual budget and the two-year forecasts reflect the Directors' best estimates of the prospects for the business. We have also reviewed several potential viability risks to the Group and consider that the following represent scenarios which, if not carefully managed, could impact on the Group's viability, in addition to the COVID-19 pandemic risk discussed in the Going Concern statement above.

Firstly, a health and safety-related breach that causes a fatality (or similar serious outcome). We manage this risk through a very robust health and safety policy, zero tolerance towards policy breaches and treat health and safety as the first matter for discussion on our Company board meeting agendas. Our safety scores continue to be well into the top quartile of the UK construction industry and we have achieved a very safe working environment over the last 20 years.

Secondly, overtrading developments in progress with the attendant increase in leverage, at the same time as the property cycle turns down, asset values are falling, and schemes must be completed to create best value. This creates a potentially damaging scenario where debt is rising, and asset values are falling. Mindful of this scenario, we look to maintain prudent debt levels (even at maximum facility utilisation of £75m) and we have pre-sold or forward-funded more than 84% of the current development work in progress for 2020.

The Directors have also considered the potential impact of the UK departure from the EU and whilst they accept that the current economic uncertainty surrounding this creates a UK-wide market risk they do not believe that this would lead to an extended downturn long enough to cause the Group any issue with viability.

### Viability statement

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities over the three-year period ending 30 April 2023.

# Corporate Responsibility

# CONFIDENCE AND TRUST

Our commitment to being a sustainable business underpins everything that we do; this ethos is fully integrated into our day-to-day operations and it is of the utmost importance for us to demonstrate to our stakeholders this approach and its impacts.

We consistently review and address the key social, ethical and environmental impacts of our operations in a way that aims to bring value to all our stakeholders; our programme supports our approach of acting responsibly while we continue to grow, with continuous improvement lying at the heart of our business.

We continue to face a number of challenges; we must continue to act fairly and responsibly, ensuring all our stakeholders are provided with a safe environment in which to work, and making positive progress by trading responsibly and being a great employer.

For the year ahead we have committed to recruit a Responsible Business Manager who will identify and coordinate all our community engagement and investment activities, and oversee our commitment to ESG reporting (Environmental, Social and Governance).

**Rachel White**
Head of HR

# Corporate Responsibility

## Non-financial reporting

We comply with the new Non-Financial Reporting Directive requirements. Information on these matters has been provided across the report, with a breakdown summary in the table below.

| CSR stakeholder | Reporting requirement | Why it is important to engage | Ways we engage | Stakeholders' key interests |
|---|---|---|---|---|
| **People**<br>Read more on pages 54 to 56 | • Employee matters<br>• Respect for human rights<br>• Anti-corruption and anti-bribery matters<br>• Human Rights<br>• Diversity | Our people are fundamental to the Group's success. We recognise that their opinions count towards improving the workplace and the continued performance of the business. | • Employee Surveys<br>• Health and Wellbeing initiatives<br>• Speak Up Campaign<br>• Working Group forums<br>• Training and apprentice programmes | • Career Opportunities<br>• Workplace improvement<br>• Developing Group inter-working relationships<br>• Diversity and Inclusion<br>• Investors In People |
| **Health and safety**<br>Read more on page 57 | | The welfare of our people and stakeholders is integral in our Values. With commitment and structured procedures in place, we provide a safe working environment to all the communities we operate in. | • Internal management systems<br>• Training courses<br>• Workplace and site assessments | • Reducing the risk of accidents at the workplace<br>• Raising awareness of procedures<br>• Endorsing Health & safety initiatives set by the Group |
| **Our communities**<br>Read more on pages 58 and 59 | • Social matters | To understand the changing need and requirements of the communities we operate in. We are then able to develop lasting relationships which can make a positive difference. | • Charity of the Year initiative<br>• Group Charity Committee<br>• Community investment initiatives<br>• Investor with South Yorkshire Community Foundation (SYCF) | • Developing lasting relationships<br>• Promoting awareness of their purpose<br>• Raising funds to support their operations<br>• Sharing industry knowledge and skills |
| **The environment**<br>Read more on pages 60 and 61 | • Environmental matters | We engage environmental management systems to achieve our responsibility in protecting and enhancing the environment in all business operations. | • Impact Assessment and Action Plans<br>• Assessment and Remediation Strategies<br>• Maintaining our ISO 14001 standard<br>• Membership of BITC Yorkshire & Humber | • Minimising the Group's emissions<br>• Impact of Group activities on the wider community<br>• Recycling initiatives |

Read more about **Non-financial KPIs** on pages 42 and 43

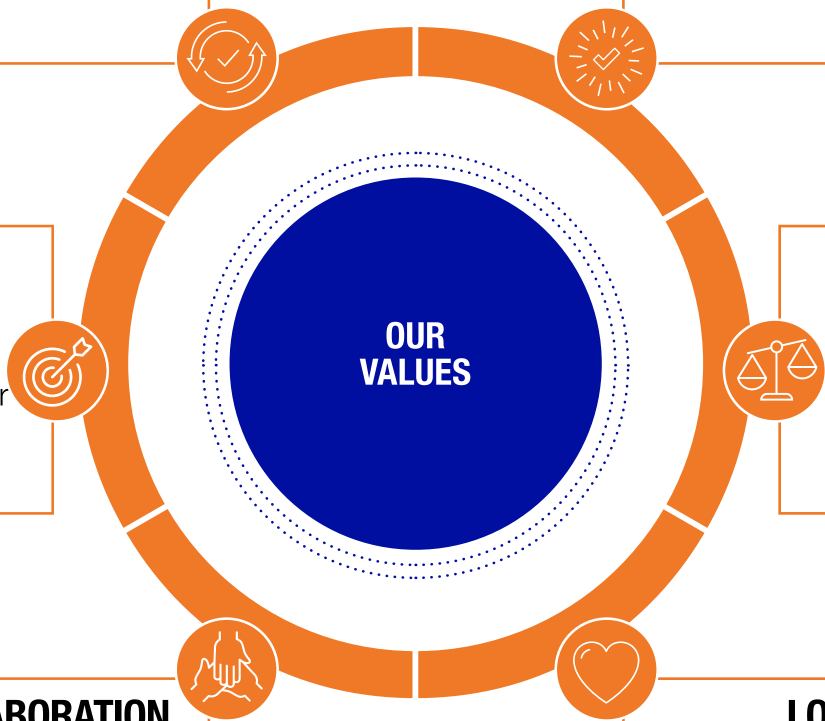
Read more about our **Risks and Uncertainties** on pages 44 to 49

Read more about **how we meet the requirements of Section 172 of the Companies Act statement** on page 72

# THE HENRY BOOT WAY

Our culture 'The Henry Boot Way' means that we have a unique and cohesive approach to doing business.

Read about **How the Board monitors culture** on page 75




## ADAPTABILITY

We seek to positively challenge what we do and how we do it.

## RESPECT

We think about what we do, how we do it and how it will impact others.

## DELIVERY

We deliver our best quality work for everyone, no matter what.

## INTEGRITY

We operate fairly and equitably in everything we do.

## COLLABORATION

We work in partnership to make things happen.

## LOYALTY

We are committed to giving back to our communities.

# Corporate Responsibility

# OUR PEOPLE

Our people are vital to the delivery of our strategy and our engagement with our employees is crucial to our continued success.

We strive to maintain a culture of inclusivity and to create an environment that enables us to attract and retain the right people to work at every level, who are committed to working together, and who support our Values.

We remain committed to investing the time and resources to support, engage and motivate our employees to feel valued, to be able to develop rewarding careers and want to stay with us, and we recruit and promote from within wherever possible.

As our businesses continue to develop and grow, we understand that by retaining and inspiring effective and committed employees, we can continue to deliver excellence to all.

## Diversity and inclusion

We aim to create a fair, diverse and inclusive working environment, while recognising the challenges that our sector has traditionally suffered, particularly in relation to gender and ethnicity. We want to provide a sustainable culture in which all our people can be themselves at work so that they can thrive, add value and feel valued.

In 2019 we commissioned internal research by a specialist consultancy to give us insight into how we can best make our businesses fit for the future with a focus on diversity and inclusion.

We are keen to ensure that our diversity and inclusion strategy goes beyond legal compliance, seeks to add value to our businesses, and contributes to employee engagement and wellbeing. We will work with our Employee Forums to commission further consultant-led initiatives to achieve our objectives.

We have a policy framework that sets out our approach and our standards; these will be fully reviewed in 2020 as a result of our research and will allow us to remain current and take positive action where necessary.

We continue to engage with under-represented groups through various networks to encourage diversity of thought and approach amongst our employees, and to open opportunities for under-represented groups to experience our industry.

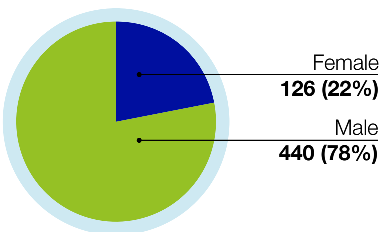
We have continued the employment, wherever possible, of any person who becomes disabled during their employment with us, and opportunities for learning, career development and promotion do not operate to the detriment of disabled employees.

The diversity policy in relation to the appointment of PLC Directors is set out on page 93.

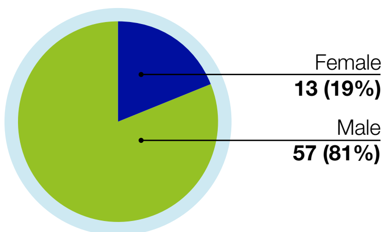
Our gender pay gap is currently 29.77%, which continues to reflect the current ratio of men and women employed at just over 3:1 rather than an issue relating to how we pay our people.

## Gender diversity

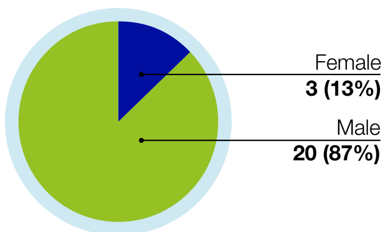
### Gender split




### Senior managers




### Directors



We have a disproportionate number of women in all roles and, therefore, our data is skewed; we believe that without a representative increase in the number of women we employ, the gap will be difficult to reduce. We have a number of employment policies in place around flexible working, which we hope will see our gender split decrease over time and have a positive impact on our gender pay gap. We continue to forge links with local groups and educational establishments to encourage diversity and to change perceptions, and view our industry as a positive career choice.

We are not obligated by statute to report our gender pay gap as we do not meet the required reporting thresholds; however, we will continue to report voluntarily.

## Health and wellbeing

Key challenges in society around physical and mental health have promoted us to review how we support our people. We have recently launched our SMILE platform, which is a wellbeing platform accessible by all our employees, focusing on three strands: health, wealth and lifestyle. We brought together all our benefits and wellbeing provisions into one place so that employees can access information and support at any time.

We, again, participated in Britain's Healthiest Workplace and were ranked as 18th in the medium-sized company rankings, and we are committed to work on improving our position year-on-year.

## Financial wellbeing

We focus on remuneration and benefits, which is a critical component of our employee retention. We are committed to review our employee packages in 2020 as part of a wider remuneration and reward review to ensure that these are effective for our people and that we remain competitive.

We operate three pension schemes; employees are members of The Henry Boot Staff Pension and Life Assurance Scheme (defined benefit pension closed to new members in 2004 and subject to a salary cap from 2012), the Henry Boot PLC Group Stakeholder Pension Plan (defined contribution pension) or the NEST scheme for Starfish employees.

Employees who are members of The Henry Boot Staff Pension and Life Assurance Scheme have the opportunity to join the Henry Boot PLC Group Stakeholder Pension Plan, investing their residual salary, i.e. the difference between their actual salary and their capped pensionable salary, in The Henry Boot Staff Pension and Life Assurance Scheme.

We have implemented the UK's auto-enrolment pension requirements and our employees are informed of auto-enrolment and other pension choices through letters and online via the Group Intranet.

In the year we also introduced company-funded Independent Financial Advice for those reaching 55 years of age: the age at which they can legally take their pension. We want to ensure that our employees are in a fully informed position when making decisions about ongoing employment towards the end of their careers.

In September 2019 we invited all eligible employees to participate in the Company Share Option Plan (CSOP); 100% of those who were eligible accepted this grant. We also invited all eligible employees to participate in the Group's 2019 Sharesave scheme, which allows employees to contribute a maximum of £500 per month to one or a combination of current Sharesave schemes; at the year-end 42% of eligible employees had joined a Sharesave scheme.

## Employee engagement

Employee engagement refers to the amount of energy, dedication and focus people bring to their work. It is currently regarded as one of the key 'people' factors that differentiate higher and lower levels of organisational performance.

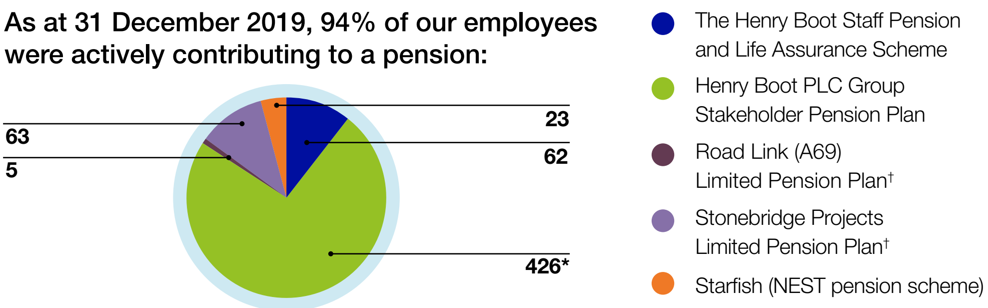
In the year we launched our annual Employee Engagement survey, which was designed to build on the Values we developed as part of the Henry Boot Way.

The survey received a response rate of 59%, with a Net Promoter Score (eNPS) of 40, which is deemed to be outstanding.

Engagement is an output of a vast number of inputs, some tangible others intangible and the engagement any person feels can vary compared with others as we are all individuals and what we value differs. We already have a solid foundation of engagement but there are areas where we can make improvements. With the involvement of our Employee Forums we will address these areas and anticipate greater levels of engagement when we run the survey again later in 2020.

## Pension arrangements

### As at 31 December 2019, 94% of our employees were actively contributing to a pension:




Read more about how the **Board Engages with People** on pages 76 to 77

* 45 employees within this total have invested their residual salary from The Henry Boot Staff Pension and Life Assurance Scheme into the Henry Boot PLC Group Stakeholder Pension Plan.

† Incorporated into the Henry Boot PLC Group Stakeholder Pension Plan.

# Corporate Responsibility

## Supply chain

We continue to build strong relationships with our key suppliers and our wider stakeholder population. We are committed to securing the services of predominantly local subcontractors and utilising local suppliers to minimise the miles and emissions that working with us produces.

## Our performance

Attracting new talent and retaining experience gives us the ability to compete successfully; growth across all our businesses has seen an increase in headcount to 566 directly employed people across the Group at the end of 2019.

We recruited a further nine apprentices in the year, which brings our total number of current apprentices to 26. All our trainees and apprentices are enrolled on formal courses of education and have development plans in place to gain operational and technical knowledge from mentors.

Our preferred succession planning method is one of in-house development and growth; consequently, we also have a number of experienced employees enrolled on formalised education programmes to enhance their skills and knowledge, in anticipation of career development and promotion within the business in which they operate. We anticipate a year-on-year increase in the number of trainee and apprentice recruits, primarily as part of our succession plans but also in response to the Apprenticeship Levy.

We have a relatively low level of employee turnover – the retention and development of our internal talent remain critical to our success – our turnover remains around the average for the UK at 16%. Our high retention rates ensure that we have a solid base on which our employees can grow, develop and achieve their potential; we have key pathways in place for our apprentices and trainees to ensure our talent pipeline continues to flourish.

During 2019 we continued to roll out our Senior Leadership Development Programme (SLDP), and by the end of the year, we had delivered individual development diagnostics to over 40 of our senior management team: the majority of whom have now engaged with coaches to develop their potential further. Towards the end of 2019, the Board committed to invest in a Leadership Development Programme for our middle managers and rising stars; this will be delivered throughout 2020 and demonstrates our ongoing investment in our internal talent pool.

We delivered 1,864 learning and development days; in addition to this, and in recognition of the diverse range of skills within our workforce, there was also an unquantifiable amount of ad hoc learning and development, which takes place on a daily basis at our sites, offices and depots. The coming year will see a renewed learning and development provision being rolled out across all subsidiaries which includes a focus on developmental outputs from SLDP, building capacity and capability at all levels, provision of mentoring and other interventions, which will seek to build resilience amongst our people.

> Not only does Henry Boot support my academic learning but enables me to join external networks to put my skills into practice. Most recently, Henry Boot has assisted me in becoming Chair of the Young Apprenticeship Ambassador Network for Yorkshire & Humber, where I am leading and developing a successful network. I'm proud to be part of a company that invests extensive amounts of time and resources in providing opportunities for their apprentices.
>
> **Bradley Longford**
> Trainee Business & Marketing Assistant

## Human rights

We are committed to the UN's Guiding Principles on Business and Human Rights. Protecting and preserving human rights is embedded in our culture and is fundamental to our Values. This is reflected in our policies relating to anti-corruption, diversity, modern slavery, rights to work and whistleblowing, coupled with our actions towards our people, suppliers, clients and the communities in which we operate.

## Modern slavery

We have implemented and embedded a number of measures, which seek to bring about greater transparency and scrutiny into our various supply chains, in order to combat slavery and trafficking activities. We continue to keep under regular review our Human Trafficking and Slavery Statement (the 'Statement'), setting out the activities undertaken to reduce the risk of slavery and trafficking activities being present within our business operations. These measures include our Anti-Slavery Policy, due diligence requirements, and mandatory contract clauses seeking compliance by our supply chain with appropriate anti-slavery measures. Additional measures have been put into place to increase knowledge and vigilance throughout our organisation and supply chains, include posters and awareness cards across our sites. We will continue to regularly work with our partners, contractors, suppliers and other stakeholders to monitor our approach for effectiveness and consider any changes or additional measures as appropriate.

## Anti bribery and anti corruption

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, and 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 our organisation complies.

# HEALTH AND SAFETY

## Our approach

Henry Boot PLC continues to focus on health and safety as a priority. We remain committed to providing a safe and healthy working environment for our employees and stakeholders. We operate all of our business activities on the principle that robust management of health, safety and wellbeing is fundamental to creating a safe and healthy working environment, and contributes to improving our business performance. Our leadership teams manage all aspects of our business in a safe manner and instigate measures to eliminate or minimise risk, and to minimise any environmental impact. Our ethos is collaborative across the Group to ensure we obtain the best approach towards achieving our ethical accountability, focused on protecting people from harm in all Henry Boot Group of companies.

**Brendon Keown, Henry Boot PLC**
Group Health and Safety Manager

As a responsible business, a fundamental commitment of the Group is to ensure that the health, safety and wellbeing of our employees, stakeholders and the wider public is safeguarded, together with protecting the environment in the course of all our areas of operations.

We are proud of our team's expertise and enthusiasm in making this happen, working collaboratively with our project teams and supply chain to drive innovation and achieve best practice.

> As a responsible business, we are committed to ensuring that the health, safety and wellbeing of our employees, stakeholders and the wider public is safeguarded, together with minimising the environmental impact of our business operations. This is done by applying robust health, safety and environmental management controls and best practice. Construction activities operate to an Integrated Management System, approved to OHSAS 18001, ISO 14001 and ISO 9001, which ensures that risks are identified, minimised and, where possible, eliminated, coupled with continually improving Company performance.

**Richard Grafton, Henry Boot Construction**
Head of Policy and Compliance

## Our performance

Our Accident Frequency Rate (AFR) and Accident Incidence Rate (AIR) performance in our Construction segment remains strong, and we are delighted that for the eighth consecutive year, our construction related AFR and AIR for our directly employed staff and operatives is zero.

We are also delighted to report a strong overall (including subcontractors) AFR of 0.09 per 100,000 hours worked, and AIR of 189 per 100,000 workers.

This result is a combination of the effectiveness of our management processes, continuous improvement and the Company's Zero Harm initiative.

We continue to benchmark our Construction segment Health and Safety performance against Constructing Excellence Health and Safety Key Performance Indicators (KPI), which show a KPI performance of 98%.

In 2019, our Construction segment maintained approval to the OHSAS 18001, ISO 14001 and ISO 9001 standards, which is reviewed and audited by Lloyd's Register Limited. This is supported by other Company accreditations, including the Rail Industry Supplier Qualification Scheme, and BSI Verification of our BIM processes to PAS 1192-2. We also continue to be a Considerate Constructors Scheme Partner.

Our strong health and safety management culture has resulted in the Company securing a prestigious RoSPA Gold Medal Award for the 10th consecutive year resulting in a RoSPA Presidents Award. This is alongside further industry awards including the RICS, Yorkshire Property Awards, Insider Property Awards, Considerate Constructors Scheme Award, LABC West Yorkshire Award and Generation for Change (G4C) Awards.

# Corporate Responsibility

# OUR COMMUNITIES


Our continued success depends on the communities in which we operate, live and work continuing to thrive and develop, and offer opportunities to make a real difference.

We continue to offer support to a wide range of charities and organisations of all sizes, by working to provide them with donations that are of most benefit to them and their particular cause, whether it be a financial donation, or non-financial in the form of participation or the donation of our time.

Our key criteria for charitable support are:

- Charities and organisations local to our business operations;
- Charities and organisations that support educational improvements for children/adults; and
- Charities and organisations that support social improvement through sport.

The Group also supports a number of investment funds which are held and managed by South Yorkshire Community Foundation (SYCF); if a charitable request does not fall within our stated criteria we signpost relevant enquiries to SYCF. We can also use our funds with SYCF in order to collaborate with other SYCF supporters to provide grants to applicants who are assessed for eligibility by SYCF. Through SYCF we were able to support the South Yorkshire Flood Disaster Relief Fund, which raised a significant amount of money to support those affected by the floods in November 2019.

We support an annual Charity of the Year that is elected by our employees. We then host a variety of activities during the year to raise money in support; in 2019 our Charity of the Year was MIND. Given the focus on mental health both inside and outside of the workplace, and recognising that our sector has a high level of young male suicide, we were delighted to support such an important cause.

Through various fundraising endeavours we raised over £29,500 in 2019, and look forward to working with our 2020 Charity of the Year, The Children's Hospital Charity (Sheffield Children's Hospital), to raise even more.


We also continued a strategic partnership with our Sheffield neighbours, St Luke's Hospice, formerly our Charity of the Year in 2017. We were again headline sponsor at the Festival of Lights in December where we provided financial sponsorship and employee volunteers to serve mulled wine and mince pies.

Our involvement with Sheffield Business Together continues to grow. In the year we were a key delivery partner to a project at Hunters Bar Infant School in conjunction with other Sheffield Business Together partners to assist with their #GoGoGreen campaign. We offered our services as principal contractor for the project to build a living green barrier around the school: a 60 metre long green barrier that is a combination of ivy screens and other planting will improve air quality for schoolchildren, reducing the amount of harmful pollutants they breathe. There will be ongoing monitoring with the help of the University of Sheffield to assess the impact of the green barrier over time.

We continue to support and promote a wide range of charitable giving and community volunteering initiatives by employees, focusing on activities that best reflect the needs of their local community and issues of direct significance for them.

This year, we contributed £110,287.68 to charitable causes, £20,079.84 of which was through our employees utilising our Give as You Earn payroll giving mechanism. The Company matched this pound for pound; both sums are reflected in the total figure.

> To work alongside a company with an ethos centred around helping others, we're confident Henry Boot PLC will help raise an incredible amount of money to help families in some of the most difficult of times.
>
> We want every child in our hospital to be comfortable and have their own space to feel as much like home as possible and Henry Boot will help make this aim a reality.

**Jen Everill**
Corporate Partnership Officer at
The Children's Hospital Charity

We have a Charities Committee who meet on a fortnightly basis to assess direct requests to the business for financial support. During the year we have supported and donated to a whole variety of charitable and good causes including:

- Yorkshire Ambulance Restart a Heart – we supported the purchase of a life-saving defibrillator to be placed at a local school;
- Whirlow Hall Farm, Sheffield – support for the 480 Club which helps to fund local schools to attend residential trips at the Farm;
- Kelford School, Rotherham – a donation towards the refurbishment of a workshop so pupils can make small wooden items to sell;
- Junior Park Run, Olympic Legacy Park – we supported the inception of the Junior Park Run at one of our previous projects;
- CBI Walk the Wall – we supported the Yorkshire CBI in their fundraising for breakfast clubs in local schools; and
- The Better Together Project, Sheffield – sponsor of a Christmas lunch for 100+ Sheffield residents who are lonely/vulnerable at Christmas. The Group also provided a number of volunteers to support the event.

Read more about **How the Board Engages with Communities** on page 76

# Corporate Responsibility

# THE ENVIRONMENT

We are committed to protecting and enhancing the environment in the course of all our areas of operations and are proud of our team's expertise and enthusiasm in making this happen.

We recognise there is always room for improvement and are actively seeking out new initiatives which can improve upon the footprint our Group leaves behind. The Group also has a responsibility to provide education to local communities on the direct impact they have on the environment.

## Our approach

The Group have a responsibility and an obligation to reduce the direct impact of all our business operations on the natural environment, both now and in the future. Reducing our emissions is one way in which we hope to achieve this. Our aim is to create more sustainable ways of undertaking our business operations to conserve energy, save money and deliver efficiency.

## Our priorities are to:

- Minimise waste produced;
- Increase recycling;
- Improve energy efficiency and reduce energy use; and
- Raise awareness on environmental issues.

### Henry Boot Group $CO_2$ footprint by source

| Henry Boot Group $CO_2e$ emissions | 2019 Tonnes | 2018 Tonnes | Trend |
|---|---|---|---|
| Scope 1: Combustion of fuel and operation of facilities | 2,207 | 2,261 | Fall |
| Scope 2: Electricity, heat, steam and cooling purchased for own use | 870 | 847 | Rise |
| Total direct emissions | 3,077 | 3,108 | Fall |
| Total direct emissions per employee[1] | 5.8 tonnes $CO_2e$ | 6.3 tonnes $CO_2e$ | Fall |
| Scope 3: Upstream and downstream indirect emissions | 1,037 | 1,059 | Fall |
| Total emissions | 4,113 | 4,167 | Fall |
| Total emissions per employee[1] | 7.8 tonnes $CO_2e$ | 8.4 tonnes $CO_2e$ | Fall |

1. Employee numbers are based on the monthly average for the year.

## Carbon emissions by segment

| Henry Boot Group $CO_2e$ emissions | **2019 tonnes of $CO_2e$** | **2019 intensity ratio tonnes of $CO_2e$** | 2018 tonnes of $CO_2e$ | 2018 intensity ratio tonnes of $CO_2e$ | Intensity basis | Trend |
|---|---|---|---|---|---|---|
| Property investment and development | **981** | **2.15** | 993 | 2.00 | per 1,000 sq ft of investment property with communal areas | Fall |
| Land development | **57** | **1.73** | 59 | 1.72 | per employee | Fall |
| Construction | **2,934** | **23.00** | 2,960 | 17.00 | per £1m of turnover | Fall |
| Group overheads | **142** | **2.14** | 155 | 2.45 | per employee | Fall |
| Total gross controlled emissions | **4,114** | | 4,167 | | | |

Our greenhouse gas emissions for the year ended 31 December 2019 were calculated in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (2011 edition) and emission factors from UK Government GHG Conversion Factors for Company Reporting 2018.

Our direct and indirect operational greenhouse gas emissions are shown in the tables above. These sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our financial statements.

Overall the Group's greenhouse gas emissions have decreased by 1.3% when compared with those of the previous year; this equates to a reduction of 0.6 tonnes per employee.

For further information on our **Greenhouse gas emissions** please see our website

# OUR GOVERNANCE

## PEOPLE

Recruit and retain employees who are empowered to deliver the growing business we aspire to be.

# Board of Directors


1 **TIM ROBERTS**
Chief Executive Officer

2 **JOHN SUTCLIFFE**
Executive Director

3 **AMY STANBRIDGE**
Company Secretary

4 **DARREN LITTLEWOOD**
Group Finance Director

5 **JOANNE LAKE**
Deputy Chairman

6 **GERALD JENNINGS**
Non-executive Director

7 **PETER MAWSON**
Non-executive Director

8 **JAMIE BOOT**
Chairman

9 **JAMES SYKES**
Non-executive Director

# Board of Directors

## JAMIE BOOT

Chairman

N A R

### Date of appointment

June 1985.

### Independent

No.

### Brings to the Board

### Key strengths:

- Extensive Group and leadership experience
- Long-term track record in delivering sustainable growth to the Group

Jamie, who is a member of the founding family, has over 30 years' experience as a Director of Henry Boot PLC. He has been a Director of the Company's four principal operating subsidiaries and his role now sees him responsible for the leadership of the Board.

## TIM ROBERTS

Chief Executive Officer

### Date of appointment

January 2020.

### Independent

No.

### Additional roles held

Previously Director of British Land PLC, and Non-executive Director of Songbird PLC.

### Brings to the Board

### Key strengths:

- Strong strategic and corporate experience accumulated as past long-standing Director
- Strong property and leadership experience
- Extensive experience in delivering significant property development projects

Tim joined Henry Boot as Chief Executive Officer in January 2020. He has responsibility for Group profitability and guides in the achievement of the highest level of return for a given level of risk. He is also responsible for communicating strategy and results to both private and institutional investors. He is also the Director responsible for all health, safety and environmental matters.

## JOHN SUTCLIFFE

Executive Director

### Date of appointment

October 2006.

### Independent

No.

### Additional roles held

Member of the CBI Yorkshire and the Humber Regional Council, Non-executive Director of Beal Developments Ltd and Treasurer at the University of Sheffield. Trustee Director of Henry Boot Pension Trustees Limited, acting as trustee for The Henry Boot Staff Pension and Life Assurance Scheme.

### Brings to the Board

### Key strengths:

- Strong financial and leadership knowledge
- Experience in implementing and overseeing strategy

John joined the Company and the Board in 2006 as Group Finance Director and was appointed Chief Executive Officer in January 2016. He relinquished the role on 1 January 2020. John will remain in an advisory position with the Company until the end of May, at which point he will retire and step down from the Board.

## DARREN LITTLEWOOD

Group Finance Director

### Date of appointment

January 2016.

### Independent

No.

### Additional roles held

Director of the Company's four principal operating subsidiaries.

### Brings to the Board

### Key strengths:

- In depth Group and financial experience
- Establishing and delivering strategy whilst protecting assets in the Group

Darren joined the Group in 1999 prior to his appointment as Group Finance Director in 2016. He became qualified as a member of the Chartered Institute of Management Accountants in 2007 and is responsible for all financial and risk matters relating to the Group. He is heavily involved in investor communications and, along with Tim Roberts, is also responsible for communicating strategy and results to both private and institutional investors.

**Committee Membership**

N Nomination A Audit and Risk R Remuneration Committee Chairman

## JOANNE LAKE

Deputy Chairman

N A R

**Date of appointment**

October 2015.

**Independent**

Yes.

**Additional roles held**

Non-executive Chairman of Mattioli Woods plc, Non-executive Director of Gateley (Holdings) Plc, Non-executive Director of Morses Club PLC, Non-executive Director of Green Man Gaming Holdings plc.

**Brings to the Board**
**Key strengths:**

- Extensive financial and investment banking experience
- In depth knowledge on strategy and governance

Joanne has over 30 years' experience in accountancy and investment banking, including with Panmure Gordon, Evolution Securities, Williams de Broe and Pricewaterhouse. She is a Chartered Accountant and a Fellow of the Chartered Institute for Securities & Investment, and of the ICAEW, and is a member of the ICAEW's Corporate Finance Faculty.

## JAMES SYKES

Non-executive Director

N A R

**Date of appointment**

March 2011.

**Independent**

No.

**Additional roles held**

Chairman and Partner in the London office of Saffery Champness Chartered Accountants, which he joined in 1987. He is a Non-executive Director of Saffery Champness business in Guernsey.

**Brings to the Board**
**Key strengths:**

- Significant strategic land knowledge
- Sound financial background and experience

As a partner in the Private Wealth and Estates Group at Saffery Champness he has many years' experience in the UK strategic land market and brings that experience to Board decision-making generally, but particularly to Hallam Land Management Limited.

## PETER MAWSON

Non-executive Director

N A R

**Date of appointment**

October 2015.

**Independent**

Yes.

**Additional roles held**

Non-executive Chairman of Nexus Planning Limited, Board Representative for Paradise Circus Project for the Great Birmingham & Solihull Local Enterprise Partnership, and Non-executive Chairman of Infinite Global Consulting Inc.

**Brings to the Board**
**Key strengths:**

- Wide-ranging experience in senior leadership and practitioner roles across the built environment
- Property development and planning knowledge in both the public and private sector

Peter has a wealth of experience in the management and leadership of professional service firms, together with senior practitioner expertise across the built environment, from both public and private sector perspectives.

## GERALD JENNINGS

Non-executive Director

N A R

**Date of appointment**

October 2015.

**Independent**

Yes.

**Additional roles held**

Non-executive Chairman of Social Communications (Leeds) Limited, Non-executive Director of the Ahead Partnership, Non-executive Director of West and North Yorkshire Chamber of Commerce, Non-executive Director at PDR Construction Ltd, and Director of G R Jennings Properties Ltd.

**Brings to the Board**
**Key strengths:**

- Widespread industry experience in retail and property
- Successful track record of delivering significant development projects and working with a wide range of stakeholders

Gerald has over 30 years' experience in the retail and property industry. Amongst other projects, Gerald was responsible for the delivery of the one million sq ft Trinity Leeds retail scheme.

# Senior Management and Company Secretary

## AMY STANBRIDGE

Company Secretary

### Date of appointment
October 2018.

### Additional roles held
Head of Legal (Commercial) at Henry Boot PLC, Trustee of St Luke's Hospice, Sheffield.

### Brings to the Board
### Key strengths:
- Significant recent and relevant legal and corporate governance experience
- Robust knowledge on all aspects of commercial law

Having obtained her qualifications at the Universities of Nottingham (LLB Hons) and Sheffield (PG Dip LP), Amy qualified as a solicitor in 2006 and as a Chartered Secretary in 2019. She is an experienced lawyer with a demonstrated history of working in-house in the public sector and construction industry. With a broad range of expertise across contract and commercial law and practice, construction matters, corporate governance and compliance matters, she has worked at Henry Boot PLC since 2014.

## NICK DUCKWORTH

Hallam Land
Management Limited

### Date of appointment
Managing Director in 2016.

### Brings to the role
Nick Duckworth, MRTPI, began his career in a private sector planning consultancy, Phillips Planning Services, in 1990. He left there in 1992 and joined Hallam Land's then newly established Northampton office. In 1997 Nick set up the South West office of Hallam Land in Bristol and became the Regional Manager. He was appointed a Director in 2002.

## EDWARD HUTCHINSON

Henry Boot
Developments Limited

### Date of appointment
Managing Director in 2018.

### Brings to the role
Edward Hutchinson BSc (Hons), MRICS, started his career in quantity surveying before quickly progressing into project management. He joined Henry Boot Developments in 2004 as a Project Manager rapidly rising to the position of Senior Project Manager in 2006. Edward was appointed a Director in 2012 and became Managing Director in 2018.

## SIMON CARR

Henry Boot
Construction Limited

### Date of appointment
Managing Director in 2009.

### Brings to the role
Simon Carr, BSc (Hons), FRICS, has been with Henry Boot for over 30 years. He is a Board member and past national chair of the National Federation of Builders, a Board member and past president of the Yorkshire Builders Federation, and is a member of the CBI Construction Council. Simon also sits on the Board of trustees for the Wentworth Woodhouse Preservation Trust and is a Non-executive Director of Wildgoose Construction Limited.

## GILES BOOT

Banner Plant Limited

### Date of appointment

Managing Director in 2000.

### Brings to the role

Giles Boot, BA (Hons), joined the Henry Boot Group in 1982 and had a variety of management roles in Rothervale Trading Limited, the retail side of the then Group's door manufacturing business. Moving to Banner Plant Limited in 1988, he held a number of positions, including Depot Manager and Business Development Manager, before being appointed to its Board in 1995.

## DARREN STUBBS

Stonebridge Homes Limited

### Date of appointment

Managing Director in 2010.

### Brings to the role

Darren Stubbs started work at Tay Homes plc at the age of 16 and by the age of 25 he was Managing Director of his own small housebuilding company based in Leeds. Over the next 15 years he grew the business to achieve an annual turnover of £25m. In 2010 he formed a new housebuilder and property company, Stonebridge Homes Limited, which is a jointly owned company with Henry Boot PLC.

## TREVOR WALKER

Road Link (A69) Limited

### Date of appointment

General Manager in 2005.

### Brings to the role

Trevor Walker, IEng MICE, joined Road Link (A69) Limited in 1996 at the start of the 30-year Private Finance Project to operate and maintain the A69 trunk road. He was previously involved in trunk road maintenance in the south of Scotland. He undertook various road and bridge maintenance roles within Road Link (A69) Limited in the early years, helping to establish the Company before his appointment as General Manager in 2005.

# Chairman's Introduction

## JAMIE BOOT

Chairman

The work of embedding the Henry Boot Way has carried on throughout 2019 and has led to a number of important initiatives that have been monitored and encouraged by the Board.

**Jamie Boot**
Chairman

### Dear Shareholders,

With the continued political and economic uncertainty that 2019 has brought, the Group has continued to perform well with some challenges. The Board has been instrumental in assessing those macro risks and the opportunities that may be presented, to set the Group up well to move into the future. This is achieved through robust risk assessment and management, and good governance through the Board and its Committees to guide our management team in a strategic way.

2019 saw us carrying out a detailed recruitment exercise to appoint Tim Roberts as Chief Executive Officer of the Group; further details of this process are set out in page 89. There have been no further changes to the Board, and I (with the rest of the Board) look forward to adding Tim's knowledge and experience to our own.

### UK Corporate Governance Code 2018

During 2019 the Board has taken positive strides towards recognising the challenges and opportunities presented by the UK Corporate Governance Code 2018. What has been gratifying is the extent to which changes were already being implemented or called for throughout the Group and within the Board. In particular, our focus on culture, stakeholders (especially employees) and strategy were already issues that we, as a Board, had been refocusing on and consolidating our approach to. This Corporate Governance Report sets out our progress to date and the further planned actions for 2020.

### Strategy

This year, we have continued the important work of developing and documenting our strategy for the Henry Boot Group. At an offsite Strategy Day, the Board welcomed input from the Managing Directors in reviewing, formulating and implementing the approach across the Group to its overall strategy and how it links to key risks, performance indicators, priorities and objectives. Further details of this can be found on pages 38 to 43.

### Culture

We have spoken often in previous years about the important work carried out during the One Henry Boot project, and how it delivered The Henry Boot Way and its three core elements: Purpose, Vision and Values. The work of embedding the Henry Boot Way has carried on throughout 2019 and has led to a number of important initiatives that have been monitored and encouraged by the Board, which is discussed further at page 75.

### Our dedication to engagement with stakeholders

As part of our culture, in keeping with our Values of 'Respect', 'Integrity' and 'Delivery', it has been important for us as a Board to embrace the ethos behind the requirements of section 172 of the Companies Act. Set out throughout this Report are examples of how the Board is working towards better engagement with all of its important stakeholders to produce informed decisions taking into account their views. For more information of how the Board actively considers the Group's various stakeholders in its decision-making, see pages 76 and 77. During 2019 we carried out a wholesale review of our approach to Environmental, Social and Governance matters, and I will be reporting further on the progress of this initiative in next year's Report.

Stakeholder engagement is just one aspect that the Board needs to consider when assessing the longer-term impacts of the decisions it makes. As can be seen from a number of our business operations, we are often operating in an environment where the impacts of the decisions made will not manifest for a number of years, and the cyclical nature of some of our businesses are strategically supported by others. It is our function as a Board to ensure that all factors relating to this are taken into account, to uphold a high ethical standard of business conduct. We are very proud of our progress in this area this year and of laying the foundations to develop this in the years to come.

## Workforce engagement

We often say that the backbone of the Group's robust performance is its excellent workforce, linking strongly to the culture of the Group. The work carried out by the Engagement and Cooperation Working Group (established as a consequence of the One Henry Boot project) has produced some vital initiatives during 2019 to strengthen our approach to employee engagement and, in particular, how matters can be referred by employees to the Board (see page 78).

The following Report sets out our structure, governance processes and key activities undertaken by the Board and its Committees during 2019. We welcome feedback from our stakeholders and I would encourage you to get in touch with us on any governance matters. Normally we would look forward to welcoming all shareholders to our AGM in person. In light of the current COVID-19 pandemic and social distancing rules, and to safeguard the health of our employees and shareholders, we have regretfully taken the decision to hold our AGM behind closed doors. I would strongly encourage shareholders to appoint me as your proxy and submit your voting instructions (more details on how to do this are set out on page 187), and also to submit any questions you may have for the Board in advance, which we will endeavour to respond to via appropriate means. I thank you all for your understanding in this difficult time and look forward to seeing you again soon.

## COVID-19 response

Throughout this year's Annual Report we have referred to the Group's response to the emergence of the COVID-19 pandemic. We have been managing our response to all key stakeholders, including our employees, who have demonstrated a robust and responsive approach to dealing with the effects of the pandemic, which is truly commendable at such a difficult time. As a Board we have been working with the Coronavirus Committee (of which you can read more on page 06) in closely monitoring all ongoing business continuity matters relating to this issue which will no doubt continue to develop throughout 2020.

**Jamie Boot**
Chairman

20 May 2020

## Code compliance

During 2019 the Board and its Committees have been carrying out extensive work to ensure wherever possible that compliance with the Code can be achieved, improving its operations and governance. This is demonstrated throughout this Corporate Governance Report and, of particular note, are the Code principles below with references to further detail as applicable.

Given our 130-year history as a family business, and as a FTSE SmallCap company, we have adopted alternative solutions to the provisions where we believe this is appropriate. The Code recognises that good governance can be achieved by other means, and the Board believes the approach we have taken is the most appropriate for the Company and its shareholders, while remaining consistent with the spirit of the Code.

## Code principles

### Division and responsibilities

Read more on pages 72 to 74

### Board leadership and Company purpose

Read more on pages 76 to 81

### Composition, success and evaluation

Read more on pages 84 to 93

### Audit, risk and internal control

Read more on pages 94 to 98

### Remuneration

Read more on pages 100 and 111

# Corporate Governance Report

## Division and responsibilities

### Governance structure

The Board's commitment to excellent governance standards has led to a wholesale review during 2019, identifying areas for changes to be made in order to implement the requirements of the Code. In the limited number of areas in which compliance with the Code has not been achieved, the Board has carefully considered these and balanced the requirements of the Code against other factors relevant to the success of the Group as a whole, the position of various stakeholders, or against the need to ensure sufficient time to implement the requirements thoroughly. These areas are captured and explained throughout this Report, and further details can be found at page 99.

### The Board

The Board consists of three Executive Directors and five Non-executive Directors, including the Chairman. During 2019, Tim Roberts was recruited as a replacement for John Sutcliffe on his retirement, with Tim joining the Board with effect from 1 January 2020, and John is due to step down from the Board on 31 May 2020. Biographies are shown on pages 66 and 67. Roles and responsibilities for each Director can be viewed on the website.

Read more details at **www.henryboot.co.uk**

The Board maintains a formal schedule of matters reserved for its decision. This was reviewed during 2019 and aligned with new regulatory and best practice developments, and such matters being brought to the Board now require consideration to be given to input from stakeholders, assessment of key risks and links to strategy.

Key areas of Board responsibility include:

- Strategy and objective setting;
- Approving the Company's half-year and full-year financial results announcements;
- Culture and stakeholder engagement;
- Capital structure and ensuring funding adequacy; and
- The determination and monitoring of the Company's principal and emerging risks including the effectiveness of internal controls.

