

20 February 2020

MORGAN SINDALL GROUP PLC
(‘Morgan Sindall’ or ‘Group’)

The Construction & Regeneration Group

RESULTS FOR THE FULL YEAR (FY) ENDED 31 DECEMBER 2019

	FY 2019	FY 2018	Change
Revenue	£3,071m	£2,972m	+3%
Operating profit – adjusted ¹	£93.1m	£85.5m	+9%
Profit before tax – adjusted ¹	£90.4m	£81.6m	+11%
Earnings per share – adjusted ¹	161.2p	151.8p	+6%
Year end net cash ²	£193m	£207m	-£14m
Total dividend per share	59.0p	53.0p	+11%
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Operating profit - reported	£91.3m	£84.5m	+8%
Profit before tax – reported	£88.6m	£80.6m	+10%
Basic earnings per share – reported	157.9p	149.8p	+5%

¹ ‘Adjusted’ is defined as before intangible amortisation (£1.8m) (FY 2018: before intangible amortisation (£1.0m))

² Note 10

FY 2019 summary:

- Strong profit growth driven by strategic focus on construction and regeneration
 - Revenue up 3% to £3.1bn, with adjusted operating margin up to 3.0% (FY 2018: 2.9%)
 - Adjusted profit before tax¹ up 11% to £90.4m
- Continued balance sheet strength
 - Average daily net cash increased to £109m (FY 2018: £99m). Year end net cash of £193m
- Well set for future growth with high quality order book
 - Secured workload up 14% to £7.6bn
- Total dividend up 11% to 59.0p per share
- Divisional highlights
 - Contract selectivity and improved operational delivery drive further margin improvement in *Construction & Infrastructure*; operating margin up to 2.2% (FY 2018: 2.0%) with operating profit up 20% to £32.3m
 - Another good performance from *Fit Out*; operating profit of £36.9m (FY 2018: £43.8m) and a robust 4.4% operating margin (FY 2018: 5.3%)

- Significant improvement in *Partnership Housing*; operating profit up 50% to £18.3m, reflecting ongoing operational improvement. Well-positioned for future growth
- Another strong contribution from *Urban Regeneration*; operating profit of £19.4m (FY 2018: £19.6m) and return on capital employed of 19%
- Volume and efficiency gains in *Property Services*; increase in adjusted operating margin, up to 3.7% (FY 2018: 2.0%) with adjusted operating profit more than doubled to £4.3m (FY 2018: £2.0m)
- Further strategic progress in *Investments*; significant benefit in its provision of future streams of construction work for the rest of the Group. Adjusted operating loss of £2.4m (FY 2018: loss £2.4m)

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

“These strong results reflect the high quality of our operations and are testament to the work and commitment of all our people. Our strategic focus on construction and regeneration underpins the positive momentum across the Group and provides the platform for future progress.

Our balance sheet remains a significant differentiator allowing us to make the right long-term decisions for the business. With our average daily net cash position further increasing in the year, we have the flexibility to continue being highly selective with our bidding while also investing in our regeneration activities.

Both the volume and the quality of our secured workload have increased in the year leaving us well-positioned for the future. We are confident of another good year of progress in 2020 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 £3.1bn, employing around 6,700 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 and construction 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 regeneration and affordable housing needs.

Through its Construction & Infrastructure division, the Group is also well positioned to meet the demand for ongoing investment in the UK's infrastructure, while 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 which is focused on response and planned maintenance activities provided to the social housing and the wider public sector.

The Investments business acts as a 'facilitator' and provides opportunities for work mainly for the Construction & Infrastructure and Partnership Housing divisions through its portfolio of property partnerships with local authorities and government bodies. These partnerships can also generate a stream of development profits for the Investments division.

The Group is committed to delivering economic, social and environmental value to its stakeholders. Its approach is embodied in its responsible business strategy, which is built around its Five Total Commitments: to health, safety and wellbeing, employee development, the environment, its supply chain and local communities. These Commitments are aligned to its purpose, the needs of its stakeholders and its obligations towards society. Its Commitments support the UN Sustainable Development Goals and each Commitment has clear targets and KPIs set to monitor progress which are supported by its divisions.

To provide a framework for future performance, each division operates to a medium-term financial target (the 'target' or 'targets'). These targets are current as from the start of 2020 and supersede all previously announced targets. The targets relate to either operating margin, return on capital employed and/or profit and are referenced in the divisional sections of the Business review.

Group Structure

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

Construction activities comprise the following operations:

- **Construction & Infrastructure:** Focused on the education, healthcare, defence, commercial, industrial, leisure and retail markets in Construction; and on the highways, rail, aviation, energy, water and nuclear markets in Infrastructure

- **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. Refer to the other information section which sets out the basis for the calculations. These measures are not an alternative or substitute to statutory IFRS measures but are seen by management as more useful in assessing the performance of the business on a comparable basis and when determining compensation. The Group also uses other non-statutory measures which cannot be derived directly from the financial statements. In all cases the term 'adjusted' excludes the impact of intangible amortisation of £1.8m (FY 2018: £1.0m).

Group Operating Review

The Group has continued to make significant strategic and operational progress throughout 2019, with the focus in the year again on contract selectivity, operational delivery and on generally improving the overall quality of business won and delivered. The benefit of this is reflected in the financial performance for the year, with further growth in both margin and profit, and the significant positive momentum across the Group provides the platform for future progress.

Balance sheet strength and cash generation have also remained a high priority for the Group in the year and further progress was made in this respect. With an increase in the average daily net cash for the year together with positive operating cash flow from the business, the Group is in a strong position to maintain its flexibility of being highly selective with contract bidding, while also investing in the regeneration activities. Importantly, this also provides financial security to our shareholders and all our stakeholders; our customers, our supply chain partners and our employees.

Revenue for the year increased 3% to £3,071m (FY 2018: £2,972m) while adjusted operating profit was up 9% to £93.1m (FY 2018: £85.5m). This resulted in an adjusted operating margin of 3.0%, an increase of 10bps on the prior year (FY 2018: 2.9%).

The net finance expense decreased to £2.7m (FY 2018: £3.9m) due to a significantly lower net interest charge driven by a much lower level of non-recourse project financing in the year compared to 2018. After deducting this, the adjusted profit before tax was £90.4m, up 11% (FY 2018: £81.6m). The

adjusted earnings per share increased by 6%, up to 161.2p (FY 2018: 151.8p), with the diluted adjusted earnings per share of 156.3p up 9% (FY 2018: 144.0p).

From a divisional perspective, Construction & Infrastructure delivered an operating margin of 2.2%, up 20bps on the prior year and was again driven by contract selectivity and improved operational delivery with operating profit of £32.3m, up 20%. Fit Out performed well, with revenue of £839m up 1% and operating profit of £36.9m (FY 2018: £43.8m) at a robust margin of 4.4%. Further volume and efficiency gains in Property Services drove higher revenue, up 15% to £115m (FY 2018: £100m) and adjusted operating profit of £4.3m (FY 2018: £2.0m), up 115% at a margin of 3.7%.

