21 February 2019

MORGAN SINDALL GROUP PLC
('Morgan Sindall' or 'Group')

The Construction & Regeneration Group

RESULTS FOR THE FULL YEAR (FY) ENDED 31 DECEMBER 2018

	FY 2018	FY 2017	Change
Revenue	£2,972m	£2,793m	+6%
Operating profit – adjusted[1]	£85.5m	£68.6m	+25%
Profit before tax – adjusted[1]	£81.6m	£66.1m	+23%
Earnings per share – adjusted[1]	151.8p	121.1p	+25%
Year end net cash	£207m	£193m	+£14m
Total dividend per share	53.0p	45.0p	+18%
Operating profit - reported	£84.5m	£67.4m	+25%
Profit before tax – reported	£80.6m	£64.9m	+24%
Basic earnings per share – reported	149.8p	118.8p	+26%

[1] 'Adjusted' is defined as before intangible amortisation (£1.0m) (FY 2017: before intangible amortisation (£1.2m))
Note: The Group adopted IFRS 15, IFRS 9 and IFRS 16 in the period. Refer to note 1 for further detail

FY 2018 summary:

- Strong results delivered through the strategic focus on construction and regeneration
  - Revenue up 6%
  - Adjusted profit before tax up 23% to £81.6m
- Continued balance sheet strength; year end net cash of £207m, average daily net cash of £99m
- Committed order book of £3.6bn; regeneration & development pipeline of £3.1bn
- Total dividend up 18% to 53.0p per share
- Divisional highlights
  - Operating margin of 2.0% achieved in Construction & Infrastructure; operating profit up 32% to £27.0m
  - Excellent performance from Fit Out; operating profit up 12% to £43.8m
  - Strong contribution by Urban Regeneration; operating profit up 96% to £19.6m

- Partnership Housing operating profit lower at £12.2m (FY 2017: £14.1m); well-positioned for future growth with strong and visible pipeline
- Improved performance by Property Services; operating profit of £2.0m (FY 2017: operating loss £1.3m) reflecting the benefit of increased volumes and efficiency gains
- Scheme delays impacted on Investments; operating loss of £2.4m (FY 2017: operating profit £0.5m), however a growing regeneration & development pipeline

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

"2018 has been another year of strong growth for the Group and these excellent results reflect the high quality of our operations and our people. There is significant positive momentum across all divisions and this provides the platform for future strategic and operational progress.

"Our strong balance sheet, with net cash throughout the year and a business which continues to generate positive operating cash flow is a significant differentiator for us. This provides us with the flexibility to continue being highly selective with bidding in our construction activities while also allowing us to invest in our regeneration activities.

"Looking ahead to 2019, we are confident of another good year of progress and the Group is in a strong position to deliver on its 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 £3bn, employing around 6,600 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 for 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 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 is the market leader in its field 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 the Group's 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 which, in the case of Construction and Fit Out only, were revised in August 2018. These divisional targets (the **'target'** or **'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 and further education
- ***Property Services***: Focused on response and planned maintenance activities provided to the 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' house 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 long term strategic partnerships to develop under-utilised public land across multiple sites and generates development profits from such partnerships.

Basis of Preparation

In addition to presenting the financial performance of the business on a statutory basis, adjusted performance measures are also disclosed. These measures are not an alternative or substitute to statutory IFRS measures but are seen as more useful in assessing the performance of the business on a comparable basis and are used by management to monitor the performance of the Group.

In all cases the term 'adjusted' excludes the impact of intangible amortisation of £1.0m (FY 2017: £1.2m). Refer to Notes 3 and 6 of the consolidated financial statements for appropriate reconciliations to the comparable IFRS measures.

Group Operating Review

2018 has been another successful year for the Group and the strong trading performance delivered endorses the Group's strategic focus on construction and regeneration activities. There continues to be significant positive momentum across all divisions and this provides the platform for future strategic and operational progress.

Balance sheet strength and cash generation have remained a high priority for the Group and 2018 again saw positive operating cash flow and a substantial daily net cash position throughout the year. This provides significant financial security for all our stakeholders; our customers, our supply chain partners and our employees and allows the Group the flexibility to continue being highly selective with bidding in the construction activities while investing in the regeneration activities.

Revenue for the year was up 6% to £2,972m (FY 2017: £2,793m), while adjusted operating profit was up 25% to £85.5m (FY 2017: £68.6m). This resulted in an adjusted operating margin of 2.9%, an increase of 40bps on the prior year (FY 2017: 2.5%) and shows the benefit of the Group's continued focus on driving quality of earnings, operational delivery and risk management.

The net finance expense increased to £3.9m (FY 2017: £2.5m) due to a higher interest charge on some of the Group's non-recourse project financing, together with the inclusion of the notional interest expense on lease liabilities under IFRS 16 for the first time. After deducting this, the adjusted profit before tax was £81.6m, up 23% (FY 2017: £66.1m). The adjusted earnings per share increased by 25%, up to 151.8p (FY 2017: 121.1p), with the fully diluted adjusted earnings per share of 144.0p up 25% (FY 2017: 114.8p).

From a divisional perspective, the ongoing focus on contract selectivity and risk management enabled Construction & Infrastructure to deliver an operating margin of 2.0%, up 50 bps on the prior year and an operating profit of £27.0m, up 32%. Fit Out had another excellent year, with revenue growth of 13% and an operating profit of £43.8m at a margin of 5.3%. Property Services benefitted from

successful contract mobilisation and operational improvements in delivering an adjusted operating profit of £2.0m.

Of the Group's regeneration divisions, Urban Regeneration produced a very strong performance, delivering operating profit of £19.6m, an increase of 96% on the prior year (FY 2017: £10.0m). Partnership Housing, however, was impacted by operational issues in its contracting activities which resulted in operating profit lower at £12.2m (FY 2017: £14.1m). Although Investments made further progress with developing its portfolio of property partnerships, slippage in some of its existing schemes led to a loss of £2.4m in the year.

The Group is focused on maintaining the appropriate risk balance within its order book and contract selectivity remains a key discipline across all divisions. As a result, the secured order book for the Group at the year end was £3,567m, down 7% from the previous year and down 1% on the half year position. Importantly though, the quality of work across the order book has continued to improve, setting the Group up well for the future. The regeneration & development pipeline, which provides longer term visibility of activity for the regeneration divisions, was £3,107m at the year end, down 4%.

The statutory operating profit was up 25% to £84.5m (FY 2017: £67.4m), while the statutory profit before tax was £80.6m, up 24% (FY 2017: £64.9m) from the prior year. The tax charge for the year of £13.8m equated to an effective tax rate of 17% and was slightly lower than the UK statutory rate of 19% due to adjustments for prior year tax previously provided for.

The cash performance of the Group has again been strong. An operating cash inflow of £66.4m was generated in the year, equivalent to 78% of operating profit converted into operating cash. This was achieved at the same time as also increasing the capital employed in the regeneration activities by slightly above £20m.

At the year end, the Group had net cash of £207m (FY 2017: £193m), while the average daily net cash for the year was £99m. The average daily net cash of £99m included £35m of non-recourse project debt held against two of Urban Regeneration's development schemes.

The Group is committed to maintaining an average daily net cash position for the foreseeable future and this, together with the Group's committed bank facilities of £180m which extend out to 2022, provides substantial ongoing funding headroom and financial security for the Group.

The strategic investment in regeneration is scheduled to continue in 2019, although the precise timing and quantum will be dependent upon the phasing and timing of individual schemes. Based upon current anticipated cash flows and investment plans, the Group expects average daily net cash for 2019 will be at least £70m.

The total dividend for the year has been increased by 18% to 53.0p per share (FY 2017: 45.0p), which includes a proposed increase in the final dividend of 17% to 34.0p per share (FY 2017: 29.0p), reflecting the improved result in the year, the strong balance sheet and the Board's confidence in the future prospects of the Group. The total dividend per share is 2.9 times covered by adjusted earnings per share.

Outlook

Looking ahead to 2019, the Group is confident of another good year of progress and in a strong position to deliver on its expectations.

Business Review

The following Business Review is given on an adjusted basis, unless otherwise stated. Refer to Note 3 of the consolidated financial statements for appropriate reconciliations to the comparable IFRS measures.