Specific **areas considered by the Board during 2019** are detailed on pages 80 and 81

Operational management of the subsidiary companies within the Group sits with their respective boards and Managing Directors. The Henry Boot PLC Board welcomes input from each of these Managing Directors at its meetings on a rotational basis, to discuss business plans and strategy, as well as at the Board's Strategy Day.

### Board Committees

**AUDIT AND RISK COMMITTEE**

**Chair:**
Joanne Lake

**Members:**
Gerald Jennings, Peter Mawson

**Attendees:**
May include other directors, representatives of external and internal auditors

**Agenda:**
External and internal auditor work, monitoring of key and emerging risks, review of full and half-year results (including going concern and viability statements)

Read more on pages 94 to 96

### Subsidiary Board Meetings

Read more about the **subsidiary strategic priorities** on page 27

**LAND PROMOTION**

Hallam Land Management Limited

**MD meeting attendees:**
Nick Duckworth, two main Board Executives and the Company Secretary

**Key**

- Board oversight
- Board delegation
- Board support

## BOARD OF DIRECTORS

### NOMINATION COMMITTEE

**Chair:**
Peter Mawson

**Members:**
Jamie Boot, James Sykes, Joanne Lake, Gerald Jennings

**Attendees:**
May include Executive Directors and Head of HR

**Agenda:**
Review of Board and Committee effectiveness and skills, succession planning, diversity and inclusion

Read more on pages 88 to 93

### REMUNERATION COMMITTEE

**Chair:**
Gerald Jennings

**Members:**
Joanne Lake, Gerald Jennings

**Attendees:**
May include other Executive Directors and Head of HR

**Agenda:**
Setting and applying Remuneration Policy including salaries, bonuses (achievement and objective setting), share scheme review and application, wider workforce remuneration issues

Read more on pages 100 and 111

The day-to-day management of the Company's subsidiary businesses and the responsibility for their operational decisions sits with each respective Board of Directors, led by a Managing Director. Subsidiary company Managing Directors attend Group Board meetings on a rotational basis to present their operational business plans and strategy.

### PROPERTY INVESTMENT AND DEVELOPMENT

**Henry Boot Development Limited**

**MD meeting attendees:**
Edward Hutchinson, two main Board Executives and the Company Secretary

**Stonebridge Homes Limited**

**MD meeting attendees:**
Darren Stubbs, and two main Board Executives

### CONSTRUCTION

**Henry Boot Construction Limited**

**MD meeting attendees:**
Simon Carr, two main Board Executives and the Company Secretary

**Banner Plant Limited**

**MD meeting attendees:**
Giles Boot, two main Board Executives and the Company Secretary

**Road Link (A69) Limited**

**MD meeting attendees:**
Trevor Walker, and two main Board Executives

**Operations Board**

The Operations Board is an executive forum established in January 2016, which focuses on Group working, inter-company cooperation and risk.

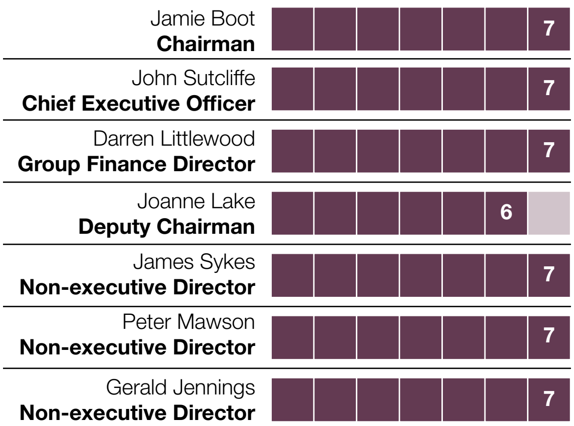
**Attendees:**

CEO and the Group Finance Director, together with the four main subsidiary company Managing Directors, the Managing Director of Stonebridge Homes Limited and the Company Secretary. Regular updates are fed back to the Board.

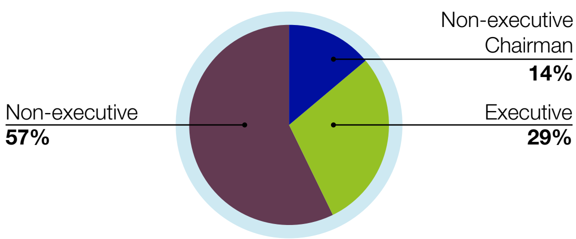
# Corporate Governance Report

## Division and responsibilities

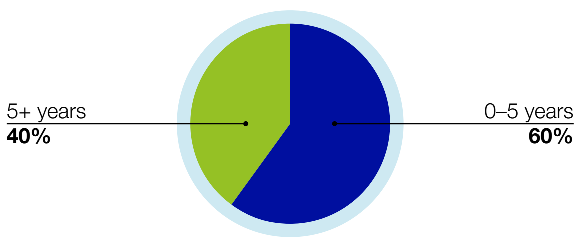
### Board meeting attendance




### Board composition




### Non-executive Board tenure




### UK Corporate Governance Code 2018

The Board is committed to achieving high governance standards and following best practice. Where we do not strictly follow the Code, considerable thought is given to ensuring that our approach aligns with the spirit of good governance, helps to promote high ethical standards and sustains the success of the Company over the long-term. The governance structures in place are designed to reflect the individuality of the Company and the composition of both its institutional shareholders and individual shareholders, many of whom have family ties to the Company.

For this financial year, as a premium listed company, the Company was subject to compliance with the UK Corporate Governance Code 2018 (Code). Further details of how the Code has been applied are set out throughout this Corporate Governance section.

### Board and Committee meetings

Throughout the year, there were seven Board meetings and a separate offsite Strategy Day. In addition to this, and in order to effectively carry out its duties, the Board delegates authority to Committees to look after specific areas of responsibilities. The Board has formally constituted Nomination, Audit and Risk, and Remuneration Committees which operate within their agreed Terms of Reference. These Terms of Reference have been updated during 2019 to ensure compliance with the requirements of the Code. Each Committee is provided with accurate, timely and clear information, and has access to external consultants where necessary. Further details of each of the Committees can be found on pages 71 to 73, and such details form part of this Corporate Governance Statement.

### Board composition

The names, responsibilities and other details of each of the Directors of the Board are set out on pages 66 and 67. The Board believes it has an appropriate balance of Executive, Non-executive, and independent and non-independent Directors, having regard to the size and nature of the business. There will be a period of five months during 2020 when both Tim Roberts and John Sutcliffe are Directors on the Board, leading to there being less than half the Board comprising of independent Non-executive Directors during that time. This is an important aspect of the handover of the role to the Group's new Chief Executive Officer, and is for a limited time only, following which the Board composition will return to a Code compliant one. Further to review by the Nomination Committee (see page 88), it is felt that the overall combination of experience, skills, knowledge and lengths of service of the current Board members provides an appropriate level of balance which contributes to effective decision-making and helps to mitigate risk.

### Board independence

The Company recognises the importance of its independent Non-executive Directors remaining independent throughout their appointment. It enables them to provide objective advice and challenge the Executive Directors through their knowledge of the wider business environment and as a result of their diverse backgrounds.

The Non-executive Directors meet without the Executive Directors present, usually the evening before the Board meetings and on other occasions throughout the year.

As discussed in more detail in the Compliance Statement on page 99, Jamie Boot is regarded as non-independent having previously served as Managing Director. James Sykes is also not regarded as independent having been appointed to represent the substantial shareholdings of the Reis family interests (see page 113). During 2019, in compliance with the provisions of the Code, Jamie Boot and James Sykes stepped down from their positions on the Audit and Risk, and Remuneration Committees. Joanne Lake was appointed as the chair of the Audit and Risk Committee, and Gerald Jennings as chair of the Remuneration Committee. Accordingly, all memberships of the respective Committees are in line with the requirements of the Code.

### Coronavirus Committee

A Committee comprising the Executive Directors of Henry Boot PLC, relevant heads of department and other senior leaders throughout the Group, was established in response to the emerging COVID-19 pandemic. Its remit is to direct the Group's response to emerging legislative, administrative and regulatory developments, stimulus opportunities and developing practices, meeting on a regular basis, and reporting actions and required decisions to the PLC Board and Operations Board. Having been established in February 2020, the Committee has with the supervision of the Boards, directed all financial, operational and regulatory responses as required, which have ensured the continued operation of the Group's activities and adjustments as required to the changing demands of the industries in which it operates.

## Board leadership and Company purpose

# OUR CULTURE JOURNEY

In 2017 we launched an internal initiative called the 'One Henry Boot' Project. Its purpose was to define our culture, 'The Henry Boot Way', and to focus on its three core elements: Our Purpose, Our Vision and Our Values. To deliver this project we asked for volunteers from across the Group; this was to ensure we captured the thoughts of employees and could have a culture that reflected all. Since then we have been on a journey to embed 'The Henry Boot Way' throughout our business and it remains a key element in our Group strategy.

### PERCEPTION AUDIT
**August 2016**

The Board decided to engage with an external consultant to carry out a Perception Audit. We wanted to understand what our internal and external audiences thoughts were to our culture, vision and values.

### LAUNCH OF THE 'ONE HENRY BOOT' PROJECT
**February 2017**

In response to the feedback, which suggested there was some misunderstanding to our values and culture, we launched the 'One Henry Boot' Project. Three Working Groups were formed across the business to capture our culture and the three key elements.

### DEFINED 'THE HENRY BOOT WAY'
**February to August 2017**

The three Working Groups tasked themselves to review and understand what the culture in Henry Boot means to us. Some challenging, but important, conversations took place as we defined 'The Henry Boot Way'.

### LAUNCH OF 'THE HENRY BOOT WAY'
**September to December 2017**

After 6 months of hard work, we were ready to launch 'The Henry Boot Way' internally. We decided to split the launch in two, internally and externally, to allow the business time to process and embed.

### ADOPTION OF 'THE HENRY BOOT WAY'
**January to June 2018**

Even though the business continued to adopt 'The Henry Boot Way', we decided it was the right point to launch externally. The external launch took place in March 2018 and was met with positive feedback.

### EMBEDDING OF 'THE HENRY BOOT WAY'
**July 2018 to present**

At the end of June 2018, the 'One Henry Boot' Project came to a natural conclusion after achieving its purpose. This was by no means the end as we continue to see 'The Henry Boot Way' embed in the business and become integral in the way we operate as a business.

### BOARD DISCUSSION AROUND THE IMPACTS OF THE UK CORPORATE GOVERNANCE CODE 2018
**January 2019 to present**

In 2019, the Board reviewed the challenges and opportunities the UK Corporate Governance Code presented. One of the main areas the Code impacted upon was culture, which we were pleased to have already considered in depth throughout this journey.

### BOARD MONITORING CULTURE
**January 2019 to present**

Monitoring our culture is always a priority for the Board. In 2019 the Board tasked the business to find initiatives which helped check and balance 'The Henry Boot Way' and ensure the embedding process is still taking place.

### EMPLOYEE FORUM
**September 2019 to present**

An Employee Forum was established to provide a link from employees to the Board. Five subsidiary forums in place, with each of their Chairs sitting on an overarching Group Forum. A Non-executive Director attends this Group Forum and then relays information back to the Board.

# Corporate Governance Report

**Board leadership and Company purpose**

## HOW THE BOARD ENGAGES WITH STAKEHOLDERS

This year, the Board formally adopted a Board Stakeholder Policy, which was key in setting the existing status of current and future engagement with all of the Group's key stakeholders. These stakeholders were identified through the 'One Henry Boot' project as being those groups whose interests and views are vital to the operation and culture of the Group. Work will be ongoing during 2020 to ensure those views are incorporated into the Board's decision-making procedures, as well as evolving ways in which methods of engagement are made convenient to those stakeholders.

### EMPLOYEES

Read about **Employees** on page 78

**Nominated Non-executive Director**
For liaison between the Group Employee Forum and the Board

**Employee Forum**
Discover the approach to this on page 78

**Site visits**
Interactions with employees throughout the Group

**Forward business schedule**
The Board's agenda now flexes to incorporate presentations from Managing Directors and department heads on key issues throughout the Group

**Employee engagement survey**
Read more about this on page 79

### COMMUNITIES

**Community engagement**
Group wide and reported to the Board, including through engagement with the Social Profit Calculator

**Reserved matters**
Approvals now require specific consideration of stakeholder engagement

**Environmental, social and governance**
As a result of a Board decision in 2019, work will be continuing through 2020 to appoint a Responsible Business Manager, consolidate reporting on these matters and launch new initiatives

### ENVIRONMENT

**Matters reserved for the Board**
Reports from Group subsidiary companies now to contain consideration of environmental issues

**Current environmental assessment and reporting**
See pages 60 and 61 relating to this

**Environmental, social and governance**
See under Communities and also on pages 58 and 59

Read about **Environment** on pages 60 and 61

## SHAREHOLDERS

**Investor roadshows**
Take place annually with the Chief Executive Officer/Group Finance Director, and include structured feedback sessions, which are reported to the Board

**Focused investor communication**
(Via letters/telephone calls) regarding significant 'votes against' and other issues of interest to investors prior to AGM, also reported to the Board

**Regular Board updates**
On investor and proxy adviser sentiment collated by management/brokers/PR consultants

**Shareholder engagement with family members**
Done more informally through family/other relationships with Board members, on an ad hoc basis

**AGM**
Formal and informal engagement by all Board members directly with shareholders

## PENSIONERS

**Pensioner's lunch**
Arranged by the Company and attended by Board members

**Ad hoc events for pensioners and family members**
Attended by Board members

**Pensions report**
Presented at every Board meeting as to performance of the pension scheme

## CUSTOMERS (including Local Authorities)

**Subsidiary engagement**
Formal and informal feedback methods carried out throughout the Group

**Awards**
In conjunction with our clients and customers, we represent our joint success in schemes across the Group through achievement of numerous awards

## SUPPLIERS

**Health and safety**
Continuously monitored and reported to the Board

**Interactions on site**
Operations on site are part of the observation and feedback process

# Corporate Governance Report

## Board leadership and Company purpose

### EMPLOYEE ENGAGEMENT

It is often said throughout Henry Boot that our employees are our greatest asset.

Ensuring that their views are communicated to the Board and considered as part of its key decisions has been a significant focus for the Board over the past couple of years, and with the impetus of the 'One Henry Boot' project, a number of initiatives have been in progress, which have come to fruition during 2019. Importantly, these lay the groundwork for setting up effective lines of communication, which will strengthen this engagement activity over the coming years and ensure that employee perspectives are being taken into account wherever they can, and in particular, are embedded within the decision-making process.

#### Employee Forum

In order to take forward some key initiatives that were identified as part of the 'One Henry Boot' project, a number of Working Groups were founded during 2018. They combined volunteers from all levels throughout the Group, ensuring representation by all subsidiaries. One of these Working Groups, focusing on engagement and collaboration across Henry Boot, generated and developed a number of important schemes to boost partnership working and workforce engagement with management. A key part of this was establishing the idea of Employee Forums, with each main wholly owned subsidiary (and Henry Boot PLC) having its own Subsidiary Employee Forum (SEF), the chair of each would meet to form the Group Employee Forum (GEF). The following process was followed to achieve this:

**Terms of Reference were produced by the Working Group for the SEF and GEF**

↓

**A nominated Non-executive Director (Gerald Jennings) was appointed by the Board to act as liaison with the GEF**

↓

**The Operations Board was asked to comment on Terms of Reference**

↓

**Once Terms of Reference were approved, the Operations Board were tasked with recruiting members from within their own organisations**

↓

**Initial SEFs were arranged, and they nominated their chair**

↓

**Chairs of SEFs were asked to attend an initial GEF meeting, attended by the nominated Non-executive Director**

↓

**Progress and outcomes reported to the Operations Board and PLC Board**

> It was very important for us to think of ways we could ensure that all subsidiaries felt engaged and had their voices heard. By establishing individual subsidiary forums, who each then nominated representatives to discuss matters at Group level, we felt this would ensure that people throughout the organisation would be easily able to access and speak to their SEF members about issues that were important to them.

**Amy Stanbridge**
Company Secretary and member of the Engagement and Collaboration Working Group

Having been established during the latter half of 2019, the SEFs and GEF have been carrying out the following activities:

**Having had an initial meeting, reviewing and refining their Terms of Reference**

↓

**Referring issues relating to individual subsidiaries to their respective Managing Directors**

↓

**Ensuring that discussions and their outcomes are captured through various methods (Group intranet, Group newsletter) for provision of information back to the workforce**

↓

**Inviting PLC management team members to attend GEF meetings to discuss issues and obtain input**

↓

**Group strategic issues provided to GEF for discussion (including proposed employee engagement survey, and a report on consultation activities relating to equality, diversity and inclusion)**

The ways in which the GEF's views have been considered during Board decision-making and communicated to employees will be developed further during 2020.

### Other employee engagement initiatives

### Employee survey

Henry Boot's key strategic priorities, which are centred around safety, people, growth and delivery, can only be enhanced by seeking feedback from our workforce and ensuring, where possible, that we are addressing areas of concern that may be leading to disengagement in the workforce. Henry Boot aims to achieve high levels of engagement through a number of methods, to create a culture and an environment where our people can be the best version of themselves at work.

In late 2019 the Group commissioned a specialist employee survey provider to undertake an anonymous employee engagement survey that would seek to build on the work carried out on the 'Henry Boot Way' and would provide us with a framework of questions that could be repeated on an annual basis with little or no amendment in order that we can assess progress. The survey consultants include occupational psychologists and work design specialists, who were instrumental in the question design and worked with the Engagement and Collaboration Working Group to formulate the survey questions, and were also shared with the GEF. The responses provide insight into Henry Boot as a whole as well as individual subsidiaries, and will be shared and discussed with the Operations Board, PLC Board and Employee Forums, for feedback and development of ways of addressing any key outcomes.

> I was delighted to be asked to be the NED liaison with the Group Employee Forum. The Board recognises and welcomes the role the Forum will play in acting as a unique and proactive conduit with the Group's employees. As the work of the Forum gathers pace and momentum it will be increasingly important in helping the NEDs and Executive Directors understand the concerns and issues employees may have but more critically will help inform the Board on strategic issues. I believe the Forum has already seen its role as a means of upwards and downwards communication, and I look forward to working with the Forum as its work progresses.

**Gerald Jennings**
Non-executive Director nominated to liaise with the GEF

> The Employee Forum gives a voice to every person within the Group. It provides a platform to share ideas and best practices between departments, regions and subsidiaries. Many of the suggestions received relate to staff wellbeing, which is vital for attracting and retaining the best people. It's great being part of a business that continually asks its employees 'How can we be better?'.

**Jennifer McNamee**
Chair of the Group Employee Forum

### Diversity and inclusion

Being a diverse and inclusive workplace is a further strategic priority that Henry Boot is keen to embrace linking to its main strategic objectives. We aim to embrace the differences that people bring to the table, whether that be due to gender, age, race, religion, ability, social background or any other aspect of an individual that makes them unique. It is recognised that the industries we work in have some challenges relating to this issue and that, although increasing diversity and inclusion will not occur over a short period of time, it takes commitment, clear policies and goals, and investment in building the talent pipeline. In late 2019 the Group commissioned a specialist consultancy to undertake employee-led research into the current attitudes and approach to diversity and inclusion at Henry Boot; this was recognised by the Group as being a key area to develop and strengthen. The report produced contains key areas of development for discussion and agreement in order to take the Group's approach forward, which will be the subject of consultation with the GEF, PLC Board and Operations Board throughout 2020, to commission further consultant-led initiatives that will provide the building blocks for us to develop our approach to this for the long-term.

### Wellbeing

Employee wellbeing is a fundamental aspect to Henry Boot. We recognise that it plays an important role in the success of any business but importantly in creating a positive working environment where our people can thrive.

In 2019 the Board tasked a Working Group to review our wellbeing offering and benchmark it against standards set in the industries we work in. Whilst there was room for improvement, on the whole we found our offering to be above average and had various provisions in place which supports employees' wellbeing.

One of the outcomes that needed to be addressed was that employees were not fully aware of what provisions were in place. So it was decided to create a platform called SMILE, which combined all of our wellbeing offering into one place and made it accessible to all employees.

SMILE is an online platform which splits our wellbeing provisions into three categorises: Wealth, Health and Lifestyle. The platform acts as a support mechanism and help employees source and find the guidance that they need.

We appreciate there are many aspects to wellbeing and whilst we use the SMILE platform as an interface, the Board will continue to monitor the wellbeing of all employees to ensure the Group continues to provide a positive working environment.

# Corporate Governance Report

### Board leadership and Company purpose

## BOARD OVERSIGHT AND ENGAGEMENT

### What the Board did this year

This year the Board restructured its agenda, introducing a Forward Business Schedule to ensure that strategic and governance issues of importance were regularly brought to the Board, that they heard from more members of the executive team, and that consideration of strategy, key risks and objectives were routinely included. This has resulted in a number of key areas of attention, as set out below, in addition to operational and project-related points of focus.

| Area | Link to Strategy | What was reviewed and considered? |
|---|---|---|
| **Health and safety** E Su En Co C | | As one of Henry Boot's crucial strategic objectives, it is vital that the health and safety position of the various parts of the business continues to be brought to the Board on a regular basis. As in previous years, the H&S reports of the Group's health and safety team are brought to every PLC Board meeting, reporting on incidents, mitigation and near misses. An annual report for each subsidiary is also prepared by the Group's Health and Safety Manager ensuring continuous improvement objectives and initiatives are considered by the Board. |
| **Monitoring culture** E Sh | | An increasingly important area of focus for the Group this year, in order to continue the good work and impact that has been brought about by the 'One Henry Boot' project. It is one that is being progressed through a number of initiatives that have been subject to Board review and approval throughout the year. This includes the activities set out on pages 78 and 79 (Employee Forums, engagement surveys, diversity and inclusion), which will, during 2020, translate into culture-related objectives and measures to ensure that the focus on this is maintained. |
| **Approval of Starfish acquisition** E Sh Co | | The proposal for the acquisition, outlining the market for affordable housing opportunities and alignment to the Group's strategic objectives, was presented to the Board during 2019. This was followed by regular updates requiring Board input – monitoring the outcomes of the acquisition due diligence activities, and requiring commercial decisions prior to progression of the acquisition as a matter reserved for the Board. |
| **Strategy Day** E Su Sh P En Co C | | Following the work done during 2018 consolidating the Group's strategy, actions continued throughout 2019 to follow up on agreed actions and maintain Board discussions on key topics. Progress updates on strategy actions, strategic objectives and KPIs that had been set during the 2018 financial year were reviewed by the Board half way through 2019. The Board determined that horizon scanning, blue sky thinking and challenging the subsidiary Managing Directors on their long-term strategy should also form part of the Strategy Day. Further actions, objectives and KPIs arising from the 2019 Strategy Day shall be taken forwards throughout 2020 (see more details on pages 38 to 43). |
| **Investment portfolio** Su Sh | | With appointment of a Funding and Investment Manager for HBD, greater scrutiny took place in relation to the Group's investment property portfolio, to ensure that all properties were fit for purpose and suited the Group's strategic aims in relation to its portfolio assets. This resulted in a number of assets being sold during the year, enabling the Group to move into 2020 in a beneficial financial position. Although the Board were conscious that this would mean a temporary departure from the Group's strategy in relation to its portfolio value, it was acknowledged to be a beneficial strategy in light of the difficult economic position of the UK market, and would position HBD to be able to refresh the portfolio with more suitable assets in the future. |

| Area | Link to Strategy | What was reviewed and considered? |
|---|---|---|
| **Aberdeen project** E Su Sh En Co C | Delivery | Given the scale of this critical project, the Board carefully monitored its progress during the year. This included assessments of acceleration of the completion date, performance of the main contractor and commercial decisions regarding the risks and mitigations relating to the scheme. You can read more about this on pages 02 and 03. |
| **New joint broker appointment** Sh | Growth | As a matter reserved for the Board, the decision to appoint Numis Securities Ltd & Peel Hunt LLP was one the Board carefully considered during 2019. Feedback from investors was also obtained, which indicated that these brokers would be most suitable for the size and industry of the Group, and also that a joint brokerage would be favourable. As a result, the joint brokers were appointed during 2019. |
| **Pensions – Triennial valuation** E P | People | The Board receive regular updates on the three pension schemes operated by the Group – its defined benefit and defined contribution schemes (outlined on page 55). During 2019, the defined benefit scheme was the subject of a triennial valuation, the negotiation and result of which were brought to the Board for update and consideration. |

## Key

### Group strategic priorities

Safety | Delivery | People | Growth

Read about **Our Strategy** on pages 26 to 27

### Stakeholders

E Employees | Su Suppliers | Sh Shareholders | En Environment | C Customers | P Pensioners | Co Communities

# BOARD IN ACTION

This year, there has been more focus on offering the Board opportunities to interact with different stakeholders across the various operations of the Group. This has included:

- Board meetings held in regional offices with attendance by employees where possible;
- Non-executive Directors attending ad hoc subsidiary Board Meetings; and
- Executive Board member attendance at a number of charity events organised throughout the Group, both in support of the Charity of the Year and other charitable organisations.

## Site visits

- A full day spent by the Board around the Barnsley Town Council development, Glass Works Phase 2, and on site at the Stonebridge development at Sherburn-in-Elmet;
- Following a Board meeting held in HBD's Manchester office, the Board met with its brokers, Numis and Peel Hunt, and undertook a site visit at Kampus; and
- To mark the launch of The Event Complex Aberdeen, the Board and other members of the Group attended a presentation by HBD and participated in a celebratory ceilidh.

The Management Conference that took place in 2018 across the senior leadership of the Group brought together our key leaders to discuss and debate a number of important strategic issues. This is to be rescheduled on a biennial basis.

During 2020, this focus on engagement across the subsidiaries of the Group will continue, with regional meetings being attended by Non-executive Directors, in addition to Board meetings and site visits, to give interaction with employees from across the Group.

# Corporate Governance Report

## Composition, success and evaluation

### Board evaluation

Building on our evaluation activities in 2018, a further formal and rigorous performance evaluation was undertaken in 2019 for the Board, its Committees, the Chair and each individual Director. The process and results are set out below.

#### Process

**STEP 1**
Approach agreed in October 2019, to proceed with an internal evaluation for 2019, with the prospect of an externally facilitated evaluation in 2020 following Tim Roberts' appointment

**STEP 2**
Formalise questionnaire with Chairmen, which are then issued with a two-week response period, and individual interviews take place with Jamie Boot and Peter Mawson (for Chair evaluations)

**STEP 3**
Questionnaire deadline, results collated and reports written

**STEP 4**
Review results with Board and respective Committees, and agree actions for 2020. Review progress against 2019 actions

**STEP 5**
In May 2020, carry out mid-year review of progress against 2020 actions

**Areas where the Board scored strongly:**

- Diverse but relevant skills and/or experience
- Openness
- Collaborative and supportive approach
- Providing a good level of challenge
- Commitment and passion for the business

| 2018 action areas | Progress during 2019 | Action areas for 2020 |
|---|---|---|
| **Board** | | |
| • Develop a risk management strategy including an agreed level of risk appetite. Embed the new risk reporting procedures and encourage identification of emerging risks | • Key and emerging risks reviewed by the Audit and Risk Committee during 2019, and at the Strategy Day<br>• Subsidiaries due to include their key risks in Board reports from 2020 | **Risk**<br>• Board calls to be arranged for matters requiring Board approval, which could not take place at a scheduled Board meeting, to allow time for discussions on risk |
| • Increase the focus on strategy ensuring more regular review of the strategic objectives | • Strategic objectives and SWOT analysis reviewed at Board meetings and the Strategy Day<br>• A template for reserved matters has been created, ensuring that the subsidiary company considers how the project fits into the overarching Group strategy | **Strategy**<br>• Introduction of two shorter Strategy Days throughout the year: one for subsidiary strategies and one for the PLC |
| • Consider the KPIs more regularly and monitor performance against them, particularly non-financial KPIs | • Progress against KPIs reviewed at Board meetings and the Strategy Day<br>• Financial KPIs included in every finance report | **Reporting**<br>• Subsidiary reports to be aligned by creating a template, with Board papers to be standardised and include an executive summary with a limited number of pages sent to the Board<br>• CEO Board Report to be created for each meeting |
| • Strengthen engagement with senior employees and progress the stakeholder engagement policy | • Increased attendance at Board meetings from senior management<br>• Employee Forum created with Non-executive Director liaison<br>• Employee survey undertaken and results to be presented and actions agreed in 2020<br>• Board stakeholder policy approved in July 2019 | **Engagement**<br>• Increased site visit opportunities to be offered to the Board – whether full Board planned visit or optional ad hoc visits |

# Corporate Governance Report

## Composition, success and evaluation

| 2018 action areas | Progress during 2019 | Action areas for 2020 |
|---|---|---|
| **Audit and risk** | | |
| • Finalise and embed the new risk reporting procedures and review on a regular basis | • The principal and emerging risks were reviewed during 2019 Board meetings<br>• The Board also reviewed the risks at the Strategy Day | **Risk Reporting**<br>• Subsidiary board reports will include their key risks |
| • Undertake a comparison of the external auditor's risk assessment compared with the internal view | • PwC feedback was taken on board at the July meeting when considering the Group's principal and emerging risks and suggestions noted<br>• PwC consideration of risks are included in August's Audit Strategy Memorandum paper | **External auditor risk assessment**<br>• Feedback will continue to be sought from the auditor in relation to the risks, including the commentary in the Annual Report |
| • Deep dive in to the risks around cyber/IT | • A session on cyber security measures and risks was held in the October 2019 Board meeting with the Head of IT | |
| • Further evaluate the external auditor's effectiveness and value, including how they are perceived internally | • An assessment of the external auditor effectiveness is under discussion as part of the audit tender process, with feedback sought from internal stakeholders<br>• The independence and effectiveness of the external auditors is confirmed on an annual basis and disclosed in the Annual Report | **External audit**<br>• Set expectations for the new external auditor and robustly assess the audit plan<br>• An annual review of their effectiveness has been scheduled from March 2020 onwards |
| • Assess the effectiveness of the internal audit function | • An evaluation of the internal auditor was carried out internally and the results discussed at the August 2019 meeting. This will continue on an annual basis | **Internal audit**<br>• Hold an extended meeting with the internal auditors without the presence of management |

| 2018 action areas | Progress during 2019 | Action areas for 2020 |
|---|---|---|
| **Nomination** | | |
| • Develop a Board Diversity Policy and Group Diversity Policy | • Board Diversity Policy approved during 2019 | **Equality, diversity and inclusion**<br>• Monitor equality, diversity and inclusion initiatives cross the Group to encourage progress against diversity targets in the Board Diversity Policy |
| • Creation of a Board Skills Matrix | • Completed and approved during 2019, and will be reviewed annually and in light of any new Board appointments | **Skills development**<br>• Consider the future Group strategy and the skills needed at Board level to bridge any skills gaps |
| • Monitor external time commitments of each Director | • This has been recorded and is updated when changes are made. This will be reviewed annually | |
| • Continue monitoring the Senior Leadership Development Programme | • Updates on the SLDP are given at most Committee meetings and will remain a focus | **Succession planning**<br>• Review at least annually the succession plan for Executive Directors and senior management and, in light of the SLDP, invite Managing Directors of each Henry Boot subsidiary to prepare a succession plan for the senior leadership within their business |
| **Remuneration** | | |
| • Increase the information provided to the Committee to measure performance against the annual bonus individual target criteria for Executive Directors | • Work on this is ongoing and will be reviewed during 2020 | **Remuneration Policy**<br>• Increase stakeholder engagement ahead of the next Remuneration Policy, particularly with institutional investors and employees<br>• Appoint external consultants for Remuneration Policy guidance |
| • Increase reporting on pay levels and bonuses across the Group, particularly for senior management | • Completed in the July 2019 meeting, and will be reviewed annually and in light of any new Board appointments | **Bonus scheme**<br>• Increase the information provided to the Committee behind the individual performance measures for the personal objectives section of the annual bonus<br>• Align annual bonus objectives to the Group's strategic objectives |
| • Improve the administrative support and establish a rolling annual forward business schedule | • A forward business schedule has been created and more detailed papers provided<br>• Work is still ongoing with further improvements to be made, particularly ahead of the next Remuneration Policy | **Reward strategy**<br>• Gain further oversight into the reward strategy of the wider workforce and review appropriateness |

# Corporate Governance Report

**Composition, success and evaluation**

## NOMINATION COMMITTEE REPORT

### PETER MAWSON

Chairman of the Nomination Committee

> Our investment in learning, development, talent and succession at all levels of the business is pivotal in achieving our key objectives.
>
> **Peter Mawson**
> Chairman of the Nomination Committee

### Review of the year

During 2019, the Committee met three times to consider a wide variety of important issues and initiatives. This included the appointment of Tim Roberts as Group CEO (further details of which are set out on page 89), approval of the Board Diversity Policy, monitoring of the Senior Leadership Development Programme and launching the Leadership Development Programme, and carrying out a Board Skills Assessment. Details of these can all be found below.

Those serving as members of the Committee for the whole of 2019 were Joanne Lake, Gerald Jennings, Jamie Boot, James Sykes and myself. Within the year there have been no changes to the composition of the Committee.

---

On behalf of the Board and the Nomination Committee (the Committee), as Chairman of the Committee, I am pleased to present the Directors' Nomination Committee report for the year ended 31 December 2019.

### Board skills assessment

In line with the Code, the Nomination Committee is asked on an annual basis to review a number of elements relating to the overall effectiveness and composition of the Board and its Committees. One of these elements concerns the skills, knowledge and experience of the Board and its Committees. Accordingly, each member of the Board and respective Committees was asked to complete a self-assessment of their skills, knowledge, experience and understanding of the Henry Boot culture.

In addition to corporate governance compliance, the skills assessment ensures appropriate future strategic direction of the Board and its alignment with strategic objectives, as well as its ability to monitor the key and emerging risks facing the Group. It also enables the Committee to monitor the ways in which its balance of skills, knowledge and experience are impacted by any changes to the Board, such as the retirement of John Sutcliffe and the appointment of Tim Roberts.

### Knowledge and experience

This portion of the assessment focused on areas relevant to the Group such as Construction, Land Promotion, Property Investment and Plant Hire, as well as more generic topics such as Public Limited Companies, Financial Planning and Management and Stakeholder Engagement.

### Technical skills

In this section of the assessment, the technical skills of the members were reviewed in relation to issues such as Corporate Governance, Audit, Legal, Risk, Business Development, Communications and Corporate Social Responsibility.

### Cultural fit

It was also felt important to focus on the ways that the Board members contributed to and aligned with the culture of the Group, looking at issues such as Custodian of the Henry Boot Ethos and Values, and Striving for Performance and Results. In all of these matters, the scores of the Board were in the Very Strong category.

# Q&A: WITH PETER MAWSON

## THE APPOINTMENT OF TIM ROBERTS

### What process did the Committee go through to appoint a new Chief Executive Officer?

We selected an external executive search agency, through a competitive process, to assist us. In conjunction with them, we identified a large pool of internal and external candidates; the internal candidates have undertaken our Henry Boot Senior Leadership Development Programme (SLDP). From this, the Succession Planning Working Group created a shortlist of 20 possible candidates. By conducting a series of informal discussions and more formal interviews with members of the Board, our external search partner and other consultants selected to assist with the process, we further shortlisted to six, and then carried out engagement sessions and meet and greets. A full diagnostic session with our external consultants, covering leadership behaviours and skills, personality profiling and strategic abilities was also carried out. After a formal interview with the final two candidates, the results of all of this analysis was brought to the Nomination Committee for discussion and for a final recommendation to be made to the PLC Board.

TIM ROBERTS

### What attributes were fundamental to the Committee when looking at this role?

It was key for us to identify the important characteristics that we would be looking for in our successful candidate. These comprised:

- Credibility in the market;
- Strategic thinking and vision;
- Cultural fit;
- Leadership presence and style; and
- Building relationships.

A number of these characteristics link to our Henry Boot Values, which were at the forefront of our thinking when carrying out our assessments.

### What are your thoughts about the outcome of the process and any lessons learned?

This process was undertaken over a period of around six months, and I (and other members of the Board) feel it has been a very thorough and worthwhile exercise, linking in with the SLDP and the wider succession planning work that had been taking place within the Henry Boot Group. It is vital that we continue this into the future. It has ensured that we have been able to objectively test all candidates against a rigorous set of requirements.

### Do you feel an external appointment will benefit the Company?

In the past we have benefited greatly from having promoted candidates from within the Group, bringing the benefit of their knowledge and experience of our business. However, the time felt right, having regard to best practice, to rigorously follow our processes and policy regarding external appointments, and to test the internal candidates against the wider market. I feel that Tim's appointment brings a wealth of knowledge and experience into the Group, to drive us forward into our next period of growth and success.

### Why is succession planning important to the Committee/Company?

Succession planning at every level within the Group is vital to our ongoing aim of further growth and success. Succession should be treated with the same importance as growth strategies and strategic business planning, creating a clear, defined vision that ensures a smooth transition for all. Our experience through the recruitment of Tim will shape our future succession planning decisions and will ensure that we have the right people in the right roles to deliver this.

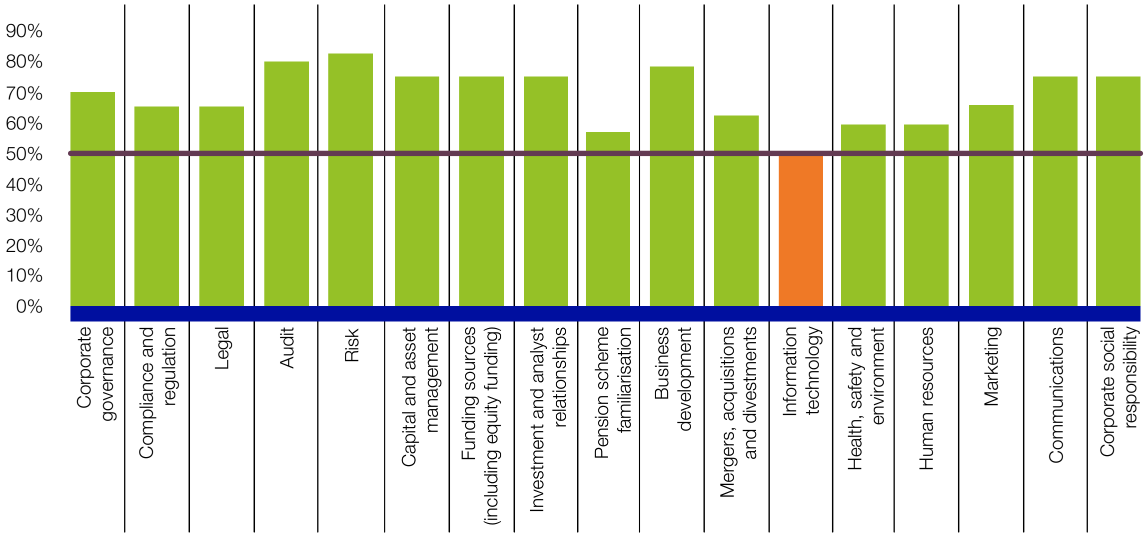
# Corporate Governance Report

## Composition, success and evaluation

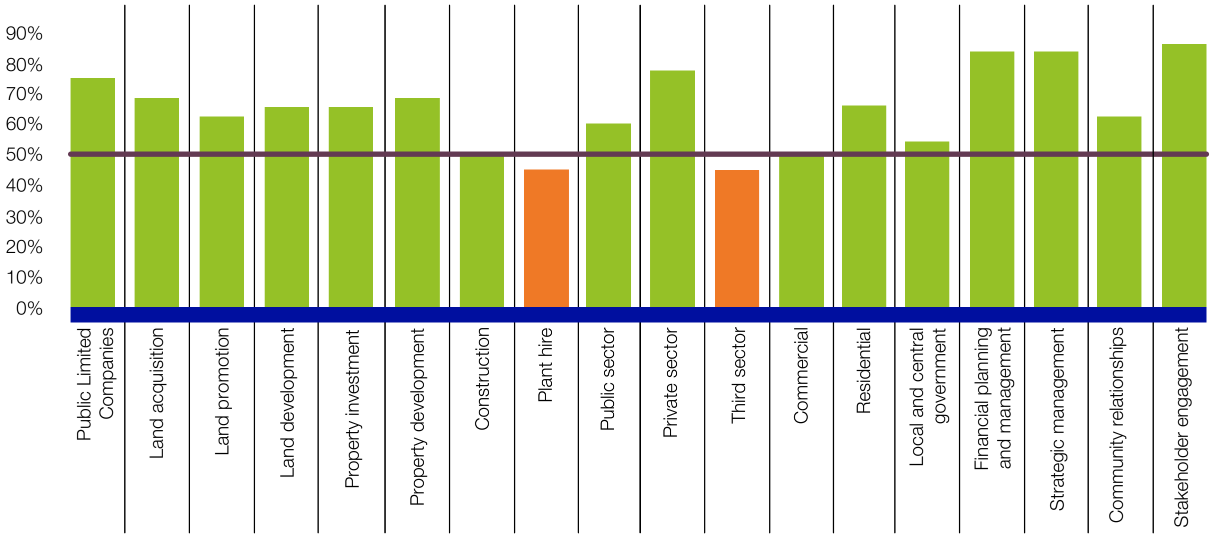
### Board skills assessment matrix

Each member of the Board was asked to self-assess against each skill, experience and knowledge category on each of the matrices that was relevant to them, ranking themselves from Very Strong to Limited as compared to an expert in that field. In any category where the aggregated ranking of the surveyed group was at or below the mid-point of the Good ranking, the Committee then considered the reasons for that assessment and any actions that should be taken to address it (set out in further detail below).

### Technical skills*




### Knowledge and experience*




### Key

- Benchmark
- Exceeded benchmark
- Below benchmark

* The data shown represents an average score of all Henry Boot PLC's Board members

# Corporate Governance Report

## Composition, success and evaluation

### Actions arising from the Board skills assessment

As a guide, the Committee considered four potential courses of action that it could consider against those points at or below the mid-point of the Good ranking. These were:

1. **Do nothing**
2. **Buy in expertise (short-term, targeted)**
3. **Build expertise from within**
4. **Recruit expertise**

In relation to those areas highlighted as amber, the Committee discussed and agreed the following actions:

| | Area | Response | Action |
|---|---|---|---|
| **Board** | **IT and cyber (skill)** | The Committee noted that in a business of this nature, it should not be considered unusual that its Board members would not have expertise in this area. They then considered activities that would give assurance as to the approach being taken by the subject matter experts within the business. | **2 Buy in expertise (short-term, targeted)**<br>**3 Build expertise from within**<br>The Head of IT was requested to provide a full report regarding the cyber security measures in place and being introduced for the Group. Following this report, the Committee considered whether any additional external expertise should be sought to provide further assessment of these activities. |
| | **Plant hire (knowledge and experience)** | The members of the Board had undertaken to attend subsidiary Board meetings over the previous few years to build expertise in these areas, and felt that this was supplemented by the other members of the Board (the Chair and Executive Directors) who had a substantial knowledge of these areas. | **3 Build expertise from within**<br>Continue to attend subsidiary Board meetings, and to engage with the subsidiary Managing Directors to provide knowledge and information relevant to Board decisions. |
| | **Third sector (knowledge and experience)** | Given that this was an area which was of less potential relevance to the Group, it was not felt that development of knowledge and experience in this area would be required. | **1 Do nothing**<br>Continue to assess if more knowledge and experience would be required in the longer term. |

Overall, the Committee noted that, given that potential modesty may have had an influence on the scores given by individuals as to their proficiency in certain areas, and that in reality it was felt that their knowledge and skills were sufficient (and growing), there were no significant areas of concern. The Committee's view was that these represented less of an issue as to their ability to challenge practices throughout the Group and felt confident that it could assess and identify areas of challenge. The Committee also felt that it could be an area to focus on in future recruitment, where appropriate.