Of the Group's regeneration divisions, Partnership Housing improved significantly with ongoing operational improvement supporting a 50% increase in operating profit to £18.3m (FY 2018: £12.2m). Urban Regeneration had another good year, with operating profit of £19.4m (FY 2018: £19.6m) and a return on capital of 19%. Investments made positive progress with its various joint ventures and with the provision of future construction opportunities for other parts of the Group and as expected made a loss in the year of £2.4m (FY 2018: loss £2.4m).

The Group had a successful year of winning new work, with the total secured workload at the year-end of £7,593m, up 14% from the previous year. With contract selectivity remaining a key discipline across the Group and with a key focus on maintaining the appropriate risk balance within its order book, this sets the Group up well for the future.

The statutory operating profit was up 8% to £91.3m (FY 2018: £84.5m), while the statutory profit before tax was £88.6m, up 10% (FY 2018: £80.6m). The tax charge for the year of £17.4m equated to an effective tax rate of 19.6%, slightly higher than the UK statutory rate of 19% due to various non-material adjustments.

At the year end, the Group had net cash of £193m (FY 2018: £207m), while the average daily net cash for the year increased by £10m to £109m (FY 2018: £99m), providing significant balance sheet strength and competitive advantage. Operating cash in the year was an inflow of £35m, this after increasing the capital employed invested in the regeneration activities by £44m (Partnership Housing £26m, Urban Regeneration £18m).

Further significant investment in Partnership Housing is expected in 2020, 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 2020 will be at least £60m.

Further progress was made in the year with the Group's payment practices in the supply chain. For the formal Payment Practices Reporting period of 1 July 2019 to 31 December 2019, each of the construction divisions reported an improved overall performance in its key payment metrics. Construction & Infrastructure, the largest operating division by revenue, improved its average time taken to pay invoices to 32 days, with 97% of invoices paid within 60 days. The Group's relationships with its supply chain partners are of strategic importance and key to the Group's future success, and payment practices will continue to be an area of focus in years ahead.

As previously stated, 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 total dividend for the year has been increased by 11% to 59.0p per share (FY 2018: 53.0p), which includes a proposed increase in the final dividend of 12% to 38.0p per share (FY 2018: 34.0p), 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 2.7 times covered by adjusted earnings per share.

Outlook

Both the volume and the quality of the secured workload have increased in the year leaving the Group well-positioned for the future. The Group is confident of another good year of progress in 2020 and is 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	1,486	+11%	32.3	+20%	2.2%	+20bps
Fit Out	839	+1%	36.9	-16%	4.4%	-90bps
Property Services	115	+15%	4.3	+115%	3.7%	+170bps
Partnership Housing	513	-1%	18.3	+50%	3.6%	+120bps
Urban Regeneration	119	-36%	19.4	-1%	n/a	n/a
Investments	8	n/a	(2.4)	n/a	n/a	n/a
Central/Eliminations	(9)		(15.7)			
Total	3,071	+3%	93.1	+9%	3.0%	+10bps

Group secured workload¹ by division

The Group's secured workload¹ at 31 December 2019 was £7,593m, an increase of 14% from the previous year end. The divisional split is shown below.

	FY 2019 £m	FY 2018 £m	Change
Construction & Infrastructure	2,271	1,922	+18%
Fit Out	480	470	+2%
Property Services	904	723	+25%
'Construction' secured order book²	3,655	3,115	+17%
Partnership Housing	1,093	1,035	+6%
Urban Regeneration	2,278	2,081	+9%
Investments	581	443	+31%
'Regeneration' secured order book²	3,952	3,559	+11%
Inter-divisional eliminations	(14)	-	-
Group secured workload¹	7,593	6,674	+14%

¹ The Group secured workload is the sum of the Construction secured order book and the Regeneration secured order book, less any inter-divisional eliminations

² The 'Secured order book' is the sum of the 'committed order book', the 'framework order book' and (for the Regeneration businesses only) the Group's share of the gross development value of secured schemes (including the development value of open market housing schemes).

The 'committed 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.

Construction & Infrastructure

	FY 2019	FY 2018	Change
	£m	£m	
Revenue	1,486	1,343	+11%
Operating profit	32.3	27.0	+20%
Operating margin	2.2%	2.0%	+20bps

Construction & Infrastructure delivered another year of margin progression and profit growth through its continued focus on improved operational delivery, disciplined contract selectivity and risk management. Revenue increased by 11% to £1,486m and with an increase of 20bps in the operating margin, up to 2.2%, operating profit was 20% higher at £32.3m.

Of the divisional revenue split by type of activity, **Construction**¹ increased 4% to £619m (42% of divisional revenue), while **Infrastructure**¹ (which includes *Design*) increased 16% to £867m (58% of divisional revenue).

Construction¹ had a particularly strong year of margin growth, with its operating margin increasing by 40bps to 2.8% and its operating profit up 22% to £17.1m. **Infrastructure**¹ delivered operating profit of £15.2m, an increase of 17% which was driven mainly by revenue growth. Its operating margin of 1.8% was up 10bps from the prior year, held back primarily by a more cautious view being taken on the outcome of certain contracts.

The division also performed well in terms of winning work and growing its future workload. The secured order book at the year end was £2,271m, up 18% compared to the prior year and of this, **Construction's**¹ order book increased by 27% to £514m (23% of total value). During the year, the preferred risk balance and profile within the Construction order book has been enhanced, with 98% of the value derived through negotiated, framework or two-stage bidding procurement processes, and only 2% derived through competitive tenders. In addition, **Construction**¹ had c£675m of work at preferred bidder stage at the year end.

Infrastructure's¹ order book also grew strongly, up 16% to £1,757m (77% of the total by value) and has 97% of its revenue secured for 2020, with in excess of 90% of the value of its order book being derived through frameworks.

Construction

In *Education*, Construction's largest sector, work began on a c£17m project to refurbish the historic Pantycelyn halls of residence at the University of Aberystwyth, as well as the £29m Whitmore High School in Barry, South Wales, the £13m Broomhills Primary School in Edinburgh, and the £7m North Denes Primary School in Great Yarmouth. Higher education projects completed in the year included a £28m art, design and architecture facility for the University of Huddersfield; an £18m extension of the University of Birmingham's business school; and a c£21m sports facility for Solent University in Southampton. Completed school projects included the £5m Hackwood Primary Academy in Derby and a £7m sports campus for Tile Cross Academy in Birmingham. Work is ongoing on a £47m teaching

hub and sports building for Liverpool John Moores University and two £18m new build primary schools for North Lanarkshire Council in Scotland.

In other sectors, Construction continues to work in partnership with Urban Regeneration to deliver pharmaceuticals company Eli Lilly's £19m headquarters in Basingstoke; and a £35m residential development for Urban Regeneration (through its joint venture) as part of the wider New Bailey development in Manchester. Completions included a c£18m leisure centre in Slough, the last of four delivered under Investments' joint venture with Slough Borough Council; the £20m Woodside Health Centre in Glasgow; and the early handover of a £50m mixed-use development scheme in Leicester, including two hotels, an office block and public realm.

