22 February 2018

MORGAN SINDALL GROUP PLC

('Morgan Sindall' or 'Group')

The Construction & Regeneration Group

RESULTS FOR THE FULL YEAR (FY) ENDED 31 DECEMBER 2017

	FY 2017	FY 2016	Change
Revenue	£2,793m	£2,562m	+9%
Operating profit – adjusted[1]	£68.6m	£48.8m	+41%
Profit before tax – adjusted[1]	£66.1m	£45.3m	+46%
Earnings per share – adjusted[1]	121.1p	84.7p	+43%
Year end net cash	£193m	£209m	-£16m
Average daily net cash	£118m	£25m	+£93m
Total dividend per share	45.0p	35.0p	+29%
Operating profit – reported	£67.4m	£47.4m	+42%
Profit before tax – reported	£64.9m	£43.9m	+48%
Basic earnings per share – reported	118.8p	83.8p	+42%

[1] *'Adjusted' is defined as before intangible amortisation (£1.2m) (FY 2016: before intangible amortisation (£1.4m) and (in the case of earnings per share) deferred tax credit (£0.7m)). All profit and earnings per share measures quoted in this statement are on an adjusted basis unless otherwise stated.*

FY 2017 summary:

- Strong profit growth; profit before tax up 46% to £66.1m
- Average daily net cash up to £118m. Year end net cash of £193m
- Order book up 6% to £3.8bn
- Total dividend up 29% to 45.0p per share
- Divisional highlights
  - Excellent performance from Fit Out; operating profit up 42% to £39.1m (FY 2016: £27.5m)
  - Continued improvement in Construction & Infrastructure; operating margin up to 1.5% (FY 2016: 0.7%) and operating profit of £20.4m (FY 2016: £8.9m)
  - Growth in Partnership Housing; operating profit up 5%, impacted by lower fourth quarter completions
  - Urban Regeneration in line with its schedule of development completions; operating profit of £10.0m
  - Small loss in Property Services as expected; loss of £1.3m arising from restructuring and contract exits

Commenting on today's results, Chief Executive, John Morgan said:

"These strong results are evidence of the significant operational progress being made across the Group and are a testament to the high quality and commitment of our people.

"Our positive cash generation and increase in average net cash in the year has further strengthened our balance sheet and provides us with the flexibility to invest in our regeneration activities whilst allowing us to continue being highly selective with bidding in our construction activities.

"Looking ahead to 2018, we expect continued margin progression in Construction & Infrastructure, another strong performance from Fit Out, further growth from Urban Regeneration and Partnership Housing and positive contributions from Property Services and Investments.

"Consequently, we are confident of another good year of progress and with this positive momentum, are well-placed to deliver a result for the year which is slightly above our previous expectations."

Enquiries

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Presentation

- There will be an analyst and investor presentation at 09.00 at Numis Securities Limited, the London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. Coffee and registration will be from 08.30.
- A copy of these results is available at www.morgansindall.com.
- Today's presentation will be available via live webcast from 09.00 at www.morgansindall.com. A recording will also be available via playback in the afternoon.

Note to Editors

Morgan Sindall Group

Morgan Sindall Group plc is a leading UK Construction & Regeneration group with annual revenue of £2.8bn, employing around 6,400 employees and operating in the public, regulated and private sectors. It reports through six divisions of Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments.

Group Strategy

The Group's strategy is focused on its well-established core strengths of **Construction** and **Regeneration** in the UK. The Group has a balanced business which is geared toward the increasing demand for affordable housing, urban regeneration and infrastructure investment.

Morgan Sindall's recognised expertise and market positions in affordable housing (through its Partnership Housing division) and in mixed-use regeneration development (through its Urban Regeneration division) reflect its deep understanding of the built environment developed over many years and its ability to provide solutions to complex regeneration projects. As a result, its capabilities are aligned with sectors of the UK economy which are expected to see increasing opportunities in the medium to long term and which support the UK's current and future affordable housing and regeneration needs.

Through its Construction & Infrastructure division, the Group is also well positioned to meet the increasing demand for ongoing investment in the UK's infrastructure, working on some of the UK's most high profile infrastructure projects. Its geographically diverse construction activities are focused on key areas of education, healthcare and defence.

The Fit Out business holds a leading position within its market and delivers a consistently strong operational performance. Fit Out, together with the Construction & Infrastructure division, generates cash resources to support the Group's investment in affordable housing and mixed-use regeneration. Additionally, the Group has a presence in Property Services.

The Investments business acts mainly as a facilitator and provides opportunities across construction and regeneration activities; it has also built up a portfolio of property partnerships with local authorities and government bodies which generate a stream of development profits.

In February 2017, the Group announced a set of medium-term financial targets for each division (the **'target'** or **'targets'**). These targets relate to operating margin, return on capital employed or profit and are referenced in the divisional sections of the Business Review.

Group Structure

Under the two business activities of **Construction** and **Regeneration**, the Group is organised into six divisions as follows:

Construction activities comprise the following operations:

- ***Construction & Infrastructure***: Focused on the highways, rail, aviation, energy, water and nuclear markets in Infrastructure; and on the education, healthcare, defence, commercial, industrial, leisure and retail markets in Construction
- ***Fit Out***: Focused on the fit out of office space with opportunities in commercial, central and local government offices, further education and retail banking
- ***Property Services***: Focused on response and planned maintenance activities provided to social housing and the wider public sector

Regeneration activities comprise the following operations:

- ***Partnership Housing***: Focused on working in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes for open market sale and for social/affordable rent, 'design & build' contracting and planned maintenance & refurbishment

- ***Urban Regeneration***: Focused on transforming the urban landscape through partnership working and the development of multi-phase sites and mixed-use regeneration

In addition, ***Investments*** is focused on providing the Group with both construction and regeneration opportunities through various strategic partnerships to develop under-utilised property assets and generates development profits from such partnerships.

Group Operating Review

The Group has delivered another strong year of growth in 2017 and the positive momentum across all divisions provides an encouraging platform for future progress.

Activity levels across the Group increased, with revenue for the year up 9% to £2,793m (FY 2016: £2,562m). Operating profit was up 41% to £68.6m (FY 2016: £48.8m), resulting in an operating margin of 2.5%. This was a significant improvement of 60 bps over the prior year margin of 1.9% and was reflective of the Group's focus on operational delivery, contract selectivity and on improving the overall quality of earnings across the Group.

The net finance expense reduced to £2.5m (FY 2016: £3.5m) due to a lower interest charge as a result of the positive cash performance and after deducting this, the profit before tax was £66.1m, up 46% (FY 2016: £45.3m). The earnings per share increased by 43%, up to 121.1p (FY 2016: 84.7p), with the fully diluted earnings per share of 114.8p up 39% (FY 2016: 82.3p).

The Group result was driven by another excellent performance by Fit Out, with revenue growth of 16% to £735m and significant margin improvement to 5.3% (FY 2016: 4.3%), delivering operating profit of £39.1m, up 42% (FY 2016: £27.5m). Construction & Infrastructure made further operational progress with an improved operating margin of 1.5%, up from 0.7% in the prior year. Its focus on operational delivery and the quality of work secured has benefited the Construction activities particularly, giving a divisional operating profit of £20.4m (FY 2016: £8.9m). Further progress in Property Services was impacted by restructuring costs in the year with the division making a loss of £1.3m, however, this now leaves the division better placed to benefit from its workload in future years.

Of the Group's regeneration divisions, Partnership Housing increased its operating profit 5% to £14.1m (FY 2016: £13.4m), however performance was impacted by lower mixed-tenure open market sales in the year and by cost escalation on a single 'design & build' housing contract. Urban Regeneration reported operating profit of £10.0m (FY 2016: £13.4m) which as expected was lower than the prior year but in line with its schedule of development completions. Investments made good progress with developing its portfolio of property partnerships, delivering a small profit of £0.5m in the year.