## Succession planning

As has been outlined in previous years, Henry Boot has been providing a Senior Leadership Development Programme (SLDP) through successive cohorts of its senior management during 2018–2019. Our investment in learning, development, talent and succession at all levels in the business is pivotal in achieving our key objectives:

- Delivering our purpose which is: "To empower and develop our people", and ensure that this applies at all levels including our senior teams
- To strengthen our short and medium-term succession planning across the whole business, while providing the foundations for longer-term talent planning
- To provide the right level of development support to ensure that we all continue to make the maximum contribution to the wider business

At the end of 2019, the Nomination Committee received a report on the progress and findings arising out of the SLDP, including identifying broader trends for general adoption throughout the Group as well as individuals highlighted as being important to succession planning within the business.

In addition, the Committee has initiated the next programme which is aimed at our next layer of Leaders. The Leadership Development Programme (LDP) has one additional objective:

- To facilitate and foster cross Group working and learning

The LDP will take place within five cohorts during 2020 and will lead to further development activities and succession planning outcomes as a result. This important work sets the Group up well to identify its next layers of talent and ensure that they are given the environment in which to thrive.

## Director recruitment process

As discussed in the Q&A regarding the appointment of Tim Roberts, the Committee enlisted an independent executive search firm for assistance in its recruitment of Tim Roberts and is committed to doing so for all future recruitment exercises.

In addition, and as set out under Board Diversity Policy below, the Board will work with external recruitment consultants to provide support for Board appointments and will ensure that Non-executive Director long lists include both women and BAME candidates.

## Terms of Reference

All Committees reviewed and refreshed (where appropriate) their Terms of Reference during 2019, to ensure Code compliance and reflection of current practice. For the Nomination Committee, this refresh included:

- Updating the wording to bring the Terms of Reference in line with the Code to give an increased focus to diversity and inclusion, and the additional reporting disclosures for this report;
- Stipulating that the Committee composition should comprise a majority of independent NEDs and that the quorum should be two independent NEDs; and
- Increasing the minimum frequency of meetings from once to twice a year.

The revised Terms of Reference are available on request.

## Diversity policy

The Committee approved a Board Diversity Policy during 2019 which is aligned to the recommendations of the Hampton Alexander Review regarding gender diversity on Boards, and the Parker Review on BAME Board representation. Importantly, the Policy addresses the need for the Board to ensure that it is made up of an appropriate mix of skills, experience and knowledge required to effectively oversee and support the management of the Group, which is also addressed as part of its skills assessment detailed above.

As described in page 79, a substantial focus for the Group in 2020 and beyond is its approach to diversity and inclusion. The Committee recognizes the need for this to be carried through into the composition of the Board and is committed to seeking to improve Board diversity when appropriate opportunities arise. At 31 December 2019 we had 14% women on our Board. Figures for the number of women in senior management positions and across the Group are shown on page 54. It is recognised that there will be periods of change on the Board and that the optimum diversity balance may not be achieved for period of time while the Board is refreshed. However, it is our longer-term intention to achieve this balance.

## Board effectiveness and time commitment

The Committee discussed the skills, independence, length of tenure and time commitments of all the Directors and reviewed the results of the 2019 evaluations (see page 90 for more information) as well as the board skills evaluation completed during the year. During this process, we noted that Joanne Lake held directorships in other publicly listed companies including a chairmanship at Mattioli Woods plc, although she has stepped down as a Director at Green Man Gaming Holdings plc. Joanne's time spent at her other directorships now equates to, on average, nine days a month (a reduction from 11 days per month previously) and therefore the Committee agreed that this leaves sufficient time to carry out her duties as a Director and as Chair of the Audit and Risk Committee. We do not see any indication that these other directorships negatively impact her contribution to the Group and remain wholly satisfied with her performance and input.

Following the review, I can confirm on behalf of the Committee that the performance of the Directors, the Board and its Committees, continues to be effective and that all individuals show commitment to their roles. As in previous years, all Directors (with the exception of John Sutcliffe) will seek re-election at the upcoming AGM, biographies are shown on pages 66 and 67.

Approved by the Board and signed on its behalf by

**Peter Mawson**
Chairman of the Nomination Committee

20 May 2020

# Corporate Governance Report

**Audit, risk and internal control**

## AUDIT AND RISK COMMITTEE REPORT

### JOANNE LAKE

Chairman of the Audit and Risk Committee

On behalf of the Board and the Audit and Risk Committee (the Committee), as Chairman of the Committee, I am pleased to present the Directors' Audit and Risk Report for the year ended 31 December 2019.

### Review of the year

The Audit and Risk Committee has this year progressed with its internal audit activities, which are outlined below, as well as tackling a number of issues such as the commencement of the tendering exercise for the external auditor, and reviewing and developing the Group's approach to the assessment and monitoring of risk.

Those serving as members of the Committee were Peter Mawson, Gerald Jennings and myself (Committee Chairman). Jamie Boot and James Sykes stepped down and members of the Committee during the year, and on behalf of the Committee would I would like to thank James Sykes for his invaluable input and experience during his tenure as the Chairman.

The Committee met four times during the year, with its March and August meetings focusing on the approval of the full-year and half-year results. The other two meetings covered issues such as the internal audit plan and outcomes during 2019, arrangements with external auditors and risk evaluation.

### Internal audit

Given the size of the Group and extent of the internal audit activities required, the Committee considers that an externally appointed internal auditor is appropriate. This provides independence to the internal audit activities as well as ensuring that any required areas of specialism and knowledge of audit processes can be provided by the auditor.

During the year, the following internal audit exercises were carried out:

| Topic | Outline |
|---|---|
| **Procurement** | Providing assurance to management and the Audit Committee that effective processes are in place in relation to procurement of key suppliers and contractors, which comply with good practice.<br><br>Including a review of procurement activity ensuring it is designed to ensure value for money is achieved where appropriate and is in line with the wider strategic needs of the Group. |
| **Stonebridge payroll** | Relating to the key controls on the payroll systems within the Stonebridge companies, including consistency of the systems and processes within Stonebridge and their alignment to best practice and the wider group (which was reviewed in 2018). |
| **Management information and data quality** | Providing assurance over the quality and integrity of the data reported to the PLC Board and its Committees. |
| **Health and safety** | Considering the Group's health and safety framework and the controls in place in respect of work undertaken by contractors/sub-contractors within the development/construction activity. In addition, reviewing internal health and safety procedures including accident and incident reporting and investigation. |
| **Construction – cross cutting review** | Focusing on Henry Boot Construction activity, including how construction projects are approved and monitored through their life cycle. |

The results of this internal audit activity will be considered by the Committee on an ongoing basis including any recommendations and the overall status of the audit result.

### Internal audit effectiveness review

In order to assess the effectiveness of BDO as its internal auditor following its first full year of internal audits during 2018 and the first half of 2019, the Committee commissioned the carrying out of a survey throughout the Group. Upon presentation of the results of this survey, the Committee agreed that the overall feedback on the effectiveness of BDO was positive, particularly with regards to adding value to the business and providing a level of assurance that standards within all departments were as expected.

In relation to those areas where it had been suggested that there was room for improvement, the Committee considered some criticism that the internal auditors did not have specialist knowledge in some limited areas, and lacked an in depth understanding of the business. The Committee acknowledges this feedback and has committed to ensure further upskilling of management on the role of the internal auditor to reset expectations, as well as acknowledging that the knowledge of the business by the internal auditor is in development and will progress moving through 2020.

## Audit quality and approach to audit tender

During the roadshows with investors carried out following the 2018 Annual Report publication, feedback was sought from investors regarding attitudes of the market to the external audit tender process. Feedback regarding market attitudes to the 'big 4' audit firms and the approach to auditing was taken into account in the Committee proposal documents and in the Group's approach to the market. Non 'big 4' audit firms were invited to participate to ensure a balance of approaches were assessed.

Areas in which the audit firms tendering were assessed were:

- Understanding the business
- People
- Approach
- Fees
- Team structure
- Sector experience
- Transition experience
- Added value/other comments

## External audit tender process

Having carried out its engagement with investors, the Committee approached a number of firms to assess interest and capability before embarking on its tender process, which is outlined below:

1. 8 July 2019 – invitation to tender issued containing instructions, information for tenderers regarding the Group and scope of the audit services required, and other relevant documents
2. 15 July 2019 – recipients of invitation confirm willingness to participate in process
3. September 2019 – opportunities given throughout the month for interested participants to engage with the Board, key management and finance team employees
4. 1 November 2019 – proposals to be submitted including:
   a. Completion of template for submission of proposals
   b. Draft terms of engagement
5. November 2019 – submission panel comprising the Chairman of the Committee, Chief Executive Officer, Group Financial Director, Non-Executive Director and Group Financial Controller evaluated the written proposals
6. 28 November 2019 – tenderers fulfilling the required criteria within their written proposals invited to present to the Audit and Risk Committee
7. December 2019 – provisional outcome of tender process discussed with Board
8. February 2020 – recommendation for appointment of external auditor presented for approval at Audit and Risk Committee and for ratification by the Board
9. March to June 2020 – appointed auditor handover process commences alongside incumbent auditor. Please see resolution 11 in relation to the appointment of Ernst Young
10. June 2020 – appointment of auditor comes into effect

A handover period during the audit of the 2019 financial results in which the appointed auditor has been incorporated into the process. This provides assurance to the Committee that a sufficient process of onboarding and familiarisation can occur prior to the 2020 audit so as to ensure a seamless transition to a new auditor, if necessary.

## External audit effectiveness review

Due to the tendering process being carried out during 2019, which involved an in depth analysis of both the incumbent and other audit firms in relation to the range of issues outlined above, the Committee felt that this provided a significant review of the activities and approach of the incumbent external auditor. It will be developing a thorough protocol in relation to the review of external auditor effectiveness during 2020 to apply from thereon.

## Independence of the external auditors

In order to ensure the independence of the external auditors, the Committee monitors the non-audit services provided by them to the Group and has adopted a policy on the provision of non-audit services by the external auditors with the objective that such services do not compromise the independence or objectivity of the external auditors.

The Committee is required to approve services provided by the external auditors in excess of £25,000. All other services below this threshold are also monitored to ensure that the performance of regulatory requirements is not impaired by the provision of permissible non-audit services.

Non-audit services undertaken by PwC during the year equated to 8.7% of the amount paid for audit fees. This work was in relation to the TSR comparator group, and a review of the Group's half-year results. It was felt appropriate that PwC undertake this work due to their existing knowledge of the Group's arrangements. Details of all amounts paid to the auditors for audit services are set out in note 3 to the Financial Statements. KPMG continued to provide the Group's taxation services for the year ended 31 December 2019.

In accordance with best practice, the Company requires its external audit partner to rotate every five years. The statutory auditor signing the Audit Report is Ian Morrison, who replaced Andy Ward in 2018 having served for five years as audit partner.

The Committee members meet the audit partner and other members of the audit team without management present to discuss any potential areas of concern. There are no matters to report in relation to this. The Committee also reviews a letter from the external auditors on an annual basis outlining the measures taken by them to ensure that their independence is not compromised. The Committee review the safeguards and policies in place to maintain a high level of objectivity.

Following a review of all these elements, the Committee is satisfied that the independence and objectivity of the external auditors is not impaired and that the amount of non-audit fees is at a level which does not compromise the overall quality and rigour of the work undertaken.

# Corporate Governance Report

Audit, risk and internal control

## AUDIT AND RISK COMMITTEE REPORT

### Effectiveness of risk management and internal controls

Risk assessment and risk management reporting across the Group has continued to be monitored during the year. Details of the key risks which the Group faces, the key controls in place to control those risks and the enhanced system of risk management adopted by the Company are set out in more detail on pages 44 to 50. The Committee, and ultimately the Board, oversee these processes and review the risk reporting and principal and emerging risks on an ongoing basis.

### Significant issues

The Committee considered the following key accounting issues and matters of judgement in relation to the Group's Financial Statements and disclosures. In addition to these disclosures, the Independent Auditor's Report on pages 122 to 125 discusses other key audit matters which were also considered by the Committee.

| Focus | Matters considered | Committee outcome |
|---|---|---|
| **COVID-19, Going Concern & Viability** | Following the outbreak of the COVID-19 pandemic, management revised the Group's expectation of cashflows and profitability for the next 15 months presenting this to the Committee as a revised base case scenario, modelling a 3 month UK lock down, whilst acknowledging the existing uncertainty brought by the pandemic.<br>Further to this, revisions were made to model a 6 month UK lock down, with limited activity being undertaken, followed by a gradual return to work in a subdued economy, representing management's expectation of what a significant downside scenario might look like. | The Committee critically reviewed the assumptions made by management in formulating both their revised base case scenario and the downturn revisions. The Committee, having reviewed the output of these models, concluded that they are comfortable that the Group has adequate resources, liquidity and available bank facilities to continue in operational existence for the foreseeable future |
| **Valuation of investment properties** | The investment property portfolio accounts for a large proportion of the Group assets and the assessment is subject to a degree of judgment and assumptions.<br>In line with our accounting policy, investment properties are valued at fair value. Other than houses, the portfolio is valued twice a year by external, independent valuers. Assets under construction are valued by management at fair value using the residual method. | The Committee critically reviewed the valuations and any key movements during the year. Having discussed the valuations during the meeting and considered PwC's assessment, the Committee was comfortable with the values adopted. |
| **Valuation of inventory** | Inventories are stated at the lower of cost and net realisable value.<br>Inventories comprise all the direct costs incurred in bringing the individual inventories to their present state at the reporting date, less the value of any impairment losses.<br>Net realisable value is considered in the light of progress made in the planning process, feedback from local planning officers, development appraisals and other external factors that might be considered likely to influence the eventual outcome. | During the year the Committee critically reviewed the carrying value of inventories and judgements in relation to recoverable amounts. Following discussions with PwC, the Committee was satisfied that the carrying values are appropriate. |
| **Construction contract accounting judgements** | As explained more fully in our accounting policy on construction contracts, a significant element of turnover is attributable to construction contracts.<br>Contract costs and revenues may be affected by a number of uncertainties that are dependent on the outcome of future events and therefore estimates may need to be revised as events unfold and uncertainties are resolved. | During the year, the Committee examined the judgements and methodologies applied to uncertainties and were in agreement with the position adopted. |
| **Valuation of pension scheme liability** | The Group sponsors a funded defined benefit pension scheme in the UK which is valued under the provisions of IAS 19. The pension scheme is valued by a qualified independent actuary, using the projected unit method, at each accounting period end. | The Committee critically reviewed the assumptions used by the actuary in performing these valuations, in particular the appropriateness of the rate of inflation used.<br>Subject to discussion and assurance from the external auditor, the Committee was satisfied with the appropriateness of the key assumptions used to calculate the liability. |

### Terms of Reference

During 2019, the Committee reviewed its Terms of Reference in line with the scope of its operations, and the requirements of the Code, to ensure that they remained appropriate. No substantive changes were indicated as part of that review and the Terms of Reference were reapproved, and are available on request.

### New banking facility

During 2019 the Company undertook an invitation to tender with a number of banks for proposals to replace the existing Group banking facility, which is due to expire on 17 February 2020. Negotiations concluded towards the end of 2019 with Barclays Bank PLC, HSBC UK Bank plc and National Westminster Bank Plc being the Company's chosen banking partners. The new facility commenced 23 January 2020 on improved terms. Full details of the new facilities can be found in note 25 to the Financial Statements on page 165.

Approved by the Board and signed on its behalf by

**Joanne Lake**
Chairman of the Audit and Risk Committee

20 May 2020

# Corporate Governance Report

## Audit, risk and internal control

### Risk management and internal controls

The Board is responsible for determining the nature and extent of the Company's principal risks, and for monitoring any emerging or heightened risks. During the year, the Board agreed the principal risks facing the Company and carried out a robust assessment of these risks. See pages 49 and 50 for more details and the Company's viability statement.

Within its risk assessment matrix, the Board also reviews the Company's internal control arrangements pertaining to each risk, and operates a system that is reviewed regularly for effectiveness. The process is designed to manage, rather than eliminate, the risk of failure to achieve the Company's business objectives as it can only provide reasonable, not absolute, assurance against material misstatement or loss. The Board requires formal risk registers to be produced in a structured format for every subsidiary and PLC department, to be reviewed at least every six months and to be considered at each subsidiary Board meeting. The Board is satisfied with the current system in place and can confirm that no material weaknesses have been identified in the year.

The following key processes are considered by the Board to provide effective management of significant risks to the business:

### The business organisation and structured reporting framework

Each of the Company's activities is monitored through bimonthly management meetings and formal bimonthly subsidiary company board meetings. The latter are attended by the Board's Executive Directors. Formal lines of responsibility and levels of authority are in place within each subsidiary company. Annual plans, budgets (for three years) and performance criteria for each business are set by the Executive Directors and performance against these targets is reviewed regularly by the Board. Annual profit forecasts and 15-month cash flow forecasts are produced on a monthly basis. The Board monitors the risks and associated controls over financial reporting processes, including the consolidation process.

The financial reporting controls are monitored and maintained through the use of internal control frameworks which address key financial reporting risks, including risks arising from changes in the business or accounting standards. Operations on the ground are also monitored frequently by way of visits to sites, depots, properties and regional offices by the Executive Directors.

### Centralised operations

Specific risks and compliance issues associated with Health and Safety, treasury and banking operations, finance, payroll, company secretarial, pensions, legal, human resources and training, public and investor relations, corporate communications, information communication technology, and insurance are managed centrally and report functionally to the appropriate Company officer responsible for that particular operation.

### Internal controls

Each operation reviews its own system of internal controls and reports twice a year to the Audit and Risk Committee:

### Business procurement

All development appraisals, land purchases and options, and construction contracts above a set value require the authority of the Executive Directors to proceed. A strict routine covering the authorisation of capital expenditure is in place and Board approval is required for any corporate acquisition or disposal.

### Day-to-day operations

Responsibility for running the day-to-day operations and for reviewing the associated systems of control is devolved to each subsidiary company Managing Director. Policy and procedure manuals cover certain aspects of operations, such as Health and Safety, with the balance of the operations being governed by procedures set out in contracts and risk assessment and mitigation measures typically set out in project-specific documents such as Board reports and project updates. The subsidiary company Managing Directors review and report to the Audit and Risk Committee on the effectiveness of the systems of internal controls in place and any matters of concern are raised at Board meetings; the Board is satisfied with current arrangements, which will be kept under review.

### Whistleblowing arrangements

The Company has a whistleblowing policy in place for all employees of the Group, 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 Ethics, Anti-Bribery and Corruption, HR and Governance policies. Employees are also encouraged to "speak out" via a series of posters.

### Governance Policies

Our Governance Policies (including ethics, whistleblowing, competition law, gifts and hospitality, data protection and staff purchases) are continually monitored and reviewed, with the latest refresh being carried out in February 2019 for issue to all Group employees, external suppliers and service providers.

Mandatory online training in relation to a number of areas including data protection, prevention of the facilitation of tax evasion and Competition Act compliance was carried out with all employees during the year, and is scheduled for regular refresh alongside the Group's wider suite of e-learning. All policies reflect and refer to the Group's values, and further training will be delivered on all relevant topics as appropriate.

The Anti-Bribery and Corruption, Anti-Slavery and Ethics Policies are also relevant for third parties who perform services for or on behalf of the Group. The Group expects those persons to adhere to these policies or have in place equivalent policies and procedures to combat bribery and corruption as well as the threat of slavery in their supply chain.

# CORPORATE GOVERNANCE STATEMENT 2019

## Compliance statement

During 2019 the Board and its Committees have been carrying out extensive work to ensure wherever possible that compliance with the Code can be achieved, improving its operations and governance. The Company has complied with all the principles of the UK Corporate Governance Code 2016 for the year ended 31 December 2019 and the vast majority of the provisions. This is demonstrated throughout this Corporate Governance report, and of particular note are the issues below with references to further detail as applicable. However, as in previous years, there are some instances where the Company has chosen to take advantage of the flexibility offered with the "comply or explain" rule when applying certain provisions.

Given our 130-year history as a family business, and as a FTSE SmallCap company, we have adopted alternative solutions to the Provisions where we believe this is appropriate. The Code recognises that good governance can be achieved by other means and the Board believes the approach we have taken is the most appropriate for the Company and its shareholders whilst remaining consistent with the spirit of the Code.

## Provisions 9 and 19

As previously disclosed, the Chairman was not independent on appointment, having served as Group Managing Director and member of the Board for 29 years. The Board continues to support this appointment based on the extensive knowledge of the Group and industry that Jamie Boot brings to the role and to Board discussions. During the current climate of political and economic uncertainty, Jamie offers a vast amount of experience, having weathered downturns such as the financial crisis in 2008. He guided the Company successfully through this period, reducing levels of gearing and bringing about opportunities that the Company is still benefiting from today.

In order to mitigate independence concerns, three independent Non-executive Directors were appointed at the time Jamie became Chairman in 2015. It is this balance of Jamie's experience, mixed with the fresh, external perspective of the three independent Non-executive Directors, that helps to provide a level of balance and challenge around the boardroom table. As a family business that has been in operation for over 130 years, it was also deemed appropriate for Jamie to remain on the Board to represent the interests of him and his family members.

## Provision 11

The Board considers that there is an appropriate balance of independent and non-independent Directors having regard to the size and nature of the business. At the beginning of 2020 both Tim Roberts and John Sutcliffe will be Executive Directors on the Board, leading to there being less than half the Board comprising independent Non-executive Directors during that time. However, this is an important aspect of the handover of the role to the Group's new Chief Executive ensuring a smooth transition and allowing time for Tim to familiarise himself with the Group and its operations, and following this limited period the Board composition will return to a Code compliant one.

## Provision 14

The Board's roles and responsibilities have recently been reviewed and refreshed and approved by the Board, and is publicly available via our website.

## Provision 15

The Nomination Committee reviews external time commitments of all appointees on appointment, and this is reviewed and kept under consideration on a continuing basis (see page 93 in the Nomination Committee Report).

## Provision 23

This year's report includes increased disclosure on the work of the Nomination Committee (see Report on page 93) including the introduction this year of a Board Diversity Policy.

## Provisions 24 and 32

In previous years, both Jamie Boot and James Sykes have served as members of both the Audit and Risk and Remuneration Committees, despite not being independent on appointment, due to their considerable knowledge and experience in these areas. During 2019, following shareholder feedback, the Nomination Committee took the decision in conjunction with Jamie and James for them both to step down as members of those Committees. To replace James as Chair of the Audit and Risk Committee, Joanne Lake was appointed, stepping down as Chair of the Remuneration Committee. Gerald Jennings was appointed as Chair of the Remuneration Committee in place of Joanne. All three of the Committees now have independent Non-executive Directors as their Chairs, and there are now no non-independent members of either the Audit and Risk or Remuneration Committees. Jamie and James may be invited to attend meetings of those Committees to provide the benefit of their knowledge and expertise, and to promote the interests of shareholders, as applicable.

## Provision 38

The pension contribution rate for Tim Roberts, the most recent appointed Executive Director on the Board, has been aligned with that of the wider workforce. It is noted that the contribution for Darren Littlewood will require alignment and the Remuneration Committee is committed to achieving this within the required timescale of 2022.

## 20% vote against – AGM

At the AGM in 2019, no resolution proposed received more than 20% of the vote against them. To take into account previous votes against received during 2018, the composition of the Committees has been realigned with the Code, further details of this are set out above.

Approved by the Board and signed on its behalf by

**Amy Stanbridge**
Company Secretary

20 May 2020

# Corporate Governance Report

Remuneration

## DIRECTORS' REMUNERATION REPORT

Statement from the Chairman of the Remuneration Committee

### GERALD JENNINGS

Chairman of the Remuneration Committee

> We strongly believe that our Directors' Remuneration Policy is closely aligned to the achievement of the Company's business objectives and therefore to our shareholders' interests.

**Gerald Jennings**
Chairman of the Remuneration Committee

On behalf of the Board and the Remuneration Committee (the Committee), as Chairman of the Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019.

Naturally, the Committee along with the Board and management teams more generally, have been monitoring the position regarding the unfolding COVID-19 pandemic. In relation to remuneration issues, the Committee has been very aware that maintaining the anticipated bonuses and salaries for its Directors would not be desirable in the current climate, where a proportion of the Group's employees have been furloughed and where the Group has had to take difficult decisions regarding its cashflow and resulting dividend payments. As a result, the Board has taken the decision to award half of the anticipated bonus for all employees, including the Executive Directors, in relation to its 2019 results. This difficult decision recognises that the Group achieved a great result in 2019 that deserves recognition, but also reflects the unprecedented economic position that Henry Boot, like all other companies, faces in dealing with the effects of this pandemic. In addition, the Board (both Executive and Non-executive Directors) have agreed, ratified by the Committee, to take a 20% reduction in their base salary or fees (as applicable) for the duration of the most severe impact of this pandemic. This position will be revisited later in the year when more accurate forecasts of the effects can be formulated.

In relation to the 2020 personal objectives for Tim Roberts and Darren Littlewood, the position set out in the Report at page 108 will remain under review to ensure that all objectives continue to be appropriate to reflect the unfolding impact on the Group. The Committee has reviewed and reflected on whether any specific COVID-19 performance targets should be included, but have concluded that the general personal objectives previously agreed and set out within this report (such as achievement of safety objectives, developing the Group's strategy and succession planning) continue to relate more widely to the successful operation of the Group including the recovery of the business taking into account the after-effects of this pandemic.

### Review of the year

This year we have:

- Reviewed, recommended and monitored the level and structure of the remuneration packages of the Executive Directors and senior management;
- Set and approved the remuneration package for the Executive Directors; and
- Determined a balance between base pay and performance-related elements of the remuneration package in an effort to align the interests of shareholders with those of the Executive Directors.

The Committee met two times during the year, with full attendance by all Committee members.

Those serving as members of the Committee for the whole of 2019 were Joanne Lake, Peter Mawson and myself (Committee Chairman). Jamie Boot and James Sykes stepped down as members of the Committee during the year, and I was appointed as Committee Chairman in place of Joanne Lake – for further details on this please see page 99. Biographies of the current members of the Committee are shown on pages 66 and 67.

During the year John Sutcliffe, Chief Executive Officer, as well as Jamie Boot, James Sykes and Tim Roberts, attended the meetings with the Committee upon request, in order to assist on matters concerning other senior Executives within the Group. John Sutcliffe and Tim Roberts were not present during any part of the meeting where their own remuneration was discussed.

## Role of the Committee

The primary role of the Committee is to:

- Review, recommend and monitor the level and structure of the remuneration packages of the Executive Directors and senior management;
- Set and approve the remuneration package for the Executive Directors; and
- Determine a balance between base pay and performance-related elements of the remuneration package in an effort to align the interests of shareholders with those of the Executive Directors.

## Executive remuneration outcomes for 2019

In the current market conditions, the 2019 results remained impressive, delivering £49.1m of pre-tax profit. In 2019 the combined overall remuneration of the Executive Directors, on a like-for-like basis, decreased by 7.9%, and 6.6% including the costs of our Non-executive Directors.

Salaries of the Executive Directors were increased by 4.0% at 1 January 2020 and by 5.1% at 1 January 2019, compared to an increase across the Company in total of 5.8% during 2019 and of 4.0% at 1 January 2020.

Bonuses had been calculated in line with the Remuneration Policy approved at the AGM in May 2018, but have subsequently been adjusted in accordance with the COVID-19 pandemic update (see on page 06). Target profit was set at £43.0m. Upon recommendation from John Sutcliffe and Darren Littlewood, which was accepted by the Committee, this profit target was adjusted upwards to £45.0m to reflect the goodwill created by the Starfish acquisition. This goodwill adjustment is in addition to the Starfish trading loss of £2.0m taken through the profit and loss account and within the £49.1m PBT result. The effect of this goodwill adjustment is to reduce the bonus percentage by 7.6%, where the overall bonus percentage before adjustment would have been 71.3%, to a total of 63.7%.

In addition, the Remuneration Committee set individual targets as laid out on page 107, relating to an additional 20% of salary potentially awardable as bonus. The Remuneration Committee considers that John Sutcliffe achieved 70% of these targets and Darren Littlewood achieved 77.5%.

Therefore, the total notional bonus for John Sutcliffe was 77.7% of salary, and for Darren Littlewood was 79.2% of salary. In accordance with the COVID-19 pandemic update, these bonuses were then reduced by 50%.

Long Term Incentive Plan (LTIP) shares vesting, based on performance for the three years to 31 December 2019, were granted in line with the Remuneration Policy adopted at the AGM in 2015. The performance criteria for these awards are:

i. Up to 33.3% of the award is dependent on growth in Earnings Per Share being ahead of inflation;

ii. Up to 33.3% of the award is dependent on the average Return On Capital Employed;

iii. Up to 33.4% of the award is dependent on Total Shareholder Return compared with a comparator group of companies and indices.

For these awards, the actual performance against the targets to 31 December 2019 was:

i. Earnings Per Share growth was 36% against the target of 16% (being inflation growth plus 7%) and, therefore, this part of the award vests in full;

ii. Return On Capital Employed was 17.44% on average against the maximum target of 13% and, therefore, this part of the award vests; and

iii. Total Shareholder Return of 47.2% was below the median when set against the comparator group and, therefore, no part of the award vests.

Therefore, the award of LTIP shares to John Sutcliffe is 107,002 shares, and to Darren Littlewood 48,320 shares.

## Consultation with shareholders

Whilst there has been no formal contact with shareholders regarding the Remuneration Policy during 2019, it is in line with that which was approved by shareholders at the AGM in 2018. The Remuneration Policy will be reviewed and updated and then put to a shareholder vote again at the AGM in 2021.

## The application of Directors' Remuneration Policy for 2020

- Following a review by the Committee, John Sutcliffe was awarded a nil% pay rise and Darren Littlewood was awarded a 12.5% pay rise. The Non-executive Directors were awarded a 3.0% uplift in basic salary or fees for the year commencing 1 January 2020. The average across the workforce as a whole was 4.0% at 1 January 2020. The rise for Darren Littlewood relates to the final planned increase set out within his four year transitional plan to Group Finance Director and is in line with previous disclosures. The Committee has undertaken to carry out a benchmarking exercise of Darren Littlewood's pay in comparison with market standards during 2020. However, the position regarding the 20% salary and fee reduction for Executive and Non-executive Directors in the COVID-19 pandemic update will temporarily affect these figures during 2020.
- The bonus opportunity for the Executive Directors is detailed in the Remuneration Policy and will apply as laid out in the policy.
- The profit before tax target is considered commercially sensitive and will therefore be disclosed retrospectively, as we have done in respect of prior years.
- LTIPs will be awarded under the 2015 scheme rules which include clauses in respect of clawback and malus in line with generally accepted guidelines and the updated UK Corporate Governance Code. The performance targets will be in accordance with the Remuneration Policy. It is expected that the award will be at a level equal to 100% of salary, subject to exercise the Committee's description which is outlined on page 109.

# Corporate Governance Report

Remuneration

## DIRECTORS' REMUNERATION REPORT

Statement from the Chairman of the Remuneration Committee

Clawback and malus conditions will be applied to both the bonus and LTIP elements of remuneration in 2020. Specifically, this will arise if the Committee considers that there has been a material misstatement within the subsidiary or Group Financial Statements; or a material error in the calculation of any performance condition; or materially inaccurate or misleading information, or in the case of action or conduct of the participant which amounts to fraud or gross misconduct or has a material detrimental effect on the reputation of the Group. Any future awards will also be subject to clawback of all or part of the award during a two-year period in the above circumstances.

The report has been prepared in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The report sets out payments and awards made to the Directors and details the link between performance and remuneration for 2019. The report, and this Chairman's letter, is subject to an advisory shareholder vote at this year's AGM (please see Resolution 3) with the exception of:

i. The Total Shareholder Return graph;
ii. The Executive Directors' remuneration history and remuneration change tables;
iii. The relative importance of spend on pay tables; and
iv. The consideration by the Directors of matters relating to remuneration and the statement of shareholder voting.

The information set out on pages 100 and 111 of the Directors' Remuneration Report is subject to audit.

### Summary of the Committee's activity during 2019

During 2019 the Committee met twice and discussed a range of matters relating to:

- Approval of Executive Directors' base pay for 2020. The only salary increase at 1 January 2020 was £25,000 (11%) for Darren Littlewood to £250,000, which relates to his transition in role to Group Finance Director and is in line with previous disclosures, being the last of the scheduled increases that has been approved of this nature. The figure takes into account feedback from institutional investors and proxy agencies over the year; review of senior management base pay for 2020 and monitoring wider workforce remuneration, including information on average annual salary increases across the Group and gender pay gap data, as well as giving consideration to the Directors' duties under s.172 of the Companies Act. As noted above, the position regarding the 20% salary reduction for Executive Directors in the COVID-19 pandemic update will temporarily affect these figures during 2020;
- Review of Executive Directors' performance against the Annual Bonus criteria and LTIP metrics, and set targets and criteria for the upcoming year;
- Approval of the grant of CSOP options to all eligible employees across the Group;
- Alignment of executive pensions with those of the wider workforce (page 99 contains more details on this);
- Commencement of work on a Group-wide Total Reward Strategy to ensure alignment transparency, to ensure alignment and transparency;
- Review of the Committee Terms of Reference (for more information see page 103); and
- Evaluation of Committee performance in 2019 and agreed actions for 2020 (set out on the Board Evaluation pages 84 to 87).

### Compliance with the UK Corporate Governance Code

The Committee has throughout the year been reviewing the requirements of the Code and determining the actions it needs to take throughout the organisation to ensure compliance. As stated above, the Remuneration Policy will be updated during 2020, to be brought for approval at the 2021 AGM. This process will be conducted in conjunction with external remuneration consultants (the appointment of which commenced during 2019) to ensure that all provisions and principles of the Code are adhered to and that best practice is captured.

We are also anticipating a substantial degree of consultation with our key stakeholders, most importantly our employees and shareholders, regarding the provisions of this new Remuneration Policy. It is key that the Committee is aware of and takes account of these views prior to formalising its policy approach. This will also enable us to demonstrate full compliance with provision 40 of the Code, particularly:

- Clarity – by promoting engagement with stakeholders as explained above;
- Predictability – the range of potential outcomes arising as a result of the Policy to be explained at the point of consultation and approval;
- Simplicity – ensuring that outcomes are clear and can be understood by a range of stakeholders, which will be the ultimate test of its structure.

The Remuneration Committee is committed to achieving full compliance with the Code as part of its further work during 2020, and in particular, full compliance with provision 40, through its revised Remuneration Policy. The areas in which compliance with this provision can already be demonstrated include:

- Proportionality – the achievement of personal objectives relates to the performance of the company and does not reward poor performance; and
- Alignment to culture – personal objectives are reflective of the Group's core Values and its strategic objectives.

These are issues we are pleased to be developing further during 2020 to ensure our approach to remuneration is as robust, transparent and effective as possible.

## External Advisers

The Committee's main advisers are set out below:

| Adviser | Area of advice | Fees paid |
|---|---|---|
| **DLA Piper UK LLP** | Advice relating to share scheme matters. The Remuneration Committee considers that the advice DLA has given throughout the year is legal advice in compliance with relevant legislation. | £2,650 |
| **PWC LLP** | Advice in relation to the TSR comparator group. | £3,000 |

## Terms of Reference

All Committees reviewed and refreshed (where appropriate) their Terms of Reference during 2019, to ensure Code compliance and reflection of current practice. For the Remuneration Committee, this refresh included:

- Updating the wording to bring the Terms of Reference in line with the 2018 UK Corporate Governance Code;
- In line with the Code, extending the Committee's remit to cover senior management and oversight of the wider workforce, acknowledging additional reporting disclosures and the need for discretion to override formulaic outcomes where appropriate; and
- stipulating that all the Committee should be independent NEDs following the composition changes during 2019 and that the quorum should be reduced from three to two independent NEDs.

The revised Terms of Reference are available on request.

Should you have any queries or comments, then please do not hesitate to contact me or the Company Secretary as we most certainly value dialogue with our shareholders. Our Directors' Remuneration Policy, which was approved at the AGM on 24 May 2018, remains unchanged and is available to view and download on the website: **www.henryboot.co.uk**

We strongly believe that our Directors' Remuneration Policy is closely aligned to the achievement of the Company's business objectives and therefore to our shareholders' interests.

I therefore hope that you will be able to support the Directors' Remuneration Report at this year's AGM.

**Gerald Jennings**
Chairman of the Remuneration Committee

20 May 2020

# Corporate Governance Report

Remuneration

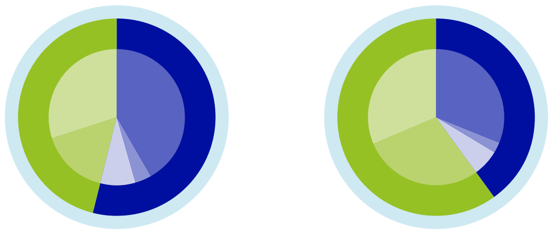
## DIRECTORS' REMUNERATION REPORT

Remuneration at a glance

### Executive Directors' Remuneration Policy
Elements of Executive Directors' pay

**John Sutcliffe**

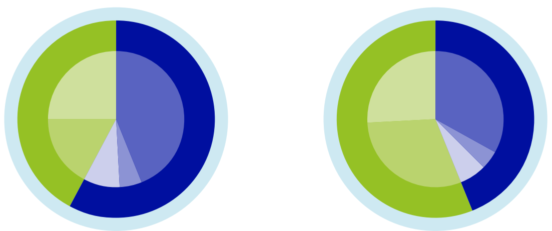
2019 2018



| | 2019 | 2018 |
|---|---|---|
| Fixed: | 54% | 40% |
| Base salary | 78% | 78% |
| Taxable benefits | 7% | 7% |
| Pension-related benefits | 16% | 16% |
| Performance-linked: | 46% | 60% |
| Annual bonus | 35% | 48% |
| Long-term incentive plan | 65% | 52% |

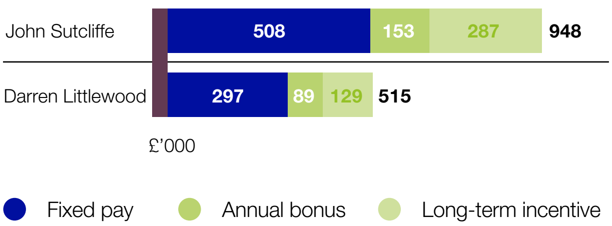
**Darren Littlewood**

2019 2018



| | 2019 | 2018 |
|---|---|---|
| Fixed: | 58% | 44% |
| Base salary | 76% | 75% |
| Taxable benefits | 9% | 10% |
| Pension-related benefits | 15% | 15% |
| Performance-linked: | 42% | 56% |
| Annual bonus | 41% | 54% |
| Long-term incentive plan | 59% | 46% |

### Single total figure of remuneration for Executive Directors for year ended 31 December 2019




### Key performance indicators (KPIs) performance for year ended 31 December 2019

**Annual bonus**

Profit before tax

– £49.1m

**Key**

✓ At or above stretch target

– Between threshold and stretch target

✗ Below threshold target

**LTIP 3 year performance**

| Earnings per share | Total shareholder returns | Return on capital employed |
|---|---|---|
| ✓ 36% | ✗ 47.2% | ✓ 17.4% |

## Annual Report on Remuneration

The labelled parts of the Directors' Remuneration Report are subject to audit.

### Single total figure of remuneration (Audited)

The table below reports the total remuneration receivable by Directors in respect of qualifying services during the year.

| Year ended 31 December 2019 | Salary and fees £'000 | Taxable benefits £'000 | Annual bonus £'000 | Long-term incentives[1] £'000 | Pension-related benefits £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| John Sutcliffe | 395 | 34 | 153 | 287 | 79 | 948 |
| Darren Littlewood | 225 | 27 | 89 | 129 | 45 | 515 |
| Jamie Boot | 88 | — | — | — | — | 88 |
| James Sykes | 46 | — | — | — | — | 46 |
| Joanne Lake | 46 | — | — | — | — | 46 |
| Gerald Jennings | 46 | — | — | — | — | 46 |
| Peter Mawson | 46 | — | — | — | — | 46 |
| | 892 | 61 | 242 | 416 | 124 | 1,735 |

| Year ended 31 December 2018 | Salary and fees £'000 | Taxable benefits £'000 | Annual bonus £'000 | Long-term incentives[2] £'000 | Pension-related benefits £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| John Sutcliffe | 390 | 33 | 360 | 389 | 78 | 1,250 |
| Darren Littlewood | 200 | 26 | 182 | 155 | 39 | 602 |
| Jamie Boot | 85 | — | — | — | — | 85 |
| James Sykes | 45 | — | — | — | — | 45 |
| Joanne Lake | 45 | — | — | — | — | 45 |
| Gerald Jennings | 45 | — | — | — | — | 45 |
| Peter Mawson | 45 | — | — | — | — | 45 |
| | 855 | 59 | 542 | 544 | 117 | 2,117 |

1. The value of long term incentives has been estimated using the average share price for the period 1 October 2019 to 31 December 2019 of £2.68.
2. The value of long term incentives has been adjusted from the average share price for the period 1 October 2018 to 31 December 2018 of £2.61, to the price on the day the shares were issued of £2.53.

Taxable benefits include the provision of a company car or a cash allowance alternative, permanent health insurance and private medical insurance. The value of benefits is not pensionable.

The information in the single total figure of remuneration in the table above is derived from the following:

| | |
|---|---|
| **Salary or fees** | The amount of salary or fees received in the year. |
| **Taxable benefits** | The taxable benefits received in the year by Executive Directors. |
| **Annual bonus** | The value of bonus payable and the calculations underlying this are disclosed on pages 106 and 107 |
| **Long-term incentives** | The value of LTIPs are those related to shares that vested as a result of the performance over the three-year period ended 31 December of the reporting year. |
| **Pension-related benefits** | Pension-related benefits represent the cash value of pension contributions or salary in lieu of contributions received by Executive Directors at a rate of 20% of salary. |

# Corporate Governance Report

Remuneration

## DIRECTORS' REMUNERATION REPORT

### Individual elements of remuneration

### Base salary and fees

Executive Directors

| | Salary effective from | | |
|---|---|---|---|
| | **1 January 2020 £** | 1 January 2019 £ | 1 January 2018 £ |
| Tim Roberts | **430,460** | n/a | n/a |
| John Sutcliffe | **395,000** | 395,000 | 390,000 |
| Darren Littlewood | **250,000** | 225,000 | 200,000 |

On 1 January 2018, the basic salary increase for the Chief Executive Officer was 0.64%, on 1 January 2019 the basic salary increase was 1.28% and, following the appointment of Tim Roberts, on 1 January 2020 the basic salary increase was 8.98%. At 1 January 2016, Darren Littlewood was appointed Group Finance Director and received a remuneration package which the Committee, following review, has uplifted over the years 2017–2020 at a rate of £25,000 per annum. Average salary increases for the wider employee population were 4.7% from 1 January 2018, 4.1% on 1 January 2019 and 4.0% on 1 January 2020.

The Company's policy on base salary continues to be to provide a fixed remuneration component which is comparable with similar companies, taking into account the need to attract, motivate and retain Directors of an appropriate calibre to achieve the Company's objectives without making excessive payments. When setting the pay of Directors, the pay and employment conditions of employees across the Group are taken into account by the Committee. As with employees, Directors' rewards are based on their role, their performance and the market rate for the job. Directors' basic salaries and benefits, where applicable, are reviewed annually, taking into account individual performance and published remuneration information. As noted above, the position regarding the 20% salary reduction for Executive Directors in the COVID-19 pandemic update will temporarily affect these figures during 2020.

Benefits include the provision of a company car or a cash allowance alternative, permanent health insurance and private medical insurance. The value of benefits is not pensionable and is set out for each Director in the table of Directors' remuneration.

