23 February 2017

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

The Construction & Regeneration Group

RESULTS FOR THE FULL YEAR (FY) ENDED 31 DECEMBER 2016

Strong FY 2016 profit growth
Increased confidence in outlook for FY 2017 and beyond

	FY 2016	FY 2015	Change
Revenue	£2,562m	£2,385m	+7%
Operating profit – adjusted[1]	£48.8m	£38.8m	+26%
Profit before tax – adjusted[1]	£45.3m	£34.3m	+32%
Earnings per share – adjusted[1]	84.7p	63.0p	+34%
Year end net cash	£209m	£58m	+£151m
Average daily net cash/(debt)	£25m	(£53m)	+£78m
Total dividend per share	35.0p	29.0p	+21%
Operating profit/(loss) – reported	£47.4m	(£10.3m)	
Profit/(loss) before tax – reported	£43.9m	(£14.8m)	
Basic earnings/(loss) per share – reported	83.8p	(22.6p)	

[1] *'Adjusted' is defined as before intangible amortisation (£1.4m) and (in the case of earnings per share) deferred tax credit (£0.7m) (FY 2015: before intangible amortisation (£2.2m), exceptional operating items (£46.9m) and (in the case of earnings per share) deferred tax credit (£1.7m))*

FY 2016 summary:

- Group adjusted profit before tax up 32% to £45.3m (FY 2015: £34.3m)
- Significant improvement in cash performance; net cash of £209m and daily average net cash of £25m
- Order book up 29% to £3.6bn
- Total dividend up 21% to 35.0p per share
- Divisional performances:
    - Regeneration strategy delivering strong growth; Partnership Housing operating profit up 40% to £13.4m; further good contribution from Urban Regeneration with operating profit of £13.4m
    - Another excellent performance from Fit Out; operating profit up 15% to £27.5m and further margin progression, up to 4.3% (FY 2015: 4.0%). Record order book at year end
    - Continued operational improvement in Construction & Infrastructure; operating margin up to 0.7% and adjusted operating profit of £8.9m
    - First full year profit in Property Services; operating profit of £0.7m compared to prior year loss of £1.0m

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

"These results demonstrate the considerable strategic and operational progress made in the Group over the last few years and the underlying quality of the business.

The UK is struggling to cope with the increasing demand for affordable housing and there is a clear need for Government to deliver urban regeneration and infrastructure investment to support future economic growth. Morgan Sindall Group has strong established positions in these markets, and the balance sheet and cash position to fund further investment and growth.

From this strong base, we are confident in the outlook and expect the positive momentum across the Group to continue through 2017 and beyond. With significant opportunities in Partnership Housing, the continued improvement in operational delivery in Construction & Infrastructure, and the size and quality of our secured order book in Fit Out and elsewhere across the Group, we are well-placed to deliver a result for the year which is slightly above our previous expectations."

Enquiries

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Presentation

- There will be an analyst and investor presentation at 08.30 at Numis Securities Limited, the London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. Coffee and registration will be from 08.15
- A copy of these results is available at www.morgansindall.com
- Today's presentation will be available via live webcast from 08.30 at www.morgansindall.com. A recording will also be available via playback in the afternoon.

Note to Editors

Morgan Sindall Group

Morgan Sindall Group plc is a leading UK Construction & Regeneration group with annual revenue of £2.6bn, employing around 6,000 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 and is geared toward the increasing demand for affordable housing, urban regeneration and infrastructure investment.

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

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

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

Additionally, the Group has a presence in Property Services while the Investments business acts as a facilitator and provides opportunities across construction and regeneration activities.

Group Structure

Under the two business activities of **Construction** and **Regeneration**, we are 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; focused on the education, healthcare, defence, commercial, industrial, leisure and retail markets in Construction
- ***Fit Out***: Focused on the fit out of office space with opportunities in commercial, central and local government offices, further education and retail banking
- ***Property Services***: Focused on response maintenance activities provided to the social housing, insurance and general commercial sectors

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 strategic partnerships to develop under-utilised property assets.

Basis of Preparation

For 2016, the term 'adjusted' excludes the impact of intangible amortisation of £1.4m and (in the case of earnings per share) a deferred tax credit of £0.7m.

For 2015, the term 'adjusted' excludes the impact of intangible amortisation of £2.2m, exceptional operating items of £46.9m and (in the case of earnings per share) a deferred tax credit of £1.7m.

Group Operating Review

2016 has been a year of strong growth for the Group, with strategic and operational progress being made across all divisions.

Revenue for the year was up 7% at £2,562m (FY 2015: £2,385m), with adjusted operating profit up 26% to £48.8m (FY 2015: £38.8m). This resulted in an adjusted operating margin of 1.9%, an improvement of 30bps compared to the prior year and an improvement of 60bps on the 2014 result. The net finance expense reduced to £3.5m (FY 2015: £4.5m) due to a lower interest charge on borrowings and after deducting this, the adjusted profit before tax was £45.3m, up 32% (FY 2015: £34.3m). The corresponding increase in adjusted earnings per share was 34%, up to 84.7p (FY 2015: 63.0p), with the fully diluted adjusted earnings per share of 82.3p up 32% (FY 2015: 62.2p).

Each of the divisions contributed to this overall result and their performance was in line with their strategic objectives. In Construction & Infrastructure, focus has been on improving operational delivery and the quality of work secured. This has resulted in the continued gradual improvement in operating margin, which was up to 0.7% in the year (FY 2015: 0.3%) and in adjusted operating profit up to £8.9m (FY 2015: £3.8m). Fit Out had another excellent year, with both revenue and margins improving on a strong prior year result, with operating profit up 15% to £27.5m (FY 2015: £24.0m) and margin increasing to 4.3% (FY 2015: 4.0%). As expected, Property Services delivered its first annual profit, benefiting from the emphasis on improved contract management, to give adjusted operating profit for the year of £0.7m (FY 2015: loss of £1.0m).

Of the Group's regeneration divisions, the strategic focus on its mixed-tenure partnership activities helped Partnership Housing deliver good growth, with operating profit up 40% to £13.4m (FY 2015: £9.6m). Urban Regeneration also reported operating profit of £13.4m (FY 2015: £12.9m), which represented a return on capital employed[1] of 15% and was derived from a mix of phased completions across its development portfolio.

The year has also been successful in terms of winning new work for future delivery. The secured order book for the Group at the year end grew to £3,637m, an increase of 29% compared to the prior year and an increase of 16% on the half year position. Within this, Fit Out ended the year with a record order book of £466m, Property Services' order book was up 90% to £687m, while Construction & Infrastructure and Partnership Housing increased their order books by 18% and 30% respectively.

The regeneration & development pipeline also grew, up 2% to £3,210m. The Group continues to pursue regeneration opportunities which will contribute to the pipeline in 2017 and beyond, with significant opportunities identified in Partnership Housing and Urban Regeneration.