Work won in the year included two schemes for Hackney Council totalling c£98m: the secondary school City of London Academy Shoreditch Park and Britannia Leisure Centre in Hackney, procured through the Southern Construction Framework (SCF); a £45m hotel and residential development for Investments' joint venture in Slough; and a £30m project to deliver new academic offices for the Royal College of Physicians at Paddington Village in Liverpool.

New framework appointments included places on: four lots of the £1bn SEWSCAP 3 framework in Wales; Lot 2 of Norfolk County Council's framework for projects valued £3.5m-£9m; three lots of the University of Glasgow's Campus Development Framework; all three lots of the University of Oxford's £1.5bn Capital Projects Partner Framework; Pagabo's £1bn, three-year medium value works framework for public sector bodies for £1m-£10m projects; the £200m Hampshire Construction Framework for £1m-£4m projects in Hampshire, Berkshire and the Isle of Wight; and a number of lots of the Crown Commercial Service's £30bn, seven-year Construction Works and Associated Services framework. The division also retained its places on all three lots of the next generation of the £5.25bn Southern Construction Framework (SCF4) and the £750m Suffolk Construction Framework.

Infrastructure

In Infrastructure, the focus remains on the key sectors of aviation, highways, rail, nuclear, energy and water.

In *Aviation*, the division continued operations at Heathrow under the Q6 framework, completing the Block 21 outer taxiway and works to a number of landside roads and car parks. The framework has been extended by a further two years to the end of 2021, and works have started on phase two of the southern runway.

In *Highways*, construction began in joint venture on the M27 and M62 schemes, awarded by Highways England at the start of the year. Works also started on the redevelopment of the Old Street roundabout under a framework with Transport for London. Ongoing projects include the refurbishment of the M5 Oldbury Viaduct; preparation works for new roads and pavements as part of the Sighthill regeneration in Glasgow; and a total of six projects under the Midlands Highways Alliance and Eastern Highways Alliance.

In *Rail*, work started on the London Overground extension to Barking Riverside for Transport for London; and for Network Rail, work progressed on upgrades at King's Cross and a new section of railway at Werrington Junction near Peterborough. In late 2019, the division was appointed to Network Rail's CP6 framework for Buildings and Civil Engineering works in the Western region. The framework will generate contracts from £4m to £30m and will run until 2024 with the option of a year's extension.

In *Nuclear*, the division was selected under Sellafield's Programme and Project Partners model to deliver the site's decommissioning programme, and work is underway on the first three projects. The

framework is expected to generate revenues of c£1.6bn over 20 years. Work also continued at Sellafield under the £1.1bn Infrastructure Strategic Alliance.

In *Energy*, work began on a c£80m contract in Dorset, awarded by National Grid as part of its Visual Impact Provision (VIP) project. The division also secured a further c£30m of electricity cabling and overhead lines works through two existing frameworks with Scottish and Southern Electricity Networks.

In *Water*, Infrastructure continued its long-standing relationship with Welsh Water, securing a position on its AMP7 (2020 to 2025) framework to upgrade and enhance the water network. Work continued on the west section of the Thames Tideway Tunnel ‘super sewer’, with the joint venture’s tunnel boring machine being the first to break through ground to complete a 500m section of the Frogmore Connection Tunnel.

Divisional outlook

The medium-term target for **Construction**¹ is to deliver a consistent operating margin within the range of 2.5%-3.0%. **Infrastructure’s**¹ medium-term target is to achieve an operating margin of 3.0%. Both margin targets will be complemented by revenue growth across the period and progress towards these targets is expected in 2020.

¹ *Design* results are reported within *Infrastructure* on the basis that the design activities are better aligned to the overall services provided by the Infrastructure activities. In 2018 and prior years, *Design* results were reported within *Construction* and comparative numbers for 2018 for *Construction* and *Infrastructure* have been restated accordingly.

Fit Out

	FY 2019	FY 2018	Change
	£m	£m	
Revenue	839	831	+1%
Operating profit	36.9	43.8	-16%
Operating margin	4.4%	5.3%	-90bps

Fit Out delivered another good performance in the year, achieved against the predicted backdrop of a general tightening of overall market conditions compared to the prior year. Volumes and activity held up well, with revenue of £839m up 1% on the prior year, however a more competitive tendering environment impacted profit. Operating profit of £36.9m was 16% lower compared to the record prior year performance, however the operating margin remained robust at 4.4%.

Strong project delivery and a continued focus on enhanced customer experience again underpinned performance. As with previous years, there was a second half weighting to the operating margin (H1 2019: 4.0%, H2 2019: 4.7%) and was driven by the successful completion of a number of contracts falling into the second half.

Of the total revenue for the year, 81% related to traditional fit out work (FY 2018: 86%), while 19% related to ‘design and build’ (FY 2018: 14%).

In terms of the nature of work undertaken, the proportion of revenue generated from the fit out of existing office space increased to 73% (FY 2018: 62%) with the remaining 27% relating to new office fit out (FY 2018: 38%). The prior year included a small number of larger new office space projects which were not repeated in 2019 and was therefore not indicative of any longer-term trend. Of the fit out of existing office space, 71% related to refurbishment ‘in occupation’ (FY 2018: 76%).

By sector, the commercial office market remains the largest, contributing 85% of revenue (FY 2018: 86%). Higher education accounted for 8% of revenue, while retail banking, government and local authority work made up the remainder.

Geographically, the London region remained the division's largest market, accounting for 70% of revenue, with no significant change from the prior year (FY 2018: 73%). Other regions accounted for 30% of revenue.

At the year end, the secured order book was £480m, an increase of 2% on the prior year end and an increase of 3% from the position at the half year. Of the year end total of £480m, £419m (87%) relates to 2020 and this level of orders for the next 12 months is 5% lower than it was at the same time last year. There has been no significant change to the balance of the order book in terms of geographical split and type of work. The average value of enquiries received through the year remained at around £2m.

Projects won in the year included: Virgin Media's new 120,000 sq ft head office in Green Park, Reading; the fit out of four projects in one building at Station Road, Cambridge, including the offices of law firm Eversheds Sutherland; and the fit out of The Spine, a new 70,000 sq ft centre of clinical excellence in Liverpool for the Royal College of Physicians being built by Construction & Infrastructure. The division also secured a place on Pagabo's new National Framework for Refit and Refurbishment Solutions for public sector projects in England and Scotland.

Significant fit out completions included the two-year, multi-phased works across more than 220,000 sq ft for King's College London; office space and specialist broadcast areas at BBC Cymru Wales' new 155,000 sq ft headquarters in Cardiff; Microsoft's new c22,000 sq ft flagship store at Oxford Circus, London; and the UK headquarters for global flooring manufacturer, Interface, in Birmingham. Design and build completions included the Royal Navy's digital data and artificial intelligence laboratory in Portsmouth; office space and a Dementia Connect facility for the Alzheimer's Society in Edgbaston, Birmingham; c38,000 sq ft of office space in London for SAGE Publishing; c25,000 sq ft of office space in Guildford for global digital entertainment company, Electronic Arts; and The Body Shop's c24,500 sq ft office in London. Work started in the year on a c250,000 sq ft fit out across six floors for Royal Bank of Canada at 100 Bishopsgate, London.