### Non-executive Directors

| | Fees effective from | | |
|---|---|---|---|
| | **1 January 2020 £** | 1 January 2019 £ | 1 January 2018 £ |
| Jamie Boot | **90,176** | 87,550 | 85,000 |
| James Sykes | **47,740** | 46,350 | 45,000 |
| Joanne Lake | **47,740** | 46,350 | 45,000 |
| Gerald Jennings | **47,740** | 46,350 | 45,000 |
| Peter Mawson | **47,740** | 46,350 | 45,000 |

Non-executive Directors are remunerated on the basis of their anticipated time commitment and the responsibilities entailed in their role. There are no service agreements in place for the Non-executive Directors and they do not participate in any of the Company's incentive arrangements or the Company pension scheme. The fees above are inclusive of the responsibilities for Nomination, Audit and Risk, and Remuneration Committees, and the Senior Independent Non-executive Director. Any newly appointed Non-executive Director is expected to serve for an initial period of at least three years. Terms and conditions of appointment relating to Non-executive Directors are available for inspection at the registered office of the Company.

### Bonus

The Executive Directors participate in an annual bonus scheme. This is calculated by reference to pre-tax profits achieved in the year compared to a target profit which takes into consideration the year's financial budget, City expectations and previous years' profits.

### Summary of bonuses earned for 2019 (Audited)

| Measure | Maximum award as % of salary | 2019 % of target | **2019 target range** | Bonus payable as % salary | Actual performance | Actual bonus value achieved (% of salary) **John Sutcliffe** | **Darren Littlewood** |
|---|---|---|---|---|---|---|---|
| Profit before tax | 100% | 90%<br>100%<br>120%<br>150% | **£38.7m**<br>**£45.0m***<br>**£54.0m**<br>**£67.5m** | 10%<br>50%<br>80%<br>100% | £49.1m | **63.7%** | **63.7%** |
| Personal objectives | 20% | See below | | | | **14.0%** | **15.5%** |
| Bonus amount achieved as % salary | | | | | | **77.7%** | **79.2%** |
| Bonus amount earned | | | | | | **£306,915*** | **£178,200*** |
| Maximum bonus as % salary | | | | | | **120%** | **120%** |
| Bonus amount achieved as % maximum** | | | | | | **64.8%*** | **66.0%*** |
| Bonus amount awarded** | | | | | | **£153,457.50** | **£89,100.00** |

* Upon recommendation from John Sutcliffe and Darren Littlewood, which was accepted by the Committee, this profit target was adjusted upwards to £45.0m to reflect the goodwill created by the Starfish acquisition. This goodwill adjustment is in addition to the Starfish trading loss of £2.0m taken through the profit and loss account and within the £49.1m PBT result. The effect of this goodwill adjustment is to reduce the bonus percentage by 7.6%, where the overall bonus percentage before adjustment would have been 71.3%, to a total of 63.7%.

** Amended figures taking into account 50% reduction in bonus as set out in COVID-19 pandemic update.

Any bonus amounts are paid in cash and are subject to malus and clawback provisions within the scheme.

Bonuses were paid in line with the Directors' Remuneration Policy approved at the AGM in May 2018. Target profit was set at £43.0m, 1.9% ahead of the target set in 2018.

The Remuneration Committee also set individual targets as follows:

### 2019 personal objectives – John Sutcliffe

| | |
|---|---|
| 1 | Create and lead the delivery of the Group's strategy via the implementation of the Group's key business priorities. |
| 2 | Communicate the Group's Purpose, Vision and Values both internally and externally. |
| 3 | Develop and refine succession plans whilst progressing with identification and development of successors. |
| 4 | Support good health and safety practices around the Group, to reduce the risk of any major health and safety incidents occurring. |
| 5 | Attract new shareholders to the register and create stronger relationships with existing shareholders and analysts. |
| 6 | Support legal and regulatory compliance, and initiatives around the Group which meet related deadlines. |
| 7 | Endorse initiatives that reduce the gender pay gap and promote diversity within the Group. |

### 2019 personal objectives – Darren Littlewood

| | |
|---|---|
| 1 | Support delivery of the Group's strategy via the implementation of the Group's key business priorities. |
| 2 | Ensure no breach of bank covenants while improving and extending the Group's existing and potential banking relationships. |
| 3 | Tendering the Group's banking facility and having a renewal contract in place before the year end. |
| 4 | Improve financial reporting to the business, investment community and other stakeholders. |
| 5 | Engage with shareholders and analysts to create a stronger relationship to the Group. |
| 6 | Oversee the development of the finance team's profile and skillsets. |
| 7 | Tendering the external audit service to achieve a recommendation for appointment before the year end and continued provision of an effective internal audit service. |
| 8 | Manage the Group's tax position and strategy efficiently. |

The Remuneration Committee considers that John Sutcliffe achieved 70% of these targets, resulting in a bonus of 14% of salary and that Darren Littlewood achieved 77.5%, resulting in a bonus of 15.5%. The profit before tax of £49.1m exceeds the target by 9.1% and this (with the adjustment for Starfish as previously noted), combined with the personal targets, gave rise to a notional bonus of 77.7% of salary for John Sutcliffe and 79.2% for Darren Littlewood, for the year ended 31 December 2019. In accordance with the COVID-19 pandemic update, these bonuses were then reduced by 50%.

Details of the policy for future annual bonus awards can be found in the Directors' Remuneration Policy which can be viewed and downloaded on the website: **www.henryboot.co.uk**.

# Corporate Governance Report

Remuneration

## DIRECTORS' REMUNERATION REPORT

**Personal objectives:** an additional 40% of salary may become payable to Executive Directors upon the achievement of several personal objectives.

The objectives measured are based on actions and achievements which contribute to delivery of the Group strategy.

### 2020 personal objectives – Tim Roberts

| | |
|---|---|
| 1 | Reviewing and develop Group strategy, identifying and implementing strategic smart objectives taking account of risk. |
| 2 | Communicating the Group's purpose, vision and values both internally and externally. |
| 3 | To develop and refine succession plans whilst progressing the identification and development of successors. |
| 4 | Lead good health and safety practices around the Group to avoid any major health and safety incidents. |
| 5 | Attract new shareholders to the register, achieving positive feedback from meetings with existing shareholders and analysts by clear key messaging and Investor Relations (IR) Policy. |
| 6 | Develop Environment Social and Governance (ESG) Policy, and support legal and regulatory compliance and initiatives around the Group meeting related deadlines. |
| 7 | Develop the Diversity and Inclusion (D&I) Policy, promoting diversity, and reducing the gender pay gap. |

### 2020 personal objectives – Darren Littlewood

| | |
|---|---|
| 1 | Reviewing and develop Group strategy, identifying and implementing key strategic smart objectives for the Group. |
| 2 | Inform and develop strategy for each subsidiary, including key strategic smart objectives for Starfish and overseeing the integration of that business into HBC. |
| 3 | Developing strategic influence within the business and profile within the wider industry. |
| 4 | Redeployment of working capital into key business activities with a focus on risk weighted returns. |
| 5 | Developing the Finance/IT/Communication team's profile and skillsets, developing their integration across the Group. |
| 6 | Management and development of financial reporting within each business, to the Board and to the investor community. |
| 7 | Undertake a review of internal audit following the 3-year BDO programme and successful transitioning of the external audit from PWC to EY. |
| 8 | Improve remuneration reporting requirements with clearer links to the objectives and priorities of the Group. |

**31 December 2020 bonus targets**

**Profit before tax** has a weighting of a maximum of 80% of salary payable directly linked to specific financial targets.

The Committee will monitor these bonus targets throughout 2020 in line with the discretion granted to it in the Remuneration Policy to determine whether they continue to be appropriate in light of the exceptional circumstances arising due to the COVID-19 pandemic and in circumstances where these original measures and targets are no longer a fair and accurate measure of business performance.

### Long Term Incentive Plan (LTIP)

The Committee has reviewed the performance criteria for the LTIP shares awarded in 2017, based on performance for the years 2017, 2018 and 2019, which are expected to vest in June 2020. The LTIP shares in this award are subject to the following performance criteria:

i. EPS growth ahead of inflation: EPS growth was 36%, which exceeded RPI growth by more than 27% and therefore this 33.3% of the award became eligible;

ii. Average annual return on capital employed above 13%: this was 17.44% and therefore this 33.3% of the award became eligible;

iii. Total Shareholder Return (TSR) below the median for the comparator group: The Henry Boot PLC TSR for the three-year period was 47.2%, putting it below the median within the comparator group and therefore, this 33.4% of the award did not become eligible. The comparator group was comprised of Vistry Group, CLS Holdings, Costain Group, U and I Group PLC, Galliford Try, Helical Reit, Keller, Kier Group, Low & Bonar, Marshalls, Morgan Sindall Group, Norcros, Redrow, Speedy Hire, St Modwen Properties, UNITE Group, VP, WSP Global, FTSE All Share Index, FTSE Small Companies Index and FTSE Construction & Materials Index.

Together, these resulted in LTIP awards of: John Sutcliffe 107,002 shares; and Darren Littlewood 48,320 shares; and gave rise to the award values in the single total figure of remuneration at 31 December 2019 on page 105.

## LTIP awards granted in the year (Audited)

| | Type of award | % of salary | Number of shares | Face value to grant at £2.72 per share | % of award vesting at threshold |
|---|---|---|---|---|---|
| John Sutcliffe | LTIP – nil cost option | 100% | 145,042 | 394,514 | 25% |
| Darren Littlewood | LTIP – nil cost option | 100% | 82,619 | 224,723 | 25% |

## Awards expected to be granted for the financial years 2020–2022 in 2020

| | Type of award | % of salary | % of award at threshold |
|---|---|---|---|
| Tim Roberts | LTIP – nil cost option | 100% | 25% |
| Darren Littlewood | LTIP – nil cost option | 100% | 25% |

The performance criteria for these awards is as follows:

| | |
|---|---|
| **EPS growth** | We strive to grow earnings per share faster than inflation. This should give rise to an ability to grow dividends faster than inflation; a key driver to long-term growth in shareholder value. |
| **Return on Capital Employed** | We strive to achieve a 10% profit before tax return on balance sheet net assets. This should give rise to at least two times dividend cover, thereby generating growth in the Group's retained capital to reinvest and grow. This is a further driver to long-term shareholder value growth. |
| **Total Shareholder Return (TSR) relative to constituent companies of the FTSE Small Companies Index** | We strive to achieve high shareholder returns. TSR reflects the extent to which shareholders and the market consider that the Company strategy is appropriate and is being implemented and articulated well by the Executives. |

The detailed performance metrics for these awards is as follows:

| | % linked to award | Threshold vesting of 25% of maximum award | Threshold for 100% of maximum award |
|---|---|---|---|
| **EPS growth** | 33.3 | RPIJ + 3% per annum | RPIJ + 7% per annum |
| **Return on Capital Employed** | 33.3 | Average three-year year ROCE of 10% | Average three-year ROCE of 13% or more |
| **TSR** | 33.4 | TSR at median or above constituent companies of the FTSE Small Companies Index | TSR at or within the upper quartile |

However, the Committee has noted feedback from its investors regarding awards to Executive Directors where the Company share price has fallen over the preceding year resulting in an increased award when compared with the previous year. The Committee may use its discretion to restrict the share price to a value no lower than that used in the previous year or restricting the award to a number no higher than that of the previous year in order to address this issue, save in the case of an Executive Director joining the Board for whom no prior year comparative exists.

### Pension entitlement

John Sutcliffe is a deferred member of the Henry Boot PLC Group Stakeholder (Defined Contribution) Pension Plan (the Plan). Contributions are made at 20% of salary and contributions to the Plan in the year were £nil (2018: £nil). The annual allowance for tax relief on pension savings applicable to John Sutcliffe in 2019 was £nil and he elected to receive a salary supplement in lieu of the employer contributions over and above this level, which amounted to £79,000 (2018: £78,000).

Darren Littlewood was a member of The Henry Boot Staff Pension and Life Assurance Scheme (Defined Benefit) (the Scheme) up to 31 March 2019, following which he became a deferred member of the Scheme. His normal retirement date within the Scheme would be in 2042, aged 67. His accrued pension entitlement at 31 December 2019 was £25,839 and the pensionable salary available for use within the Scheme at 31 December 2019 was £57,897. Basic salary above this level is available for use within the Henry Boot PLC Group Stakeholder (Defined Contribution) Pension Plan (the Plan). Contributions are made at 20% of available salary and contributions to the Plan in the year were £16,225. The annual allowance for tax relief on pension savings applicable to Darren Littlewood in 2019 was £16,225, and he elected to receive a salary supplement in lieu of the employer contributions over and above this level, which amounted to £42,076. It is noted that the contribution for Darren Littlewood will require alignment with the wider workforce and the Remuneration Committee is committed to achieving this within the required timescale of 2022.

The Henry Boot PLC Group Stakeholder Pension Plan provides a lump sum death in service benefit, a refund of contributions on death in service and, on death after retirement, a pension for dependants subject to what the policyholder decides. The notional leaving work age is currently 65.

# Corporate Governance Report

Remuneration

## DIRECTORS' REMUNERATION REPORT

### Payments to past Directors

There were no payments made to past Directors during the year in respect of services provided to the Company as a Director.

### Payments made for loss of office

There were no payments made during the year in respect of loss of office to a Director.

### Statement of Directors' shareholdings and share interests (Audited)

The following table sets out the shareholdings and share interests of the Directors in the Company as at 31 December 2019.

| | Number of preference shares held | Number of ordinary shares held | Number of shares legally owned | LTIPs subject to performance measures | Total | Legally owned shareholding as a % of salary or fees[1] | Share interests as a % of salary or fees |
|---|---|---|---|---|---|---|---|
| Jamie Boot | 14,753 | 5,665,002 | 5,665,002 | — | 5,665,002 | 20,040% | 20,040% |
| John Sutcliffe | — | 817,927 | 817,927 | 438,209 | 1,256,136 | 661% | 1,014% |
| Darren Littlewood | — | 152,500 | 152,500 | 223,123 | 375,623 | 195% | 479% |
| James Sykes | — | 20,000 | 20,000 | — | 20,000 | 134% | 134% |
| Joanne Lake | — | 10,710 | 10,710 | — | 10,710 | 72% | 72% |
| Gerald Jennings | — | 11,650 | 11,650 | — | 11,650 | 78% | 78% |
| Peter Mawson | — | 10,000 | 10,000 | — | 10,000 | 67% | 67% |

The share price at 31 December 2019 was 319.0p. The salary used for this calculation is that which commences on 1 January 2020.

1. Details of Director shareholding requirements can be found in the Remuneration Policy, which can be viewed on the website: **www.henryboot.co.uk**.

Between 31 December 2019 and 20 May 2020, being a date not more than one month prior to the date of the Notice of the AGM, the only change in the beneficial interests of any Director was for John Sutcliffe who sold 1,362 shares giving him a total of 816,565 shares.

### Long Term Incentive Plan awards (Audited)

### Performance shares

| | Plan | Date of grant | Market price at date of grant | At 1 January 2019 | Grant during the year | Exercised during the year | Lapsed during the year | At 31 December 2019 | Actual exercise date /earliest vesting date | Market Valuation on exercise £ |
|---|---|---|---|---|---|---|---|---|---|---|
| John Sutcliffe | 2015 | 21/04/2016 | 212.6p | 176,969 | — | 153,740 | 23,229 | — | 04/06/2019 | 388,962 |
| | 2015 | 24/04/2017 | 241.2p | 160,665 | — | — | — | 160,665 | 24/04/2020 | — |
| | 2015 | 25/04/2018 | 294.3p | 132,502 | — | — | — | 132,502 | 25/04/2021 | — |
| | 2015 | 30/04/2019 | 272.3p | — | 145,042 | — | — | 145,042 | 30/04/2022 | — |
| | | | | 470,136 | 145,042 | 153,740 | 23,229 | 438,209 | | 388,962 |
| Darren Littlewood | 2015 | 21/04/2016 | 212.6p | 70,555 | — | 61,294 | 9,261 | — | 04/06/2019 | 155,074 |
| | 2015 | 24/04/2017 | 241.2p | 72,554 | — | — | — | 72,554 | 24/04/2020 | — |
| | 2015 | 25/04/2018 | 294.3p | 67,950 | — | — | — | 67,950 | 25/04/2021 | — |
| | 2015 | 30/04/2019 | 272.3p | — | 82,619 | — | — | 82,619 | 30/04/2022 | — |
| | | | | 211,059 | 82,619 | 61,294 | 9,261 | 223,123 | | 155,074 |

### Sharesave plan

| | Plan | At 1 January 2019 | Granted during the year | Exercised during the year | Lapsed during the year | At 31 December 2019 | Exercise price | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| Darren Littlewood | 2010 | 6,666 | — | — | 6,666 | — | 270.0p | 01/12/2020 | 31/05/2021 |
| | | 6,666 | — | — | 6,666 | — | | | |

## Statement of voting at the last Annual General Meeting (AGM)

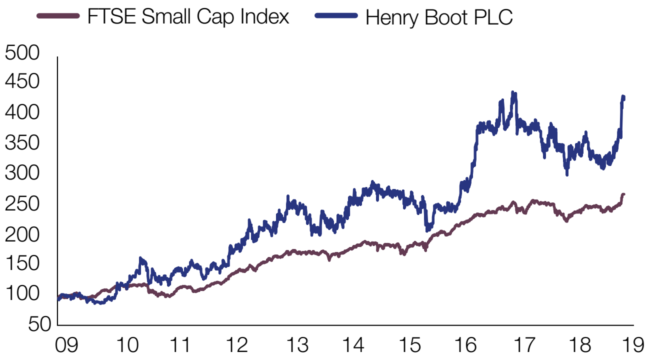
The Company remains committed to shareholder dialogue and takes an active interest in voting outcomes. At the AGM on 23 May 2019 the resolution put to shareholders on an advisory basis to receive and approve the 2018 Directors' Remuneration Report was passed. The number of votes in favour of that resolution was 80,357,367 (84.93% of votes cast), against 14,255,081 (15.07% of votes cast), and withheld 32,495.

The total number of votes cast in respect of this resolution represented 71.05% of the issued share capital.

## Share price

The middle market price for the Company's shares at 31 December 2019 was 319.0p and the range of prices during the year was 233.0p to 320.0p.

## Ten-year TSR performance graph




## Chief Executive Officer's remuneration for the previous ten years

| | Total remuneration £'000 | Annual bonus as a % of maximum | LTIP vesting as a % of maximum |
|---|---|---|---|
| 2019 | 948 | 64.8 | 65 |
| 2018 | 1,250 | 76.8 | 87 |
| 2017 | 1,277 | 99.2 | 100 |
| 2016 | 1,118 | 91.1 | 67 |
| 2015 | 981 | 87.8 | 25 |
| 2014 | 1,000 | 94.5 | 25 |
| 2013 | 1,054 | 83.3 | 50 |
| 2012 | 962 | 58.3 | 40 |
| 2011 | 842 | 66.7 | 50 |
| 2010 | 764 | 58.3 | 64 |
| 2009 | 575 | 33.3 | 50 |

## Percentage change in Chief Executive Officer's remuneration

The table below sets out in relation to salary, taxable benefits and annual bonus the percentage increase in remuneration for Chief Executive Officer compared to the wider workforce. For these purposes:

| Percentage change | Note | Chief Executive Officer | Workforce sample |
|---|---|---|---|
| Salary | | 8.98% | 5.8% |
| Taxable benefits | 1 | — | — |
| Annual bonus 2018 | 2 | (22.0)% | 0.94% |
| Annual bonus 2019 | 2 | (14.7)% | 13.6% |

### Note 1

The car allowance remained the same in both years and private medical insurance costs were also broadly the same in both years (£350) for all members of the private medical scheme. Therefore, the average percentage change in taxable benefits does not provide a meaningful comparison. The workforce comparison is every member of staff who receive a salary excluding the Chief Executive Officer.

### Note 2

The workforce comparison is every member of staff who received a bonus excluding the Chief Executive Officer.

## Ratio of Chief Executive Officer's latest single total figure of remuneration versus UK full-time equivalent (FTE) employees' remuneration

| Year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| 2019 | Option A | 41:1 | 27:1 | 17:1 |

The method of calculation chosen for these ratios is Option A as this option is generally recognised as being the most robust, statistically.

The same methodology used for calculating the single total figure for the CEO has been used for calculating the pay and benefits of UK FTE employees.

## Relative importance of spend on pay

The following table sets out the percentage change in dividends, profit attributable to owners of the business and the overall spend on pay across our whole organisation:

| | 2019 £'000 | 2018 £'000 | % change |
|---|---|---|---|
| Ordinary dividends | 6,633 | 11,936 | (44.4%) |
| Profit attributable to owners of the business | 37,596 | 37,505 | 0.2% |
| Overall expenditure on pay | 35,029 | 33,741 | 3.8% |

Approved by the Board and signed on its behalf by

**Gerald Jennings**
Chairman of the Remuneration Committee

20 May 2020

# Corporate Governance Report

## DIRECTORS' REPORT

The Directors' Report for the financial year ended 31 December 2019 is detailed below.

### Activities of the Group

The principal activities of the Group are land promotion, property investment and development, and construction.

### Strategic Report

In accordance with the Companies Act 2006, we are required to present a fair review of the Group's business along with a description of the principal risks and uncertainties it faces. The Strategic Report for the year ended 31 December 2019 is set out on pages 16 to 61.

### Corporate governance statement

The Disclosure Guidance and Transparency Rules of the Financial Conduct Authority require certain information to be included in a Corporate Governance Statement in the Directors' Report. Information that fulfils the requirements of the Corporate Governance Statement can be found in the Corporate Governance section on pages 70 to 117.

### Results for the year and dividends

The results are set out in the Consolidated Statement of Comprehensive Income on page 130. The companies affecting the profit or net assets of the Group in the year are listed in note 38 to the Financial Statements.

The Directors recommend that a final dividend of 1.3p per ordinary share be paid on 6 July 2020, subject to shareholder approval at the 2020 AGM to be held on 30 June 2020, to ordinary shareholders on the register at the close of business on 12 June 2020. If approved, this, together with the interim dividend of 3.70p per ordinary share paid on 16 October 2020, will make a total dividend of 5.0p per ordinary share for the year ended 31 December 2019. Further details are disclosed in note 10 to the Financial Statements on page 149.

### Financial instruments

The Group's policy in respect of financial instruments is set out within the Accounting Policies on page 140 and details of credit risk, capital risk management, liquidity risk and interest rate risk are given respectively in notes 18, 25, 26 and 28 to the Financial Statements.

### Going concern and viability statement

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 the foreseeable future. Further detail is contained in the Strategic Report on pages 49 and 50.

### Accountability and audit

Details of the Directors' responsibilities and the Statement of Directors' Responsibilities are contained on page 117. The Independent Auditors' Report is given on pages 120 to 128.

### Fair, balanced and understandable

The Audit and Risk Committee and the Board have assessed the tone, balance and language of the Annual Report and Financial Statements, being mindful of the requirements of the UK Corporate Governance Code and the need for consistency between the narrative section of the document and the Financial Statements. The Board's formal statement on the Annual Report and Financial Statements being fair, balanced and understandable is contained within the Statement of Directors' Responsibilities which can be found on page 117.

### Political donations

The Company made no political donations in the year or in the previous year.

### Directors and their interests

Details of the Directors who held office during the financial year ending 31 December 2019 and as at the date of this Annual Report and Financial Statements can be found on pages 66 and 67. At no time during the year has any Director had any interest in any significant contract with the Company.

The interests of Directors and persons closely associated with them in the share capital of the Company as at 31 December 2019, are disclosed in the Directors' Remuneration Report on pages 100 and 111.

Between 31 December 2019 and 20 May 2020, being a date not more than one month prior to the date of the Notice of the AGM, there has been one change in the beneficial interest of any Director, John Sutcliffe sold 1,362 ordinary shares on 29 January 2020, 2019, see page 110.

Details of Directors' long-term incentive awards and share options are provided in the Directors' Remuneration Report on pages 108 to 110.

### Directors' service contracts and letters of appointment

Details of unexpired terms of Directors' service contracts and/or letters of appointment of the Executive Directors proposed for reappointment at the AGM on 30 June 2020 are set out in the Directors' Remuneration Policy.

Tim Roberts and Darren Littlewood (and, during 2019, John Sutcliffe) each have a one-year rolling service agreement in accordance with our policy on Directors' contracts. Termination of these arrangements would therefore be subject to their contractual terms and conditions that require a notice period of one year to the Director. Contractual compensation in the event of early termination provides for compensation at basic salary, pension and benefits for the notice period.

Non-executive Directors, including the Chairman, do not have service contracts. All Non-executive Directors have letters of appointment, and their appointment and subsequent reappointment is subject to approval by shareholders. Non-executive Director appointments are typically for three years; however, they may be terminated without compensation at any time. The Directors' Remuneration Policy can be viewed on the website.

### Training and development

Formal and tailored inductions are arranged for all new Directors and continued development is monitored by the Chairman as part of the evaluation process. During 2019, due to the appointment of Tim Roberts, the Nomination Committee in conjunction with the Head of HR developed a full programme of induction for Tim, including attendance at Board and other meetings, training and other development to ensure a seamless integration of Tim into the business.

Non-executive Directors are encouraged to familiarise themselves with the Company's business, and throughout the year they have regularly attended subsidiary board meetings. This provides further insight into the business, its culture and an opportunity to meet with the wider senior management team in more informal situations. Site visits to key developments and sites are scheduled throughout the year, you can read more about the engagement with employees and other stakeholders on pages 76 to 77.

Specific training requirements were considered as part of the Board's skills evaluation, details of which can be found on pages 90 to 92. General updates on regulations and best practice are provided through a mixture of briefings, Board papers and emails.

## Employment policy and involvement

### Employees

Employees are at the heart of all that we do; our culture ensures that employees can grow, thrive and succeed. Details of how we seek to promote and achieve this, including our policy on equal opportunities for disabled applicants, are set out in the Corporate Responsibility section on pages 54 and 55, the employee engagement report on pages 78 and 79 and Nomination Committee Report on pages 88 to 93.

### Employee engagement

Details of our employee engagement activities can be found on pages 78 and 79.

### Employee communications

We utilise our ever-evolving Group intranet to disseminate information to all Directors and employees. Regular news items and internal updates are issued on a frequent basis; collaboration and inclusion are encouraged. This is supplemented by publications such as our regular 'Boot World' newsletter and Charity Newsletter. During 2020, the Group will continue to review its intranet function and will be looking to introduce other modes of communication throughout the Group in the form of an online forum. The development of these functions will be developed in conjunction with the Employee Forums and Working Groups.

### Employee share schemes

The Group encourages participation in employee share schemes of the Company to share in the potential growth and any future success of the Group. From 2018, all eligible employees were invited to participate in Sharesave and the Company Share Option Plan on an annual basis. Details of employee share schemes are set out in note 31 to the Financial Statements.

## Directors' indemnity provisions

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. As a result, the Company operates a directors' and officers' liability insurance policy in order to indemnify Directors and other senior officers of the Company and its subsidiaries, as recommended by the UK Corporate Governance Code. 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 of Association of the Company, 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.

## Health and safety

The health and safety of our employees and others is paramount.

Further information on our approach to health and safety is provided in the Corporate Responsibility Report on page 57.

## Relationship with stakeholders

Details of how we engage with stakeholders and uphold our Director's duties more widely under s.172 of the Companies Act 2006 can be found on pages 70 to 71 and 76 to 77.

## Shareholder relations

The Company actively communicates with its institutional and private shareholders and values a two-way conversation on key Company issues. It is this close relationship with shareholders that is viewed as one of the Company's particular strengths.

During the year a number of formal presentations were made by members of the Board to institutional shareholders and feedback from these meetings was provided to the Board by our stockbrokers. In addition, informal feedback sessions regarding the Annual Report were carried out with institutional investors. At every Board meeting an update is given to the Non-executive Directors on any feedback from investors, particularly after investor roadshow programmes. The Board receive a report at every meeting on share movements during the period and any market trends. The Company uses the Investor Relations section of its website, **www.henryboot.co.uk**, to publish statutory documents and communications to shareholders, such as the Annual Report and Financial Statements. The website is designed to communicate with both present and potential investors and includes all London Stock Exchange announcements, investor presentations and press releases.

## Greenhouse gas emissions

The greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 are included within the Strategic Report on pages 60 and 61. This information is incorporated by reference into (and shall be deemed to form part of) this Report.

## Substantial interests in voting rights

Excluding Directors, as at 20 May 2020, being a date not more than one month prior to the date of the Notice of the AGM, the information in the table below had been disclosed to the Company in accordance with the requirements in the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

| | Voting rights over ordinary shares | |
|---|---|---|
| | Number | % of issued |
| Rysaffe Nominees and J J Sykes (joint holding)1 | 20,722,155 | 15.56 |
| The Fulmer Charitable Trust | 5,739,580 | 4.40 |
| Unicorn Asset Management | 6,830,000 | 5.13 |
| Polar Capital | 4,176,337 | 3.14 |

1. Rysaffe Nominees and James Sykes are joint registered holders on behalf of various Reis family trusts and are therefore not included under the beneficial interests of James Sykes set out in the Directors' Remuneration Report.
2. The shares of the Fulmer Charitable Trust, a recognised charity, are registered in the names of Mr John Spencer Reis, Mrs Sally Anne Reis and Mrs Caroline Mary Mytum as Trustees.

These figures represent the number of shares and percentage held as the date of notification to the Company.

Details of Directors holdings can be found on page 110.

# Corporate Governance Report

## DIRECTORS' REPORT

### Shares held by the Henry Boot PLC Employee Trust

The Company has an established Employee Trust (the Trust) for the benefit of the Group's employees to satisfy existing grants by the Company under various share-based payment arrangements. Details of the Company's share-based payment arrangements are provided in note 30 to the Financial Statements. The Trustee of the Trust, a subsidiary of the Company of which the Directors throughout 2019 were Jamie Boot, Tim Roberts, and Darren Littlewood, exercises the voting rights in relation to shares held as it, in its absolute discretion, thinks fit, but having regard to the interests of the beneficiaries. In respect of the financial year of the Company ended on 31 December 2019, the Trust has waived the right to receive from the Company all dividends (if any) in respect of the shares held within the Trust.

During the year the Trust has purchased 245,000 ordinary shares in the Company in order to satisfy upcoming grants. Further details are provided in note 33 to the Financial Statements.

### Future developments

Important events and developments are described in the Strategic Report on pages 16 to 61, and in particular in relation to the COVID-19 pandemic update on page 6.

### Statement of disclosure of information to auditors

The Directors of the Company who held office at the date of approval of this Annual Report each confirm that:

- So far as they are aware, there is no relevant audit information (information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- They have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent auditors

The auditors, PwC, have carried out the audit of the 2019 financial results, with this being the last year of their ten year audit appointment. As set out on page 95, the Audit and Risk Committee have carried out a process of re-tendering for its external auditors, and resolutions appointing Ernst and Young as auditors (Resolution 11) and authorising the Audit and Risk Committee to fix their remuneration (Resolution 12) will be proposed at the AGM.

### Accountability and audit

Details of the Directors' responsibilities and the Statement of Directors' Responsibilities are contained on page 117. The Independent Auditors' Report is given on pages 120 to 128.

### Annual General Meeting (AGM)

The health of the Company's shareholders, as well as its employees, is of paramount importance. In view of the UK Government placing restrictions on travel because of the COVID-19 pandemic, shareholders will not be permitted to attend the annual general meeting in person. Details of how shareholders can access the Board's company update, usually delivered at the AGM, will be detailed on the Company's website in due course.

The Board encourages shareholders to monitor the Company's website (**henryboot.co.uk/investors**) and regulatory news services for any updates in relation to the annual general meeting that may need to be provided. In the meantime, the Board encourages shareholders to submit their proxy form as early as possible by post or electronically as detailed in the notes to the notice of annual general meeting and the proxy form.

Ordinarily, ordinary shareholders are entitled to appoint any person as their proxy to attend and to exercise all or any of their rights to vote and to speak at the annual general meeting instead of the shareholder. However, in view of the ongoing COVID-19 pandemic, the Company is encouraging ordinary shareholders to appoint the Chairman as their proxy (either electronically or by post) with their voting instructions as shareholders or their proxies will not be allowed to attend the annual general meeting in person. The deadline for doing this is set out in the notes to the notice of annual general meeting and the proxy form. In addition, the method of submitting questions to the Board is detailed on the Notice of AGM. The Company is taking these precautionary measures to safeguard its shareholders' and employees' health and make the annual general meeting as safe and efficient as possible.

Accordingly, the AGM of the Company will be held on 30 June 2020 at Banner Cross Hall, Ecclesall Road South, Sheffield, S11 9PD. The Notice of the AGM can be found on pages 184 to 192. It is also available at **www.henryboot.co.uk**, where a copy can be viewed and downloaded.

### Additional shareholder information

This section sets out details of other matters on which the Directors are required to report annually, but which do not appear elsewhere in this document.

The information below summarises certain provisions of the current Articles of Association of the Company (as adopted by special resolution on 27 May 2011) (the Articles) and applicable English law concerning companies (the Companies Act 2006). This is a summary only and the relevant provisions of the Companies Act 2006 or the Articles should be consulted if further information is required.

### Share capital

The Company's issued share capital comprises two classes of shares being, respectively, ordinary shares of 10p each (ordinary shares) and cumulative preference shares of £1 each (preference shares). Further details of the share capital of the Company are set out in note 31 to the Financial Statements. As at 20 May 2020, the ordinary shares represent 97.00% of the total issued share capital of the Company by nominal value and the preference shares represent 3.00% of such total issued share capital. The ordinary shares and the preference shares are in registered form. Both classes of share are admitted to the Official List of the Financial Conduct Authority.

The Company's ordinary shares are categorised as 'Premium Listed' and its preference shares as 'Standard Listed'. A Standard Listing is based on EU minimum standards for floating a company on a public market whereas a Premium Listing requires compliance with additional requirements set out in the Listing Rules of the Financial Conduct Authority.

The Notice of the AGM on pages 184 to 192 includes the following resolutions:

- An ordinary resolution (Resolution 15) to renew the authority of the Directors to allot shares up to a maximum nominal amount of £4,439,086 representing approximately one-third (33.33%) of the Company's issued ordinary share capital at 12 May 2020. The authority will expire on 29 September 2021 or at the conclusion of the next AGM, whichever is the earlier, but it is the present intention of the Directors to seek annual renewal of this authority. The Directors do not have any present intention of exercising the authority.
- A special resolution (Resolution 16) to enable the Directors to continue to allot equity securities for cash in connection with a rights or other issue pro rata to the rights of the existing shareholders, but subject to certain exceptions, and for any other purpose provided that the aggregate nominal value of such allotments does not exceed £665,863 (approximately 5% of the Company's issued ordinary share capital at 12 May 2020). The authority will expire on 29 September 2021 or at the conclusion of the next AGM, whichever is the earlier, but it is the present intention of the Directors to seek annual renewal of this authority. The Directors also confirm their intention that, in line with the Pre-Emption Group's Statement of Principles, no more than 7.5% of the issued ordinary share capital of the Company (excluding treasury shares) will be issued for cash on a non pre-emptive basis during any rolling three-year period without prior consultation with shareholders.
- A special resolution (Resolution 17) to renew the authority of the Company to make market purchases of up to 13,317,260 of its own issued ordinary shares (10% of the Company's issued ordinary share capital at 12 May 2020). The minimum price that may be paid under the authority for an ordinary share is 10p and the maximum price is limited to not more than 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days before the purchase is made. The Directors will exercise the authority only if they are satisfied that it would be likely to result in an increase in expected earnings per share of the ordinary share capital in issue and that any purchase will be in the best interests of shareholders generally. If the Directors do decide to exercise the authority, ordinary shares so acquired will either be cancelled or held as treasury shares, depending upon the circumstances prevailing at the time.
- 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 for the time being of the Company (the Board) 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.
- Rights of preference shares The preference shares carry the following rights in priority to the ordinary shares but carry no further right to participate in profits or assets:
- The right to receive out of the profits of the Company a fixed cumulative preferential dividend at the rate of 5.25% per annum on the capital paid up thereon;
- The right on a return of assets on a winding up to payment of the capital paid up thereon together with a sum calculated at the rate of 6.00% per annum in respect of any period up to the commencement of the winding up for which such preferential dividend as referred to above has not been paid; and
- The right on a return of assets in a reduction of capital to repayment of the capital paid up thereon together with a sum equal to all arrears (if any) of such preferential dividend as referred to above. The preference shares shall not confer on the holders of them any right to receive notice of or to be present or to vote at any general meeting unless either:
  - A resolution is proposed directly affecting the rights or privileges of the holders of the preference shares as a separate class; or
  - At the date of the notice convening the general meeting, the fixed cumulative preferential dividend provided in the Articles shall be in arrears for more than six months.

## 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 he is 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. In addition, holders of default shares (as defined in the Articles) shall not be entitled to vote during the continuance of a default in providing the Company with information concerning interests in those shares required to be provided (following relevant notification) under the Companies Act 2006.

## 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 30 June 2020 are set out in the Notice of AGM on pages 184 to 192.

## 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. If the Board acts in good faith, none of the Directors shall incur any liability to the holders of shares with preferred rights for any loss they may suffer in consequence of the payment of an interim dividend on other shares.

# Corporate Governance Report

## DIRECTORS' REPORT

### 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-quarters 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 some or all of their shares in certificated form by transfer in writing in any usual form or in any other form which the Board may approve. Uncertificated shares must be transferred by means of a relevant system, such as CREST. 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;
- 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.

In addition, the Board may refuse to register any transfer of shares which is in favour of (i) a child, bankrupt or person of unsound mind, or (ii) more than four transferees.

### Repurchase of shares

Subject to the provisions of the Companies Act 2006 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.

### 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.

### Appointment and replacement of Directors

The Directors shall not, unless otherwise determined by an ordinary resolution of the Company, be fewer than three nor more than 15 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 under the Company for such period (subject to the Companies Act 2006) 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 who are subject to retirement by rotation or, if the number is not an integral multiple of three, the number nearest to one-third but not exceeding one-third shall retire from office. In addition, there shall also be required to retire by rotation any Director who at any AGM of the Company shall have been a Director at each of the preceding two AGMs of the Company, provided that they were not appointed or reappointed at either such AGM and they have otherwise ceased to be a Director and been reappointed by general meeting of the Company at or since either such AGM. The Company's policy is that all of the Directors should be, and are, subject to annual re-election.

The Company may, by ordinary resolution of which special notice has been given in accordance with the Companies Act 2006, remove any Director before their period of office has expired notwithstanding anything in the Articles or in any agreement between them and the Company. A Director may also be removed from office by the service on them of a notice to that effect signed by or on behalf of all the other Directors, being not less than three in number. The office of a Director shall be vacated if:

i. They are prohibited by law from being a Director;
ii. They become bankrupt or makes any arrangement or composition with their creditors generally;
iii. They are or may be suffering from a mental disorder as referred to in the Articles;
iv. For more than six months they are absent, without special leave of absence from the Board, from meetings of the Board held during that period and the Board resolves that their office be vacated; or
v. They serve on the Company notice of their wish to resign.

### 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 resolution of the Company's shareholders.

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 undertaking, 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 a 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; and
- Bank facilities whereby upon a "change of control" the lenders shall consult with the Company for a period not greater than 30 days (commencing on the date of the change of control) to determine whether and on what basis the lenders are prepared to continue the facility.

### 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, Computershare Investor Services PLC or to the Company directly.

Approved by the Board and signed by its order by

**Amy Stanbridge**
Company Secretary

20 May 2020

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## 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 (EU) and Parent Company Financial Statements in accordance with IFRSs as adopted by the EU. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent 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 EU have been followed for the Group Financial Statements and IFRSs as adopted by the EU have been followed for the Parent 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 Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent 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 Parent 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 Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Fair, balanced and understandable

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 Parent Company's performance, business model and strategy.

## Directors' responsibility statement

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

- The Parent Company Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- The Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, 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 Parent Company, together with a description of the principal risks and uncertainties that it faces.

Approved by the Board and signed on its behalf by

**Tim Roberts**
Director

20 May 2020

**Darren Littlewood**
Director

20 May 2020

# FINANCIAL STATEMENTS

## DELIVERY

Invest in all our business segments to achieve short-term delivery.

# Independent Auditors' Report

to the members of Henry Boot PLC

## Report on the audit of the financial statements

### Opinion

In our opinion, Henry Boot PLC's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit and the group's and the parent 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 parent 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group and Parent Company Statements of Financial Position as at 31 December 2019; the Consolidated Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flows, and the Group and Parent Company Statements of Changes in Equity for the year then ended; the Principal Accounting Policies; and the notes to the financial statements.

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 parent company.

Other than those disclosed in note 3 of the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2019 to 31 December 2019.

## Our audit approach

### Overview


- Overall group materiality: £3,600,000 (2018: £3,500,000), based on 0.8% of total assets.
- Overall parent company materiality: £1,650,000 (2018: £1,600,000), based on 0.8% of total assets.

- The Group is structured along three business segments being Property Investment and Development, Land Promotion and Construction. The Group financial statements are a consolidation of the 39 reporting units within these three business segments and the Group's centralised functions.
- Of the Group's 39 reporting units, we identified four, which in our view, required an audit of their complete financial information, either due to their size or risk characteristics.
- Specific audit procedures over intangible assets, inventories, borrowings, revenue, and property, plant and equipment were performed for a further three reporting units, and specific audit procedures were also performed over one joint venture company due to its contribution to the Group's investment in joint ventures and associates. 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.

- Valuation of investment properties (Group)
- Accuracy and valuation of construction and development contract balances (Group)
- Valuation of house builder work in progress inventory (Group)
- Actuarial assumptions used in accounting for defined benefit pension scheme liabilities (Group and parent)
- Carrying value of investments and intercompany receivables (Parent)
- Impact of COVID-19 (Group and parent)

## 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.

## Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to improve the Group's result for the period, and management bias in key accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

— Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;

— Evaluation and testing of the operating effectiveness of management's controls with respect to construction and development contracts designed to prevent and detect irregularities or bias;

— Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to construction and development contracts, the valuation of investment properties, the valuation of work in progress inventory, and the actuarial assumptions used in accounting for defined benefit pension scheme liabilities (see related key audit matters below);

— Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management. Specifically, we tested journal entries which inflated the group result for the period with unusual offset entries and we considered whether any journals were posted by senior management personnel.

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. Also, 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.