During the first half of the year, commercial settlement was reached on the second of the two old construction contracts identified in 2013, both of which were transferred to the Group as part of the acquisition of the design and project services division of Amec in 2007. The first of these contracts reached commercial settlement in 2015. The commercial settlement was in line with the previously estimated position and therefore had no impact on the reported results.

The statutory profit before tax was £43.9m compared to a statutory loss before tax in the prior year of £14.8m. The prior year loss included exceptional operating items of £46.9m. The tax charge for the year is £7.1m, which broadly equates to the UK statutory rate after adjusting for the impact of tax on joint ventures and for the deferred tax effect of future reductions in the UK statutory rate.

The cash performance of the Group has also been strong. At the year end, the Group had net cash of £209m (FY 2015: £58m), an improvement of £151m. This included the benefit of a significant number of completions on regeneration schemes in Partnership Housing in the latter stages of the year. The average daily net cash for the year was £25m, a significant improvement of £78m on the prior year, and was due to overall better working capital management and the phasing of scheme completions and commencements in Partnership Housing and Urban Regeneration. Based upon current plans and phasing for investment in the regeneration activities and the forecasts for cash generation of the construction activities, the Group expects an overall average daily net cash position for 2017.

The total dividend for the year has been increased by 21% to 35.0p per share (FY 2015: 29.0p), which includes a proposed increase in the final dividend of 29% to 22.0p per share (FY 2015: 17.0p), reflecting the improved result in the year and the Board's confidence in the future prospects of the Group.

[1] As defined below in the business review for Urban Regeneration

Outlook

The UK is struggling to cope with the increasing demand for affordable housing and there is a clear need for Government to deliver urban regeneration and infrastructure investment to support future economic growth. Morgan Sindall Group has strong established positions in these markets, and the balance sheet and cash position to fund further investment and growth.

From this strong base, we are confident in the outlook and expect the positive momentum across the Group to continue through 2017 and beyond. With significant opportunities in Partnership Housing, the continued improvement in operational delivery in Construction & Infrastructure, and the size and quality of our secured order book in Fit Out and elsewhere across the Group, we are well-placed to deliver a result for the year which is slightly above our previous expectations.

Business Review

The following Business Review is given on an adjusted basis, unless otherwise stated.

Headline results by business segment

	Revenue		Operating Profit/(Loss)		Operating Margin	
	£m	change	£m	change	%	change
Construction & Infrastructure	1,321	+7%	8.9	+134%	0.7%	+40bps
Fit Out	634	+4%	27.5	+15%	4.3%	+30bps
Property Services	55	-8%	0.7	+170%	1.3%	+300bps
Partnership Housing	433	+18%	13.4	+40%	3.1%	+50bps
Urban Regeneration	156	+42%	13.4	+4%	n/a	n/a
Investments	15	n/a	(2.0)	n/a	n/a	n/a
Central/Eliminations	(52)		(13.1)			
Total	**2,562**	**+7%**	**48.8**	**+26%**	**1.9%**	**+30bps**

Order book and regeneration & development pipeline

The Group's committed order book* at 31 December 2016 was £3,637m, an increase of 29% from the previous year end. The divisional split is shown below.

	FY 2016 £m	FY 2015 £m	Change
Construction & Infrastructure	1,886	1,595	+18%
Fit Out	466	341	+37%
Property Services	687	361	+90%
Partnership Housing	445	342	+30%
Urban Regeneration	203	218	-7%
Investments	16	17	-6%
Inter-divisional eliminations	(66)	(48)	
Group committed order book	**3,637**	**2,826**	**+29%**

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

In addition, the Group's regeneration & development pipeline** was £3,210m, an increase of 2% on the previous year end.

	FY 2016 £m	FY 2015 £m	Change
Partnership Housing	764	782	-2%
Urban Regeneration	2,233	2,181	+2%
Investments	213	196	+9%
Group regeneration & development pipeline	**3,210**	**3,159**	**+2%**

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

Construction & Infrastructure

	FY 2016 £m	FY 2015 £m	Change
Revenue	1,321	1,232	+7%
Operating profit - adjusted	8.9	3.8	+134%
Operating margin - adjusted	0.7%	0.3%	+40bps

"Significant progress has been made in the year, with the overall focus remaining on safety, contract selection and project delivery."

Revenue of £1,321m was up 7% on the prior year (FY 2015: £1,232m). Split by type of activity, ***Construction*** *(which includes Design)* accounted for 60% of divisional revenue at £788m, which was up 16% compared to the prior year, while ***Infrastructure*** was 40% of divisional revenue at £533m, down 3% on the prior year.

The operating margin of 0.7% was up from 0.3% in the prior year and resulted from a continual improvement in performance throughout the year. The second half margin of 0.8% compared favourably to the first half margin of 0.5% and reflected further progress towards delivering more normalised margins for the division. ***Infrastructure*** delivered an operating margin of c1.6%, while ***Construction*** was broadly break-even.

The division has performed well in securing new business which provides a platform for its future growth plans. Its committed order book at the year end was £1,886m, up 18% compared to the prior year end. This increase was driven by a very strong performance in ***Infrastructure***, where the order book increased by 53% against the prior year to £1,296m (69% of divisional total order book). The ***Construction*** order book was £590m, a reduction of 21% against the prior year end.

Construction

Construction has continued its focus on quality of earnings and bidding disciplines to ensure that projects won have an appropriate risk profile and terms for future sustainable growth. Of the Construction order book, 88% by value came through negotiated/framework/two-stage bidding procurement processes, with 12% from competitive tender processes. Although the total value of the Construction order book has reduced, this is more than offset by the significant amount of pipeline opportunities where the division is preferred bidder. These do not meet the strict criteria for inclusion in the order book.

In *Education*, key completions during the year include the £15.8m Centre for Sustainable Chemistry for the University of Nottingham while work continued on the construction and upgrade of six schools for the London Borough of Southwark's School Framework to which the division was originally appointed in January 2015.

In *Healthcare*, the £60m Spire Nottingham Hospital project in Tollerton, a modern and technically advanced hospital set in seven acres of landscaped gardens is underway.

In *Defence*, work has continued on the £90m contract for BAE Systems to develop the industrial facilities at their submarine building site in Barrow-in-Furness and the £39m training facility for the Civil Nuclear Constabulary in West Cumbria.

Other significant ongoing projects include the £70m scheme to transform Lambeth's Town Hall and civic buildings for Urban Regeneration and project partner Lambeth Council, as well as the £107m mixed-use scheme at Marischal Square in Aberdeen also for Urban Regeneration. In addition, a design & build project for BUPA UK is currently underway to see the creation of its flagship office overlooking Salford Quays, while work is concluding on the £30m redevelopment of 55 Colmore Row, an office building in Birmingham's city centre.