Divisional outlook

Notwithstanding the limited visibility of future workload which the division has at any one time, the medium-term target is for Fit Out to deliver a profit at or around £35m per annum. For 2020, based upon the current market conditions and year-end order book, Fit Out is expected to meet this target.

Property Services

	FY 2019	FY 2018	Change
	£m	£m	
Revenue	115	100	+15%
Operating profit ¹	4.3	2.0	+115%
Operating margin ¹	3.7%	2.0%	+170bps

Property Services performed well in the year, delivering significantly improved results. While revenue increased by 15% to £115m, operating profit¹ increased 115% to £4.3m. The operating margin¹ of 3.7% represented an increase of 170bps ahead of prior year.

Revenue growth was driven by three new contracts awarded in January and mobilised in April, and by continued growth on existing contracts. The significant increase in operating profit¹ and margin¹ reflected the increased revenue but also further stabilisation and efficiencies across the portfolio.

The three new contracts were: responsive repairs, refurbishment of void homes and planned maintenance of 10,000 properties for the London Borough of Waltham Forest; void refurbishments and planned maintenance for 4,800 homes for St Albans City and District Council; and maintenance for 6,000 homes and 1,200 garages for South Essex Homes.

During the year, the division has continued to focus on delivering repairs and planned maintenance with a strong social value offering, servicing public sector housing through integrated contracts with housing associations and local authorities. This has included continuing to invest in its IT platform for managing repairs and planned maintenance, where data collected through the system indicates the condition of property assets to enable the prediction and prevention of repairs and provides insight into service quality. This insight, together with data collected from the business's customer engagement platform, is helping to further improve service delivery and customer satisfaction and increase social value.

At the year end, the secured order book was up 25% to £904m. Bidding remains selective, targeting long-term contracts of 10 to 15 years. The division has a current pipeline of opportunities of £1.5bn, the majority of which will be tendered over the next 12 months.

Divisional outlook

The medium-term target for Property Services is to generate a minimum £10m operating profit per annum, which will be delivered through both revenue growth and continued margin improvement. Looking ahead to 2020, the division is expected to progress towards this target.

¹ before intangible amortisation of £1.2m (FY 2018: £1.0m)

Partnership Housing

	FY 2019	FY 2018	Change
	£m	£m	
Revenue	513	519	-1%
Operating profit	18.3	12.2	+50%
Operating margin	3.6%	2.4%	+120bps
Average capital employed ¹ (last 12 months)	151.6	115.0	+£36.6m
Capital employed ¹ at year end	132.3	106.6	+£25.7m
ROCE ² (last 12 months)	12%	11%	
ROCE ² (average last 3 years)	12%	12%	

2019 was a year of significant positive progress for Partnership Housing. With the senior divisional management team appointed in 2018 now fully established within the business, a number of the immediate actions taken to improve performance, focused mainly on operational delivery and quality, were reflected in the operating result. Although revenue at £513m was down 1%, the operating profit increased 50% to £18.3m with the operating margin increasing to 3.6%, up 120bps. In addition, significant strategic progress was made in re-establishing the division and its 'Lovell' brand as a trusted partner to local authorities and housing associations.

Split by type of activity, **Mixed-tenure** revenue was up 21% to £269m (52% of divisional revenue) while **Contracting** revenue (including planned maintenance and refurbishment) was down 18% in the year to £244m (48% of divisional total).

The secured order book at the year end was £1,093m, an increase of 6% on the prior year and demonstrated the positive progress made and the market opportunity available to the division.

Of this total, although the order book relating to the **Mixed-tenure** activities decreased slightly to £740m (FY 2018: £785m), the amount of mixed-tenure business in preferred bidder status or already under development agreement but where land has not been drawn down was in excess of £500m at the year end. The remaining £353m related to **Contracting** and represented an increase of 41% on the prior year (FY 2018: £250m), again evidence of progress in re-establishing the division in its market place.

The capital employed¹ at year end was £132.3m, with the average capital employed¹ for the last 12-month period of £151.6m, an increase of £36.6m on the prior year. As a result of the higher average capital employed, the overall ROCE² of 12% was only a small increase on prior year (FY 2018: 11%) despite the significantly higher profit. Based upon the profile, schedule and type of mixed-tenure development currently anticipated, together with the timing of the forecast contracting activities, average capital employed¹ is expected to increase towards £200m in 2020.

Mixed-tenure

In **Mixed-tenure**, 1,144 units were completed across open market sales and social housing compared to 952 in the prior year. The average sales price of £238k compared to the prior year average of £233k.

The division currently has a total of 42 mixed tenure sites at various stages of construction and sales, with an average of 99 open market units per site. Average site duration is 39 months, providing long-term visibility of activity.

Key project wins in the year included an £80m development at Wymondham, Norfolk to deliver 335 homes in joint venture with Flagship Housing Group; a £25m regeneration scheme at Steelhouse Lane in the West Midlands to provide 62 affordable homes for rent and 89 for open market sale; and a framework with Norfolk County Council to develop more than 400 homes. The division also entered a partnership scheme in the Eastern region: a £9.4m, 100-home development at Tennyson Fields in Louth with Acis Group; and was appointed to a position on the government's Crown Commercial Services' public works framework, whose residential lots total £4.5bn over the next seven years.

Construction also began on various developments in the year including a £17m scheme with Melin Homes to deliver 100 homes on a brownfield site at Bryn Serth in Ebbw Vale.

Contracting

In **Contracting**, a c£4m contract for 37 homes for East Lothian Council and a c£9m contract for 50 homes for Rural Stirling were secured, both new clients for the division in Scotland. It also negotiated a £10m contract with Together Housing to build 83 homes in Halifax and a £20m, four-year refurbishment contract with Sandwell Metropolitan Borough Council to deliver major external improvements to 3,800 homes.

Work started in the year on 80 homes for rent in Bishopton, the division's first project for Renfrewshire Council; a £10m negotiated contract for Tirion to deliver 78 homes in Cardiff; a development in Telford to deliver 37 homes for Nuplace, a council-owned private rental company; and 39 homes for Midlands

landlord, whg. In King's Lynn, the first of many live sites for an £80m development for the Borough Council of King's Lynn and West Norfolk was completed, delivering 130 new homes.

Divisional outlook

Partnership Housing has two medium-term targets; firstly, to generate a return on average capital employed² of over 20% and secondly, to deliver an operating margin of 6%.

Looking ahead to 2020, it is expected that further operational improvements and the benefit of higher revenue will drive margin and profit growth. However, with the expected substantial increase in average capital employed in the year, progress towards its return on capital target is likely to be limited.