## 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.

# Independent Auditors' Report

to the members of Henry Boot PLC

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of investment properties – £70.0m – Group**<br>We focused on this area because the Group's investment property assets represent a significant proportion of the assets in the Group statement of financial position.<br>The Group's portfolio includes properties at varying stages of completion across various sectors, including mixed-use, industrial and retail. Property valuations are subject to a high degree of judgement as they are calculated from a number of different assumptions specific to each individual property or development site. These include actual and estimated rental values, yields, costs to complete and land values per acre.<br>The Group engages Jones Lang LaSalle to value its completed investment properties in all but the residential sector. This accounts for 88.2% of the value of the Group's investment property portfolio. The properties valued by Jones Lang LaSalle are valued by applying market-derived capitalisation yields to actual or market-derived rental income specific to each property.<br>Investment properties in the course of construction account for 11.8% of the Group's investment property portfolio and are valued by management using the residual method of valuation. This involves estimating the gross development value of the property and deducting from this the gross development costs to be incurred and an allowance for anticipated development profits yet to be earned.<br>For all classes of investment property, a relatively small percentage change in valuations of individual properties, in aggregate, could result in a material impact to the financial statements. | **Regarding the completed investment properties valued by the external valuer**<br>We tested the underlying data used by the external valuer by agreeing a sample of lettings to our work on rental revenue. This included agreeing rents and other significant contract terms to legal agreements.<br>We used internal valuations experts to assess the appropriateness of management's valuations, and for each property, we compared the changes in the yields and capital values since the prior year to an expectation based upon industry-specific indices. We also considered the movements in the assumptions in the light of our existing understanding of the Group's portfolio and activities in the year. As a result, we identified certain properties where we felt the movements in the yields or capital values warranted further discussion.<br>We held a meeting with management and their external valuers at which we challenged the assumptions used in these valuations by reference to externally published benchmarks.<br>We corroborated the explanations received by reference to the results of our audit procedures in other areas such as rental revenue testing, and by further review of legal documentation and correspondence where necessary. Whilst we identified that for certain properties an alternative yield assumption may be taken, no material adjustments were identified.<br>**Regarding the remaining properties valued by management**<br>We selected a sample of valuations of investment property in the course of construction for testing based on value. These were held at cost which we corroborated by reference to legal agreements.<br>No material adjustments were identified as a result of our testing. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Accuracy and valuation of construction and development contract balances – £40.9m – Group**<br><br>We focused on this area because of the judgements involved in estimating the stage of completion of construction and development contract activity and in assessing costs to complete. This in turn means the assessment of anticipated profits or losses on individual contracts is judgemental.<br><br>The Group undertakes a number of significant construction and development contracts and a relatively small change in the judgements applied, such as whether a provision for remedial works is required, could result in a material misstatement to the financial statements.<br><br>In order to address estimation uncertainty with respect to assessing the stage of completion and costs to complete, management undertake regular detailed cost assessments which are reviewed and approved by appropriate persons.<br><br>We also note there is judgement involved in revenue recognition on construction and development contracts in particular where performance related incentive payments are built into transaction prices. In determining the appropriate treatment, management complete detailed contract reviews for each contract entered into and use past experience, external valuers, consideration of external influences, and risk profile assessments on the nature of each contract to assist in reaching their conclusions. | We evaluated management's revenue and profit recognition on a sample of contracts that we selected based on factors such as risk and magnitude and found that it was consistent with the supporting evidence obtained.<br><br>Our work over a sample of contracts included the following:<br>— We met with in-house quantity surveyors to understand the status of contract work and to understand how the costs to complete had been calculated;<br>— We tested controls over the contract acceptance and forecasting process;<br>— We tested controls over costs incurred in the year focusing on the approvals process and the allocation of costs to the correct contracts;<br>— We agreed key contract details to legal documentation;<br>— We performed a recalculation of the revenue recognised in the year for a sample of contracts;<br>— Tested the bills raised on construction and development contracts during the year through to invoice and where possible, cash receipt;<br>— We also checked customer acceptance of the work undertaken, considering the implications of any ongoing disputes which included discussions with the Group legal department;<br>— Testing costs to complete schedules by selecting a sample of forecast costs and agreeing the expected cost to supporting evidence. We also reviewed costs to complete for reasonableness by looking at historical forecasting accuracy on costs to complete;<br>— We tested a sample of accruals for contract work undertaken by agreeing them to supporting documentation, including subcontractor applications for payment and invoices;<br>— We tested a sample of provisions for contract work not yet undertaken to reports prepared by in-house quantity surveyors, correspondence with any claimants, and by testing the outturn on similar amounts previously provided for;<br>— We also completed site visits during the year; and<br>— We assessed management's overall profit recognition methodology, including a sample assessment of the accuracy of revenue and profit forecasts from prior years.<br><br>No material adjustments were identified as a result of our testing. |

# Independent Auditors' Report

to the members of Henry Boot PLC

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of house builder work in progress inventory – £36.3m – Group**<br><br>We focused on this area because the value of the Group's work in progress inventory with respect to the building of houses represents a significant balance in the Group statement of financial position and determining the carrying value of work in progress inventory requires a high degree of judgement.<br><br>The key judgements include forecasting future costs to complete and selling prices which can be affected by market conditions and unexpected events. | Our testing over the valuation of work in progress inventory included the following:<br>— We assessed the adequacy of controls over the approval of site forecasts, and the authorisation and recording of costs, including testing of controls over the allocation of costs to the correct sites.<br>— 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.<br>— Sample tested and agreed certain costs incurred during the year included within 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. This included any land additions in the period.<br>— 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 margin achieved against those recorded previously and future forecasts.<br>— Assessed the historical accuracy of management's forecasting.<br>— Performed an independent assessment of cost accruals and costs to complete via enquiry and corroboration to supporting evidence.<br><br>No material adjustments were identified as a result of our testing. |
| **Actuarial assumptions used in accounting for defined benefit pension scheme liabilities – £208.3m – Group and parent**<br><br>The Group and parent company have a defined benefit pension scheme net liability which is significant in the context of both the overall balance sheet and the results of the Group. The Group uses an independent actuary to value the pension scheme liabilities under IAS 19.<br><br>The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions (including salaries increase, inflation, discount rates and mortality) can have a material impact on the calculation of the liability. | We obtained the actuary's report and we used our own actuarial experts to assess the judgemental assumptions such as salaries increase, inflation, discount rate, and mortality rates. We did this by comparing the key assumptions to externally derived data, as well as our own independently formed assessments, and we also assessed and challenged the methodologies used by management in deriving the assumptions.<br><br>We have no exceptions to report as a result of this testing. |
| **Carrying value of investments and intercompany receivables – £165.0m – Parent**<br><br>We focused upon this area because the balances due from the wider Group and the investments held by the parent company in its subsidiaries are significant balances within the parent company financial statements.<br><br>The key judgement is the underlying cash generation and profitability of the wider Group which can be affected by market conditions and unexpected events. | We assessed the recoverability of the intercompany receivables by reviewing the underlying financial performance and profitability of the entities owing the parent company.<br><br>We reviewed management's impairment review on the investments in subsidiaries held by firstly considering whether management's assessment of impairment triggers was appropriate, and we subsequently followed this up by reviewing management's forecasts and budgets prepared to consider whether an impairment was required on an entity by entity basis.<br><br>We identified no issues with the carrying value of investments or amounts due from wider Group entities in our testing. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Impact of COVID-19 – Group and parent**<br>The ongoing and evolving COVID-19 pandemic is having a significant impact on the UK economy in which the Group operates. There is significant uncertainty as to the duration of the pandemic and what its lasting impact will be on the UK economy.<br><br>The impact of the COVID-19 pandemic has been treated as a non-adjusting post balance sheet event for the Group and Company.<br><br>The Directors have considered the potential impact to the Group and Company of the ongoing COVID-19 pandemic across the business.<br><br>In relation to the Group's going concern assessment, the Directors have prepared a 'base case' cash flow forecast for the period to 30 June 2021 reflecting what they expect the impact of the COVID-19 pandemic to be. They have stress tested the cash flow forecasts reflecting what they consider to be a plausible downside scenario resulting from the direct and indirect consequences of COVID-19 as described in the Going concern statement on page 49. This downside scenario included a six month 'lock down' period in the UK resulting in minimal trading activity during the six month period as well as a reduction in investment property valuations across its portfolio. As disclosed in the Going concern statement on page 49, this indicated that the Group would operate within its banking facilities throughout the forecast period including complying with all banking covenants. | We have re-evaluated our risk assessment, including the going concern risk of the Group. Based on the Directors' assessment and our audit procedures thereon as described below, we consider our original risk assessment to remain appropriate and therefore consider going concern to be a normal risk for the Group.<br><br>In assessing management's consideration of the potential impact on the Group of COVID-19, we have undertaken the following audit procedures:<br>— We obtained from management their latest forecasts that support the board's assessment and conclusions with respect to the going concern basis of preparation of the financial statements;<br>— We reviewed the management accounts for the financial year to date and checked that these were consistent with the starting point of management's forecasts. We also checked the arithmetical accuracy of management's forecasts for the period to 30 June 2021.<br>— We evaluated management's base case forecast and downside scenario, and challenged the adequacy and appropriateness of the underlying assumptions, including the level and period of reduction in revenue and timing of significant cash receipts, and confirmed management's mitigating actions are within their control and can be taken on a timely basis if needed. We reviewed the composition of costs at a divisional level within the forecasts to ensure they were prepared on a consistent and appropriate basis.<br>— We evaluated the level of forecast liquidity, including compliance with banking facility covenants and the amount of the facility available that is linked to the value of the Group's investment properties.<br><br>Our conclusion in respect of going concern is included in the "Conclusions related to going concern" section below.<br><br>We concur with management that the COVID-19 outbreak is indicative of conditions that arose after the balance sheet date and therefore is a non-adjusting post balance event. As such we concluded that management's future assumptions used in determining investment property carrying values and impairment assessments relating to asset valuations performed as at 31 December 2019 should not be adjusted.<br><br>We have reviewed management's disclosures in the financial statements in relation to COVID-19 and post balance sheet event disclosures and are satisfied that they are consistent with the risks affecting the Group, their impact assessment and the procedures that we have performed. |

# Independent Auditors' Report

to the members of Henry Boot PLC

## 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 parent company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along three business segments being Property Investment and Development, Land Promotion, and Construction. The Group financial statements are a consolidation of the 39 reporting units within these three business segments and the Group's centralised functions.

Of the Group's 39 reporting units, we identified four which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics.

Specific audit procedures over intangible assets, inventories, borrowings, revenue, and property, plant and equipment were performed for a further three reporting units, and specific audit procedures were also performed over one joint venture company due to its contribution to the Group's investment in joint ventures and associates. 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.

The work was performed by a component audit team for the four reporting units over which specific audit procedures were performed. All other work was completed by the Group audit team.

The reporting units where we performed audit work accounted for 82% of assets, 96% of revenue, and 94% of profit before tax.

## 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 |
|---|---|---|
| **Overall materiality** | £3,600,000 (2018: £3,500,000). | £1,650,000 (2018: £1,600,000). |
| **How we determined it** | 0.8% of total assets. | 0.8% of total assets. |
| **Rationale for benchmark applied** | The key objective of the Group is to increase the long-term shareholder value by maximising the value of the assets such as inventory and investment properties. In determining the benchmark we also had regard to the profitability of the Group to ensure that sufficient consideration was given to trading activities. | 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 £107,000 and £3,000,000. 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 £180,000 (Group audit) (2018: £175,000) and £82,500 (Parent company audit) (2018: £60,000) 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 parent 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.<br>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent 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).

# Independent Auditors' Report

to the members of Henry Boot PLC

## 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 31 December 2019 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 parent 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 112 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 50 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 parent 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 117, 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 parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.

— The section of the Annual Report on page 96 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 parent 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)

## 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 set out on page 117, 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 parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### 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. 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 parent 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 parent 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 parent 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 28 May 2010 to audit the financial statements for the year ended 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2010 to 31 December 2019.

**Ian Morrison (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

20 May 2020

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Revenue | 1 | 379,693 | 397,052 |
| Cost of sales | | (298,711) | (319,052) |
| **Gross profit** | | 80,982 | 78,000 |
| Administrative expenses | | (29,681) | (24,065) |
| Pension expenses | 4 | (4,475) | (5,975) |
| | | 46,826 | 47,960 |
| Increase/(decrease) in fair value of investment properties | 14 | 2,370 | (92) |
| (Loss)/profit on sale of investment properties | | (238) | 1,365 |
| Loss on sale of assets held for sale | | (56) | (36) |
| **Operating profit** | 3 | 48,902 | 49,197 |
| Finance income | 5 | 494 | 275 |
| Finance costs | 6 | (1,740) | (1,698) |
| Share of profit of joint ventures and associates | 16 | 1,448 | 830 |
| **Profit before tax** | | 49,104 | 48,604 |
| Tax | 7 | (9,649) | (8,229) |
| **Profit for the year from continuing operations** | | 39,455 | 40,375 |
| Other comprehensive (expense)/income not being reclassified to profit or loss in subsequent years: | | | |
| Revaluation of Group occupied property | 12 | (404) | (153) |
| Actuarial (loss)/gain on defined benefit pension scheme | 28 | (7,937) | 6,199 |
| Deferred tax on actuarial loss/(gain) | 19 | 1,350 | (1,054) |
| **Total other comprehensive (expense)/income not being reclassified to profit or loss in subsequent years** | | (6,991) | 4,992 |
| **Total comprehensive income for the year** | | 32,464 | 45,367 |
| **Profit for the year attributable to:** | | | |
| Owners of the Parent Company | | 37,596 | 37,505 |
| Non-controlling interests | | 1,859 | 2,870 |
| | | 39,455 | 40,375 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Parent Company | | 30,605 | 42,497 |
| Non-controlling interests | | 1,859 | 2,870 |
| | | 32,464 | 45,367 |
| **Basic earnings per ordinary share for the profit attributable to owners of the Parent Company during the year** | 9 | 28.3p | 28.3p |
| **Diluted earnings per ordinary share for the profit attributable to owners of the Parent Company during the year** | 9 | 28.1p | 28.0p |

# Statements of Financial Position

as at 31 December 2019

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 |
| | Note | **£'000** | £'000 | **£'000** | £'000 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 11 | **6,823** | 5,077 | **—** | — |
| Property, plant and equipment | 12 | **22,015** | 26,161 | **331** | 459 |
| Right-of-use assets | 13 | **6,085** | — | **160** | — |
| Investment properties | 14 | **70,002** | 120,975 | **—** | — |
| Investments | 15 | **—** | — | **38,021** | 34,086 |
| Investment in joint ventures and associates | 16 | **6,634** | 6,686 | **—** | — |
| Trade and other receivables | 18 | **17,238** | 11,915 | **—** | — |
| Deferred tax assets | 19 | **4,538** | 3,487 | **4,255** | 3,115 |
| | | **133,335** | 174,301 | **42,767** | 37,660 |
| **Current assets** | | | | | |
| Inventories | 20 | **169,749** | 154,980 | **—** | — |
| Contract assets | 17 | **19,085** | 42,772 | **—** | — |
| Trade and other receivables | 18 | **90,777** | 60,225 | **128,364** | 170,586 |
| Cash and cash equivalents | | **42,303** | 10,856 | **37,316** | 5,741 |
| | | **321,914** | 268,833 | **165,680** | 176,327 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 23 | **70,763** | 77,475 | **82,961** | 74,463 |
| Contract liabilities | 22 | **9,876** | 2,794 | **—** | — |
| Current tax liabilities | | **4,680** | 3,897 | **2,958** | 1,340 |
| Borrowings | 26 | **9,981** | 24,119 | **1,012** | 16,022 |
| Lease liabilities | 13 | **2,052** | — | **57** | — |
| Provisions | 27 | **5,315** | 5,724 | **—** | — |
| | | **102,667** | 114,009 | **86,988** | 91,825 |
| **Net current assets** | | **219,247** | 154,824 | **78,692** | 84,502 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 23 | **6,148** | 2,792 | **—** | — |
| Borrowings | 26 | **717** | 5,096 | **—** | — |
| Lease liabilities | 13 | **2,585** | — | **108** | — |
| Retirement benefit obligations | 28 | **22,965** | 16,710 | **22,965** | 16,710 |
| Provisions | 27 | **1,681** | 2,215 | **—** | — |
| | | **34,096** | 26,813 | **23,073** | 16,710 |
| **Net assets** | | **318,486** | 302,312 | **98,386** | 105,452 |
| **Equity** | | | | | |
| Share capital | 31 | **13,717** | 13,715 | **13,717** | 13,715 |
| Property revaluation reserve | 32 | **2,993** | 3,397 | **—** | — |
| Retained earnings | 32 | **293,593** | 276,999 | **78,390** | 85,513 |
| Other reserves | 32 | **6,390** | 6,347 | **7,527** | 7,484 |
| Cost of shares held by ESOP trust | 33 | **(1,248)** | (1,260) | **(1,248)** | (1,260) |
| **Equity attributable to owners of the Parent Company** | | **315,445** | 299,198 | **98,386** | 105,452 |
| Non-controlling interests | | **3,041** | 3,114 | **—** | — |
| **Total equity** | | **318,486** | 302,312 | **98,386** | 105,452 |

The Parent Company made a profit for the year of £12,350,000 (2018: £19,367,000).

The Financial Statements on pages 130 to 181 of Henry Boot PLC, registered number 160996, were approved by the Board of Directors and authorised for issue on 20 May 2020.

On behalf of the Board

**Tim Roberts**
Director

**Darren Littlewood**
Director

# Statements of Changes in Equity

for the year ended 31 December 2019

| Group | Note | Share capital £'000 | Property revaluation reserve £'000 | Retained earnings £'000 | Other reserves £'000 | Cost of shares held by ESOP trust £'000 | Total £'000 | Non-controlling interests £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Parent Company | | | | | | | |
| At 1 January 2018 | | 13,701 | 3,550 | 245,260 | 6,121 | (1,240) | 267,392 | 2,684 | 270,076 |
| Profit for the year | 32 | — | — | 37,505 | — | — | 37,505 | 2,870 | 40,375 |
| Other comprehensive income | | — | (153) | 5,145 | — | — | 4,992 | — | 4,992 |
| Total comprehensive income | | — | (153) | 42,650 | — | — | 42,497 | 2,870 | 45,367 |
| Equity dividends | 10 | — | — | (11,161) | — | — | (11,161) | (2,440) | (13,601) |
| Proceeds from shares issued | | 14 | — | — | 226 | — | 240 | — | 240 |
| Purchase of treasury shares | 33 | — | — | — | — | (429) | (429) | — | (429) |
| Share-based payments | 32, 33 | — | — | 250 | — | 409 | 659 | — | 659 |
| | | 14 | — | (10,911) | 226 | (20) | (10,691) | (2,440) | (13,131) |
| At 31 December 2018 | | 13,715 | 3,397 | 276,999 | 6,347 | (1,260) | 299,198 | 3,114 | 302,312 |
| Change in accounting policy[1] | | — | — | (154) | — | — | (154) | — | (154) |
| Restated at 1 January 2019 | | 13,715 | 3,397 | 276,845 | 6,347 | (1,260) | 299,044 | 3,114 | 302,158 |
| Profit for the year | 32 | — | — | 37,596 | — | — | 37,596 | 1,859 | 39,455 |
| Other comprehensive income | | — | (404) | (6,587) | — | — | (6,991) | — | (6,991) |
| Total comprehensive income | | — | (404) | 31,009 | — | — | 30,605 | 1,859 | 32,464 |
| Equity dividends | 10 | — | — | (12,621) | — | — | (12,621) | (2,445) | (15,066) |
| Proceeds from shares issued | | 2 | — | — | 43 | — | 45 | — | 45 |
| Purchase of treasury shares | 33 | — | — | — | — | (598) | (598) | — | (598) |
| Acquisition of subsidiary | | — | — | — | — | — | — | (1,343) | (1,343) |
| Purchase of minority interest | 36 | — | — | (1,856) | — | — | (1,856) | 1,856 | — |
| Share-based payments | 32, 33 | — | — | 216 | — | 610 | 826 | — | 826 |
| | | 2 | — | (14,261) | 43 | 12 | (14,204) | (1,932) | (16,136) |
| **At 31 December 2019** | | **13,717** | **2,993** | **293,593** | **6,390** | **(1,248)** | **315,445** | **3,041** | **318,486** |

1. The Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

| Parent Company | Note | Share capital £'000 | Retained earnings £'000 | Other reserves £'000 | Cost of shares held by ESOP trust £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | | 13,701 | 72,242 | 7,258 | (1,240) | 91,961 |
| Profit for the year | 8 | — | 19,367 | — | — | 19,367 |
| Other comprehensive income | | — | 5,145 | — | — | 5,145 |
| Total comprehensive income | | — | 24,512 | — | — | 24,512 |
| Equity dividends | 10 | — | (11,161) | — | — | (11,161) |
| Proceeds from shares issued | | 14 | — | 226 | — | 240 |
| Purchase of treasury shares | 33 | — | — | — | (429) | (429) |
| Share-based payments | 32 | — | (80) | — | 409 | 329 |
| | | 14 | (11,241) | 226 | (20) | (11,021) |
| At 31 December 2018 | | 13,715 | 85,513 | 7,484 | (1,260) | 105,452 |
| Change in accounting policy[1] | | — | (7) | — | — | (7) |
| Restated at 1 January 2019 | | 13,715 | 85,506 | 7,484 | (1,260) | 105,445 |
| Profit for the year | 8 | — | 12,350 | — | — | 12,350 |
| Other comprehensive expense | | — | (6,589) | — | — | (6,589) |
| Total comprehensive income | | — | 5,761 | — | — | 5,761 |
| Equity dividends | 10 | — | (12,621) | — | — | (12,621) |
| Proceeds from shares issued | | 2 | — | 43 | — | 45 |
| Purchase of treasury shares | 33 | — | — | — | (598) | (598) |
| Share-based payments | 32 | — | (256) | — | 610 | 354 |
| | | 2 | (12,877) | 43 | 12 | (12,820) |
| **At 31 December 2019** | | **13,717** | **78,390** | **7,527** | **(1,248)** | **98,386** |

# Statements of Cash Flows

for the year ended 31 December 2019

| | Note | Group 2019 £'000 | Group 2018 £'000 | Parent Company 2019 £'000 | Parent Company 2018 £'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 34 | **21,525** | 22,276 | **46,478** | 13,246 |
| Interest paid | | **(1,341)** | (1,434) | **(2,943)** | (2,740) |
| Tax paid | | **(8,459)** | (10,054) | **(6,356)** | (8,602) |
| Net cash flows from operating activities | | **11,725** | 10,788 | **37,179** | 1,904 |
| **Cash flows generated from investing activities** | | | | | |
| Acquisition of subsidiary, net of cash acquired | 36 | **(152)** | – | **–** | – |
| Purchase of intangible assets | 11 | **(491)** | (417) | **–** | – |
| Purchase of property, plant and equipment | 12 | **(1,471)** | (1,464) | **(84)** | (122) |
| Purchase of investment property | 14 | **(14,060)** | (4,906) | **–** | – |
| Proceeds on disposal of investment in associate | | **1,500** | – | **–** | – |
| Proceeds on disposal of property, plant and equipment | | **365** | 265 | **–** | – |
| Proceeds on disposal of investment properties | | **22,542** | 17,881 | **–** | – |
| Proceeds on disposal of assets held for sale | | **44,550** | 2,000 | **–** | – |
| Interest received | | **494** | 265 | **5,552** | 5,943 |
| Dividends received from subsidiaries | | **–** | – | **17,180** | 12,300 |
| Net cash flows generated from investing activities | | **53,277** | 13,624 | **22,648** | 18,121 |
| **Cash flows used in financing activities** | | | | | |
| Proceeds from shares issued | | **46** | 239 | **45** | 238 |
| Purchase of treasury shares | 33 | **(598)** | (429) | **(598)** | (429) |
| Decrease in borrowings | | **(59,368)** | (46,113) | **(45,000)** | (30,000) |
| Increase in borrowings | | **43,777** | 36,066 | **30,028** | 20,000 |
| Principal elements of lease payments | | **(2,346)** | – | **(96)** | – |
| Dividends paid – ordinary shares | 10 | **(12,600)** | (11,140) | **(12,600)** | (11,141) |
| – non-controlling interests | | **(2,445)** | (2,440) | **–** | – |
| – preference shares | 10 | **(21)** | (21) | **(21)** | (21) |
| Net cash flows used in financing activities | | **(33,555)** | (23,838) | **(28,242)** | (21,353) |
| **Net increase/(decrease) in cash and cash equivalents** | | **31,447** | 574 | **31,585** | (1,328) |
| Net cash and cash equivalents at beginning of year | | **10,856** | 10,282 | **4,719** | 6,047 |
| **Net cash and cash equivalents at end of year** | | **42,303** | 10,856 | **36,304** | 4,719 |
| **Analysis of net cash/(debt):** | | | | | |
| Cash and cash equivalents | | **42,303** | 10,856 | **37,316** | 5,741 |
| Bank overdrafts | 26 | **–** | – | **(1,012)** | (1,022) |
| Net cash and cash equivalents | | **42,303** | 10,856 | **36,304** | 4,719 |
| Bank loans | 26 | **(7,757)** | (22,422) | **–** | (15,000) |
| Leases liabilities | 13 | **(4,637)** | (3,220) | **(165)** | – |
| Government loans | 26 | **(2,941)** | (3,573) | **–** | – |
| **Net cash/(debt)** | | **26,968** | (18,359) | **36,139** | (10,281) |

# Principal Accounting Policies

for the year ended 31 December 2019

The principal Accounting Policies adopted in the preparation of the Group's IFRS Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The Company is a public limited company, listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is Banner Cross Hall, Ecclesall Road South, Sheffield, United Kingdom S11 9PD.

## Basis of preparation and statement of compliance

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU ('IFRS'), IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS and therefore complies with Article 4 of the EU IAS regulations. They have been prepared on the historical cost basis, except for financial instruments, investment properties and Group occupied land and buildings, which are measured at fair value.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented a statement of comprehensive income for the Parent Company alone. See note 8.

## Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year with the exception of the policy for Leases. This policy has been updated following the implementation of IFRS 16 'Leases'. Further details can be found in the 'Impact of accounting standards and interpretations' section below.

## Consolidation

The Consolidated Financial Statements are a consolidation of the Financial Statements of the Parent Company and all entities controlled by the Company (its subsidiaries) made up to 31 December each year. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the Accounting Policies used in line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or disposal.

Non-controlling interests in the fair value of the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

## Going concern

In January 2020, the Group concluded negotiations with three banking partners to put in place a £75m facility to replace the £72m facility we had in place at 31 December 2019. The renewed facilities commenced on 23 January 2020, with a renewal date of 23 January 2023 and an option to extend the facilities by one year, each year, for the next two years occurring on the anniversary of the facility. The renewed facilities, on improved terms, maintain covenants on the same basis as the previous facilities.

Following the recent outbreak of the COVID-19 pandemic the Directors have further considered its potential impact on the Group. They have stress tested the effect of both a three-month and six month UK lock down during which time minimal activity occurs. None of the modelling undertaken by the Directors gives rise to any breach of bank facility covenants. However, as one of the covenants references the loan to value ratio of the investment property portfolio the full facility would not be available to the Group unless re-investment in the portfolio was undertaken. The facilities also contain a covenant relating to the ratio of EBIT (Earnings Before Interest and Tax) on a 12-month rolling basis to senior facility finance costs. Our most severe downside modelling, which reflects a near 55% reduction in revenue levels from our pre COVID-19 budget for 2020, demonstrates headroom over this covenant throughout the forecast period to the end of June 2021.

At the time of approving the Financial Statements the Directors expect that the Company and the Group will have adequate resources, liquidity and available bank facilities to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Financial Statements. Further detail is contained in the Strategic Report on pages 49 to 50.

## Operating segments

The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision maker is the Board of Henry Boot PLC (the 'Board').

Management has determined the operating segments based on the reports reviewed by the Board in making strategic decisions.

The Board considers the business based on the following operating segments:

- Property Investment and Development, inclusive of property investment, property development, housebuilding and associated trading activities;
- Land Promotion, inclusive of land management, development and trading activities; and
- Construction, inclusive of its PFI company, social housing and plant hire activities.

Whilst the following is not a reportable segment, information about it is considered by the Board in conjunction with the reportable segments:

- Group overheads, comprising central services, pensions, head office administration, in-house leasing and financing activities.

## Joint ventures and associates

Joint ventures are all entities in which the Group has shared control with another entity, established by contractual agreement. Associates are all entities over which the Group has significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Jointly controlled entities and associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of profits or losses is recognised in the Consolidated Statement of Comprehensive Income. If the share of losses equals its investment, the Group does not recognise further losses, except to the extent that there are amounts receivable that may not be recoverable or there are further commitments to provide funding. Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in them. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the joint ventures and associates are consistent with those of the Group.

## Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Subsequent changes in fair value of contingent consideration classified as an asset or liability are accounted for in accordance with IFRS 9.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are recognised in the Consolidated Statement of Comprehensive Income as incurred.

Goodwill arising on consolidation of subsidiary undertakings is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at cost less any accumulated impairment losses. Goodwill is subjected to an impairment test at the reporting date or when there has been an indication that the goodwill should be impaired, any loss is recognised immediately through the Consolidated Statement of Comprehensive Income and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which goodwill arose.

## Critical judgements and estimates

The critical judgements and estimates in applying the Group's Accounting Policies that have the most significant effect on the amounts recognised in the Financial Statements, apart from those noted below, relate to revenue recognition and inventories. These are referred to on pages 137 to 139 and each is interpreted by management in the light of IFRS 15 'Revenue from Contracts with Customers' and IAS 2 'Inventories'.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, and that could have a material adjustment to the carrying amounts of assets and liabilities over the ensuing year, are:

- Retirement benefit costs — the estimates used in retirement benefit costs are arrived at in conjunction with the scheme's actuary and advisers, those having the most significant impact being the liabilities discount rate, RPI and mortality rates. Note 28 to the Financial Statements gives details of the sensitivity surrounding these estimates;
- Fair value of investment properties and of Group occupied properties — the fair value of completed investment property and of Group occupied property is determined by independent valuation experts using the yield method valuation technique. The fair value of investment property under construction has been determined using the residual method by the Directors of the Company. The most significant estimates used in these valuations are rental values, yields and costs to complete. Notes 12 and 14 to the Financial Statements give details of the valuation methods used and the sensitivity surrounding these estimates; and
- Provisions — amounts recognised in relation to provisions are based on assumptions in respect of cost estimates, the timing of cash flows and discount rates used. Note 27 to the Financial Statements gives details of the sensitivity surrounding these estimates.

# Principal Accounting Policies

for the year ended 31 December 2019

## Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer excluding amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer. Where consideration is not specified within the contract and therefore subject to variability, the Group estimates the amount of consideration to be received from its customer. The consideration recognised is the amount which is highly probable not to result in a significant reversal in future periods. Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied by the Group or whether it is a modification to the existing performance obligation.

The Group has some contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. The Group adjusts its transaction price for the time value of money.

The Group's activities are wide-ranging, and as such, depending on the nature of the product or service delivered and the timing of when control is passed to the customer, the Group will account for revenue over time or at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

| Product and Service | Nature, timing of satisfaction of performance obligations and significant payment terms. |
|---|---|
| Construction contracts | Typically, the Group's construction contracts consist of one performance obligation, being delivery of the construction works. However for certain contracts (for example where contracts involve separate phases or products that are not highly interrelated) multiple performance obligations exist. Where multiple performance obligations exist, total revenue is allocated to performance obligations based on the relative standalone selling prices of each performance obligation.<br><br>Revenue attributed to each performance obligation is recognised over time based on the percentage of completion, reflecting the enhancement in value of the customer's asset. The percentage of completion is calculated as the costs incurred to date as a percentage of the total costs expected to satisfy the performance obligation. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the percentage of completion calculation in the period in which the circumstances that give rise to the revision become known.<br><br>Losses are recorded in full when the unavoidable costs of fulfilling a contract exceed the economic benefits.<br><br>Any revenues recognised in excess of amounts invoiced are recognised as contract assets within current assets. Any payments received in excess of revenue recognised are recognised as contract liabilities within current liabilities. |
| Sale of land and properties | Revenue from the sale of land and properties is generally a single performance obligation which is satisfied at the point in time when control of the land and properties has passed, typically on legal completion when legal title has transferred.<br><br>Variable consideration such as overages are estimated based on the amount of consideration the Group expects to be entitled to, taking into account the terms which may give rise to variability and it is only recognised where it is highly probable there will not be a significant future reversal. This is estimated at contract inception and reassessed over the life of the contract.<br><br>Revenue includes the fair value of consideration received or receivable on the sale of part exchange properties. |
| PFI Concession | Revenue from the Group's PFI concession is recognised at the point in time, by the calculation of 'shadow tolls' based on individual vehicle usage of the A69.<br><br>The concession is accounted for in accordance with IFRIC 12 'Service Concession Arrangements' using the intangible asset model. |
| Operating leases (recognised as income under IFRS 16 'Leases') | Revenue from operating leases is recognised on a straight-line basis over the lease term, except for contingent rental income which is recognised when it arises. When the Group provides incentives to its tenants, the cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction to revenue. |
| Plant and equipment hire (recognised as income under IFRS 16 'Leases') | Revenue from plant and equipment hire is measured as the fair value of sales proceeds which relate to the period of account. |

## Critical judgements and estimates in applying IFRS 15 Revenue from Contracts with Customers

The following are the critical judgements and estimates in applying accounting policies that the Directors have made in the process of applying IFRS 15 Revenue from Contracts with Customers and that have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

Estimates in determining the recognition of revenue on construction contracts over time – construction contract revenue is recognised in accordance with the stage of completion of the contract where the contract's outcome can be estimated reliably. The principal method used to recognise the stage of completion of a contract is an in-house or external survey of the work performed and costs to complete.

Judgement in determining the recognition of revenue at a point in time on land sale contracts – there is often judgement involved in evaluating when a customer obtains control of land during a sale, particularly where the contract includes licensing, risk or deferred payment term clauses. In determining the revenue recognition the Directors consider the present right for payment, legal title, physical possession, risks and rewards of ownership and acceptance of the asset in forming their opinion. Where necessary third party advice is taken.

## Interest income and expense

Interest income and expense are recognised within 'Finance income' and 'Finance costs' in the Consolidated Statement of Comprehensive Income using the effective interest rate method, except for borrowing costs relating to qualifying assets, which are capitalised as part of the cost of that asset. The Group has chosen not to capitalise borrowing costs on all qualifying assets which are measured at fair value.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability.

## Leasing

Where the Group acts as a lessee in the case of operating leases, rentals payable are recognised on a straight-line basis over the term of the relevant lease.

## Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liability: The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses an incremental borrowing rate which is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Right-of-use assets: The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset and are now presented within property, plant and equipment.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss in line with the Group's existing impairment accounting policy.

## Share-based payments

Equity-settled share-based payments to employees of the Company and its subsidiary undertakings are measured at fair value of the equity instruments at the date of grant and are expensed on a straight-line basis over the vesting period. Fair value is measured by a Monte Carlo pricing model, taking into account any market performance conditions and excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 31. At each reporting period date, the Group estimates the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision, if any, is recognised in the Consolidated Statement of Comprehensive Income with a corresponding adjustment to equity reserves.

SAYE share options are treated as cancelled when employees cease to contribute to the scheme. This results in accelerated recognition of the expenses that would have arisen over the remainder of the original vesting period.

Details regarding the determination of the fair value of share-based transactions are set out in note 31.

# Principal Accounting Policies

for the year ended 31 December 2019

## Intangible assets excluding goodwill

Intangible assets are stated at cost less accumulated amortisation and impairment. The PFI asset which is accounted for under IFRIC 12 'Service Concession Arrangements' represents the capitalised cost of the initial project, together with the capitalised cost of any additional major works to the road and structures, which are then amortised, on a straight-line basis, over 20 years or the remaining life of the concession. The concession lasts a period of 30 years and has a further seven years to run.

## Property, plant and equipment

Group occupied properties are stated in the Statement of Financial Position at their revalued amounts, being the fair value, based on market values, less any subsequent accumulated depreciation or subsequent accumulated impairment loss. Fair value is determined annually by independent valuers. Surpluses on revaluations are transferred to the revaluation reserve. Deficits on revaluations are charged against the revaluation reserve to the extent that there are available surpluses relating to the same asset and are otherwise charged to the Consolidated Statement of Comprehensive Income.

In respect of land and buildings, depreciation is provided where it is considered significant, having regard to the estimated remaining useful lives and residual values of individual properties.

Equipment held for hire, vehicles and office equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset plus any costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, mainly at the following annual rates:

- Equipment held for hire – between 10% and 50%
- Vehicles – between 10% and 25%
- Office equipment – between 25% and 33%

## Investment property

Investment properties are those properties which are not occupied by the Group and which are held for long-term rental yields, capital appreciation or both. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment properties are initially measured at cost, including related transaction costs.

At each subsequent reporting date, investment properties are remeasured to their fair value; further information regarding the valuation methodologies applied can be found in note 14 to the Financial Statements. Movements in fair value are included in the Consolidated Statement of Comprehensive Income.

Where the Group employs professional valuers, the valuations provided are subject to a comprehensive review to ensure they are based on accurate and up-to-date tenancy information. Discussions are also held with the valuers to test the valuation assumptions applied and comparable evidence utilised to ensure they are appropriate in the circumstances.

Subsequent expenditure is capitalised to the asset's carrying value only where it is probable that the future economic benefits associated with the expenditure will flow to the Group. All other expenditure is expensed to the Consolidated Statement of Comprehensive Income in the period in which it arises.

Investment property is derecognised when it is disposed of at its carrying value.

Where specific investment properties have been identified as being for sale within the next 12 months, a sale is considered highly probable and the property is immediately available for sale, their fair value is shown under assets classified as held-for-sale within current assets, measured in accordance with the provisions of IAS 40 'Investment Property'.

## Inventories

Inventories are stated at the lower of cost and estimated net realisable value and are subject to regular impairment reviews.

Inventories comprise developments in progress, land held for development or sale, options to purchase land and planning promotion agreements.

- Property developments in progress includes properties being developed for onward sale
- Housebuilder land and work in progress includes construction of residential housing for onward sale
- Land held for development or sale is land owned by the Group that is promoted through the planning process in order to gain planning permission, adding value to the land
- Options to purchase land are agreements that the Group entered into with the landowners whereby the Group has the option to purchase the land within a limited time frame. The landowners are not generally permitted to sell to any other party during this period, unless agreed to by the Group. Within the time frame the Group promotes the land through the planning process at its expense in order to gain planning permission. Should the Group be successful in obtaining planning permission it would trigger the option to purchase and subsequently sell on the land
- Planning promotion agreements are agreements that the Group has entered into with the landowners, whereby the Group acts as an agent to the landowners in exchange for a fee of a set percentage of the proceeds or profit of the eventual sale. The Group promotes the land through the planning process at its own expense. If the land is sold the Group will receive a fee for its services
- The Group incurs various costs in promoting land held under planning promotion agreements. In some instances the agreements allow for the Group to be reimbursed certain expenditure following the conclusion of a successful sale, at which point inventory is reduced by the value of the reimbursed cost. These costs are held in inventory at the lower of cost and estimated net realisable value

Inventories comprise all the direct costs incurred in bringing the individual inventories to their present state at the reporting date, including any reimbursable promotion costs, less the value of any impairment losses.

Impairment reviews are considered on a site-by-site or individual development basis by management at each reporting date; write-downs or reversals are made to ensure that inventory is then stated at the lower of cost or net realisable value.

Net realisable value is considered in the light of progress made in the planning process, feedback from local planning officers, development appraisals and other external factors that might be considered likely to influence the eventual outcome. Where it is considered that no future economic benefit will arise, costs are written off to the Consolidated Statement of Comprehensive Income.

Where individual parcels of land held for development are disposed of out of a larger overall development site, costs are apportioned based on an acreage allocation after taking into account the cost or net realisable value of any remaining residual land which may not form part of the overall development site or which may not be available for development. Where the Group retains obligations attached to the development site as a whole, provisions are made relating to these disposals on the same acreage allocation basis.

## Assets classified as held for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

# Principal Accounting Policies

for the year ended 31 December 2019

## Tax

The tax charge on the profit or loss for the year comprises the sum of tax currently payable and any deferred tax movements in the year.

Tax currently payable is based on taxable profit for the year adjusted for any tax payable or repayable in respect of earlier years. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and items that may never be taxable or deductible.

The Group's liability for current taxation is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Corporation tax liabilities of wholly owned subsidiary companies are transferred to and paid by the Parent Company and credit is given by the Parent Company for loss relief surrendered.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in computing taxable profits.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits or gains will be available to allow all or part of the assets to be recovered.

The carrying value of the Group's investment property is assumed to be realised by sale and the deferred tax is then calculated based on the respective temporary differences and tax consequences arising from this assumption.

Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and deferred tax liabilities are offset where the Group has a legally enforceable right to do so and when the deferred tax assets and liabilities relate to tax levied by the same tax authority where there is an intention to settle the balances on a net basis.

## Financial instruments

The Group retains such financial instruments as are required, together with retained earnings, in order to finance the Group's operations.

Financial assets or financial liabilities are recognised by the Group in the Statement of Financial Position only when the Group becomes a party to the contractual provisions of the instrument.

The principal financial instruments are:

- Trade and other receivables are measured initially at fair value and then amortised cost — where the time value of money is material, receivables are amortised using the effective interest rate method (see Interest income and expense on page 137). IFRS 9's simplified approach to provisioning is used to calculate the Group's lifetime expected credit risk;
- Cash and cash equivalents, which comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value with an original maturity of three months or less;
- Trade and other payables which are on normal credit terms, are not interest bearing and are stated at their nominal values — where the time value of money is material, payables are carried at amortised cost using the effective interest rate method (see Interest income and expense on page 137); and
- Borrowings — see below.

## Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

## Government grants

Government grants are recognised at their fair value in the Consolidated Statement of Financial Position, within deferred income, where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Government grants relating to revenue items are released to the Statement of Comprehensive Income and recognised within cost of sales over the period necessary to match the grant on a systematic basis to the costs that they are intended to compensate.

Government grants relating to capital items are released against the carrying value of the grant supported assets when the completion conditions of those assets are met.

## Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that the Group will be required to settle that obligation with an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The land promotion provision represents management's best estimate of the Group's liability to provide infrastructure and services as a result of obligations which remain with the Group following the disposal of land. Where the infrastructure and services obligations relate to developments on which land is being disposed of over a number of phases, provisions are calculated based on an acreage allocation methodology taking into account the expected timing of cash outflows to settle the obligations.

The Group regularly reviews its contract obligations and whether they are considered to be onerous. In the event that the costs of meeting the obligations exceed the economic benefits expected to be received through the life of the development, a provision would be recognised based on discounted cash flows to the end of the contract, to the extent of the costs exceeding the economic benefits.

The road maintenance provision represents management's best estimate of the Group's liability under a five-year rolling programme for the maintenance of the Group's PFI asset.

Other provisions include any liabilities where the Directors anticipate that a present obligation would result in a future outflow of resources, including legal and regulatory penalties or claims, being taken into account in the Financial Statements.

Specific details of the Group's provisions relating to land promotion and road maintenance can be found in note 27 on pages 168 and 169.

## Retirement benefit costs

Payments to the defined contribution retirement benefit scheme are charged as an expense as they fall due.

The cost of providing benefits under the defined benefit retirement scheme is determined using the Projected Unit Credit Method, with actuarial calculations being carried out at each reporting date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised within 'Other comprehensive income' within the Consolidated Statement of Comprehensive Income. The net periodic benefit cost, comprising the employer's share of the service cost and the net interest cost, is charged to the Consolidated Statement of Comprehensive Income. The Group's net obligations in respect of the scheme are calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. This is then discounted to present value and the fair value of the scheme's assets is then deducted.

## Share capital

Ordinary share capital is classified as equity. Preference share capital is classified as equity as it is non-redeemable or is redeemable only at the Company's option and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

## Dividends

Dividends are only recognised in the actual period in which they are declared.

# Principal Accounting Policies

for the year ended 31 December 2019

## Impact of accounting standards and interpretations

At the date of authorisation of these Financial Statements, the following standards, amendments and interpretations to existing standards are effective or mandatory for the first time for the accounting year ended 31 December 2019:

| | | Effective from |
|---|---|---|
| IFRS 16 (issued 2016) | 'Leases' | 1 January 2019 |
| IFRIC 23 (amended 2017) | 'Uncertainty over Income Tax Treatments' | 1 January 2019 |
| IFRS 9 (issued 2017) | 'Payment Features with Negative Compensation' | 1 January 2019 |
| IAS 28 (amended 2017) | 'Long-term Interests in Associates and Joint Ventures' | 1 January 2019 |
| Annual improvements (issued 2017) | 'Annual Improvements to IFRSs 2015–2017 Cycle' | 1 January 2019 |
| IAS 19 (amended 2018) | 'Plan Amendment, Curtailment or Settlement' | 1 January 2019 |

At the date of the authorisation of these Financial Statements, the following standards, amendments and interpretations were in issue but not yet effective:

| | | Effective from |
|---|---|---|
| IFRS 17 (issued 2017) | 'Insurance Contracts' | 1 January 2021* |
| IFRS 3 (amended 2018) | 'Business Combinations' | 1 January 2020* |
| IFRS 9, IAS 39 and IFRS 7 (issued 2019) | Interest Rate Benchmark Reform | 1 January 2020* |
| IAS 1 and IAS 8 (issued 2018) | Definition of Material | 1 January 2020 |
| Amendments to IFRS (issued 2018) | References to the Conceptual Framework in IFRS Standards | 1 January 2020 |

* Not yet endorsed by the EU.