Infrastructure

Infrastructure has maintained its focus on its key sectors of Highways, Rail, Aviation, Energy, Water and Nuclear. The significant increase in Infrastructure's secured order book across these sectors underpins the future growth of the business and its appointment to some high profile UK infrastructure projects reflects the capabilities and skills of the division. Key projects include:

- The Central Enabling Works for High Speed Two (HS2), to be undertaken in joint venture and which will be worth up to £100m to the division over a four-year period;

- A five year contract extension to the Infrastructure Strategic Alliance (ISA) which was originally awarded in joint venture in 2012 to provide essential infrastructure assets for the next phase of the Sellafield site in Cumbria. This is the first renewal of a contract which has the potential for further extension periods up to a total life of 15 years and with a total value of up to £1.1bn. The current extension takes the contract through to 2022;

- An extension to its existing contract with Heathrow Airport, which was initially awarded in 2014 to deliver a £3bn programme of upgrades alongside four partners. The extension takes the contract through to 2020;

- The appointment to London Underground's £350m 'future stations' Civils and Tunnelling Works framework, in joint venture, which will be delivered over an eight-year period.

Following the year end (and therefore not included in the year end order book), the Infrastructure business was awarded one of three places on Transport for London's (TfL) Surface Transport Major Projects Framework. This is a four-year framework anticipated to be worth £500m between the three appointed contractors.

During the first half of the year, commercial settlement was reached on the second of the two old construction contracts identified in 2013, both of which were transferred to the Group as part of the acquisition of the design and project services division of Amec in 2007. The first of these contracts reached commercial settlement in 2015. The commercial settlement was in line with the previously estimated position and therefore had no impact on the reported results.

Looking ahead, the division will continue to focus on improving the quality of earnings rather than revenue growth and on growing its margin back to normalised levels over the medium term. For ***Construction***, the medium-term target margin is set at 2%. For ***Infrastructure***, the medium-term target margin is set at 2.5%. 2017 is expected to show further margin growth progression towards these medium-term targets and the nature and quality of work in the secured order book provides the platform to deliver this.

Fit Out

	FY 2016 £m	FY 2015 £m	Change
Revenue	634	607	+4%
Operating profit - adjusted	27.5	24.0	+15%
Operating margin - adjusted	4.3%	4.0%	+30bps

"An excellent year for Fit Out, with further progress made on margin improvement through a relentless focus on superior project delivery."

Revenue for the year was up 4% to £634m (FY 2015: £607m) with operating profit up 15% to £27.5m (FY 2015: £24.0m) and operating margin increasing to 4.3% (FY 2015: 4.0%).

There was little change to the geographic mix of work undertaken during the year, with the London region remaining the largest geographic market accounting for 65% of revenue (FY 2015: 67%). Likewise, the split between the type of work undertaken remained consistent with previous years; 81% of revenue was traditional fit out work (FY 2015: 82%), compared to 19% 'design & build' (FY 2015: 18%). No significant change to the geographic mix or the type of work is expected in the future, these being Fit Out's core markets and competences.

The balance of work, however, increased slightly towards the fit out of existing office space at 82% of revenue (FY 2015: 73%) (and which includes 68% refurbishment 'in occupation'), with the remaining 18% being related to new office fit out (FY 2015: 27%).

The commercial office sector remains the division's main market providing 86% of revenue (FY 2015: 83%), with higher education the next largest sector at 6% of revenue. Retail banking accounted for 2% of revenue while other sectors including government and local authority work made up the balance.

Further improved operational processes and efficiencies in contract delivery supported the increase in the operating margin, up 30bps to 4.3% (FY 2015: 4.0%).This reflects the benefit from the ongoing investment in operational training and in enabling technology solutions available to on-site teams.

The order book has grown significantly during the year. At the year end, the secured order book was £466m, an increase of 37% on the prior year end and importantly, an increase of 25% from the position at the half year. This is a record high for the division. Of this total amount, £410m (88%) relates to 2017 and provides much greater visibility of future workload than in previous years.

Significant project wins in the year include the fit out of a 265,000 sq ft building for Deloitte in London, one of the first projects in the UK to target both a BREEAM Outstanding rating and a WELL Building Standard Gold certificate. In addition, the division was contracted to fit out 315,000 sq ft of office space for Schroder Corporate Services in London and as well as further commercial space for Schroders Real Estate Investment Management in Manchester's City Tower. Other projects include an £8m fit out for AECOM in Aldgate Tower, London; a £2.7m project completed at the Queen Elizabeth II Centre in London and a contract to refurbish Bristol City Council's newly acquired office at 100 Temple Street.

With the size and quality of the order book together with the division's ongoing focus on contract delivery, 2017 is expected to be another strong year. The medium-term target is to maintain market position, which is expected to deliver performance levels consistently within a range around current levels of operational and financial performance.

Property Services

	FY 2016 £m	FY 2015 £m	Change
Revenue	55	60	-8%
Operating profit/(loss) - adjusted	0.7	(1.0)	+170%
Operating margin - adjusted	1.3%	-1.7%	+300bps

"Efficiencies from improved contract and overhead management have helped Property Services to deliver its first full year profit."

Property Services delivered a profit of £0.7m which was ahead of its previous target of achieving break-even in 2016 and compares to a number of consecutive years of losses, the most recent being a loss of £1.0m in 2015. The division now has an established and proven business model and a stable operational platform from which to grow. Future revenue and margin growth will be driven primarily by new contracts won.

The committed order book has increased significantly, up 90% to £687m since the prior year end. In housing, new strategic asset management contracts include a £300m contract for Basildon Borough Council which commenced in July 2016 and is expected to generate between £20m and £25m of revenue p.a. including £2m p.a. of facilities management work. The Basildon contract is for 10 years with a potential five-year extension and is the largest contract secured by the business to date.

In addition, a £5m five-year contract with Ability Housing was secured to provide asset management services for more than 700 homes across London and the South East, and an existing contract with King Street Housing was extended to cover over 800 homes in Cambridge. New planned works include a four-year electrical specialist contract with Hackney Council with the possibility to extend to eight years and a potential value of up to £56m. The division was also one of four contractors selected for a four-year framework with A2Dominion worth up to £8m to deliver planned refurbishment works to properties in the Winchester area. In addition, it secured positions on two new frameworks for Camden Council: its £140m, four-year 'Better Homes' framework, of which four projects worth c£6m have so far been secured, and an electrical framework which has a potential value of c£11m over four years.

Based on the current order book and identified market opportunities, further revenue and profit growth is expected in 2017. The medium-term target is to improve the operating margin up to at least 3% which will be generated by the operational leverage impact of additional volumes from new work and continuous improvement in contract management.