In addition to the higher activity levels in the year, the Group has also been successful in winning new work for future delivery. While focusing on the appropriate balance of risk within the order book, the secured order book for the Group was £3,849m at the year end, up 6% from the previous year end and up 1% on the half year position. The regeneration & development pipeline also grew, up 1% to £3,233m, providing longer term visibility of activity for the regeneration divisions.

The statutory profit before tax was £64.9m, up 48% (FY 2016: £43.9m) from the prior year. The tax charge for the year is £12.5m, which broadly equates to the UK statutory rate after adjusting for the impact of tax on joint ventures.

Balance sheet strength and cash generation remain high priorities for the Group and the cash performance has again been strong. The average daily net cash for the year was £118m, a significant improvement of £93m on the prior year (FY 2016: average daily net cash of £25m). At the year end, the Group had net cash of £193m (FY 2016: £209m).

The Group generated an operating cash inflow of £41.0m in the year, this as well as also increasing the capital employed in the regeneration activities of Partnership Housing and Urban Regeneration by over £40m. The strategic investment in Partnership Housing and Urban Regeneration is scheduled to continue, with the timing dependent upon the phasing of individual schemes. Based upon current investment plans, the Group expects average daily net cash for 2018 will be at least £50m.

During the year, the Group secured £180m of new five-year committed revolving credit facilities replacing the previous facilities which were due to expire in 2018. Due to the continued strong cash performance of the Group, the new facilities were not utilised in the period, however they provide ongoing funding headroom and financial security for the Group out to 2022. The facilities build upon the Group's existing strong bank relationships, and are on similar terms and conditions to the previous facilities.

The total dividend for the year has been increased by 29% to 45.0p per share (FY 2016: 35.0p), which includes a proposed increase in the final dividend of 32% to 29.0p per share (FY 2016: 22.0p), reflecting the improved result in the year and the Board's confidence in the future prospects of the Group.

Outlook

Looking ahead to 2018, it is expected that there will be continued margin progression in Construction & Infrastructure, another strong performance from Fit Out, further growth from Urban Regeneration and Partnership Housing and positive contributions from Property Services and Investments.

Consequently, there is confidence of another good year of progress and with this positive momentum, the Group is well-placed to deliver a result for the year which is slightly above its previous expectations.

Business Review

Headline results by business segment

	Revenue		Operating Profit/(Loss)		Operating Margin	
	£m	change	£m	change	%	change
Construction & Infrastructure	1,395	+6%	20.4	+129%	1.5%	+80bps
Fit Out	735	+16%	39.1	+42%	5.3%	+100bps
Property Services	66	+20%	(1.3)	n/a	(2.0%)	-330bps
Partnership Housing	474	+9%	14.1	+5%	3.0%	-10bps
Urban Regeneration	175	+12%	10.0	-25%	n/a	n/a
Investments	11	n/a	0.5	n/a	n/a	n/a
Central/Eliminations	(63)		(14.2)			
Total	**2,793**	**+9%**	**68.6**	**+41%**	**2.5%**	**+60bps**

Order book and regeneration & development pipeline

The Group's committed order book* at 31 December 2017 was £3,849m, an increase of 6% from the previous year end. The divisional split is shown below.

	FY 2017 £m	FY 2016 £m	Change
Construction & Infrastructure	1,855	1,886	-2%
Fit Out	500	466	+7%
Property Services	836	687	+22%
Partnership Housing	523	445	+18%
Urban Regeneration	141	203	-31%
Investments	7	16	-56%
Inter-divisional eliminations	(13)	(66)	
Group committed order book	**3,849**	**3,637**	**+6%**

* "Committed order book" comprises the secured order book and framework order book. The secured order book represents the Group's share of future revenue that will be derived from signed contracts or letters of intent. The framework order book represents the Group's expected share of revenue from the frameworks on which the Group has been appointed. This excludes prospects where confirmation has been received as preferred bidder only, with no formal contract or letter of intent in place.

In addition, the Group's regeneration & development pipeline** was £3,233m, up 1% on the previous year end.

	FY 2017 £m	FY 2016 £m	Change
Partnership Housing	851	764	+11%
Urban Regeneration	2,063	2,233	-8%
Investments	319	213	+50%
Group regeneration & development pipeline	**3,233**	**3,210**	**+1%**

** "Regeneration & development pipeline" represents the Group's share of the gross development value of secured schemes including the development value of open market housing schemes.

Construction & Infrastructure

	FY 2017 £m	FY 2016 £m	Change
Revenue	1,395	1,321	+6%
Operating profit - adjusted	20.4	8.9	+129%
Operating margin - adjusted	1.5%	0.7%	+80bps

"Further progress was made in the year, with disciplined contract selectivity and improved operational delivery enhancing the quality of earnings."

Revenue of £1,395m was up 6% on the prior year (FY 2016: £1,321m). Split by type of activity, ***Construction*** *(including Design)* was up 2% at £807m (58% of divisional revenue), while ***Infrastructure*** increased 10% to £588m (42% of divisional revenue).

Profitability improved significantly, driven by the continued focus on contract selection and project delivery. The divisional operating margin of 1.5% was up from 0.7% in the prior year and showed improvement throughout the year. The first half margin of 1.1% compared to a second half margin of 1.8%, reflecting the continued and significant progress being made towards achieving a normalised margin.

When split by activity, ***Construction's*** *(including Design)* operating margin for the year was 1.3%, up from break-even in the prior year. Its margin in the second half was 1.6% (1.0% in the first half) and was reflective of the benefit from its ongoing focus on contract selectivity and operational delivery. ***Infrastructure*** delivered an operating margin of 1.7% for the year, slightly up on the prior year. Its margin also showed a strong second half weighting (1.2% in the first half, 2.2% in the second half), which was a result of the work mix in the period.

The committed order book at the year end was £1,855m, down 2% compared to the prior year end. ***Infrastructure*** continued to grow its order book, up 6% from the prior year to £1,377m (74% of the total by value), with the focus maintained on its key sectors of highways, rail, aviation, nuclear, energy and water. The ***Construction*** *(including Design)* order book was £478m (26% of total value), a reduction of 19% against the prior year. Consistent with its focus on contract selectivity, the appropriate risk profile has been maintained within the Construction order book, with 93% of the value derived through negotiated, framework or two-stage bidding procurement processes, and only 7% derived through competitive tenders.

Construction

In *Education*, projects delivered include the £40m Littleport Academy in Cambridgeshire and the £25m Science Centre for Anglia Ruskin University as well as the £15m Glenwood Special Educational Needs School for Essex County Council. In addition, work has continued on the £40m Collaborative Teaching Laboratory for the University of Birmingham.

In *Healthcare*, projects completed include a new £10m care home in North East Enfield for Enfield Council, while work started on a £40m programme to build two new health and social care hubs for the NHS in Gorbals and Woodside in Glasgow, in collaboration with Investments through its hub West Scotland joint venture.

In *Defence*, projects completed include a £90m project for BAE Systems to develop industrial facilities at their submarine building site in Barrow-in-Furness, and a £39m training facility for the Civil Nuclear Constabulary in West Cumbria.

In other sectors, significant completions in the year include the £107m mixed-use scheme at Marischal Square in Aberdeen for Urban Regeneration; a £30m redevelopment of 55 Colmore Row in Birmingham city centre; a £24m extension of car storage and handling facilities at the Port of Southampton and, in early 2018, a £48m Operational Command Centre for Merseyside Police. Work continues on a £26m new office project for BUPA UK in Salford Quays and the division has started on site on the first of two projects totalling £47m for Liverpool City Council as part of its Paddington Village scheme, with the second due to start in mid-2018.