Headline results by business segment

	Revenue		Operating Profit/(Loss)		Operating Margin	
	£m	Change	£m	Change	%	Change
Construction & Infrastructure	1,343	-4%	27.0	+32%	2.0%	+50bps
Fit Out	831	+13%	43.8	+12%	5.3%	-
Property Services	100	+52%	2.0	+254%	2.0%	+400bps
Partnership Housing	519	+9%	12.2	-13%	2.4%	-60bps
Urban Regeneration	185	+6%	19.6	+96%	n/a	n/a
Investments	9	n/a	(2.4)	-580%	n/a	n/a
Central/Eliminations	(15)		(16.7)			
Total	**2,972**	**+6%**	**85.5**	**+25%**	**2.9%**	**+40bps**

Order book and regeneration & development pipeline

The Group's committed order book* at 31 December 2018 was £3,567m, a reduction of 7% from the previous year end. The divisional split is shown below.

	FY 2018 £m	FY 2017 £m	Change
Construction & Infrastructure	1,922	1,855	+4%
Fit Out	470	500	-6%
Property Services	723	836	-14%
Partnership Housing	327	523	-37%
Urban Regeneration	119	141	-16%
Investments	6	7	--
Inter-divisional eliminations	-	(13)	--
Group committed order book	**3,567**	**3,849**	**-7%**

* "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.

The Group's regeneration & development pipeline** at 31 December 2018 was £3,107m, down 4% on the previous year end.

	FY 2018 £m	FY 2017 £m	Change
Partnership Housing	708	851	-17%
Urban Regeneration	1,962	2,063	-5%
Investments	437	319	+37%
Group regeneration & development pipeline	**3,107**	**3,233**	**-4%**

** "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.

<u>Construction & Infrastructure</u>

	FY 2018 £m	FY 2017 £m	Change
Revenue	1,343	1,395	-4%
Operating profit	27.0	20.4	+32%
Operating margin	2.0%	1.5%	+50bps

Construction & Infrastructure delivered a strong set of results in the year, with further significant margin and profit growth generated from its ongoing focus on improved operational delivery and disciplined contract selectivity and risk management. Although revenue was down 4% in the year to £1,343m, profit increased 32% to £27.0m (FY 2017: £20.4m) resulting in an operating margin of 2.0%, up 50bps.

Of the divisional revenue split by type of activity, ***Construction*** *(which includes Design)* was down 17% at £669m (50% of divisional revenue), while ***Infrastructure*** increased 15% to £674m (50% of divisional revenue).

Construction and ***Infrastructure*** both delivered an operating margin of 2.0%. In achieving this, ***Construction*** increased its margin 70bps (from 1.3% in the prior year), whilst ***Infrastructure*** was up 30bps (from 1.7% in the prior year). Both reflected a second half weighting to margin, arising from a combination of work mix and ongoing operational improvement, each generating a margin of 2.3% in the second half compared to 1.7% in the first half.

The committed order book at the year end was £1,922m, up 4% compared to the prior year end. Of this, ***Infrastructure's*** order book continued to grow, up 8% to £1,485m (77% of the total by value) and has 100% of its revenue secured for 2019.

Consistent with its focus on contract selectivity, ***Construction's*** order book reduced 9% to £437m (23% of total value). Importantly, the appropriate risk balance and profile has been maintained within the Construction order book, with 88% of the value derived through negotiated, framework or two-stage bidding procurement processes, and only 12% derived through competitive tenders. In addition, ***Construction*** had c£800m of orders at preferred bidder stage at the year end, more than twice the amount compared to the prior year.

Construction

Education remains Construction's largest sector. Projects delivered in the year include a £10m primary school in Bearsden, Scotland for East Dunbartonshire Council, a £13m school for Aberdeen City Council, funded through the Council's five-year capital programme and a new £20m Mathematics and Science building for Warwick University. Work also continued on the £45m Arts and Humanities facility for Manchester Metropolitan University and the £35m Tonyrefail education campus in South Wales, while significant wins in the year included an £18m project to deliver new academic offices for the University of Birmingham.

In *Leisure*, three facilities were completed for Investments' Slough Urban Renewal joint venture: the £6.5m Langley Leisure Centre, £5.7m Salt Hill Activity Centre and £10m Slough Ice Arena. In other sectors, work progressed on projects for Liverpool City Council as part of its Paddington Village development including The Spine, a £35m centre of clinical excellence for the Royal College of Physicians. Significant wins in the period include a £60m contract to build a new motorway services area at junction 45 of the M1 near Leeds, including a food court, 100-bedroom hotel, parking areas and onsite roadways; and a £46m mixed-use development in Leicester which includes two new hotels.

Construction was also appointed to three new frameworks in the year: the £20bn London Development Panel 2, set up to accelerate housing development on surplus, public sector-owned land, on which the division was awarded a place in partnership with Partnership Housing and Urban Regeneration; the £1.1bn Scape Group Regional Construction Framework, which will provide opportunities in the Midlands for public sector projects valued between £1m and £5m; and the £750m Select Property Group framework to deliver new student accommodation facilities across the UK, with the first project awarded under the framework underway being a £25m development of 357 self-contained studios in Birmingham at the old BBC Pebble Mill site.

Infrastructure

In *Infrastructure*, the focus remains on the key sectors of Aviation, Highways, Rail, Nuclear, Energy and Water.

In *Aviation*, works are ongoing at Heathrow Airport under the Q6 framework, including the replacement of ground lighting and resurfacing to the Alpha North and other taxiways and a new cargo building with an automated handling system for IAG Cargo and British Airways. The framework runs until the end of December 2019, with an anticipated extension to 2021.

In *Highways*, the division secured a place on the £500m Midlands Highway Alliance Medium Schemes Framework 3 (MSF3) which will deliver major highways and civils works over the next four years. Project completions in the year included the final stage of the A1(M) Leeming to Barton upgrade and the £290m A6 to Manchester Airport relief road, with the new 10km A555 dual carriageway now in full use.

In *Rail*, significant wins in the period included design and enabling works for a £200m project at Werrington Junction near Peterborough, where a new section of track will remove a critical bottleneck on the East Coast Main Line. Additionally, a £196m contract was awarded, in joint venture, by Transport for London to extend the London Overground by 4.5km to Barking Riverside.

In *Nuclear*, the division won a place on the Defence Infrastructure Organisation's £1.3bn, 10-year Clyde Commercial Framework to upgrade infrastructure at the Royal Navy's submarine base in West Scotland. Works also continued for BAE Systems at Barrow-in-Furness, and on the £1.1bn contract at Sellafield as part of the Infrastructure Strategic Alliance.

In *Energy*, new appointments in the year included £115m of projects under National Grid's 'Engineer, Procure, Construct' cable framework and a number of schemes in northern Scotland through the Scottish and Southern Electricity Networks (SSEN) overhead line and cable frameworks; the SSEN overhead line framework has been extended by four years and will now run to 2023.

In *Water*, a total of £100m of works were carried out in 2018 under the two AMP6 frameworks for Yorkshire Water and Welsh Water. Work also continued on the seven-year joint venture project to build the west section of the Thames Tideway Tunnel 'super sewer'; excavation has begun on the launch tunnel in preparation for installing the tunnel boring machine in early 2019.

Divisional outlook

The focus for Construction & Infrastructure will remain on margin improvement, project delivery and securing higher-quality work with the appropriate risk balance. The target for both ***Construction*** and ***Infrastructure*** is an operating margin of 2.5% and further progress towards these targets is expected in 2019.

Fit Out

	FY 2018 £m	FY 2017 £m	Change
Revenue	831	735	+13%
Operating profit	43.8	39.1	+12%
Operating margin	5.3%	5.3%	-

Fit Out delivered another excellent performance, driven by consistently strong project delivery and a continued focus on enhanced customer experience. With revenue increasing 13% to £831m, operating profit increased 12% to £43.8m at an operating margin of 5.3%, level with the prior year.

There was no significant change to the market sectors served, with the commercial office market again being the largest, contributing 86% of revenue (2017: 84%). Higher education accounted for 8% of revenue, while retail banking, government and local authority work made up the remainder.

London remained the division's largest geographical market, accounting for 73% of revenue, with no significant change from 71% in the prior year. Other regions accounted for 27% of revenue.

In terms of type of work delivered in the year, 86% related to traditional fit out work (2017: 84%), while 14% related to 'design and build' (FY 2017: 16%). The proportion of revenue generated from the fit out of new office space increased to 38% (FY 2017: 23%), while the fit out of existing office space reduced to 62% (FY 2017: 77%). This reduction was driven by a small number of larger new office space projects and was not indicative of any longer-term trend. Of the fit out of existing office space, 76% related to refurbishment 'in occupation', which was up from 64% in the prior year and again, this did not reflect any significant long-term trend. The average value of enquiries received through the year remained at around £2m.