Partnership Housing

	FY 2016 £m	FY 2015 £m	Change
Revenue	433	366	+18%
Operating profit - adjusted	13.4	9.6	+40%
Operating margin - adjusted	3.1%	2.6%	50bps
Average capital employed[1] (last 12 months)	110.8	117.4	
Capital employed[1] at year end	63.9	113.0	

"The significant increase in profit supports our view of the size of the market opportunity for Partnership Housing."

Revenue of £433m was up 18% in the year. Growth was primarily driven by the mixed-tenure activities, where revenue was up 38% at £204m (47% of total revenue). Revenue in the contracting activities (including planned maintenance & refurbishment) increased by 5% to £229m (53% of revenue). Operating profit increased significantly to £13.4m, up 40% and resulted in an operating margin of 3.1%, up 50bps on the prior year.

The average capital employed for the last 12 month period ('LTM') was £110.8m, with an LTM Return On Average Capital Employed[2] (ROCE) of 12%. Capital employed at the period end was low, at £63.9m, reflecting the significant level of sales activity in the fourth quarter of the year. It is expected that the level of capital employed will increase over the course of 2017 to above prior year levels, with the intention to increase capital employed to in excess of £120m.

On the mixed-tenure side of the business, 1,060 units were completed across the open market sales and the social housing element of mixed-tenure at an average sales price of £192k (FY 2015: £162k).

A number of key projects have commenced in the year including the start of construction at Trinity Walk (the first of the three estates being regenerated as part of the £384m Trinity Woolwich project in partnership with Greenwich Borough Council and asra Housing Group).

In addition, a 600-home development at Kings Lynn in Norfolk has commenced with its first phase, Marsh Lane, containing 110 units, while works have started via the Compendium Living joint venture (with Riverside Housing Association) on a housing development in the Ings area in partnership with Hull City Council. An early commencement agreement was signed on the mixed-tenure development of 800 homes at The Mill in Canton, Cardiff with work due to start on site in January 2017 while at Mollins Gate in Moodiesburn, work began on a £6m development which will create 55 affordable and open market homes in North Lanarkshire in partnership with Link Group Ltd.

In mixed-tenure, the regeneration & development pipeline decreased 2% to £764m while the secured order book for the contracting element in mixed-tenure increased 26% to £140m.

On the contracting side of the business, the secured order book increased 32% to £305m. In addition to this, the division has been selected as preferred bidder for the development of c900 homes at Salisbury Plain by the Defence Infrastructure Organisation, which will be developed on three sites and will house service families returning from Germany. The contract sum will likely be c£200m, with building work taking 2½ years to complete. The award followed on from the successful project at MOD Stafford where the division delivered 346 homes for service families in just over a year.

In planned maintenance & refurbishment works, noteworthy new contracts secured in the year include £2.5m p.a. of housing improvements for Nuneaton & Bedworth Borough Council, a £2.4m refurbishment contract for Sandwell Metropolitan Borough Council, a £7.5m refurbishment programme in Coventry for Whitefriars Housing, the remodelling of an apartment block for Kettering Borough Council (£1.3m), £4m of negotiated works under a framework for Northampton Partnership Homes, and £1.8m of retained works under an existing contract with North West Leicestershire District Council.

Partnership Housing has seen a sizeable increase in its dialogue with Local Authorities and Housing Associations on opportunities for future land and development partnerships and the business is well-positioned to support the UK's current and future affordable housing and regeneration needs. Based on current market conditions and the number of active developments, 2017 is expected to be a further year of revenue and profit growth. The medium-term target for the division is to generate a ROCE in excess of 20%.

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

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

Urban Regeneration

	FY 2016 £m	FY 2015 £m	Change
Revenue	156	110	+42%
Operating profit - adjusted	13.4	12.9	+4%
Average capital employed[1] (last 12 months)	80.0	76.2	
Capital employed[1] at year end	68.9	76.6	

"Urban Regeneration has a strong visible pipeline of future regeneration opportunities."

Urban Regeneration delivered an operating profit for the year of £13.4m, up 4% on the prior year. As expected, performance was weighted to the second half due to the phased timing of scheme completions.

Capital employed at the year end was £68.9m. Average capital employed for the last 12 month period was £80.0m, with an LTM ROCE[2] of 15.0%. The average LTM ROCE over the previous three years is 15.4%. The average capital employed for the year was lower than previously anticipated due to a combination of earlier than expected completions; the revised phasing of construction in the ordinary course; and alternative funding structures used on certain regeneration schemes. Based on the current forecasts of phasing of schemes, capital employed is expected to increase up to in excess of £90m in 2017.

During the year, good progress was made on the division's development portfolio to enhance town centres around the UK. There were a number of contributors to the overall performance of the division, which included a total of 566 (FY 2015: 745) residential sales completions. The regeneration at Lewisham Gateway was the largest contributor to profit in the year, where two residential buildings were completed with all 193 units pre-sold.

Other highlights in the year included; the completion of the second phase at the £145m regeneration scheme Stockport Exchange, which comprised a new 50,000 sq ft office building, 115-bed Holiday Inn Express, public space and highways improvements; the first phase of development at the £100m South Shields 365 regeneration project, including a new library and digital media centre; and in Warrington, as part of the Bridge Street Quarter regeneration, a temporary market hall was built to accommodate the town's market while the original building is refurbished and construction began on a new multi-storey car park. Additionally, in Manchester, the completion and letting of the Grade II listed Mackie Mayor building marked the seventh and final phase of the regeneration of Smithfield, while the new customer delivery hub was handed over to John Lewis at the flagship £100m manufacturing and distribution development Logic Leeds. In London, legal agreements were completed with Lambeth Council and construction commenced (by Construction & Infrastructure) on a £160m regeneration project in Brixton including the refurbishment of the Grade II listed Town Hall and construction of new civic offices.

Through the English Cities Fund – a joint venture with Legal and General and the Homes and Communities Agency – work continued to transform five regional towns and cities, with the major office development at One New Bailey, Salford and phase three of Canning Town in London completed during the year.

The regeneration and development pipeline has increased 2% to £2.2bn and has a broad and balanced geographic and sector split:

- By value, 38% of the pipeline is in the South East & London, 30% in the North West, 16% in Yorkshire and the North East, 13% in the South West and 3% in Scotland

- By sector, 46% by value relates to Residential, 32% to Offices with the remainder broadly split between Retail, Leisure, and Industrial

Looking ahead to 2017, there will be a significant amount of activity across the development portfolio with c£380m of construction work currently on site and a further c£380m of construction work expected to be awarded by the division over the next 12 months. However, despite this high level of construction activity, a lower level of actual scheme completions is expected in 2017 which will result in lower profits and returns in the year. Instead, the benefits of the current activity across the portfolio are expected to be reflected in a significant increase in profits in 2018 and beyond. The medium-term target for the division is to increase ROCE up towards 20%.

[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). At the period end, non-recourse debt was £4.8m (FY 2015: £12.8m) and deferred consideration was £7.5m (FY 2015: £14.0m). LTM average non-recourse debt was £14.7m (FY 2015: £18.6m) and LTM average deferred consideration was £11.4m (FY 2015: £13.8m).