A review of the impact of these standards, amendments and interpretations which are not yet effective has been conducted and the Directors do not believe that they will give rise to any significant financial impact.

In 2019, the Group did not early adopt any new or amended standards and does not plan to early adopt any of the standards issued but not yet effective.

## Adoption of the following standards effective from 1 January 2019 are significant to the Group

### IFRS 16 'Leases'

The Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

### Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was between 2.5% and 3.0%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

| | £'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 2,430 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (190) |
| Add: finance lease liabilities recognised as at 31 December 2018 | 4,428 |
| Add: adjustments as a result of a different treatment of extension and termination options | 277 |
| Less: adjustments relating to changes in the index or rate affecting variable payments | (18) |
| **Lease liability recognised as at 1 January 2019** | 6,927 |
| Of which are: | |
| Current lease liabilities | 2,361 |
| Non-current lease liabilities | 4,566 |
| **At 1 January 2019** | 6,927 |

.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Land and buildings | 1,916 | — |
| Equipment held for hire | 4,428 | — |
| Vehicles | 294 | — |
| **Total right-of-use assets** | **6,638** | — |

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Property, plant and equipment – decrease by £4,142,000;
- Right-of-use assets – increase by £6,487,000; and
- Lease liabilities – increase by £2,499,000.

The net impact on retained earnings on 1 January 2019 was a decrease of £154,000.

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

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an arrangement contains a Lease.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 1. Revenue

Analysis of the Group's revenue is as follows:

| Activity in the United Kingdom | 2019 £'000 | Timing of revenue recognition: At a point in time £'000 | Timing of revenue recognition: Over time £'000 | 2018 £'000 | Timing of revenue recognition: At a point in time £'000 | Timing of revenue recognition: Over time £'000 |
|---|---|---|---|---|---|---|
| Construction contracts: | | | | | | |
| – Construction segment | 81,002 | — | 81,002 | 69,008 | — | 69,008 |
| – Property Investment and Development segment | 114,743 | — | 114,743 | 173,003 | — | 173,003 |
| Sale of land and properties: | | | | | | |
| – Property Investment and Development segment | 27,932 | 27,932 | — | 1,282 | 1,282 | — |
| – Housebuilder unit sales | 43,861 | 43,861 | — | 37,672 | 37,672 | — |
| – Land Promotion | 73,094 | 73,094 | — | 74,727 | 74,727 | — |
| PFI concession | 14,518 | 14,518 | — | 14,832 | 14,832 | — |
| Revenue from contracts with customers | 355,150 | 159,405 | 195,745 | 370,524 | 128,513 | 242,011 |
| Plant and equipment hire | 16,734 | | | 16,858 | | |
| Investment property rental income | 7,102 | | | 8,854 | | |
| Other rental income | 707 | | | 816 | | |
| | 379,693 | | | 397,052 | | |

Contingent rents recognised as income during the year amount to £326,000 (2018: £426,000).

## 2. Segment information

For the purpose of the Board making strategic decisions, the Group is currently organised into three operating segments: Property Investment and Development; Land Promotion; and Construction. Group overheads are not a reportable segment; however, information about them is considered by the Board in conjunction with the reportable segments.

Operations are carried out entirely within the United Kingdom.

Inter-segment sales are charged at prevailing market prices.

During the year, the Property Investment and Development segment made sales to a single external customer amounting to 15.3% (2018: 36.1%) of the Group's total revenue. This related to a single high value contract which commenced in 2016 and continued through to 2019. The Construction segment made sales to a single external customer amounting to 10.8% (2018: 5.9%) of the Group's total revenue. This related to two high-value contracts which commenced in 2018 and continue through to 2021. The segments have a number of other contracts in progress and are not reliant on any major customer individually.

The accounting policies of the reportable segments are the same as the Group's Accounting Policies. The Group's Principal Accounting Policies are described on pages 134 to 143.

Segment profit represents the profit earned by each segment before tax and is consistent with the measure reported to the Group's Board for the purpose of resource allocation and assessment of segment performance.

Revenues from external sales are detailed in note 1.

## 2. Segment information continued

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| **Revenue** | **Property Investment and Development £'000** | **Land Promotion £'000** | **Construction £'000** | **Group overheads £'000** | **Eliminations £'000** | **Total £'000** |
| External sales | 192,225 | 73,213 | 114,255 | — | — | 379,693 |
| Inter-segment sales | 297 | — | 10,886 | 612 | (11,795) | — |
| Total revenue | 192,522 | 73,213 | 125,141 | 612 | (11,795) | 379,693 |
| **Operating profit/(loss)** | 16,354 | 31,038 | 9,045 | (7,535) | — | 48,902 |
| Finance income | 1,326 | 2,074 | 965 | 22,700 | (26,571) | 494 |
| Finance costs | (5,701) | (1,304) | (631) | (2,884) | 8,780 | (1,740) |
| Share of profit/(loss) of joint ventures and associates | 1,449 | (1) | — | — | — | 1,448 |
| **Profit before tax** | 13,428 | 31,807 | 9,379 | 12,281 | (17,791) | 49,104 |
| Tax | (1,205) | (5,947) | (2,145) | (352) | — | (9,649) |
| **Profit for the year** | 12,223 | 25,860 | 7,234 | 11,929 | (17,791) | 39,455 |
| **Other information** | | | | | | |
| Capital additions | 13,428 | 43 | 6,768 | 866 | — | 21,105 |
| Depreciation | 397 | 32 | 4,727 | 754 | — | 5,910 |
| Impairment | — | — | 205 | — | — | 205 |
| Amortisation | — | — | 555 | — | — | 555 |
| Increase in fair value of investment properties | 2,370 | — | — | — | — | 2,370 |
| Provisions | — | 671 | 1,237 | — | — | 1,908 |
| Pension scheme credit | — | — | — | (1,683) | — | (1,683) |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| **Revenue** | Property Investment and Development £'000 | Land Promotion £'000 | Construction £'000 | Group overheads £'000 | Eliminations £'000 | Total £'000 |
| External sales | 221,546 | 74,808 | 100,698 | — | — | 397,052 |
| Inter-segment sales | 325 | — | 2,229 | 647 | (3,201) | — |
| Total revenue | 221,871 | 74,808 | 102,927 | 647 | (3,201) | 397,052 |
| **Operating profit/(loss)** | 20,114 | 27,935 | 8,932 | (7,784) | — | 49,197 |
| Finance income | 1,112 | 1,679 | 867 | 18,206 | (21,589) | 275 |
| Finance costs | (6,149) | (1,103) | (556) | (2,679) | 8,789 | (1,698) |
| Share of profit of joint ventures and associates | 830 | — | — | — | — | 830 |
| **Profit before tax** | 15,907 | 28,511 | 9,243 | 7,743 | (12,800) | 48,604 |
| Tax | (2,047) | (5,285) | (1,836) | 939 | — | (8,229) |
| **Profit for the year** | 13,860 | 23,226 | 7,407 | 8,682 | (12,800) | 40,375 |
| **Other information** | | | | | | |
| Capital additions | 4,661 | — | 5,273 | 676 | — | 10,610 |
| Depreciation | 208 | 13 | 4,381 | 768 | — | 5,370 |
| Impairment | — | — | 204 | — | — | 204 |
| Amortisation | — | — | 497 | — | — | 497 |
| Decrease in fair value of investment properties | (92) | — | — | — | — | (92) |
| Provisions | — | 1,524 | 1,881 | — | — | 3,405 |
| Pension scheme debit | — | — | — | 84 | — | 84 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 2. Segment information continued

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Segment assets** | | |
| Property Investment and Development | 198,024 | 238,809 |
| Land Promotion | 164,300 | 152,573 |
| Construction | 42,667 | 34,637 |
| Group overheads | 3,417 | 2,772 |
| | 408,408 | 428,791 |
| **Unallocated assets** | | |
| Deferred tax assets | 4,538 | 3,487 |
| Cash and cash equivalents | 42,303 | 10,856 |
| **Total assets** | 455,249 | 443,134 |
| **Segment liabilities** | | |
| Property Investment and Development | 32,321 | 31,300 |
| Land Promotion | 19,663 | 31,974 |
| Construction | 39,583 | 25,553 |
| Group overheads | 2,216 | 2,173 |
| | 93,783 | 91,000 |
| **Unallocated liabilities** | | |
| Current tax liabilities | 4,680 | 3,897 |
| Current lease liabilities | 2,052 | — |
| Current borrowings | 9,981 | 24,119 |
| Non-current lease liabilities | 2,585 | — |
| Non-current borrowings | 717 | 5,096 |
| Retirement benefit obligations | 22,965 | 16,710 |
| **Total liabilities** | 136,763 | 140,822 |
| **Total net assets** | 318,486 | 302,312 |

## 3. Operating profit

Operating profit has been arrived at after charging/(crediting):

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment (note 12) | 4,661 | 5,370 |
| Depreciation of right-of-use assets (note 13) | 1,250 | — |
| Impairment of goodwill included in administrative expenses (note 11) | 205 | 204 |
| Amortisation of PFI asset included in cost of sales (note 11) | 555 | 497 |
| Amortisation of capitalised letting fees (note 14) | 18 | 100 |
| Loss on sale of assets held for sale | 56 | 36 |
| Impairment losses recognised on trade receivables (note 18) | 514 | 65 |
| Property rentals under operating leases | — | 481 |
| (Increase)/decrease in fair value of investment property (note 14) | (2,370) | 92 |
| Cost of inventories recognised as expense | 93,645 | 74,226 |
| Employee costs | 35,471 | 34,001 |
| Amounts payable to Mazars LLP by Road Link (A69) Limited in respect of audit services | 8 | 8 |
| Profit on sale of property, plant and equipment | (1,106) | (891) |

## 3. Operating profit continued

The remuneration paid to PricewaterhouseCoopers LLP, the Company's external auditors, was as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Fees payable for the audit of the Company's annual Financial Statements and Consolidated Financial Statements | 92 | 92 |
| Fees payable to the auditors and their associates for other services: | | |
| – audit of the Company's subsidiaries pursuant to legislation | 230 | 134 |
| Total audit fees | 322 | 226 |
| Other services | 28 | 23 |
| Total non-audit fees | 28 | 23 |
| Total fees | 350 | 249 |

Non-audit services relate to a review of the Group's half year results and the provision of the TSR comparator group report.

## 4. Employee costs

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Wages and salaries | 26,334 | 24,173 | 3,629 | 3,204 |
| Share-based payment expense | 826 | 659 | 354 | 329 |
| Social security costs | 3,394 | 2,934 | 571 | 409 |
| Defined benefit pension costs (see note 28) | 2,130 | 3,739 | 119 | 1,733 |
| Defined contribution pension costs (see note 28) | 2,255 | 2,198 | 244 | 255 |
| Other pension costs | 90 | 38 | 12 | 19 |
| | 35,029 | 33,741 | 4,929 | 5,949 |

The average monthly number of employees during the year, including Executive Directors, was:

| | 2019 Number | 2018 Number |
|---|---|---|
| Property Investment and Development | 99 | 101 |
| Land Promotion | 33 | 34 |
| Construction | 182 | 175 |
| Plant Hire | 150 | 151 |
| Parent Company | 66 | 63 |
| | 530 | 524 |

## 5. Finance income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Interest on bank deposits | 49 | 32 |
| Interest on other loans and receivables | 176 | 56 |
| Unwinding of discounting | 269 | 187 |
| | 494 | 275 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 6. Finance costs

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Interest on bank loans and overdrafts | 1,027 | 990 |
| Interest on other loans and payables | 272 | 243 |
| Unwinding of discounting: trade payables and borrowings | 441 | 458 |
| Unwinding of discounting: provisions (note 27) | — | 7 |
| | 1,740 | 1,698 |

## 7. Tax

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax on profits for the year | 9,057 | 9,017 |
| Adjustments in respect of earlier years | 184 | (860) |
| **Total current tax** | 9,241 | 8,157 |
| Deferred tax (note 19): | | |
| Origination and reversal of temporary differences | 408 | 72 |
| **Total deferred tax** | 408 | 72 |
| **Total tax** | 9,649 | 8,229 |

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year.

As a result of the change in the UK corporation tax rate from 19% to 17% effective from 1 April 2020, substantively enacted on 6 September 2016, deferred tax balances at the year end have been measured at 17% (2018: 17%) being the rate at which timing differences are expected to reverse.

The charge for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Profit before tax | 49,104 | 48,604 |

| | 2019 % | 2018 % |
|---|---|---|
| Tax at the UK corporation tax rate | 19.00 | 19.00 |
| Effects of: | | |
| Permanent differences | 0.14 | 0.19 |
| Capital gains | 0.87 | (0.31) |
| Tax losses for which no deferred tax asset is recognised being £(184,000) (2018: £860,000) | (0.16) | 0.14 |
| Adjustment in respect of earlier years | 0.37 | (1.77) |
| Joint venture results reported net of tax | (0.56) | (0.32) |
| Effective tax rate | 19.66 | 16.93 |

The tax charge in the year is higher (2018: lower) than the standard rate of corporation tax predominantly due to capital gains on the disposal of investment property (2018: a prior year adjustment relating to non-taxable capital gains).

In addition to the amount charged to profit for the year, the following amounts relating to tax have been recognised in other comprehensive income:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Deferred tax: | | |
| – actuarial loss/(gain) | 1,350 | (1,054) |
| Total tax recognised in other comprehensive (expense)/income | 1,350 | (1,054) |

## 8. Results of Parent Company

As permitted by Section 408 of the Companies Act 2006, the Statement of Comprehensive Income of the Parent Company is not presented as part of these Financial Statements. The profit dealt with in the Financial Statements of the Parent Company and approved by the Board on 20 May 2020 is £12,350,000 (2018: £19,367,000) and includes dividends received from subsidiaries of £17,180,000 (2018: £12,300,000).

## 9. Earnings per ordinary share

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Profit for the year | 39,455 | 40,375 |
| Non-controlling interests | (1,859) | (2,870) |
| Preference dividend | (21) | (21) |
| | 37,575 | 37,484 |

| | 2019 No. | 2018 No. |
|---|---|---|
| Weighted average number of shares in issue | 133,152,616 | 133,119,785 |
| Less shares held by the ESOP on which dividends have been waived | (537,214) | (533,309) |
| Weighted average number for basic earnings per share | 132,615,402 | 132,586,476 |
| Adjustment for the effects of dilutive potential ordinary shares | 1,126,464 | 1,118,671 |
| Weighted average number for diluted earnings per share | 133,741,866 | 133,705,147 |

| | 2019 | 2018 |
|---|---|---|
| Basic earnings per share | 28.3p | 28.3p |
| Diluted earnings per share | 28.1p | 28.0p |

The Group has two types of dilutive potential ordinary shares being: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; and expected future vesting of shares under the 2015 Long Term Incentive Plan.

## 10. Dividends

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| Preference dividend on cumulative preference shares | 21 | 21 |
| Final dividend for the year ended 31 December 2018 of 5.80p per share (2017: 5.20p) | 7,691 | 6,895 |
| Interim dividend for the year ended 31 December 2019 of 3.70p per share (2018: 3.20p) | 4,909 | 4,245 |
| | 12,621 | 11,161 |

The proposed final dividend for the year ended 31 December 2019 of 1.30p per share (2018: 5.80p) makes a total dividend for the year of 5.00p (2018: 9.00p).

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 dividend to be paid is £1,724,000.

Notice has been received from Moore Street Securities Limited waiving its right as corporate trustee for the Employee Share Ownership Plan ('ESOP') to receive all dividends in respect of this and the previous financial year.

Dividends paid to non-controlling interests during the year amounted to £2,445,000 (2018: £2,440,000).

# Notes to the Financial Statements

for the year ended 31 December 2019

## 11. Intangible assets

| | Goodwill £'000 | PFI asset £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At1 January 2018 | 4,973 | 17,782 | 22,755 |
| Additions at cost | — | 417 | 417 |
| At 31 December 2018 | 4,973 | 18,199 | 23,172 |
| Additions at cost | **2,015** | **491** | **2,506** |
| **At 31 December 2019** | **6,988** | **18,690** | **25,678** |
| **Accumulated impairment losses and amortisation** | | | |
| At1 January 2018 | 2,712 | 14,682 | 17,394 |
| Amortisation | — | 497 | 497 |
| Impairment losses for the year | 204 | — | 204 |
| At 31 December 2018 | 2,916 | 15,179 | 18,095 |
| Amortisation | **—** | **555** | **555** |
| Impairment losses for the year | **205** | **—** | **205** |
| **At 31 December 2019** | **3,121** | **15,734** | **18,855** |
| **Carrying amount** | | | |
| **At 31 December 2019** | **3,867** | **2,956** | **6,823** |
| At 31 December 2018 | 2,057 | 3,020 | 5,077 |
| At 31 December 2017 | 2,261 | 3,100 | 5,361 |

During the year, the Group acquired the entire share capital of Starfish Commercial Limited, further information on the acquisition can be found in note 36. The assets and liabilities acquired will be hived-up following the year end into the immediate parent company Henry Boot Construction Limited, which sits in the Construction segment. The goodwill arising on the acquisition, which has a current net book value of £2,015,000, represents the excess of consideration over net assets acquired and is subject to an impairment test at the reporting date. The cash generating unit assessed for impairment is the legal entity Starfish Commercial Limited. Impairment calculations use pre-tax cash flow projections including revenue growth which reflects the Company's current pipeline of opportunities and management's future expectations. Management estimates discount rates that reflect current market assessments of the time value of money and risk specific to the cash generating unit of 3.5%.

The Group's acquisition of the trade and assets of Premier Plant Tool Hire & Sales Limited, were immediately hived up into the immediate parent company Banner Plant Limited, which sits in the Construction segment. The goodwill arising on the acquisition which has a current net book value of £903,000 (2018: £ 903,000), represents the excess of consideration over net assets acquired and is subject to an impairment test at the reporting date. The cash generating units assessed for impairment are the Leicester depots of Banner Plant Limited which were formerly Premier Plant Tool Hire & Sales Limited only operational sites. Impairment calculations use pre-tax cash flow projections including revenue growth of 3.0% per annum into perpetuity which reflects past experience and management's future expectations. Management estimates discount rates that reflect current market assessments of the time value of money and risk specific to the cash generating unit of 3.5%.

The Group's investment in Road Link (A69) Holdings Limited is 61.2%. The goodwill arising on the acquisition which has a current net book value of £949,000 (2018: £1,154,000) represents the excess of consideration over net assets acquired and is subject to an impairment test at the reporting date. This company's subsidiary, Road Link (A69) Limited, operates a PFI concession which comprises managing and maintaining the A69 Carlisle to Newcastle trunk road. The Company receives payment from Highways England based on the number and type of vehicles using the road. The concession lasts for a period of 30 years and has a further six years to run, at the end of which the road reverts to Highways England. Whilst the impairment test demonstrates significant headroom based on forecast levels of return being consistent with prior years, an impairment charge of £205,000 (2018: £204,000) has been recognised during the year. This reflects the fact that the PFI concession will revert to Highways England at the end of the 30-year period, at which point no goodwill should remain. There were no significant changes to these arrangements during the year.

Amortisation of the PFI asset is recognised within cost of sales in the Consolidated Statement of Comprehensive Income.

Although the Companies Act 2006 Section 390(5) requires a coterminous year end, the subsidiary company's accounting reference date is 31 March in order to align with Highways England's financial year end and hence interim Financial Statements are prepared for incorporation into these Consolidated Financial Statements.

## 12. Property, plant and equipment

| Group | Land and buildings £'000 | Equipment held for hire £'000 | Vehicles £'000 | Office equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or fair value** | | | | | |
| At 1 January 2018 | 8,442 | 37,626 | 5,684 | 3,830 | 55,582 |
| Additions at cost | 153 | 4,357 | 1,071 | 240 | 5,821 |
| Disposals | — | (3,015) | (823) | (145) | (3,983) |
| Transfers to inventory | (200) | — | — | — | (200) |
| Decrease in fair value in year | (153) | — | — | — | (153) |
| At 31 December 2018 | 8,242 | 38,968 | 5,932 | 3,925 | 57,067 |
| Transfer to right-of-use asset | **—** | **(4,528)** | **(680)** | **—** | **(5,208)** |
| Additions at cost | **4** | **3,700** | **1,343** | **255** | **5,302** |
| Acquisition of subsidiary | **—** | **—** | **—** | **22** | **22** |
| Disposals | **—** | **(2,934)** | **(1,205)** | **(892)** | **(5,031)** |
| Transfers to right-of-use asset | **—** | **469** | **54** | **—** | **523** |
| Decrease in fair value in year | **(404)** | **—** | **—** | **—** | **(404)** |
| **At 31 December 2019** | **7,842** | **35,675** | **5,444** | **3,310** | **52,271** |
| Being: | | | | | |
| Cost | **—** | **35,675** | **5,444** | **3,310** | **44,429** |
| Fair value at 31 December 2019 | **7,842** | **—** | **—** | **—** | **7,842** |
| | **7,842** | **35,675** | **5,444** | **3,310** | **52,271** |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 January 2018 | 342 | 23,757 | 2,584 | 2,414 | 29,097 |
| Charge for year | — | 3,922 | 865 | 583 | 5,370 |
| Eliminated on disposals | — | (2,791) | (630) | (140) | (3,561) |
| At 31 December 2018 | 342 | 24,888 | 2,819 | 2,857 | 30,906 |
| Transfer to right-of-use asset | **—** | **(967)** | **(89)** | **—** | **(1,056)** |
| Charge for year | **—** | **3,353** | **791** | **517** | **4,661** |
| Transfer from/(to) right-of-use asset | **—** | **164** | **24** | **—** | **188** |
| Eliminated on disposals | **—** | **(2,585)** | **(997)** | **(861)** | **(4,443)** |
| **At 31 December 2019** | **342** | **24,853** | **2,548** | **2,513** | **30,256** |
| **Carrying amount** | | | | | |
| **At 31 December 2019** | **7,500** | **10,822** | **2,896** | **797** | **22,015** |
| At 31 December 2018 | 7,900 | 14,080 | 3,113 | 1,068 | 26,161 |
| At 31 December 2017 | 8,100 | 13,869 | 3,100 | 1,416 | 26,485 |

At 31 December 2019, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £898,000 (2018: £331,000).

### Fair value measurements of the Group's land and buildings

Land and buildings have been revalued at 31 December 2019 by Jones Lang LaSalle Limited and Dove Haigh Phillips LLP in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards on the basis of market value at £7,500,000 (2018: £7,900,000). Jones Lang LaSalle Limited and Dove Haigh Phillips LLP are professional valuers who hold recognised and professional qualifications and have recent experience in the location and category of the land and buildings being valued.

The valuation conforms to International Valuation Standards and was based on recent market transactions with similar characteristics and location using the yield method valuation technique. The yield method of valuation involves applying market-derived capitalisation yields, and the actual or market-derived future income streams where appropriate, with adjustments for letting voids or rent-free periods as applicable to each item of land and buildings.

On the historical cost basis, the land and buildings would have been included at a carrying amount of £4,507,000 (2018: £4,653,000).

# Notes to the Financial Statements

for the year ended 31 December 2019

## 12. Property, plant and equipment continued

The following table provides an analysis of the fair values of land and buildings by the degree to which the fair value is observable:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | **2019 £'000** | 2018 £'000 | **Decrease in year £'000** |
|---|---|---|---|---|---|---|
| Freehold land | — | — | 60 | **60** | 60 | **–** |
| Buildings | — | — | 7,440 | **7,440** | 7,840 | **(400)** |
| Total fair value | — | — | 7,500 | **7,500** | 7,900 | **(400)** |

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that causes the transfer. The Directors determine the applicable hierarchy that land and buildings fall into by assessing the level of comparable evidence in the market which that asset falls into and the inherent level of activity. As at the reporting date and throughout the year, all land and buildings were determined to fall into Level 3 and so there were no transfers between hierarchies.

Explanation of the fair value hierarchy:

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 – fair value measurements are those derived from the use of a model with inputs (other than quoted prices included in Level 1) that are observable from directly or indirectly observable market data; and

Level 3 – fair value measurements are those derived from use of a model with inputs that are not based on observable market data.

Information about fair value measurements using significant unobservable inputs (Level 3):

| Class | | Buildings |
|---|---|---|
| Valuation technique | | Yield |
| Rental value per sq ft (£) | – weighted average | 6.41 |
| | – low | 2.34 |
| | – high | 16.25 |
| Yield % | – weighted average | 8.66 |
| | – low | 6.75 |
| | – high | 15.23 |

The sensitivity analysis to significant changes in unobservable inputs relating to fair value measurements (Level 3) are set out below:

| | Impact on valuation £'000 Buildings |
|---|---|
| Yield – movement by 0.5% | 430 |
| Rental value per sq ft – movement of £1 average | 1,163 |

The sensitivities have been selected by management on the basis that they consider these measures to be a reasonable expectation of likely changes to the significant unobservable inputs in the next 12 months.

## 12. Property, plant and equipment continued

| Parent Company | Office equipment £'000 |
|---|---|
| **Cost** | |
| At 1 January 2018 | 1,015 |
| Additions | 122 |
| Disposals | (107) |
| At 31 December 2018 | 1,030 |
| Additions | 84 |
| Disposals | (100) |
| **At 31 December 2019** | **1,014** |
| Accumulated depreciation | |
| At 1 January 2018 | 456 |
| Charge for year | 217 |
| Disposals | (102) |
| At 31 December 2018 | 571 |
| Charge for year | 209 |
| Disposals | (97) |
| **At 31 December 2019** | **683** |
| **Carrying amount** | |
| **At 31 December 2019** | **331** |
| At 31 December 2018 | 459 |
| At 31 December 2017 | 559 |

## 13. Leases

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Right-of-use assets** | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 |
| Land and buildings | 1,787 | — | — | — |
| Equipment held for hire | 3,866 | — | — | — |
| Vehicles | — | — | 70 | — |
| Office equipment | 432 | — | 90 | — |
| | 6,085 | — | 160 | — |
| **Lease liabilities** | | | | |
| Due within one year | 2,052 | — | 57 | — |
| Due after more than one year | 2,585 | — | 108 | — |
| | 4,637 | — | 165 | — |
| Contractual maturities of lease liabilities including future interest: | | | | |
| On demand or within one year | 2,154 | — | 61 | — |
| In the second year | 1,825 | — | 89 | — |
| In the third to fifth years inclusive | 609 | — | 22 | — |
| In more than five years | 277 | — | — | — |
| Total contractual cash flows | 4,865 | — | 172 | — |
| Future finance charges on lease liabilities | (228) | — | (7) | — |
| Present value of contractual cash flows | 4,637 | — | 165 | — |

Additions to the right-of-use assets during the 2019 financial year were £1,347,000 for the Group and £32,000 for the Parent Company.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 13. Leases continued

The statement of profit or loss shows the following amounts relating to leases:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | **2019 £'000** | 2018 £'000 | **2019 £'000** | 2018 £'000 |
| Depreciation charge of right-of-use assets | | | | |
| Land and buildings | 428 | — | — | — |
| Equipment held for hire | 734 | — | — | — |
| Vehicles | — | — | 36 | — |
| Office equipment | 88 | — | 24 | — |
| | 1,250 | — | 60 | — |
| Interest expense (included in finance cost) | 73 | — | 5 | — |

The total cash outflow for leases in 2019 was £1,420,000.

The Group leases various offices, equipment and vehicles. Rental contracts are typically made for fixed periods of 4 to 10 years and may have extension options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases, see the accounting policies for details. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

## 13. Leases continued

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

## 14. Investment properties

### Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of the fair values of investment properties recognised in the Statement of Financial Position by the degree to which the fair value is observable:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | **2019 £'000** | 2018 £'000 | Increase/ (decrease) in year £'000 |
|---|---|---|---|---|---|---|
| **Completed investment property** | | | | | | |
| Industrial | — | — | 15,900 | **15,900** | 26,400 | (10,500) |
| Leisure | — | — | 11,044 | **11,044** | 10,777 | 267 |
| Mixed-use | — | — | 8,823 | **8,823** | 53,417 | (44,594) |
| Residential | — | — | 3,704 | **3,704** | 3,286 | 418 |
| Office | — | — | 12,000 | **12,000** | 13,200 | (1,200) |
| Retail | — | — | 10,293 | **10,293** | 10,480 | (187) |
| | — | — | 61,764 | **61,764** | 117,560 | (55,796) |
| **Investment property under construction** | | | | | | |
| Industrial | — | — | 3,634 | **3,634** | 271 | 3,363 |
| Land | — | — | 714 | **714** | 714 | — |
| Retail | — | — | 3,890 | **3,890** | 2,430 | 1,460 |
| | — | — | 8,238 | **8,238** | 3,415 | 4,823 |
| **Total fair value** | — | — | 70,002 | **70,002** | 120,975 | (50,973) |

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that causes the transfer. The Directors determine the applicable hierarchy that a property falls into by assessing the level of comparable evidence in the market which that asset falls into and the inherent level of activity. As at the reporting date and throughout the year, all property was determined to fall into Level 3 and so there were no transfers between hierarchies.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 14. Investment properties continued

Explanation of the fair value hierarchy:

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 – fair value measurements are those derived from the use of a model with inputs (other than quoted prices included in Level 1) that are observable from directly or indirectly observable market data; and

Level 3 – fair value measurements are those derived from use of a model with inputs that are not based on observable market data.

Investment properties have been split into different classes to show the composition of the investment property portfolio of the Group as at the reporting date. Management has determined that aggregation of the results would be most appropriate based on the type of use that each property falls into, which is described below:

| Class | |
|---|---|
| Industrial | Includes manufacturing and warehousing, which are usually similar in dimensions and construction method. |
| Leisure | Includes restaurants and gymnasiums or properties in which the main activity is the provision of entertainment and leisure facilities to the public. |
| Mixed-use | Includes schemes where there are different types of uses contained within one physical asset, the most usual combination being retail, office and leisure. |
| Residential | Includes dwellings under assured tenancies. |
| Retail | Includes any property involved in the sale of goods. |
| Land | Includes land held for future capital appreciation as an investment. |
| Office | Includes buildings occupied for business activities not involving storage or processing of physical goods. |

Investment properties under construction are categorised based on the future anticipated highest and best use of the property.

### Completed investment property

| Class<br>Fair value hierarchy | Industrial<br>Level 3<br>£'000 | Leisure<br>Level 3<br>£'000 | Mixed-use<br>Level 3<br>£'000 | Residential<br>Level 3<br>£'000 | Office<br>Level 3<br>£'000 | Retail<br>Level 3<br>£'000 | **2019**<br>**£'000** | 2018<br>£'000 |
|---|---|---|---|---|---|---|---|---|
| **Fair value** | | | | | | | | |
| At 1 January | 26,400 | 10,777 | 53,417 | 3,286 | 13,200 | 10,480 | **117,560** | 126,604 |
| Subsequent expenditure on investment property | 1,989 | 115 | 90 | — | 88 | 2 | **2,284** | 4,207 |
| Capitalised letting fees | — | 64 | 51 | — | — | — | **115** | 387 |
| Amortisation of capitalised letting fees | — | (7) | (9) | — | — | (2) | **(18)** | (100) |
| Disposals | — | — | (19,984) | (233) | — | — | **(20,217)** | (13,595) |
| Transfers to assets held for sale | (18,330) | — | (25,514) | — | — | — | **(43,844)** | — |
| Transfers from investment property under construction | 4,500 | — | — | — | — | — | **4,500** | — |
| Increase/(decrease) in fair value in year | 1,341 | 95 | 772 | 651 | (1,288) | (187) | **1,384** | 57 |
| **At 31 December** | 15,900 | 11,044 | 8,823 | 3,704 | 12,000 | 10,293 | **61,764** | 117,560 |
| Adjustment in respect of tenant incentives | — | 231 | 77 | — | — | 157 | **465** | 1,502 |
| **Market value at 31 December** | 15,900 | 11,275 | 8,900 | 3,704 | 12,000 | 10,450 | **62,229** | 119,062 |

## 14. Investment properties continued

There is no actively traded market for the Group's commercial property and as such the adopted valuation is completed using the professional judgement of the Group's professional valuers, who use the yield method to determine fair value. The calculation of the capital value of a property under this method uses a yield to multiple against the rental income stream with due allowance for a fixed assumed purchaser's cost. The primary variables of the yield method are thus: the yield, which is based on historic yields for properties that are similar but to which there may be adjustment to take into account, factors such as geographical location and lease terms; and the contracted rent, which is based on contracted rents that exist at the balance sheet date, but may also include a provision for rents that may be achieved in the future after accounting for a period of vacancy, such rents being based on rental income terms that exist in similar properties, adjusted for geographic location and lease terms.

With the exception of the residential class, completed investment property has been revalued at 31 December 2019 by Jones Lang LaSalle Limited or Dove Haigh Phillips LLP in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Standards on the basis of market value at £58,525,000 (2018: £115,777,000). Jones Lang LaSalle Limited and Dove Haigh Phillips LLP are professional valuers who hold recognised and professional qualifications and have recent experience in the location and category of the investment property being valued. The valuation conforms to International Valuation Standards and was based on recent market transactions with similar characteristics and location using the yield method valuation technique. The yield method of valuation involves applying market-derived capitalisation yields, and the actual or market-derived future income streams where appropriate, with adjustments for letting voids or rent-free periods as applicable to each property. For all investment properties, their current use equates to the highest and best use.

Residential properties are valued using recent comparable sales transactions with a significant unobservable input being the discount used, to reflect the lower value achieved where properties are held under an assured tenancy, that typically earn a low market level of rent. The discount applied recognises that the value is higher where the house is offered with the benefit of vacant possession at the end of the assured tenancy.

The fair value of the residential class at 31 December 2019 has been determined by the Directors of the Company at £3,704,000 (2018: £3,286,000). The fair value takes into account market evidence based on recent comparable sale transactions adjusted to take into account the tenanted nature of the properties.

Information about fair value measurements using significant unobservable inputs (Level 3):

| | | 2019 | | | | | |
|---|---|---|---|---|---|---|---|
| **Class** | | **Industrial** | **Leisure** | **Mixed-use** | **Residential** | **Office** | **Retail** |
| Valuation technique | | Yield | Yield | Yield | Sales comparison | Yield | Yield |
| Rental value per sq ft (£) | – weighted average | **3.97** | **12.40** | **36.21** | **–** | **22.87** | **15.86** |
| | – low | **3.75** | **1.67** | **7.50** | **–** | **24.00** | **11.00** |
| | – high | **5.50** | **45.05** | **63.39** | **–** | **25.00** | **21.40** |
| Yield % | – weighted average | **6.26** | **4.49** | **9.78** | **–** | **7.86** | **5.62** |
| | – low | **5.14** | **5.32** | **6.25** | **–** | **6.34** | **4.80** |
| | – high | **8.64** | **7.86** | **12.00** | **–** | **7.00** | **7.50** |
| % discount applied to houses held under assured tenancies | | **–** | **–** | **–** | **25.00** | **–** | **–** |

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| Class | | Industrial | Leisure | Mixed-use | Residential | Office | Retail |
| Valuation technique | | Yield | Yield | Yield | Sales comparison | Yield | Yield |
| Rental value per sq ft (£) | – weighted average | 3.96 | 12.49 | 14.11 | – | 23.28 | 15.71 |
| | – low | 3.49 | 1.67 | 2.70 | – | 19.46 | 11.00 |
| | – high | 4.53 | 40.86 | 63.39 | – | 24.97 | 21.41 |
| Yield % | – weighted average | 5.52 | 4.71 | 8.16 | – | 7.48 | 5.48 |
| | – low | 5.44 | 5.24 | 5.25 | – | 6.65 | 4.67 |
| | – high | 7.36 | 7.86 | 12.00 | – | 6.79 | 7.60 |
| % discount applied to houses held under assured tenancies | | – | – | – | 25.00 | – | – |

There is considered to be no inter-relationship between observable and unobservable inputs.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 14. Investment properties continued

The sensitivity analysis to significant changes in unobservable inputs relating to fair value measurements (Level 3) is set out below:

| | Impact on valuation 2019 £'000 | | | | | |
|---|---|---|---|---|---|---|
| | Industrial | Leisure | Mixed-use | Residential | Office | Retail |
| Yield – improvement by 0.5% | 1,298 | 1,117 | 436 | — | 772 | 1,029 |
| Rental value per sq ft – increase by £1 average | 3,935 | 847 | 248 | — | 556 | 759 |
| Tenancy discount – increase by 1% | — | — | — | 50 | — | — |

| | Impact on valuation 2018 £'000 | | | | | |
|---|---|---|---|---|---|---|
| | Industrial | Leisure | Mixed-use | Residential | Office | Retail |
| Yield – improvement by 0.5% | 2,266 | 1,048 | 3,257 | — | 835 | 1,070 |
| Rental value per sq ft – increase by £1 average | 6,561 | 839 | 4,064 | — | 577 | 772 |
| Tenancy discount – increase by 1% | — | — | — | 69 | — | — |

The sensitivities have been selected by management on the basis that it considers these measures to be a reasonable expectation of likely changes to the significant unobservable inputs in the next 12 months.

The property rental income earned by the Group from its occupied investment property, all of which is leased out under operating leases, amounted to £7,102,000 (2018: £8,854,000). Direct operating expenses arising on investment property generating rental income in the year amounted to £1,142,000 (2018: £331,000). Direct operating expenses arising on the investment property which did not generate rental income during the year amounted to £183,000 (2018: £1,160,000).

At 31 December 2019, the Group had entered into contractual commitments for the acquisition and repair of investment property amounting to £nil (2018: £nil).

### Investment property under construction

| Class<br>Fair value hierarchy | Industrial<br>Level 3<br>£'000 | Land<br>Level 3<br>£'000 | Retail<br>Level 3<br>£'000 | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|---|---|
| **Fair value** | | | | | |
| At 1 January | 271 | 714 | 2,430 | 3,415 | 6,173 |
| Subsequent expenditure on investment property | 7,002 | — | 3,893 | 10,895 | 165 |
| Capitalised letting fees | — | — | 5 | 5 | 147 |
| Disposals | (125) | — | (2,438) | (2,563) | (2,921) |
| Transfers to completed investment property | (4,500) | — | — | (4,500) | — |
| Increase/(decrease) in fair value in year | 986 | — | — | 986 | (149) |
| **At 31 December** | 3,634 | 714 | 3,890 | 8,238 | 3,415 |
| Adjustment in respect of tenant incentives | — | — | — | — | — |
| **Market value at 31 December** | 3,634 | 714 | 3,890 | 8,238 | 3,415 |

## 14. Investment properties continued

Information about fair value measurements using significant unobservable inputs (Level 3):

| | | 2019 | | |
|---|---|---|---|---|
| **Class** | | **Industrial** | **Land** | **Retail** |
| Valuation technique | | Residual | Sales comparison | Residual |
| Land value per acre (£'000) | – weighted average | — | 487 | 1,271 |
| | – low | — | 99 | 1,271 |
| | – high | — | 2,168 | 1,271 |

| | | 2018 | | |
|---|---|---|---|---|
| Class | | Industrial | Land | Retail |
| Valuation technique | | Residual | Sales comparison | Residual |
| Land value per acre (£'000) | – weighted average | 100 | 103 | 448 |
| | – low | 100 | 103 | 200 |
| | – high | 100 | 103 | 994 |

The sensitivity analysis to significant changes in unobservable inputs relating to fair value measurements (Level 3) is set out below:

| | **Impact on valuation 2019 £'000** | | |
|---|---|---|---|
| | **Industrial** | **Land** | **Retail** |
| Land value per acre – increase by 5% | — | 217 | 194 |

| | Impact on valuation 2018 £'000 | | |
|---|---|---|---|
| | Industrial | Land | Retail |
| Land value per acre – increase by 5% | — | 163 | — |

Investment properties under construction are developments which have been valued at 31 December 2019 at fair value by the Directors of the Company using the residual method at £8,238,000 (2018: £3,415,000). The residual method of valuation involves estimating the gross development value of the property using market-derived capitalisation yields and market-derived future income streams. From this gross development value the remaining gross development costs to be incurred are deducted, using market-derived data cost estimates or the actual known costs and including cost contingencies for construction risk as appropriate. In addition, a deduction for the anticipated development profits yet to be earned is made, taking into account the progress of the development to date in line with key milestones.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 15. Investments

| Parent Company – shares in Group undertakings | Total £'000 |
|---|---|
| Cost | |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | 35,772 |
| Fair value adjustments | |
| At 1 January 2018 | (12,040) |
| Reversal of provisions for losses | 10,354 |
| At 31 December 2018 | (1,686) |
| Reversal of provisions for losses | 3,935 |
| At 31 December 2019 | 2,249 |
| Carrying amount | |
| At 31 December 2019 | 38,021 |
| At 31 December 2018 | 34,086 |
| At 31 December 2017 | 23,732 |

The original cost of shares has been reduced by provisions for losses where necessary and enhanced where the Directors have considered it appropriate to reflect the valuation increases of a permanent nature in the underlying net asset values of subsidiary companies. Such enhancements were £1,115,000 in 1975 and £1,135,000 in 1989.

The improved net assets position of Henry Boot Developments in the current year gives rise to the reversal of provisions for losses previously recognised. The impairment reversals are included in the Parent Company's profit and loss.

Amounts due from and to subsidiary companies are listed in notes 18 and 23 and details of all subsidiary companies are listed in note 38. All trading subsidiaries operate in the United Kingdom and are wholly owned, with the exception of:

- Road Link (A69) Holdings Limited which is 61.2% owned by Henry Boot Construction Limited;
- Capitol Park Property Services Limited which is 5% owned by, and under board control of, Henry Boot Developments Limited;
- Stonebridge Homes Limited which is 50% owned by, and under board control of (by virtue of majority voting rights), Henry Boot Land Holdings Limited; and
- Stonebridge Offices Limited which is indirectly 50% owned by, and under board control of (by virtue of majority voting rights), Henry Boot Land Holdings Limited.

They are all incorporated in the United Kingdom. All subsidiary companies have only one class of ordinary issued share capital.

## 16. Investment in joint ventures and associates

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| Group | Joint ventures £'000 | Associates £'000 | Total £'000 | Joint ventures £'000 | Associates £'000 | Total £'000 |
| Cost | | | | | | |
| At 1 January | 5,119 | 1,567 | 6,686 | 4,313 | 1,543 | 5,856 |
| Share of profit for the year | 1,448 | — | 1,448 | 806 | 24 | 830 |
| Disposals | — | (1,500) | (1,500) | — | — | — |
| At 31 December | 6,567 | 67 | 6,634 | 5,119 | 1,567 | 6,686 |

The Group's share of its joint ventures' and associates' aggregated assets, liabilities and results are as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Joint ventures £'000 | Associates £'000 | Total £'000 | Joint ventures £'000 | Associates £'000 | Total £'000 |
| Investment property | 7,420 | — | 7,420 | 7,118 | — | 7,118 |
| Current assets | 16,623 | 99 | 16,722 | 5,898 | 1,580 | 7,478 |
| Non-current assets | — | 7 | 7 | — | 50 | 50 |
| Total assets | 24,043 | 106 | 24,149 | 13,016 | 1,630 | 14,646 |
| Current liabilities | (14,203) | (39) | (14,242) | (7,897) | (63) | (7,960) |
| Non-current liabilities | (3,273) | — | (3,273) | — | — | — |
| Net investment | 6,567 | 67 | 6,634 | 5,119 | 1,567 | 6,686 |

## 16. Investment in joint ventures and associates continued

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Joint ventures £'000 | Associates £'000 | Total £'000 | Joint ventures £'000 | Associates £'000 | Total £'000 |
| Revenue | 27,815 | 115 | 27,930 | 17,573 | 28 | 17,601 |
| Administration and other expenses | (26,478) | (11) | (26,489) | (17,011) | — | (17,011) |
| Increase in fair value of investment properties | 229 | — | 229 | 428 | — | 428 |
| Operating profit | 1,566 | 104 | 1,670 | 990 | 28 | 1,018 |
| Finance costs | (103) | (65) | (168) | (164) | (4) | (168) |
| Profit before tax | 1,463 | 39 | 1,502 | 826 | 24 | 850 |
| Tax | (15) | (39) | (54) | (20) | — | (20) |
| **Share of profits after tax** | 1,448 | — | 1,448 | 806 | 24 | 830 |

Details of the Group's investments in joint ventures and associates are listed in note 38.