New project starts in the year included 220,000 sq ft of space at Royal Dutch Shell's new multi-storey office in York Road, London together with a 27-storey fit out at the neighbouring Shell Centre tower; the fit out of 155,000 sq ft at BBC Cymru Wales' headquarters in Cardiff; and the fit out and refurbishment of c100,000 sq ft for the Competition & Markets Authority in London.

Significant project completions in the year included an 88,000 sq ft fit out for ITV in London; the first phase of works for RWE Generation UK in Swindon; 22,000 sq ft for Ocean Network Express (ONE) at Canary Wharf; 30,000 sq ft for global flu vaccine company, Seqirus, in Maidenhead and 28,000 sq ft for the University of Bristol.

As with previous years, there was a second half weighting to operating margin. Performance in the second half of the year was again strong, with an operating margin of 6.2% (level with the prior year second half margin) compared to a first half margin of 4.4% and was driven by the successful completion of a number of contracts falling into the second half.

At the year end, the committed order book was £470m, a decrease of 6% on the prior year end. This also reflected a reduction of 11% from the position at the half year, however was level with the committed order book as reported as at 30 September. Of the year end total of £470m, £439m (93%) relates to 2019 and this level of orders for the next 12 months is 6% lower than it was at the same time last year of £468m. The balance of the order book in terms of geographical split and type of work is broadly in line with previous years.

Key framework appointments in the year included the Department for Work and Pensions Estate Contractor Framework for London and the South East, Scotland and the North East, while the division was awarded six projects under the Mayor's Office for Policing and Crime (MOPAC) Framework.

Divisional outlook

Fit Out's target is to deliver annual profit in the range of £30m-£35m through the cycle. 2018 was a record profit performance for the division and the target range was significantly exceeded. For 2019, based on the current order book and the limited visibility the division has of future workload for later in the year, Fit Out is expected to deliver a more 'normalised' performance which is back within its target range.

<u>Property Services</u>

	FY 2018 £m	FY 2017 £m	Change
Revenue	100	66	+52%
Operating profit/(loss)[1]	2.0	(1.3)	+254%
Operating margin[1]	2.0%	(2.0%)	+400bps

Property Services delivered a significantly improved performance, with revenue up 52% to £100m and operating profit[1] of £2.0m, a margin[1] of 2.0%.

Following the streamlining of its activities in 2017, the division has concentrated on delivering repairs maintenance and planned works to public sector housing through long-term integrated contracts with housing associations and local authorities. This focus has helped improve both efficiency and quality of service. The significant revenue growth of 52% up to £100m in the year was largely secured from developing existing contracts, as well as new work awarded by Basildon Council and CityWest Homes. The division now delivers services to 200,000 homes across the UK.

The operating profit[1] of £2.0m reflected additional contribution from the higher revenue together with improved operational efficiency resulting from the previous year's restructuring. In addition,

Property Services has continued to invest in its IT platform for managing repairs and maintenance and planned activities. The data collected through the platform helps with the strategic allocation of investment in planned works, thus reducing the need for future repairs and inconvenience for tenants.

At the year end, the committed order book was down 14% to £723m, reflecting the division's focus earlier in the year on successful contract delivery and mobilisation and prioritising this above bidding new work. Bidding activity increased later in the year however, and after the year end in January (and therefore not included in the year end order book), the division was awarded three separate housing repair and maintenance contracts with a total value of £313m over a 15-year period.

The three new contracts are: an award with the London Borough of Waltham Forest to provide responsive repairs, refurbishment of void homes (which have been unoccupied for some time) and planned maintenance programmes to their 10,000 properties; a contract with St Albans City and District Council for repairs, void refurbishments and planned maintenance works to over 4,800 properties, with a focus on delivering efficiencies through integrated maintenance services; and property maintenance covering 6,000 homes and 1,200 garages for South Essex Homes, Southend-on-Sea Borough Council's arms-length management organisation.

In addition to the services highlighted for each of these contracts, robust social value commitments have been made to deliver employment and training opportunities to the various communities.

Divisional outlook

The target for Property Services is to increase its operating margin to at least 3%. Looking ahead to 2019, with the benefit of further operational efficiencies and the expected growth from new and existing contracts, the division is expected to make progress towards this target and beyond.

[1] *before intangible amortisation of £1.0m (FY 2017: £0.6m)*

Partnership Housing

	FY 2018 £m	**FY 2017 £m**	**Change**
Revenue	519	474	+9%
Operating profit[1]	12.2	14.1	-13%
Operating margin[1]	2.4%	3.0%	-60bps
Average capital employed[2] (last 12 months)	115.0	99.7	+£15.3m
Capital employed[2] at year end	106.6	88.0	+£18.6m
ROCE[3] (last 12 months)	11%		
ROCE[3] (average last 3 years)	12%		

Although Partnership Housing delivered revenue growth of 9% to £519m, profit was adversely impacted in the year by operating issues on the ***Contracting*** side of the business. Operating profit[1] was down 13% to £12.2m resulting in an operating margin[1] of 2.4%, down 60bps on the prior year.

Revenue growth was driven by the ***Mixed-tenure*** activities, where revenue was up 21% to £222m (43% of divisional revenue). ***Contracting*** revenue (including planned maintenance and refurbishment) was up 2% in the year to £297m (57% of divisional total).

While ***Mixed-tenure*** performed as expected, a number of operating issues in ***Contracting*** impacted profit***.*** As had been highlighted through the year, the division experienced cost escalation and programme delays on one 'design & build' contract in London which completed in the second half and with the final account agreed. In addition, ***Contracting*** was further impacted by underperformance in Scotland arising from cost escalations and poor delivery. The resulting poor performances in the London and Scotland regions more than offset the positive progress made in the other six regional businesses in the division.

A new divisional senior management team was appointed during the year to drive and accelerate the necessary operational and financial improvements and to leverage the strategic position of the division in its markets. The immediate focus is on addressing the basic operational performance of the contracting activities.

The capital employed[2] at year end was £106.6m, with the average capital employed[2] for the last 12-month period of £115.0m, an increase of £15.3m on the prior year. The overall ROCE[3] was 11%. Based upon the profile, schedule and type of mixed-tenure development currently anticipated, capital employed[2] is expected to increase towards £150m in 2019.

Mixed-tenure

In ***Mixed-tenure***, 952 units were completed across open market sales and social housing compared to 887 in the prior year. The average sales price of £233k compared to the prior year average of £207k, with the increase reflecting the geographical mix of sales, with more units completed in the London/South East area.

In the year, the mixed-tenure regeneration and development pipeline reduced 17% to a still healthy £708m, supported by the committed order book for the contracting element in mixed tenure which was broadly level at £77m. The division currently has a total of 45 mixed tenure sites at various stages of construction and sales, with an average of 93 open market units per site. Average site duration is 34 months, providing long-term visibility of activity.

Works commenced on site at several developments during the year including a £25m development in partnership with Merthyr Tydfil County Borough Council and Merthyr Tydfil Housing Association to deliver 153 new homes on an old colliery site near Merthyr Vale in South Wales. Work also commenced on the £15m development, Keepers Gate, in Weston-super-Mare to deliver 50 new homes; a £41m development for Homes England at Priorslee, Telford, to create 220 affordable and open market homes; and a £45m joint venture project with Homes England at Leyland, Lancashire to build 200 homes through the government's accelerated construction initiative.

Contracting

In ***Contracting***, the secured order book reduced by 44% to £250m and reflected a reduced level of bidding while the operational issues noted above were addressed.

During the year, construction commenced on the £9m first phase of Great Yarmouth Borough Council's major new homes development at Beacon Park in Norfolk, scheduled for completion in mid-2020. The division was also selected by Liverpool City Council to build 105 homes for its new housing company, Foundations, with works due to start on site in 2019. Work continued on the £250m contract for the Defence Infrastructure Organisation at Salisbury Plain to deliver 917 new homes and working to an accelerated handover which will peak at around 26 units per week in Spring 2019. Completions in the year include a £10m regeneration programme of works to 300 homes at

Manor Farm in Coventry and £7m of sheltered housing at Reynolds Court in Newport, Essex for Uttlesford District Council.