[2] LTM 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). LTM interest and fees on non-recourse debt was £1.1m (FY 2015: £1.4m) and the unwind of discount on deferred consideration was £0.3m (FY 2015: £0.4m).

Investments

	FY 2016 £m	FY 2015 £m	Change
Operating loss - adjusted	(2.0)	(1.5)	n/a

"Through its established track record of working with local authorities, Investments continues to unlock opportunities to provide high quality work for the rest of the Group."

The strategic rationale for Investments is to secure prime long-term construction and regeneration opportunities for other divisions and to create additional value for the Group from capital employed in these schemes. During the year, c£130m of construction and regeneration work on schemes sourced by Investments was delivered across the Group (primarily by Construction & Infrastructure). A further c£50m of work was secured for future delivery.

The loss of £2.0m in the year reflected the timing of developments and deferral of income therefrom. Project completions in the year include The Curve building at Slough containing an £18m library and community centre which was delivered through the division's joint venture property partnership with Slough Borough Council. Other activity undertaken by the joint venture included work on the £12m Arbour Park community sports facility and progress on construction and sales at the residential site at Milestone (in conjunction with Partnership Housing). Additionally, in Bournemouth, through a joint venture property partnership with Bournemouth Borough Council, progress was made with the potential Private Rental Sector funded residential development at Berry Court and with planning permission now secured on a second residential development at St Stephen's Road.

In education, seven primary schools and one secondary school were handed over on the Priority Schools Building Programme North West Batch, with a further two delivered through the division's 'hub West Scotland' joint venture: Lenzie Meadow Primary School phase one and Bellsmyre Primary School, each involving the merger of two schools. In health, hub West Scotland delivered the £14m Eastwood and £11m Maryhill Health and Care Centres, providing the local communities with access to a wide range of services under one roof.

Following the year end, Investments secured a new source of funding for its HB Villages joint venture, a specialist developer of purpose built supported independent living apartments. The funding is through a strategic joint venture partnership with the Universities Superannuation Scheme (USS), one of the largest private pension schemes in the UK. USS has provided a capital fund in advance of new programmes being developed, which can be drawn on to finance projects as they arise. It will commit £100m to the joint venture which will be used to finance and invest in supported living developments throughout the UK. Investments will act as asset, property and portfolio manager to the joint venture through an asset management agreement. To date, the HB Villages joint venture has successfully delivered almost £70m of apartments in over 30 towns across England, a substantial proportion of which were built by either Construction & Infrastructure or Partnership Housing. It currently has a pipeline of a further £100m either in construction or planning.

Other Financial Information

1. Net finance expense. Net finance expense was £3.5m, a £1.0m decrease versus FY 2015 which is broken down as follows:

	FY 2016 £m	FY 2015 £m	% change
Net interest charge on net debt	(1.8)	(2.9)	+38%
Amortisation of bank fees & non-utilisation fees	(2.1)	(2.0)	-5%
Interest from JVs	1.1	0.9	+22%
Other	(0.7)	(0.5)	-40%
Total net finance expense	**(3.5)**	**(4.5)**	**+22%**

2. Tax. A tax charge of £7.1m is shown for the year (FY 2015: credit of £4.8m).

	FY 2016 £m	FY 2015 £m
Profit/(loss) before tax	43.9	(14.8)
Less: share of net profit in taxed joint ventures[#]	(7.4)	(9.6)
Profit/(loss) before tax excluding joint ventures	**36.5**	**(24.4)**
Statutory tax rate	20.0%	20.25%
Current tax (charge)/ credit at statutory rate	**(7.3)**	**4.9**
Tax on joint venture profits[#]	(1.2)	(1.7)
Effect of tax rate change on deferred tax	0.7	1.7
Other adjustments	0.7	(0.1)
Tax (charge)/credit	**(7.1)**	**4.8**

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

3. Net working capital. 'Net Working Capital' is defined as 'Inventories plus Trade & Other Receivables, less Trade & Other Payables' adjusted as below and is stated on a constant currency basis.

	FY 2016 £m	FY 2015 £m	Change £m
Inventories	213.9	246.7	-32.8
Trade & Other Receivables[1]	329.6	352.2	-22.6
Trade & Other Payables[2]	(747.1)	(677.3)	-69.8
Net working capital	**(203.6)**	**(78.4)**	**-125.2**

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

4. Cash flow. Operating cash flow was an inflow of £179.9m (FY 2015: inflow of £5.1m). Free cash flow was an inflow of £173.7m (FY 2015: outflow of £0.9m).

	FY 2016 £m	FY 2015 £m
Operating profit - adjusted	**48.8**	**38.8**
Depreciation	5.5	5.5
Share option expense	4.6	2.0
Movement in fair value of shared equity loans	(0.6)	(1.4)
Share of net profit of joint ventures	(7.4)	(9.6)
Other operating items [1]	5.9	0.4
Change in working capital	125.2	(23.3)
Net capital expenditure (including repayment of finance leases)	(4.4)	(8.9)
Dividends and interest received from joint ventures	2.3	1.6
Operating cash flow	**179.9**	**5.1**
Income taxes paid	(3.3)	(1.7)
Net interest paid (non-joint venture)	(2.9)	(4.3)
Free cash flow	**173.7**	**(0.9)**

[1] 'Other operating items' includes provision movements (£1.8m), shared equity redemptions (£2.5m), investment property disposals (£2.2m), less additional pension contributions (£0.4m) and gains on disposals (£0.2m)

5. Net cash. Net cash at the end of the year was £208.7m, as a result of a net cash inflow of £150.8m from 1 January 2016.

	£m
Net cash as at 1 January 2016	**57.9**
Free cash flow (as above)	173.7
Dividends	(13.2)
Other[1]	(9.7)
Net cash as at 31 December 2016	**208.7**

[1] 'Other' includes net loans advanced to JVs (£0.4m), deferred consideration paid to acquire an additional interest in a JV (£7.5m), proceeds from issue of new shares (£1.7m), purchase of shares in the Company by the employee benefit trust (£3.3m) and payment to acquire an additional interest in a subsidiary (£0.2m)

6. Capital employed by strategic activity. An analysis of the negative capital employed in the **Construction** activities shows a decrease of £57.0m since the previous year, split as follows:

Capital employed[1] in Construction	**FY 2016 £m**	**FY 2015 £m**	**Change £m**
Construction & Infrastructure	(226.3)	(168.8)	-57.5
Fit Out	(47.3)	(47.6)	+0.3
Property Services	5.1	4.9	+0.2
	(268.5)	**(211.5)**	**-57.0**

An analysis of capital employed in the **Regeneration** activities shows a decrease of £56.8m since the previous year, split as follows:

Capital employed in Regeneration	FY 2016 £m	FY 2015 £m	Change £m
Partnership Housing[2]	63.9	113.0	-49.1
Urban Regeneration[2]	68.9	76.6	-7.7
	132.8	**189.6**	**-56.8**

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

7. Dividends. The Board of Directors has proposed a final dividend of 22.0p per share (FY 2015: 17.0p), up 29.4% on the prior year. This will be paid on 22 May 2017 to shareholders on the register at 28 April 2017. The ex-dividend date will be 27 April 2017.