Construction was also appointed to a number of other new and renewed public sector frameworks during the year that offer future projects across its core markets. These include the new four-year Scape Group framework for public sector projects in the upper Midlands, covering the largest projects in the framework from £1m to £5m, and the new ESFA framework to build schools valued between £4.5m and £16m over four years.

Infrastructure

In *Highways*, Infrastructure was awarded two Highways England Smart Motorway upgrade contracts in joint venture, on the M62 and M27 (worth more than £300m to the joint venture) while also securing four projects (Stanford-le-Hope Station Redevelopment, A414 Edinburgh Way, Stratton Park Phase 5 and A421 Dualling) with a combined value of c£32m as part of the Eastern Highways Alliance framework. In addition, the division won its first project under Transport for London's (TfL) £500m Civils Projects framework, the c£15m upgrade of Old Street roundabout. Work also continued on the c£100m repair of the M5's Oldbury viaduct (in joint venture).

In *Rail*, the division won its first project under London Underground's £350m Civils and Tunnelling Works framework, a c£20m train modification unit depot in Acton. Additionally, a c£18m project was awarded by Network Rail for the electrification of the Stirling, Alloa and Dunblane lines to improve journey times for passengers travelling to Edinburgh or Glasgow.

In *Aviation*, key projects secured include a c£30m project from IAG Cargo and British Airways to construct a cargo building at Heathrow Airport, incorporating an automated handling system.

In *Energy*, Infrastructure secured a c£30m joint venture project for Scottish and Southern Energy Networks (SSEN) to design and build approximately 18.5 km of new overhead lines in northern Scotland, and a separate £3.5m contract to install c9 km of 132kV cabling. The division was also awarded a £23m project related to National Grid's IFA2, a high-voltage, direct current interconnector cable running between England and France. In *Water*, projects awarded include a c£14m water quality improvement project at Irton Water Treatment Works in Scarborough, under the Yorkshire Water framework.

Infrastructure was also appointed to places on multiple lots of the £1bn YORcivil2 framework, set up to deliver civil engineering and construction works for local authorities and other public sector bodies across the Yorkshire and Humber regions. The framework is scheduled to run for four years with a possible two-year extension and with an estimated total value of £324m for the North and East framework and £720m for the South and West section.

Divisional outlook

Looking ahead, Construction & Infrastructure will continue to focus on margin improvement and securing higher quality work with the appropriate risk balance. The target for ***Construction*** *(including Design)* is an operating margin of 2%, while the target for ***Infrastructure*** is an operating margin of 2.5%. 2018 is expected to show further progress towards these targets, supported by the quality of core sector work in the division's secured order book.

Fit Out

	FY 2017 £m	**FY 2016 £m**	**Change**
Revenue	735	634	+16%
Operating profit - adjusted	39.1	27.5	+42%
Operating margin - adjusted	5.3%	4.3%	+100bps

"Another excellent performance from Fit Out, benefiting from consistently strong project delivery and its focus on enhanced customer experience."

Fit Out delivered another excellent result, with revenue for the year up 16% to £735m (FY 2016: £634m), operating profit up 42% to £39.1m (FY 2016: £27.5m), and operating margin increasing to 5.3% (FY 2016: 4.3%).

Of the total revenue for the year, 84% related to traditional fit out work (2016: 81%), while 16% related to 'design and build' (FY 2016: 19%), a broadly similar split to previous years. In terms of the nature of work undertaken, the proportion of revenue generated from the fit out of existing office space reduced slightly to 77% (FY 2016: 82%), while the remaining 23% related to new office fit out (FY 2016: 18%). Of the fit out of existing office space, 64% related to refurbishment 'in occupation'.

By sector, the commercial office market remains the largest, contributing 84% of revenue (2016: 86%), however there was a small change in the overall balance in favour of higher education which accounted for 12% of revenue, compared to 6% in the prior year. Retail banking, government and local authority work made up the remainder.

Geographically, the London region remained the division's largest market, accounting for 71% of revenue. Although this proportion was an increase from the prior year when 65% of total revenue was derived from London, this is not viewed as a significant trend.

Significant project completions in the year included an 85,000 sq ft office fit out for Network Rail in Birmingham, 64,000 sq ft for Freshfields Bruckhaus Deringer at One New Bailey in Manchester, and 42,000 sq ft for EY in Manchester. In addition, the division finished a three-year refurbishment programme for Bristol City Council at City Hall and 100 Temple Street to deliver their new workplace strategy, and a major refurbishment of 70,000 sq ft for Sony Playstation in Soho, London. Completed design and build projects include a collaborative workspace in Croydon for Superdrug, new London headquarters of global media company, AMC Networks International, and an activity-based workspace for Costa Coffee at its recently-opened flagship roastery in Basildon, Essex. Work also continues on projects for Deloitte and Schroder Corporate Services in London and, in education, a £44m refurbishment for King's College London.

Continued strong operational delivery and a focus on customer experience and better procurement has driven the increase in operating profit and margin. Performance in the second half of the year was particularly strong, with an operating margin of 6.2%, compared to a first half margin of 4.3%, due to the blend of higher margin contracts and the operational leverage benefit from increased activity in the second half.

At the year end, the secured order book was £500m, an increase of 7% on the prior year end. Of this year end total, £468m (94%) relates to 2018 and provides significant visibility of workload for the year. This level of orders of £468m for the next 12 months is 14% higher than it was at the same time last year of £410m.

Key business wins during the year include the appointment to three lots of the £1bn Government Hubs Programme, a national framework run by the Government Property Unit, which will provide a four-year pipeline of opportunities. The division also secured a place on a £250m four-year framework to deliver improvements to the Metropolitan Police Estate in London and the South East for projects ranging from £2.5m to £10m, which will include the fit out of existing buildings, offices, stations and training facilities. Other key projects won include a 450,000 sq ft fit out for the Cabinet Office in Canary Wharf, London, 57,000 sq ft fit out for Amazon in Cambridge, and a 400,000 sq ft fit out for a leading asset manager in London, which started on site in January 2018.

Divisional outlook

Fit Out's stated target is to deliver annual profit in the range of £25m-£30m. In 2017, this target was significantly exceeded. Looking ahead to 2018, based upon its strong order book and visible pipeline of opportunities through its various frameworks, Fit Out is expected to deliver a performance in excess of the top end of this range.

<u>Property Services</u>

	FY 2017 £m	**FY 2016 £m**	**Change**
Revenue	66	55	+20%
Operating (loss)/profit - adjusted	(1.3)	0.7	-286%
Operating margin - adjusted	(2.0%)	1.3%	-330bps

"The restructuring and streamlining of the contract portfolio undertaken in 2017 leaves Property Services well-set for future profitable growth."

Property Services made an operating loss of £1.3m on revenue of £66m. Although revenue was up 20% compared to the prior year, the result was impacted by costs of £1.1m incurred on exiting its legacy insurance services business and £1.3m of costs relating to the streamlining of its contract portfolio by exiting underperforming contracts.

The committed order book has increased 22% to £836m, compared to £687m at the prior year end. Latest appointments include a £10m, five-year contract with housing association Optivo to deliver gas servicing, boiler replacements and heating upgrades for more than 8,000 homes in and around Croydon. Earlier in the year, the division secured a place on the £52m planned maintenance framework for Network Homes, which manages over 19,000 homes mainly in London and the Home Counties; a 10-year, £38m contract by social housing provider EastendHomes to provide repairs, maintenance and refurbishment services for 3,600 homes in Tower Hamlets, London; and a number of repairs and maintenance contracts for CityWest Homes, which manages properties on behalf of Westminster City Council, with a combined expected value of £219m over 10 years.

Under the £140m 'Better Homes' framework for Camden Council, Property Services is also currently delivering two internal works projects including 459 kitchen and 171 bathroom refurbishments, re-wiring and heating system replacements; £7m of upgrades in the borough following fire risk assessments; and a £1m refurbishment to two residential blocks at the Gamages Estate in Hatton Garden. In addition during the year, £2m of extensive external refurbishment works to Flaxman Court, a six-storey block in Camden containing 84 properties, were completed.