Divisional outlook

Partnership Housing's target is to generate a return on capital employed[3] of over 20%. Overall, 2018 was a difficult year for the division, with both returns and profit taking a step backwards. Looking ahead to 2019, it is expected that operational improvements will drive growth in profit, however with the expected increase in capital employed, progress towards its returns target is likely to be limited.

[1] Before intangible amortisation of £nil (FY 2017: £0.4m)
[2] 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).
[3] Return On Average Capital Employed = Adjusted operating profit divided by average capital employed.

Urban Regeneration

	FY 2018 £m	FY 2017 £m	Change
Revenue	185	175	+6%
Operating profit[1]	19.6	10.0	+96%
Average capital employed[2](last 12 months)	108.8	88.5	+£20.3m
Capital employed[2] at year end	89.4	85.0	+£4.4m
ROCE[3] (last 12 months)	16%		
ROCE[3] (average last 3 years)	13%		

Urban Regeneration delivered operating profit[1] of £19.6m, up 96% from the prior year. This significant uplift in performance was derived from its diverse and substantial development portfolio and was in line with the timing of scheme completions. Revenue in the year was up 6% to £185m, which was more indicative of the type of development scheme from which the profits were generated than of the level of underlying activity.

Key contributors to overall performance included the division's English Cities Fund (ECf) joint venture with Homes England and Legal & General, through which over £50m of mixed-use development was completed in Salford. This included a 635-space multi-storey car park pre-let to NCP and 135 apartments at The Slate Yard, where construction commenced on a further 199 apartments for rent in the third phase. In addition, two significant pre-let and forward-funded deals were completed; 180,000 sq ft to Salford City Council and Aviva Investors at Two New Bailey Square, Salford; and 157,000 sq ft to HMRC and Legal & General at Three New Bailey, Salford.

Through the division's Waterside Places joint venture with the Canal & River Trust, progress was made at Islington Wharf, Manchester where a third phase of construction of 101 homes is underway; a second phase of 157 homes was completed at Brentford Lock West; and 108 apartments at Hale Wharf in Tottenham were forward sold for private rental.

At Logic Leeds, the pre-let of a 361,000 sq ft, forward sold distribution hub was followed by the lease of a second 360,000 sq ft unit to an online retail operator. In addition, three speculative units were completed, 'Trilogy @ Logic', totalling 100,000 sq ft, funded and retained by Leeds City Council as a future revenue stream.

Also secured in the year was the sale of 23.5 acres of land in Crewe to Homes England, and several lettings at the Marischal Square development in Aberdeen. Construction also commenced on new phases at several existing developments including 256 homes at Bristol's Wapping Wharf and 60,000 sq ft of commercial space at Stockport Exchange.

Other significant completions in the year included 100,000 sq ft of civic offices pre-let to Conwy Borough Council at Colwyn Bay in Wales; 120 homes and 120,000 sq ft of Council offices in Lambeth, London; and 101 homes at Lewisham Gateway. Projects nearing completion include a £110m leisure development in Warrington with a cinema pre-let to Cineworld, and a £21m transport interchange in South Shields which will merge the local metro and bus stations.

Urban Regeneration's development portfolio remains extremely active, with 13 projects on site at the year end and a further 18 projects expected to start on site in 2019. Further progress was made with its existing town centre developments where planning consent was obtained on six projects with a total development value of £490m, including the final phase of Lewisham Gateway which will comprise 654 homes, a cinema, retail, leisure and offices.

At the year end, the division's combined committed order book and regeneration and development pipeline amounted to £2.1bn and of this, there is a diverse geographic and sector split:

- by value, 46% is in the South East and London, 34% in the North West, 16% in Yorkshire and the North East, and 4% in the rest of the UK;

- by sector, 52% by value relates to residential, 29% to offices, and the remainder is broadly split between retail, leisure, and industrial.

In addition, the division has been selected as preferred developer on nearly £400m of mixed-use schemes with local authorities in Slough, Gainsborough, Wirral and Rotherham.

Average capital employed[2] for the last 12-month period was £108.8m, an increase of £20.3m on the prior year and an overall ROCE[3] of 16%. Capital employed[2] at the year end was £89.4m and based upon the current profile and type of scheme activity across the portfolio, the average capital employed[2] for 2019 is expected to reduce and be within the range of £90m-£95m.

Divisional outlook

The target for Urban Regeneration is to increase its ROCE[3] towards 20%. For 2019, based upon the expected lower amount of capital employed, good progress towards its target ROCE[3] is expected.

[1] *Before intangible amortisation of £nil (FY 2017: £0.2m)*
[2] *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).*
[3] *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). For 2018, interest and fees on non-recourse debt was £2.4m (FY 2017: £1.5m) and the unwind of discount on deferred consideration was £0.1m (FY 2017: £0.2m).*

Investments

	FY 2018 £m	FY 2017 £m	Change
Operating (loss)/profit	(2.4)	0.5	n/a

Investments made an operating loss of £2.4m in the year, impacted by delays in progressing a number of its schemes. This slower progress resulted from a range of factors including planning delays, challenges with forecast construction costs within its joint venture developments delaying commencements, and general slippage in reaching financial close on a number of developments.

Notwithstanding this, there was much positive progress made within the division's existing partnerships. In Slough Urban Renewal (SUR), a joint venture with Slough Borough Council, seven projects were completed, with a value in excess of £50m. In addition, two planning consents were secured: for a mixed-use development on the former site of the town's central library, including 62 private apartments and two hotels, to be delivered by Construction & Infrastructure; and for a private housing development of 24 homes to be built by Partnership Housing. Currently five projects with a total construction value of £65m are underway in Slough, with six more in the design and planning phase.

In Bournemouth, through its joint venture partnership with Bournemouth Borough Council, 113 new private rental homes at Berry Court were handed over in the year, as well as a 217-space multi-storey car park; planning approval was obtained for the £150m multi-use redevelopment of Winter Gardens; and construction began on 46 high quality homes for market rent in St Stephen's Road.

In addition, through its extra care joint venture, Morgan Ashley, work started on site on the Isle of Wight's first purpose-built, extra care housing and retirement living scheme in Ryde, and on a 60-unit development in Grimsby. Morgan Ashley was also appointed preferred bidder on two extra care schemes in Hampshire and four schemes in Leeds, with a combined development value of approximately £60m.

Other key milestones were the completion in the year on a £16m extra care development in Northampton and a 28-unit supported living scheme in Birmingham, both delivered through the HB Villages joint venture; and the £18m Gorbals Health and Care Centre in Glasgow, delivered by Construction & Infrastructure through the hub West Scotland joint venture.

Two new property partnerships were secured in the year. Chalkdene Developments, a joint venture with Hertfordshire County Council, is set to deliver a series of housing-led developments with an estimated gross development value of £2bn. The programme is for an initial period of 15 years, with the option to extend by a further five years. The division also set up a 15-year partnership with Torbay and South Devon NHS Foundation Trust: SDH Innovations Partnership is set to develop over £150m of infrastructure in South Devon, including new clinical buildings and commercial and housing developments.

Later in the year, the division launched an opportunity targeted at institutional capital to finance a build-to-rent vehicle focused on prime commuter locations around London and the South East. The vehicle is aimed at providing investors with access to a portfolio of more than 1,000 purpose-built, residential rental units with a gross development value of c£480m, drawn from the division's strategic joint ventures.

After the year end in January 2019, the division entered into a new residential partnership agreement with Residential Secure Income (ReSI), which will initially target the delivery of 1,500 shared ownership homes with a value of £300m.

Capital employed[1] at the year end was £37.2m (FY 2017: £38.6m), with average capital employed for the last 12-month period of £40.1m (FY 2017: £30.7m). This is expected to increase within the range of £40m-£45m in 2019, spread across a range of its partnerships.

Divisional outlook

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 target is to increase ROCE[2] up towards 20% in the medium term. Based upon the current profile of scheme completions, the division is expected to make a loss in the year ahead.

[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 plus interest received from joint ventures) divided by average capital employed.