8. Board change. Liz Peace has informed the Board that she will step down as a non-executive director at the AGM on 4 May 2017 and therefore will not offer herself for re-election. A separate announcement has been made on this today.

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 2016

	Notes	**2016**	2015		
		Total	Before exceptional items	Exceptional operating items	Total
		£m	£m	£m	£m
Revenue		**2,561.6**	2,384.7	-	2,384.7
Cost of sales		**(2,317.9)**	(2,171.5)	(46.9)	(2,218.4)
Gross profit		**243.7**	213.2	(46.9)	166.3
Administrative expenses		**(202.3)**	(184.0)	-	(184.0)
Share of net profit of joint ventures		**7.4**	9.6	-	9.6
Operating profit/(loss) before amortisation of intangible assets		**48.8**	38.8	(46.9)	(8.1)
Amortisation of intangible assets		**(1.4)**	(2.2)	-	(2.2)
Operating profit/(loss)		**47.4**	36.6	(46.9)	(10.3)
Finance income		**1.3**	1.2	-	1.2
Finance expense		**(4.8)**	(5.7)	-	(5.7)
Profit/(loss) before tax		**43.9**	32.1	(46.9)	(14.8)
Tax	4	**(7.1)**	(4.7)	9.5	4.8
Profit/(loss) for the year		**36.8**	27.4	(37.4)	(10.0)
Attributable to:					
Owners of the Company		**36.8**	27.5	(37.4)	(9.9)
Non-controlling interests		**-**	(0.1)	-	(0.1)
Profit/(loss) for the year		**36.8**	27.4	(37.4)	(10.0)
Earnings/(loss) per share					
Basic	6	**83.8p**			(22.6p)
Diluted	6	**81.4p**			(22.3p)

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

Consolidated statement of comprehensive income
For the year ended 31 December 2016

	2016 **£m**	2015 £m
Profit/(loss) for the year	**36.8**	(10.0)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain/(loss) arising on retirement benefit obligation	**0.7**	(0.1)
Deferred tax on retirement benefit obligation	**(0.1)**	(0.1)
	0.6	(0.2)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange movement on translation of overseas operation	**0.6**	(0.4)
Other movement on cash flow hedges	**0.8**	0.2
Deferred tax relating to items that may be reclassified	**(0.2)**	-
	1.2	(0.2)
Other comprehensive income/(expense)	**1.8**	(0.4)
Total comprehensive income/(expense)	**38.6**	(10.4)
Attributable to:		
Owners of the Company	**38.6**	(10.3)
Non-controlling interests	**-**	(0.1)
Total comprehensive income/(expense)	**38.6**	(10.4)

Consolidated balance sheet
At 31 December 2016

	Notes	**2016 £m**	2015 £m
Assets			
Goodwill and other intangible assets		**217.0**	217.3
Property, plant and equipment		**16.6**	20.8
Investment property		**6.6**	8.8
Investments in joint ventures		**56.9**	50.3
Shared equity loan receivables	7	**18.4**	20.3
Retirement benefit asset		**2.6**	1.4
Non-current assets		**318.1**	318.9
Inventories		**213.9**	246.7
Trade and other receivables	8	**332.8**	353.6
Cash and cash equivalents	9	**228.5**	115.7
Current assets		**775.2**	716.0
Total assets		**1,093.3**	1,034.9
Liabilities			
Trade and other payables	11	**(748.3)**	(674.5)
Current tax liabilities		**(7.7)**	(3.5)
Finance lease liabilities		**(0.5)**	(1.6)
Borrowings	9	**(4.8)**	(12.8)
Provisions		**-**	(0.1)
Current liabilities		**(761.3)**	(692.5)
Net current assets		**13.9**	23.5
Trade and other payables		**(8.6)**	(17.8)
Finance lease liabilities		**(0.7)**	(1.8)
Borrowings	9	**(15.0)**	(45.0)
Deferred tax liabilities		**(11.7)**	(11.9)
Provisions		**(18.8)**	(16.9)
Non-current liabilities		**(54.8)**	(93.4)
Total liabilities		**(816.1)**	(785.9)
Net assets		**277.2**	249.0
Equity			
Share capital		**2.2**	2.2
Share premium account		**33.7**	32.0
Other reserves		**0.2**	(1.0)
Retained earnings		**241.1**	216.5
Equity attributable to owners of the Company		**277.2**	249.7
Non-controlling interests		**-**	(0.7)
Total equity		**277.2**	249.0

Consolidated cash flow statement

For the year ended 31 December 2016

	Notes	**2016 £m**	2015 £m
Operating activities			
Operating profit/(loss)		**47.4**	(10.3)
Adjusted for:			
Amortisation of intangible assets		**1.4**	2.2
Share of net profit of equity accounted joint ventures		**(7.4)**	(9.6)
Depreciation		**5.5**	5.5
Share option expense		**4.6**	2.0
Gain on disposal of property, plant and equipment		**(0.2)**	(0.3)
Movement in fair value of shared equity loan receivables	7	**(0.6)**	(1.4)
Non-cash exceptional operating items		**-**	46.9
Additional pension contributions		**(0.4)**	(0.7)
Disposals of investment properties		**2.2**	0.7
Repayment of shared equity loan receivables	7	**2.5**	1.5
Increase/(decrease) in provisions		**1.8**	(0.8)
Operating cash inflow before movements in working capital		**56.8**	35.7
Decrease/(increase) in inventories		**32.8**	(44.5)
Decrease in receivables		**22.6**	41.5
Increase/(decrease) in payables		**69.8**	(20.3)
Movements in working capital		**125.2**	(23.3)
Cash inflow from operations		**182.0**	12.4
Income taxes paid		**(3.3)**	(1.7)
Net cash inflow from operating activities		**178.7**	10.7
Investing activities			
Interest received		**1.3**	1.3
Dividend from joint ventures		**1.2**	0.7
Proceeds on disposal of property, plant and equipment		**3.6**	0.6
Purchases of property, plant and equipment		**(4.7)**	(6.2)
Purchases of intangible fixed assets		**(1.1)**	(1.4)
Net (increase)/decrease in loans to joint ventures		**(0.4)**	13.6
Payment for the acquisition of subsidiaries, joint ventures and other businesses		**(7.7)**	-
Net cash (outflow)/inflow from investing activities		**(7.8)**	8.6
Financing activities			
Interest paid		**(3.1)**	(4.7)
Dividends paid	5	**(13.2)**	(11.8)
Repayments of obligations under finance leases		**(2.2)**	(1.9)
(Repayment of)/proceeds from borrowings		**(38.0)**	25.9
Proceeds on issue of share capital		**1.7**	1.1
Payments by the employee benefit trust to acquire shares in the Company		**(3.3)**	-
Proceeds on exercise of share options		**-**	0.2
Net cash (outflow)/inflow from financing activities		**(58.1)**	8.8
Net increase in cash and cash equivalents		**112.8**	28.1
Cash and cash equivalents at the beginning of the year		**115.7**	87.6
Cash and cash equivalents at the end of the year	9	**228.5**	115.7