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 2019	FY 2018	Change
	£m	£m	
Revenue	119	185	-36%
Operating profit	19.4	19.6	-1%
Average capital employed ¹ (last 12 months)	101.8	108.8	-£7.0m
Capital employed ¹ at year end	107.7	89.4	+£18.3m
ROCE ² (last 12 months)	19%	16%	
ROCE ² (average last 3 years)	15%	13%	

Urban Regeneration delivered another strong performance in the year, with operating profit of £19.4m and a ROCE² of 19% based on average capital employed in the year of £101.8m. The average return on capital² over the last three years is 15%. The reduction in revenue in the year was as a result of the type of development scheme from which the profits were generated and is not indicative of the level of underlying activity.

Profit was derived from across the division's diverse and substantial development portfolio. The main contributors to profit were: the pre-let and forward sale of a 360,000 sq ft distribution hub at Logic Leeds; a hotel land sale in Chester; and the sale of new homes in Brentford, Brixton, Manchester, Plymouth and Stockton-on-Tees. In addition, development management fees were generated from the Salford Central regeneration scheme, being developed by the division's joint venture with Legal & General and Homes England, The English Cities Fund; Warrington's Time Square development; and the third phase of the Stockport Exchange development. Other significant completions included the £21m South Shields Interchange, which merged the local metro and bus stations, and a Hampton by Hilton hotel in Stockton-on-Tees.

Salford Central is Urban Regeneration's largest ongoing development, with several schemes currently on site. These include: 190,000 sq ft of offices at Two New Bailey Square, where Eversheds Sutherland have taken 55,000 sq ft and BLM 60,000 sq ft respectively; and 157,000 sq ft at Three New Bailey pre-let to HMRC. Residential schemes are progressing at Valette Square (33 townhouses), Atelier (178 apartments and townhouses), and the final phase at The Slate Yard (199 apartments). On other developments, The English Cities Fund has secured a number of deals with occupiers at Merchant Gate, Wakefield and planning consent for 802 homes (50% of which are affordable) at Manor Road, Canning Town in London.

Waterside Places, the division's joint venture with the Canal & River Trust, has signed a new development agreement with Investments' Slough Urban Renewal joint venture to redevelop Stoke Wharf with over 200 apartments and houses, along with leisure and community space overlooking the canal. Waterside Places completed 101 homes in the year and sold 99 at Islington Wharf, Manchester, and is due to start on site in Spring 2020 with the third and final phase at Brentford Lock West, which will deliver 452 mixed-tenure homes. Construction began on the first phase of Hale Wharf in Tottenham, comprising 249 new homes, a pedestrian bridge and canal-side public realm.

Urban Regeneration has also signed a development agreement to deliver Slough's North West Quadrant for Investments' Slough Urban Renewal joint venture, which will deliver more than 1,400 apartments, 250,000 sq ft of office accommodation and supporting retail and leisure space, along with extensive public realm.

The division also made good progress in the year on other schemes. At Lewisham Gateway, the second and final phase is set to start in early 2020 to deliver more than 500 apartments; and the mixed-use development at Manchester Victoria station has received a grant of c£10m from the Housing Infrastructure Fund to accelerate the delivery of 520 apartments. Construction is underway on two further pre-sold units at Logic Leeds totalling 56,000 sq ft; 256 homes at Bristol's Wapping Wharf; and pre-let office space at Cheadle Royal, forward-funded by Schroders. A pre-let has been secured for a 196,000 sq ft headquarters and distribution centre at Harrier Park in Hucknall, East Midlands, as well as two residential land sales. Lettings to EY, KPMG and Chevron have been secured at Marischal Square, Aberdeen.

Urban Regeneration's development portfolio continues to be active and diverse across 38 UK-wide developments, with 17 projects on site at the year end, totalling £750m gross development value, and a further 18 projects expected to start on site in 2020. Planning consent has been obtained on eight projects with a total development value of £550m at Cheadle Royal, Canning Town, Millbay, Lewisham, Hucknall, Leeds, Brentford and Salford. New development agreements signed in the year to deliver mixed-use schemes with local authorities in Slough, Wirral and Rotherham, total £400m in gross development value.

At the year end, the division's regeneration order book amounted to £2.3bn, an increase of 9% on the prior year end and of this, there is a diverse geographic and sector split:

- by value, 49% is in the South East and London, 33% in the North West, 13% in Yorkshire and the North East, and 5% in the rest of the UK;
- by sector, 54% by value relates to residential, 30% to offices, and the remainder is broadly split between retail, leisure, and industrial.

In addition, the division has been selected as preferred developer with City of Bradford Metropolitan District Council to deliver 56,403 sq ft of Grade A office space at the award-winning City Park, Bradford.

Capital employed¹ at the year end was £107.7m and based upon the current profile and type of scheme activity across the portfolio, the average capital employed¹ for 2020 is expected to reduce to c£90m.

Divisional outlook

The medium-term target for Urban Regeneration is to increase its rolling three-year average ROCE² up towards 20%. For 2020, further progress towards its target ROCE² is expected, however this is based upon the expected lower amount of capital employed and a lower profit in the year.

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

² Return On Average Capital Employed = (Adjusted operating profit less interest on non-recourse debt) divided by (average capital employed). For 2019, interest and fees on non-recourse debt was £nil (FY 2018: £2.4m)

Investments

	FY 2019	FY 2018	Change
	£m	£m	
Operating loss ¹	(2.4)	(2.4)	-

The strategic importance of Investments to the Group was demonstrated in the year by the positive progress made in its various joint ventures and by the future construction opportunities generated for other parts of the Group.

The operating loss¹ for the year of £2.4m was level with the prior year and reflected the relative immaturity of some of its local authority property partnerships, with insufficient development activity at an advanced stage to cover divisional overheads. As more such property partnerships are secured and progressed in the future, this position should reverse, thereby returning the division to delivering profit on a consistent basis.

During the year, the major profit contribution was through the disposal of a number of long-term contracts to provide management services to projects that were developed by its hub West Scotland joint venture. Development profits were also generated from joint venture property partnerships including those in Slough and Bournemouth.

Work started on site on a number of schemes during the year. In Slough, Construction & Infrastructure began work on two Marriott hotels and 64 apartments on the site of the former library for Slough Urban Renewal (the division's joint venture with Slough Borough Council), and in addition a fourth phase of affordable housing started on site to provide 35 new homes across the borough. Chalkdene Developments, Investments' joint venture with Hertfordshire County Council, began works on its first scheme, a 21-home development in Welwyn Garden City, and has secured planning permission for an 80-home development in Stevenage; a pipeline of further schemes is being progressed. In Bournemouth, construction continued on 46 high quality homes for market rent in St Stephen's Road, through the Bournemouth Development Company joint venture. Currently, projects in Bournemouth with a gross development value of £150m have planning approval and are being progressed towards a start on site within the next 12-18 months.

The division's 'later living' business, Morgan Sindall Later Living, reached financial close on four schemes during the year: a 75-apartment extra care project on the Isle of Wight, a 54-unit extra-care housing project in Romsey, Hampshire, an 80-bed care home in York and a 63-unit extra care development in Leeds. The business was set up in 2017 as a joint venture with Ashley House plc, and the division purchased Ashley House's interest for £2m in October. A further strong pipeline of projects will be progressed in this growing market over the next 12 months.