Other Financial Information

1. Net finance expense. Net finance expense was £3.9m, a £1.4m increase versus FY 2017 which is broken down as follows:

	FY 2018 £m	FY 2017 £m	Change £m
Interest payable on project financing & other debt	(2.0)	(0.9)	(1.1)
Amortisation of bank fees & non-utilisation fees	(2.0)	(2.6)	0.6
Interest expense on lease liabilities	(1.4)	(0.1)	(1.3)
Interest from JVs	1.4	1.3	0.1
Other	0.1	(0.2)	0.3
Total net finance expense	**(3.9)**	**(2.5)**	**(1.4)**

2. Tax. A tax charge of £13.8m is shown for the year (FY 2017: £12.5m).

	FY 2018 £m	FY 2017 £m
Profit before tax	80.6	64.9
Less: share of net profit in joint ventures	(5.2)	(4.1)
Profit before tax excluding joint ventures	**75.4**	**60.8**
Statutory tax rate	19.00%	19.25%
Current tax charge at statutory rate	**(14.3)**	**(11.7)**
Tax on joint venture profits#	(0.7)	(0.6)
Prior year adjustments	1.6	0.4
Other adjustments	(0.4)	(0.6)
Tax charge	**(13.8)**	**(12.5)**

 # 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 (including Contract Assets), less Trade & Other Payables (including Contract Liabilities)' adjusted as below.

	FY 2018 £m	FY 2017 £m	Change £m
Inventories	334.2	295.0	+39.2
Trade & Other Receivables[1]	424.0	400.9	+23.1
Trade & Other Payables[2]	(911.4)	(860.1)	-51.3
Net working capital	**(153.2)**	**(164.2)**	**+11.0**

[1] Adjusted to include Contract assets of £192.0m (2017: £nil) and exclude capitalised arrangement fees of £1.2m (FY 2017: £1.6m) and derivative financial assets of £nil (FY 2017: £1.6m)
[2] Adjusted to include contract liabilities of £98.3m (2017: £nil) and exclude accrued interest of £0.3m (FY 2017: £0.4m), deferred consideration payable of £nil (FY 2017: £2.2m) and derivative financial liabilities of £nil (FY 2017: £1.0m)

4. Cash flow. Operating cash flow was an inflow of £66.4m (FY 2017: inflow of £41.0m). Free cash flow was an inflow of £49.6m (FY 2017: inflow of £27.1m).

	FY 2018 £m	FY 2017 £m
Operating profit - adjusted	**85.5**	**68.6**
Depreciation[1]	18.5	5.6
Share option expense	6.3	5.5
Movement in fair value of shared equity loans	(0.5)	(0.5)
Share of net profit of joint ventures	(5.2)	(4.1)
Other operating items [2]	6.0	6.1
Change in working capital [3]	(23.2)	(37.8)
Net capital expenditure (including repayment of finance leases)[4]	(23.9)	(6.1)
Dividends and interest received from joint ventures	2.9	3.7
Operating cash flow	**66.4**	**41.0**
Income taxes paid	(13.9)	(9.6)
Net interest paid (non-joint venture)	(2.9)	(4.3)
Free cash flow	**49.6**	**27.1**

[1] Includes the impact of IFRS 16 on depreciation of £12.2m

[2] 'Other operating items' includes provision movements (£2.9m), shared equity redemptions (£3.1m), revaluation of investment properties (£0.2m) less gain on disposals (£0.2m)

[3] The cash flow due to change in working capital excludes net £12.2m comprising non-cash movement from the change in accounting policy (£11.7m) and the unwind of discounting on land creditors (£0.5m)

[4] Includes the impact of IFRS 16 on the repayment of finance leases of £13.1m

5. Net cash. Net cash at the end of the year was £207.0m, an increase of £13.6m from 1 January 2018.

	£m
Net cash as at 1 January 2018	**193.4**
Free cash flow (as above)	49.6
Dividends	(21.5)
Other[1]	(14.5)
Net cash as at 31 December 2018	**207.0**

[1] 'Other' includes net loans advanced to JVs (£3.0m), deferred consideration paid to acquire an additional interest in a JV (£2.0m), purchase of shares in the Company by the employee benefit trust (£16.1m) and payment to establish an 'other' investment (£0.2m); less proceeds from the issue of new shares (£4.6m) and proceeds from the exercise of share options (£2.2m)

6. Capital employed by strategic activity. An analysis of the capital employed in the **Construction** activities shows an increase of £10.1m since the previous year, split as follows:

Capital employed[1] in Construction	**FY 2018 £m**	**FY 2017 £m**	**Change £m**
Construction & Infrastructure	(248.4)	(232.9)	-15.5
Fit Out	(36.1)	(56.4)	+20.3
Property Services	9.2	3.9	+5.3
	(275.3)	**(285.4)**	**+10.1**

An analysis of capital employed in the **Regeneration** activities shows an increase of £23.0m since the previous year, split as follows:

Capital employed in Regeneration	FY 2018 £m	FY 2017 £m	Change £m
Partnership Housing[2]	106.6	88.0	+18.6
Urban Regeneration[2]	89.4	85.0	+4.4
	196.0	**173.0**	**+23.0**

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, Urban Regeneration and Investments sections in the Business Review

In addition, capital employed in **Investments** was £37.2m (FY 2017: £38.6m).

7. Dividends. The Board of Directors has proposed a final dividend of 34.0p per share (FY 2017: 29.0p), up 17% on the prior year. This will be paid on 20 May 2019 to shareholders on the register at 26 April 2019. The ex-dividend date will be 25 April 2019.

8. Changes in Accounting Policies. The Group adopted the following accounting standards on 1 January 2018:

8.1 IFRS 9 'Financial instruments'. Introduces changes to the classification and measurement of financial assets, hedge accounting and the model to be applied when assessing whether financial assets are impaired. This has resulted in an impairment provision of £2.3m being recognised in relation to loans that were part of the Group's long-term interests in a PFI joint venture and trade and other receivables. The net effect on opening reserves at 1 January 2018 was £1.9m net of deferred tax adjustments.

8.2 IFRS 15 'Revenue from contracts with customers'. Introduces a new model for revenue recognition based on the satisfaction of performance obligations. For the Group there are three main areas of change: a greater degree of certainty is required to recognise variable revenue in relation to liquidated damage deductions, revenue for forward-sold, pre-let developments is recognised over time rather than at a point in time where certain conditions are met, and the costs of fulfilling a contract are only capitalised where they are expected to be recovered over the duration of the work and the Group has a contractual entitlement to recover them in the event of a no-fault termination. The effect of these changes on opening reserves at the date of transition was £9.8m net of deferred tax adjustments. Amounts for comparable periods are determined in accordance with the Group's previous accounting policies for revenue.

8.3 IFRS 16 'Leases'. Requires a right-of-use asset and lease liability to be recognised in respect of all leases other than those that are less than one year in duration or of a low value. The effect of this for the Group has been to recognise a right-of-use asset of £42.9m and lease liability of £43.4m at the transition date of 1 January 2018. The Group has taken advantage of the practical expedients to grandfather previous conclusions under IAS 17 on which contracts contain leases, to apply the cumulative catch up approach rather than full retrospective application and to measure the right-of-use asset at an amount equal to the lease liability (adjusted for accruals and prepayments) at transition date.

9. Brexit: The Board has reviewed the potential impact on the Group of the UK leaving the European Union, under the scenario of leaving through the terms of a withdrawal agreement and under the scenario of leaving without a deal. Being UK focused, no changes have been required to the Group's model, with any obvious effects already factored into forecasting. Clearly given the number of

permutations associated with Brexit, a 'risk free' situation is difficult to completely mitigate, but can be limited. The majority of the Group's construction activities and regeneration schemes are with public sector and regulatory customers and underpinned via long term frameworks and JV style arrangements. The Group considers that the strength of this customer base together with the quality and volume of the Group's order book and pipeline provide some insulation against any specific adverse consequences arising from the UK's departure from the EU.

Specific risks include the potential for increased material costs as a result of exchange differences arising from materials imported from EU countries, potential delays to construction programmes in importing materials and potential skills deficiencies arising from difficulties in obtaining EU workers within the supply chain.

The Group has reviewed these potential impacts and consider that there are sufficient mitigations in place via contract terms or allowances that offset increased costs including normal hedging arrangements for significant imported purchases, specific project related arrangements that secure 'leave date' materials and labour, and arrangements with our key suppliers to deal with any initial shortages. The Board continues to closely monitor the potential impacts that leaving the EU may have on the business.