Consolidated statement of changes in equity
For the year ended 31 December 2016

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
1 January 2015	2.2	30.9	(0.8)	236.2	268.5	(0.6)	267.9
Total comprehensive income	-	-	(0.2)	(10.1)	(10.3)	(0.1)	(10.4)
Share option expense	-	-	-	2.0	2.0	-	2.0
Issue of shares at a premium	-	1.1	-	-	1.1	-	1.1
Exercise of share options and vesting of share awards	-	-	-	0.2	0.2	-	0.2
Dividends paid	-	-	-	(11.8)	(11.8)	-	(11.8)
1 January 2016	2.2	32.0	(1.0)	216.5	249.7	(0.7)	249.0
Total comprehensive income	-	-	1.2	37.4	38.6	-	38.6
Share option expense	-	-	-	4.6	4.6	-	4.6
Issue of shares at a premium	-	1.7	-	-	1.7	-	1.7
Purchase of shares in the Company by the employee benefit trust	-	-	-	(3.3)	(3.3)	-	(3.3)
Purchase of additional stake in subsidiary undertaking	-	-	-	(0.9)	(0.9)	0.7	(0.2)
Dividends paid	-	-	-	(13.2)	(13.2)	-	(13.2)
31 December 2016	**2.2**	**33.7**	**0.2**	**241.1**	**277.2**	**-**	**277.2**

Other reserves
Other reserves include:

- Capital redemption reserve of £0.6m (2015: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of £nil (2015: (£0.6m)) arising under cash flow hedge accounting. Movements on the effective portion of hedges are recognised through the hedging reserve, while any ineffectiveness is taken to the income statement.
- Translation reserve of (£0.4m) (2015: (£1.0m)) 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 2016 was 759,098 (2015: 466,425) with a cost of £5.8m (2015: £3.5m).

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 2016 or 2015 but is derived from those accounts. A copy of the statutory accounts for 2015 was delivered to the Registrar of Companies and those for 2016 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 to shareholders in March 2017. 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 23 February 2017, 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 2016.

Going concern

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

Changes in accounting policies

There have been no significant changes to accounting policies, presentation or methods of preparation since the financial statements for the year ended 31 December 2015 and the year ended 31 December 2016.

2 Business segments

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

- Construction & Infrastructure provides specialist construction and infrastructure design and build services on projects, frameworks and strategic alliances of all sizes. Alongside its tunnelling design capability is the newly named BakerHicks which offers multidisciplinary design and engineering consultancy services.
- Fit Out: Overbury specialises in fit out and refurbishment projects operating through multiple procurement routes. Morgan Lovell's expertise is in office design and build, providing an end-to-end service which includes workplace consultancy and furniture solutions.
- Property Services: provides strategic asset management and responsive, planned and cyclical maintenance to social housing providers, facilities management services to public buildings and claims and reinstatement repairs for insurance providers.
- Partnership Housing: specialises in the delivery of mixed-tenure regeneration partnership housing schemes, design and build of new homes and planned maintenance and refurbishment.
- Urban Regeneration: works with landowners and public sector partners to unlock value from under-developed assets and bring about sustainable regeneration and urban renewal through the delivery of new mixed-use communities.
- Investments: Creates long-term strategic partnerships to realise the potential of under-utilised assets of both public and private sector clients, promotes sustained economic growth through regeneration and drives cost efficiencies through innovative and integrated estate management solutions.

Group Activities represents costs and income arising from corporate activities which cannot be meaningfully allocated to the operating segments. These include costs such as treasury management, corporate tax coordination, 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:

2016

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

2015

	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	1,230.5	606.2	59.5	365.0	110.4	13.1	-	-	2,384.7
Inter-segment revenue	1.9	0.4	-	1.3	-	-	-	(3.6)	-
Total revenue	1,232.4	606.6	59.5	366.3	110.4	13.1	-	(3.6)	2,384.7
Operating profit/(loss) before amortisation of intangible assets and exceptional operating items	3.8	24.0	(1.0)	9.6	12.9	(1.5)	(9.0)	-	38.8
Amortisation of intangible assets	-	-	-	(0.6)	(1.6)	-	-	-	(2.2)
Exceptional operating	(46.9)	-	-	-	-	-	-	-	(46.9)
Operating profit/(loss)	(43.1)	24.0	(1.0)	9.0	11.3	(1.5)	(9.0)	-	(10.3)

In previous periods the Group reported five segments. In order to better reflect the way the business is managed and operated, Affordable Housing has been split into two reporting segments: Property Services and Partnership Housing. All other reporting segments are unchanged. The comparative figures above have been restated to reflect the new reporting structure.

During the year ended 31 December 2016 and the year ended 31 December 2015, inter-segment sales were charged at prevailing market prices and significantly all of the Group's operations were carried out in the UK.

3 Exceptional operating items

	2016	2015
	£m	£m
Impairment of trade and other receivables in relation to two old construction contracts	**-**	(46.9)

The exceptional operating item related to the impairment of trade and other receivables on two construction contracts. Commercial resolution has now been achieved on both contracts.

4 Tax

	2016	2015
	£m	£m
Current tax:		
Current year	**8.1**	0.3
Adjustment in respect of prior years	**(0.5)**	(0.4)
	7.6	(0.1)
Deferred tax:		
Current year	**0.9**	(3.0)
Revaluation of deferred tax balances due to changes in statutory tax rate	**(0.7)**	(1.7)
Adjustment in respect of prior years	**(0.7)**	-
	(0.5)	(4.7)
Tax expense/(credit) for the year	**7.1**	(4.8)

Corporation tax is calculated at 20.0% (2015: 20.25%) of the estimated assessable profit/(loss) for the year.

In 2015 the Group recognised a net loss for the year after exceptional items, which resulted in tax losses carried forward. A deferred tax asset was recognised in 2015 in respect of those losses. During 2016 the Group recognised profits against which some of the losses could be utilised, and the Group is expected to generate further profits in subsequent years capable of being offset against the remaining carried forward losses. Consequently, a deferred tax asset continues to be recognised in respect of the tax losses.