Divisional outlook

The target for Property Services is to grow its operating margin to at least 3%. Looking ahead to 2018, the strong order book is expected to deliver increased revenue and the operational leverage impact of additional volumes, together with the benefit of the restructuring undertaken this year, underpin the expected growth in margin towards this target.

Partnership Housing

	FY 2017 £m	FY 2016 £m	Change
Revenue	474	433	+9%
Operating profit - adjusted	14.1	13.4	+5%
Operating margin - adjusted	3.0%	3.1%	-10bps
Average capital employed[1] (last 12 months)	99.7	110.8	
Capital employed[1] at year end	88.0	63.9	

"The market opportunity for Partnership Housing remains sizeable."

Revenue increased by 9% in the year up to £474m. Growth was driven by the Contracting activities, where ***Contracting*** revenue (including planned maintenance and refurbishment) was up 27% in the year to £290m (61% of divisional total). ***Mixed-tenure*** revenue was 10% lower at £184m (39% of divisional total), which was impacted by lower than expected sales completions in the fourth quarter of the year.

In mixed-tenure, 887 units were completed across open market sales and social housing, lower than the prior year number of 1,060. This in part was due to a lower number of sales than expected completing in the fourth quarter. The average sales price of £207k compared to the average of £192k in the prior year.

Operating profit increased to £14.1m, up 5%, and resulted in an operating margin of 3.0%, down 10bps on the prior year. The lower margin was impacted by lower mixed-tenure open market sales in the year and by unexpected cost escalation on one 'design & build' contract in London.

The capital employed at year end was £88.0m, with the average capital employed for the last 12-month period of £99.7m resulting in an overall ROCE[2] of 14% (FY 2016: ROCE[2] of 12%). Capital employed is expected to increase to c£120m in 2018 as mixed-tenure developments come on stream.

In ***Mixed-tenure***, the regeneration and development pipeline increased 11% to £851m, supported by the committed order book for the contracting element in mixed tenure of £78m. The division currently has a total of 45 mixed tenure sites at various stages of construction and sales, with an average of 102 open market units per site. Average site duration is 39 months, providing long-term visibility of activity.

Work started on site at several developments in the year, including a £46m regeneration at Ponders End in partnership with the London Borough of Enfield, while progress was made on a number of ongoing schemes, including The Mill at Canton, Cardiff and Trinity Walk in Woolwich. The division was chosen for a £45m redevelopment in Hatfield, Hertfordshire to create c150 new homes and shopping parade for Welwyn Hatfield Borough Council. Key completions included the final 23 homes in a £25m development at Towcester, as part of a regeneration scheme being delivered in collaboration with Investments. As well as this, the division secured a number of mixed tenure projects which ensure the division is well placed for the future. These included: Priorslee in the Midlands, a project for 220 homes; Lakeside Doncaster which comprises 142 homes; Branston in Lincolnshire for 73 homes; Beck Row in Norfolk which will see 117 homes being built; and Llantarnam in South Wales which will produce 78 homes.

The division is continuing to develop partnerships with housing associations and local authorities, supported by its extensive research completed into under-utilised government land. New partnership opportunities are being progressed with Clarion Housing Group, Flagship Housing Association and Home Group. The division was also appointed to two major frameworks: Homes England's (formerly the Homes and Communities Agency) improved Delivery Partner Panel, DPP3, which runs for four years until 2021 and is used by a wide range of public sector bodies; and the £1.8bn Sanctuary Housing Group Framework set up to deliver 30,000 new homes over the next 10 years.

In ***Contracting***, the secured order book increased 46% to £445m. Performance was adversely impacted by unexpected cost escalation and programme slippage on one 'design & build' contract in London, which is due for completion in the first half of 2018.

The division was formally appointed by the Defence Infrastructure Organisation on a £250m scheme to build 900 homes at Salisbury Plain for service families returning from Germany. Other appointments include the £6m phase three of the Nar Ouse Regeneration Area project to deliver 50 houses for the Borough Council of King's Lynn & West Norfolk; and a £5m scheme for Hafod Housing, in partnership with Bridgend County Borough Council, to provide 48 social rented homes in Bridgend, South East Wales. In planned maintenance and refurbishment works, the division secured a £10m improvement programme to three blocks of flats on the Lion Farm Estate in Oldbury, for Sandwell Council.

Divisional outlook

The division's target is to generate a return on capital employed of over 20%. Looking ahead to 2018, with its strong order book and pipeline and other identified partnership opportunities, the division is well-placed to deliver further progress towards its returns target, at the same time as increasing overall profitability.

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).

[2] Return On Average Capital Employed = Adjusted operating profit divided by average capital employed.

Urban Regeneration

	FY 2017 £m	FY 2016 £m	Change
Revenue	175	156	+12%
Operating profit - adjusted	10.0	13.4	-25%
Average capital employed[1] (last 12 months)	88.5	80.0	
Capital employed[1] at year end	85.0	68.9	

"Urban Regeneration's portfolio of active development schemes leaves it well-placed for future growth."

Urban Regeneration delivered operating profit for the year of £10.0m, which although lower than the prior year, was in line with its schedule of development completions. Revenue in the year was up 12% to £175m, however this increase was determined more by the type of development scheme from which the profits were generated rather than being an indicator of underlying activity.

Capital employed at the year end was £85.0m. Average capital employed for the last 12-month period was £88.5m, with an overall ROCE[2] of 9%. The average ROCE over the previous three years is 13%, diluted by the current year performance. Capital employed is expected to increase in 2018 to within the range of £100m-£110m as a result of the higher level of scheme activity.

Good progress was made on Urban Regeneration's existing town centre developments. Key contributors to performance include the completion of a landmark mixed use scheme at Marischal Square in Aberdeen, and two residential developments delivered by English Cities Fund (ECf), a joint venture with Legal & General and Homes England (formerly the Homes and Communities Agency) as part of the Salford regeneration: 36 townhouses at Timekeepers Square, all sold by completion and a £16m, 10-storey block of 90 apartments at The Slate Yard, New Bailey, the first in Greater Manchester to be institutionally funded and custom built for private rental.

Other highlights in the year included the sale of One City Place, a six-storey, Grade A office building in Chester's central business district; and, ahead of forecast, the full letting of a 50,000 sq ft Grade A office building at Stockport Exchange. The division is now working with Stockport Metropolitan Borough Council to deliver the next phase of office development.

Additional completions include a health centre as part of the Swindon regeneration programme; a multi-storey car park in Warrington, part of the Time Square development; a second private rental building of 68 new homes for Fizzy Living at Lewisham Gateway; and a residential block at Brentford Lock West. In Brixton, the £70m refurbishment of the Grade II listed town hall continued, carried out by Construction & Infrastructure, with the interior handed over to Lambeth Council. Work also progressed on two residential developments in Brixton, Hambrook House and Ivor House, both due to complete in autumn 2018.

The development portfolio continues to generate a high volume of construction work, with c£400m currently on site and a further c£420m expected to be awarded over the next 12 months. Key projects that started on site include phase four of the Warrington Bridge Street regeneration which will provide a 13-screen cinema and seven restaurants, new indoor market and 105,000 sq ft of council office space; a 160,000 sq ft office building at 2 New Bailey in Salford; three industrial units totalling 100,000 sq ft at Logic Leeds and 137 new homes at Millbay, Plymouth.

The regeneration and development pipeline of £2.1bn reduced 8% in the year, however remains sizeable, with a diverse geographic and sector split:

- by value, 44% of the pipeline is in the South East and London, 35% in the North West, 17% in Yorkshire and the North East, and 4% in the rest of the UK;

- by sector, 51% by value relates to residential, 30% to offices, and the remainder is broadly split between retail, leisure, and industrial.