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 2018

	Notes	2018 £m	2017 £m
Revenue		**2,971.5**	2,792.7
Cost of sales		**(2,656.2)**	(2,518.3)
Gross profit		**315.3**	274.4
Administrative expenses		**(235.0)**	(209.9)
Share of net profit of joint ventures		**5.2**	4.1
Operating profit before amortisation of intangible assets		**85.5**	68.6
Amortisation of intangible assets		**(1.0)**	(1.2)
Operating profit		**84.5**	67.4
Finance income		**2.0**	1.6
Finance expense		**(5.9)**	(4.1)
Profit before tax		**80.6**	64.9
Tax	4	**(13.8)**	(12.5)
Profit for the year		**66.8**	52.4
Attributable to:			
Owners of the Company		**66.8**	52.4

Earnings per share			
Basic	6	**149.8p**	118.8p
Diluted	6	**142.1p**	112.7p

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

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	2018 £m	2017 £m
Profit for the year	**66.8**	52.4
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (loss)/gain arising on retirement benefit asset	**(2.8)**	0.1
Deferred tax on retirement benefit asset	**0.5**	-
	(2.3)	0.1
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange movement on translation of overseas operations	**0.2**	(0.2)
Gains arising during the year on cash flow hedges	**-**	0.3
Reclassification from cash flow hedges to the income statement	**(0.5)**	(0.7)
Deferred tax relating to items that may be reclassified	**-**	0.1
	(0.3)	(0.5)
Other comprehensive expense	**(2.6)**	(0.4)
Total comprehensive income	**64.2**	52.0
Attributable to:		
Owners of the Company	**64.2**	52.0

Consolidated balance sheet
At 31 December 2018

	Notes	**2018 £m**	2017 £m
Assets			
Goodwill and other intangible assets		**216.4**	215.8
Property, plant and equipment	7	**62.6**	14.4
Investment property		**5.7**	5.9
Investments in joint ventures		**81.5**	76.7
Other investments		**1.3**	1.3
Shared equity loan receivables	8	**13.0**	15.6
Retirement benefit asset		**-**	2.8
Non-current assets		**380.5**	332.5
Inventories		**334.2**	295.0
Contract assets	9	**192.0**	-
Trade and other receivables	10	**233.2**	404.1
Cash and cash equivalents	12	**217.2**	221.2
Current assets		**976.6**	920.3
Total assets		**1,357.1**	1,252.8
Liabilities			
Contract liabilities	9	**(98.3)**	-
Trade and other payables	11	**(797.8)**	(854.1)
Current tax liabilities		**(5.8)**	(8.9)
Lease liabilities		**(11.2)**	(0.5)
Borrowings	12	**(10.2)**	(27.8)
Current liabilities		**(923.3)**	(891.3)
Net current assets		**53.3**	29.0
Trade and other payables		**(15.6)**	(9.6)
Lease liabilities		**(35.7)**	(0.4)
Deferred tax liabilities		**(12.0)**	(13.9)
Provisions		**(23.9)**	(21.0)
Non-current liabilities		**(87.2)**	(44.9)
Total liabilities		**(1,010.5)**	(936.2)
Net assets		**346.6**	316.6
Equity			
Share capital		**2.3**	2.2
Share premium account		**38.3**	33.8
Other reserves		**(0.6)**	(0.3)
Retained earnings		**306.6**	280.9
Equity attributable to owners of the Company		**346.6**	316.6
Total equity		**346.6**	316.6

Consolidated cash flow statement
For the year ended 31 December 2018

	Notes	**2018 £m**	2017 £m
Operating activities			
Operating profit		**84.5**	67.4
Adjusted for:			
Amortisation of intangible assets		**1.0**	1.2
Share of net profit of equity accounted joint ventures		**(5.2)**	(4.1)
Depreciation	7	**18.5**	5.6
Share option expense		**6.3**	5.5
Gain on disposal of property, plant and equipment		**(0.2)**	(0.1)
Revaluation of investment properties		**0.2**	-
Movement in fair value of shared equity loan receivables	8	**(0.5)**	(0.5)
Disposals of investment properties		**-**	0.7
Repayment of shared equity loan receivables	8	**3.1**	3.3
Increase in provisions		**2.9**	2.2
Operating cash inflow before movements in working capital		**110.6**	81.2
Increase in inventories		**(49.2)**	(78.7)
Increase in contract assets		**(13.8)**	-
Increase in receivables		**(7.2)**	(71.3)
Increase in contract liabilities		**40.7**	-
Increase in payables		**6.3**	112.2
Movements in working capital		**(23.2)**	(37.8)
Cash inflow from operations		**87.4**	43.4
Income taxes paid		**(13.9)**	(9.6)
Net cash inflow from operating activities		**73.5**	33.8
Investing activities			
Interest received		**2.1**	1.4
Dividend from joint ventures		**1.5**	2.6
Proceeds on disposal of property, plant and equipment		**0.4**	0.6
Purchases of property, plant and equipment	7	**(9.2)**	(6.3)
Purchases of intangible fixed assets		**(1.6)**	-
Net increase in loans to joint ventures		**(3.0)**	(14.2)
Payment for the acquisition of subsidiaries, joint ventures and other businesses		**(2.0)**	(9.6)
Payment for other investments		**(0.2)**	(1.1)
Net cash outflow from investing activities		**(12.0)**	(26.6)
Financing activities			
Interest paid		**(3.6)**	(4.6)
Dividends paid	5	**(21.5)**	(16.8)
Repayments of lease liabilities		**(13.5)**	(0.4)
Proceeds from borrowings	12	**0.3**	8.0
Repayment of borrowings	12	**(17.9)**	-
Proceeds on issue of share capital		**4.6**	0.1
Payments by the Trust to acquire shares in the Company		**(16.1)**	(1.1)
Proceeds on exercise of share options		**2.2**	0.3
Net cash outflow from financing activities		**(65.5)**	(14.5)
Net decrease in cash and cash equivalents		**(4.0)**	(7.3)
Cash and cash equivalents at the beginning of the year		**221.2**	228.5
Cash and cash equivalents at the end of the year	12	**217.2**	221.2

Consolidated statement of changes in equity
For the year ended 31 December 2018

	Share capital	Share premium account	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2017	2.2	33.7	0.2	241.1	277.2
Total comprehensive income	-	-	(0.5)	52.5	52.0
Share option expense	-	-	-	5.5	5.5
Tax relating to share option expense	-	-	-	(0.6)	(0.6)
Issue of shares at a premium	-	0.1	-	-	0.1
Purchase of shares in the Company by the Trust	-	-	-	(1.1)	(1.1)
Exercise of share options	-	-	-	0.3	0.3
Dividends paid	-	-	-	(16.8)	(16.8)
1 January 2018	2.2	33.8	(0.3)	280.9	316.6
Effect of change in accounting policies (note 1)	-	-	-	(11.7)	(11.7)
As restated	2.2	33.8	(0.3)	269.2	304.9
Total comprehensive income	-	-	(0.3)	64.5	64.2
Share option expense	-	-	-	6.3	6.3
Tax relating to share option expense	-	-	-	2.0	2.0
Issue of shares at a premium	0.1	4.5	-	-	4.6
Purchase of shares in the Company by the Trust	-	-	-	(16.1)	(16.1)
Exercise of share options	-	-	-	2.2	2.2
Dividends paid	-	-	-	(21.5)	(21.5)
31 December 2018	**2.3**	**38.3**	**(0.6)**	**306.6**	**346.6**

Other reserves
Other reserves include:

- Capital redemption reserve of £0.6m (2017: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.8m) (2017: (£0.3m)) 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 (£0.4m) (2017: (£0.6m)) 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 2018 was 770,599 (2017: 555,104) with a cost of £7.7m (2017: £4.2m).

Notes to the consolidated financial statements
For the year ended 31 December 2018

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 2018 or 2017 but is derived from those accounts. A copy of the statutory accounts for 2017 was delivered to the Registrar of Companies and those for 2018 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 2019. 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 21 February 2019, 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 2018.

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
The Group adopted the following accounting standards on 1 January 2018:

- IFRS 9 'Financial instruments'. Introduces changes to the classification and measurement of financial assets, hedge accounting and the model to be applied when assessing whether financial assets are impaired. This has resulted in an impairment provision of £2.3m being recognised in relation to loans that were part of the Group's long-term interests in a PFI joint venture and trade and other receivables. The net effect on opening reserves at 1 January 2018 was £1.9m net of deferred tax adjustments.
- IFRS 15 'Revenue from contracts with customers'. Introduces a new model for revenue recognition based on the satisfaction of performance obligations. For the Group there are three main areas of change: a greater degree of certainty is required to recognise variable revenue in relation to liquidated damage deductions, revenue for forward-sold, pre-let developments is recognised over time rather than at a point in time where certain conditions are met, and the costs of fulfilling a contract are only capitalised where they are expected to be recovered over the duration of the work and the Group has a contractual entitlement to recover them in the event of a no-fault termination. The effect of these changes on retained earnings at the date of transition was £9.8m net of deferred tax adjustments. Amounts for comparable periods are determined in accordance with the Group's previous accounting policies for revenue. The reported revenue in 2018 is £6.5m higher as a result of

adopting IFRS 15 than it would have been if reported under IAS 11, IAS 18 and related interpretations that were in effect prior to the change.