The table below reconciles the tax charge for the year to tax at the UK statutory rate:

	2016	2015
Current tax expense:	**£m**	£m
Profit/(loss) before tax	**43.9**	(14.8)
Less: post tax share of profits from joint ventures	**(7.4)**	(9.6)
	36.5	(24.4)
UK corporation tax rate	**20.00%**	20.25%
Income tax expense/(credit) at UK corporation tax rate	**7.3**	(4.9)
Tax effect of:		
Non-taxable income and expenses	**0.4**	0.2
Tax liability upon joint venture profits[1]	**1.2**	1.7
Adjustments in respect of prior years	**(1.2)**	(0.4)
Expected forthcoming change in tax rates upon deferred tax	**(0.7)**	(1.7)
Other	**0.1**	0.3
Tax expense/(credit) for the year	**7.1**	(4.8)

[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:

	2016	2015
	£m	£m
Final dividend for the year ended 31 December 2015 of 17.0p per share	**7.5**	-
Final dividend for the year ended 31 December 2014 of 15.0p per share	**-**	6.5
Interim dividend for the year ended 31 December 2016 of 13.0p per share	**5.7**	-
Interim dividend for the year ended 31 December 2015 of 12.0p per share	**-**	5.3
	13.2	11.8

The proposed final dividend for the year ended 31 December 2016 of 22.0p 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 22 May 2017 to shareholders on the register on 28 April 2017. The ex-dividend date is 27 April 2017.

6 Earnings per share

	2016 £m	2015 £m
Profit/(loss) attributable to the owners of the Company	**36.8**	(9.9)
Adjustments:		
Exceptional operating items after tax	**-**	37.4
Intangible amortisation net of tax	**1.1**	1.8
Deferred tax credit arising due to change in UK corporation tax rates	**(0.7)**	(1.7)
Adjusted earnings	**37.2**	27.6

Basic weighted average ordinary shares (m)	**43.9**	43.8
Dilutive effect of share options and conditional shares not vested (m)	**1.3**	0.6
Diluted weighted average ordinary shares (m)	**45.2**	44.4

Basic earnings/(loss) per share	**83.8p**	(22.6p)
Diluted earnings/(loss) per share	**81.4p**	(22.3p)
Adjusted earnings per share	**84.7p**	63.0p
Diluted adjusted earnings per share	**82.3p**	62.2p

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 £7.33 (2015: £7.66).

A total of 2.1m 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 2016 (2015: 1.2m).

7 Shared equity loan receivables

	2016 **£m**	2015 £m
1 January	**20.3**	20.4
Net change in fair value recognised in the income statement	**0.6**	1.4
Repayments by borrowers	**(2.5)**	(1.5)
End of year	**18.4**	20.3

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:

	2016	2015
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%**	6.6%
Weighted average nominal annual property price increase	**2.3%**	2.8%
Forecast default rate	**2.0%**	2.0%
Number of loans under the shared equity scheme outstanding at the year end	**595**	669

Sensitivity analysis

At 31 December 2016, 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 £0.5m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2016, 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 £0.5m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

8 Trade and other receivables

	2016 **£m**	2015 £m
Amounts due from construction contract customers	**147.9**	166.1
Trade receivables	**163.9**	170.0
Amounts owed by joint ventures	**1.5**	0.8
Prepayments	**10.6**	10.1
Other receivables	**8.9**	6.6
	332.8	353.6

9 Net cash

	2016 £m	2015 £m
Cash and cash equivalents	**228.5**	115.7
Non-recourse project financing due in less than one year	**(4.8)**	(12.8)
Borrowings due between two and five years	**(15.0)**	(45.0)
Net cash	**208.7**	57.9

Borrowings of £15.0m were drawn down under the Group's committed bank loan facilities. Additional project finance borrowings of £4.8m (2015: £12.8m) were drawn from separate facilities to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

10 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. Transactions between the Group and its joint ventures are disclosed below. All were on an arm's length basis.

Trading transactions
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. Transactions and amounts owed at the year end in relation to joint ventures are as follows:

	Provision of goods and services		Amounts owed by/(to) related parties	
Joint venture	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Ashton Moss Developments Limited	**-**	-	**(0.2)**	(0.2)
Claymore Roads (Holdings) Limited	**-**	0.1	**-**	-
ECf (General Partner) Limited	**3.1**	1.9	**-**	-
HB Community Solutions Limited	**1.3**	1.7	**-**	-
HB Villages Development Limited	**0.2**	-	**0.2**	-
HB Villages Limited	**2.5**	1.2	**-**	0.4
HB Villages Tranche 3 Limited	**0.1**	-	**0.2**	-
hub West Scotland Limited	**0.1**	-	**-**	-
hub West Scotland Projectco 1 Limited	**0.1**	0.2	**0.1**	-
hub West Scotland Projectco 2 Limited	**0.1**	-	**-**	-
Leyton Mount Development LLP	**-**	1.0	**-**	-
Morgan-Vinci Limited	**0.1**	-	**-**	-
PSBP NW Holdco Limited	**-**	1.5	**-**	-
PSBP NW ProjectCo Limited	**59.6**	26.7	**-**	-
Slough Urban Renewal Community Projects LLP	**27.9**	12.1	**-**	-
Slough LABV	**0.2**	-	**-**	-
STRIDE LLP	**0.1**	-	**0.3**	0.3
The Bournemouth Development Company LLP	**2.5**	0.1	**0.5**	-
The Compendium Group Limited	**13.5**	5.8	**-**	-
Wapping Wharf (Alpha) LLP	**0.1**	0.2	**-**	-
WellSpring Partnership Limited	**1.0**	1.3	**0.2**	0.1
	112.5	53.8	**1.3**	0.6

	Amounts owed by/(to) related parties	
	2016	2015
	£m	£m
Amounts owed by related parties (note 8)	**1.5**	0.8
Amounts owed to related parties (note 11)	**(0.2)**	(0.2)
	1.3	0.6

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'.

	2016	2015
	£m	£m
Short-term employee benefits	**8.8**	7.5
Post-employment benefits	**0.4**	0.3
Termination benefits	**0.9**	-
Share option expense	**2.9**	1.2
	13.0	9.0

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 23 February 2017.

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 23 February 2017.

11 Trade and other payables

	2016	2015
	£m	£m
Trade payables	**144.6**	161.5
Amounts due to construction contract customers	**52.0**	53.9
Amounts owed to joint ventures	**0.2**	0.2
Other tax and social security	**33.2**	33.2
Accrued expenses	**482.0**	396.2
Deferred income	**-**	4.5
Other payables	**36.3**	25.0
	748.3	674.5

12 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.

13 Subsequent events

There were no subsequent events that affected the financial statements of the Group.

Responsibility statement

The responsibility statement below has been prepared in connection with the Company's annual report and accounts for the year ended 31 December 2016. 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 23 February 2017 and is signed on its behalf by:

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