### Material joint ventures and associates

The Directors considers Pennine Property Partnership LLP to be the only material joint venture or associate they hold an interest in. Pennine Property Partnership LLP is a property development joint venture between the Group and Calderdale and Huddersfield NHS Foundation Trust, the LLP is incorporated in England and the Group has ownership of 50%. The joint venture is accounted for using the equity method of accounting.

The table below provides summarised financial information for Pennine Property Partnership LLP. The information disclosed reflects the amounts presented in the financial statements of Pennine Property Partnership LLP and not the Group's share of those amounts.

### Summarised balance sheet

| | Pennine Property Partnership LLP | |
|---|---|---|
| | 2019 £'000 | 2018 £'000 |
| Investment properties (non-current) | 14,838 | 14,234 |
| Inventories | 146 | 314 |
| Trade and other receivables | 3,294 | 403 |
| Cash and cash equivalents | 4,207 | 367 |
| Trade and other payables | 5,515 | 996 |
| Borrowings (current) | – | 6,600 |
| Borrowings (non-current) | 6,546 | – |
| Net assets | 10,424 | 7,722 |
| **Reconciliation to carrying amount:** | | |
| Opening net assets 1 January | 7,722 | 6,434 |
| Profit for the period | 2,776 | 1,313 |
| Other comprehensive income | (74) | (25) |
| Closing net assets | 10,424 | 7,722 |
| Group's share in % | 50% | 50% |
| Group's share in £ | 5,212 | 3,861 |
| Carrying amount | 5,212 | 3,861 |

### Summarised statement of comprehensive income

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Revenue | 6,675 | 665 |
| Profit for the year | 2,776 | 1,313 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 17. Contract assets

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Construction contracts – Construction segment | 2,327 | 1,344 |
| Construction contracts – Property Investment and Development segment | 16,758 | 41,428 |
| | 19,085 | 42,772 |
| Due within one year | 19,085 | 42,772 |
| Due after more than one year | — | — |
| | 19,085 | 42,772 |

Amounts relating to construction contracts are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. The Group will previously have recognised a contract asset for any work performed but not yet invoiced. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

Contract assets have increased as the Group has provided more services ahead of the agreed billing schedule.

There were no impairment losses recognised on any contract asset in the reporting period (2018: £nil).

As a policy choice the Group does not recognise any assets arising from the costs incurred to obtain a contract.

## 18. Trade and other receivables

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Trade receivables | 87,112 | 63,448 | 307 | 326 |
| Loss allowance | (724) | (424) | — | — |
| Prepayments | 6,723 | 5,575 | 1,053 | 497 |
| Amounts owed by related companies | 14,904 | 3,541 | — | — |
| Amounts owed by Group undertakings | — | — | 127,004 | 169,763 |
| | 108,015 | 72,140 | 128,364 | 170,586 |
| Due within one year | 90,777 | 60,225 | 128,364 | 170,586 |
| Due after more than one year | 17,238 | 11,915 | — | — |
| | 108,015 | 72,140 | 128,364 | 170,586 |

Amounts due after more than one year relate to trade receivables.

### Group

Movement in the trade receivables loss allowance

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 January | 424 | 491 |
| Impairment losses recognised | 514 | 65 |
| Amounts written off as uncollectable | (11) | (74) |
| Amounts recovered during the year | (19) | (58) |
| Impairment losses reversed | (184) | — |
| At 31 December | 724 | 424 |

The loss allowance as at 31 December 2019 and 31 December 2018 for trade receivables was determined as follows :

2019

| | Expected loss rate % | Gross carrying amount £'000 | Loss allowance £'000 |
|---|---|---|---|
| 0-30 days | 0.4% | 81,826 | 295 |
| 30–60 days | 2.9% | 1,281 | 37 |
| 60–90 days | 1.7% | 1,723 | 29 |
| 90–120 days | 20.3% | 133 | 27 |
| 120+ days | 15.6% | 2,149 | 336 |
| | | 87,112 | 724 |

## 18. Trade and other receivables continued

2018

| | Expected loss rate % | Gross carrying amount £'000 | Loss allowance £'000 |
|---|---|---|---|
| 0-30 days | 0.1% | 56,748 | 64 |
| 30–60 days | 0.0% | 4,776 | 1 |
| 60–90 days | 0.2% | 490 | 1 |
| 90–120 days | 2.2% | 270 | 6 |
| 120+ days | 30.2% | 1,164 | 352 |
| | | 63,448 | 424 |

The Directors consider that the carrying amount of trade and other receivables of the Group and Parent Company approximates to their fair value.

### Parent Company

Amounts owed by Group undertakings are repayable on demand, unsecured and are stated net of provisions for impairment of £5,402,000 (2018: £1,924,000), of which £3,654,000 (2018: £15,000) has been provided in the year and £180,000 (2018: £404,000) has been recovered in the year. Expected credit losses are based on the assumption that repayment of the loan is demanded at the reporting date. Where there are insufficient liquid assets the Parent Company considers the expected manner of recovery to measure expected credit losses. This might be a 'repay over time' strategy, or a fire sale of less liquid assets. Interest is charged annually at 3.5% (2018: 3.5%).

The Parent Company has no impaired trade receivables.

### Credit risk

The Group's principal financial assets are bank balances and cash, contract assets and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Statement of Financial Position are net of loss allowances for doubtful receivables, estimated by the Group's management based on prior experience and forward-looking assessments of the economic environment in accordance with IFRS 9 'Financial Instruments'.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

## 19. Deferred tax

Deferred tax assets and deferred tax liabilities are offset where the Group has a legally enforceable right to do so and when the deferred tax assets and liabilities relate to tax levied by the same tax authority where there is an intention to settle the balances on a net basis. The amounts after offsetting are as follows:

| Group | Accelerated capital allowances £'000 | Retirement benefit obligations £'000 | Other timing differences £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2018 | 492 | 3,879 | 242 | 4,613 |
| Recognised in income | (27) | 14 | (59) | (72) |
| Recognised in other comprehensive income | — | (1,054) | — | (1,054) |
| At 31 December 2018 | 465 | 2,839 | 183 | 3,487 |
| Acquisition of subsidiary (note 36) | — | — | 109 | 109 |
| Recognised in income | (213) | (285) | 90 | (408) |
| Recognised in other comprehensive income | — | 1,350 | — | 1,350 |
| **At 31 December 2019** | **252** | **3,904** | **382** | **4,538** |
| **Parent Company** | | | | |
| At 1 January 2018 | 29 | 3,879 | 284 | 4,192 |
| Recognised in income | 12 | 14 | (49) | (23) |
| Recognised in other comprehensive income | — | (1,054) | — | (1,054) |
| At 31 December 2018 | 41 | 2,839 | 235 | 3,115 |
| Recognised in income | 12 | (285) | 65 | (210) |
| Recognised in other comprehensive income | — | 1,350 | — | 1,350 |
| **At 31 December 2019** | **53** | **3,904** | **300** | **4,255** |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 19. Deferred tax continued

Deferred tax assets relating to unused tax losses carried forward and deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or existing temporary differences.

Unrecognised deferred tax assets relating to property revaluations amounted to £2,057,000 (2018: £3,452,000). These assets have not been recognised as it is probable that in future periods there will be no suitable profits or gains available to the Group against which they may be relieved. There are no other significant unrecognised deferred tax assets and liabilities.

As a result of the change in the UK corporation tax rate from 19% to 17% effective from 1 April 2020, substantively enacted on 6 September 2016, deferred tax balances at the year end have been measured at 17% (2018: 17%) being the rate at which timing differences are expected to reverse. Legislation in the Finance Bill 2020 seeks to retain the UK corporation tax rate at 19% which will lead to a remeasurement of the Group's deferred tax liabilities following substantively enacted. Management do not expect any significant reversal of deferred tax assets or liabilities in the next 12 months.

## 20. Inventories

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Property developments in progress | **31,684** | 24,602 |
| Housebuilder land and work in progress | **36,339** | 22,510 |
| Land held for development or sale | **50,716** | 58,827 |
| Options to purchase land | **14,913** | 16,458 |
| Planning promotion agreements | **36,097** | 32,583 |
| | **169,749** | 154,980 |

Within property developments in progress £888,000 (2018: £207,000) has been written down and recognised as an expense in the year. These costs relate to development projects no longer likely to proceed. Within land held for development or sale, options to purchase land and planning promotion agreements £712,000 (2018: £2,265,000) has been written down and recognised as an expense in the year. These costs relate to land, options and planning promotion agreements where planning permission for development has been refused or is deemed to be doubtful.

## 21. Assets classified as held for sale

Assets classified as held for sale are investment properties, within the Property Investment and Development segment, which are individually being actively marketed for sale with expected completion dates within one year. The gain recognised after measurement at fair value less costs to sell on the transfer of assets during the year was £2,463,000 (2018: £465,000).

Assets classified as held for sale comprise the following:

| | Investment property | |
|---|---|---|
| | **2019 £'000** | 2018 £'000 |
| **Fair value** | | |
| At 1 January | **—** | 2,000 |
| Transfer from investment property (note 14) | **43,844** | — |
| Disposals | **(43,844)** | (2,000) |
| **At 31 December** | **—** | — |
| Adjustment in respect of tenant incentives | **—** | — |
| **Market value at 31 December** | **—** | — |

Assets classified as held for sale have been valued at 31 December 2019 at fair value by the Directors of the Company at £nil (2018: £nil).

## 22. Contract liabilities

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Construction contracts – Construction segment | **9,529** | 2,673 |
| Construction contracts – Property Investment and Development segment | **347** | 121 |
| | **9,876** | 2,794 |
| Due within one year | **9,876** | 2,794 |

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| *Revenue recognised that was included in the contract liability balance at the beginning of the period* | | |
| Construction contracts – Construction segment | **2,673** | 3,225 |
| Construction contracts – Property Investment and Development segment | **—** | — |
| *Revenue recognised from performance obligations satisfied in previous periods* | | |
| Construction contracts – Construction segment | **—** | — |
| Construction contracts – Property Investment and Development segment | **—** | — |

There were no significant changes in the contract liability balances during the reporting period.

## 23. Trade and other payables

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Trade payables | 61,315 | 67,219 | 1,394 | 1,351 |
| Social security and other taxes | 8,826 | 7,118 | 470 | 358 |
| Accrued expenses | 1,844 | 1,076 | 345 | 422 |
| Deferred income | 3,684 | 4,487 | — | — |
| Amounts owed to related parties | 1,242 | 367 | — | — |
| Amounts owed to Group undertakings | — | — | 80,752 | 72,332 |
| | 76,911 | 80,267 | 82,961 | 74,463 |
| Due within one year | 70,763 | 77,475 | 82,961 | 74,463 |
| Due after more than one year | 6,148 | 2,792 | — | — |
| | 76,911 | 80,267 | 82,961 | 74,463 |

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Amounts due after more than one year include £1,986,000 (2018: £2,028,000) of deferred income and £4,162,000 (2018: £764,000) of trade payables.

### Parent Company

Amounts owed to Group undertakings are repayable on demand, unsecured and bear interest at 2.0% (2018: 2.0%).

## 24. Government grants

Government grants have been received in relation to the infrastructure of one of the Group's land promotions and one of the Group's property developments.

Grant income received relating to revenue grants are included within deferred income and released to the Consolidated Statement of Comprehensive Income on a systematic basis to match the costs it is intended to compensate. There are no unfulfilled conditions or contingencies attached to the grants that have been recognised.

Amounts credited to the Consolidated Statement of Comprehensive Income during the year were £250,000 (2018: £840,000).

Grant income relating to capital grants is included within deferred income until the completion conditions are met; at this point the grant is transferred to offset the cost of the asset.

## 25. Capital risk management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern and have the resources to provide returns for shareholders and benefits for other stakeholders; and
- To maximise returns to shareholders by allocating capital across our businesses based on the level of expected return and risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of net debt to equity. Net debt is total debt less cash and cash equivalents and at 31 December 2019 this was £nil (2018: £18.4m). Equity comprises all components of equity and at 31 December 2019 this was £318.5m (2018: £302.3m).

During 2019 the Group's strategy, was to maintain the debt to equity ratio below 30% (2018: 30%). This level was chosen to ensure that we can access debt relatively easily and inexpensively if required.

In February 2015, the Group concluded negotiations with its three banking partners to put in place a £60m facility to replace the £50m facility in place at 31 December 2014. The renewed facilities commenced on 17 February 2015, with a renewal date of 17 February 2018 and an option to extend the facility by one year, each year, for the next two years occurring on the anniversary of the facility. On 17 February 2017 the option was exercised to extend the facilities by a further year to 17 February 2020 and on 22 August 2017 an amendment was agreed to increase the facility to £72m. The renewed facilities, on improved terms, maintain covenants on the same basis as the previous facilities.

The Group's secured bank facilities are subject to covenants over loan-to-market value of investment properties, interest cover, gearings and minimum consolidated tangible assets value. The Group has other bank debt on which there are also covenant requirements. The Group operated comfortably within all of its requirements throughout the year and continues to do so over forecast periods.

In January 2020, the Group concluded negotiations with three banking partners to put in place a £75m facility to replace the £72m facility we had in place at 31 December 2019. The renewed facilities commenced on 24 January 2020, with a renewal date of 24 January 2023 and an option to extend the facilities by one year, each year, for the next two years occurring on the anniversary of the facility. The renewed facilities, on improved terms, maintain covenants on the same basis as the previous facilities.

The Group's capital risk management disclosures are consistent with the parent company.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 26. Borrowings

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Bank overdrafts | — | — | 1,012 | 1,022 |
| Bank loans | 7,757 | 22,422 | — | 15,000 |
| Finance leases | — | 3,220 | — | — |
| Government loans | 2,941 | 3,573 | — | — |
| | 10,698 | 29,215 | 1,012 | 16,022 |
| Due within one year | 9,981 | 24,119 | 1,012 | 16,022 |
| Due after one year | 717 | 5,096 | — | — |
| | 10,698 | 29,215 | 1,012 | 16,022 |
| Contractual maturities of borrowings, including future interest, as follows: | | | | |
| On demand or within one year | 10,172 | 24,486 | 1,012 | 16,022 |
| In the second year | 703 | 2,688 | — | — |
| In the third to fifth years inclusive | 64 | 2,574 | — | — |
| | 10,939 | 29,748 | 1,012 | 16,022 |
| Due within one year | 10,172 | 24,486 | 1,012 | 16,022 |
| Due after one year | 767 | 5,262 | — | — |
| | 10,939 | 29,748 | 1,012 | 16,022 |

The weighted average interest rates paid were as follows:

| | 2019 % | 2018 % |
|---|---|---|
| Bank overdrafts | 2.30 | 2.34 |
| Bank loans – floating rate | 2.41 | 2.28 |
| Bank loans – floating rate (relating to Stonebridge Offices Limited) | 3.54 | 3.26 |
| Bank loans – floating rate (relating to Stonebridge Homes Limited) | 2.87 | 2.57 |
| Finance leases | — | 2.53 |
| Government loans | 0.07 | 0.79 |

Bank overdrafts are repayable on demand.

Borrowings are recognised at amortised cost.

### Liquidity risk

The Company's objectives when managing liquidity are:

- To safeguard the Group's ability to meet expected and unexpected payment obligations at all times; and
- To maximise the Group's profitability.

Interest on floating rate borrowings is arranged for periods from one to six months. These borrowings are secured by a fixed and floating charge over the assets of the Group excluding those of Road Link (A69) Limited, Stonebridge Offices Limited and Stonebridge Homes Limited.

The Stonebridge Offices Limited bank loan is secured by a specific charge over the freehold property of that company and is without recourse to the rest of the Group. The loan was renewed on 11 December 2018 at a value of £2,512,000 and is repayable in quarterly instalments of £37,500 that commenced on 11 December 2018, with full and final settlement becoming due on 10 December 2021. Following the disposal of investment property this loan was settled in full on 16 December 2019.

The Stonebridge Homes Limited revolving loan facility is secured by a specific charge over the freehold property of that company and is guaranteed by Henry Boot PLC. The loan can be drawn against on a monthly basis and was first drawn against on 22 April 2016. The loan is repayable from the proceeds of residential house sales with full and final settlement becoming due on 24 January 2022. On 25 January 2019 the Stonebridge Homes facility was increased to £10,000,000 with full and final settlement becoming due on 24 January 2022.

## 26. Borrowings continued

Government loans from the South West of England Regional Development Agency (SWE) and Sedgemoor District Council (SDC) were issued at a borrowing rate of nil%; their fair values are £nil (2018: £208,000).

Government loans from the Homes and Communities Agency (HCA) were issued with a fixed level of interest of £254,000 (2018: £304,000); their fair values are £2,941,000 (2018: £2,956,000) (Education Campus) and £nil (2018: £408,000) (Phase II Road Infrastructure).

As a result, the Company has no exposure to interest rate changes in relation to these borrowings. The Company's exposure to indexation risk may result in an increase in the value of repayments, causing the loans to be settled at an earlier date.

The Government loans were received to fund specific residential construction expenditure.

Repayment of the SWE loan commenced during 2013, being three years after the quarter date of the construction completion of the first residential unit. Repayments of £231,000 (2018: £1,582,000) were made during the year. The repayments are calculated at £8,000 per residential unit, are linked to the Land Registry House Price Index and are subject to certain minimum repayment amounts.

Repayment of the SDC loan is to be made in full upon the occupation of the 550th dwelling.

Repayment of the Education Campus HCA loan commenced during the year upon the occupation of the first dwelling and follows for each occupation thereafter until the total contribution sum is repaid in full. Repayments of £15,000 (2018: £329,000) were made during the year. The repayments are calculated at £8,587 per residential unit, based on 1,750 units, and are increased in relation to the Land Registry House Price Index (Devon). The base figure of £8,587 is reviewed following the occupation of the first 300 dwellings and every 300 dwellings thereafter in addition to every second anniversary of the loan agreement date and any date after 2022 following notice served from the HCA. If the HCA is not satisfied that the base rate will guarantee repayment of the total contribution sum before the completion of the last residential unit, it has the right to increase the base figure accordingly. If the number of residential units with detailed planning permission or reserved matters increases, the base figure is revised to reflect the increased number of plots.

Repayment of the Phase II Road Infrastructure HCA loan commenced during 2015 upon the occupation of the 1,151st dwelling. Repayments of £408,000 (2018: £351,000) were made during the year. The repayments are calculated at £3,675 per residential unit, based on 1,750 units, and are increased in relation to the Land Registry House Price Index (Devon). If the relevant number of dwellings is not met by 31 December of each year until 2019, advance payments will be required. If the number of residential units with detailed planning permission or reserved matters increases, the base figure is revised to reflect the increased number of plots.

Other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Based on approximate average borrowings during 2019, a 0.5% (2018: 0.5%) change in interest rates, which the Directors consider to be a reasonably possible change, would affect profitability before tax by £79,000 (2018: £105,000).

The fair value of the Group's borrowings is not considered to be materially different from the carrying amounts.

At 31 December 2019, the Group had available £72,000,000 (2018: £57,000,000) undrawn committed borrowing facilities.

### Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Gross finance lease liabilities – minimum lease payments: | | |
| No later than one year | – | 1,712 |
| Later than one year and no later than five years | – | 1,611 |
| | – | 3,323 |
| Future finance charges on finance lease liabilities | – | (103) |
| Present value of finance lease liabilities | – | 3,220 |

Finance lease liabilities were reclassified as lease liabilities under IFRS 16 from 1 January 2019 (note 13).

# Notes to the Financial Statements

for the year ended 31 December 2019

## 26. Borrowings continued

The present value of finance lease liabilities is as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| No later than one year | — | 1,639 |
| Later than one year and no later than five years | — | 1,581 |
| | — | 3,220 |

The carrying amount of the Group's lease obligations approximates to their fair value.

## 27. Provisions

| | Land promotion £'000 | Road maintenance £'000 | Total £'000 |
|---|---|---|---|
| At 1 January 2019 | 6,062 | 1,877 | 7,939 |
| Included in current liabilities | 3,847 | 1,877 | 5,724 |
| Included in non-current liabilities | 2,215 | — | 2,215 |
| | 6,062 | 1,877 | 7,939 |
| Additional provisions in year | 671 | 1,237 | 1,908 |
| Utilisation of provisions | (1,418) | (1,433) | (2,851) |
| At 31 December 2019 | 5,315 | 1,681 | 6,996 |
| Included in current liabilities | 3,634 | 1,681 | 5,315 |
| Included in non-current liabilities | 1,681 | — | 1,681 |
| | 5,315 | 1,681 | 6,996 |

The land promotion provision represents management's best estimate of the Group's liability to provide infrastructure and service obligations, which remain with the Group following the disposal of land. The provision is calculated using the present value of the estimated cash flows required to settle the present obligations, pro rata on an acreage allocation basis where disposals occur over a number of phases, such that provisions are only made in relation to the land which has been disposed of. Based on a 1.0% change in the discount rate and a 5.0% change in the estimated cash outflows, both of which the Directors consider to be a reasonably possible change, land promotion provisions would change and affect profitability before tax by £72,000 and £265,000 respectively (2018: £77,000 and £298,000).

The Group maintains rigorous forecasting and budgeting for the infrastructure and services contracts to which our provisions relate. The Group's outstanding obligations are not considered to be 'onerous' contracts, as the costs of meeting the obligations are not anticipated to exceed the economic benefits expected to be received throughout the life of the developments.

The road maintenance provision represents management's best estimate of the Group's liability under a five-year rolling programme for the maintenance of the Group's PFI asset. Based on a 5.0% change in the estimated cash outflows, which the Directors consider to be a reasonably possible change, the road maintenance provision would change and affect profitability before tax by £179,000 (2018: £194,000).

## 27. Provisions continued

### Off balance sheet arrangements

The Group is currently undertaking the infrastructure of land promotions at Bridgwater and Cranbrook, spanning 122 and 53 acres respectively (2018: 122 and 53). The Group is liable for various planning and infrastructure obligations required to be met under section agreements imposed by the local Councils. The Group shares its planning and infrastructure obligations relating to the Cranbrook site with two other parties, the Group's share being 30%. These shared obligations are secured by performance bonds and legal charges. The Group deems the possibility of default by the other parties as highly remote. The infrastructure of these developments is anticipated to continue until 2020 and 2025 respectively, with costs being incurred throughout these periods.

The Group has historically disposed of 117 and 35 acres respectively (2018: 108 and 34), and has subsequently recognised provisions to the value of £5,316,000 (2018: £6,062,000), being the Group's best estimate of the consideration required to settle the present obligations at the reporting date. Subsequent disposals are expected to occur over a number of phases; provisions are made in relation to the land which has been disposed of. The present value of the estimated cash flows relating to future disposals, amounting to £1,772,000 (2018: £2,254,000), has therefore not been recognised in these Financial Statements.

## 28. Retirement benefit obligations

### Defined contribution pension plan

The Group operates a defined contribution pension plan for all qualifying employees. The plan is administered and managed by Aviva and the Group matches member contributions, providing a minimum of 5% (2018: 5%) of salary is paid by the employee, on a pound for pound basis up to a maximum of 8%.

The total cost charged to income of £2,255,000 (2018: £2,198,000) represents contributions payable to the plan by the Group.

### Defined benefit pension scheme

The Group sponsors a funded defined benefit pension scheme in the UK. The scheme is administered within a trust which is legally separate from the Group. Trustees are appointed by both the Group and the scheme's membership and act in the interest of the scheme and all relevant stakeholders, including the members and the Group employers. The Trustees are also responsible for the investment policy for the scheme's assets.

Existing scheme members continue to accrue benefits, but the scheme is closed to new entrants. Members accrue an annual pension of either 1/45th or 1/60th of final pensionable salary for each year of pensionable service. Increases in pensionable salary are limited to 1% per annum. Once in payment, pensions increase in line with inflation. The scheme also provides a two-thirds spouse's pension on the death of a member.

Active members of the scheme pay contributions at the rate of either 5% or 7% of pensionable salary and the Group employers pay the balance of the cost as determined by regular actuarial valuations. The Trustees are required to use prudent assumptions to value the liabilities and costs of the scheme, whereas the accounting assumptions must be best estimates.

The Group has not recognised any obligation under a minimum funding requirement as it is entitled to a refund of any residual assets once all members have left the scheme.

The scheme poses a number of risks to the Group. These include:

### Investment risk

The present value of obligations is calculated using a discount rate determined by reference to high quality corporate bond yields. If the return on the scheme's assets is below this rate the scheme deficit will increase.

### Interest rate risk

A decrease in the yield on high-quality corporate bonds will reduce the discount rate and thus increase the value placed on the scheme's liabilities. However, this would be partially offset by an increase in the value of the scheme's bond investments.

### Inflation risk

The present value of the liabilities is calculated by reference to a best estimate of future inflation. If inflation turns out to be higher than this estimate then the deficit will increase.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 28. Retirement benefit obligations continued

### Longevity risk

The present value of the liabilities is calculated using a best estimate of the life expectancy of scheme members. An increase in life expectancies will increase the scheme's liabilities.

A formal actuarial valuation was carried out as at 31 December 2018. The results of that valuation have been projected to 31 December 2019 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method. The main financial assumptions used in the valuation of the liabilities of the scheme under IAS 19 are:

| | 2019<br>% | 2018<br>% |
|---|---|---|
| Retail Prices Index (RPI) | 2.80 | 3.00 |
| Consumer Prices Index (CPI) | 2.00 | 2.00 |
| Pensionable salary increases | 1.00 | 1.00 |
| Rate in increase to pensions in payment liable for Limited Price Indexation (LPI) | 2.00 | 2.00 |
| Revaluation of deferred pensions | 2.00 | 2.00 |
| Liabilities discount rate | 2.00 | 2.80 |

| Mortality assumptions | 2019<br>Years | 2018<br>Years |
|---|---|---|
| **Retiring today (aged 65)** | | |
| Male | 21.9 | 22.0 |
| Female | 24.2 | 24.0 |
| **Retiring in 20 years (currently aged 45)** | | |
| Male | 23.0 | 23.0 |
| Female | 25.3 | 25.2 |

The mortality assumptions adopted are the Self Administered Pension Schemes (SAPS) tables with allowance for future improvements in line with Continuous Mortality Investigation (CMI) 2017 with an annual improvement of 1% per annum.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

| | Impact on scheme liabilities | | |
|---|---|---|---|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Rate of inflation | 0.25% | Increase by 3.4% | Decrease by 3.3% |
| Rate of general increases in salaries | 0.25% | Nil* | Nil* |
| Liabilities discount rate | 0.25% | Decrease by 3.9% | Increase by 4.2% |
| Rate of mortality | 1 year | Increase by 3.9% | Decrease by 3.7% |

* Increases in salaries above the 1% assumed would not affect the scheme liabilities as future increases in pensionable salaries are to be capped at a maximum of 1% per annum.

## 28. Retirement benefit obligations continued

Amounts recognised in the Consolidated Statement of Comprehensive Income in respect of the scheme are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Service cost: | | |
| Current service cost | 798 | 1,031 |
| Ongoing scheme expenses | 666 | 483 |
| Past service cost | — | 1,500 |
| Net interest expense | 439 | 565 |
| Pension protection fund | 227 | 160 |
| Pension expenses recognised in profit or loss | 2,130 | 3,739 |
| Remeasurement on the net defined benefit liability: | | |
| Return on plan assets (excluding amounts included in net interest expense) | (15,106) | 4,451 |
| Actuarial gains arising from changes in demographic assumptions | (724) | (1,093) |
| Actuarial gains arising from experience adjustments | (1,606) | — |
| Actuarial losses/(gains) arising from changes in financial assumptions | 25,373 | (9,557) |
| Actuarial losses/(gains) recognised in other comprehensive income | 7,937 | (6,199) |
| Total | 10,067 | (2,460) |

In the prior year past service costs of £1.5m are in respect of GMP equalisation and are an estimate by the Directors following detailed consultation with the scheme actuary. The entire charge is recognised in profit or loss.

The amount included in the Statement of Financial Position arising from the Group's obligations in respect of the scheme is as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Present value of scheme obligations | 208,318 | 186,785 |
| Fair value of scheme assets | (185,353) | (170,075) |
| | 22,965 | 16,710 |

This amount is presented in the Statement of Financial Position as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Non-current liabilities | 22,965 | 16,710 |

Movements in the present value of scheme obligations in the year were as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 January | 186,785 | 197,365 |
| Current service cost | 798 | 1,031 |
| Interest on obligation | 5,138 | 4,875 |
| Actuarial losses/(gains) | 23,043 | (10,650) |
| Past service cost | — | 1,500 |
| Benefits paid | (7,446) | (7,336) |
| At 31 December | 208,318 | 186,785 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 28. Retirement benefit obligations continued

Movements in the fair value of scheme assets in the year were as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 January | 170,075 | 174,540 |
| Interest income | 4,699 | 4,310 |
| Actuarial gains/(losses) on scheme assets | 15,106 | (4,451) |
| Employer contributions | 3,585 | 3,495 |
| Benefits paid | (7,446) | (7,336) |
| Ongoing scheme expenses | (666) | (483) |
| At 31 December | 185,353 | 170,075 |

The categories of plan assets are as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Quoted investments, including pooled diversified growth funds: | | |
| Equity | 34,882 | 45,891 |
| Diversified growth funds | – | 11,593 |
| Diversified credit funds | 69,018 | 61,458 |
| Cash and net current assets | 2,024 | 1,322 |
| Unquoted investments: | | |
| Direct lending | 24,764 | 21,959 |
| Liability driven investment | 23,887 | – |
| Collateralised loan obligations | 22,007 | 21,567 |
| Special situations | 8,771 | 6,285 |
| At 31 December | 185,353 | 170,075 |

The weighted average duration of the defined benefit obligation is 16 years (2018: 16 years).

The current estimated amount of total contributions expected to be paid to the scheme during the 2020 financial year is £4,217,000, being £4,217,000 payable by the Group and £nil payable by scheme members.

The Company's level of recovery plan funding to the scheme is £3,250,000 per annum and will increase by £100,000 per annum until the next triennial valuation. In addition to this, the Company contributes a further £260,000 per annum towards the administration expenses of the scheme.

## 29. Operating leases
### The Group as lessee

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised in the Consolidated Statement of Comprehensive Income for the year | – | 481 |

At 31 December 2019, the Group had outstanding commitments for future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Within one year | – | 472 |
| In the second to fifth years inclusive | – | 1,521 |
| After five years | – | 437 |
| | – | 2,430 |

## 29. Operating leases continued

Operating lease payments represent rentals payable by the Group for certain of its office properties. The rents payable are subject to renegotiation at various intervals specified in the leases.

### The Group as lessor

The Group has entered into commercial leases on its investment property portfolio which typically have lease terms between one and 25 years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Ordinarily, the lessee does not have an option to purchase the property at the expiry of the lease period and some leases contain options to break before the end of the lease term.

Future aggregate minimum rentals receivable under non-cancellable operating leases at 31 December which are not discounted are as follows:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Within one year | – | 7,783 |
| In the second to fifth years inclusive | – | 23,026 |
| After five years | – | 79,184 |
| | – | 109,993 |

## 30. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are disclosed below:

| **Parent Company** | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Management charges receivable | 1,260 | 1,140 |
| Interest receivable | 5,515 | 5,921 |
| Interest payable | (2,128) | (1,922) |
| Rents payable | (156) | (155) |
| Recharge of expenses | 59 | 392 |

Transactions between the Company and its remaining related parties are as follows:

| **Purchases of goods and services** | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Close family members of key management personnel (amounts paid for IT services) | 42 | 43 |
| Related companies of key management personnel (amounts paid for Non-executive Director services) | 46 | 45 |

Amounts owing by related parties (note 18) or to related parties (note 23) are unsecured, repayable on demand and will be settled in cash. No guarantees have been given or received. No provisions have been made for impaired receivables in respect of the amounts owed by related parties. Other than as disclosed above there a no further related party transactions with joint ventures and associates.

### Remuneration of key management personnel

The key management personnel of the Group are the Board of Directors and members of the Senior Management team of wholly owned subsidiaries, as presented on pages 66 to 69. They are responsible for making all of the strategic decisions of the Group and its subsidiaries, as detailed on pages 10 and 11 and 26 and 27. The remuneration of the Board of Directors is set out in the Remuneration Report on pages 100 to 111. The remuneration of the relevant four (2018: four) members of the Senior Management team is set out below, in aggregate, for each of the categories specified in IAS 24 'Related Party Disclosures'.

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Short-term employee benefits | 1,597 | 1,666 |
| Post-employment benefits | 13 | 16 |
| Share based payments | 44 | – |
| | 1,654 | 1,682 |

# Notes to the Financial Statements

for the year ended 31 December 2019

## 31. Share capital

| | Allotted, issued and fully paid | |
|---|---|---|
| | 2019 £'000 | 2018 £'000 |
| 400,000 5.25% cumulative preference shares of £1 each (2018: 400,000) | 400 | 400 |
| 133,172,602 ordinary shares of 10p each (2018: 133,146,602) | 13,317 | 13,315 |
| | 13,717 | 13,715 |

The Company has one class of ordinary share which carries no rights to fixed income but which entitles the holder thereof to receive notice and attend and vote at general meetings or appoint a proxy to attend on their behalf.

Subject to Board approval, the preference shares carry the right to a cumulative preferential dividend payable half yearly at the rate of 5.25% per annum. They also carry a right, in priority to the ordinary equity, on a return of assets on a winding-up or reduction of capital, to repayment of capital, together with the arrears of any preferential dividend. With the exception of any resolution proposed to directly affect the rights or privileges of the holders of the preference shares, the holders thereof are not entitled to receive notice of, be present or vote at any general meeting of the Company.

### Share-based payments

The Company operates the following share-based payment arrangements:

#### (i) The Henry Boot 2010 Sharesave Plan

This savings-related share option plan was approved by shareholders in 2010 and is HMRC approved. Grants of options to participating employees were made on 23 October 2014 at a price of 172.0p at a discount of just over 9.5%, on 24 October 2017 at a price of 270.0p at a discount of 10%, on 4 October 2018 at a price of 262.0p at a discount of just under 5.8% and on 3 October 2019 at a price of 224.0p at a discount of just under 9.7%. These become exercisable for a six-month period from 1 December 2017, 1 December 2020, 1 December 2021 and 1 December 2022 respectively. There are no performance criteria attached to the exercise of these options which are normally capable of exercise up to six months after the third anniversary of the Sharesave contract commencement date. The right to exercise options terminates if a participating employee leaves the Group, subject to certain exceptions.

**2018**

| | Options outstanding at 1 January 2018 | Options granted | Options lapsed | Options exercised | Options outstanding at 31 December 2018 |
|---|---|---|---|---|---|
| October 2014 grant | 105,691 | — | — | (105,691) | — |
| October 2017 grant | 961,348 | — | (181,604) | — | 779,744 |
| October 2018 grant | — | 283,413 | (6,113) | — | 277,300 |

**2019**

| | Options outstanding at 1 January 2019 | Options granted | Options lapsed | Options exercised | Options outstanding at 31 December 2019 |
|---|---|---|---|---|---|
| October 2017 grant | 779,744 | — | (533,735) | — | 246,009 |
| October 2018 grant | 277,300 | — | (163,459) | — | 113,841 |
| October 2019 grant | — | 875,301 | (11,811) | — | 863,490 |

The weighted average share price at the date of exercise for share options exercised during the year was nil (2018: 316.81p).

#### (ii) The Henry Boot 2006 Long Term Incentive Plan

This plan was approved by shareholders at an EGM held on 20 July 2006. Details of the plan and the vesting requirements are set out in the Directors' Remuneration Policy which is available to view on the website: **www.henryboot.co.uk/about-us/governance**.

#### (iii) The Henry Boot 2015 Long Term Incentive Plan

This plan was approved by shareholders at an AGM held on 21 May 2015. Details of the plan and the vesting requirements are also set out in the Directors' Remuneration Policy which is also available to view on the website.

## 31. Share capital continued

In respect of (ii) and (iii) above, the aggregate total of movements in share options granted and awards of shares is as follows:

| | **2019 Number** | 2018 Number |
|---|---|---|
| Share options granted at 1 January | 1,010,623 | 1,022,648 |
| Lapses of share options in year | (47,830) | (122,189) |
| Awards of shares in year | (241,095) | (140,288) |
| Share options granted in year | 393,365 | 250,452 |
| Share options granted at 31 December | 1,115,063 | 1,010,623 |

The weighted average share price at the date of exercise for share options exercised during the year was 253.00p (2018: 292.00p).

### (iv) The Henry Boot PLC 2010 Approved Company Share Option Plan

This plan, more commonly known as a CSOP, was approved by shareholders in 2010 and is HMRC approved. Any full-time Director or employee (full-time or part-time) is eligible to participate at the discretion of the Remuneration Committee of the Board. Options are granted by deed with no consideration payable by the participant. The aggregate subscription price at the date of grant of all outstanding options granted to any one participant under the plan and any other HMRC approved plan operated by the Company (but excluding options granted under any savings-related share option plan) must not exceed £30,000. The aggregate market value at the date of grant of ordinary share options which may be granted to any one participant in any one financial year of the Company shall not normally exceed two times the amount of a participant's remuneration for that financial year. The Remuneration Committee may impose objective conditions as to the performance of the Group which must normally be satisfied before options can be exercised. Options are normally exercisable only within the period of three to ten years after the date of grant. The right to exercise options generally terminates if a participant leaves the Group, subject to certain exceptions. The first grant of options under the plan was made to certain senior employees (none of whom at the time were Directors of Group companies) on 17 May 2011 at an option price of 121.5p. The second grant of options under the plan was made to certain senior employees (none of whom at the time were Directors of Group companies) on 1 October 2014 at an option price of 191.0p. The third grant of options under the plan was made to certain senior employees (none of whom at the time were Directors of Group companies) on 6 October 2017 at an option price of 298.9p. The fourth grant of options under the plan was made to certain employees (two of whom at the time were Directors of Group companies) on 14 September 2018 at an option price of 291.0p. The fifth grant of options under the plan was made to certain employees (two of whom at the time were Directors of Group companies) on 3 October 2019 at an option price of 249.0p. There were no performance conditions imposed on either of these grants.

**2018**

| | Options outstanding at 1 January 2018 | **Options granted** | **Options lapsed** | **Options exercised** | **Options outstanding at 31 December 2018** |
|---|---|---|---|---|---|
| May 2011 grant | 16,000 | — | — | — | 16,000 |
| October 2014 grant | 65,000 | — | — | (30,000) | 35,000 |
| October 2017 grant | 149,747 | — | (837) | — | 148,910 |
| September 2018 grant | — | 291,403 | (2,062) | — | 289,341 |

**2019**

| | Options outstanding at 1 January 2019 | **Options granted** | **Options lapsed** | **Options exercised** | **Options outstanding at 31 December 2019** |
|---|---|---|---|---|---|
| May 2011 grant | 16,000 | — | — | (6,000) | 10,000 |
| October 2014 grant | 35,000 | — | — | (20,000) | 15,000 |
| October 2017 grant | 148,910 | — | (14,220) | — | 134,690 |
| September 2018 grant | 289,341 | — | (19,916) | — | 269,425 |
| October 2019 grant | — | 446,848 | (2,010) | — | 444,838 |

The weighted average share price at the date of exercise for share options exercised during the year was 255.85p (2018: 314.59p).

# Notes to the Financial Statements

for the year ended 31 December 2019

## 31. Share capital continued

### Fair value

Fair value is measured by a Monte Carlo pricing model using the following assumptions:

| | Weighted average exercise price | Weighted average share price | Expected volatility | Expected life | Risk-free rate | Expected dividend yield |
|---|---|---|---|---|---|---|
| LTIP | Nil | 214.0p to 294.0p | 29.37% to 32.10% | 3 years | 0.14% to 0.94% | 2.71% to 3.24% |
| CSOP 2011 | 121.5p | 121.5p | 41.47% | 3 years | 1.67% | 5.02% |
| CSOP 2014 | 191.0p | 191.0p | 31.17% | 3 years | 1.23% | 3.16% |
| CSOP 2017 | 298.9p | 309.0p | 30.37% | 3 years | 0.51% | 3.02% |
| CSOP 2018 | 291.0p | 291.0p | 29.28% | 3 years | 0.91% | 2.90% |
| **CSOP 2019** | **249.0p** | **249.0p** | **29.25%** | **3 years** | **0.28%** | **3.24%** |
| Sharesave 2014 | 172.0p | 181.0p | 31.45% | 3 years | 0.82% | 3.16% |
| Sharesave 2017 | 270.0p | 300.0p | 30.30% | 3 years | 0.51% | 3.02% |
| Sharesave 2018 | 262.0p | 278.0p | 29.53% | 3 years | 0.99% | 2.90% |
| **Sharesave 2019** | **224.0p** | **248.0p** | **29.25%** | **3 years** | **0.28%** | **3.24%** |

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

The weighted average fair value of share options granted during the year was 61.91p (2018: 75.99p).

### Expense recognised in the Consolidated Statement of Comprehensive Income

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| The total expense recognised in the Consolidated Statement of Comprehensive Income arising from share-based payment transactions | **826** | 659 |

The total expense recognised in the Consolidated Statement of Comprehensive Income arose solely from equity-settled share-based payment transactions.

## 32. Reserves

| | | | Other | | | |
|---|---|---|---|---|---|---|
| **Group** | Property revaluation £'000 | Retained earnings £'000 | Capital redemption £'000 | Share premium £'000 | Capital £'000 | Total other £'000 |
| At 1 January 2018 | 3,550 | 245,260 | 271 | 5,641 | 209 | 6,121 |
| Profit for the year | — | 37,505 | — | — | — | — |
| Dividends paid | — | (11,161) | — | — | — | — |
| Premium arising from shares issued | — | — | — | 226 | — | 226 |
| Decrease in fair value in year | (153) | — | — | — | — | — |
| Arising on employee share schemes | — | 250 | — | — | — | — |
| Unrecognised actuarial gain | — | 6,199 | — | — | — | — |
| Deferred tax on actuarial gain | — | (1,054) | — | — | — | — |
| At 31 December 2018 | 3,397 | 276,999 | 271 | 5,867 | 209 | 6,347 |
| Change in accounting policy | **—** | **(154)** | **—** | **—** | **—** | **—** |
| Profit for the year | **—** | **37,596** | **—** | **—** | **—** | **—** |
| Dividends paid | **—** | **(12,621)** | **—** | **—** | **—** | **—** |
| Premium arising from shares issued | **—** | **—** | **—** | **43** | **—** | **43** |
| Decrease in fair value in year | **(404)** | **—** | **—** | **—** | **—** | **—** |
| Deferred tax on revaluation surplus | **—** | **—** | **—** | **—** | **—** | **—** |
| Transfer from minority interest | **—** | **(1,856)** | **—** | **—** | **—** | **—** |
| Arising on employee share schemes | **—** | **216** | **—** | **—** | **—** | **—** |
| Unrecognised actuarial loss | **—** | **(7,937)** | **—** | **—** | **—** | **—** |
| Deferred tax on actuarial loss | **—** | **1,350** | **—** | **—** | **—** | **—** |
| **At 31 December 2019** | **2,993** | **293,593** | **271** | **5,910** | **209** | **6,390** |

## 32. Reserves continued

| Parent Company | Retained earnings £'000 | Other: Capital redemption £'000 | Other: Share premium £'000 | Other: Capital £'000 | Other: Investment revaluation £'000 | Total other £'000 |
|---|---|---|---|---|---|---|
| At 1 January 2018 | 72,242 | 271 | 5,641 | 211 | 1,135 | 7,258 |
| Profit for the year | 19,367 | — | — | — | — | — |
| Dividends paid | (11,161) | — | — | — | — | — |
| Premium arising from shares issued | — | — | 226 | — | — | 226 |
| Arising on employee share schemes | (80) | — | — | — | — | — |
| Unrecognised actuarial gain | 6,199 | — | — | — | — | — |
| Deferred tax on actuarial gain | (1,054) | — | — | — | — | — |
| At 31 December 2018 | 85,513 | 271 | 5,867 | 211 | 1,135 | 7,484 |
| Change in accounting policy | (7) | — | — | — | — | — |
| Profit for the year | 12,350 | — | — | — | — | — |
| Dividends paid | (12,621) | — | — | — | — | — |
| Premium arising from shares issued | — | — | 43 | — | — | 43 |
| Arising on employee share schemes | (256) | — | — | — | — | — |
| Unrecognised actuarial loss | (7,939) | — | — | — | — | — |
| Deferred tax on actuarial loss | 1,350 | — | — | — | — | — |
| At 31 December 2019 | 78,390 | 271 | 5,910 | 211 | 1,135 | 7,527 |

### Property revaluation reserve
The property revaluation reserve represents the unrealised surpluses arising on revaluation of the Group occupied land and buildings and is not available for distribution until realised on disposal.