- IFRS 16 'Leases'. Requires a right-of-use asset and lease liability to be recognised in respect of all leases other than those that are less than one year in duration or of a low value. The effect of this for the Group has been to recognise a right-of-use asset of £42.9m and lease liability of £43.4m at the transition date of 1 January 2018. The Group has taken advantage of the practical expedients to grandfather previous conclusions under IAS 17 on which contracts contain leases, to apply the cumulative catch up approach rather than full retrospective application and to measure the right-of-use asset at an amount equal to the lease liability (adjusted for accruals and prepayments) at transition date.

The effect of the accounting policy changes on 1 January 2018 can be summarised as follows:

£m	As previously reported	Adjustments			As restated
		IFRS 9	IFRS 15	IFRS 16	
Property, plant and equipment	14.4	-	-	42.9	57.3
Investments in joint ventures	76.7	(1.9)	-	-	74.8
Inventories	295.0	-	(10.0)	-	285.0
Contract assets	-	-	178.2	-	178.2
Trade and other receivables	404.1	(0.4)	(175.0)	(0.7)	228.0
Change in total assets		(2.3)	(6.8)	42.2	
Contract liabilities	-	-	(57.6)	-	(57.6)
Trade and other payables – current	(854.1)	-	52.6	1.2	(800.3)
Lease liabilities – current	(0.5)	-	-	(10.2)	(10.7)
Lease liabilities – non-current	(0.4)	-	-	(33.2)	(33.6)
Deferred tax liabilities	(13.9)	0.4	2.0	-	(11.5)
Change in total liabilities		0.4	(3.0)	(42.2)	
Change in total equity		**(1.9)**	**(9.8)**	**-**	

The Group's new accounting policies are set out below. Other than those described below, there have not been any other significant changes to accounting policies, presentation or methods of preparation since the Group's annual audited financial statements for the year ended 31 December 2017.

Revenue and margin recognition
The principal revenue streams within the Group are as follows:

(a) Construction and infrastructure services contracts
Construction & Infrastructure, Fit Out, Property Services, Partnership Housing and Urban Regeneration all derive a significant portion of their revenue from construction and infrastructure services contracts. These services are provided to customers across a wide variety of sectors and the size and duration of the contracts can vary significantly from a few weeks to more than 10 years.

The majority of contracts are considered to contain only one performance obligation for the purposes of recognising revenue. Whilst the scope of works may include a number of different components, in the context of construction and infrastructure services activities these are usually highly interrelated and produce a combined output for the customer.

Contracts are typically satisfied over time. For fixed price construction contracts progress is measured through a valuation of the works undertaken by a professional quantity surveyor, including an assessment of any elements for which a price has not yet been agreed such as changes in scope. For cost reimbursable

infrastructure services contracts progress is measured based on the costs incurred to date as a proportion of the estimated total cost and an assessment of the final contract price payable.

Variations are only included in the estimated total contract price when the customer has agreed the revised scope of work. Where the scope has been agreed but the corresponding change in price has not yet been agreed, only the amount that is considered highly probable not to reverse in the future is included in the estimated total contract price. Where delays to the programme of works are anticipated and liquidated damages would be contractually due, the estimated total contract price is reduced accordingly. This is only mitigated by expected extensions of time or commercial resolution being achieved where it is highly probable that this will not lead to a significant reversal in the future.

For cost reimbursable contracts, expected pain share is recognised in the estimated total contract price immediately whilst anticipated gain share and performance bonuses are only recognised at the point that they are agreed by the customer.

In order to recognise the profit over time it is necessary to estimate the total costs of the contract. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials which have not yet been procured, the expected cost of any acceleration of or delays to the programme or changes in the scope of works and the expected cost of any rectification works during the defects liability period.

Once the outcome of a construction contract can be estimated reliably, margin is recognised in the income statement in line with the stage of completion. Where a contract is forecast to be loss-making, the full loss is recognised immediately in the income statement.

(b) Service contracts

Service contracts include design, maintenance and management services in Construction & Infrastructure, Property Services, Urban Regeneration and Investments. Contracts are typically satisfied over time and revenue is measured through an assessment of time incurred and materials utilised as a proportion of the total expected or percentage of completion depending upon the nature of the service.

(c) Sale of land and properties

Partnership Housing, Urban Regeneration and Investments derive a significant portion of revenue from the sale of land, and the development and sale of residential and commercial properties.

Contracts are typically satisfied at a point in time. This is usually deemed to be legal completion as this is the point at which the Group has an enforceable right to payment. The only exception to this is pre-let forward-sold developments where the customer controls the work in progress as it is created; or where the Group is unable to put the asset being constructed to an alternative use due to legal or practical limitations and has an enforceable right to payment for the work completed to date. Where these conditions are met, the contract is accounted for as construction contract in accordance with paragraph (a) above.

Revenue from the sale of land, residential and commercial properties is measured at the transaction price agreed in the contract with the customer. While deferred payment terms may be agreed in rare circumstances, the deferral rarely exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component. The Group no longer utilises shared equity loan schemes for the sale of residential properties.

Proceeds from the sale of properties taken in part exchange is not included in revenue but is treated as a reduction in costs.

In order to recognise profit it is necessary to estimate the total costs of a development. These estimates take account of any uncertainties in the cost of work packages which have not yet been let and materials

which have not yet been procured and the expected cost of any rectification works during the defects liability period which is 12 months for commercial property and 24 months for residential property.

Profit is recognised by allocating the total costs of a scheme to each unit at a consistent margin. For mixed tenure schemes which also incorporate a construction contract, the margin recognised for the open market units is consistent with the construction contract element of the development.

(d) Contract costs

Costs to obtain a contract are expensed unless they are incremental, i.e. they would not have been incurred if the contract had not been obtained, and the contract is expected to be sufficiently profitable for them to be recovered.

Costs to fulfil a contract are expensed unless they relate to an identified contract, generate or enhance resources that will be used to satisfy the obligations under the contract in future years and the contract is expected to be sufficiently profitable for them to be recovered.

Where costs are capitalised, they are amortised over the shorter of the period for which revenue and profit can be forecast with reasonable certainty and the duration of the contract except where the contract becomes loss making. If the contract becomes loss making, all capitalised costs related to that contract are immediately expensed.

(e) Government grants

Funding received in respect of developer grants, where funding is awarded to encourage the building and renovation of affordable housing, is recognised as revenue on a stage of completion basis over the life of the project to which the funding relates.

Funding received to support the construction of housing where current market prices would otherwise make a scheme financially unviable is recognised as revenue on a legal completion basis when the properties to which it relates are sold.

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that the Group will comply with the conditions attached and the grants will be received.

(f) Leases

Where the Group is a lessee, a right-of-use asset and lease liability are recognised at the outset of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Group's expectations of the likelihood of lease extension or break options being exercised. The lease liability is subsequently adjusted to reflect imputed interest, payments made to the lessor and any lease modifications. The right-of-use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Group and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset. The right-of-use asset is subsequently depreciated in accordance with the Group's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

2 Revenue

An analysis of the Group's revenue which depicts the nature, timing and uncertainty of the different revenue streams is as follows:

	2018	2017
	£m	£m
Construction and design	**668.5**	807.3
Infrastructure	**674.2**	587.5
Construction and Infrastructure	**1,342.7**	1,394.8
Traditional fit out	**714.9**	616.5
Design and build	**116.5**	118.4
Fit Out	**831.4**	734.9
Property Services	**99.9**	66.2
Contracting	**296.6**	290.1
Mixed tenure	**222.3**	183.4
Partnership Housing	**518.9**	473.5
Urban Regeneration	**185.3**	175.3
Investments	**8.8**	10.6
Eliminations	**(15.5)**	(62.6)
Total revenue	**2,971.5**	2,792.7

3 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: delivers housing through mixed-tenure and contracting activities. Mixed tenure includes building and developing homes for open market sale, affordable rent, private renting or shared ownership in partnership with local authorities and housing associations. Contracting includes the design and build of new homes and planned maintenance and refurbishment for clients who are mainly local authorities, housing associations and the Defence Infrastructure Organisation.
- 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 long-term strategic partnerships to develop under-utilised public land across multiple sites, and generates development profits from such partnerships.