Divisional outlook

The target for Urban Regeneration is to increase its ROCE[2] towards 20%. Looking ahead to 2018, based upon the higher level of scheme activity and the current profile of scheduled completions, Urban Regeneration is expected to deliver increased profits from higher average capital employed and to make progress towards its target ROCE.

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).

[2] Return On Average Capital Employed = (Adjusted operating profit less interest on non-recourse debt less unwind of discount on deferred consideration) divided by (average capital employed). Interest and fees on non-recourse debt was £1.5m (FY 2016: £1.1m) and the unwind of discount on deferred consideration was £0.2m (FY 2016: £0.3m).

Investments

	FY 2017 £m	**FY 2016 £m**	**Change**
Operating profit/(loss) - adjusted	0.5	(2.0)	n/a

"Investments has a portfolio of property partnerships which will provide development profits for Investments as well as providing high quality work for the rest of the Group."

During the year, the role of Investments within the Group has evolved from being solely a source of securing prime long-term construction and regeneration opportunities for the rest of the Group, to also being a consistent profit contributor from the capital employed in its property partnerships and development schemes.

Capital employed at the year end was £38.6m (FY 2016: £23.3m), with average capital employed for the last 12-month period of £30.7m (FY 2016: £20.7m). A significant proportion of this capital employed is invested in property partnership joint ventures, the key ones being: Slough Urban Renewal (SUR), a joint venture with Slough Borough Council; a joint venture partnership with Bournemouth Borough Council; HB Villages, a partnership with the original founders of the joint venture; and Morgan Ashley Care Developments, a joint venture with Ashley House plc. Other partnerships include the Priority Schools Building Programme North West Batch (joint venture with Equitix and the Department for Education); hub West Scotland, a partnership to develop a pipeline of public sector health, education and community projects in the Glasgow area; and strategic development partnerships with both Oxleas NHS Foundation Trust and Burton Hospitals NHS Foundation Trust to support the rationalisation, development and transformation of their estates.

The operating profit of £0.5m in the year was derived from a number of its partnership platforms, with the largest single contribution coming from the Milestone residential development, part of the SUR joint venture.

Through its existing joint venture partnerships, significant progress was made in securing new opportunities and progressing current developments. Through the SUR joint venture, there are currently 10 projects under construction with a combined construction value of c£95m: two residential developments; three primary school extensions; one secondary school extension; and four leisure projects. In addition, two new appointments were achieved: Slough Borough Council agreed to appoint SUR to deliver a major, mixed use development on the former Thames Valley University site; and a deal was secured with Cycas Hospitality for a mixed use development on the former site of Slough's central library, including two new Marriott International hotels and residential apartments.

In Bournemouth, through the partnership with Bournemouth Borough Council, the regeneration of the town centre has continued, including at Berry Court in St Peter's Road where 113 new private rental homes are under construction on the former site of an underused car park. The council also approved investment in a second residential development at St Stephen's Road, which will provide 46 high quality homes for market rent and in addition, a planning application has been submitted for a £150m redevelopment of Winter Gardens, a landmark site overlooking the seafront, currently used as a car park.

Work has started on two health care centres in the Gorbals and Woodside in Glasgow under the hub West Scotland joint venture, while construction is also underway on a £15m extra care development in Northampton to provide 80 assisted living apartments and communal space, designed to support older people to live independently through the HB Villages joint venture.

During the year, significant strategic progress was made in widening the range of Investments' partners. Examples include the acquisition of a 50% stake in a joint venture with Ashley House plc, to focus on development activity in the extra care sector and into which Ashley House transferred its pipeline of extra care and supported living schemes, with a development value of £200m to the joint venture; and a new strategic estates partnership with Oxleas NHS Foundation Trust to deliver its Strategic Estate Partnership (SEP) for an initial 10-year period.

During the year, £143m of construction and regeneration work on schemes sourced by Investments was delivered across the Group (primarily by Construction & Infrastructure). A further £135m of work was secured for future delivery.

Divisional outlook

Looking ahead, Investments is expected to consistently deliver a positive return from its capital employed each year, as well as generating construction and regeneration work for the rest of the Group. Its medium-term target is to increase ROCE[1] up towards 20%, however due to the phasing of its scheme developments, progress towards this target is not expected to follow a uniform profile.

[1] Return On Average Capital Employed = (adjusted operating profit plus interest received from joint ventures) divided by average capital employed.

Other Financial Information

1. Net finance expense. Net finance expense was £2.5m, a £1.0m decrease versus FY 2016 which is broken down as follows:

	FY 2017 £m	FY 2016 £m	% change
Interest payable on project financing & other debt	(0.9)	(1.8)	+50%
Amortisation of bank fees & non-utilisation fees	(2.6)	(2.1)	-24%
Interest from JVs	1.3	1.1	+18%
Other	(0.3)	(0.7)	+57%
Total net finance expense	**(2.5)**	**(3.5)**	**+29%**

2. Tax. A tax charge of £12.5m is shown for the year (FY 2016: £7.1m).

	FY 2017 £m	FY 2016 £m
Profit before tax	64.9	43.9
Less: share of net profit in joint ventures	(4.1)	(7.4)
Profit before tax excluding joint ventures	**60.8**	**36.5**
Statutory tax rate	19.25%	20.0%
Current tax charge at statutory rate	**(11.7)**	**(7.3)**
Tax on joint venture profits#	(0.6)	(1.2)
Effect of tax rate change on deferred tax	-	0.7
Other adjustments	(0.2)	0.7
Tax charge	**(12.5)**	**(7.1)**

 # certain of the Group's joint ventures are partnerships where profits are taxed within the Group rather than the joint venture

3. Net working capital. 'Net Working Capital' is defined as 'Inventories plus Trade & Other Receivables, less Trade & Other Payables' adjusted as below.

	FY 2017 £m	FY 2016 £m	Change £m
Inventories	295.0	213.9	+81.1
Trade & Other Receivables[1]	400.9	329.6	+71.3
Trade & Other Payables[2]	(860.1)	(747.1)	-113.0
Net working capital	**(164.2)**	**(203.6)**	**+39.4**

[1] Adjusted to exclude capitalised arrangement fees (£1.6m) (FY 2016: £0.3m) and derivative financial assets (£1.6m) (FY 2016: £2.9m)
[2] Adjusted to exclude deferred consideration payable (£2.2m) (FY 2016: £7.5m), accrued interest (£0.4m) (FY 2016: £0.4m) and derivative financial liabilities (£1.0m) (FY 2016: £1.9m)

4. Cash flow. Operating cash flow was an inflow of £41.0m (FY 2016: inflow of £179.9m). Free cash flow was an inflow of £27.1m (FY 2016: inflow of £173.7m). The cash inflow in 2016 reflected the benefit of a significant number of completions on regeneration schemes in the latter stages of the year.