### Retained earnings
Retained earnings represent the accumulated profits and losses of the Group.

### Capital redemption reserve
The capital redemption reserve represents the purchase and cancellation by the Company of its own shares and comprises the aggregate nominal value of all the ordinary shares repurchased and cancelled. This reserve in not distributable.

### Share premium reserve
The share premium reserve represents the difference between the sums received from the issue of shares and their nominal value net of share issue expenses. This reserve is not distributable.

### Capital reserve
The capital reserve represents realised profits arising on the disposal of investments and is available for distribution.

### Investment revaluation reserve
The investment revaluation reserve represents enhancements to the original cost of shares in subsidiary companies where the Directors have considered it appropriate to reflect in the valuation increases of a permanent nature in the underlying net asset values of subsidiary companies. Such enhancements were £1,135,000 in 1989 and are not distributable.

## 33. Cost of shares held by the ESOP trust

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| At 1 January | 1,260 | 1,240 |
| Additions | 598 | 429 |
| Disposals | (610) | (409) |
| At 31 December | 1,248 | 1,260 |

Quoted investments represent own shares held by the Henry Boot PLC Employee Trust as an ESOP to provide an incentive to greater ownership of shares in the Company by its employees.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 33. Cost of shares held by the ESOP trust continued

At 31 December 2019, the Trustee held 537,214 shares (2018: 533,309 shares) with a cost of £1,247,665 (2018: £1,260,185) and a market value of £1,713,713 (2018: £1,282,609). All of these shares were committed to satisfy existing grants by the Company under the Henry Boot PLC 2006 Long Term Incentive Plan, the Henry Boot PLC 2015 Long Term Incentive Plan. In accordance with IAS 32, these shares are deducted from shareholders' funds. Under the terms of the Trust, the Trustee has waived all dividends on the shares it holds.

## 34. Cash generated from operations

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | | **2019** | 2018 Restated | **2019** | 2018 |
| | | **£'000** | £'000 | **£'000** | £'000 |
| Profit before tax | | **49,104** | 48,604 | **12,701** | 18,459 |
| Adjustments for: | | | | | |
| Amortisation of PFI asset | 11 | **555** | 497 | **—** | — |
| Goodwill impairment | 11 | **205** | 204 | **—** | — |
| Depreciation of property, plant and equipment | 12 | **5,911** | 5,370 | **269** | 217 |
| Revaluation (increase)/decrease in investment properties | 14 | **(2,370)** | 92 | **—** | — |
| Amortisation of capitalised letting fees | 3 | **18** | 100 | **—** | — |
| Share-based payment expense | 4 | **826** | 659 | **354** | 328 |
| Pension scheme (credit)/debit | | **(1,684)** | 84 | **(1,684)** | 84 |
| Movements on provision against investments in subsidiaries | 15 | **—** | — | **(3,935)** | (10,354) |
| Movements on provision against loans to subsidiaries | | **—** | — | **3,478** | (389) |
| Loss on disposal of assets held for sale | 3 | **56** | 36 | **—** | — |
| (Gain)/loss on disposal of property, plant and equipment | 3 | **(1,106)** | (891) | **2** | 5 |
| Loss/(gain) on disposal of investment properties | | **238** | (1,401) | **—** | — |
| Finance income | 5 | **(494)** | (275) | **(22,732)** | (18,243) |
| Finance costs | 6 | **1,740** | 1,698 | **2,884** | 2,678 |
| Share of profit of joint ventures and associates | 16 | **(1,448)** | (830) | **—** | — |
| Operating cash flows before movements in equipment held for hire | | **51,551** | 53,947 | **(8,663)** | (7,215) |
| Purchase of equipment held for hire | 12 | **(3,700)** | (4,357) | **—** | — |
| Proceeds on disposal of equipment held for hire | | **1,363** | 1,048 | **—** | — |
| Operating cash flows before movements in working capital | | **49,214** | 50,638 | **(8,663)** | (7,215) |
| Increase in inventories | | **(14,769)** | (10,177) | **—** | — |
| (Increase)/decrease in receivables | | **(33,649)** | (6,980) | **38,566** | 19,188 |
| Decrease/(increase) in contract assets | | **23,687** | (11,840) | **—** | — |
| (Decrease)/increase in payables | | **(10,040)** | 1,066 | **16,575** | 1,273 |
| Increase/(decrease) in contract liabilities | | **7,082** | (431) | **—** | — |
| Cash generated from operations | | **21,525** | 22,276 | **46,478** | 13,246 |

## 35. Guarantees and contingencies

The Parent Company has guaranteed the performance of certain contracts entered into by Group undertakings in the ordinary course of business. These guarantees are impracticable to quantify.

The Parent Company has given cross guarantees to certain of the Group's bankers and bondsmen in respect of facilities available to Group undertakings in the normal course of business. At the year end amounts drawn against these facilities were £nil and £12.9m respectively.

In the opinion of the Directors, no loss is expected to arise in connection with these matters.

## 36. Business combinations

On 9 August 2019 the Group acquired 60% of the share capital of Starfish Commercial Limited for consideration of £540, the remaining 40% was acquired on 23 December 2019 for consideration of £nil.

Starfish, who operates an office in Derbyshire, is a multi-tenure housing contractor, and is an established supplier to several Housing Associations and Local Authorities. It has been delivering affordable and social housing units for the last four years, often via framework arrangements. Starfish is also a joint venture partner with Magenta Living in a company known as Hilbre Homes, providing sustainable housing opportunities in the Cheshire area. The Company's position as an established provider of affordable and social housing enables Henry Boot Construction Limited to take a step into this new operational area.

The goodwill arising on acquisition is attributable to the acquired reputation and customer base and economies of scale expected from the combined operations. None of the goodwill is expected to be deductible for corporation tax purposes.

The following table summarises the consideration paid for Starfish Commercial Limited, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

| | 2019<br>£'000 |
|---|---|
| **Business combinations** | |
| Consideration paid 9 August 2019 | |
| Cash | 1 |
| | 1 |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | (152) |
| Property, plant and equipment | 22 |
| Deferred tax | 109 |
| Trade and other receivables | 2,226 |
| Trade and other payables | (5,562) |
| **Total identifiable net assets** | (3,357) |
| **Less: non-controlling interests** | 1,342 |
| **Goodwill** | 2,015 |
| **Total** | — |

Acquisition-related costs of £64,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2019.

The assets acquired as part of the business combination are all considered to be at fair value and all receivables deemed to be fully recoverable.

The revenue included in the consolidated statement of comprehensive income for the year ended 31 December 2019 was £3,810,000. Starfish Commercial Limited also contributed loss before tax of £1,834,000 over the same period.

Had Starfish Commercial Limited been consolidated from 1 January 2019, the consolidated statement of comprehensive income would show proforma revenue of £7,790,000 and loss before tax of £4,418,000.

## 37. Events after the balance sheet date

Since the outbreak of the COVID-19 pandemic in the first quarter of 2020 there has been widespread disruption in the UK and consequently for the Group. As the pandemic accelerated after the year end this event has been classified as a non-adjusting post balance sheet event. The assessment on the ability of the Group to operate as a going concern is disclosed in the accounting policies on page 134.

Other disclosable events after the balance sheet date include the proposal of a final dividend for 2019 and refinancing of the Groups banking facilities in January 2020, further information can be found in notes 10 and 25 respectively.

There were no other significant events since the balance sheet date which may have a material effect on the financial position or performance of the Group.

# Notes to the Financial Statements

for the year ended 31 December 2019

## 38. Additional information – subsidiaries, joint ventures and associates

Details of the Company's subsidiaries, joint ventures and associates, all of which are incorporated in England (unless otherwise stated) and are consolidated in the Group Financial Statements at 31 December 2019, are as follows:

| Subsidiary name | Proportion of ownership | Direct or indirect | Activity |
|---|---|---|---|
| Banner Plant Limited | 100% | Direct | Plant hire |
| Brookfield Garth Hampsthwaite Management Company Limited | 50% | Indirect | Management company |
| Buffergone Limited | 100% | Direct | Inactive |
| Capitol Park Property Services Limited | 4.6% | Indirect | Management company |
| Chocolate Works York Management Company Limited | 100% | Indirect | Management company |
| Comstock (Kilmarnock) Limited | 100% | Indirect | Land promotion |
| First National Housing Trust Limited | 100% | Direct | Property investment |
| Fox Valley Management Company Limited | 50% | Indirect | Management company |
| Hallam Land Management Limited | 100% | Direct | Land promotion |
| HB Island Limited | 100% | Direct | Property development |
| HBGP Limited | 100% | Direct | Property development |
| Henry Boot Biddenham Limited | 100% | Direct | Land promotion |
| Henry Boot Construction Limited | 100% | Direct | Construction |
| Henry Boot Contracting Limited | 100% | Direct | Inactive |
| Henry Boot Developments Limited | 100% | Direct | Property investment and development |
| Henry Boot Cornwall House Limited | 100% | Indirect | Inactive |
| Henry Boot Estates Limited | 100% | Direct | Property investment |
| Henry Boot Investments 1 Limited | 100% | Indirect | Property development |
| Henry Boot Inner City Limited | 100% | Direct | Inactive |
| Henry Boot 'K' Limited | 100% | Indirect | Property investment and development |
| Henry Boot Land Holdings Limited | 100% | Direct | Land promotion |
| Henry Boot (Launceston) Limited | 100% | Direct | Land promotion |
| Henry Boot Leasing Limited | 100% | Direct | Motor vehicle leasing to Group companies |
| Henry Boot (Manchester) Limited | 100% | Direct | Property development |
| Henry Boot Nottingham Limited | 100% | Indirect | Inactive |
| Henry Boot Projects Limited | 100% | Direct | Inactive |
| Henry Boot Swindon Limited | 100% | Direct | Land promotion |
| Henry Boot Tamworth Limited | 100% | Indirect | Property investment and development |
| Henry Boot Wentworth Limited | 100% | Direct | Property development |
| IAMP Management Company Limited | 100% | Indirect | Management company |
| Investments (North West) Limited | 100% | Indirect | Property development |
| Kingsley Road Harrogate Management Company Limited | 50% | Indirect | Management company |
| Marboot Centregate Limited | 100% | Indirect | Property investment |
| Marboot Centregate 2 Limited | 100% | Indirect | Property investment |
| Moore Street Securities Limited | 100% | Direct | Employee benefit trust |
| Moorlands Cleckheaton Management Company Limited | 50% | Indirect | Management company |
| Northfields Rotherham Management Company Limited | 53% | Indirect | Management company |
| Plot 7 East Markham Vale Management Company Limited | 66.7% | Indirect | Management company |
| Road Link (A69) Holdings Limited | 61.2% | Indirect | Holding company |
| Road Link (A69) Limited | 61.2% | Indirect | PFI road maintenance |
| St John's Manchester Limited | 100% | Indirect | Property development |
| Saltwoodend Limited | 100% | Indirect | Inactive |
| Starfish Commercial Limited | 100% | Indirect | Construction |
| Stonebridge Offices Limited | 50% | Indirect | Property investment |
| Stonebridge Homes Limited | 50% | Indirect | Property development |
| Victoria Gardens (Headingley) Management Company Limited | 50% | Indirect | Management company |
| Weyland Road Management Company Limited | 50% | Indirect | Management company |
| Winter Ground Limited | 100% | Indirect | Property development |
| Woodside Park Newlay Estate Management Company Limited | 50% | Indirect | Management company |

## 38. Additional information – subsidiaries, joint ventures and associates continued

| Joint ventures and associates | Proportion of ownership | Direct or indirect | Activity |
|---|---|---|---|
| Ansty Development Vehicle LLP | 50% | Indirect | Land promotion |
| Aytoun Street Developments Limited | 50% | Indirect | Property development |
| Bigmouth Manchester Limited | 50% | Indirect | Property development |
| Cognito Oak LLP | 50% | Indirect | Property development |
| Crimea Land Mansfield LLP | 50% | Indirect | Land promotion |
| HBB Preston East Limited | 50% | Indirect | Property development |
| HBB Roman Way Limited | 50% | Indirect | Property development |
| Henry Boot Barnfield Limited | 50% | Indirect | Property development |
| Hilbre Projects LLP | 40% | Indirect | Construction |
| I-Prop Developments Limited | 50% | Indirect | Inactive |
| Island Site Limited Partnership | 50% | Indirect | Property development |
| Island Site (General Partner) Limited | 50% | Indirect | Property development |
| Island Site (Nominee) Limited | 50% | Indirect | Property development |
| Kirklees Henry Boot Partnership Limited | 50% | Indirect | Inactive |
| Markey Colston Limited | 18.4% | Indirect | Property investment |
| Montagu 406 Regeneration LLP | 50% | Indirect | Property investment |
| Newmarket Lane Holding Limited | 50% | Indirect | Property development |
| Newmarket Lane Limited | 50% | Indirect | Property development |
| Newmarket Lane Management Company Limited | 50% | Indirect | Management company |
| Pennine Property Partnership LLP | 50% | Indirect | Property investment and development |
| Road Link Limited | 37.6% | Indirect | Inactive |

The address of the registered office of all subsidiaries, joint venture and associates is the same as the Parent Company, with the exception of:

Road Link Limited, Road Link (A69) Limited and Road Link (A69) Holdings Limited whose registered office is Stocksfield Hall, Stocksfield, Northumberland, NE43 7TN.

Woodside Park Newlay Estate Management Company Limited, Fox Valley Management Company Limited, Moorlands Cleckheaton Management Company Limited, Brookfield Garth Hampsthwaite Management Company Limited, Kingsley Road Harrogate Management Company Limited, Weyland Road Management Company Limited and Victoria Gardens (Headingley) Management Company Limited whose registered office is 1 Featherbank Court, Horsforth, Leeds, LS18 4QF.

Henry Boot Barnfield Limited, HBB Roman Way Limited and HBB Preston East Limited whose registered office is 8 Kenyon Road, Lomeshaye Industrial Estate, Nelson, Lancashire, England, BB9 5SP.

Kirklees Henry Boot Partnership Limited whose registered office is Legal Services, 2nd Floor Civic Centre 3, Huddersfield, West Yorkshire, HD1 2WZ.

Markey Colston Limited whose registered office is Q1 Quadrant Way, Hardwicke, Gloucester, GL2 2RN.

Cognito Oak LLP whose registered office is Union Plaza (6th Floor), 1 Union Wynd, Aberdeen, Scotland, AB10 1DQ.

Ansty Development Vehicle LLP and Crimea Land Mansfield LLP whose registered office is Advantage House Poplar Way, Catcliffe, Rotherham, S60 5TR.

Island Site Limited Partnership whose registered office is Guardsman Tony Downes House, 5 Manchester Road, Droylsden, Tameside, M43 6SF.


The Glass Works Phase 1
Barnsley
Omega Boulevard
Thorne Park
Gladstone House
Newark
Selby
Garforth
Castleford
Knottingley
Pontefract
Barnsley
Doncaster
Rotherham
Thorne
Scunthorpe
NORTH LINCOLNSHIRE
KINGSTON UPON HULL
Hessle
Barton-upon-Humber
Brigg
Market Rasen
LINCOLNSHIRE
Sutton in Ashfield
Ripley
Bolsover


# SHAREHOLDER INFORMATION

## GROWTH

To grow net assets, increasing opportunity for the long-term.

# Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Henry Boot PLC, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Board of Henry Boot PLC considers all of the proposed resolutions to be in the best interests of shareholders as a whole and accordingly recommends that shareholders vote in favour of all the resolutions proposed.

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of Henry Boot PLC (Company) will be held at Banner Cross Hall, Ecclesall Road, South, Sheffield, S11 9PD on Tuesday 30 June 2020 at 12.30pm for the following purposes:

To consider and if thought fit, pass the following resolutions, which will be proposed as ordinary resolutions of the Company.

### Resolution 1

To receive the Directors' Report, Auditors' Report, Strategic Report and the Financial Statements for the year ended 31 December 2019.

### Resolution 2

To declare a final dividend of 1.3p per ordinary share.

### Resolution 3

To approve the Directors' Remuneration Report (other than the part containing the directors' remuneration policy) for the year ended 31 December 2019.

### Resolution 4

To reappoint Timothy Roberts as a Director of the Company.

### Resolution 5

To reappoint Jamie Boot as a Director of the Company.

### Resolution 6

To reappoint Darren Littlewood as a Director of the Company.

### Resolution 7

To reappoint Joanne Lake as a Director of the Company.

### Resolution 8

To reappoint James Sykes as a Director of the Company.

### Resolution 9

To reappoint Peter Mawson as a Director of the Company.

### Resolution 10

To reappoint Gerald Jennings as a Director of the Company.

### Resolution 11

To appoint Ernst & Young as auditors of the Company.

### Resolution 12

To authorise the Audit & Risk Committee to fix the auditors' remuneration.

### Resolution 13

THAT the rules of the Henry Boot PLC 2020 Company Share Option Plan (CSOP), the principal terms of which are summarised in the Appendix to this Notice of AGM and a copy of which having been produced to the meeting and initialled by the Chairman for the purpose of identification, be and are hereby approved, the CSOP be and is hereby adopted and the Directors of the Company be and are hereby authorised to do all acts and things which they may consider necessary or expedient to give effect to the CSOP.

### Resolution 14

THAT the rules of the Henry Boot PLC 2020 Sharesave Plan (Sharesave), the principal terms of which are summarised in the Appendix to this Notice of AGM and a copy of which having been produced to the meeting and initialled by the Chairman for the purpose of identification, be and are hereby approved, the Sharesave be and is hereby adopted and the Directors of the Company be and are hereby authorised to do all acts and things which they may consider necessary or expedient to give effect to the Sharesave.

### Resolution 15

THAT pursuant to Section 551 of the Companies Act 2006, the Directors be and are generally and unconditionally authorised to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £4,439,086, provided that (unless previously revoked, varied or renewed) this authority shall expire on 29 September 2021 or at the conclusion of the next AGM of the Company after the passing of this resolution, whichever is the earlier, save that the Company may make an offer or agreement before this authority expires which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after this authority expires and the Directors may allot shares or grant such rights pursuant to any such offer or agreement as if this authority had not expired. This authority is in substitution for all existing authorities under Section 551 of the Companies Act 2006 (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

To consider and if thought fit, pass the following resolutions, which will be proposed as special resolutions of the Company.

### Resolution 16

THAT subject to the passing of Resolution 15 and pursuant to Section 570 of the Companies Act 2006, the Directors be and are generally empowered to allot equity securities (within the meaning of Section 560 of the Companies Act 2006) for cash pursuant to the authority granted by Resolution 15 as if Section 561(1) of the Companies Act 2006 did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

a. in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):
   i. to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and
   ii. to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

b. otherwise than pursuant to paragraph a. of this resolution, up to an aggregate nominal amount of £665,863,and (unless previously revoked, varied or renewed) this power shall expire on 29 September 2021 or at the conclusion of the next AGM of the Company after the passing of this resolution, whichever is the earlier, save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired. This power is in substitution for all existing powers under Section 570 of the Companies Act 2006 (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

# Notice of Annual General Meeting

### Resolution 17

THAT pursuant to Section 701 of the Companies Act 2006, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of ordinary shares of 10p each in the capital of the Company (ordinary shares) provided that:

a. the maximum aggregate number of ordinary shares hereby authorised to be purchased is 13,317,260;
b. the minimum price (excluding expenses) which may be paid for an ordinary share is 10p;
c. the maximum price (excluding expenses) which may be paid for an ordinary share is not more than the higher of:
   i. an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made; and
   ii. an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out;
d. the authority hereby conferred shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, on 29 September 2021; and
e. the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiry of such authority.

By order of the Board

AMY STANBRIDGE
Company Secretary
20 May 2020

HENRY BOOT PLC
Registered Office:
Banner Cross Hall
Ecclesall Road South
Sheffield
United Kingdom
S11 9PD
Registered in England and Wales No. 160996

## Notes

1. The holders of preference shares in the Company are not entitled to attend and vote at the AGM.
2. The right to vote at the meeting is determined by reference to the register of members. Only those ordinary shareholders registered in the register of members of the Company as at the close of business on 26 June 2020 (or, if the meeting is adjourned, at the close of business on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting. However, in light of the COVID-19 pandemic situation, ordinary shareholders and their proxies will not be allowed to attend the meeting in person.
3. An ordinary shareholder is ordinarily entitled to appoint any other person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting. A proxy need not be a shareholder of the Company. However, in light of the COVID-19 pandemic, ordinary shareholders are urged to appoint the Chairman of the meeting as his or her proxy as ordinary shareholders and their proxies will not be allowed to attend the meeting in person.
4. A proxy may only be appointed in accordance with the procedures set out in notes 5 to 7 below and the notes to the form of proxy.
5. A form of proxy is enclosed with the notice issued to holders of ordinary shares. To be valid, a form of proxy must be received by post at the offices of the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, no later than 12.30pm on 26 June 2020 (or, if the meeting is adjourned, 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting).
6. As an alternative to completing the hard copy form of proxy, an ordinary shareholder may appoint the Chairman as his or her proxy electronically using the online service at www.eproxyappointment.com. For an electronic proxy appointment to be valid, the appointment must be received by Computershare Investor Services PLC no later than 12.30pm on 26 June 2020 (or, if the meeting is adjourned, no later than 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting).
7. CREST members who wish to appoint the Chairman as his or her proxy for the AGM (or any adjournment of it) through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual, which is available at www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Computershare Investor Services PLC (ID: 3RA50) no later than 12.30pm on 26 June 2020 (or, if the meeting is adjourned, 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Computershare Investor Services PLC is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat a CREST Proxy Instruction as invalid in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

# Notice of Annual General Meeting

8. An ordinary shareholder which is a corporation may ordinarily authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares. However, in light of the COVID-19 pandemic, such representatives will not be allowed to attend the meeting in person and therefore corporations are urged to complete and return their form of proxies appointing the Chairman as their proxy.
9. Where a copy of this notice is being received by a person who has been nominated to enjoy information rights under Section 146 of the Companies Act 2006 (Nominated Person):
    a. the Nominated Person may have a right under an agreement between him/her and the shareholder by whom he/she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting; or
    b. if the Nominated Person has no such right or does not wish to exercise such right, he/she may have a right under such an agreement to give instructions to the shareholder as to the exercise of voting rights.

    The statement of the rights of ordinary shareholders in relation to the appointment of proxies in notes 4 to 7 above does not apply to a Nominated Person. The rights described in such notes can only be exercised by ordinary shareholders of the Company.
10. A shareholder or shareholders having a right to vote at the meeting and holding at least 5% of the total voting rights of the Company (see note 15 below), or at least 100 shareholders having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital, may require the Company to publish on its website a statement setting out any matter that such shareholders propose to raise at the meeting relating to either the audit of the Company's Financial Statements (including the Auditors' Report and the conduct of the audit) that are to be laid before the meeting or any circumstances connected with auditors of the Company ceasing to hold office since the last AGM of the Company in accordance with Section 527 of the Companies Act 2006.

    Any such request must:

    a. identify the statement to which it relates, by either setting out the statement in full or, if supporting a statement requested by another shareholder, clearly identifying the statement that is being supported;
    b. comply with the requirements set out in note 11 below; and
    c. be received by the Company at least one week before the meeting.

    Where the Company is required to publish such a statement on its website:

    i. it may not require the shareholders making the request to pay any expenses incurred by the Company in complying with the request;
    ii. it must forward the statement to the Company's auditors no later than the time when it makes the statement available on the website; and
    iii. the statement may be dealt with as part of the business of the meeting.
11. Any request by a shareholder or shareholders to require the Company to publish audit concerns as set out in note 10:
    a. may be made either:
        i. in hard copy, by sending it to the Company Secretary, Henry Boot PLC, Banner Cross Hall, Ecclesall Road South, Sheffield S11 9PD; or
        ii. in electronic form, by sending it by email to cosec-ir@henryboot.co.uk. Please state 'Henry Boot PLC: AGM' in the subject line of the email;
    b. must state the full name(s) and address(es) of the shareholder(s); and
    c. where the request is made in hard copy form, it must be signed by the shareholder(s).

12. Shareholders ordinarily have the right to ask questions at the meeting relating to the business being dealt with at the meeting in accordance with Section 319A of the Companies Act 2006. The Company must answer any such question unless:
    a. to do so would interfere unduly with the preparation for the meeting or would involve the disclosure of confidential information;
    b. the answer has already been given on a website in the form of an answer to a question; or
    c. it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

    In light of the COVID-19 pandemic, any such questions should be submitted in writing to the Company by the following means no later than 12.30pm on 26 June 2020 (or, if the meeting is adjourned, no later than 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting):
    a. in hard copy, by sending it to the Company Secretary, Henry Boot PLC, Banner Cross Hall, Ecclesall Road South, Sheffield S11 9PD; or
    b. in electronic form, by sending it by email to cosec-ir@henryboot.co.uk. Please state 'Henry Boot PLC: AGM' in the subject line of the email.

    Any such written request should clearly state the full name(s) and address(es) of the shareholder(s) raising such questions and, where the request is made in hard copy form, it must be signed by the relevant ordinary shareholder(s).
13. The information required by Section 311A of the Companies Act 2006 to be published in advance of the meeting, which includes the matters set out in this notice and information relating to the voting rights of shareholders, is available at:
    www.henryboot.co.uk
14. Except as expressly provided above, shareholders who wish to communicate with the Company in relation to the meeting should do so using the following means:
    a. telephone 0114 255 5444; or
    b. email cosec-ir@henryboot.co.uk.

    No other methods of communication will be accepted.
15. As at 20 May 2020 (being the last practicable date before publication of this notice), the Company's issued ordinary share capital was 133,172,602 ordinary shares, carrying one vote each and representing the total number of voting rights in the Company.
16. The following documents will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the time of the meeting. They will also be available for inspection at the place of the meeting from at least 15 minutes before the meeting until it ends.
    a. A copy of the rules of the CSOP.
    b. A copy of the rules of the Sharesave.
    c. Copies of the service contracts of the executive directors.
    d. Copies of the letters of appointment of the non-executive directors.

A copy of the rules of the CSOP and Sharesave will also be available for inspection at the following address from the date of this notice until the time of the meeting:

DLA Piper UK LLP
160 Aldersgate St,
Barbican
London
EC1A 4HT

17. Biographies for each of the directors are shown on pages 66 and 67 of the annual report for the year ended 31 December 2019.

# Notice of Annual General Meeting

## APPENDIX TO NOTICE OF ANNUAL GENERAL MEETING

### Summary of proposed new share option plans

Resolutions 13 and 14 propose a new Company Share Option Plan (**"CSOP"**) and new Sharesave Plan (**"Sharesave Plan"**) (together **"Plans"**) respectively to replace the Company's existing company share option plan and sharesave plan which are due to expire in June 2020 and May 2020 respectively.

It is not intended that the executive directors will be granted options under the CSOP since they participate in a separate long term incentive plan.

The CSOP and Sharesave Plan will be administered by the Remuneration Committee (**"Committee"**).

The total number of ordinary shares over which options to subscribe may be granted under all share option schemes of the Company, whether on a discretionary basis or on any other basis, and issued or issuable under all other share schemes of the Company may not, in any consecutive 10 year period, exceed 10 per cent of the ordinary shares in issue from time to time. Lapsed and surrendered awards shall be disregarded for this purpose.

The principal features of the proposed new Plans are as follows:

**1. CSOP**

As with the existing company share option plan, the CSOP will enable options (**"Options"**) to acquire ordinary shares in the Company (**"Shares"**) to be granted to employees, and is intended to satisfy the conditions in schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 (**"Schedule 4"**) such that options will qualify for certain tax advantages. The CSOP will also allow Options to be granted which are not tax-advantaged.

**1.1 Individual participation limit**

The aggregate subscription price (at the date of grant) of all outstanding Options granted to any one participant which are qualifying options under Schedule 4 may not exceed £30,000.

The aggregate market value (at the date of grant) of Shares over which Options may be granted to any one participant in any one financial year of the Company under the CSOP will not normally exceed the amount of that participant's annual basic salary (excluding benefits in kind) for that financial year (or the preceding financial year if greater).

**1.2 Eligibility**

Any full time director or employee of a company in the Henry Boot group (**"Group"**) is eligible to participate in the CSOP. Actual participation is at the discretion of the Committee. Options are personal to the participant and not capable of assignment except that, on death, the Option holder's personal representatives may exercise the Option within 12 months following the Option holder's death. Options shall be granted by deed with no consideration payable by the participant.

**1.3 Exercise terms**

The exercise price for each Share under Option will be the higher of the nominal value of a Share and the market value of a Share at the date of grant.

An Option will normally be exercisable only within the period of three to 10 years after the date of grant.

Options may be exercised early where employment ceases due to the participant's death, ill-health, injury, disability, redundancy, retirement, the sale of the employee's employing business or company out of the Group or, at the discretion of the Committee, on the participant in question leaving employment for any other reason. In each of these situations (other than on death), the Option must be exercised, if at all, by the expiry of the period of six months following the cessation of employment. In the case of death, the participant's personal representatives may exercise the Option within 12 months following the death. Where, in these circumstances, exercise is permitted before the Option has vested in accordance with its terms, the extent to which an Option may be exercised shall be calculated by the Committee by applying any relevant performance condition and then applying a pro rata reduction to the number of Shares so determined, based on the proportion of the vesting period during which the participant was employed, unless the Committee decides that such time-based reduction is inappropriate and determines to apply a lesser reduction (or no reduction).

If the employment ceases for any reason other than one specified in the previous paragraph, the Option will lapse, unless the Committee in its discretion determines to permit exercise (within such time period and to such extent as the Committee in its discretion determines).

*Performance targets*

The Committee may impose objective conditions as to the performance of the Group which must normally be satisfied before Options can be exercised. Having granted Options and set a performance target, the Committee may vary the performance target provided that the Committee reasonably considers that the performance target set no longer represents a fair measure of performance and provided that any new conditions are no more difficult nor easy to satisfy. Since options under the Company's existing company share option plan are not granted to executive directors, and are granted on a company-wide basis, and it is intended that this practice will continue under the CSOP, it is not intended that performance conditions will be applied to Options granted under the CSOP.

1.4 **Change of control and other corporate events**

In the event of a takeover, amalgamation or reconstruction of the Company, Options may be exercised early under the CSOP provided that where the event occurs before the Option has vested, the extent to which an Option may be exercised will be calculated on the basis of the extent to which any performance conditions applicable to the Options have been satisfied as at the date of the change of control (or other event), with the resulting number of Shares then reduced on a time pro-rated basis, unless the Committee determines to apply a lesser reduction (or no reduction).

Alternatively, with the agreement of the acquiring company, Options may be exchanged for options over shares in the acquiring company or in a company associated with the acquiring company.

1.5 **Tax**

The CSOP contains provisions that will ensure that any income tax and employee's national insurance contributions that arise as a result of the exercise of any Options will be payable by the participant. The Committee may determine that the participant shall also be liable for any employer's national insurance contributions which arise.

2. **Sharesave plan**

The Sharesave Plan is a savings-related share option plan pursuant to which eligible employees may be offered options (**"Options"**) to acquire Shares at a price determined by the Committee which can be set at a discount of up to 20 per cent. of the market value of a Share at the date of invitation to apply for an option. It is intended that the Sharesave Plan will satisfy the conditions in schedule 3 to the Income Tax (Earnings and Pensions) Act 2003 (**"Schedule 4"**) such that Options will qualify for certain tax advantages.

2.1 **Eligibility**

All eligible employees and full-time directors of any company within the Group who have been with the Group for a period determined by the Committee (not exceeding five years), are eligible to participate in the Sharesave Plan. All employees who are eligible to participate must do so on similar terms although this may vary by reference to levels of remuneration, length or service or other similar factors.

2.2 **Savings contracts**

Each participant must enter into a savings contract (**"Contract"**) approved by the Committee for a period of three or five years under which he agrees to make monthly savings of an amount decided by him, subject to a minimum specified by the Committee which may not exceed £10 (or such other minimum permitted by the legislation from time to time) and up to the maximum specified by the Committee and permitted by the legislation (currently £500 per month).

2.3 **Grant of Options**

The number of Shares over which a participant will be granted an Option will be the number of Shares which, taking into account the price payable on exercise of the Option, can be purchased with the amount saved under the Contract (which, subject to applicable legislation and regulations, may include a bonus payable under the Contract).

2.4 **Exercise of Options**

Options may normally only be exercised during the six month period following maturity of the Contract and if not exercised by the end of that period will lapse. This may be following the third or fifth anniversary of commencement of the Contract.

2.5 **Leavers**

Early exercise is permitted in the event of cessation of employment within the Group by reason of death, injury, disability, redundancy, retirement, or the sale of the participant's employing company or business out of the Group (but only to the extent of savings plus any bonus accumulated in the related Contract up to the time of exercise). If a participant ceases to be employed within the Group for any other reason within three years of the grant of an Option, that Option will lapse. If a participant ceases to be employed within the Group for any other reason (except for reason of gross misconduct) more than three years from the grant of an Option, the participant may exercise that Option within six months of so ceasing (but no later than the end of the six month period following maturity of the related Contract).

2.6 **Change of control and other corporate events:**

Early exercise is also permitted (to the extent of accrued savings to date in the related savings contract) in the event of a change of control, compromise or arrangement, or voluntary winding up of the Company. On a change of control, or compromise or arrangement, with the consent of the acquiring company, Options may be exchanged so as to operate over shares in the acquiring company (or a company associated with it).

# Notice of Annual General Meeting

3. Features common to both plans

3.1 Grant of Options

Options may only be granted under the CSOP, and invitations to apply for the grant of Options under the Sharesave Plan may only be made, within the period of 42 days starting immediately after the end of a closed period within the meaning in the Market Abuse Regulation (EU Regulation 596/2014).

Options may be granted at any other time if the Committee considers that exceptional circumstances exist to justify the grant at such other time.

Without further shareholder approval, Options may only be granted within 10 years of shareholder approval of the relevant Plan.

3.2 Shares issued on exercise of Options

Shares allotted under the Plans will rank equally with the Company's existing issued Shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the date of exercise of the Option).

3.3 Variation of share capital

In the event of a variation of share capital by way of capitalisation, rights issue, subdivision, reduction, consolidation or otherwise, the number of Shares subject to a subsisting Option and the price payable on exercise may be adjusted in such manner as the Committee determines (but subject to applicable legislation).

3.4 Amendments

The Committee may alter the Plans but certain amendments to the advantage of current or future participants cannot take effect without shareholder approval, unless they are minor amendments to benefit the administration of the plan, or amendments which are necessary or desirable to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or the Company or other member of the Group. The amendments which will generally require shareholder approval are amendments to the persons to whom Options may be granted, the provisions for determining a participant's entitlement to, and the terms of, Shares provided under the relevant Plan, the maximum and individual limits on the number of Shares over which Options can be granted, the provisions for adjusting Options in the event of a variation of share capital and the provisions for altering the terms of the Plan.

3.5 Pension rights

None of the benefits which may be received under the Plans shall be pensionable.

# Financial Calendar

### London Stock Exchange announcements

**Annual Results 2019:**
20 May 2020

**Interim Results 2020:**
21 August 2020

**Pre-close Trading Statement 2020:**
end January 2021

### Annual Report and Financial Statements

**Annual Report and Financial Statements 2019 (Available and online):**
by 3 June 2020

### Annual General Meeting

30 June 2020

### Dividends paid on ordinary shares

**2019 Final dividend date (Subject to approval at AGM):**
6 July 2020

**2020 Interim dividend date (Subject to approval):**
16 October 2020

# Advisers

### Chartered Accountants and Statutory Auditors

PricewaterhouseCoopers LLP
Central Square
29 Wellington Street
Leeds LS1 4DL

### Bankers

Barclays Bank PLC
1 St Paul's Place
121 Norfolk Street
Sheffield S1 2JW

HSBC UK Bank Plc
City Point
29 Kings Street
Leeds LS1 2HL

National Westminster Bank PLC
2 Whitehall Quay
Leeds LS1 4HR

### Corporate Finance

KPMG Corporate Finance
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

### Financial PR

Hudson Sandler LLP
25 Charterhouse Square
London EC1M 6AE

### Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

### Solicitors – Corporate

DLA Piper UK LLP
1 St Paul's Place
Sheffield S1 2JX

### Solicitors – Operational

Irwin Mitchell LLP
Riverside East House
2 Millsands
Sheffield S3 8DT

### Stockbrokers

Numis Securities Limited
Joint Corporate Broker
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Peel Hunt LLP
Joint Corporate Broker
Moor House
120 London Wall
EC2Y 5ET

# Group Contact Information

## Land Promotion
### Hallam Land Management Limited

**Registered office and Head office**
Banner Cross Hall, Ecclesall Road South, Sheffield S11 9PD

t: 0114 255 5444
e: info@hallamland.co.uk
**w: www.hallamland.co.uk**

**Regional offices**
Bristol, Glasgow, Leeds, London and Northampton

## Property Investment and Development
### Henry Boot Developments Limited

**Registered office and Head office**
Banner Cross Hall, Ecclesall Road South, Sheffield S11 9PD

t: 0114 350 4477
e: hello@hbd.co.uk
**w: www.hbd.co.uk**

**Regional offices**
Birmingham, Bristol, Glasgow, Leeds, London and Manchester

### Stonebridge Homes Limited

**Registered office**
Banner Cross Hall, Ecclesall Road South, Sheffield S11 9PD

**Head office**
1 Featherbank Court, Horsforth, Leeds LS18 4QF

t: 0113 357 1100
e: sales@stonebridgehomes.co.uk
**w: www.stonebridgehomes.co.uk**

## Construction
### Henry Boot Construction Limited

**Registered office**
Banner Cross Hall, Ecclesall Road South, Sheffield S11 9PD

**Head office**
Callywhite Lane, Dronfield, Derbyshire S18 2XN

t: 01246 410111
e: hbc@henryboot.co.uk
**w: www.henrybootconstruction.co.uk**

### Banner Plant Limited

**Registered office**
Banner Cross Hall, Ecclesall Road South, Sheffield S11 9PD

**Head office**
Callywhite Lane, Dronfield, Derbyshire, S18 2XS

t: 01246 299400
e: dronfield@bannerplant.co.uk
**w: www.bannerplant.co.uk**

**Hire centres**
Chesterfield, Derby, Dronfield, Leicester, Leeds, Rotherham and Wakefield

### Road Link (A69) Limited

**Registered office and Head office**
Stocksfield Hall, Stocksfield, Northumberland NE43 7TN

t: 01661 842842
e: enquiries@roadlinka69.co.uk

# Glossary

We have used some terms in this report to explain how we run our business that might be unfamiliar to you. The following list gives a definition for some of the more frequently used terms:

### Commercial property
This refers to buildings or land intended to generate a profit, either from capital gain or rental income, such as office building, industrial property, retail stores, etc.

### Disclosure and Transparency Rules (DTR)
Issued by the United Kingdom Listing Authority.

### Dividend
A distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders.

### Earnings per share (EPS)
Profit for the period attributable to equity shareholders divided by the average number of shares in issue during the period.

### Gearing
Net debt expressed as a percentage of equity shareholders' funds.

### IAS
International Accounting Standard.

### IASB
International Accounting Standards Board.

### IFRS
International Financial Reporting Standard as adopted by the European Union.

### Inventory value
The determination of the cost of unsold inventory at the end of the accounting period.

### IOSH
Institution of Occupational Safety and Health.

### LIBOR
The London Interbank Offered Rate is a daily reference rate based on the interest rates at which banks borrow unsecured funds from other banks in the London wholesale money market (or interbank market).

### Localism Bill
A bill to devolve greater powers to councils and neighbourhoods and give local communities more control over housing and planning decisions.

### Net asset value per share (NAV)
Equity shareholders' funds divided by the number of shares in issue at the balance sheet date.

### Operating profit
Profit earned from a company's core activities.

### Option agreement
A legal agreement between a landowner and another party for the right to buy land within a set time scale at the conclusion of a satisfactory planning permission.

### Ordinary share
Any shares that are not preferred shares and do not have any predetermined dividend amounts. An ordinary share represents equity ownership in a company and entitles the owner to a vote in matters put before shareholders in proportion to their percentage ownership in the company.

### PFI contract
A Private Finance Initiative contract is a contract between a public body and a private company and involves the private sector making capital investment in the assets required to deliver improved services. They are typified by long contract lengths, often 30 years or more.

### Planning Promotion Agreement (PPA)
A legal agreement between a landowner and another party for a set time scale and financial consideration to promote land through the UK planning system.

### Pre-let
A lease signed with a tenant prior to completion of a development.

### Renewable energy
Energy which comes from natural resources, such as sunlight, wind, rain, tides, waves and geothermal heat, which are naturally replenished.

### Retail Price Index (RPI)/Retail Price Index 'Jevons' (RPIJ)/ Consumer Price Index (CPI)
Monthly inflation indicators based on different 'baskets' of products issued by the Office of National Statistics.

### Return on capital employed (ROCE)
A financial ratio that measures a company's profitability and the efficiency with which its capital is employed.

### S106
Section 106 agreements (S106) are private agreements made between local authorities and developers. They can be attached to a planning permission to make acceptable development which would otherwise be unacceptable in planning terms.

### Subsidiary company
A company whose voting stock is more than 50% controlled by another company, usually referred to as the parent company or holding company.

A subsidiary is a company that is partly or completely owned by another company that holds a controlling interest in the subsidiary company.

### Total shareholder return (TSR)
Dividends and capital growth in the share price, expressed as a percentage of the share price at the beginning of the year.

### Trading profit
The difference between an organisation's sales revenue and the cost of goods sold.

### UK planning system
This system consists of the process of managing the development of land and buildings. The purposes of this process are to save what is best of our heritage and improve the infrastructure upon which we depend for a civilised existence.

Consultancy, design and production by:
jonesandpalmer.co.uk

**Henry Boot PLC**

Registered office:
Banner Cross Hall, Ecclesall Road South
Sheffield, S11 9PD United Kingdom

Registered in England and Wales no. 160996

Tel: 0114 2555444
Email: cosec-ir@henryboot.co.uk

**Stock Code: BOOT.L**

PREMIUM MAIN MARKET
LONDON STOCK EXCHANGE

INVESTORS IN PEOPLE