In terms of new business, Investments secured its fourth local authority property partnership in the year, entering a new 30-year joint venture with Brentwood Borough Council. With a potential contract value of up to £1bn, the programme will deliver new homes, mixed-use developments, public spaces, and commercial and leisure facilities on council-owned land. In addition, a new agreement was signed, through Slough Urban Renewal, to regenerate the area known as the North West Quadrant, a mixed-use development to be led by Urban Regeneration. This will provide over 1,000 new homes, 250,000 sq ft of office accommodation, and supporting retail and leisure space.

Capital employed² at the year end was £30.9m (FY 2018: £37.2m), with average capital employed for the last 12-month period of £33.9m (FY 2018: £40.1m).

Divisional outlook

The medium-term target for Investments is to secure a further three local authority property partnerships, as well as continuing to provide high quality construction work for the rest of the Group. Looking ahead to 2020, based upon the current portfolio of partnerships and profile of scheme completions, the division is expected to make a loss in the year.

¹ before intangible amortisation of £0.6m (FY 2018: nil)

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).

Other Financial Information

1. Net finance expense. The net finance expense was £2.7m, a £1.2m decrease versus FY 2018 which is broken down as follows:

	2019	2018	Change
	£m	£m	£m
Net interest charge on net debt	(0.1)	(2.0)	+1.9
Amortisation of bank fees & non-utilisation fees	(1.6)	(2.0)	+0.4
Interest expense on lease liabilities	(1.7)	(1.4)	(0.3)
Interest from JVs	1.0	1.4	(0.4)
Other	(0.3)	0.1	(0.4)
Total net finance expense	(2.7)	(3.9)	+1.2

2. Tax. A tax charge of £17.4m is shown for the year (FY 2018: £13.8m).

	2019	2018
	£m	£m
Profit before tax	88.6	80.6
Less: share of net profit in joint ventures	(6.5)	(5.2)
Profit before tax excluding joint ventures	82.1	75.4
Statutory tax rate	19.00%	19.00%
Current tax charge at statutory rate	(15.6)	(14.3)
Tax on joint venture profits [#]	(1.3)	(0.7)
Prior year adjustments	0.5	1.6
Other adjustments	(1.0)	(0.4)
Tax charge	(17.4)	(13.8)

[#] Most 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 and is stated on a constant currency basis.

	2019	2018	Change
	£m	£m	£m
Inventories	338.1	334.2	+3.9
Trade & Other Receivables ¹	461.7	424.0	+37.7
Trade & Other Payables ²	(891.7)	(911.4)	+19.7
Net working capital	(91.9)	(153.2)	+61.3

¹ Adjusted to exclude capitalised arrangement fees of £0.6m (2018: £1.2m) and accrued interest receivable of £0.2m (2018: nil)

² Adjusted to exclude accrued interest of £0.3m (2018: £0.3m) and deferred consideration payable of £0.4m (2018: £nil)

4. Cash flow. Operating cash flow was an inflow of £35.4m (FY 2018: inflow of £66.4m). Free cash flow was an inflow of £22.0m (FY 2018: inflow of £49.6m).

	2019	2018
	£m	£m
Operating profit - adjusted	93.1	85.5
Depreciation	21.3	18.5
Share option expense	5.9	6.3
Movement in fair value of shared equity loans	0.4	(0.5)
Share of net profit of joint ventures	(6.5)	(5.2)
Other operating items ¹	9.4	6.0
Change in working capital ²	(61.9)	(23.2)
Net capital expenditure (including repayment of finance leases)	(30.1)	(23.9)
Dividends and interest received from joint ventures	3.8	2.9
Operating cash flow	35.4	66.4
Income taxes paid	(12.8)	(13.9)
Net interest paid (non-joint venture)	(0.6)	(2.9)
Free cash flow	22.0	49.6

¹ ‘Other operating items’ includes provision movements (£5.0m), proceeds on disposal of service contracts (£4.4m), shared equity redemptions (£4.2m), revaluation of investment properties (£0.4m), less profit from other gains and losses (£4.4m) and gain on disposals (£0.2m)

² The cash flow due to change in working capital excludes a net £0.6m comprising of discounting on land creditors (£1.0m) less deferred consideration (£0.4m)

5. Net cash. Net cash at the end of the year was £192.7m as a result of a net cash outflow of £14.3m from 1 January 2019.

	£m
Net cash as at 1 January 2019¹	207.0
Free cash flow (as above)	22.0
Dividends	(24.8)
Other ²	(11.5)
Net cash as at 31 December 2019¹	192.7

¹ Note 10

² 'Other' includes purchase of shares in the Company by the employee benefit trust (£9.1m), net loans advanced to JVs (£3.3m), and payment to acquire an additional interest in a JV (£1.6m); less proceeds from the exercise of share options (£2.3m) and proceeds from the issue of new shares (£0.2m)

6. Capital employed by strategic activity. An analysis of the negative capital employed in the **Construction** activities shows a decrease of £33.2m since the previous year, split as follows:

Capital employed¹ in Construction	2019	2018	Change
	£m	£m	£m
Construction & Infrastructure	(220.0)	(248.4)	+28.4
Fit Out	(35.7)	(36.1)	+0.4
Property Services	13.6	9.2	+4.4
	(242.1)	(275.3)	+33.2

An analysis of capital employed in the **Regeneration** activities shows an increase of £44.0m since the previous year, split as follows:

Capital employed in Regeneration	2019	2018	Change
	£m	£m	£m
Partnership Housing ²	132.3	106.6	+25.7
Urban Regeneration ²	107.7	89.4	+18.3
	240.0	196.0	+44.0

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 and Urban Regeneration sections in the Business Review

7. Dividends. The Board of Directors has proposed a final dividend of 38.0p per share (FY 2018: 34.0p), up 12% on the prior year. This will be paid on 19 May 2020 to shareholders on the register at 24 April 2020. The ex-dividend date will be 23 April 2020.

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 2019

		2019	2018
	Notes	£m	£m
Revenue	2	3,071.3	2,971.5
Cost of sales		(2,739.9)	(2,656.2)
Gross profit		331.4	315.3
Administrative expenses		(249.2)	(235.0)
Share of net profit of joint ventures		6.5	5.2
Other gains and losses		4.4	-
Operating profit before amortisation of intangible assets		93.1	85.5
Amortisation of intangible assets		(1.8)	(1.0)
Operating profit		91.3	84.5
Finance income		1.7	2.0
Finance expense		(4.4)	(5.9)
Profit before tax		88.6	80.6
Tax	4	(17.4)	(13.8)
Profit for the year		71.2	66.8
Attributable to:			
Owners of the Company		71.2	66.8
Earnings per share			
Basic	6	157.9p	149.8p
Diluted	6	153.1p	142.1p