	FY 2017 £m	FY 2016 £m
Operating profit - adjusted	**68.6**	**48.8**
Depreciation	5.6	5.5
Share option expense	5.5	4.6
Movement in fair value of shared equity loans	(0.5)	(0.6)
Share of net profit of joint ventures	(4.1)	(7.4)
Other operating items [1]	6.1	5.9
Change in working capital [2]	(37.8)	125.2
Net capital expenditure (including repayment of finance leases)	(6.1)	(4.4)
Dividends and interest received from joint ventures	3.7	2.3
Operating cash flow	**41.0**	**179.9**
Income taxes paid	(9.6)	(3.3)
Net interest paid (non-joint venture)	(4.3)	(2.9)
Free cash flow	**27.1**	**173.7**

[1] *'Other operating items' includes provision movements (£2.2m), shared equity redemptions (£3.3m), investment property disposals (£0.7m) less gain on disposals (£0.1m)*

[2] *The cash flow due to change in working capital excludes net £1.6m comprising: non-cash transfer of freehold land and buildings from property, plant and equipment to inventories (£2.4m); the unwind of discounting on land creditors (£0.6m); and exchange differences on the translation of overseas operations (£0.2m)*

5. Net cash. Net cash at the end of the year was £193.4m.

	£m
Net cash as at 1 January 2017	**208.7**
Free cash flow (as above)	27.1
Dividends	(16.8)
Other[1]	(25.6)
Net cash as at 31 December 2017	**193.4**

[1] *'Other' includes net loans advanced to JVs (£14.2m), consideration paid to acquire an additional interest in a JV (£9.6m), payment to establish an 'other' investment (£1.1m), proceeds from the issue of new shares (£0.1m), proceeds from the exercise of share options (£0.3m) and purchase of shares in the Company by the employee benefit trust (£1.1m).*

6. Capital employed by strategic activity. An analysis of the negative capital employed in the **Construction** activities shows a decrease of £16.9m since the previous year, split as follows:

Capital employed[1] in Construction	FY 2017 £m	FY 2016 £m	Change £m
Construction & Infrastructure	(232.9)	(226.3)	-6.6
Fit Out	(56.4)	(47.3)	-9.1
Property Services	3.9	5.1	-1.2
	(285.4)	**(268.5)**	**-16.9**

An analysis of capital employed in the **Regeneration** activities shows an increase of £40.2m since the previous year, split as follows:

Capital employed in Regeneration	**FY 2017 £m**	**FY 2016 £m**	**Change £m**
Partnership Housing[2]	88.0	63.9	+24.1
Urban Regeneration[2]	85.0	68.9	+16.1
	173.0	**132.8**	**+40.2**

1 Total assets (excluding goodwill, intangibles, inter-company financing and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts)
2 Definition as per the Partnership Housing and Urban Regeneration sections in the Business Review

7. Dividends. The Board of Directors has proposed a final dividend of 29.0p per share (FY 2016: 22.0p), up 32% on the prior year. This will be paid on 21 May 2018 to shareholders on the register at 27 April 2018. The ex-dividend date will be 26 April 2018.

8. Post balance sheet event

At the balance sheet date the Group was working on a limited number of projects with Carillion plc through joint operations. Subsequently, on Monday 15 January 2018, the High Court appointed the Official Receiver as liquidator of Carillion plc. The Group is committed to completing these projects. The directors have reviewed each of the contracts, and believe the completion of these will not have a material adverse effect on the Group's reported financial position.

9. Changes in Accounting Policies

9.1 IFRS 15 'Revenue from Contracts with Customers'

The Group will implement a new accounting standard, IFRS 15 'Revenue from Contracts with Customers', from 1 January 2018.

For a small number of contracts across the Group, this will change the timing of revenue and cost recognition, but does not affect the Group's expectation of the total revenue or cash flows from these contracts. The effect of implementing this new standard does not fundamentally change the basis on which the Group accounts for contracts, and therefore the change will be applied at 1 January 2018 without restating prior years. The total net effect of the transition will be to reduce opening net assets by c£7m, reduce contract assets by c£8m and reduce the deferred tax liability by c£1m.

9.2 IFRS 16 'Leases'

The Group is adopting a new accounting standard, IFRS 16 'Leases', from 1 January 2018. This is one year earlier than the mandatory date.

This will require all leases to be recognised on the balance sheet as a right of use asset with a corresponding lease liability. The estimated gross asset and liability on transition is estimated to be between £40m and £45m with a nil overall net impact on shareholders' funds.

Cautionary forward-looking statement

These results contain forward-looking statements based on current expectations and assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements. Each forward-looking statement speaks only as of the date of this document. The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

Consolidated income statement
For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Revenue		**2,792.7**	2,561.6
Cost of sales		**(2,518.3)**	(2,317.9)
Gross profit		**274.4**	243.7
Administrative expenses		**(209.9)**	(202.3)
Share of net profit of joint ventures		**4.1**	7.4
Operating profit before amortisation of intangible assets		**68.6**	48.8
Amortisation of intangible assets		**(1.2)**	(1.4)
Operating profit		**67.4**	47.4
Finance income		**1.6**	1.3
Finance expense		**(4.1)**	(4.8)
Profit before tax		**64.9**	43.9
Tax	3	**(12.5)**	(7.1)
Profit for the year		**52.4**	36.8
Attributable to:			
Owners of the Company		**52.4**	36.8

Earnings per share			
Basic	5	**118.8p**	83.8p
Diluted	5	**112.7p**	81.4p

There were no discontinued operations in either the current or comparative periods.

Consolidated statement of comprehensive income
For the year ended 31 December 2017

	2017 £m	2016 £m
Profit for the year	**52.4**	36.8
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain arising on retirement benefit asset	**0.1**	0.7
Deferred tax on retirement benefit asset	**-**	(0.1)
	0.1	0.6
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange movement on translation of overseas operations	**(0.2)**	0.6
Gains arising during the year on cash flow hedges	**0.3**	0.8
Reclassification from cash flow hedges to the income statement	**(0.7)**	-
Deferred tax relating to items that may be reclassified	**0.1**	(0.2)
	(0.5)	1.2
Other comprehensive (expense)/income	**(0.4)**	1.8
Total comprehensive income	**52.0**	38.6
Attributable to:		
Owners of the Company	**52.0**	38.6

Consolidated balance sheet

At 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Goodwill and other intangible assets		**215.8**	217.0
Property, plant and equipment		**14.4**	16.6
Investment property		**5.9**	6.6
Investments in joint ventures		**76.7**	56.9
Other investments		**1.3**	-
Shared equity loan receivables	6	**15.6**	18.4
Retirement benefit asset		**2.8**	2.6
Non-current assets		**332.5**	318.1
Inventories		**295.0**	213.9
Trade and other receivables	7	**404.1**	332.8
Cash and cash equivalents	8	**221.2**	228.5
Current assets		**920.3**	775.2
Total assets		**1,252.8**	1,093.3
Liabilities			
Trade and other payables	10	**(854.1)**	(748.3)
Current tax liabilities		**(8.9)**	(7.7)
Finance lease liabilities		**(0.5)**	(0.5)
Borrowings	8	**(27.8)**	(4.8)
Current liabilities		**(891.3)**	(761.3)
Net current assets		**29.0**	13.9
Trade and other payables		**(9.6)**	(8.6)
Finance lease liabilities		**(0.4)**	(0.7)
Borrowings	8	**-**	(15.0)
Deferred tax liabilities		**(13.9)**	(11.7)
Provisions		**(21.0)**	(18.8)
Non-current liabilities		**(44.9)**	(54.8)
Total liabilities		**(936.2)**	(816.1)
Net assets		**316.6**	277.2
Equity			
Share capital		**2.2**	2.2
Share premium account		**33.8**	33.7
Other reserves		**(0.3)**	0.2
Retained earnings		**280.9**	241.1
Equity attributable to owners of the Company		**316.6**	277.2
Total equity		**316.6**	277.2