Notes to the consolidated financial statements
For the year ended 31 December 2018

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:

2018

	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	**1,329.8**	**830.0**	**99.9**	**517.7**	**185.3**	**8.8**	**-**	**-**	**2,971.5**
Inter-segment revenue	**12.9**	**1.4**	**-**	**1.2**	**-**	**-**	**-**	**(15.5)**	**-**
Total revenue	**1,342.7**	**831.4**	**99.9**	**518.9**	**185.3**	**8.8**	**-**	**(15.5)**	**2,971.5**
Operating profit/(loss) before amortisation of intangible assets	**27.0**	**43.8**	**2.0**	**12.2**	**19.6**	**(2.4)**	**(16.7)**	**-**	**85.5**
Amortisation of intangible assets	**-**	**-**	**(1.0)**	**-**	**-**	**-**	**-**	**-**	**(1.0)**
Operating profit/(loss)	**27.0**	**43.8**	**1.0**	**12.2**	**19.6**	**(2.4)**	**(16.7)**	**-**	**84.5**

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**

During the year ended 31 December 2018 and the year ended 31 December 2017, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

Notes to the consolidated financial statements
For the year ended 31 December 2018

4 Tax

	2018 **£m**	2017 £m
Current tax:		
Current year	**12.6**	11.0
Adjustment in respect of prior years	**(1.8)**	(0.2)
	10.8	10.8
Deferred tax:		
Current year	**2.8**	1.9
Adjustment in respect of prior years	**0.2**	(0.2)
	3.0	1.7
Tax expense for the year	**13.8**	12.5

Corporation tax is calculated at 19.00% (2017: 19.25%) 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:

	2018 **£m**	2017 £m
Profit before tax	**80.6**	64.9
Less: post tax share of profits from joint ventures	**(5.2)**	(4.1)
	75.4	60.8
UK corporation tax rate	**19.00%**	19.25%
Income tax expense at UK corporation tax rate	**14.3**	11.7
Tax effect of:		
Non-taxable income and expenses	**0.4**	0.4
Tax liability upon joint venture profits[1]	**0.7**	0.6
Adjustments in respect of prior years	**(1.6)**	(0.4)
Other	**-**	0.2
Tax expense for the year	**13.8**	12.5

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

5 Dividends

Amounts recognised as distributions to equity holders in the year:

	2018 **£m**	2017 £m
Final dividend for the year ended 31 December 2017 of 29.0p per share	**12.9**	-
Final dividend for the year ended 31 December 2016 of 22.0p per share	**-**	9.7
Interim dividend for the year ended 31 December 2018 of 19.0p per share	**8.6**	-
Interim dividend for the year ended 31 December 2017 of 16.0p per share	**-**	7.1
	21.5	16.8

The proposed final dividend for the year ended 31 December 2018 of 34.0p 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 20 May 2019 to shareholders on the register on 26 April 2019. The ex-dividend date is 25 April 2019.

6 Earnings per share

	2018	2017
	£m	£m
Profit attributable to the owners of the Company	**66.8**	52.4
Adjustments:		
Amortisation of intangible assets net of tax	**0.9**	1.0
Adjusted earnings	**67.7**	53.4
Basic weighted average ordinary shares (m)	**44.6**	44.1
Dilutive effect of share options and conditional shares not vested (m)	**2.4**	2.4
Diluted weighted average ordinary shares (m)	**47.0**	46.5
Basic earnings per share	**149.8p**	118.8p
Diluted earnings per share	**142.1p**	112.7p
Adjusted earnings per share	**151.8p**	121.1p
Diluted adjusted earnings per share	**144.0p**	114.8p

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 £13.20 (2017: £12.03). A total of 1,016,473 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 2018 (2017: 38,938).

7 Property, plant and equipment

			Right of use assets		
	Freehold property & land	Plant, equipment, fixtures & fittings	Leasehold property	Plant & equipment	Total
	£m	£m	£m	£m	£m
Cost					
1 January 2017	4.8	46.5	-	-	51.3
Additions	-	6.3	-	-	6.3
Transfers	(2.4)	-	-	-	(2.4)
Disposals	-	(2.1)	-	-	(2.1)
1 January 2018	**2.4**	**50.7**	**-**	**-**	**53.1**
Effect of change in accounting policy (note 1)	**-**	**-**	31.6	11.3	42.9
As restated	**2.4**	**50.7**	**31.6**	**11.3**	**96.0**
Additions	-	9.2	8.8	6.1	24.1
Disposals	-	(7.2)	(0.9)	(0.6)	(8.7)
31 December 2018	**2.4**	**52.7**	**39.5**	**16.8**	**111.4**
Accumulated depreciation					
1 January 2017	-	(34.7)	-	-	(34.7)
Depreciation charge	-	(5.6)	-	-	(5.6)
Disposals	-	1.6	-	-	1.6
1 January 2018	**-**	**(38.7)**	**-**	**-**	**(38.7)**
Depreciation charge	**-**	(6.3)	(6.9)	(5.3)	(18.5)
Disposals	**-**	7.0	0.9	0.5	8.4
31 December 2018	**-**	**(38.0)**	**(6.0)**	**(4.8)**	**(48.8)**
Net book value at 31 December 2018	**2.4**	**14.7**	**33.5**	**12.0**	**62.6**
Net book value at 31 December 2017	2.4	12.0	-	-	14.4

8 Shared equity loan receivables

	2018	2017
	£m	£m
1 January	**15.6**	18.4
Net change in fair value recognised in the income statement	**0.5**	0.5
Repayments by borrowers	**(3.1)**	(3.3)
31 December	**13.0**	15.6

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:

	2018	2017
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	**2.5%**	2.4%
Forecast default rate	**7.0%**	4.6%
Number of loans under the shared equity scheme outstanding at the year end	**396**	489

Sensitivity analysis

At 31 December 2018, 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 £0.2m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2018, 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).

9 Contract assets and liabilities

	2018		2017	
	Contract assets	**Contract liabilities**	Contract assets	Contract liabilities
	£m	**£m**	£m	£m
As at 1 January	**-**	**-**	-	-
Effect of change in accounting polices (note 1)	**178.2**	**(57.6)**	-	-
As restated at 1 January	**178.2**	**(57.6)**	-	-
Revenue recognised:				
- performance obligations satisfied in the current year	**2,910.1**	**57.6**	-	-
- adjustments to performance obligation satisfied in previous years	**3.8**	**-**	-	-
Cash received for performance obligations not yet satisfied	**-**	**(98.3)**	-	-
Amounts transferred to trade receivables	**(2,900.1)**	**-**	-	-
	192.0	**(98.3)**	-	-

10 Trade and other receivables

	2018	2017
	£m	£m
Amounts due from construction contract customers	**-**	174.2
Trade receivables	**207.6**	208.0
Amounts owed by joint ventures	**3.5**	2.1
Prepayments	**12.5**	10.2
Other receivables	**9.6**	9.6
	233.2	404.1

11 Trade and other payables

	2018	2017
	£m	£m
Amounts owed to construction contract customers	**-**	58.3
Trade payables	**174.7**	162.0
Amounts owed to joint ventures	**0.4**	0.2
Other tax and social security	**23.3**	37.5
Accrued expenses	**581.7**	573.3
Deferred income	**6.8**	2.7
Other payables	**10.9**	20.1
	797.8	854.1

12 Net cash

	2018	2017
	£m	£m
Cash and cash equivalents	**217.2**	221.2
Non-recourse project financing due in less than one year	**(8.6)**	(26.5)
Borrowings due within one year	**(1.6)**	(1.3)
Net cash	**207.0**	193.4

The Group's committed bank loan facilities of £180m were undrawn at 31 December 2018. Additional project finance borrowings of £8.6m (2017: £26.5m) were drawn from separate facilities to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

13 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 £48.2m (2017: £86.6m).

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'.

	2018	2017
	£m	£m
Short-term employee benefits	**8.7**	8.0
Post-employment benefits	**0.1**	0.1
Termination benefits	**0.2**	0.2
Share option expense	**3.2**	2.8
	12.2	11.1

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 21 February 2019.

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 21 February 2019.

14 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.

15 Subsequent events

There were no 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 2018. 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 21 February 2019 and is signed on its behalf by:

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