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

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019	2018
	£m	£m
Profit for the year	71.2	66.8
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss arising on retirement benefit asset	-	(2.8)
Deferred tax on retirement benefit asset	-	0.5
	-	(2.3)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange movement on translation of overseas operations	(0.2)	0.2
Reclassification from cash flow hedges to the income statement	-	(0.5)
	(0.2)	(0.3)
Other comprehensive expense	(0.2)	(2.6)
Total comprehensive income	71.0	64.2
Attributable to:		
Owners of the Company	71.0	64.2

Consolidated balance sheet

At 31 December 2019

	Notes	2019 £m	2018 £m
Assets			
Goodwill and other intangible assets		223.6	216.4
Property, plant and equipment		79.5	62.6
Investment property		5.1	5.7
Investments in joint ventures		84.3	81.5
Other investments		1.3	1.3
Shared equity loan receivables	7	8.4	13.0
Non-current assets		402.2	380.5
Inventories		338.1	334.2
Contract assets		186.8	192.0
Trade and other receivables	8	275.7	233.2
Cash and cash equivalents	10	192.7	217.2
Current assets		993.3	976.6
Total assets		1,395.5	1,357.1
Liabilities			
Contract liabilities		(56.2)	(98.3)
Trade and other payables	9	(832.4)	(797.8)
Current tax liabilities		(9.6)	(5.8)
Lease liabilities		(12.8)	(11.2)
Borrowings	10	-	(10.2)
Provisions		(7.1)	-
Current liabilities		(918.1)	(923.3)
Net current assets		75.2	53.3
Trade and other payables		(3.8)	(15.6)
Lease liabilities		(46.9)	(35.7)
Deferred tax liabilities		(8.1)	(12.0)
Provisions		(21.8)	(23.9)
Non-current liabilities		(80.6)	(87.2)
Total liabilities		(998.7)	(1,010.5)
Net assets		396.8	346.6
Equity			
Share capital		2.3	2.3
Share premium account		38.5	38.3
Other reserves		(0.8)	(0.6)
Retained earnings		356.8	306.6
Equity attributable to owners of the Company		396.8	346.6
Total equity		396.8	346.6

Consolidated cash flow statement

For the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Operating activities			
Operating profit		91.3	84.5
Adjusted for:			
Amortisation of intangible assets		1.8	1.0
Share of net profit of equity accounted joint ventures		(6.5)	(5.2)
Depreciation		21.3	18.5
Share option expense		5.9	6.3
Gain on disposal of interests in joint ventures		(4.4)	-
Gain on disposal of property, plant and equipment		(0.2)	(0.2)
Revaluation of investment properties		0.4	0.2
Movement in fair value of shared equity loan receivables	7	0.4	(0.5)
Repayment of shared equity loan receivables	7	4.2	3.1
Increase in provisions		5.0	2.9
Proceeds on disposal of service contracts in joint ventures		4.4	-
Operating cash inflow before movements in working capital		123.6	110.6
Increase in inventories		(3.9)	(49.2)
Decrease in contract assets		5.2	(13.8)
Increase in receivables		(42.9)	(7.2)
Decrease in contract liabilities		(42.1)	40.7
Increase in payables		21.8	6.3
Movements in working capital		(61.9)	(23.2)
Cash inflow from operations		61.7	87.4
Income taxes paid		(12.8)	(13.9)
Net cash inflow from operating activities		48.9	73.5
Investing activities			
Interest received		1.6	2.1
Dividend from joint ventures		2.9	1.5
Proceeds on disposal of property, plant and equipment		0.3	0.4
Purchases of property, plant and equipment		(12.6)	(9.2)
Purchases of intangible fixed assets		(2.7)	(1.6)
Net increase in loans to joint ventures		(3.3)	(3.0)
Payment for the acquisition of subsidiaries, joint ventures and other businesses		(1.6)	(2.0)
Payment for other investments		-	(0.2)
Net cash outflow from investing activities		(15.4)	(12.0)
Financing activities			
Interest paid		(1.3)	(3.6)
Dividends paid	5	(24.8)	(21.5)
Repayments of lease liabilities		(15.1)	(13.5)
Proceeds from borrowings	10	-	0.3
Repayment of borrowings	10	(10.2)	(17.9)
Proceeds on issue of share capital		0.2	4.6
Payments by the Trust to acquire shares in the Company		(9.1)	(16.1)
Proceeds on exercise of share options		2.3	2.2
Net cash outflow from financing activities		(58.0)	(65.5)
Net decrease in cash and cash equivalents		(24.5)	(4.0)
Cash and cash equivalents at the beginning of the year		217.2	221.2
Cash and cash equivalents at the end of the year	10	192.7	217.2

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital	Share premium account	Other reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m
1 January 2018	2.2	33.8	(0.3)	269.2	304.9
Profit for the year	-	-	-	66.8	66.8
Other comprehensive expense	-	-	(0.3)	(2.3)	(2.6)
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)
1 January 2019	2.3	38.3	(0.6)	306.6	346.6
Profit for the year	-	-	-	71.2	71.2
Other total comprehensive expense	-	-	(0.2)	-	(0.2)
Total comprehensive income	-	-	(0.2)	71.2	71.0
Share option expense	-	-	-	5.9	5.9
Tax relating to share option expense	-	-	-	4.7	4.7
Issue of shares at a premium	-	0.2	-	-	0.2
Purchase of shares in the Company by the Trust	-	-	-	(9.1)	(9.1)
Exercise of share options	-	-	-	2.3	2.3
Dividends paid	-	-	-	(24.8)	(24.8)
31 December 2019	2.3	38.5	(0.8)	356.8	396.8

Other reserves

Other reserves include:

- Capital redemption reserve of £0.6m (2018: £0.6m) which was created on the redemption of preference shares in 2003.
- Hedging reserve of (£0.8m) (2018: (£0.8m)) arising under cash flow hedge accounting. Movements on the effective portion of hedges are recognised through the hedging reserve, whilst any ineffectiveness is taken to the income statement.
- Translation reserve of (£0.6m) (2018: (£0.4m)) arising on the translation of overseas operations into the Group's functional currency.

Retained earnings

Retained earnings include shares in Morgan Sindall Group plc purchased in the market and held by the Morgan Sindall Employee Benefit Trust (the 'Trust') to satisfy options under the Group's share incentive schemes. The number of shares held by the Trust at 31 December 2019 was 351,961 (2018: 770,599) with a cost of £2.2m (2018: £7.7m).

Notes to the consolidated financial statements

For the year ended 31 December 2019

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 2019 or 2018 but is derived from those accounts. A copy of the statutory accounts for 2018 was delivered to the Registrar of Companies and those for 2019 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 2020. 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 20 February 2020, 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 2019.

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 2018.