Consolidated cash flow statement
For the year ended 31 December 2017

	Notes	**2017 £m**	2016 £m
Operating activities			
Operating profit		**67.4**	47.4
Adjusted for:			
Amortisation of intangible assets		**1.2**	1.4
Share of net profit of equity accounted joint ventures		**(4.1)**	(7.4)
Depreciation		**5.6**	5.5
Share option expense		**5.5**	4.6
Gain on disposal of property, plant and equipment		**(0.1)**	(0.2)
Movement in fair value of shared equity loan receivables	6	**(0.5)**	(0.6)
Additional pension contributions		**-**	(0.4)
Disposals of investment properties		**0.7**	2.2
Repayment of shared equity loan receivables	6	**3.3**	2.5
Increase in provisions		**2.2**	1.8
Operating cash inflow before movements in working capital		**81.2**	56.8
(Increase)/decrease in inventories		**(78.7)**	32.8
(Increase)/decrease in receivables		**(71.3)**	22.6
Increase in payables		**112.2**	69.8
Movements in working capital		**(37.8)**	125.2
Cash inflow from operations		**43.4**	182.0
Income taxes paid		**(9.6)**	(3.3)
Net cash inflow from operating activities		**33.8**	178.7
Investing activities			
Interest received		**1.4**	1.3
Dividend from joint ventures		**2.6**	1.2
Proceeds on disposal of property, plant and equipment		**0.6**	3.6
Purchases of property, plant and equipment		**(6.3)**	(4.7)
Purchases of intangible fixed assets		**-**	(1.1)
Net increase in loans to joint ventures		**(14.2)**	(0.4)
Payment for the acquisition of subsidiaries, joint ventures and other businesses		**(9.6)**	(7.7)
Payment for other investments		**(1.1)**	-
Net cash outflow from investing activities		**(26.6)**	(7.8)
Financing activities			
Interest paid		**(4.6)**	(3.1)
Dividends paid	4	**(16.8)**	(13.2)
Repayments of obligations under finance leases		**(0.4)**	(2.2)
Proceeds from/(repayment of) borrowings	8	**8.0**	(38.0)
Proceeds on issue of share capital		**0.1**	1.7
Payments by the Trust to acquire shares in the Company		**(1.1)**	(3.3)
Proceeds on exercise of share options		**0.3**	-
Net cash outflow from financing activities		**(14.5)**	(58.1)
Net (decrease)/increase in cash and cash equivalents		**(7.3)**	112.8
Cash and cash equivalents at the beginning of the year		**228.5**	115.7
Cash and cash equivalents at the end of the year	8	**221.2**	228.5

Consolidated statement of changes in equity
For the year ended 31 December 2017

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2016	2.2	32.0	(1.0)	216.5	249.7	(0.7)	249.0
Total comprehensive income	-	-	1.2	37.4	38.6	-	38.6
Share option expense	-	-	-	4.6	4.6	-	4.6
Issue of shares at a premium	-	1.7	-	-	1.7	-	1.7
Purchase of additional stake in subsidiary undertaking	-	-	-	(0.9)	(0.9)	0.7	(0.2)
Purchase of shares in the Company by the Trust	-	-	-	(3.3)	(3.3)	-	(3.3)
Dividends paid	-	-	-	(13.2)	(13.2)	-	(13.2)
1 January 2017	2.2	33.7	0.2	241.1	277.2	-	277.2
Total comprehensive income	-	-	(0.5)	52.5	52.0	-	52.0
Share option expense	-	-	-	5.5	5.5	-	5.5
Tax relating to share option expense	-	-	-	(0.6)	(0.6)	-	(0.6)
Issue of shares at a premium	-	0.1	-	-	0.1	-	0.1
Purchase of shares in the Company by the Trust	-	-	-	(1.1)	(1.1)	-	(1.1)
Exercise of share options	-	-	-	0.3	0.3	-	0.3
Dividends paid	-	-	-	(16.8)	(16.8)	-	(16.8)
31 December 2017	**2.2**	**33.8**	**(0.3)**	**280.9**	**316.6**	-	**316.6**

Other reserves
Other reserves include:

- Capital redemption reserve of £0.6m (2016: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.3m) (2016: nil) arising under cash flow hedge accounting. Movements on the effective portion of hedges are recognised through the hedging reserve, whilst any ineffectiveness is taken to the income statement.
- Translation reserve of (£0.6m) (2016: (£0.4m)) arising on the translation of overseas operations into the Group's functional currency.

Retained earnings
Retained earnings include shares in Morgan Sindall Group plc purchased in the market and held by the Morgan Sindall Employee Benefit Trust (the 'Trust') to satisfy options under the Group's share incentive schemes. The number of shares held by the Trust at 31 December 2017 was 555,104 (2016: 759,098) with a cost of £4.2m (2016: £5.8m).

1 Basis of preparation

General information

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2017 or 2016 but is derived from those accounts. A copy of the statutory accounts for 2016 was delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's annual general meeting. The auditor reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under s498(2) or (3) of the Companies Act 2006.

This preliminary announcement has been prepared solely to assist shareholders in assessing the strategies of the Board and in gauging their potential to succeed. It should not be relied on by any other party or for other purposes. Forward looking statements have been made by the directors in good faith based on the information available to them up to the time of their approval of this preliminary announcement. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business factors, underlying any such forward looking information. Actual future results may differ materially from those expressed in or implied by these statements.

While the financial information included in this preliminary announcement was prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS'), this announcement does not itself contain sufficient information to comply with IFRS.

The consolidated financial statements will be available in March 2018. A copy will be delivered to the Registrar of Companies following the Company's annual general meeting.

Further information on the Group, including the slide presentation document which will be presented at the Group's results meeting on 22 February 2018, can be found on the Group's corporate website www.morgansindall.com.

Basis of preparation

The Group's activities and the key risks facing its future development, performance and position are set out in this preliminary announcement and in its annual report and accounts for the year ended 31 December 2017.

Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Changes in accounting policies

There have been no significant changes to accounting policies, presentation or methods of preparation since the financial statements for the year ended 31 December 2016 and the year ended 31 December 2017.

2 Business segments

For management purposes, the Group is organised into six operating divisions: Construction & Infrastructure, Fit Out, Property Services, Partnership Housing, Urban Regeneration and Investments. The divisions' activities are as follows:

- Construction & Infrastructure: provides infrastructure services in the highways, rail, aviation, energy, water and nuclear markets, including tunnel design; and construction services in education, healthcare, defence, commercial, industrial, leisure and retail. BakerHicks offers a multidisciplinary design and engineering consultancy.
- Fit Out: Overbury specialises in fit out and refurbishment in commercial, central and local government offices, further education and retail banking. Morgan Lovell provides design and build services for the office sector.
- Property Services: provides planned asset management and responsive maintenance to social housing and the wider public sector.
- Partnership Housing: works in partnerships with local authorities and housing associations. Activities include mixed-tenure developments, building and developing homes for open market sale and affordable rent, design and build contracting and planned maintenance and refurbishment.
- Urban Regeneration: works with landowners and public sector partners to transform the urban landscape through the development of multi-phase sites and mixed-use regeneration, including residential, commercial, retail and leisure.
- Investments: works to provide the Group with construction and regeneration opportunities through various strategic partnerships to develop under-utilised property assets.

Group Activities represents costs and income arising from corporate activities which cannot be meaningfully allocated to the operating segments. These include the costs of the Group Board, treasury management, corporate tax coordination, Group finance and internal audit, insurance management, company secretarial services, interest revenue and interest expense. The divisions are the basis on which the Group reports its segmental information as presented below:

2017

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Investments	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	1,332.6	734.5	66.2	473.5	175.3	10.6	-	-	2,792.7
Inter-segment revenue	62.2	0.4	-	-	-	-	-	(62.6)	-
Total revenue	**1,394.8**	**734.9**	**66.2**	**473.5**	**175.3**	**10.6**	**-**	**(62.6)**	**2,792.7**
Operating profit/(loss) before amortisation of intangible assets	**20.4**	**39.1**	**(1.3)**	**14.1**	**10.0**	**0.5**	**(14.2)**	**-**	**68.6**
Amortisation of intangible assets	-	-	(0.6)	(0.4)	(0.2)	-	-	-	(1.2)
Operating profit/(loss)	**20.4**	**39.1**	**(1.9)**	**13.7**	**9.8**	**0.5**	**(14.2)**	**-**	**67.4**

2016

	Construction & Infrastructure	Fit Out	Property Services	Partnership Housing	Urban Regeneration	Investments	Group Activities	Eliminations	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
External revenue	1,272.0	633.6	54.8	430.1	156.5	14.6	-	-	2,561.6
Inter-segment revenue	49.5	-	-	2.9	-	-	-	(52.4)	-
Total revenue	1,321.5	633.6	54.8	433.0	156.5	14.6	-	(52.4)	2,561.6
Operating profit/(loss) before amortisation of intangible assets	8.9	27.5	0.7	13.4	13.4	(2.0)	(13.1)	-	48.8
Amortisation of intangible assets	-	-	-	(0.6)	(0.8)	-	-	-	(1.4)
Operating profit/(loss)	8.9	27.5	0.7	12.8	12.6	(2.0)	(13.1)	-	47.4

During the year ended 31 December 2017 and the year ended 31 December 2016, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

3 Tax

	2017	2016
	£m	£m
Current tax:		
Current year	**11.0**	8.1
Adjustment in respect of prior years	**(0.2)**	(0.5)
	10.8	7.6
Deferred tax:		
Current year	**1.9**	0.9
Revaluation of deferred tax balances due to changes in statutory tax rate	**-**	(0.7)
Adjustment in respect of prior years	**(0.2)**	(0.7)
	1.7	(0.5)
Tax expense for the year	**12.5**	7.1

Corporation tax is calculated at 19.25% (2016: 20.0%) of the estimated assessable profit for the year. The table below reconciles the tax charge for the year to tax at the UK statutory rate:

	2017	2016
	£m	£m
Profit before tax	**64.9**	43.9
Less: post tax share of profits from joint ventures	**(4.1)**	(7.4)
	60.8	36.5
UK corporation tax rate	**19.25%**	20.0%
Income tax expense at UK corporation tax rate	**11.7**	7.3
Tax effect of:		
Non-taxable income and expenses	**0.4**	0.4
Tax liability upon joint venture profits[1]	**0.6**	1.2
Adjustments in respect of prior years	**(0.4)**	(1.2)
Expected forthcoming change in tax rates upon deferred tax	**-**	(0.7)
Other	**0.2**	0.1
Tax expense for the year	**12.5**	7.1

[1] Certain of the Group's joint ventures are partnerships for which profits are taxed within the Group rather than within the joint venture.

4 Dividends

Amounts recognised as distributions to equity holders in the year:

	2017 **£m**	2016 £m
Final dividend for the year ended 31 December 2016 of 22.0p per share	**9.7**	-
Final dividend for the year ended 31 December 2015 of 17.0p per share	**-**	7.5
Interim dividend for the year ended 31 December 2017 of 16.0p per share	**7.1**	-
Interim dividend for the year ended 31 December 2016 of 13.0p per share	**-**	5.7
	16.8	13.2

The proposed final dividend for the year ended 31 December 2017 of 29.0p per share is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. The final dividend will be payable to shareholders on 21 May 2018 to shareholders on the register on 27 April 2018. The ex-dividend date is 26 April 2018.

5 Earnings per share

	2017 **£m**	2016 £m
Profit attributable to the owners of the Company	**52.4**	36.8
Adjustments:		
Amortisation of intangible assets net of tax	**1.0**	1.1
Deferred tax credit arising due to change in UK corporation tax rates	**-**	(0.7)
Adjusted earnings	**53.4**	37.2

Basic weighted average ordinary shares (m)	**44.1**	43.9
Dilutive effect of share options and conditional shares not vested (m)	**2.4**	1.3
Diluted weighted average ordinary shares (m)	**46.5**	45.2

Basic earnings per share	**118.8p**	83.8p
Diluted earnings per share	**112.7p**	81.4p
Adjusted earnings per share	**121.1p**	84.7p
Diluted adjusted earnings per share	**114.8p**	82.3p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the year. The weighted average share price for the year was £12.03 (2016: £7.33).

A total of 38,938 share options that could potentially dilute earnings per share in the future were excluded from the above calculations because they were anti-dilutive at 31 December 2017 (2016: 2,070,131).

6 Shared equity loan receivables

	2017	2016
	£m	£m
1 January	**18.4**	20.3
Net change in fair value recognised in the income statement	**0.5**	0.6
Repayments by borrowers	**(3.3)**	(2.5)
31 December	**15.6**	18.4

Basis of valuation and assumptions made

There is no directly observable fair value for individual loans arising from the sale of specific properties under the scheme, and therefore the Group has developed a model for determining the fair value of the portfolio of loans based on national property prices, expected property price increases, expected loan defaults and a discount factor which reflects the interest rate expected on an instrument of similar risk and duration in the market. Details of the key assumptions made in this valuation are as follows:

	2017	2016
Assumption		
Period over which shared equity loan receivables are discounted:		
First Buy and Home Buy schemes	**20 years**	20 years
Other schemes	**9 years**	9 years
Nominal discount rate	**5.3%**	5.3%
Weighted average nominal annual property price increase	**2.4%**	2.3%
Forecast default rate	**4.6%**	2.0%
Number of loans under the shared equity scheme outstanding at the year end	**489**	595

Sensitivity analysis

At 31 December 2017, if the nominal discount rate had been 100bps higher at 6.3% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.3m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2017, if the period over which the shared equity loan receivables (excluding those relating to the First Buy and Home Buy schemes) are discounted had been 10 years and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.2m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

7 Trade and other receivables

	2017	2016
	£m	£m
Amounts due from construction contract customers	**174.2**	147.9
Trade receivables	**208.0**	163.9
Amounts owed by joint ventures	**2.1**	1.5
Prepayments	**10.2**	10.6
Other receivables	**9.6**	8.9
	404.1	332.8

8 Net cash

	2017 **£m**	2016 £m
Cash and cash equivalents	**221.2**	228.5
Non-recourse project financing due in less than one year	**(26.5)**	(4.8)
Borrowings due within one year	**(1.3)**	-
Borrowings due between two and five years	**-**	(15.0)
Net cash	**193.4**	208.7

The Group's committed bank loan facilities of £180m were undrawn at 31 December 2017. Additional project finance borrowings of £26.5m (2016: £4.8m) were drawn from separate facilities to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

9 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the year, Group companies entered into transactions to provide construction and property development services with related parties, all of which were joint ventures, not members of the Group, amounting to £86.6m (2016: £112.5m).

Remuneration of key management personnel
The Group considers key management personnel to be the members of the group management team, and sets out below in aggregate, remuneration for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2017 **£m**	2016 £m
Short-term employee benefits	**8.0**	8.8
Post-employment benefits	**0.1**	0.4
Termination benefits	**0.2**	0.9
Share option expense	**2.8**	2.9
	11.1	13.0

Directors' transactions
There have been no related party transactions with any director in the year or in the subsequent period to 22 February 2018.

Directors' material interests in contracts with the Company
No director held any material interest in any contract with the Company or any Group company in the year or in the subsequent period to 22 February 2018.

10 Trade and other payables

	2017 £m	2016 £m
Trade payables	**162.0**	144.6
Amounts due to construction contract customers	**58.3**	52.0
Amounts owed to joint ventures	**0.2**	0.2
Other tax and social security	**37.5**	33.2
Accrued expenses	**573.3**	482.0
Deferred income	**2.7**	-
Other payables	**20.1**	36.3
	854.1	748.3

11 Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of surety bond facilities, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures entered into in the normal course of business.

12 Subsequent events

At the balance sheet date the Group was working on a limited number of projects with Carillion plc through joint operations. Subsequently, on Monday 15 January 2018, the High Court appointed the Official Receiver as liquidator of Carillion plc. The Group is committed to completing these projects. The directors have reviewed each of the contracts, and believe the completion of these will not have a material adverse effect on the Group's reported financial position. There were no other subsequent events that affected the financial statements of the Group.

The responsibility statement below has been prepared in connection with the Company's annual report and accounts for the year ended 31 December 2017. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

1. The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

2. The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and

3. The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board on 22 February 2018 and is signed on its behalf by:

John Morgan	**Steve Crummett**
Chief Executive	**Finance Director**