Notes to the consolidated financial statements

For the year ended 31 December 2019

2 Revenue

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

	2019	2018
	£m	£m
Construction	618.9	593.0
Infrastructure and design	867.5	749.7
Construction and Infrastructure	1,486.4	1,342.7
Traditional fit out	680.7	714.9
Design and build	158.0	116.5
Fit Out	838.7	831.4
Property Services	115.3	99.9
Contracting	243.7	296.6
Mixed tenure	269.2	222.3
Partnership Housing	512.9	518.9
Urban Regeneration	118.8	185.3
Investments	8.0	8.8
Inter-segment revenue	(8.8)	(15.5)
Total revenue	3,071.3	2,971.5

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:** Morgan Sindall Construction & Infrastructure Ltd 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 Limited offers a multidisciplinary design and engineering consultancy.
- **Fit Out:** Overbury plc specialises in fit out and refurbishment in commercial, central and local government offices, retail banking and further education. Morgan Lovell plc provides office interior design and build services direct to occupiers.
- **Property Services:** Morgan Sindall Property Services Limited provides response and planned maintenance for social housing and the wider public sector.
- **Partnership Housing:** Lovell Partnerships Limited 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.

Notes to the consolidated financial statements

For the year ended 31 December 2019

- **Urban Regeneration:** Muse Developments Limited 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:** Morgan Sindall Investments Limited provides 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.

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:

2019									
	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	1,480.3	837.1	115.3	511.8	118.8	8.0	-	-	3,071.3
Inter-segment revenue	6.1	1.6	-	1.1	-	-	-	(8.8)	-
Total revenue	1,486.4	838.7	115.3	512.9	118.8	8.0	-	(8.8)	3,071.3
Operating profit/(loss) before amortisation of intangible assets	32.3	36.9	4.3	18.3	19.4	(2.4)	(15.7)	-	93.1
Amortisation of intangible assets	-	-	(1.2)	-	-	(0.6)	-	-	(1.8)
Operating profit/(loss)	32.3	36.9	3.1	18.3	19.4	(3.0)	(15.7)	-	91.3
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

During the year ended 31 December 2019 and the year ended 31 December 2018, 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 2019

4 Tax

	2019	2018
	£m	£m
Current tax:		
Current year	17.0	12.6
Adjustment in respect of prior years	(0.4)	(1.8)
	16.6	10.8
Deferred tax:		
Current year	0.9	2.8
Adjustment in respect of prior years	(0.1)	0.2
	0.8	3.0
Tax expense for the year	17.4	13.8

Corporation tax is calculated at 19.00% (2018: 19.00%) 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:

	2019	2018
	£m	£m
Profit before tax	88.6	80.6
Less: post tax share of profits from joint ventures	(6.5)	(5.2)
	82.1	75.4
UK corporation tax rate	19.00%	19.00%
Income tax expense at UK corporation tax rate	15.6	14.3
Tax effect of:		
Non-taxable income and expenses	(0.5)	0.4
Tax liability upon joint venture profits ¹	1.3	0.7
Adjustments in respect of prior years	0.7	(1.6)
Expected forthcoming change in tax rates upon deferred tax	0.1	-
Other	0.2	-
Tax expense for the year	17.4	13.8

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

Notes to the consolidated financial statements

For the year ended 31 December 2019

5 Dividends

Amounts recognised as distributions to equity holders in the year:

	2019 £m	2018 £m
Final dividend for the year ended 31 December 2018 of 34.0p per share	15.3	-
Final dividend for the year ended 31 December 2017 of 29.0p per share	-	12.9
Interim dividend for the year ended 31 December 2019 of 21.0p per share	9.5	-
Interim dividend for the year ended 31 December 2018 of 19.0p per share	-	8.6
	24.8	21.5

The proposed final dividend for the year ended 31 December 2019 of 38.0p 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 19 May 2020 to shareholders on the register on 24 April 2020. The ex-dividend date is 23 April 2020.

6 Earnings per share

	2019 £m	2018 £m
Profit attributable to the owners of the Company	71.2	66.8
Adjustments:		
Amortisation of intangible assets net of tax	1.5	0.9
Adjusted earnings	72.7	67.7
Basic weighted average ordinary shares (m)	45.1	44.6
Dilutive effect of share options and conditional shares not vested (m)	1.4	2.4
Diluted weighted average ordinary shares (m)	46.5	47.0
Basic earnings per share	157.9p	149.8p
Diluted earnings per share	153.1p	142.1p
Adjusted earnings per share	161.2p	151.8p
Diluted adjusted earnings per share	156.3p	144.0p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and long-term incentive plan shares was based on quoted market prices for the year. The weighted average share price for the year was £12.51 (2018: £13.20).

A total of 3,189,945 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 2019 (2018: 1,016,473).

Notes to the consolidated financial statements

For the year ended 31 December 2019

7 Shared equity loan receivables

	2019	2018
	£m	£m
1 January	13.0	15.6
Net change in fair value recognised in the income statement	(0.4)	0.5
Repayments by borrowers	(4.2)	(3.1)
31 December	8.4	13.0

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:

	2019	2018
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%	2.5%
Forecast default rate	11.5%	7.0%
Number of loans under the shared equity scheme outstanding at the year end	276	396

Sensitivity analysis

At 31 December 2019, 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 £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2019, 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 £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

At 31 December 2019, if the forecast default rate had been 100bps higher at 12.5% and all other variables were held constant, the fair value of the shared equity loan receivables would decrease by £0.1m with a corresponding reduction in both the result for the period and equity (excluding the effects of tax).

Notes to the consolidated financial statements

For the year ended 31 December 2019

8 Trade and other receivables

	2019	2018
	£m	£m
Trade receivables	244.7	207.6
Amounts owed by joint ventures	4.9	3.5
Prepayments	14.1	12.5
Other receivables	12.0	9.6
	275.7	233.2

9 Trade and other payables

	2019	2018
	£m	£m
Trade payables	184.0	174.7
Amounts owed to joint ventures	0.1	0.4
Other tax and social security	37.1	23.3
Accrued expenses	597.8	581.7
Deferred income	1.6	6.8
Other payables	11.8	10.9
	832.4	797.8

10 Net cash

	2019	2018
	£m	£m
Cash and cash equivalents	192.7	217.2
Non-recourse project financing due in less than one year	-	(8.6)
Borrowings due within one year	-	(1.6)
Net cash	192.7	207.0

Included within cash and cash equivalents is £54.2m (2018: £45.0m) which is the Group's share of cash held within jointly controlled operations. There is £10.2m included within cash and cash equivalents that is held for future payment to designated suppliers (2018: £10.6m).

The Group's committed bank loan facilities of £180m were undrawn at 31 December 2019. There were no project finance borrowings drawn from separate facilities to fund specific projects (2018: £8.6m). These project finance borrowings are without recourse to the remainder of the Group's assets.

11 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 £43.9m (2018: £48.2m).

Notes to the consolidated financial statements

For the year ended 31 December 2019

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'.

	2019	2018
	£m	£m
Short-term employee benefits	9.5	8.7
Post-employment benefits	0.1	0.1
Termination benefits	0.3	0.2
Share option expense	3.1	3.2
	13.0	12.2

Directors' transactions

There have been no related party transactions with any director in the year or in the subsequent period to 20 February 2020.

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 20 February 2020.

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.

The responsibility statement below has been prepared in connection with the Company's annual report and accounts for the year ended 31 December 2019. 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 20 February 2020 and is signed on its behalf by:

John Morgan
Chief Executive

Steve Crummett
Finance Director